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City University of New York PH.D. 1982

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PRIVATE MONEY AND PUBLIC POWER:
THE POLITICAL IMPACT OF
THE NEW YORK CITY
FINANCIAL CRISIS

By

Robert William Bailey

Submitted to the faculty of the Ph.D. program
in Political Science, the Graduate School
of the City University of New York in
partial fulfillment of the
requirements for the degree
Doctor of Philosophy

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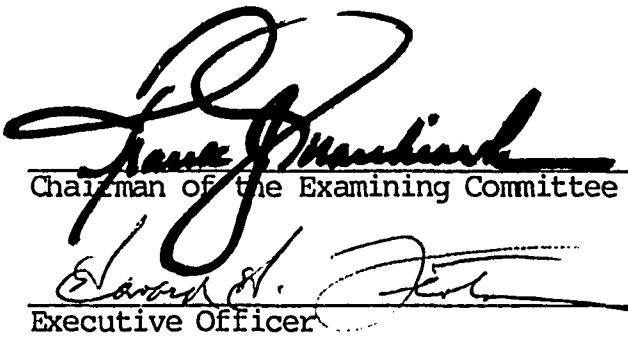
Robert William Bailey

This manuscript has been read and accepted for the Graduate Faculty in Political Science in satisfation of the dissertation requirement for the degree of Doctor of Philosophy.



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ABSTRACT

PRIVATE MONEY AND PUBLIC POWER:
THE POLITICAL IMPACT OF THE NEW YORK CITY FINANCIAL CRISIS
by Robert W. Bailey

Adviser: Professor Frank J. Macchiarola

The basic intention of the work is not to describe why the 1975 New York City Financial crisis occurred but to assess its political effects. A secondary intention is to provide an historical account of decision making within the institutions that took over New York's governance — what I have called the "Crisis Regime" — during the 1975-1978 financial emergency period. The data base includes statutes, primary documents, press accounts and some interviews and observation.

After describing changes in public law, detailing the powers given the new institutions created during the crisis — the MAC and the EFCB — and describing the politics of decision making in three case studies during the crisis — the financial plan, the emergence of an EFCB labor policy and the struggle for control over the finances of New York's major public benefit corporations — I attempt to assess the political impact against three dimensions: local policy process, intergovernmental relations and private economic power. Various models of urban policy making including intergovernmental relations, pluralist and elitist models, public choice and neo-marxist theory are applied in different sections.

A final, more speculative chapter concludes the text. It argues that the political system in New York City underwent a fundamental change as a result of the financial crisis moving it toward a more technocratic/planning style of governance. The implications for the community power debate — and thus democratic theory — sum up the entire work.

THE REVENUE OF THE STATE
IS THE STATE

Edmund Burke

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Depending upon how the time is measured it took between two and four years to complete this dissertation. In those intervening years I have had the benefit of meeting scores, possibly hundreds of civil servants, staff members, policy makers and academics who deal with the governance of New York City. At the Emergency Financial Control Board, the Office of the Special Deputy Comptroller, the Urban Academy, City Hall and the Board of Education I have seen a dedicated corps of professionals trying to deal with the problems fiscal scarcity have brought to New York. I'd like to particularly point to the senior staff from the EFCB during its most difficult days: Marcy Boyle, Jay Holt, Carol Brownell, Dall Forsythe, Anthony Gliedman, Diana Murray and John Bender. For both their time and interest early on in this project, and in some cases throughout, I am grateful. But it is the younger ones who are so impressive, and whom I remember most fondly: Robert Bennett, John Mamorca and Suzanne Sullivan from the EFCB, Joseph Viteritti, Allan Dobrin and Howard Apsan from the Board of Education and my friends Steve Bogart, Jon Weston and Michael Regan, seemingly everywhere. All with different skills

and interests, each has dedicated at least a portion of their careers to New York. The future of this city is certain if it can continue to attract people such as these to its government.

I am also blessed with many friends who helped me through the usual ups and downs associated with this kind of effort. Carlos Martinez and Kathy Nicholson come quickly to mind; so too does Gordon Rayfield; but there are too many to list them all. Without them what follows would remain unfinished.

Four people should be especially noted, however.

Stephen Berger, while Executive Director of the EFCB, allowed me complete access to all information available to the EFCB staff. Given the intensity of the conflict that surrounded the creation and implementation of the Financial Emergency Act it was yet another sign of Commissioner Berger's sense of the public that he did so with no strings attached.

Dr. Annmarie Walsh and Dr. Christa Altenstetter served at the beginning and the end of this project. Professor Walsh's demand for theoretical rigor was the perfect antidote to my own penchant toward practicality. With only a few weeks notice Dr. Altenstetter took up the role of Dr. Walsh as reader of this thesis. Her

editorial comments and criticisms of substance improved the text in important ways.

Richard Halverson has proven to be an important resource and a good friend. At the EFCB, The Urban Academy, City Hall and at the Board of Education, Dick Halverson made himself available, even to the point of demanding that I interview him on critical aspects of the EFCB's renewal when my own weariness with the whole subject would have let the issue slide. He read in very early draft form what eventually developed into chapters three, four and five. In hours of conversations on urban politics, public policy and the practicalities of political negotiation, Dr. Halverson helped me develop the approach to the subject that I have taken. What is good in the outcome is in part his.

Such a time also presents the opportunity to note gratefully past teachers who were kind and, unknown to themselves, were important: Abraham Bargman, Francis Canavan, S.J., Arthur Schlesinger, Jr., and Georg Schwarzenberger. The best teachers always bring to their students a strong perspective based on experience and a lifetime of thought; and they always demand, with understanding, the same.

For the three most important but a word.

I thank Frank Macchiarola for his faith.

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Needless to say, I am responsible for all errors.

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ABBREVIATIONS

AFSCME	American Federation of State County and Municipal Employees
BAN	Bond Anticipation Note
BHE	Board of Higher Education
COLA	Cost of Living Adjustment
CTDMC	Comptroller's Technical Debt Management Committee
ECF	Education Construction Fund
EFCB	Emergency Financial Control Board
EFCBF	Emergency Financial Control Board Fund
FCB	Financial Control Board
FCLG	Financial Community Liason Group
HHC	Health and Hospitals Corporation
IFMS	Integrated Financial Management System
MAC	Municipal Assistance Corporation (for New York City)
MBO	Management By Objectives
MIS	Management Information System
MP/R	Mayor's Management Plan and Reporting System
MTA	Metropolitan Transportation Authority
OSDC	Office of the Special (State) Deputy Comptroller for New York City
PBA	Patrolmen's Benevolent Association
PPBS	Program Planning Budget System
RAN	Revenue Anticipation Note
SEC	Securities and Exchange Commission
TAN	Tax Anticipation Note
TCCF	Temporary Commission on City Finances
TWU	Transport Workers' Union
UDC	Urban Development Corporation
UFA	United Firefighters' Association
UFT	United Federation of Teachers

APSR	American Political Science Review
PAR	Public Administration Review

PART ONE

Introduction

CHAPTER 1

INTRODUCTION

For six years now New York has been dealing with the social and economic implications of its bankruptcy. Although no court had declared it so the fact remains. The accumulated commitments made for New York by local and national leaders had overloaded its government. The City's government had overloaded its tax base. The effects on people have been tragic. Over 60,000 people were separated from the City's various payrolls. Over two hundred million dollars a year in additional taxes were imposed on what already was the highest taxed region in the nation. Tolls and transit fares were raised. Maintenance on New York's bridges and roads was deferred. Major capital projects decades in the planning lay dormant while hundreds of smaller ones were delayed or cancelled. Tutition was introduced at the City University for the first time in history. Sanitation pick ups were cut back. Police patrols were cut back. Fire protection was cut

back. Day care facilities were drastically cut back. Even the school day was cut back. An entire set of obligations and expectations among governors, citizens and creditors was broken.

As painful as all this has been the more important changes go deeper: to the way public policy is made. New York City's 1975 financial crisis resulted in a whole new way of governing this huge metropolis. In exchange for a series of financing packages, New York City became subject to a myriad of new monitoring agencies, political influences and enhanced state and federal controls. The most important of these new agencies have been the Municipal Assistance Corporation (MAC) and the Emergency Financial Control Board (EFCB). The MAC, quickly dubbed 'Big Mac' by the press, is a public benefit corporation of the State of New York designed to aid the City in the restructuring of its glut of short term debts. The EFCB was created three months after the MAC in an atmosphere of even greater crisis. Its primary function was to oversee the creation and executive of a three year financial plan aimed at forcing on New York a budgetary process that would result in balanced budgets. Together these two agencies, particularly the broadly political EFCB, have altered

the way New York City is governed.

That there has been change seems to be a generally accepted proposition. The disagreements concern the nature of that change, its propriety and effectiveness. For some the creation of these agencies and their attendent political effects have been important improvements on the city's political structure. Critics of the way New York handled its finances look with some satisfaction at these external monitors. It could well be argued that any government that collapsed in bankruptcy was an inadequate one in the first place. For others what happened in 1975 was a bloodless coup played out each evening on the Six O'Clock report with details in the next morning's papers. The charges included the loss of home rule, that the City had been turned over to a coterie of bankers and businessmen, and that democracy itself was slighted. In a city known for the intensity of its politics New York's financial crisis produced an unusual atmosphere of escalating charge and counter charge each level more furious than the past. The point came where one of the most conservative of the large American dailies--the New York Daily News--could accuse the Republican President of the United States of having told New Yorkers to 'drop dead.'

Despite the intensity of the debate, however, the

basic question remains. How did the financial crisis effect New York's governance? Although there have been some major journalistic attempts at assessing the political impact of the financial crisis[1] as well as some shorter academic pieces[2] the rigours and categories of mainstream political science have yet to be applied to the question in any systematic fashion. The use of such vocabulary and categories is not meant to be pedantic. Surely one reason there has been so much disagreement and contentiousness over the effect of the crisis is that different people are answering different questions. Although a more sustained and structured assessment will not resolve all issues it may advance the debate. Indeed, it may in fact reveal that what on the surface seem to be contradictory perspectives are in fact complementary.

There is a selfish motive here for the political scientist also. The case of New York's financial crisis is too important to go by without panning for some social science gold. Unfortunately New York's experience with the politics of retrenchment is no longer unique. As the tax payers' revolt has been moving from west to east, it seems that public bankruptcies have been moving from east to west. Just before the New York City affair there was the New York State Urban Development Corporation.

Just after came the case of Yonkers, New York. Then, for a while, it seemed that the State of New York itself could default. Then came the case of Cleveland; then the Boston public housing authority; then, as the 1970s closed, the school system in Chicago -- 'the City that Works'. Each of these combined with the tax payers' revolt indicate that future policy making, at least at the State and Local levels, will be conducted within a context of fiscal retrenchment. The three decade old political coalition that had pressed for increased public spending is being dispersed. The economic assumptions underpinning growth in the public sector on all levels have suddenly become problematic. The implications for political analysis are important. To what degree had previous work been based on the hidden assumption of resource growth? How do governments and political actors behave in a contracting public pie?[3] New York City between 1975 and 1978 is the first important case of a new problem for both government and political science.

WHAT EXACTLY IS THE NEW YORK CITY FINANCIAL CRISIS?

New York's financial crisis came on quickly but New York had had money problems for over a decade. It was an issue in the 1965 mayoral campaign when John Lindsay, Abraham Beame and

William F. Buckley, Jr.,[4] competed for the 'second toughest job in America'. Lindsay complained of budget deficits and promised a $200 million budget surplus if he were elected. Beame, as he would in 1973, pressed his experience as the city's budget director and Comptroller. Buckley, never considered or considering himself a serious candidate, warned of a minor change in the State's Local Finance Law which allowed the City in effect to finance budget deficits by borrowing from the capital markets. Only the issue of race -- in its code words, of course -- played a more important role in that 1965 campaign.

Between 1965 and 1975 no less than seven major studies were made on New York City's fiscal affairs.[5] Nearly all came to the same conclusion: the rate of growth in expenditures out paced the rate of growth in revenues. These two graph lines critical to any government's administration were rapidly diverging. As early as 1970 academic writers were already setting out those policy options that bankers, state officials, city officials and all New Yorkers would have to face in 1975.[6]

Why then the surprise when -- professional distinctions aside -- the City and State were required to announce the bankruptcy of New York City? Part of the reason may rest in a confusion of terms. The interchangable use of the words

'fiscal', 'financial' and even 'economic' in describing New York's crisis has lent more than a little ambiguity to both events and some analyses. Although New York has economic, fiscal and financial problems they are not the same phenomena. That these difficult problems are interconnected does not make the statement any less true.

New York's economic crisis refers to patterns of disinvestment and an apparent lack of competitiveness in attracting new direct investment to the region. The most stark fact usually cited here is the loss of over 600,000 jobs in New York between 1969 and 1975. The principle problem was the City's manufacturing base.

For purposes here New York's "fiscal crisis" refers to the City's apparent inability to match expenditure commitments to projected revenues. In this sense it is not jobs or the health of the various sectors of New York's economy that are at question but issues such as revenues, expenditures, budgeting and all associated political processes. New York's "fiscal crisis" is almost endemic. On the day in 1975 that Standard and Poors withdrew New York City's investment grade credit rating Moody's Investor Service reasserted its positive assessment of the City's credit (for the moment) commenting that "for half a century now it has been known that New York City has a revenue problem."[7] There is always

pressure to spend in New York because there is so much to be done.

But if its 'fiscal crisis' was a constant affair a 'financial crisis' was rare. Only twice before in this century had New York experienced what could be called a financial emergency: 1914 and 1933. The difference is important. If by fiscal we refer to matters of revenue and expenditure, financial refers to assets, liabilities and their respective structures. In our case it particularly refers to borrowing and cash flow. The semantic ambiguity inherent in the words 'fiscal' and 'financial' is unfortunate but the distinction between them helps explain much. It sheds some light on the apparent suddenness of the financial crisis after nearly a decade of warnings about the City's ever mounting deficits. The connection between borrowing and chronic revenue shortfalls was rarely made by New Yorkers. They can hardly be blamed. As late as December of 1974, Mayor Beame and City Comptroller Harrison Goldin still believed that New York's recurring deficits and inadequate financial management would not effect the City's creditworthiness.[8] It also explains the continued and often heated arguments over the 'causes of the crisis'. Financial politics assumes the interaction of government and the private money markets and understands that the interaction is also a channel of interdependency and

political influence.[9] While most conservative writers have focused attention on the City's public policies as a cause of the crisis many radical and neo-marxist writers have instead focused on changes in the money markets as the problem.[10] What makes 1975 different (as well as 1914 and 1933) is that the crisis involved the interdependence of the City as borrower and the market as lender. The positions of the 'conservatives' and the 'radicals' were in fact complementary, not mutually exclusive. New York's 1975 financial crisis finds its roots in the City's increasingly heavy dependence on an increasingly unstable market.

This same distinction is also the defining one for the present study. Throughout this discussion the analysis of New York's 1975 financial crisis will refer to the study of the political changes precipitated by the refusal of the commercial money markets to any longer finance the cash needs of the incorporated City of New York. The study of the political effects of the crisis is thus not so much concerned with the interaction of groups as in the budgetary process or with the distributional effects of the retrenchment that followed but with the political implications of subjects usually associated with finance: financial planning, debt and the structure of debt, financial management, cash flow and, ultimately, the scale and goals of an organization.

NEW YORK, 1975-1978: THE DIMENSIONS OF POLITICAL CHANGE

The first problem to be posed is to mark out the basic components of change; of its dimensions. Schattschneider[11] noted now two decades ago that the most interesting factor in political analysis was not so much the interaction of participants in a particular political arena of conflict but change in either the number of actors or in the stakes of their object of conflict. An expansion or contraction in either was an important signal that something significant was afoot. It would not be too much of a simplification to say that the development of urban policy studies has moved through a recurring debate among those focusing on the interactive process of participants in policy making and the multiple limitations on them. For the moment we might call these two poles 'process' and 'structure'.

Initially the issue of structure held court. The studies of Robert and Helen Lynd, and Floyd Hunter as well as the local reflections on Mills' theories of a power elite[12] emphasized the static aspects of local policy making. The 'elitist' side of the community power debate argued the limitations on elected decision makers and highlighted the possible preeminance of hidden economic hierarchies who administered local affairs through officials supposedly accountable to the electorate. The excesses of these early neo-

structuralists gave rise to research done mainly by political scientists into the dynamics of local decision making.[13] They observed recurring patterns of coalition building, mutual adjustment and reconciliation among contending groups, and incremental decision making and concluded that policy making was a process. Based on analogues derived from micro-economics the pluralist side of the community power debate emphasized the strategies and interactive dynamic of local political actors.[14]

As the research agenda of urban political analysis quickly moved behind the confines and issues of the community power debate it still revolved around the two poles of structure and process. As comparative urban studies developed it became understood that both environmental and intergovernmental factors were important in determining the range of options available to local officials. This, at least, is one logical conclusion of quantitative studies showing that policy outputs tended to correlate highly with the level of economic development in various states and localities.[15] Thus one limit on local policy making was the relative wealth of the area and its economic base. Another is intergovernmental relations.[16] Comparative studies showed that an important factor in State-Local relations effecting local policy making was the degree of centralisation or

decentralisation in governmental functions among the various states. The impact of intergovernmental relations became even more acute during the 1960s. This dimension largely ignored during the power debate become critical as the role of the federal government expanded during the Kennedy and Johnson administrations. On the one hand federal intervention seems to have greatly restricted the flexibility of local officials in determining how they would spend local resources. On the other hand these new channels of funding have also introduced a new, vertical, path of influence among respective officials on the three levels of government. Thus mayors are not only required to bargain among contending individuals and groups in their own communities but now must also mobilize and exert what influence they can on the State and Federal levels.[17] Moreover, whole new vertical conflict arenas were created in which local, state and federal agents 'play' bureaucratic politics each possessing wide mandates for effecting and implementing policy.[18]

Beyond a better understanding of environmental and intergovernmental influences on local policy making the 'structural' perspective has been enhanced by a more refined development of themes initially introduced by the neo-elitists associated with the Lynd/Hunter side of the community power debate. Bachrach and Baratz's contentions concerning

'non-decisions' have been an important contribution.[19] The ability of a dominant group or class to protect its interests by promoting a civic culture which holds challenges to them as either irresponsible or unrealistic places a severe limitation on the ability of contrary groups to express authentic interests of their own. In addition a burst of neo-marxists research in urban affairs has emphasized the tensions inherent in making public policy in an environment where the direction of the economy rests in private hands. From this perspective the contradiction grows out of the dual functions liberal democratic governments must serve. First, they protect the rights of property and thus the private accumulation of capital. Second, through participation they 'legitimate' a social system which, given the first point, will inevitably lead to social and economic inequality. For these new marxists the inability to overcome this contradiction explains the failure of reformist social policy particularly in the cities.[20]

These refinements on the 'structural' pole are balanced off by researchers expanding the 'process' study of local policy making. Surveys of budgeting politics, taxing and expenditure process, and the politics of revenue have been conducted.[21] The process of administration and implementation has been a particular interest. The initial process studies

of Banfield and Dahl neglected the critical link between decision making and policy outcome as sifted by the service delivery bureaucracies. Policy, it should be generally agreed, is not only what is decided at the top but what comes out at the bottom. The discretionary power of administrators has been shown to have effects on the equality of service delivery and is susceptible to pressure from interested groups and individuals.[22] Moreover, there have also been attempts at introducing 'process' into comparative urban studies. Rather than use quantitative data on policy outputs and attempting to explain interregional variances against objective social or economic dimensions the focus here is on describing differences and similarities in the most saliant features of several local policy making processes and use these as independent variables in an attempt to describe policy differences among the studied communities. The most important such study has been that of Greestone and Peterson into the Community Action Program in America's five largest cities.[23]

As the implications of ongoing research refine these two poles there have also been important attempts at integrating them into a more comprehensive account of local decision making if not the entire policy making process. The systems oriented text of Lineberry and Sharkansky is a good

example.[24] Lineberry and Sharkansky build their view of urban policy making around the distinction between 'micro-politics' and 'macro-politics'. For them micropolitics refers to the "behavior and interactions" of subcommunity unit such as groups, individuals, parties, bureaucracies and others. Macropolitics refers to the political behavior of the community as a whole, its institutions, relations with other local governments as well as state and federal governments. Although not stated it is evident from the body of the text that resources available to local government and level of economic development are also to be included.

Likewise, Frederick Wirt's case study of power and decision making in San Francisco is built around a distinction between 'local autonomy' and 'extramural forces'.[25] The notion of extramural forces combined for Wirt intergovernmental relations and private economic elites. Both of these in different ways and in different issue areas set limits on the autonomy of local decision centers. He makes the additional point -- often missed by political science -- that history as the choices made yesterday set their own limits.

Thus any study of local policy making must deal with both these poles if it is to be persuasive. In the case of New York City between 1975 and 1978 -- legally declared

the 'Financial Emergency Period' by the New York State Legislature -- both process and structure are important. Such a broad framework will allow us to deal with the new restrictions placed on the City by the State and Federal governments while also allowing us to see the impact of the new and now permanent institutions created by the crisis -- The MAC and the EFCB -- on the internal policy making process in New York City. It will also allow us to explain the seeming contradiction between those outside New York who be-ieved that the financial crisis made New York's mayor impotent and those inside the City's government who know that his powers have been greatly enhanced. An examination of the changes induced by the financial crisis cannot ignore either dimension.

NEW YORK, 1975-1978: THE PROCESS OF POLITICAL CHANGE

If the first contention can be borne out -- that New York's governance is different as a result of the 1975 financial crisis -- the logical second question is 'How?': What was the process of that change?

Few problems are more difficult in political analysis than to exhaustively explain regime change.[26] To do so one should comprehensively describe the breakdown of previous governing patterns, transitional processes and the newer patterns. 'Causes', in a general sense, can be attributed

to changes in environmental factors, such as economic or social transformations, external political pressure being exerted toward change or an internal change in the relative balance of power among different groups, individuals or classes. The difficulty in pinpointing a single cause, or more accurately to rank competing explanations in their potency, is severe given the limits of single cases and qualitative research.

Such general considerations are compounded by the particulars of New York's financial crisis. The problem is not a lack of suggested explanations for political change but a wealth of them. Consider these four. First we might ascribe change to the decline of the city's economic base and the attendent need to adapt its political system to the new realities of resource scarcity. Second, we might describe the new managerial sense among New York's leadership and the associated institutional change as a new wave of reformism, where centralisation of budgetary decision making and scientific management of government are thought the highest values. Third, we could also see the political change as a result of the sudden and precipitous revocation of the City's home rule powers by the state. Certainly the EFCB and MAC can be seen as 'alternative administrations' for New York in the area of finances and budget directly.

Thus, indirectly in everything else. Lastly, it could be argued that changes came about as a result of an internal shift among the political coalitions that have pushed for and resisted increased municipal expenditures. On the one side we have the city's own employees, the dependent portion of the population and that sector of business interested in capital expenditures. On the other side those who have been (or at least think they have been) paying the bills: small homeowners, small business, that portion of the middle class population that is not employed by the city and does not use many of its services (such as the new young professionals whose inflight is now described as 'gentrification') and large property owners without tax abatements.

An analysis based on any one of these explanations would provide an interesting and important perspective. But the most important factor in the changes of municipal governance effected in New York by far has been what we might term as the 'political of creditor intervention'. This is after all what made New York's political crisis a 'financial crisis'. The city's economic base had been declining for over a decade and a half without the precipitous political changes of 1975. The apparent shift in electoral coalitions did not develop in full until the 1977 election of Edward Koch as New York's 105th Mayor. It was the politicisation of normally less

political borrowing channels which is the critical factor contributing to the politics of 1975-1978. To a large degree this is the politics of the financial crisis. The attempt to describe the process of political change in New York during the financial emergency here will focus on the politics of creditor intervention.

Again, there is a selfish motive. The bankruptcy of New York is the most important case of municipal financial difficulties since the 1930s. To the degree that these were studied, however, they were viewed through the categories and controversies that dominated political analysis at that time: public law, institutions and public administration. Behind these rested the ongoing conflict between reform and machine values of local politics. What analysis there was outside these traditions was largely left to marxists who, during the depression, found a sudden surge in their persuasiveness.

The present crisis thus presents both a problem and an opportunity to academic political analysis. The problem arises from the lack of attention previously paid by political scientists to matters of local finance, debt and default. It was not too long ago that many political scientists yearned for a predictive capacity. At least in urban affairs the field has twice been out foxed by history. Race in the 1960s, and finances in the 1970s have made it react to

events. Political science cannot even predict its own agenda. While there is now a rush toward the study of policy making in declining economies we must also admit that the conclusions of many previous studies on local governance are now in doubt as factors of finance and debt were not taken into account. In this sense, the New York City financial crisis is a source of embarrassment for the discipline.

Red faces aside, the financial problems of New York City, Cleveland, Yonkers, Chicago and other less significant cases does present an opportunity for the study of politics. Since the 1930s the study of local government has been greatly enhanced by new information, analytical techniques, important and fruitful debates and significant studies. Any investigation of the politics surrounding the financing difficulties of a major American city today is advanced over those done during the depression years if only because of the richness of contemporary study. What are the characteristics and limits of creditor intervention as experienced by New York? What were some of the characteristics of retrenchment politics that followed? If we can but partially answer these questions we will begin the explanation of political change in New York City induced by the financial crisis.

THE CRISIS REGIME

Throughout this study I will use the phrase 'the crisis regime'. I mean it as both a stylistic device and a technical term. As a device the phrase allows us to refrain from continually repeating all the institutions and agents that moved in to take over New York's governance and administer its finances during the emergency. Included are the MAC, EFCB as well as the newly created Special State Comptroller for the City of New York, several congressional committees, the Executive Office of the Governor of New York, and those representatives of banking and union interests that participated in much of the decision making. There is a risk of losing some clarity in our device but the economy offered makes its use, on balance, an advantage.

As a term our concern is with the word 'regime'. Hopefully its use will not scare the reader off. I do not mean the word to imply, as it might in a more general vocabulary, some sort of Latin American 'regime' with the associated connotations of 'cliques', para-military actions and instability. For political science the term is more serious. Broadly it refers to recurring and sustained values, norms, decision rules and authority structures. It is intended to describe that halfway house between the relative permanence of a political community and the incessant change of issues

and leadership characteristic of any political system. It includes formal constitutional and institutional factors, basic goals and norms, and the civic culture. In David Easton's words it refers to the "general matrix of regularized expectations within the limits of which political actions are usually considered authoritative . . . "[26] Changes in regimes need not necessarily coincide with changes in leadership. In fact the point is that a stable regime will long outlast its institutionalizing leaders. In New York's case during the financial emergency the city's governing regime changed but Mayor Beame remained in office and the City Charter was only mildly altered. Nevertheless, Beame lost his leadership role and the Financial Emergency Act more or less suspended critical sections of the Charter. A new 'matrix of regularized expectations' replaced the old.

FOCUS AND LIMITATIONS

My primary intention in this essay is to highlight and systematize the impact of the financial crisis on New York's policy making process. But if my central thesis is that the financial crisis had introduced a change in New York's governance I will spend little time arguing it. Rather the material is presented to emphasize the nature of these changes on the assumption that, having done so, the main

thesis will be borne out. We will proceed on the faith that an institutional analysis, a review of decision making within the crisis regime, and an assessment of these when compared against the traditional social science literature on New York City and urban policy making in general will describe changes in the policy making process in New York.

The specialist in policy studies will quickly recognize the insufficiency of this approach. The focus here is on the formulation process or what in systems language would be called the 'conversion process'. This, of course, is only part of the total policy making process. In recent years more attention has been paid to the 'output' stage of the process, after implementation. The true test of power and influence is not limited to the decision making stage but includes the output stage; in the relative proportion and distribution of resources among geographic, racial or class areas. Thus in a quite technical sense the conclusions of this study are specific to itself. In the larger context of the entire policy making process these conclusions become hypothoses to be tested against aggregated data on changes in expenditures and service delivery among different neighborhoods, groups, classes, and service functions performed by the City's government. Although we might agree that the ultimate test of the financial crisis' political impact are

the real changes measured in terms of real dollars or service dimensions in real neighborhoods this is easier said than done. The practical and methodological problems involved[28] may be more complicated than the potential for results. In any event, it is a perspective not dealt with here and one which sets a limit on the utility of the present investigation.

Not incidentally our definition of 'policy' proceeds from this distinction. The debate within political science over what a "policy" is has been a heated one. Some have called for a broad definition; others a narrow one. The complexity of the policy making process and the desire on the part of students of public policy to refine their analytical categories has led at least one commentator -- James Anderson[29] -- to suggest that using the word 'policy' alone should be abandoned. Instead we should identify 'policy' with its status in the policy making process. Thus we have "policy demands", "policy decision", "policy statements", "policy outputs", and "policy outcomes". Since we will not be dealing with the final service impacts of changes induced by the crisis "policy outcomes" is not relevant here. The others are, however. Policy demands for the most part came from potential creditors during the crisis. Policy decisions serve as the focus of our three case studies. Policy statements -- "formal expressions or articulation of public

policy"[30] -- are embodied in the legal, financial and regulatory products of the State Legislature, the MAC, the EFCB, and other institutional actors. And policy outputs reveal the attempts at implementing and enforcing such formal statements. Although I have left these distinctions implicit in the text, we should recognize them here.

OVERVIEW

The body of the essay is in three parts. Part I presents the core of the primary research. It contains an explication of the public law changes effected in 1975 and three case studies of decisions made during the financial emergency period. A chapter dedicated to the Emergency Financial Control Board as a political actor is included. Part II reexamines the information presented in part one along with additional material with an eye toward systematizing political changes against our dimensions: local policy process, intergovernmental relations and private economic power. Part III, a single concluding chapter, attempts to take the issues to a slightly higher theoretical level. Is there a post-interest group politics in New York City? If so, what are the implications for democratic theory?

NOTES

1. See for example: Ken Auletta, The Streets Were Paved with Gold (New York; Random House, 1979); Jack Newfield and Paul DuBrul, The Abuse of Power: The Permanent Government and the Fall of New York (New York Viking, 1977); Fred Ferretti, The Year the Big Apple Went Bust (New York: Putnam, 1976).

2. Donald Haider, "Sayre and Kaufman Revisited: New York City Government Since 1965", Urban Affairs Quarterly, Vol. 15, No. 2, Dec. 1979, pp. 123-145; Stephen David and Paul Kantor, "Political Theory and Transformations in Urban Bugetary Arenas," in Dale Rogers Marshall, ed., Urban Policy Making, Vol. 7, Sage Yearbooks in Politics and Public Policy, (Beverly Hills, Calif.: Sage Publications, 1979), pp. 183-220.

3. For an interesting collection of articles, both academic and practical, on this question see Volume 17, Urban Affairs Annual Reviews, Fiscal Retrenchment and Urban Policy, edited by John Blair and David Nachmias, (Beverly Hills, Calif.: Sage Publications, 1979). Two special collections of articles on "cutback management" have been issued through the Public Administration Review. See the symposium issue (July/August, 1978) edited by Charles Levine and a special issue in January, 1981 edited by Donna Shalala.

4. Buckley's perspective on that campaign can be found in his The Unmaking of a Mayor, (New York: Bantam Books, 1966).

5. Among them: the 1965 Temporary Commission on City Finances. Much of the staff work was conducted by the faculty of New York's University's public affairs school. Local finances was an important factor at the 1967 State Constitutional Convention. For an analysis of the convention see Donna Shalala's Ph.D dissertation As the Cities Burned, unpublished, University of Syracuse. Two State Study Commissions in the early 1970s can also be included. The Temporary Commission to Make a Study of the Governmental Operation of the City of New York, also known as the Scott Commission after its Chairman Stuart Scott, issued 11 individual reports on the financing and efficiency of the City's public sector. The most significant of these for our purposes was a major study

conducted under commission sponsorship by the faculty of the Maxwell School of Syracuse University. A summary was published by the commission. The full text was issued under the names of the principle investigators, Alan Campbell, Roy Bahl and David Greytak. A second commission chaired by State Senator Roy Goodman and title the New York State Charter Revision Commission for New York City concluded in its preliminary report that "The stark reality is that the city can no longer afford to supply an unparalleled range of services". (Preliminary Recommendations of the State Charter Revision Commission for New York City; June, 1975; p. 35). In addition, in specific service areas finance was an important focus of formal commissions. See, for example, the Fleishman Report on the Quality, Cost and Financing of Elementary and Secondary Education in New York State, (New York: Viking, 1973) in 3 volumes. Volume 3, Section 12 deals directly with New York City. More generally, the reports of the Temporary Commission on State and Local Finances, John Feeney, Chairman, 4 Volumes, 1974-75.

6. See: Dick Netzer, "The Budget: Trends and Prospects", in, Lyle O. Fitch and Annmarie Hauch Walsh, eds., Agenda for a City, (Beverly Hills, Calif.: Sage Publications, 1970) particularly pages 671-712. Also, somewhat later, Stephen Berger and Frank Macchiarola, "New York City's Budget: Looking into the Future", New York City Perspective, Graduate Division, Baruch College, CUNY. November 1974.

7. Staff Report of the Securities and Exchange Commission on Transactions in Securities of the City of New York, Chapter 1, pp. 257-258.

8. Ibid., pp. 26-27.

9. See: Annmarie Hauch Walsh, The Public's Business: The Politics and Practices of Government Corporations, (Cambridge, Mass.: The MIT Press, 1978) particularly chapters 3, 4 and 6.

10. See for example: Roger E. Alcaly and Helen Bodian, "New York's Fiscal Crisis and the Economy", in: Roger Alcaly and David Mermelstein, eds., The Fiscal Crisis of American Cities, (New York: Vintange Books, 1977), pp. 30-58.

11. E. E. Schattschneider, The Semi-Sovereign People, (Hinsdale, Ill.: The Dryden Press, 1975).

12. Robert Lynd and Helen Lynd, Middletown, (New York: Harcourt, Brace, 1929), Floyd Hunter, Community Power Structure, (Chapel Hill, N.C.: University of North Carolina Press, 1953).. C. Wright Mills, The Power Elite (New York: Oxford University Press, 1956). G. William Domhoff, The Higher Circles, (New York: Random House, 1970).

13. Among the classic texts: Edward Banfield, Political Influence (New York: The Fress Press, 1961); Robert Dahl, Who Governs? (New Haven, Conn.: Yale University Press, 1961) and Wallace Sayre and Herbert Kaufman, Governing New York City (New York: W. W. Norton and Co., 1965).

14. See, for example, Norton Long, "The Local Community as an Ecology of Games", American Journal of Sociology, Vol. 64, November, 1958, pp. 251-261.

15. Thomas Dye's Politics, Economics and the Public: Policy Outcomes in the American States (Chicago: Rand McNally, 1966) is among the most cited of these studies. For a good review of the results and methodological questions of those engaged in comparative studies of state and local policy outputs see: Richard I. Hofferbert, "State and Community Studies: A Review of Comparative Input-Output Analysis", in James A. Robinson, ed., Political Science Annual, Volume Three, 1972 (Indianapolos, Ind.: Bobbs-Merril, 1972).

16. The literature in the process impact of federal programs on localities is extensive. Some general views can be found in Roscoe Martin, The Cities and the Federal System, (New York: Atherton Press, 1963); Michael Reagan, The New Federalism (New York: Oxford University Press, 1972); Parris Glendening and Mavis Mann Reeves, Pragmatic Federalism (Pacific Palisades, Calif.: Palisades Publishers, 1977). For the problems of mixed, Local/State/Federal administration of programs see, Jeffrey Pressmen and Aaron Wildavsky, Implementation (Berkely, Calif.: U. of Calif. Press, 1973) and Chapter 6, Theodore Lowi, The End of Liberalism (New York, W. W. Norton and Co., 1969). The impact of General Revenue Sharing has also been an important focus of study. See: Richard Nathan, Allen Manvel and Susannah Caulkins, Monitoring Revenue Sharing, (Washington, D.C.: Brookings Institution, 1975). For a summary and review of National Science Foundation funded studies on the impact of GRS see: NSF/RANN, General Revenue Sharing, Research Utilization Project; Volume 2, Summaries of Impact and Process Research; Volume 4, Synthesis of Impact and Process Research, (Washington, D.C.: NSF, 1975).

17. Donald Haider, When Governments come to Washington: Governors, Mayors and Intergovernmental Lobbying, (New York: Free Press, 1975); Susan Farkas, Urban Lobbying: Mayors in the Federal Arena, (New York: New York University Press, 1971).

18. Samuel Beer, "Federalism, Nationalism and Democracy in America"; American Political Science Review, Vol. 72, No. 1, March 1978.

19. Peter Bachrach and Morton Baratz Power and Poverty: Theory and Practice, (New York: Oxford University Press, 1970). For applications of the concept see the cases contained in that volume as well as Matthew Crenson, "Non-issues in City Politics: The Case of Air Pollution", In Marvin Surkin and Alan Wolfe, An End to Political Science: The Caucus Papers, (New York: Basic Books, 1970).

20. For a general statement of the thesis in an American context see: Alan Wolfe, The Limits of Legitimacy, (New York: The Free Press, 1977). A good statement of this dialectical tension in the area of education, both for itself and as a model for other issue areas, can be found in Samuel Bowles and Herbert Gintis, Schooling in Capitalist America: Educational Reform and the Contradictions of Economic Life, (New York: Basic Books, 1976). The fiscal problems of state and local government and the continuing issue of inflation have also had their reflections in the neo-marxist literature. See: Roger Friedland, Francis Fox Piven and Robert Alford, "Political Conflict, Urban Structure, and the Fiscal Crisis", in, Douglas Ashford, ed., Comparing Public Policies: New Concepts and Methods, (Beverly Hills, Calif.: Sage Publications, 1978); and the important, James O'Connor, The Fiscal Crisis of the State (New York: St. Martin's Press, 1973).

21. Arnold Meltsner. The Politics of City Revenue (Berkely, Calif.: U. of Calif. Press, 1971); Iran Sharkansky, The Politics of Taxing and Spending (Indianapolos, Ind.: Bobbs-Merril, 1969), and, of course, Wildavsky's The Politics of the Budgetary Process, (Boston: Little, Brown, 1974).

22. For the politics of bureaucrats' discretionary power see: Frank Levy, Arnold Meltsner, Aaron Wildavsky, Urban Outcomes: Schools, Streets and Libraries (Berkely, Calif.: U. of Calif. Press, 1974); with a focus on the issues of equity: Robert Linberry, Equity and Urban Policy: The Distribution of Municipal Public Services, (Beverly Hills, Calif.: Sage Publications, 1977) and, Joseph Viteretti,

Bureaucracy and Social Justice: The Allocation of Jobs and Services to Minority Groups. (Port Washington, N.Y.: Kennikat Press, 1979). For a quantitative study of bureau response to citizen demands see: Jones, Greenberg, Kaufman, Drew; "Bureaucratic Response to Citizen-Initiated Contacts: Environmental Enforcement in Detroit", APSA, Vol. LXXI, March 1977, No. 1; pp. 148-165.

23. David Greenstone and Paul Peterson, Race and Authority in Urban Politics: Community Participation and the War on Poverty (Chicago: University of Chicago Press, 1976). For an interesting attempt at comparing the policy formulation processes between New York and London on issues of education see: Paul Kantor, "Elites, Pluralists and Policy Arenas in London: Toward a Comparative Theory of City Policy Formation", in the British Journal of Political Science, Vol. 6; pp. 311-344.

24. Robert Lineberry and Ira Sharkansky, Urban Politics and Public Policy (New York: Harper and Row, 1978).

25. Frederick Wirt, Power in the City: Decision Making in San Francisco (Berkely, Calif.: U. of Calif. Press, 1974).

26. For an interesting study of taxation and regime change, as well as a fruitful critique of Lowi's Policy Categories, see: Dall Forsythe, Taxation and Political Change in the Young Nation: 1781-1833 (New York: Columbia University Press, 1977).

27. David Easton, A Systems Analysis of Political Life, (New York: John Wiley and Sons, 1965) pp. 190-196. Quote on 193-4. For an interesting use of this category in international politics see: Robert Keohane and Joseph Nye, Power and Interdependence: World Politics in Transition, (Boston: Little, Brown, 1977). The authors use 'regime' as others have, to describe more or less stable patterns of transnational relations within separate issue areas. Thus, there is a monetary 'regime' set up at Bretton Woods which broke down in 1971, went through a period of transition and re-emerged in 1976 with the Kingston Agreement. Although such transnational 'regimes' are better if institutionalized and universal in membership (as in the WHO) less than universal or even bilateral agreements among important actors can define one. The point is stability of transnational relations within that issue area.

28. The practical problems are at least two-fold. First, the disruption in the administration of the city's services was so severe as a result of the layoffs, early retirements and transfers due to budget cutbacks that it would be difficult to ascribe variations in service reduction among different areas of the city. Thus, for example, while a white middle class district may actually have been cut back more do to low population density other areas of the city may immediately have suffered more because the percentage of younger employees, not having the seniority rights to choose the more attractive locations to work, would be in a higher proportion of that local work force. As younger members -- first hired, first fired -- were let go in greater proportion the temporary instability to that area would be greater even if, in the long term, decisions were made to their advantage. Second, the difficulty in amassing such a vast data base to make reliable conclusions for a city like New York would be extreme. Some work has been done in this area (see Viteretti, note 17) but even this was only for specific titles in three departments.

The methodological problem may be even more difficult to resolve. In Laswellian politics the basic tie between power and output is still who gets what, where, how and why? Even if one displaces this analytical mode from decision making to implementation and output analysis, so as to take into account the discretionary power of the bureaucracy, one is still left with the Who got what questions. But in a contracting budget the tie between power and output is different. The question is Who lost the least?; or even more refined, given what might be a scientific or rational formula of service distribution after budget cuts who lost the least after having exerted their political influence toward minimizing their losses? Thus, one must start with a speculation: What would the neighborhood (agency, group, class, race, individual) have received if there were no retrenchment? What did they lose; and then who lost the least. We are dealing with assumptions upon assumptions; and with each confidence in the conclusions must decline.

29. James E. Anderson, Public Policy-Making (New York: Praeger, 1975), pp. 2-6.

30. Ibid., p. 5.

PART TWO

The Politicies and Politics of the Financial Emergency

CHAPTER 2

FCLG, MAC, EFCB, OSDC: AN INSTITUTIONAL MAP TO THE CRISIS REGIME

Between 1975 and 1978 the city of New York was governed by an alternative administration. Evolving in response to a series of individual financing problems this 'crisis regime' was firmly established by the close of 1975. For three years it set the agenda for political discourse in New York and formed the most influential body of political actors in that period. Its legal powers went beyond those of the city's own charter; its political powers beyond those of any group or party in city government. While finally and formally established by the New York State Legislature and granted specific responsibilities and enforcement sanctions its ad-hoc nature clouded established channels of accountability. As a mutant of democratic institutions it was at best only indirectly answerable to the electorate. While vested with an extraordinary range of legal powers over the way public policy was made in New York this crisis regime was formed by and

among those who wished to avoid the legal processes previously established to deal with just such financial emergencies. It effected new institutions and new policies; but ultimately its focus was on changing the way policy was made in America's largest city. Nevertheless, despite its wide range of legal and political powers, and a conscious effort to expand its discretionary powers, this alternative administration was often limited in its effectiveness by other, larger political factors. Indeed, one of the more interesting questions to be asked of any study on New York City's 1975 financial crisis is to define the limits to such power given the weakness of any formal channels of accountability and the breadth of the new regime's mandate. What form of opposition arose? Were there other sources of influence available to those who opposed the policies of the crisis regime? Did the new administration accomplish all its goals? These, however, are later concerns. Let us start at the beginning.

In the fall of 1974, behind the doors of accountants, brokers, lawyers and public officials, it was becoming obvious that the city of New York faced a crisis of some proportion. The ever mounting need of the city for more and more short term credit flew in the face of a contracting market, higher interest rates and more intense competition for available credit. The problem went the heart of the city's operations.

This $13 billion dollar a year municipal corporation needed credit to keep operating. The dependence on credit went far beyond deficit financing. It was required by the nature and structure of New York's primary sources of revenue: its own taxes and intergovernmental aid. The need was two-fold. First, to keep afloat approximately $3 billion in accumulated budget deficits. Second, to sustain a reliable cash flow so New York could meet its payroll, service its debts, repay its suppliers and contract for services. In short, so it could operate. Although certainly a simplification, a first cut at trying to understand the politics and policies of the financial emergency of 1975 might be this: In order to obtain sufficient cash to keep the city's operations on a more or less continuous footing, that is in order to solve its 'cash flow' problems, New York's officials were to acquiesce in policies and ultimately a new policy making process aimed at reducing its chronic budget deficits and pay off previous obligations.

The most obvious and lasting political impact of the financial emergency is on the institutional level. Between January and December of 1975, four critical events led to the institutionalization of new channels of public policy making in New York. In January, when the crisis was still largely a private affair between the city and its underwriters, the

major banks in New York combined partly with the cooperation of the city to form the Financial Community Liaison Group (FCLG). Although certainly not an institution, the FCLG was something more than just an interest group. It began the interactive process between creditors and city officials aimed at achieving adequate financing and changes in city policies. In June, the State of New York created the Municipal Assistance Corporation (MAC). The MAC is a public benefit corporation of the state and was designed primarily as a mechanism to restructure the glut of short term debt of the city into longer term bonds. While importantly circumscribed, the MAC was also charged with some significant political powers.

In September, the most important changes occurred. On September 9th, the State Legislature declared a 'financial emergency' and, operating on the assumption of its police powers, instituted the Emergency Financial Control Board for New York City (EFCB). The EFCB was primarily a political body and was charged with overseeing the creation, implementation and, if necessary, the enforcement of a three year financial plan. In the context of the times, this meant a plan of retrenchment. It would not be an exaggeration to say that in establishing the Control Board the State Legislature had taken its most forceful intrusion into the affairs of New York City since the home rule grant of 1924; if not since the

city's re-incorporation into Greater New York City in 1898. At the same time the Legislature also created the Office of Special Deputy (State) Comptroller (OSDC), under the State Comptroller to provide support staff and financial analysis for the MAC and the EFCB.

In December of 1975, the federal government -- through the Treasury, General Accounting Office and relevant congressional committees -- became involved as a result of the passage of the New York City Seasonal Financing Act. In both the process of legislative enactment and in executive and congressional oversight, the federal government was an active participant in the process of change in New York City.

Here my concern is to provide the reader with an overview of the most important of these institutional alterations to our subject: the MAC, OSDC and especially the broadly political EFCB. More specifically we will deal with their creation, statutory powers and political actions. Together these three bodies are critical for an understanding of New York's new politics. This is true for several reasons. First, their very creation was the result of a process of conflict and bargaining among the city and those who could provide the monies of the scale needed to keep New York out of bankruptcy court. Second, they serve as the institutional setting within which all important policy decisions were

taken in the 1975-78 financial emergency period. Thus, they are both policies in themselves and the context without which subsequent policy making cannot be understood. Third, they have had a permanent effect on the patterns of policy making in New York. The MAC will be a vital institution in New York up till the redemption of its last issued bond. That is, at least, until 2008. The EFCB has been reauthorized (and re-named to simply the Financial Control Board). At present it could remain an active force in city politics up to the 1990s. And the possibility of an additional renewal always exists.

THE FINANCIAL COMMUNITY LIAISON GROUP (FCLG)[1]

Creation:

The first real change effected by the developing financial crisis was the creation of the Financial Community Liaison Group. In early October of 1974 the City sold an issue of Bond Anticipation Notes (BANs) and Urban Renewal Notes (URNs) of total of $500 million. But this sale was one of the last 'normally' marketed issues of New York City obligations for several years. A meeting of the Comptroller's Technical Debt Management Committee (CTDMC) was scheduled for the next day. The committee was created several years beforehand by then Comptroller Abraham Beame to deal with

potential problems between the city and the commercial money markets and to obtain advice on interest and marketability of city debts. According to memoranda gathered by the staff of the Securities and Exchange Commission it was at this October 7th meeting of the CTDMC the potential for severe financing problems to the City was first seriously discussed.[2] Within days there was additional reason for concern. Fitch Investor Service, third largest of the major rating agencies for municipal securities, lowered the city's credit rating. Its report warned that the city's heavy use of the markets might lead to speculative factors dominating market behavior toward the city.[3] Internal documents from the Comptroller's office and at least one major New York bank indicate that there was a growing awareness that the market was being saturated by New York City. Another critical offering was accomplished on November 4. The city sold half a billion dollars worth of Revenue Anticipation Notes (RANs) through private negotiation to a syndicate headed by Morgan Guarantee Trust. No offering document was publically circulated. By mid-November both Moody's and Standard and Poor's had privately expressed their concern to city officials.[4] An early December offering of $600 million was sold by the City but at interest rates as high as 9.5% -- at that point a record. Already, however, the underwriters for the city, mostly the large New York City

commercial banks, were having problems marketing all their assigned shares within the syndicate. Some were taking losses.[5]

The turning point came in December. After three months of a deteriorating market, and a need on the part of the City to market over a billion dollars worth of short term securities in the remainder of the fiscal year. Beame and Goldin had already published a joint letter in the New York Times[6] arguing that New York was indeed creditworthy and had not reneged on its obligations since the great depression. Although they admitted disagreements over the size of the FY1975 budget deficit this should not, they held, undermine the assets available to New York to repay its debts.

But officials of the major banks were more skeptical. A memo from Bankers' Trust indicated that the market was flooded with city paper. For the first time (at least for the first time documented) consideration was given to some political solution to relieve New York's heavy reliance on the market was mentioned. Reference to the 1933 Banker's Agreement between the city and major New York banks was made.[7] In that agreement, the bankers offered a steady line of credit to carry the city through the most difficult years of the depression in exchange for budget cuts and policy changes aimed at stabilizing the tax base.

An internal memo from Morgan outlined a similar solution. In exchange for a reliable line of credit to sustain the city's short term credit needs, the city should agree to certain important policy changes: 1) a substantial moritorium on capital construction; 2) a cut in the city's payroll; and 3) a "termination of the public disagreements between Beame and Goldin".[8]

At the December monthly meeting of the Comptroller's Technical Debt Management committee the bankers confronted Goldin and his staff more directly. The Mayor just a few days beforehand had suggested that the municipal employee pension funds be used to aid the City's potential cash flow problems. The bankers, however, argued with the comptroller's group that any effort by the funds could only be a temporary affair. The City was already out of the long term market and the scale of financing needs could not be fully met over a long period by the funds.[9]

The next day -- December 17 -- another meeting of the CTDM group was held; this time at Gracie Mansion and with Mayor Beame. After the representatives of the banks and other underwriters stated their assessment of the situation Beame responded. The mayor held that the banks were not 'selling' New York enough. They had lost interest in city paper. The assets and tax and other revenue receipts at the

disposal of America's premier city could back any city issue. At no point did the representatives of the financial community seriously question the city's ability to repay its bonds and notes. They were, however, concerned that the market conditions -- both general and those specific to New York City -- had combined to undermine the attractiveness of city securities. The basic problem according to the representative of Merrill Lynch was the size and frequency of city borrowings. Merrill Lynch, the mayor was told, had lost $50 million on that October issue.[10]

It was against this background that the Financial Community Liaison Group was formed. After selling an issue of $620 million in RANs to a syndicate headed by Chase Manhattan and Citibank -- at 9.4% interest -- Beame requested a meeting with the major representatives of New York's financial community. On January 9th, Beame met with a group including David Rockefeller of Chase, Ellmore Paterson of Morgan, and representatives from Chemical, Citibank, Bakers Trust and Manufacturer's Hanover. Beame argued that a 9.4% rate with only a single (unified) bid did not properly reflect the financial and fiscal assets of New York City nor the legal protections to potential creditors afforded in the State's Constitution. He reiterated his position that the underwriters were not 'selling' New York to the market. The

bankers responded that there was "serious doubts as to the market's capacity to absorb more city securities." They also stated that the underwriters to an October bond issue had suffered large losses and that it was the market that imposed a 9.4% interest rate, not the banks.[11]

One outcome of this critical meeting was agreement among the mayor and the bank executives to form a cooperative group aimed at re-opening the municipals' market to the city. This group would later be called the Financial Community Liaison Group. It was to be headed by Ellmore Paterson who was then chairman of the New York Clearing House association as well as Morgan.[12] But if its founding date and first chairman are easily identified, its purposes were not.

The Political Actions of the FCLG:

The first problem facing the Liaison Group and city officials was to define the groups' role. The FCLG consisted of two levels: a policy level and a staff level. The policy level was made up of some of the most important names to New York's banking community. The staff level, agreed to at a subsequent meeting with the mayor, was headed by David Grossman. Grossman had been budget director for New York City. After leaving the City he joined the staff of Chase Manhattan. The question remained, however, what was it that they were

supposed to do?

This was a particular concern to the comptroller and his technical debt management committee. The ambiguity of the FCLG arose at a January 28th meeting of the CTDM committee. It was understood that the Liaison Group could be seen in two ways. First it could be a 'road show', a group of financial 'cheerleaders' charged with 'talking up' New York to a wary money market. But it could also be seen as a more political group. Rather than focus on expanding the market for city securities the FCLG could instead or also concentrate on lessening the need for credit by the city. That would mean the group would be primarily a budgetary and fiscal advisory board to the city. Comptroller Goldin was particularly concerned that there might be a perception on the part of the market as well as among New Yorkers that the city's finances were now in the hands of its creditors. If the market saw things this way they certainly would scurry from any purchases of city notes. If the public saw it as such there would be political consequences.[13]

While debate continued within the city's government over what role the Liaison Group would serve its staff seems to have known where it was going. Again, according to documents amassed by the staff of the Securities and Exchange Commission, the FCLG staff had prepared memoranda on the city's

accounting procedures, its debt management policies, the economic and political causes of New York's chronic budget deficits, comparative measures of city employee compensation and the costs of the faster growing portion of New York's budget -- debt service.

At an early February meeting the FCLG staff outlined its primary areas of concern. These were 1) to work toward a long range plan for the city's financial management; and 2) to concentrate on the city's budgetary problems particularly on the budget gap and its attendant problems. One internal staff memo from the FCLG estimated that the budget deficit for FY 1976 would be over $1 billion.[14]

During the same meeting other concerns were expressed by staff members. Some feared that they might become "insiders," swept up into the "shenanigans" of city accounting. Others felt that the group should help the city seek additional aid from the state and federal governments. And still another, not quite astute politically, "stated that the Mayor should be told to cut the 1975-76 budget gap by $1 billion."[15]

The policy level of the FLCG was also looking more toward political than market focused solutions to the city's problem. In early March, Patterson distributed a memo to the representatives of member banks and underwriters drawn by

Grossman and his task force. In it two issues were highlighted. The first was the divergence evident in an historical analysis of New York's revenue and expenditures patterns. This, of course, was a major reason the city needed so much credit. The second point was the use of credit and the often heard charge that the city had created a number of public benefit corporations to issue "off budget" debt and thus evade the state's constitutional debt limit.[16] Among these were the Educational Construction Fund (ECF) and the Stabilization Reserve Corporation (SRC).[17] This second concern had been the subject of a memo circulating among the major actors in the group issued by Wood Dawson, bond counsel, suggesting that the City was approaching its debt limit.[18]

Within the individual underwriters ideas were apparently developing as to how the city's creditors should deal with the problem. At Citibank, Friedgut suggested that in exchange for a steady line of credit to finance the expected $1 billion budget deficit for FY 1976 the city should agree to expenditure reductions, impose a freeze on labor costs, begin to 'decapitalize' expense items placed in the capital budget, and generally move toward improving its financial management and desist from deception, if conscious, in revenue estimation.[19] Over at Chase Manhattan, Grossman, acting internally, drew up a memo for Rockefeller which was forwarded

to Patterson as head of the FCLG. In it Grossman suggested that the state of New York establish an authority to issue long term debt for the city and purchase maturing short term debt. Some assurances from the city that using the markets to finance deficits would be required. As a former budget official of New York, Grossman was more familiar with New York's politics than most of the other mid-level bankers. He was aware of the political problems associated with his own recommendations:

> There would be difficult political problems . . . in balancing the budget because the City would not welcome any intervention by outside governmental or private groups and the municipal unions and other interest groups would not welcome any interference with the funds and services they receive through the City budget.[20]

If the Mayor and Comptroller had thought of the Financial Community Liaison Group as a vehicle to 'sell' city securities it became something quite different. Although its staff was active in efforts to expand the market for city debt -- particularly in preparation of a Statement of Essential Facts aimed at persuading skeptical investors of the city's sound assets and resources -- the FCLG in the end came to see New York's financial problems as primarily political. The proposed solutions had political implications and they were aware of them.

The FCLG as a Political Actor:

To the degree that the FCLG sought financial changes with political implications it was a political actor. As such it is a forerunner to the MAC and EFCB in many ways. From what little we have seen here and also from the report of the SEC staff on New York's financial crisis -- the best published source for information on the FCLG -- the Liaison Group pursued three primary themes.

The first theme was to protect the interests of the banks. Obviously, given the investment made by the banks -- the issue of dumping aside for the moment -- a default by the city and renegotiation of its obligations would seriously effect the profit position of most banks. Not incidently, some of the FCLG were also concerned to advance or protect the interests of the individual banks. Chase, for example, saw its representative to the group as also pursuing more than just the financing needs of the city but also a series of policies associated with Chase's historic dedication to redevelopment of lower Manhattan.[21]

Second, memoranda from among the group and bank representatives indicate that if in fact greater financial discipline on the city did become necessary it be done in a managed manner which both limited damage and minimized the potential for a highly charged political conflict.[22] The

possibility of such conflict, not only with the city but also with other claimants against the city such as the unions, competing interest groups and the citizenry in general was clearly recognized.

Lastly, with their priorities for increased emphasis on budgetary reform, the FCLG was leading toward reform of the city's policy making process. A wage freeze, major expenditure reductions, less reliance on the money markets for financing deficits would each, and certainly together, force a new way of making political choices on the city's government.

The FCLG had few political resources in and of itself. With only a small staff and indirect access to information -- indeed, it seems they did not even take advantage of all the information already available through city and state study commissions -- the group's effectiveness was limited. Nevertheless, as the evolving policy arm of the bankers the FCLG had some influence over the ultimate political resource in any financing emergency: money. Since the previous fall the city had actually achieved many of its loans through direct negotiation. The reaction of the underwriters to the January issue, in which there was only one single bid from a unified syndicate, was the precipitating event in the creation of the Liaison Group. Although there is danger of exaggerating the point there is an obvious link between the

bankers working together in unified syndicates in loan making, and working together in the FCLG to effect policy change on the part of the city.

But what remains the most important distinguishing characteristic of the Liaison Group was this simple fact: it was a private body. Unlike the MAC and EFCB, both of which were created by the state with defining charters and legal limitations, the FCLG was private and informal. No agreement defined its role; and thus there continued to be disagreement over just what that was. No legal limits or channels of accountability were present; and thus someone active with it could seriously consider 'ordering' the mayor to cut the city budget by $1 billion.

The absence of legal formality was matched by a narrowness of political base. Created solely among representatives of the financial community the FCLG did not have a base wide enough to effect the policies, with their wide implications, the bankers were coming to recommend. Other interests would have to be accommodated. Most of the policies later to be included in the Financial Emergency Act -- a wage freeze, financial plan, decapitalization of expense items -- were initially discussed within the confines of the FCLG's staff and those of the individual banks. But it was accomplished only after the political base for the MAC and EFCB were

expanded to include the state government, the federal government and the municipal employee leadership.

The private nature of the Liaison Group was a final impediment. In a polity where political socialization occurs around a cluster of democratic values the FCLG never had an adequate store of 'democratic capital' to legitimate unpopular decisions. Comptroller Goldin was right. The Liaison Group would be perceived as an arm of the bankers once it became involved in policy formation.

THE MUNICIPAL ASSISTANCE CORPORATION (MAC)

The first formal institutional change effected by the financial crisis was the creation of the Municipal Assistance Corporation. While primarily a financial body its oversight powers as well as its control over badly needed cash made it also, if secondarily, a body of political significance.

Creation of the MAC:

The next critical date for the history of the financial crisis was March 17th, Saint Patrick's day, when New York celebrates the rites of Spring. On that morning at the request of the major bankers this time, Mayor Beame met with three leaders of New York's financial community: Rockefeller,

Patterson and William Spencer of Citibank. The bankers wanted the meeting kept secret to avoid the possibility of panic in the market. This was the message: 1) the market for city securities was narrow and shrinking every day; 2) that the major banks and other underwriters had reached the limit of what they could invest in city paper without risking violation of good banking policy; 3) that the projected financing needs of New York were so great that some non-market mechanism would have to be found. The possibilities suggested were the state of New York, the Federal Reserve System and the United States Treasury.[23]

In the next few days the severity of the city's financial position was communicated to all involved. Friedgut of Citibank made a presentation to the city's congressional delegation in Washington. Beame and other city officials met privately with congressional leaders. Bankers and city officials met with Treasury Under-Secretary John Bennet. Comptroller Goldin called Governor Carey to inform him of both the situation and recent meetings in New York and Washington. City and Federal Reserve officials met.[24] And on Sunday, March 23rd, the mayor 'went public'.

At that March 23rd press conference Beame reiterated the basic soundness of the city's finances. He also announced an expenditure reduction program amounting to $135 million. But

when he submitted the expense budget for FY 1976 a cut of $180 million had been made leaving the city's proposed budget for the next fiscal year at $12.8 million. Described by Beame as an 'austerity' budget, the mayor indicated that the economies taken by the city would result in the firing of nearly 4,000 city employees, the closing of three municipal hospitals, curtailing of library hours and the closing of 43 schools. These cuts should, Beame argued, justify faith on the part of the market in New York City.[25] But if Beame had acquiesced, however unknowingly, in linking the reduction of the city's budget deficits with its creditworthiness, he put himself and the city in a bad position. Even with the cuts announced, a $641.5 million deficit for FY 1976 was expected. Thus, while on the one hand the city's budget officials implied that the criteria of its creditworthiness was a balanced budget, on the other hand it was planning to spend over half a billion dollars more than it had.

While the city began dealing with its budget deficit there also began an effort to obtain adequate monies to finance its expected and past debts as well as cash flow needs. The federal government, as it would almost all year long, rejected all appeals for aid. In early May, President Ford rejected any attempt at using the Treasury Department to temporarily solve the city's problem advising, instead,

that the city take measures to reduce its budget. Similarly Secretary William Simon offered advice rather than cash. While the Federal Reserve Bank in New York kept itself informed of events it offered little help. Arthur Burns, still Chairman of the Federal Reserve Board, publically criticized the city's official and stated that New York would continue to have problems with the financial markets if it did not produce a balanced budget.[26]

The response from the State of New York was more positive. Carey and the chief financial officers of the State's government had just come through the default and refinancing of the State's Urban Development Corporation. They understood better the nature of New York City's problems and the condition of the municipal bond market. Within days of the withdrawl of the banks the state advanced the city $400 million against future state revenue sharing funds. A second advance was made in late May in the amount of $200 million.[27] These funds were only a drop in the budket, however, compared to what the city would need to see FY 1976 through to the end. Some estimates were as high as $7 billion. Even before the new fiscal year opened there was $1.5 billion in short term notes maturing by June 30th.

These initial cash advances were all within the executive discretion of the Governor and State financial officers. Any

further aid on the scale needed would have to go through the State Legislature, however. While the lower house, the Assembly, was then controlled by the democrats -- with its leadership dominated by the city's delegation -- the State Senate was a republican stronghold dominated by upstate and suburban representatives. Any effort toward greater state aid to the city would have to encompass these interests.

The Senate Republicans were less enthusiastic about aid to the city. Majority Leader Warren Anderson, a State Senator from the upstate city of Binghamton insisted that any aid program, or even authorization for any additional city taxes, would have to be accompanied by a change in the way New York City ran its finances. Anderson argued that the city "must stop delivering more services than it can afford to give." A balanced budget -- at least as a goal -- and some instrument to monitor city finances was the prerequisite in the Senate for passage of any aid package. In the closing weeks of May he specifically rejected a plea by Beame for an appropriation of $200 million and authorization for an additional $400 million in taxing powers.[28]

With all the requests for aid rejected -- The President, the Treasury Department, the Federal Reserve Board, the State Senate and the bankers -- Beame again went public. In an emotional speech, one which Fred Ferretti who covered much

of the early period of the crisis for the New York Times called the mayor's valedictory, Beame vented his frustration. He presented two budgets. The first was the already reduced one presented the previous month. It had been cut to $12.67 billion. The second, dubbed the 'crisis budget' was in an amount of $11.9 billion. This additional $700 million cut would be a severe strain on the city's ability to deliver services as in the past. Up to 60,000 people, Beame said, would have to be laid off.[29]

But it was the concluding remarks that caught the ear of those who watched. Beame turned on all those who opposed aid to the city. And in doing so he identified the very coalition that would have to be added to the already cooperative relationship between the Mayor and the Governor: the Senate Republicans, the Republican White House and particularly the bankers. It was the bankers Beame was harshest on:

> . . . what is ironic, puzzling and astonishing about this situation is that, instead of being encouraged by the unprecedented actions taken by my administration to move the city to a sounder financial position, the financial community instituted its bank embargo.
>
> Why is this taking place? Why has the financial community created an atmosphere of doubt and uncertainty about New York City's securities at this point in time? Who started the whispering campaign to denigrate our fiscal integrity -- a whispering campaign that has manifested itself in roaring headlines and handwriting editorials.[30]

Three weeks after the initial opposition of Senator

Anderson to any aid package $792 million in short term notes were to mature. The date was June 11. Without some new channel of financing New York would default. Nobody knew what that would mean but the default option was rejected by City and State officials as well as the bankers who still held a substantial amount of city paper. In those three weeks the fundamentals of the Municipal Assistance Corporation were agreed to. The text was written. A refinancing package was hammered out. A coalition between Carey, the Senate, the banks, and the city tenuously emerged. The demands of Senate Republicans were four-fold: 1) that the MAC have veto power over further city debt issuances; 2) that specific tax revenues be segregated directly to the MAC for debt service; 3) that the MAC board have some legislative representative on it; 4) a more effective limit on long term debt be incorporated in the legislation.[31] The bankers, supporting these demands, also required the MAC make public its assessment of city finances and budgetary matters.[32] That is, the MAC would serve as a watchdog over city fiscal performance for the financial community. Beame and other city negotiators opposed all these and lost.

In the early morning of June 10th, the State Legislature passed the Municipal Assistance Corporation Act and other enabling legislation. The Senate passed the bill by a 50-8.

margin. The City Council had already endorsed a home rule message requesting the state legislation. The Governor signed bill when he awoke at 7 AM.

Two of the chief actors in the negotiations were Felix Rohatyn and Simon Rifkind. Rohatyn, now well known, pulled together the financial package. Rifkind, a former federal judge and senior partner in Paul, Weiss, Rifkind, Wharton and Garrison, the Park Avenue and largely Democratic law firm, had been active in the writing of the final legislation. Carey appointed both immediately to the MAC board. In addition, he appointed Thomas Flynn, Robert Weaver, former Secretary of HUD and Donna Shalala, a professor of political science at Columbia Teacher's College to the Board. Beame appointed William Ellinghouse of New York Telephone (Later A.T. and T.), Francis Barry of Circle Line, John Coleman, a stock broker and George Gould, a 'financier'.

The Statutory Powers of the MAC:

The statutory powers of the Municipal Assistance Corporation are directly related to the functions it was designed to serve and the atmosphere in which it was created. Beame's above quoted May 29th speech is illustrative of the atmosphere of skepticism toward the city and the anger of its leadership. The functions of the MAC were three-fold: 1) to

restructure New York City's debts; 2) to provide the state some facility to monitor the city's financial position given the potential threat to the state itself; and, 3) to protect new as well as old creditors thus attempting to make the city a more attractive investment despite unstable market conditions.

First and most importantly the MAC was a refinancing agent for the city of New York. It was created by the State to issue longer term bonds for the city while using the funds, through the city, to repay maturing short term obligations. This allowed the city to financially 'stretch out' its debt burden with the result of 1) minimizing cash flow problems but also 2) increasing the total costs of those initial issuances by increasing total interest costs on them. Since the MAC was a public benefit corporation of the state of New York, the state, in a sense, also 'lent' the city its own good standing in the credit markets. Thus, the State Legislature was taking a risk on the city.

The MAC was initially authorized to issue up to $3 billion in state bonds. But these bonds only had the 'moral obligation' of the State Legislature behind them, not the 'full faith in credit backing' that, twenty years beforehand, would have been expected. As 'moral obligation' bonds, the state avoided potential problems with its own debt limit.

But so too it also denied possible investors those other legal rights associated with the 'full faith in credit' pledge. In order to make the MAC bonds more attractive, the legislature accomplished one of its most significant early interventions in the city's affairs. It declared the stock transfer tax and the city sales tax to be state taxes and directed the revenues derived from these two sources be transferred first to a fund under the administration of the MAC. The stock transfer tax was expected to produce $200 million in FY 1976 and the sales tax up to $850 million. These funds were first to be applied to the debt service and administrative costs of the MAC. Only after these were dealt with could the remaining funds be turned over to the city for customary expenditure. This unusual backing arrangement had two important effects. First, it ensured that MAC bonds would be relatively attractive investments in the market. It gave potential creditors an administrative 'first lien' against nearly a billion dollars worth of city revenue in the place of the legal first lien tied to the 'full faith in credit pledge' denied. Second, the arrangement also created a convenient exit for the state's own credit in the event of a MAC collapse. Since only the 'moral obligation' of the legislature was pledged, and only city revenue was at stake, some legislators might have thought damage to the state could

be limited. Given the fact that the MAC act was passed less than six months after the default of the Urban Development Corporation the issue was not unimportant.

Secondly, the MAC provided the state with a more effective instrument to monitor the city's finances; and thus indirectly for the financial markets as well. Many of the MAC's statutory powers derive directly from this function. First, the legislature charged the MAC with responsibility to review each proposed city expense budget and the revenue estimations on which it was based. If the MAC Board determined that the expense budget was not in balance, the legislature ordered it to:

> . . . promptly notify the mayor of such (a) determination and shall review with him the manner in which corrective action may be taken in order to comply with such conditions.[34]

This 'review' power was an important source of influence for the MAC over the city's policy making process. The ability to declare a city budget 'out of balance' would provide the MAC board with an effective tool over City Hall. In the atmosphere of skepticism surrounding the city even this 'advisory' power would be potent. If the MAC indicated that New York was not creditworthy than surely no one in the market would do so. Second, the MAC was granted broad powers over city borrowing. The statute required MAC approval for any short term borrowing to be undertaken by the city. If the

MAC board concluded that city officials would violate any legislative restriction the issuance of such short term obligations -- including a new debt limit on total MAC/City short term obligations contained in the act -- the board could stop the city from issuing them. Thirdly, the legislature gave the MAC extensive auditing and information gathering powers toward the city:

> The Corporation may, from time to time, conduct a review of the records, accounts, budgets, forecasts, projections and other relevant materials of the city.[35]

It also provided the resources to carry out this function and authorized the hiring of a staff to fulfill these responsibilities. One implication of these statutory powers was that the MAC would become the final arbiter of verifiable information on city finances. No other institution -- public or private -- would have as much access to as much information on New York except City Hall itself. As one aspect of the financial crisis was the loss of credibility of both the mayor and comptroller, this new MAC role was important. Finally, the MAC was also vested with advisory powers toward the city on its finances, management practices and budgetary processes.[36] While none of its recommendations had any direct legal bearing the politics of the situation hardly allowed the city to ignore any future policy suggestions.

The third function of the MAC was to protect future

investors -- including, by the way, the state -- thus giving MAC bonds greater security. To fulfill this function the legislature gave the MAC two types of enforcement powers over the city. The first was control over money; the second was control over information. As the refinancing agent for New York City the MAC could refuse to advance cash to the city and thus force it into default. Indeed, the accompanying statute which created the MAC for New York City created several conditions on which the MAC board could refuse to forward necessary funds. Included were lack of improvement in the city's accounting system, a requirement to phase removal of expense items from the capital budget over the next ten years and a new total debt limit between short notes and MAC bonds.[37] This last item created an aggregate limit on the total accumulated deficits and short term debt. The second source of enforcement power was the MAC's control over information. As mentioned above, the political context within which the MAC was created inevitably meant that it would be the final arbiter of information on the city's fiscal performance. As the MAC was an institution which sold bonds on behalf of the city, any report, discussion, conflict or disagreement with the city that became public would indicate that New York was not living up to the obligation to move toward a more balanced budget. The MAC was created because

the city could not enter the market. If the MAC began to criticize New York, or even refuse to advance it monies already raised, the city would have to re-enter the market itself. But this would be very difficult. In the political context of the time, control over information was the same as control over cash.

Some commentators passing on the nature of the MAC when it was originally created saw it as a harsh political remedy to an essentially financial problem. The level of intervention signified by the MAC into city affairs was thought to be extreme. With the benefit of hindsight and the latter intervention by the EFCB and federal government the legal powers of the MAC can be now seen as quite mild. The MAC Board did not have the legal power to reject any budget, forecast, plan, contract, or financial pattern of the semi-autonomous agencies of the city's government. Nor could it impose a wage freeze on city employees or remove any official violating its policies or regulations from office. These powers were all later granted to the EFCB.

The Political Actions of the MAC (June - Aug., 1975):

The political history of the first two months of the MAC's existence in many ways repeats that of the FCLG, but on a much larger scale. Immediately city officials tried to

minimize the political impact of the MAC's creation. Mayor Beame offered what now appears an inappropriate assessment of the MAC upon enactment:

> Somebody's always looking over my shoulder. The Citizen's Budget Commission looks over my shoulder. The New York Times looks over my shoulder. The Daily News looks over my shoulder. The State Comptroller looks over my shoulder. What's new about that?[38]

At first Beame's understanding of the MAC's role was not incorrect. The MAC's first act was to implement a 'bridge' loan between the banks (still working through the FCLG), the state and the city. In early July the MAC issued the largest single offering in the history of the tax-exempt markets. The belief among city officials that the MAC would primarily be a vehicle to 'sell' the city to potential investors, particularly those in other areas of the country, was sustained in this period. The underwriters who handled this billion dollar offering, twice the size of any previous offering, mounted a 'road show' across the country in an attempt to persuade bankers and investment directors of the soundness of MAC and the integrity of the City's attempt to deal with its financial problems. 220 banks and securities houses participated in the sale. Moody's rated this first MAC offering "A" and Standard and Poor's "A+". Within three weeks, most of issue was sold. On the surface it was an important first victory.[39]

But as John Allan, financial writer for the Times pointed out in a commentary on the MAC sale, the effort was not unblemished.[40] 145 dealers declined the invitation of lead underwriters to participate in the sale. The interest rate had been 9.5%, among the highest in the history of the municipals market. By July 18th, when the MAC board was already preparing to offer the second $1 billion offer, $50 million of the first remained unsold. Two-thirds of what was sold was absorbed within New York State; where state tax laws combined with federal codes to give local purchasers a double tax advantage. There was, in fact, particular resistance to the sale from banks outside New York State. One midwestern banker, quoted by the Times as characteristic of out of town bankers' attitude toward the MAC, said:

> We just feel that Big MAC can't be isolated from the ongoing problem of New York City. We don't see anything being done. Beame hires people back he's fired. They don't have any idea of what their budget can be cut to, what their deficit will be. They can't agree on even the deficit they had for last year. I mean what the hell is goin' on over there?[41]

Of the large California banks, only the Bank of America was a major actor.

The third week of July is the watershed for his early history of MAC. If the first month and a half MAC was primarily what the city wanted it to be -- a refinancing agent and advocate for New York in the money markets -- it was now

to become politically active and an advocate for the market with the city.

Already a minor change was made which enhanced the MAC's influence over the city. The MAC board had a choice to make. $700 million of the initial $1 billion sale had been raised by July 11th. How would that sum be transferred to the city? Rather than issue the funds in one lump payment the MAC decided to only make small transfers, as needed and requested by the city. Such a policy gave city budget officers little breathing space and maximized 'cash' as a political resource for the MAC. As an aid to then Chairman Thomas Flynn noted, "it's the agency's way of monitoring the city, and it's healthy for the city to come to MAC with its cash projections".[42]

This, however, was a minor affair compared to the clash developing within the board as a preluce to a more political relationship between the MAC and the city. By mid-July, what one writer for the Times described as "a group of self-styled hawks" was emerging among the MAC board members:

> They demanded a dramatic sign from the city -- a transit fare increase, tuition for the first time at City University, a reduction in welfare payments.

The MAC board was beginning to link the creditworthiness of the city, and thus also the MAC, with dramatic and partly symbolic policies aimed at reducing the budget deficits of

New York. Leadership changes within the MAC board indicate that Governor Carey agreed. Thomas Flynn, the Chairman, was replaced by William Ellinghaus who was identified as among these 'hawks'. In addition, an executive committee was also created. Flynn, Rohatyn and Ellinghaus were included in this new group. They would be the more active members in the next month.[43] A staff and an executive director were also appointed giving further indication of a more active role the MAC was about to play.[44]

These internal changes were reflective of a new attitude toward city policy making. As the MAC prepared for its August issue, the market tightened and suspicion grew. A new round of meetings in Washington was as fruitless as those of the Spring. A new problem also emerged. State Comptroller Arthur Levitt, a mainstay in New York State politics since the 1950s, decided against investing funds from state employee pension systems in MAC or city paper. Although he offered three persuasive if technical reasons for the rejection, in the charged atmosphere of the financial crisis Levitt's decision was interpreted outside of the state as an unspoken concern on Levitt's part for the quality of MAC bonds.[45]

At a July 17th meeting of the MAC, city officials were formally told what they already knew: the MAC was having

problems marketing its second billion dollar offering. Beame, who had considered the power of the MAC limited and who would have resisted earlier efforts to expand its political role in New York's governance, was reportedly 'quite shaken' as MAC board members pressured him toward taking symbolic acts for the sake of MAC's marketability. Beame had already instituted a temporary wage freeze on city employees. The MAC members were now recommending to him a series of drastic changes in city policy: a transit fare increase, tuition at CUNY, additional layoffs and salary cutbacks for the remaining workers. After the meeting, Beame told reporters that he recognized the severity of the situation:

> We indicated our readiness to move ahead to do everything possible to see that Big MAC can sell its bonds.[46]

Two weeks of heated private negotiations between the city and the MAC followed. At points Beame charged that MAC board members were trying to humiliate him and insert a 'shadow government' in the city's administration. On July 31st the MAC board more formally offered the city a series of recommendations.[47] The plan consisted of a three year ceiling on the city's budget with an accompanying limit on tax increases. In addition it also called for a series of management reforms and the acceptance of an 'independent' managerial apparatus grafted onto the (then) central institutions of New York's

government. The idea, not too dissimilar to what would develop into the EFCB, would be concerned with financial management but would not be directly elected. This was taken as a particular affront by the mayor.

Beame did, however, succumb to the pressure for policy changes aimed at the market. He instituted an additional layer of budget cuts amounting to $500 million. It included a wage freeze through the fiscal year, cut backs at the City University (and the beginning of pressure on CUNY for undergraduate tuition), a sharp reduction in capital construction and increases in the transit fares, commuter fares and bridge and tunnel tolls.[48] Although the MAC's legal powers were quite limited -- certainly more limited than those granted the EFCB -- and despite the mayor's resistance to MAC intervention in local policy making in the end City Hall had moved toward much of the MAC's political recommendations.

The MAC as a Political Actor (June - Aug., 1975):

What can be discerned from this initial period of the MAC's history? Three broad themes can be outlined in regard's to MAC's development.

First, like the FCLG before it, the MAC became more politically active in these first few months. Secondly, like the FCLG, public policy took on an important symbolic aspect:

in addition to being real attempts at reducing the city's budget gaps policy choices were also made to give the impression that 'something' was being done. Needless to say, in both cases, a more political and symbolical attitude toward the interaction of MAC and market presumed that an adequate market for MAC or the city would emerge.

The third, and most important dimension of the MAC's early political history is its effectiveness. This is most easily seen in comparison with the FCLG. The Liaison Group pursued many of the same policies that the MAC board did but was less effective.

The increased effectiveness of the MAC can be explained by several factors. Possibly the most significant was that the MAC was a public agency. The legislative process that preceded its creation had, as one of its effects, expanding the political base of the MAC. From the beginning it was larger than that of the Liaison Group. In addition to the bankers, the MAC was also the product of executive support, the state legislature -- particularly the Senate Republicans in its enforcement powers and the Assembly democrats in its assistance sections -- and, if hesitatingly, the city's principal elected officials. Despite the perception among many that the MAC was an 'arm of the banks' it was not. It was (is) an instrument of the state of New York; and thus its actions

had an air of legitimacy that the Liaison Group could never have. This worked three ways. First, it undermined any resistance by the mayor and other budget officials based on the argument that the policies demanded were only in the interests of the bankers. Second, the members of the MAC board, knowing they had the backing of the state, were not as self-conscious in recommending policies that would not be popular to an elected government. Third, and most important, the public nature of the MAC helped legitimate the imposition of policies and a policy process that many New Yorkers might feel were not democratically chosen. Although the city might have lost some control over its governance it could be argued the loss was to the state government, itself accountable, and not to the bankers directly. Given the policies the MAC was recommending, not to dissimilar from those of the FCLG, their acceptance needed more of a sense of public authority than the Liaison Group could ever achieve.

A second important factor contributing to the effectiveness of the MAC was that it operated in the public eye. I do not mean by this that its board meetings and policy papers were available to the public or the press. But as a public agency attempting to persuade the market of the city's financial integrity its public nature provided a wider audience. The Liaison Group was quite happy to remain

limited to the financial community and kept its political proposals relatively quiet. This was both by the nature of the FCLG and the behavior of the general press which did not yet cover the financial problems of the city fully. In trying to expand the market for the MAC bonds beyond New York, and the attendant publicity with its creation, the MAC was the focus of national attention. But if this added to its effectiveness it also brought a problem. It meant that the city's problems would increasingly be seen in political rather than financial terms. The creditworthiness of the MAC and the city would be assessed less in objective financial criteria than by its willingness to accept policies aimed at reducing its budget deficits.

A last factor contributing to the MAC's relative effectiveness was that it had political resources significantly beyond those of the FCLG. These are more than the public authority and legal sanctions available to the MAC, but also staff, access to state budget information on the city as well as information of other state agencies dealing with New York. In addition the membership of the MAC's board was also an important political resource. It was not composed solely of bankers. Among its members were several well respected academics, accountants, management experts and businessmen. The breadth and strength of the MAC board's membership reinforced its legitimizing role. But the

most important political resources available to the MAC, of course, its control over cash.

All this notwithstanding, however, the effectiveness of the MAC was not complete. Although it achieved some of its policies it could never go to the heart of the problem its own recommendations implied. While the MAC had the legal and political resources to effect new policy, it could never effect a new and stable policy making process. In fact, the MAC was quite detrimental on this count. Consider, for example, the remarks of one MAC board member, Dr. Donna Shalala, on the way policy was made in the summer of 1975:

> There was tremendous pressure to get the Mayor to do something. The people on MAC who knew the market told us that a symbolic act for investors was necessary. They thought raising the (transit) fare was the symbolic act that was necessary, and something we could get the mayor to do . . .
>
> The process wasn't rational. There was possibly a half hour of discussion about raising the fare; that's all. There was never a set of staff papers prepared, so we could study it.[49] We did no background work. We had no hard facts.

This conversation, relayed by Jack Newfield and Paul DuBrul, is illustrative for several reasons.

It shows first of all the nature of the relationship between the MAC and the city. That an increase in the transit fare "was something we could get the Mayor to do" shows how despite the legal limitations on the MAC the nature of the relationship was one of extraordinary influence.

More importantly, however, Shalala's words also show the manner of policy making: that is, disorganized. As the MAC invervened in New York's policy making process the impact initially was to completely disrupt that process; to make decisions with long term impacts on little information; to have little feedback on steps already ordered but not yet fully executed. The policy agenda for the MAC was created by forces outside the local polity; basically the State, the bond market and its interpretors. The tendency for policy to be taken on the grounds of its symbolic persuasiveness, as opposed to its real content within the context of New York's basic policy structure, was a strong one.

What has largely been misunderstood about the financial crisis is that its impact was not only, or even most importantly, in terms of policy. Rather, its most lasting governmental impact was on the policy making process. That summer, as the MAC dealt increasingly in symbolic politics it was also breaking apart a stable, if inadequate policy making process. Planning -- what little planning that was done beforehand -- had collapsed. Data -- that is, data still being produced in response to the older agenda -- was inadequate. Accountability either to the electorate or to a party had been circumscribed. It is no wonder that Shalala, trained as a political scientist, noted this decision making

chaos. The older policy making process that had contributed to the financial crisis was passing. A new one would need to emerge.

THE EMERGENCY FINANCIAL CONTROL BOARD (EFCB)

If the MAC was primarily a financial institution but secondarily had political impacts, the EFCB was a political agency from its very inception. It was specifically designed to engage the state of New York in the creation, monitoring and possible enforcement of a retrenchment plan for New York City. Yet its formation was also a symbolic political act toward, once again, persuading the bond markets that MAC bonds were secure and New York City was on the path to fiscal recovery. Toward these goals the Control Board was invested with broad legal powers substantially beyond those of the Municipal Assistance Corporation.

Creation of the EFCB:

In the end, the MAC did piece together a financing package for August. $960 million was raised, although not primarily through the market. Most of the necessary cash was secured through more directly negotiated purchases among local banks, state advances and, importantly, the employee pension

funds of the city's teachers, firemen and police.[50] This last factor signaled the incorporation of the employee unions in the refinancing effort. Admission was bought at a high cost for them, however. A temporary wage freeze was negotiated, establishing early the continuing pattern of crisis regime attempts to balance an 'incomes policy' on the one hand and securing union backing for fund investment on the other. Indeed, only $275 million package was assigned to the free market and this was selling, in the words of one underwriter, "kind of slow". The commercial banks had to 'eat' much of this while the remainder sold at a (then) record interest rate of 11%. The MAC offering allowed the city to pay on $791 million in maturing notes and also gave it enough cash to carry the city through into early September.[51]

But there was need for additional issues. By mid-September other notes would mature and there was also the payroll. As September approached it was apparent that the problems associated with the August borrowing would mount. The MAC again became more political. This time, however, as an advocate for the city. In mid-August it petitioned Washington for a full federalization of welfare costs. It also began a move on Washington for more direct aid to solve the city's cash flow problem. Options for Federal Reserve purchase of city or MAC were presented as was the possibility of

federal guarantees for either. But even if there were to be a positive reaction to any such proposals it would be months before the Congress could act. MAC officials, however, received nothing but resistance from the Ford administration.[52]

Governor Carey also became more active at this point. Although Carey had been active from the start, particularly when the MAC was created, Beame seemed to remain the prime mover. Carey now more directly engaged the power of the executive chamber and also his own political prestige in trying to stave off default. With MAC officials Carey flew to Washington seeking aid from the Ford Administration and support from old congressional colleagues. And he became directly involved in refinancing negotiations among potential creditors. The contracting market for MAC combined with this increased presence of Carey set the stage for the creation of the EFCB; and with it a resolution of the confusion of powers between the MAC and the mayor.[53]

On August 21st the critical MAC actors informed Carey that the corporation was not likely to raise even half the cash needed for September.[54] In a letter dated August 25th Ellinghaus, as chairman and acting on behalf of the MAC board, reviewed the MAC's stated purpose and admitted its apparent failure, concluding:

> Default is now an imminent prospect that must be faced with the utmost urgency and seriousness.

> Therefore, it is the unanimous decision of the Board of Directors of MAC that emergency action of a new and decisive kind is necessary if the financial obligations of the City are to be met and default is to be avoided.[55]

Not only had there been problems in marketing MAC bonds directly, but the secondary market in MAC bones was also displaying a drop in confidence. Some were selling as low as 85¢ on a dollar of face value.

The fragments of what had begun months before in the offices of the banks, Goldin and Beame were now to come together in the EFCB. Carey and Beame announced on August 27th that they had agreed on a plan in which State funds would be combined with bank and union pension funds to finance the city in exchange for a more potent oversight board to monitor the city's finances. A three member panel would be created among the Governor, the mayor and State Comptroller Arthur Levitt. The panel would review revenue estimates of the city and have final say as to their accuracy. Against these approved estimates the city would then have to construct its expenditure budget. In return the MAC would be given expanded borrowing power and the State would float its own bonds to help the city. Beame felt this plan did not impinge on New York City's home rule.[56]

But the bankers balked. One aspect of this first plan called for the New York banks to guarantee the State that, in

the event it could not resell the MAC bonds it was about to buy, the banks would be purchasers of last resort. While this protected the state it was not all that attractive to the bankers. In an unusual joint statement among the three lead banks in the plan -- Chase, Morgan and Citibank -- the chief executives of each said that Carey's office had been told of their decision before the joint City-State announcement.[57]

A second plan was being formulated at the MAC with Carey's approval. In a 111 page report, written by Felix Rohatyn, the MAC board outlined a financing package consisting of funds from the MAC, the State, the state and city employee pension funds, the major New York banks and whatever could be raised in the open market. The plan also consisted of a series of recommendations on changes in New York City's finances. It was out of these recommendations that the EFCB was created. Underlying the whole plan was the assumption -- call it the hope -- that eventually the federal government would intervene somehow to the aid of the city.[58]

Carey called a second special session of the State Legislature to deal with the crisis in New York City. On September 5th he informed the two bodies of events and formally submitted his plan for dealing with them. In his message Carey took the legislators through a brief history

of what the city and state had attempted to do to achieve greater credibility in the municipal bond market:

-- the creation of the MAC;

-- the formation of a management advisory committee;

-- the self-imposition of a budget ceiling by the city;

-- a moritorium on additional taxes;

-- the dismissal of thousands of municipal employees;

-- a wage freeze on remaining city employees;

-- an increase in transit and commuter railroad fares;

-- a further reduction in the budget of The City University;

-- a significant reduction in the capital budget; and

-- the appointment of a special deputy mayor for finances.

He continued by describing his request to the MAC board for suggestions. He recognized the inherent risks to the State if its largest city should default; particularly if this occurred after the legislature acted on his submitted legislation. He noted also that even if the severe actions he was proposing were accepted there was no guarantee that the capital markets would open to the city in the near future. And he concluded:

> We confront, therefore, a formidable dilemma. There are major risks in any choice we make. Our most prudent course is to weigh the risks and follow the path that minimizes them.[59]

Carey's path was the Financial Emergency Act.

The Financial Emergency Act:

The Financial Emergency act[60] was an omnibus piece of legislation which amended previously enacted law, created new agencies and provided new powers to older agencies. It was passed on the declaration of an emergency and assertion of the state's 'police powers' -- that layer of residual legal powers always problematic in a democracy and usually reserved for war, civil unrest or natural disaster.[61] In the words of the legislature:

> (the) situation is a disaster and creates a state of emergency. To end this disaster, to bring the emergency under control and to respond to the overriding state concern. . . . the state must undertake an extraordinary excercise of its police and emergency powers under the state constitution, and exercise controls and supervision over the financial affairs of the city of New York. . . .[62]

The emergency act was also the formal and legal expression of the Carey/Rohatyn plan to save the city from default. The EFCB cannot be understood without this context.

The Financial Emergency Act contained seven major features. First, it appropriated $750 million from state funds to help the city. $250 was to go directly to the city and $500 million to the MAC. These funds were made contingent, however, on the availability of other monies in Rohatyn's

total financing package from among pension funds, the banks and other sources.[63]

Second, it authorized and directed the purchase of MAC bonds by the State employee pension funds and by the State Insurance Fund, another pool of capital available to the state authorities. The State pension funds were allotted $225 million. (This was later challenged in court successfully.) The Insurance Fund was assigned $100 million for purchase. The city pension funds were allotted the following in MAC purchases: $200 million by the Teachers Retirement System; $55 million by the Police Pension Fund; $10 million by the Fire Department Pension Fund; $10 million by the fund covering non pedagocial employees of the Board of Education; and, $225 by the Employees' Retirement System, for other city employees.

Third, the act incorporated into state law a wage freeze previously passed by the New York City Council on the recommendation of Mayor Beame. The freeze was to carry through to the end of FY 1976. The EFCB, however, was granted the option of its extension; something that became the focus of some political controversy as the act's administration developed.

Fourth, the act provided for an orderly procedure of court sponsored debt reorganization if the political and

financing maneuvering which produced the Emergency Act failed in its purpose.

Fifth, it protected all involved from any civil action in investing funds in the city of the MAC. This was done by fiat. The State Legislature simply declared MAC securities to be reasonable, prudent and legal investments for the directors of any public pension funds or for the fiduciaries of private monies. Thus, all who might have been concerned for the safety of investing monies trusted to them would be relieved. The legislature indemnified them all from any civil suit in the event the MAC or the city collapsed.[64]

Sixth, the emergency act provided for the appointment of a special deputy comptroller for New York City. The new deputy comptroller would report to State Comptroller Arthur Levitt.

Lastly, the Financial Emergency Act created the EFCB and served as its charter.

The legislative debate over the Financial Emergency Act was quick and intense. Carey submitted the draft legislation on September 5th and it was passed at four o'clock in the morning September 9th. Despite its strictures on the city and the obvious impingement on home rule powers resistance to the bill did not come primarily from New York City's delegation but from upstate republicans. The omnibus nature

of the bill put the republican leadership in an ambiguous position. While most approved of the severe constraints imposed on the city's finances, they also resisted the appropriation of state funds for the city. Union leaders were also divided. Although hardly in favor of the wage freeze, officials of the city employee unions had to support the legislation. A wage freeze and additional layoffs were one thing; bankruptcy, and the possibility of loss of their pensions and suspension of their contracts, quite another. The leadership of the State employee unions were in a different position, however. They were not enthusiastic about the legislation committing their pension funds, and indemnifying their fiduciaries, to aid New York City. Thus, the court challenges.[65]

In the end enough Republican votes were found among State Senators from downstate to pass the bill. Senate Majority leader Warren Anderson voted for the bill after meeting with Ford administration officials in Washington and representatives from the New York banks. What little resistance there was among city legislators came from the Black and Puerto Rican Coalition and liberals. For them, of course, the financial crisis was the beginning of the end of a way of politics. It would be a long time before the government of the city of New York could be used to redress

social inequity.

Still, the vote was close. The 'crisis regime' was formally installed on an 80-70 vote margin in the Assembly; and a 33-26 margin in the State Senate.[66]

The Statutory Powers of the EFCB:

The Emergency Financial Control Board was created to fill two overall roles. First, to act as the state's monitor over New York City's fiscal and financial affairs. Second, to regain the confidence of the private money markets in city and MAC securities. To be successful in these roles the EFCB was assigned five major functions from which its legal powers were derived: 1) to oversee the creation and enforcement of a financial plan for New York City; 2) to rule on the acceptability of all city borrowing; 3) to supervise a petition of reorganization for the city in the event of default; 4) to administer the Emergency Financial Control Board Fund; and finally, 5) to administer a state imposed wage freeze on city employees. We will deal with each of these separately.

The powers of the EFCB over New York City's finances went substantially beyond those of the MAC. The Control Board was to develop and approve a financial plan for the city which would lead to a balanced budget by the end of

fiscal year 1978. As part of the process the EFCB had final determination over the revenue estimates on which the city would base its plan. The Board could accept, reject or amend any financial plan submitted to it. In terms of administration, the EFCB could also order expenditure reductions to ensure that the city's budget would be in balance by FY 1978. In this context it could accept or reject any contract entered into by the city. This included all labor agreements. Beyond these the Control Board was also invested with full auditing powers and access to all city records. It was also granted the right to make management suggestion. Despite these wide powers in aggregate budget matters, however, the Board was specifically prohibited from setting budget priorities within the gross figures it had approved. These policy making perrogatives were reserved, at least legally, to the city.[67]

Secondly, the Financial Emergency Act outlawed borrowing by any agency of the city's government without the explicit prior approval of the EFCB. This went beyond the powers of the MAC and had the effect of centralizing all capital construction borrowing and cash flow control in the hands of the EFCB to the degree that either relied on borrowed funds.[68]

Thirdly, the EFCB was charged with supervising any

petition to court for a reorganization. In the event of an unremedied default, city officials were granted five days to file with a court. If they did not, the EFCB could do so on behalf of the city. Amendments to the Local Finance Law, however, ensured that the Board would have an active role in either event. If the city did file a bankruptcy petition it was also required to file a repayment plan. This repayment plan needed EFCB approval. If the city did not file it within 45 days, the EFCB could file one on its behalf. Any further modification after acceptance would need EFCB approval. The MAC -- a potential claiment against the city in the event of a default -- was never granted such wide powers.[69]

The fourth function of the Control Board was tied closely to the third. In addition to creating the EFCB the Emergency Act also created the Emergency Financial Control Board Fund (EFCBF). All city revenues were to be deposited into this fund; although in operating it simply meant that the EFCB would be placed as trustee over all city accounts in all banks it did business with. Like the MAC act, which gave it jurisdiction over the sales and stock transfer taxes, the Emergency Act gave the Control Board similar powers but this time over all other revenues. The EFCB was granted powers over the fund in terms of its investment and disburse-

ment. A debt service account was created by the act within the fund to ensure that debt service would be given first priority. In addition, the emergency act also set the priorities of fund dispersement in the event of shortfalls. Debt service was first, followed by "liabilities having statutory or contractual priority" and, finally, other obligations "on an allocated basis" as specified by the Financial Plan. Those revenues already channeled into the Municipal Assistance Corporation for debt service were excluded from the EFCB Fund.[70]

Lastly, the Control Board was charged with administering a wage freeze on city employees. The act provided for a one year 'freeze' and authorized the EFCB to continue that freeze up to the terminal date of the financial emergency period (June 30, 1978). Substantial discretion was granted the members of the control board in this area which, as we will see in chapter 4, got the Control Board involved in collective bargaining.[71]

If the functions and powers of the EFCB were broad, so too was its jurisdiction. The Control Board not only had powers over the aggregate finances of the city's central institutions and mayoral agencies -- police, fire, sanitation, Department of Health, etc. -- but also over what the legislation called the 'covered institutions'. The EFCB's

jurisdiction included "any governmental agency, public authority or public benefit corporation which receives or may receive monies directly, indirectly or contingently from the city". This included the city's Health and Hospitals Corporation, the Board of Higher Education (CUNY), the New York City Transit Authority, the Board of Education, the city's public housing authority, and a series of lesser capital construction and development agencies. The only public agency in New York City specifically excluded was the Port Authority of New York and New Jersey. In one legislative act the historic distinction between Mayoral and non-mayoral agencies in New York City was ended.[72]

The initial Beame/Carey plan called for a three member board: the Governor, the Mayor and the State Comptroller. The Control Board as established by the Financial Emergency Act consisted of seven members. The Governor, Mayor, State Comptroller and the City Comptroller were all ex-officio. In addition, three other members were appointed by the Governor upon approval by the State Senate. Carey's subsequent appointments made it clear that these three 'private members' were to be representatives of the business community. The first three appointed members were Ellinghaus, David Margolis of Colt Industries and Albert Casey of American Airlines.

Violations of the Emegency Act or the EFCB's policies included misdemeanor charges and, upon vote, removal from office. The mayor was not excluded from these potential penalties.[73]

The powers of the EFCB were obviously quite wide. But there were two limits explicitly contained in the act. First, the Control Board was prohibited from setting expense priorities within approved aggregate limits (assuming the city did not default). Second, the Control Board could not interfere in the right of employees to bargain collectively.[74] This first limitation was an obvious concession to the mayor and, to some degree at least, preserved the democratic character of the city's government. The second is similarly an obvious concession to the labor unions. While the Control Board never explicitly violated either limitation the impacts of its policies certainly did.

THE OFFICE OF SPECIAL DEPUTY COMPTROLLER (OSDC)

In addition to creating the EFCB the Financial Emergency Act also created a Special Deputy Comptroller for New York City. The new deputy comptroller was to be appointed by the State Comptroller and serve with all the powers of the State Comptroller as they pertain to New York City. The function of the new deputy state comptroller was to provide staff

services and necessary expertise in accountacy and management to aid the EFCB in accomplishing its legislated tasks. Although the MAC was authorized to hire staff or contract out research, it did not have such an extensive support network. Later, as the EFCB became more political, it added a more policy oriented staff to supplement the OSDC which was composed mostly of accountants. The first (and as of March 1981 the only) holder of the post was Sidney Schwartz.

Not incidently, the creation of the OSDC under Comptroller Levitt, as well as Levitt's role as sole fiduciary for many of the State employee pension funds, brought him more closely into the politics of the financial crisis. Later in the year, as the City of Yonkers was on the verge of bankruptcy, Levitt would become chairman of an EFCB for that city.

CONCLUSION

The Crisis Regime Established:

By the Fall of 1975 the City of New York was subject to a new governing regime which exercised its influence through a number of new groups and institutions created during attempts to avert default. The most important among these were:

-- The Financial Community Liaison Group (FCLG);

-- The Municipal Assistance Corporation for New York City (MAC);

-- The Office of the Special Deputy Comptroller (OSDC); and finally,

-- The Emergency Financial Control Board (EFCB).

While these were the primary movers in the politics of the financial emergency period (Sept., 1975 - June, 1978) they were not the only ones. Other agencies and groups that had considerable roles as a result of the financial crisis include:

-- The (City) Temporary Commission on City Finances; formed by Mayor Beame to provide his administration with necessary research on the City's financial and fiscal problems.

-- The Mayor's Management Advisory Commission; formed by the city under pressure from the State and the creditors to advise on managerial reforms.

-- The Deputy Mayor for Finances; appointed by Beame under pressure from the MAC Board. Kenneth Axelson of J.C. Penney was the first to hold the office.

-- The Executive Office of the Governor; which took on a prominent role as Carey moved into the center stage of the financial tragi-comedy.

In addition there were also a number of private firms and agencies which were important actors:

-- The major New York City commercial banks;

-- The municipal employee unions;

-- Lazar Freres, international investment bankers, as advisors

to the MAC;

-- Paul, Wiess, Rifkind, Wharton and Garrison; counsel to the MAC and the Executive Office of the Governor;

-- and several accounting firms and bond counsel firms.

Beyond these local agencies and actors the December passage of the Seasonal Financing Act for New York City also brought in critical actors from Washington. These included:

-- The Secretary of the Treasury, his deputy, and as advisors, the Arthur Anderson Company;

-- The General Accounting Office;

-- Several congressional committees but particularly the Senate Banking Committee and its chairman, William Proximire.

Together, these actors -- major and minor; general and specific -- form the outlines of our institutional map to the crisis regime.

From Institutional to Process Analysis:

While the MAC, and particularly the EFCB, can be seen in terms of the institutional changes in New York's governance, they also serve as the context in which all policy was made in the 1975-1978 period. Our study must now move beyond institutional analysis and its accompanying method of public law explication if we are to get a fuller picture of the crisis'

political impact. Legal power and political power are two quite different animals. Our task now must be to analyze the creation and administration of some key policies toward an understanding of the process and structural changes wrought by the financial crisis. To what degree were the legal powers granted the EFCB actually turned into real political power? Were there limits other than the legal limits contained in the emergency act? Were these limits on the Control Board's power in fact effective? Did group pressures effect the administration of the emergency act? What was the nature of 'democracy' in a period when such extraordinary power was invested in so few? Each of these questions deserve some sort of response. To do so three cases have been chosen as a basis for further investigation. These are: 1) the formulation and administration of the financial plan; 2) the EFCB's labor policies; and 3) the attempt to take control of the non-mayoral agencies of the city's government.

NOTES

1. The descriptive aspects of this section rely heavily on the Staff Report of the Securities and Exchange Commission on Transactions in Securities of the City of New York. The reader should be aware that the SEC Staff Report was the subject of some political charges when it was issued in the middle of the election campaigns of 1977. Both Beame and Goldin issued strong and well documented rebuttals to the conclusions of the report which intimates that both deliberately misled the investing public.

Throughout this section, and throughout the essay as a whole, I have used the SEC report with this in mind. The analytical chapters of the report (Chapters 2-6) have been referred to as artifact, not authority. But Chapter 1 is different from the rest of the report. In it the SEC Staff compiles in summary form the history of events between October 1974 and April 1975. The Chapter, 268 pages long, is based on documents, reports and internal memoranda obtained under subpoena from the city, banks and other underwriters, law firms, and the bond rating agencies. In some cases documents are reprinted; in all cases they are referenced. In short, Chapter 1 of the SEC staff report is a gold mine for anyone wishing to understand what happened behind closed doors in the six months before the crisis became the subject of wide press reports.

2. SEC Staff Report, Chapter 1, p. 2. Initial Source: Testimony of Harrison Goldin, August 26, 1976, at pg. 37.

3. Ibid., page 9. Initial Source: "New York City -- Its Debt, Financial Structure (Financial Future?)" Fitch Investors Service, Oct. 10, 1974.

4. Ibid., pgs. 23-24. Initial Source: Testimony of Mr. Margolis, pgs. 38-42.

5. Ibid., pg. 33 and pg. 42. The bank losses were initially made public in an article in the New York Times, Dec. 13, 1974.

6. Ibid., pg. 21 and pgs. 24-27. The Beame Goldin letter appeared in the Times on November 11 in response to a Times editorial entitled "Nearly Bankrupt City". Goldin's

office issued a lengthy statement on "Some Essential Facts on New York's Debt position" November 14th. The next day, Beame and Goldin issued another joint statement reaffirming their comments in the Times.

7. Ibid., pgs. 38-38. Initial source: Trunxton Pratt to William Moore, memorandum, December 11, 1974.

8. Ibid., pg. 40. Initial source: Memorandum, Amos T. Beason to Frank P. Smeal, December 13, 1974.

9. Ibid., pgs. 43-44. Initial source: Minutes, CTDMC, December 16, 1974.

10. Ibid., pgs. 44-46. Initial source: Minutes, Special Meeting of the CTDMC, December 17, 1974.

11. Ibid., pgs. 55-57. Initial source: Testimony of E. Patterson at pgs. 23-29.

12. Ibid., pg. 56. Initial source: Testimony of E. Patterson at pgs. 28-29; Memorandum, David Grossman to Willard C. Butcher, January 22, 1975.

13. Ibid., pgs. 76-77. Initial source: Minutes, CTDMC, January 28, 1975.

14. Ibid., pgs. 88-90. Initial sources: Participant memos, including Grossman, Rousseau, Gray.

15. Ibid., pg. 89. Initial source: Duncan C. Gray to Albert H. Gordon, February 13, 1975.

16. Ibid., pgs. 122-123. Initial source: Memorandum, David Grossman to Staff Committee, FCLG, March 3, 1975, with Attachments.

17. The Educational Construction Fund (ECF) is a public benefit corporation of the City of New York. Its primary purpose is to serve as a financing agency for the construction of multi-function buildings part of which are used for primary and secondary education facilities. The revenue streams generated by long term lease of non-school space is used to fund the debt service of the entire complex. The original justification was to build school facilities in dense areas with only minimal cost to the City. As a semi-autonomous agency, however, the debts incurred through the issuance of moral obligation bonds would not be held against

the total debt limits imposed on the City by Article 8 of the State Constitution.

The Stabilization Reserve Corporation (SRC) was a refinancing agent for an overhang of short term debt left from the fiscal years of the early 1970s. Similar to the MAC in that its goal was to restructure City debt from short term into long term securities it was nevertheless a City public benefit corporation with City officials filling its board of directors.

An unsuccessful court challenge concerning the City's possible violation of the Constitutional debt limit was brought against the City and the SRC (Wien vs. New York City, 370 N.Y.S., 2d 550 [1975]). While the City and the Reserve Corporation survived the challenge the pending litigation worked against the successful issuance of over $500 million in BANs by the SRC in the late winter of 1975. The loss of these expected funds, as well as the legal cloud the case placed over all such corporations and the City's financial management is considered by some to be a contributing factor to the loss of confidence in New York City paper by the financial community.

The reader should be aware that there is considerable legal debate over whether the creation of such agencies is proper or are a mechanism to intentionally avoid the constraints of constitutional debt limits. For discussions of proposed reforms to deal with this and other problems associated with the debt limits in New York State see the special symposium issue of the Fordham Urban Law Journal, Vol. VIII No. 1, 1977-80; and the Report of the Assembly Ways and Means Committee, New York State Legislature, New York's Role in the Fiscal Affairs of its Local Governments: New Directions for an Old Partnership; May, 1979.

18. SEC Staff Report, Chapter #1, pg. 167. Initial source: Memorandum, Wood Dawson, March 11, 1975, "A Proposal for Providing One of the Essential Elements in Finding a Long Range Solution for the Current Financial Difficulties of New York City."

19. Ibid., pgs. 122-13. Initial source: Memorandum, Jac Friedgut to William Spenser, "The City Budget Mess". March 2, 1975.

20. Ibid., pg. 191. The quote is from an SEC staff paraphrase of the memo.

21. Ibid., pgs. 82-83. The SEC's summary of a memorandum from David Grossman to David Rockefeller,

February 4, 1975, reads as follows:

> "In a memorandum to David Rockefeller of Chase, David Grossman stated that, after a review of the potential areas of involvement by Chase in City affairs in 1975, he recommended that he (Grossman) concentrate on the following items: the City budget problem; the subway system, primarily the Second Avenue subway; the economic development of lower Manhattan; and strengthening municipal productivity and manpower utilization."

22. Two issues are important here. First, that market access be maintained. An internal memo from Morgan illustrates this point:

> (The Memorandum asserted that the bank's ability) " . . . to apply some financial discipline to the City's operation will be better accomplished while they can still fund themselves in the marketplace than when our vaults are loaded with nonmarketable City debt. Once the pattern becomes established of the City's not being able to sell debt and the City's financial institutions providing funds, we will find ourselves on a one way street." (pg. 40; addition from SEC Staff.)

The second issue is one of potential political conflict. In addition to the Grossman quote (Note 21) there is additional indication of sensitivity on this point from a Friegut memo at Citibank:

> "He (Beame-rwb) will complain that he has no authority over such leviathans as the municipal unions, The Board of Education, the hospitals corporation and other such quasi-independent agencies. Such a defense is both true and not true." pg. 104.

In addition, the very notion of exchanging a solid line of credit for greater fiscal austerity -- which, in whatever form, is what the FCLG and the member banks were toying with -- was ultimately an attempt to stabilize an inherently unstable situation.

23. Ibid., pgs. 186-190.

24. Ibid., pg. 193; pg. 202; pgs. 195-196.

25. The text of the speech can be found in the SEC Staff Report, Chapter 1, pgs. 216-222; or in Fred Ferretti, The Year The Big Apple Went Bust (New York: Putnam, 1976); pgs. 156-163.

26. Facts on File, New York and the Urban Dilemma (New York: Facts in File, 1976), pgs. 119-120.

27. Ibid., pgs. 117-118. For a review of the import of the UDC default on New York's crisis, see Ferretti, op. cit., pgs. 135-145.

28. New York and the Urban Dilemma, Facts on File, pgs. 120.

29. The text of the speech can be found in Ferretti, The Year The Big Apple Went Bust, pgs. 198-205.

30. Ibid., pg. 202.

31. Ibid., pgs. 214-215.

32. Ibid., pgs. 215.

33. McKinney's New York State Session Laws, 1975, chap. 868 and 869.

34. Ibid., Chap. 869, §3040.1 and 3.

35. Ibid., §3039.

36. Ibid., §3039.

37. Ibid., §3038.

38. New York Times, June 12, 1975; pg. 51.

39. New York Times, New York Post, June 14, 1975; New York Times, June 27, 1975; pg. 40.

40. New York Times (Sunday) Week in Review,: "M.A.C.'s First Act Was a Costly One," John Allan, July 6, 1975.

41. John Darton, "M.A.C. in Trouble, Too," New York Times, July 19, 1975.

42. Wall Street Journal, July 11, 1975.

43. New York Times, July 18 and 20, 1975.

44. Ferretti, op. cit., pg. 243.

45. New York Times, July 25, 1975.

46. New York Times, July 18th.

47. The background to these negotiations can be found in Feretti, op. cit., pgs. 233-286. The text of the Mayor's and the MAC's individual plans are reprinted there. Also, Times, August 1.

48. Facts on File, New York and the Urban Dilemma, op. cit., pgs. 124-125.

49. Jack Newfield and Paul DuBrul, The Abuse of Power (New York: Viking 1977), pg. 190.

50. Facts on File, New York and the Urban Dilemma, op. cit., pgs. 125-126.

51. New York Times, August 13, 1975, pg. 66.

52. "M.A.C.'s Next Hurdle," Edwin Dale, Jr., and "Bankers Around U.S. Cool to M.A.C.," Steve Weisman, New York Times, August 9, 1975; and, "M.A.C.", Calls on U.S. To Pay for Relief," Steve Weisman, New York Times, August 10, 1975.

53. New York Times, August 20, 1975.

54. Facts on File, op. cit., pg. 126.

55. The text of the letter is printed in Ferretti, op. cit., pgs. 298-299.

56. Associated Press, New York. Print: Buffalo Evening News, August 28, 1975. Again, for background on these events with more detail, see Ferretti, op. cit., pgs. 289-304.

57. Newsday, August 28, 1975.

58. New York Daily News, September 3, 1975.

59. From materials submitted to the legislators, by the Governor's Office, September 5, 1975. Some reprinted in Ferretti, op. cit., pgs. 314-318.

60. New York State Laws, 1975, chap. 868. McKinney's Consolidated Laws; Extraordinary session, 1975.

61. On the subject of the Financial Emergency Act and the possible expansion of the application of the notion of

police powers see: Joel Cohen; "The Limits of State Intervention in a Municipal Fiscal Crisis," Fordham Urban Law Journal, Vol. IV. 1976; pgs. 545-563.

62. NYS Laws 1475, Chap. 868, section 1.

63. Ibid., Chap. 870.

64. Ibid., Chap. 868, §3018-20.

65. New York Daily News, September 4, 1975; New York Post, September 5; Daily News, September 5; and "Carey and Beame agree on Aid Plan," Albany Times Union, September 5, 1975. The successful court challenge was brought by the Police Conference of N.Y. Inc. and the Civil Service Employees Association on September 29, 1975. The N.Y.S. Court of Appeals found in Sgaglione v. Levitt that the section of the Emergency Act under discussion violated the non impairment clause and thus violated the state constitution.

66. Facts on File, op. cit., pg. 129; Daily News, September 6, 1975; New York Post, September 6, 1975; Daily News, September 10, 1975; Albany Times Union, September 9, 1975.

67. New York State Laws, 1975. Chap. 868, §8 covers powers relating to the financial plan. The most explicit bar against interference in priorities setting is contained in §4 and reads, in part, as follows:

> "Nothing contained in this act shall be construed to limit the power of the city or a covered organization to determine, from tim to time, within available funds for the city or such covered organization, the purposes for which expendigures are to be made by the city or such covered organizations and the amounts of such expenditures, consistent with the aggregate expenditures then permitted under the financial plan for the city or such covered organization."

68. NYS Laws, 1975; Chap. 868, §7(f).

69. Title 60A of the Emergency Act amended the Local Finance Law in this regard; Local Finance Law, § 85.00-85.90.

70. NYS Laws, 1975, Chap. 868, §9.

71. Ibid., §10.

72. Ibid., §2.5.

73. Ibid., §11.3 and 4.

74. See note 68 on prohibition of political interference. Two concessions granted the city employee unions were:

1) that the right of city employees to bargain collectively be maintained (§3.3); and

2) that within the context of the financial plan the EFCB and the city seek a 'stabilized' workforce and that to the degree personnel costs must be reduced this be done through attrition rather than wholescale layoffs (§8.2).

CHAPTER 3

CASE #1: THE FINANCIAL PLAN

The financial crisis brought to New York a new way of managing its funds: financial planning. Initially required by the Emergency Act to cover three fiscal years (FYs 1976-1978) New York is now subject to a series of subsequent four year financial plans. The associated financial planning process, overseen by external State monitors, is a mainstay to the city's financial management. The political impact of these plans and the planning process has had important impacts on the City's policy making.

The difference between New York's financial plans and its budget is important. A financial plan is more comprehensive in content, longer in its view of time. In a sense a financial plan is the sum of many budgets over time: the expense budget, the revenue budget and the capital budget; year by year. It serves as the context within which the budgetary process occurs. Or, to state it another way, it

is the beginning and the end of the budgetary process. If the budget tells us what government is doing today, a financial plan tells us what it can do tomorrow.

As an administrative reform instituting financial planning in New York could only have been positive. Indeed, the absence of such an effective long range financial plan can be seen as one of the factors that contributed to the city's bankruptcy. But in the context of the financial crisis the financial plan presented city officials with both a loss in their political flexibility and a dreary set of budget options. Simply stated the initial financial plan was a mechanism through which the State of New York oversaw a contraction and reorganization of New York City's immense public sector. But even more than this the financial plan was also the symbolic testing ground for the 'seriousness' of New Yorkers among their creditors: the state, the banks and the federal government. As such, the intense political conflicts which naturally followed from a policy of retrenchment were displaced onto the implementation of the plan.

To understand the importance of the financial plan to the political changes caused by the financial crisis this chapter will examine the plan as an idea, as a political process in its formulation, and as a focus of conflict in its administration. Although nearly every other issue somehow

touches on the financial we will leave two critical ones -- labor policy and the non-mayoral agencies -- to the next chapters.

THE IDEA OF THE FINANCIAL PLAN

The Side View of a Budget:[1]

There are two ways to look at a budget: from the front or from the side. The front view is common to us all. We see how any political unit choses among contending priorities. On the local level we see how much is spent on parks or schools or police or sanitation. On the national level the resolution of typical conflicts between, say, military expenditure and human services are expressed in 'x' vs. 'y' billion spent on one or the other. In a very real way politics -- "the authoritative allocation of values" -- can be reduced to the budget. It is there that real choices are reflected because, if one is honest, real dollars are allocated and resources expended.

In the view from the side real dollars are also the measure of priorities but the focus of conflict is different. Choice is not over what a political unit's resources are to be expended on but on how they are to be structured. Studying a budget from the side we do not see police vs. fire, vs.

education, but this: debt service, vs. capital construction, vs. capital maintenance, vs. labor costs, vs. materials, etc. There are real issues here also. Should government 'lease' or construct facilities? Can 'productivity' be increased by changes in work rules or expenditure on new equipment which will make available manpower more productive? What is the proper percentage of a budget for debt service; what are the real political limits to debt given the values and mobility of that community.[2]

This distinction between the 'front' and 'side' views of the budget carry our earlier distinction between 'fiscal' and 'financial' politics one step further. The front or fiscal view can be studied in a number of ways. First, the politics of the budgetary process could be studied. Here the interacting process of individuals, groups and classes petitioning government and mobilizing their influence in a fragmented policy making environment are the focus. Victors can easily be identified: they got the most. Secondly, the budget can be used as artifact of individual governments. After creating a series of independent variables -- and using budgetary information as dependent variables -- comparative analysis can follow; theories tested; information generated. More general conclusions can follow.

But the 'side' view of the budget also has a politics.

Consider, for example, the issue of labor costs. There is an obvious interest on the part of municipal employees in this issue. The leadership of public employee unions will, of course, focus on obtaining what they can for their members. This in turn will have a direct effect on labor costs. Similarly, bankers and underwriters will have an interest in debt and debt service. Ensuring debt service as the first priority in the budgetary process -- an almost universal phenomena -- is a concession to creditors and their penchant for security. On the same issue, there is a tendency on the part of bankers and underwriters to encourage states and local governments to borrow during periods of easy credit. After all, there is money to be made on the interest. The side view of the budget is thus also an arena of conflict among group interest with the attendant mobilization of interest to achieve the individual groups' goals. On the other hand, some areas have no outside political pressure working for them. This is particularly true for capital maintenance. While construction trades, bankers, and real estate interests will always push for new construction there is rarely anyone petitioning for maintaining existing facilities. There may and often are dedicated engineers in a city's department of public works pushing for the upkeep of a community's investment but they are usually isolated politically. When it comes time to cut

a budget capital maintenance is almost always the first item to go.[3]

I bring all this up as introduction to the politics of New York's financial plan for two reasons. First, the financial plan as designed by the Emergency Act's authors pertains to both 'views' of the budget. As we shall see, it was a comprehensive plan in both time and functions. But the Emergency Act specifically banned intervention on the part of the EFCB into the priorities setting mechanisms of the city's government. These two aspects of the Acts seem contradictory until we understand the nature of the plan. In speaking to members or the staff of the EFCB they will honestly and forthrightly state that attempts to influence political choice between competing services of New York's were kept to a minimu. It was up to the mayor to decide what was to be cut. The role of the EFCB was to oversee that plan and, if necessary, enforce it. In this sense EFCB members or staff could say that the Control Board was 'apolitical'. But from our other perspective we immediately notice that the Financial Emergency Act was profoundly political. While it reserved some influence to the city in setting priorities between services one of its intents was to set priorities among those factors seen from the 'side view' of the budget. Debt was limited, debt service ensured, a wage freeze was imposed,

programs for increased productivity were demanded.

Secondly, by their very nature these 'side' issues cut across what political scientists term 'policy arenas'. The 'arena's' approach to a budget is similar to the front (or fiscal) approach. Individuals and groups form around the particular issue area they are interested in where they: 1) fight over priorities within that arena and 2) cooperate toward joint goals, one of which is inevitably a larger share of resources for that service or policy arena. The type of politics characteristic of the 'side view' -- and indeed much of the politics of the financial crisis -- cuts across all policy arenas. Conflict is larger and more intense; policy making more centralized.

The Financial Plan and the Budget:

But what exactly is a financial plan?; and how does it differ from the budget. At least four main characteristics of New York's financial plan can be identified. The financial plan 1) has a longer time frame; 2) it is comprehensive; 3) it is resource oriented; and, 4) it is vulnerable.

One critical difference between New York's financial plan and its budget is the time frame. One one level this is obvious. Budgets are annual affairs. The very nature of planning of any kind assumes a more extended perpsective.

The initial financial plan required by the emergency act covered three fiscal years: FYs 1976, '77, and '78. The authors of the emergency act saw the plan as 1) a vehicle to stabilize New York's jolting fiscal status, and 2) to set a gradual but consistent effort toward balancing New York's budget by the end of FY 1978. The financial plan can thus be seen as an opportunity for the city to actually overspend its budget since the emergency act assumed that New York would run large deficits in FY 1976 and FY 1977. On the other hand it was also a plan of retrenchment since, at its end, the city was required to operate on a balanced budget.

On a more general level, however, the wide time frame characteristic of financial planning is also politically important. Any financial plan -- in either a period of growth or contraction -- necessarily sets the context for all budgetary politics. On the one hand it sets additional rules on the budget game; on the other it creates new options. The new rules grow out of an understanding derived from a longer term view of a budget's impact on the community. If, for example, a community's budget officials must project over a three to five year period likely revenues they must also take into account the impact of taxes not only on governmental receipts but also on the stability of the base. In addition, while the pressure among competing groups might be toward running up budget deficits a financial plan reminds

all that those accumulated deficits will have to eventually be redeemed. Thus, running up a deficit or increasing tax revenues might in the short term seem like attractive options in the budgetary process because the budget is only for one year. The extended time frame of a financial plan reveals these to be more problemmatic.

There are, however, some advantages to budgetary politics which occur within a financial plan. Budgetary politics constantly forces central decision makers to choose, <u>today</u>, between conflicting groups and agencies. The options are those made available by the current political and fiscal circumstances. The focus of conflict in financial planning is different. Financial planning forces central decision makers to choose between conflicting <u>sets of options over time</u>. Consider, for example, the operation of budgetary politics during a national recession or local economic dislocation. Tax revenues will fall off, social welfare costs will likely rise. If the mandate to 'balance the budget' were carried to its logical conclusion cuts in programs other than social services would have to be implemented in the absence of outside help or deficit financing. Under a financial plan decision makers can choose to run up a deficit on quarter, or even year while immediately compensating in future years by reducing funds made available to those fiscal years. In

a sense this is what local budget officials do all the time. But financial planning allows it to be managed more effectively and provides justification for citizens and creditors alike.

Second, the financial plan was comprehensive. As initially instituted, New York's financial plan integrated all aspects of fiscal and financial management. In addition to revenue and expenditure budgets it also incorporated capital planning and expenditure, debt scheduling (both short term and long term), and cash flow management. As intergovernmental aid has become such an important factor in local revenue the financial plan also tends to include and constrain the city's legislative agendas for state and federal governments. The comprehensiveness of financial forecasts is particularly important in matters involving credit. In addition to serving as instrument enforcing expenditure reduction the process of the financial plan also better rationalized the relationship between expenditures, revenues and debt. New York's credit needs could now be justified on something broader than the often shifting estimates produced by the comptroller's office. This helps fulfill the creditors demand for security. Like all planning, financial planning should effect more reliable prediction. But in enhancing the interdependence of revenue and expenditures on the one hand and credit on the other one political implication is that the

city's budget process becomes more susceptible to the political and economic values of creditors.

Third, New York's financial plan has been resource oriented. This is, of course, partly a result of the city's fiscal health. But it is also a characteristic of financial planning itself. The focus of the budget process is usually on the political conflicts among contenders for slices of the public pie. The process of financial planning is different. It starts with revenue projection, cash flow needs (and thus credit also), and moves on to the potential for deficits, increased productivity and the need to preserve the tax base. If the ultimate question of budgetary politics is 'who got what'; the ultimate question of financial planning is 'what is there to get over time?'

Lastly, these three characteristics -- expanded time frame, comprehensiveness and resource oriented -- contribute to a fourth. A financial plan is vulnerable. All those factors which contribute to a plan's usefulness also set limits on its reliability. The expanded time frame leads to a weakness toward unexpected events. The longer the perspective the lower the reliability. Similarly, as extended forecasting opens a vulnerability to time, comprehensiveness opens a vulnerability in 'space'. So much more can effect the plan's projections because so much more is included. Its

resource orientation opens it to fluctuations in revenues of all kind. Because the annual budget attempts much less it is more stable. The vulnerability of a financial plan must be kept in mind if its utility is not to be lost and its application degenerate into an inflexibly conservative scheme. The very nature of a financial plan requires that the planning process include constant updating and modification of the plan.

What the Plan Isn't:

Budgets are explicit; the financial plan is not. A budget is an authoritative allocation scheme among different functions and services of government. It sets priorities and assigns human and fiscal resources. The financial plan is more general. It concentrates on the interdependence of revenues, expenditures, cash and credit. One might say that the plan is the stage on which budgetary politics occurs. Not involved in the action directly without it the players and setting would fall to the ground. The Emergency Act had reserved to City Hall the right to set its own priorities among services and functions. The lack of explicitness in the financial plan is the legal and administrative reflection of this political arrangement. The state and the EFCB would set the environment; the city would set the priorities.

If the financial plan is not as specific as a budget, neither is it as sweeping as some formal attempts to rationalize political decision making. Program, Planning Budget Systems (PPBS) is the most famous and controversial of these. On one level the Financial Plan is a more modest enterprise. Stripped of any requirement to be explicit it does not need to deal with issues at the center of PPBS: program contents, priorities, efficiency, and cost-benefit ratios. The temptation to resolve the unpleasantness of the political process into a quite visible managerial hand is not present because the choice of priorities between programs is barred. On another level, however, the financial plan is more expansive. PPBS is a managerial tool focusing on the budget. The Financial Plan takes in much more.

Management and Control:

Institutionalizing a more rational approach to New York's finances could only have been beneficial. Planning enhances predictability. To the degree that plans deviate from events they also cause questions to be asked that might never have occurred to administrators. Under normal circumstances then, a managerial reform such as the financial plan might have been attractive. As an idea, integrating disparate aspects of New York's fiscal and financial administration would never

have produced the conflict that it did. In 1975, however, such a plan could only present a sobering picture for the city's decision making. Financial planning -- even without the other requirements of the emergency act -- meant retrenchment. It was that simple.

There was a second problem with the plan, however. In addition to being a managerial reform it also was an instrument of external influence over city policy making. At each critical point the city needed EFCB approval. The EFCB could enforce the plan. And creditors would use it as a measure of New York's "progress" in cutting the budget. The financial plan enhanced predictability and accountability. But New Yorkers could rightly ask: for whom?

THE FINANCIAL PLAN AS A PROCESS

As might be expected, the politics surrounding the financial plan's formulation was frought with conflict. Even though, and possibly because, the plan did not deal with the specifics of retrenchment but the broad allocation of financial resources, the points of conflict are easily identified. As an instrument of external monitors imposing new financial priorities over City Hall, we can take the tension between the city and its creditors through each stage of the plan's process: revenue estimation, formulation, modification and

enforcement.

The Legal Requirements:

In addition to requiring the financial plan, the Financial Emergency Act also prescribed its format and the process of its formulation.

The first mandate was that the city must operate on a balanced budget by FY 1978. Given the number of city accounting procedures questioned by outside authorities -- usually termed 'gimmicks' -- the Act also defined the word 'balanced' by requiring the city to adapt a new accounting system specified by other statutes and recommendation of the State Comptroller.[4] In each of the three intervening years the city was to make some progress toward the goal of a balanced budget as part of the plan.

Second, the Act outlined the procedures through which the plan was to be formulated. By September 30th -- only three weeks after the passage and signing of the law -- the EFCB was to approve revenue estimates and to deliver them to the city. After receiving these estimates city budget officials were to prepare the plan based on the approved figures only. The plan draft was to be submitted back to the Control Board by October 15th. At this point the EFCB became the focus. By October 20th it was to 1) approve the financial

plan as submitted; 2) modify it as authorized by the Emergency Act; or 3) disapprove it.[5]

The Act set the criteria against which the Control Board was to judge the plan. It directed the EFCB to reject the city's plan if:

1) it did not provide for full debt service;

2) it did not comply with the EFCB approved revenue estimates;

3) it did not progress toward a balanced budget in FY 1978;

4) or if the expenditure level for the city or any of its independent agencies was higher in any year of the plan than it was in FY 1976.[6]

This last criteria effectively required retrenchment even if other sources of funding could be found.

In the event the Control Board rejected the Financial Plan as submitted by the City it was afforded a wide range of options. It could: 1) reduce the aggregate expenditure level for any period to conform with the revenue estimates approved by it. In short, order additional budget cuts. 2) If the Board concluded that debt service was threatened it could order additional reserves for funding debt be taken from normal expenditure procedures. 3) Order additional cuts to ensure compliance with the statutory obligation to

balance the budget by FY 1978. 4) Order an increase in expenditures necessary for adequate funding of State or Federally mandated programs. This last option gave the EFCB the power to veto any attempt by New York City to drastically reduce welfare and health care services. These were the avenues open to the Control Board if the submitted plan did not live up to the criteria set by the Emergency Act. If the city did not submit any plan, the Act directed the EFCB to write its own plan and enforce it on New York.[7]

After a plan was in place modification was authorized by the Act under strict procedures. This is particularly true in the area of revenue estimates. The Act directed the EFCB to review the accuracy of revenue estimates periodically. Only it could make changes in revenue estimates. Other modifications could be approved or disapproved by the Control Board as requested by the City. The criteria for modifying the plan were the same as for its approval. Basically, these came down to a balanced budget for FY 1978.

The Emergency Act also set the format for the financial plan. All agencies of the city's government, including non-mayoral services and public benefit corporations, were to be included. The plan was to consist of revenue estimates, expenditure budgets, cash flow projections, credit needs and capital budgets. Yearly breakdowns were required. The

degree of detail in the plan was left to the discretion of the EFCB. It could prescribe the nature and extent of supporting information and was granted access to all city records by the legislation.[8]

Two other less formal aspects of procedures are also contained in the Act which effected the plan's formulation. The first is plainly stated:

> In developing the financial plan the city and the board (EFCB) shall seek to achieve a stabilized work force for the city and, to the extent a reduction in work force is required, primary resource shall be had to the attrition process by accomplish such reduction.[9]

Was this the price of labor's hesitant support for the legislation? Yes; along with a statutory guarantee protecting the right of the city's employees to bargain collectively during the emergency period. The second is less definite. A reading of the emergency act leaves the clear impression that its authors intended the process of the financial plan to be one of bargaining, not confrontation. Accommodation between city and state was the preferred road to the financial plan. Both aspects of the Emergency Act were open invitations to negotiate.

Revenue Estimates:

One of the 'hottest'points of political conflict in the whole financial planning process was at its starting point. The

financial plan is resource oriented. It tells city officials what they can spend. As a retrenchment plan it also outlines the degree of budget cuts. Therefore, revenue estimation becomes political. The methods of projection and their attendant assumptions will have political effects and thus the views toward them of critical actors will be conditioned by their own expectations of how the estimates will effect their interests. Low estimates would be translated into a faster rate of retrenchment. Higher estimates would mean delaying budget cuts, making them even more severe if finally instituted. The range of error in revenue estimates would immediately be reflected in the range of service cut backs New Yorkers would suffer. The nature of the financial plan as a retrenchment plan caused a politicization of the revenue estimation process.

The time frame set by the Financial Emergency Act was a tight one. Passed on September 9th it directed the EFCB to approve revenue projections by September 30th. As these approved estimates were to be the only authoritative ones, and the basis on which the plan was constructed all were required to move ahead quickly. The working relationship between the EFCB and the new Special Deputy Comptroller was immediately established. But even with the staff support of the OSDC the projection of reliable revenue estimates two and a half years into the future, without relying on other

work, and in less than three weeks was an impossible task. The solution to this dilemma was political, not econometric. The EFCB and the OSDC would rest their immediate approval on a combination of city and state estimates and limit their immediate role to critiquing the methods and underlying assumptions influenced them. This initial pattern was maintained through most of the financial emergency period. The city would present its estimates; the OSDC and the EFCB would react, justifying their position on professional assessments; and the differences in terms of real cash would be negotiated out.

This pattern was set very early. The first concern of course was for the FY 1976 section of the plan. The Emergency Act was passed three months into the new fiscal year and if there were to be any real effect it would be felt in that first year. In those first few weeks, representatives of the City, State, MAC and OSDC worked together toward achieving a projection acceptable to the EFCB. Sidney Schwartz, the new Deputy Comptroller, reported to the Control Board's members that he would rely primarily on city estimates for its 'own raised' revenues (i.e.: income taxes, retail taxes, real property taxes, etc.) and state estimates for State and Federal aid.[10] Criticism of New York's method of revenue estimation notwithstanding, the city did

have a highly professional staff of analysists and econometricians who were responsible for these important projections. They also subscribed to the services of the Wharton Model as one input dimension to their own less formalized systems. By asking the state budget officials to provide reliable data on expected receipts for sources outside the city Schwartz was very shrewd. Not only would this minimize inaccuracy derived from 'wishful thinking' on the part of city officials in a tense political environment but it also diversified the information sources on which the financial plan's foundation was based. For use as an initial working document the OSDC and state budget officials urged the city to submit estimates for FY 1976 initially drawn up and transmitted to the MAC on August 29th, before the Emergency Act was passed. But by the time the OSDC recommended submission to the EFCB they had reduced the projection by $63 million.[11]

A few days later, Schwartz submitted figures for FYs 1977 and 1978. The Control Board had approved $11.658 billion as the basis for the FY 1976 plan. The figures outlined by the OSDC for the other two years are sober indication of the weakness in New York's revenue base. For FY 1977 the recommendation was that the city would receive $11.91 billion. For FY 1978 the amount was $12.29 billion.

The growth rate from year to year was very small. Between 1976 and 1977 it was expected to be only 2%. Between 1977 and 1978 the projection was for only a slightly higher 3% rate of growth. The interaction between the methodological problems in estimating receipts accurately that far into the future and the political consequences of those estimates now surfaced. City budget officials objected to what they saw as unusually low growth projections. While accepting the estimates for 1976 Beame took the position that the projections for the other two fiscal years were unduly conservative especially in light of State estimates that its own revenue growth rate would be in the area of 5% a year. The OSDC, however, defended their figures on professional grounds stating that they were not intentionally conservative but an honest reflection of "the best judgment of the combined efforts of the City and State Comptrollers, as well as . . . City and State budget officers". Governor Carey, ex-officio chairman of the Control Board, defended the figures on political grounds. The City and the EFCB, he argued, should operate on the assumption of conservative budget estimates and later work upwards if it were justified. Over the City's objection the EFCB approved the estimates as submitted by the OSDC on the schedule proscribed by the Emergency Act.[12]

The pressure of time did not allow for a full review of

the basics of the revenue estimation process in September. Carey's comments, in fact, assume that they could not. After this initial acceptance, there followed a major effort aimed at reforming the process of estimating revenues in New York City. Schwartz and his colleagues began a series of studies on different aspects of the city's revenues. Having to rely on the city's figure the first time around they sought a more independent basis for estimation or at least a sound position from which the city's figures could be assessed and, if necessary, modified. Each of the major revenue areas were subjected to an in depth study on the predictive integrity of the city's estimating techniques. In the case of general fund revenues (the sale tax, personal income tax, business taxes, stock transfer taxes, etc.) the OSDC recommended a greater reliance on econometric projection rather than simple extrapolation or human judgment.[13] In the case of real property taxes the problem was not estimating what was legally proper for the city to expect (it's difficult to hide a house) but to accurately guage the deliquency rate. How does one predict how many people will break the law? The Deputy Comptroller and his staff recommended that a contingency fund be created within the plan to deal with the delinquency rate.[14] The third major area of concern was state and federal aid. It also is

the most difficult to predict because political and not economic variables dominate. Again, the OSDC recommended a contingency fund be created to balance off potential 'disallowances'. (Rejected applications for federal or state reimbursal of funds spent by the city on the grounds that the recipient of the services was not eligible under program criteria. This is a major problem for the Health and Hospitals Corporation.)[15]

The interest displayed by the State in New York City's revenue estimation procedures was matched by the federal government. The Government Accounting Office launched a major study into the City's revenue forecasting techniques. In a draft of the report the GAO's staff suggested that the city base its econometric models on broader sets of data and diversify its range of forecasts with corresponding measures of probability rather than single in on one or two all econompassing models.[16]

The point here is not the detail of professional debate among econometricians but the politics of the situation. The political pressure of the financial crisis pushed so far into the City's policy making process that it was reflected in what under all but the most extraordinary circumstances would not be a concern for state or federal officials. Control over the process of revenue estimation was a first step

toward greater influence over aggregate budget decisions. Through the next two years the information and recommendations produced by these studies were incorporated into the City's financial management. They also served as a new basis on which the EFCB could update and judge revenue estimates periodically. Clearly the political implication of these attempts at improving revenue forecasting was to limit the flexibility of the city's decision makers.

Another point can be made. Revenue estimation is tied directly to the heart of the financial crisis: short term borrowing. Tax and revenue anticipation notes are issued against projected receipts. Once there was a serious question of the accuracy and honesty of these estimates the ability of New York to deal directly with the markets was greatly undermined. Many concluded that the city had deliberately exaggerated its expected receipts. Thus, reforming New York's revenue estimation process not only had important budgetary implications but also played to the demand for greater security from potential creditors.

The Options:

The options available were grim indeed. The tax base of the city was declining. Broad economic factors had weakened its economic base. The delinquency rate on property taxes

was rising and the growth in state and federal aid had long ago peaked. Debt service was the fastest growing item in the city's budget. The requirements of the financial plan would now force the city and its new fiscal monitors to deal directly with the diverging trends of revenues and expenditures. In 1970, the growth rate in New York's expenditures was outpacing growth in revenues by as much as $200 million a year. What could be done?

As early as 1970 Dick Netzer, Dean of N.Y.U.'s School of Public Affairs and later a member of the MAC's board of directors, presented an outline of the types of strategies available to New York's budget officers.[17] They were quite similar to options available in 1975.

First, the city could increase its taxing revenues -- assuming the State Legislature agreed and enacted necessary legislation. This strategy resolved the problem of recurring deficits by bringing tax receipts up to the level of projected expenditures. There were problems with this option, of course. Taxes had risen rapidly in the ten years preceeding the 1975 crisis. It had become part of New York's civic rites to repeat over and over that it was the most heavily taxed jurisdiction in the United States. In most of the middle class sections of the city the increased taxes were perceived as being caused by 'welfare' and other forms

of assistance to newly arrived blacks. That much of the money was going to their neighbors -- policemen, firemen, teachers and other civil servants -- was not as 'obvious'. There was little political support for new taxes and certainly not in a period of retrenchment. There was another problem, though, recognized by Netzer in this 'fiscal home rule' strategy. In addition to political limits there were also economic limits. Increasing local taxes offered three economic problems: 1) local taxes were relatively regressive; 2) any increase in real property taxes would be a strong deterrent to expansion in the already suffering housing stock; 3) there would be 'locational' effects to increased taxes, that is New York would be even less attractive as a place for business to invest. Thus, while the financial plan could be based on increased taxation there were both political and economic factors working against it.[18]

A second option was focused on State and Federal aid. This strategy is always attractive. Increased aid presents few economic limits and virtually no local political difficulties (Who's against free money?). The problem here, though, is always the constituencies of the legislators on the other two levels of governments. In his 1970 article, Netzer expected little in the way of new aid programs and only about $400 million increased aid between 1971 and 1974 mostly for the so called 'expenditure driven' federal

programs: welfare and medicaid.[19] As it presented itself to drafters of the financial plan in 1975, this strategy was an attractive one but not likely to be productive. The federal government had been reducing aid programs to urban areas and President Ford had been openly hostile toward New York in particular. On the state level the Senate Republicans had gone just about as far as they were going to go in appropriating state monies to aid the city in its cash flow problems.

Both these strategies assumed that the city's problems were on the revenue side of the budget; that is, that revenues must be increased to adequately fund New York's sprawling public sector. Two other options took the opposite view; that New York was attempting too much.

The first of these was a broad political reorganization of service delivery in the United States. This would result in a more modest role for city government in general, not just in New York City. A reshuffling of the service mix among the three levels of government -- possibly even including neighborhoods as a fourth -- might in the long run aid the city. Most important in this regard would be the redistributive programs. Most economists agree that such programs should be financed on the broadest possible tax base to minimize locational effects of the asymmetric

distribution of recipients. A shift up the intergovernmental ladder for these should be accompanied by a shift down for other more community oriented services such as sanitation and schools. The politics here made major changes unlikely, however. As Netzer wrote Congress was defeating the controversial welfare reform package of Nixon and Moynihan.[20] The prospects in 1975 were equally low.

The second of these 'expenditure' sided options was retrenchment. If the city could not adapt its revenues to its expenditures, then its expenditures would have to be brought down to its available resources. The political consequences locally would be enormous, the difficulty extraordinary.

In addition to these four outlined by Netzer in 1970 and re-examined in 1975 there was another option suggested by some. An additional way of dealing with the diverging trends of New York's revenues and expenditures was to concentrate on efficiency, to increase productivity, to 'get more bang for the buck'. This could be attempted several ways. Unit labor costs could be controlled either by holding down wages or increasing worker productivity. Some service could be 'contracted out' on the assumption that private enterprise could or would provide some services on a more efficient basis. Sanitation was one example.[21] Another

way to increase productivity was to make new investments in labor saving devices; another, to change work rules with an eye toward better services at lower costs.

Needless to say, these options were not mutually exclusive. In the end, a mixture among the five was applied. But the primary option chosen was retrenchment.

Submission and Acceptance:

Formulating the Financial Plan was less a dictate of State priorities than a reflection of bargaining process between the city and the new monitoring agencies. This is evident from the start. An early first draft of the plan was presented to the members of the EFCB on October 7th by the newly appointed Deputy Mayor for Finance, Kenneth Axelson. The plan was obviously conceived as a bargaining position from which the city would negotiate. It was drawn on several assumptions that were problematic and which required state action (it should be remembered that the Governor of New York is the Chairman of New York's EFCB). Among these policy assumptions were: 1) that the State would take over complete funding of the City University of New York; 2) that the State would assume imposed costs of courts and corrections; 3) "Relief from (the) welfare and medicaid burden"; 4) more equitable formulas for state and federal aid,

particularly in the area of education; and, 5) prompt payment of state and federal aid due the city.[22]

Most of these assumptions underlying Axelson's draft required legislative and executive action on the state and federal level. The issue of medicaid and welfare could be resolved from the city's perspective by either. Full state funding for CUNY required action by the State Legislature. So too did the issue of court costs. Speeding up intergovernmental aid could be accomplished by executive action and, in part, already was. But the time frame required by the Emergency Act precluded most of these items from being given immediately consideration. The politics of the situation also made them unrealistic. There was, however, a serious point. The fiscal problems of New York City were not all its own making. Nor was all its short term credit needs. City officials surely understood that most of their initial assumptions were not going to be accepted but, with the benefit of hindsight, we now can see the importance of their stand. These issues remained the city's policy agenda in intergovernmental bargaining channels during the next three years. Welfare and medicaid reform aside, most were accomplished by 1979.

A second submission was formal and more realistic. It too made demands on the state, however. These included a

commitment by the State to continue to forward aid on an advanced schedule and to maintain support levels in redistributive programs. More pertinent to our study, however, were some political assumptions. One of these was that the EFCB would maintain the legislated wage freeze through to the end of FY 1976 and possibly beyond. Second that the Control Board would cooperate with the Mayor in dealing with the major 'covered organizations'. In the words of the plan:

> . . . (the) covered organizations will be required to comply with expenditure limitation as contained in the City's submission or as subsequently modified by the City with the approval of the EFCB. The City will bear primary responsibility for monitoring compliance with the plan on behalf of the Board, and the Board will use its authority to assure such compliance.[23]

The subsequent acceptance of the plan with this proviso is also an important step in defining the relationship between the EFCB, the Mayor and the major non-mayoral agencies of the city's government. Throughout the Control Board would use the mayor as its agent toward them and the mayor would use the statutory powers of the EFCB in bringing these giant corporations under mayoral supervision.

One other assumption was stated in the final submission of a financial plan. It:

> . . . assumed that over the life of the plan (2½ years) there will be available approximately $6 billion in principal amount of federally guaranteed, taxable notes bearing 8½% interest.[24]

This would have given the city and the plan a measure of comfort. But it never happened.

One of the defining characteristics of the plan outlined by the Emergency Act was that it be aggregate; not explicit. As submitted by the City the plan provided for a stepped reduction in the annual operating deficit of New York City. The expected deficit for that part of FY 1976 covered by the plan was projected to be $654 million. For FY 1977 the expected deficit was $470 million. And for FY 1978, the year when New York was required to operate on a balanced budget, the plan projected a surplus by the end of the year of $30 million. Needless to say, these figures were layered with assumptions, problems and guesses any one of which could prove false and send the whole plan off course. As it was, the real operating deficit of New York City for the entire 1975-76 fiscal year was over $1 billion.[25] As aggregate figures they were less projections than goals. Policy was to be adapted toward matching them.

These figures may be deceiving, however. They imply that the budget cuts necessitated by the plan would only be about $684 million ($654+30) per year by the end of the plan. On one level that is true, but on another it is not. The Emergency Act effectively required that debt service be the first priority. The plan ensured it. In FY 1975,

the last full fiscal year before the MAC became politically active and the EFCB was created, debt service accounted for 11.5% of the City's budget. By FY 1977, however, debt service including payments and withholdings of the MAC were a full 14.0% of the budget.[26] Thus, the funds available to pay for services and programs were being cut in two directions. At the top the growth in the expense budget had to be curtailed to match the slower rate of growth in the revenue budget. On the bottom debt service was markedly increased to pay off yesterday's deficits.

As submitted, the plan also reflected some basic policy choices on how cuts were to be made. CUNY remained a target. The plan recognized the difficulty the city had in financing the system and argued for a contraction of the University's budget and transfer of some costs to the State. A drastic reorganization of the large municipal hospital system would begin and construction of low and middle class housing under the State's Mitchell-Lama program would end. Social services that were not fully mandated by the federal government nor any longer financed by it were also to be cut. Here the plan offered an official apology to the City's poor and lower middle class that had become dependent on them.

> The federally sponsored social service revolution of the 1960s created a multitude of programs as well as new constituencies for these programs . . . Then

> the federal government changed its mind, greatly diminishing funding level for many of these programs. The city, intent on honoring moral commitment, redoubled its efforts and struggled to make up the differences. We can no longer afford to do this. Reductions in the level of City contributions will mean closing some day care and senior citizen centers and cut-backs in family planning, neighborhood action, manpower training, and addiction treatment services and the anti-poverty programs.[27]

To the degree that the city had legal and political flexibility Beame and his budget officials, some of whom had been appointed under pressure from the creditors, intended to return the city to basic municipal services.

With only minor changes to the capital budget sections the Financial Plan as submitted by the City was accepted by the Control Board on the schedule set by the Emergency Act.[28]

MODIFICATION AND ENFORCEMENT

All this occurred in the span of six weeks. The Emergency Act was passed, haggling over revenue estimates ensued and negotiation and acceptance of a plan followed. The politics of the financial plan would now be displaced onto its enforcement and modification. An underlying premise of the Emergency Act was that the financial plan would be a living document. It would always be susceptible to change in factors not under the control of the city or the EFCB. Modifications were to be part of the process of the financial plan.

Modifications to the Financial Plan were approved changes in the aggregate figures that made up the plan. As it had defined the format and procedure for adopting the plan the Emergency Act also established the formalities of its modification. It allowed the City to request the Control Board for approval of any changes. No change which added to the deficit could be allowed with the EFCB's approval. The Board could also change the plan is revenues were running seriously short. In all circumstances the criteria for approving any changes were those for approval of the Plan itself.[29]

By the close of the 1978 fiscal year the Control Board had approved 14 modifications. The first two were minor affairs. One involved an internal transfer of funds.[30] The other allowed for a $4.25 million change caused by an underestimation of the costs of one labor agreement.[31] These changes were quite detailed and, in that regard, unusual. Others involved more money. Nor did the EFCB insist that internal transfers be approved beforehand. The Control Board had neither the staff nor the legal authorization to monitor changes in accounts among city agencies.

The city's application for Modification #3 was of a different order, however. It was a major point of conflict between City Hall and the EFCB over the Plan's enforcement.

Modification #3:

Throughout the fall and winter of 1975-76 the city's budget officials were unable to demonstrate control over increasing expenditures. The financial plan had provided for a $654 million deficit in the 9 months of FY 1976 it covered ($989 million for the entire fiscal year); $470 million for FY 1977 and a $30 million surplus for FY 1978. Thus, the total accumulated deficit for the entire two and three quarter years of the plan (Oct., 1975 - June, 1978) was $1,094 million. This amount was incorporated into the city's stated credit needs presented to the MAC and, more important, to the public and credit market at large. It must be remembered that an aim of all political intervention and policy made was to regain entry into the bond market for the city without other intermediaries such as the State of New York or the MAC. Thus, the city's commitment to keep its accumulated budget deficit within this margin was also a symbolic test for the market as well as the Congress.

Because the financial plan was partly defined by its expanded time frame the politics of its enforcement concentrated primarily on expenditure and revenue rates, not just specific budget gaps. The earlier cuts were made the more 'cash' savings would be generated over the life of the plan. If they were made late either more precipitous cuts would

have to be made to maintain the plan or else the requirement to balance the budget by the end of FY 1978 would be violated. A term developed among city and state budget officials dealing with New York's financial crisis for this possibility. It was called 'backloading' budget cuts.

The first to raise serious questions was Arthur Anderson and Company, the accounting and consultant firm. They acted as advisors to Treasury Secretary William Wimon who became an important actor in the crisis after the passage of the New York City Seasonal Financing Act in early December. Arthur Anderson released their preliminary assessment of New York's fiscal performance on December 29th.[32] It pointed to three specific problems. 1) Additional expenditures and some revenue shortfalls were developing which could add $200 million to the total deficits over the life of the plan. 2) There was some disagreement even among city officials whether planned cuts could in fact be implemented. 3) The Anderson report argued that the City had not taken account of the costs of managing worker attrition -- such as increased overtime -- in the financial plan.

State officials followed. At the January 23rd meeting of the EFCB, Governor Carey noted the difficulty the city was having in matching reality to the plan adopted only three months beforehand.[33] He ordered a special meeting of

the Board on January 30th. At that meeting the Board members reviewed the situation particularly in regards to the major non-mayoral organizations: the Health and Hospitals Corporation and the City University.

At the February 13th meeting Mayor Beame and his Deputy Mayors submitted revised revenue forecasts for the planning period. They were not good. The revision indicated that the budget deficit for the entire FY 1976, initially estimated at $989 million, would come out at $1,051 million. Similarly bleak forecasts were made for 1977 and 1978. The new figures indicated that, without some change, the expected deficit for 1977 would increase by $272 million and the hoped for $30 million surplus for FY 1978 would turn into an additional debt of $289 million. Together they would add $623 million -- that is up to $1.72 billion -- in accumulated deficits over the life of the plan. They requested a change in the Financial Plan to deal with these new realities.[34]

The sources of difficulty were multiple. Possibly the most important was the city's economy. The rest of the country was coming out of the 1974-75 recession. It was a common assumption in New York that because its economic base was so diverse, the City was the last of the major cities to enter a national recession and the first to leave. But this

time it wasn't. New York remainded in recession while many other cities, particularly those in the 'Sun-belt' came out earlier. This was reflected in revenue projections. There might also have been a political reason for changing revenue estimates without attaching expenditure cuts. It was only eight months before the Presidential election in November of 1976. Eight years of Republican rule in the White House was likely to end. Viet-Nam, Watergate and the most severe recession since the Great Depression were difficult platforms for the Republicans to seek re-election. With the prospects high for a Democrat in the White House, a new urban policy and a more sympathetic attitude among cabinet and sub-cabinet appointees delay might be possible.

Unfortunately for the City, Carey and the other members of the EFCB were intent on enforcing the Financial Plan as initially accepted. The symbolism had become too important to members of Congress, particularly the Senate Banking Committee, and the markets. At the March 12th meeting of the EFCB, Carey argued that the city's credibility was at stake; as well, it might be added, was his and the Control Board's. In what he called the public's view the City was having difficulty in making the Financial Plan work and that an intensified effort was needed to restore an atmosphere of confidence.[35]

On Arpil 30th the members of the EFCB accepted the

revised figures for FY 1976.[36] With only three months left in that fiscal year there was little to be done. They were adopted as Modification #3. But with the acceptance of these changes there was also a renewed firmness among the non-City members of the Board to enforce the Financial Plan in its remaining two fiscal years.

The Political Reaction? Increased Intervention:

Let's backtrack for a moment. The acceptance of changes in the plan for FY 1976 came at the end of a three month period during which a brewing battle between the city and its new fiscal monitors finally erupted. Although the EFCB gave up on achieving the goals of the initial plan for 1976, the other two full years remained. In these early months of 1976, several important political decisions were taken to enforce the plan in FY 1977 and FY 1978.

First, there was a re-examination of the EFCB's powers and attitudes toward the 'covered organization's of the City's government. Some of these major bureaucracies were consciously resisting cuts as prescribed by the City under the plan. Over the remianing two years the deficits would mount. (The details of these issues will be dealt with in Chapter 5.) For the moment let us point to a broad theme. The primary impediments to changing the spending patterns of these covered

organizations were not fiscal but political. Their structure, commitments and constituencies all lent a tendency toward the status quo. It was for this reason that the Emergency Act gave the EFCB broad legal powers to deal with them and that the city, in its financial plan, requested the Board use those powers if necessary.

Second, the Control Board became involved in the collective bargaining process. On March 15th the EFCB issued its 'wage and salary' guidelines which applied to all city employees. Through them the Control Board maximized its bargaining leverage in this crucial area of municipal management.

Third, Carey appointed a new Executive Director for the Control Board and, for the first time, created a separate staff. At the March 26th meeting the governor announced the appointment of Stephen Berger, former State Commission of Social Services as the new director.[37] Herbert Elish had previously served as Executive Director of both the MAC and the EFCB. He retained the position at the MAC. Berger's reputation as a tight manager, and his penchant for frankness, made City officials apprehensive. In a statement released by Carey's press office he stated that Berger would head up the EFCB's part in the 'collective effort' to see that the City achieved a balanced budget, as required, by 1978.[38]

The political reaction to the city's apparent inability or unwillingness to maintain the financial plan as displayed in arguments over Modification #3 was, again, intervention into the way policy was made. Rather than create new agencies or laws, however, this new level of intervention was purely administrative and was accomplished within the context of already existing statutes.

Later Modifications:

When finally accepted Modification #3 applied only to the first of three fiscal years covered by the financial plan. Negotiations continued through the Spring and into the summer of 1976. Throughout the position of the EFCB was consistent: cuts should be made as soon as possible. On June 23rd the Control Board accepted revised revenue estimates and expenditure figures based on them for FY 1977. The initial plan as accepted the previous fall allowed for a $470 million. The updated Modification #4 foresaw a deficit of $592 million (or slightly more than half that of the previous year). But the Board also ordered the City to prepare and submit a standby program totaling $135 million in alternative budget cuts or revenue measures to be implemented in the event independent factors tended to increase the budget gap. It also ordered Beame and his budget

officials to carry out at least $50 million worth of cuts by August 1st.[39]

Other modifications were made up to the end of the first three-year financial plan in June of 1978. Some were concerned with minor matters having little impact on the total accumulated debt of New York. One even repealed two others.[40] What is important, however, is the process of the financial plan's modification. Following the City's application for Modification #3 -- which would have effectively rewritten the plan -- the process of the financial plan was a process of adapting and enforcing the plan in shifting economic and political environments. The adaptations and enforcement was reflected in subsequent modifications and in the continuation of financial planning after 1978 as required by further state and federal aid agreements.

CONCLUSION

The Financial Plan can be seen as both a needed managerial reform for New York City and as a mechanism through which outside authorities exercised considerable influence over policy making. This dual nature of the plan explains the ambivalence toward it among many budget officials and interest groups in general. From the City's perspective, institutionalizing long term financial planning has the

benefit of integrating a series of previously disparate and often conflicting aspects of the City's financial management. As public administration the financial plans -- the first three year plan and the second four year plan -- enhance control and predictability in managing New York's public sector. But the plan is also a constraint on the political and fiscal flexibility of central decision makers. Since it was established on legal requirements established by the State Legislature and was monitored by a State dominated financial control Board the plan is also a circumspection of home rule. The three critical points of the plan's process -- revenue estimation, formulation and enforcement -- set a common conflict pattern between the City on one side and the State on the other. In each case the City's officials are fighting for flexibility while the State's, with State interests and market perceptions in mind, try to put in force the political and financial values which underlie the Emergency Act.

NOTES

1. Background sources: J. Fred Weston and Eugene Brigham, Essentials of Managerial Finance (Hinsdale, Ill.: The Dryden Press, 1974); Stephen Cohen, Modern Capitalist Planning: The French Model (Berkeley, Calif.: University of California Press, 1977); Aaron Wildavsky, The Politics of the Budgetary Process, 2nd ed. (Boston: Little, Brown and Company, 1976); Charles Schultze, The Politics and Economics of Public Spending (Washington, D.C.: The Brookinge Institute, 1969); N.P. Hepworth, The Finance of Local Government (U.K.), (London: George Allen and Unwin, 1976).

2. For an interesting attempt at defining the proper balance between tax revenue and the issuance of debt in the financing of capital expenditures by local communities, particularly since it uses concepts derived from the theory of the firm, see: Albert Breton, "The Theory of Local Government Finance and the Debt Regulation of Local Governments", in: Public Finance/Finances Publique (The Hague, Netherlands), Vo. XXXII, No. 1, 1977; pp. 16-28.

3. Aaron Wildavsky, The Politics of the Budgetary Process, 2nd edition (Boston: Little, Brown and Company, 1974), pp. 103-104. For an examination of capital infrastructure problems of fiscally hard pressed cities see: George Peterson, "Capital Spending and Capital Obsolescence: The Outlook for Cities", in: Roy Bahl, ed., The Fiscal Outlook for Cities: Implications of a National Urban Policy (Syracuse, New York: Syracuse University Press, 1978), pp. 49-74.

4. For a review of the accounting issues that led in part to the crisis see Chapter 2 of the SEC Staff Report, op. cit. The M.A.C. Act, passed in June of 1975, required the City to adapt its accounting procedures in accordance with principles prescribed by the State Comptroller in the Uniform System of Accounts for all municipalities. In addition, the Financial Emergency Act required the City's accounting system to be in such a format that an independent outside audit could be performed for FY 1978. The primary focus of accounting reform was the new Integrated Financial Management System (IFMS). IFMS is a computer based time sharing facility which unified previously fragmented systems and facilities developed over the years under both mayors and comptrollers to account for the city's funds.

5. Financial Emergency Act for New York City; McKinney's New York State Session Laws, 1975; Chapter 868, §8.1.

6. Ibid., §8.3(c).

7. Ibid., §8.3(d,e).

8. Ibid., §8.4.

9. Ibid., §8.2.

10. Minutes, Emergency Financial Control Board, September 18, 1975.

11. Wall Street Journal, September 24, 1975; EFCB Minutes, September 23, 1975.

12. Minutes, EFCB, September 26th, 1975.

13. State of New York, Department of Audit and Control, Office of the Special Deputy Comptroller for New York City; Report on General Fund Revenue Forecast Models Used on New York City's Financial Plan (EFCB-3-76), January 29, 1976. Other more technical memoranda were also later issued on general fund revenues.

14. OSDC, Report on Review of Estimated Real Estate Tax Collections (EFCB-3-77), May 17, 1976.

15. An overview of all revenue estimates and changes as they effected FY 1977 was continued in: OSDC, Review of City Revenue Estimates Projected for FY 1977; EFCB-6-77, May 25, 1976.

16. U.S. General Accounting Office, New York City Revenue Forecasts and Forecasting Techniques (unpublished draft, August 25, 1976).

17. Dick Netzer, "The Budget: Trends and Prospects," in Lyle Fitch and Annmarie Walsh, eds., Agenda for a City (Beverly Hills, Calif.: Sage Publications, 1970), pp. 651-713.

18. In fact, when the EFCB oversaw the formulation of the plan it passed a resolution advising against any increases in City taxes to balance the budget. The emphasis, in their view, was to be on retrenchment. See: Minutes, EFCB, September 26, 1975. In part, the resolution reads as follows:

> "The EFCB is of the opinion that such a strategy (increasing taxes -rwb) is both contrary to the Board's mission or returning the City to financial stability within existing revenues through austerity and sound management, and indeed may be counter-productive to the economy of the City through further erosion of its tax base."

Events did force tax increases, however. With the Debt Moritorium Act in November of 1975, the State Legislature levied an additional $200 million in taxes on New York City.

19. Netzer, op. cit., p. 699-705.

20. The 'Family Assistance Program'. See Moynihan's The Politics of a Guaranteed Income (New York: Random House, 1972).

21. Professor E.S. Savas of Columbia was principal investigator of an extensive study into the question of solid waste management in the public sector. See his article, "Municipal Monopolies versus Competition in Delivering Urban Services," in Willis Hawley and David Rogers, ed., Improving the Quality of Urban Management (Beverly Hills, Calif.: Sage Publications, 1974).

22. Minutes, with attachments, EFCB, October 7, 1975.

23. Minutes, with attachments, EFCT, October 20, 1975.

24. Ibid.

25. The initial plan allowed for a $989 million deficit for the entire FY 1976. Modification #3 allowed this to be raised to $1.05 billion.

26. Temporary Commission on City Finances, The City In Transition, op. cit., p. 133. Original source: New York City Office of Management and Budget. If the debt service figures are matched against the city's own raised revenues (that is, revenues exclusive of borrowing and state and federal aid) the burden becomes more stark. In FY 1975's budget debt service accounted for 19.4% of 'own raised' revenues. In 1977, this figure hit a full 23.1%.

27. Financial Plan for the City of New York; Minutes, EFCB with attachments; October 20, 1975.

28. Discussion on the Plan as submitted by the City occurred in four days of 'continuous' session. The private members of the board were concerned with the FY 1976 Capital Budget. The EFCB agreed to 'cap' the Capital Budget at $1.6 billion for FY 1976 against the views of Beame.

29. New York State Financial Emergency Act for New York City, New York State Laws, Chapter 868, §8.3(f).

30. Minutes, EFCB; January 9, 1976. Modification #1 allowed the City to transfer a $600,000 surplus from the Staten Island Rapid Transit Operating Authority (SIRTOA) to pay on two consulting contracts -- Touche Ross and Company and American Management Systems -- for studies on new accounting procedures.

31. Minutes, EFCB; January 23, 1976. Allowed for $4.25 million to be transferred from SIRTOA and the Transit Authority Police Department for employee compensation in other departments.

32. Arthur Anderson and Company, "Report to the Secretary of the Treasury," December 30, 1975.

33. Minutes, EFCB; January 23, 1976.

34. Minutes, EFCB; February 13; March 12; with attachments.

35. Minutes, EFCB; March 12.

36. Minutes, EFCB; April 30.

37. Minutes, EFCB; March 26.

38. New York Daily News, March 9, 1976; New York Times, March 9, 1976; March 10, 1976. New York Post, March 13, 1976.

39. Minutes, EFCB; June 23rd, 1976. On August 2nd, the Mayor's Office released the outlines of the program as ordered. The $50 million part of the program was in two roughly equal parts. $25.6 million worth of cuts were to be instituted the "vast bulk" of which were in OTPS (Other-Than-Personal-Service). The rest of the program consisted of new revenue measures totaling $24.5 million. The remaining $85 million Stand By Reduction Program ($135-$50=$85) as outlined but never fully implemented would have hit

education, police and the HHC hardest.

40. Modification #13 created a reserve to cover the possible loss of funds due to delay in the Westway project and a deficit at the Health and Hospitals Corporation. It also encompassed and withdrew Modifications #10 and #12 previously requested by the City.

CHAPTER 4

CASE #2; LABOR POLICY

One area of policy where the impact of the financial crisis was pronounced is in labor policy. The largest employer in New York City is the City of New York. In late 1974 over 294,000 people were on the City's various payrolls. By mid-1977 over 60,000 employees had been separated from them. In the interim new policies effecting labor relations and the collective bargaining process were instituted by the City, the State and the EFCB. Also in that interim was a new wave of public employee strikes, slow downs, work actions and even threats of a general strike. It was the most difficult period of employee-management relations in New York's public sector in ten years.

Complementing this heightened tension was a new type of cooperation. Since the early 1960s employee pension funds had gradually withdrawn from investing in City bonds. The reasons were financial, not political. But one of the

solutions to the City's cash flow problems was participation of the unions in a refinancing arrangement for New York's extensive debts. Under pressure from the City, State and federal government they agreed. It was a period when employees became creditors; and creditors became the 'employers'.

MUNICIPAL EMPLOYEE UNIONS AS POLITICAL ACTORS

By the late 1940s the employees of New York City had little influence over City policy. For the most part they were organized and represented by benevolent and professional associations. Serious attempts to organize city workers had been made since the 1930s but their success was not exceptional. Some, such as the Transit Workers Union and the Teachers Union find their first stage of serious organization in this period. For the most part, however, what unionization of municipal employees there was in New York was across functions. Two general unions of governmental employees, affiliated one each with the AFL and the CIO, vied for the right to organize New York's employees.[1]

In the 1950s a dynamic of union growth emerged. First the initial attempts at organization began to succeed and, with that success, there was pressure for formalizing union recognition by the City and collective bargaining. Between

1954 and 1959, Mayor Robert Wagner, son of Senator Wagner who authorized the most critical piece of labor law in American history, issued a series of Executive Orders which first experimented with and then instituted collective bargaining with the unions. The formal recognition of the unions led quickly to an expansion in their membership and pressure for results at the bargaining table.[2]

Through the sixties the municipal employee unions took major roles in the politics of the City. Theodore Lowi[3] considered the 1961 Mayoral election to have been determined by Wagner's reliance on organized employees and in opposition to the 'bosses' of party. More certain is the increase in employee militancy. Major strikes occurred in the schools in 1960, 1962 and 1968.[4] Welfare workers struck in late 1964 and sanitationmen in 1968. Also in 1968, 'slow downs' were conducted by members of the police and fire departments. The 1966 transit workers' strike has taken on a symbolic quality. Not only did it inconvenience New Yorkers for two weeks, but has been identified by some as the 'turning point' in the rise of labor power in New York City. Whether one wishes to see the City's own employees as the dominant force in New York's politics or not, it is certain that they have been effective in improving the income and influence of their members.[5]

In 1972, six major unions represented an overwhelming majority of the City's employees. District Council 37 of the American Federation of State, County and Municipal Employees (AFL-CIO) represented approximately 130,000 workers under scores of titles throughout many City agencies. Probably the most important among these are welfare and hospital workers. The United Federation of Teachers (UFT) represents approximately 65,000 pedagocial employees of the City's schools system. The Patrolmen's Benevolent Association (PBA) had about 25,000 members and the Uniformed Firefighters' Association (UFA) about 11,000. The Uniformed Sanitationmen's Association represented approximately 10,000 members.[6]

Obviously, except in the case of D.C. 37/AFSCME, the major unions are organized along functional lines. This is partly due to the failure of 'general unions' to meet professional aspirations of these major services and partly because they grew out of previously existing groups. In the case of police, fire and teachers there was an extended internal debate over whether these essentially benevolent or professional organizations should be transferred into collective bargaining units. The debate continued in the case of City University teachers into the 1970s.

The dual nature of these major unions has an interesting dynamic. Given the overlap of both professional and 'union'

criteria, there is a tendency for merely economic issues -- wages and benefits -- to be justified on professional grounds. In addition, there is also a tedency for what might be considered 'professional questions;' such as class size and fire equipment, to become issues of negotiation at the bargaining table.

The functional nature of union organization also reinforces other political patterns organized on functions. It is quite common, for example, for the individual unions to cooperate with agency leadership in pursuing policies at either the city, state or even federal level. The two most forceful advocates for increased aid to schools is the Board of Education and the United Federation of Teachers. While the Fire Department and the UFA might be in conflict over wages and benefits, they will almost always fight for maintaining the integrity of fire regulations. One other point here. The city's major pension funds are also organized by function.

Between the unions there is also a dynamic. Since they are organized around specific and discrete services there are few conflicts over jurisdictional rights that might have arisen if attempts to organize across services were attempted. The necessary negative of this functional organization is that that are disparaties in compensation

among the different unions. An informal hierarchy based on salary and prestige emerged. Although not in exact order it runs roughly like this: Police, Firemen and Teachers in one group; Transit Workers and Sanitationmen; and members of D.C. 37. A competition is sparked. Firemen insist they must have 'parity' with policemen. Sanitationmen argue they are a 'uniformed service' and are working under dangerous health standards. Teachers defend their professional stature. Rivalry among the unions is not based on jurisdiction; but upon benefits.

The functional organization of employees is also reflected in the process of contract negotiation. Before 1975 different union contracts expired at different times of the year. In the context of fragmented representation, different negotiating timetables and interunion competition, a distinctive process of union-city relations evolved. This is usually referred to as pattern bargaining.[7] One union would set the pattern for the others. Usually one of the more powerful or better paid ones such as the PBA or TWU. The others would use the gains of this to justify its own demands.

The professional basis of many unions adds its own qualities to the bargaining process. Students of the collective bargaining process in New York have noted that there is a tie between the rising effectiveness of unions and

an expansion in the scope of bargaining.[8] Scope of bargaining refers to the issues admissible at the bargaining table. The minimal subjects include wages, salaries, pensions and other benefits. Beyond these, however, other issues might be considered. Work rules, manning, personnel administration, merit differentials and professional standards are examples. What is as important as conflict over each of these is whether any are to be admitted into the negotiations in the first place. There are two sides to the issue. On the one side stand those who hold that the politics of public sector management have become so complex that it is necessary to include employee input into the larger issues. The admissibility of professional standards will also allow the employee to become an advocate for the client at the bargaining table. The issues of class size in the schools and work load in the Department of Social Services are cases in point.[9] On the other side it is argued that expanding the scope of bargaining dilutes management's effectiveness in determining how public resources will be used. A more 'political' reason for opposition can also be advanced. The process of collective bargaining is an avenue through which public funds are distributed and obligations taken on. Nevertheless, there is no effective legislative oversight of that process and little executive oversight. Expanding the scope of

bargaining opens a huge hole in formal decision making processes and accountability.[10]

On the larger stage of electoral politics the municipal employee unions have become important ingredients in many suycessful political campaigns. Lowi believed that the 1961 Mayoral election in New York was a watershed in the rise of employee power in New York City. But even on the state level the importance of unions is evident. Nelson Rockefeller was a master in this regard. At one point during the 1968 sanitationmen's strike Rockefeller refused to seriously consider calling out the National Guard to clean the city's streets as Lindsay had requested, but intervened in the collective bargaining process. Rockefeller came away looking like a peacemaker; Lindsay like a strikebreaker.[11]

THE FIRST CHANGES

Even before the Financial Emergency Act was passed, there were important changes in labor relations. Throughout the Spring, Beame had announced new layoffs to deal with the crisis. On April 1, 1975, he ordered the payroll reduced by 4000. In preparing the budget for FY 1976 he let it be known that he was considering layoffs up to 10,000 in number as a bargaining position to renegotiate some union contracts. By the end of May, the Mayor was presenting two budgets to

Albany lawmakers as he pleaded for aid. One, the austerity budget, saw 38,000 layoffs. The other, entitled the 'crisis budget' would require the dismissal of 67,000 city workers. As part of the negotiating process with the State Legislature, Beame submitted the 'crisis budget' to the City's Board of Estimate on June 23rd. Over 5,000 policemen were to be fired. Over 2,000 firemen, over 3,000 sanitationmen and 9,000 employees of the Board of Education were also to be dismissed.[12]

The reaction among employees to using their positions as symbols in 'downstate-upstate' political bargaining was immediate. Police and Firemen began slowdowns and also a 'fear city' campaign directed at tourists coming to New York for the summer months. Sanitationmen began a two day 'wild cat' strike. Much of the protests calmed down after the Legislature appropriated $330 million additional aid for the FY 1976 budget.[13]

But as the MAC found it difficult to market its July issue and pressure mounted on Beame for further cuts, again the city's employees were hit. On July 31, along with other changes, Beame made two points concerning labor negotiations. First, he would institute a wage freeze for all city employees. If he could not get the unions to agree to one voluntarily, he would have it imposed first through legislation he was submitting to the City Council and second, if necessary, through the State Legislature. His second point was that

labor agreements would henceforth be more fully "costed out" for all hidden expenditures attached to work rules and fringe benefits. In the future, labor contracts would be seen primarily in terms of their total costs not only benefits.[14]

At about the same time, the labor unions became more directly involved in the politics of the financial crisis. Informal negotiations began at the Americana Hotel in mid-town Manhattan toward a voluntary wage freeze. The City, under pressure from the MAC, was persistent; the unions resistant. At contention was the salary increases contained in mayoral agency contracts then in effect. The unions, led by Victor Gotbaum of D.C.37/AFSCME and Jack Biegel, pension consultant to several unions, were not intransegent. They were willing, if absolutely necessary, to accept some type of modified wage freeze. Joined in the discussions was MAC Board members Rohatyn and Ellinghaus with Elish as staff representative.[15] Although there was disagreement among the major unions, most did agree to what became known as the 'Deferral Agreement'. This agreement had two major components. First, it provided for a stepped freeze. Most mayoral agency employees were expecting a 6% increase effective July 1, 1975. The deferral agreement linked the freeze to employee income levels. Those workers earning over $15,000 would give up their entire raise. Those earning between $10,000 and $15,000

would forgo 4%, leaving only 2%. Those earning less than $10,000 would receive a 4% rather than 6% raise. One source of tension between the unions at this point was that the agreement clearly benefitted those unions with memberships on the lower end of the wage scale. Teachers, firemen and police were thus more resistant than D.C.37, which represents large numbers of hospital workers and clerical employees. The second major part of the agreement was that it did not abolish the right to these monies which had previously been agreed to, but 'deferred' their payment to a later date. The unions could recapture these deferred wages after the city had balanced its budget and through some mutual agreements aimed at increasing productivity. At this time, however, there was no more formal application of these concepts nor had the financial emergency act been passed with its accompanying requirement for a financial plan. And since the agreement covered only 'mayoral agencies' employees of the autonomous agencies -- most importantly the teachers union which struck on September 9 -- were not covered. Following the agreement, and after some legal debate over jurisdiction, Beame formally instituted a wage freeze which was compatible with the deferral agreement, but also was legally binding.

The deferral agreement was only one part of the emerging

new relationship between the City and its employees. Also during these summer months the unions agreed to the first major investment of their pension funds. The curious and ambivalent role of the unions throughout the next three years was defined here at this early period. During the financial crisis the critical political resource was capital. The city was in desperate need of massive infusions of new money and those who had access to or control over large pools of capital could negotiate from a solid political position. But the demands of most potential refinanciers included severe budget cuts which would fall heavily on city employees. The unions were the only group among the new creditors who were both contributors to the new financing effort and victims of it. This contradictory position defined the politics of labor negotiations during the financial emergency period.

THE EMERGENCE OF AN EFCB LABOR POLICY

The passage of the Financial Emergency Act presented major problems to the City's employees. Control over the City's finances was to pass to a new State agency over which the unions would have only indirect influence at best. The immediate effect was an extension of the wage freeze already agreed to and then imposed legally at the City level through a whole calendar year. But the Act also gave the EFCB wide

discretionary powers in the area of labor policy which it took advantage of in promulgating its own Wage and Salary guidelines covering the entire three fiscal years of the financial emergency period.

The Statute:

Like many products of the crisis the Financial Emergency Act had a distinct ambivalence toward the unionized employees of New York City. Although it did protect the right of city workers to bargain collectively and encouraged the City and the EFCB to pursue attrition rather than wholescale lay-offs as a policy toward reduction of personnel costs, it also imposed a wage freeze on City employees. This new wage freeze was more comprehensive than that agreed to by the unions. It ruled out any increase in compensation and benefits, and the duration was through to September 1, 1976. But even this was countered with some room to maneuver. The act exempted any employee whose union had agreed to a deferral of scheduled increases, thus incorporating the 'deferral agreement' into it. Moreover, the Emergency Act also gave the EFCB the power to extend the wage freeze through the entire three year emergency period if that was necessary to maintain the financial plan. But the nature of that freeze and its defining characteristics were left to the Control

Board's members.[16]

The ambivalence toward the unions is also reflected in the Act's attitude toward the EFCB's role in collective bargaining. Both the Act's ban against interfering with the right of employees to bargain collectively and the several strictures contained in the Act against the EFCB interfering in the priorities setting mechanisms on the City's government would seem to indicate that the Legislature and the Act's authors intended only a minimal role for the Control Board in personnel relations. And yet the enforcement of the Financial Plan would necessarily mean engaging in some form of policy toward the unions. The Act also included union agreements among all contracts to be reviewed for approval by the Board. Given the clarity of the Act in most cases, the ambiguity in regard to the unions is striking. This ambiguity left a clear choice to the members of the EFCB. Should they take an active role or a passive one in labor relations? An early committee report of the New York Bar Association highlighted the options:

> The EFCB may choose to exercise the ultimate policy-making function of approving the financial plan and leave the settlement of specific contract disputes to the mayor, or, in contrast, the Board may decide to intervene more closely in labor matters using the powers set forth (in the emergency act - RWB). If the latter course is chosen by the EFCB, it would necessarily become involved in negotiations with public employee unions, and it might then become the

> effective 'public employer', or perhaps a joining employer.[17]

What the Emergency Act really gave the EFCB was broad discretionary powers to deal with labor matters.

Initially at least, the EFCB did not become too active in collective bargaining. Three mechanisms were already in place to control labor costs under the Financial Plan until the end of FY 1976. These were 1) the voluntary deferral agreement between the City and the unions; 2) the city imposed wage freeze, and 3) the wage freeze enacted as part of the Emergency Act. These three factors obviated an immediate need for EFCB intervention. Moreover, none of the major employee contracts were due. Nevertheless, the option remained. As the year progressed, and as contracts approached expiration dates, the Control Board became more active. The touchstone of this new policy was rejection of the Transit Workers' contract.

The T.W.U. Contract:

On April 1, 1976, the contract between the City and the Transport Worker's Union expired. The T.W.U. represents operating and maintenance personnel for the city's mass transit facilities, including the subways and several publically held surface bus companies. The threat of a strike was real and any strike by the Transit Workers important. No

other city in America so depends on its mass transit system. A T.W.U. strike would shut New York down.

The City's unions were aware, of course, that the creation of the EFCB would alter the collective bargaining process in New York. The question remained, however, 'How'? They faced the question outlined by that Bar Association Committee report. Who was the ultimate employer? Was it the agency for which they worked -- in the T.W.U.'s case the Transit Authority -- the Mayor and his budget officials or the Governor and the EFCB? The Transport Workers, like the other unions, preferred to negotiate with whomever had the ultimate control over the City's funds. They feared a watering down of their bargaining power in two ways. First, if agreement were reached with the City or its agencies there was the possibility of it being rejected by the EFCB. In that event, the bargaining advantage to the unions that approaching deadlines and its accompanying drama represented might be dissipated. It would be difficult to mobilize member support for a strike if the strike were anti-climatic to a bureaucratic decision. Secondly, they also feared that gains made at the bargaining table might be chipped away as the contract proceeded through the new approval process. Agreements made directly with the EFCB or with the EFCB at least involved in the negotiations process, would minimize

such possibilities. Thus, as the expiration date on their contract approached the Transport Workers requested that the Control Board become involved directly in contract talks.[18]

Others were also pressuring the Control Board to move away from its initial resistance toward involvement in the collective bargaining process. The Treasury Department, now having influence over the City through its oversight of the federal loan program, viewed the TWU contract as a test of the EFCB's willingness to enforce the Financial Plan. So, too, did the three 'private' members of the Control Board.

Nevertheless, Carey refused any direct role for the EFCB in labor talks.[19] That, he felt, was primarily the city's responsibility. It should though be noted that in a period of 'contracting resources' the political costs of labor agreements would be inversely proportional to their economic costs. Cut backs in personnel costs might save the city some money, but it would cost elected officials votes. Leaving Beame on the firing line 1) kept the EFCB in a low profile and; 2) placed the political costs on Beame.

Carey did, however, allow for one significant action to be taken which indicated a more active role in this area. On March 26th the EFCB voted to extend the wage freeze provisions of the Emergency Act through the entire three year period of the financial emergency.[20] The intent was to

reinforce the bargaining hand of City Hall without becoming directly involved in the negotiations. It was also made clear, however, that the freeze would be lifted if agreements could be reached which incorporated productivity savings, reductions in the costs of fringe benefits and additional deferrals. Thus, the March 26th extension of the wage freeze could also be seen as the prelude to a more active role later to be played by the EFCB.

Agreement was reached between the City and the TWU without a strike. After a week and a half of formalizing the package the City submitted it to the Control Board members for approval. But already there were questions raised. One involved a cost of living adjustment (COLA) for bus and subway workers which the City had agreed to. Immediately, problems of legal interpretation arose. Was a cost of living adjustment a wage increase and thus in violation of the wage freeze? This issue was resolved against the TWU by an April 17th ruling of State Attorney General Louis Lefkowitz. He held that COLAs were indeed wage increases and thus subject to the wage freeze contained in the Financial Emergency Act and any other freeze instituted by the EFCB under the act's authority. The second issue involved the total cost of the contract. The proposed contract would extend beyond June 30 and into the subsequent fiscal year. Without an approved

updating of the Financial Plan for FY 1977 yet in place the Control Board's attitude toward the costs of the contract was interpreted by many as an indication of how strict it would be in enforcing the plan. The Transit Authority was already running an estimated deficit for FY 1977 in the area of $125 million.[21] The TWU contract was estimated to cost an additional $57 million over its two years. This increase in projected deficit had Beame and his budget aides worried.[22] He demanded an explanation. The COLA clause could cost as much as $1,600 per capita in each of the two fiscal years of the contract with a 6% inflation rate. If the same were granted the entire workforce of New York City, the financial plan would be in serious trouble.

On April 30th, four weeks after it was agreed to, the EFCB rejected the Transport Workers contract.[23] The rejection was based on the basis of its total costs and the illegality of the COLA. The Control Board requested the contract be renegotiated and meet three stipulations: 1) that it be returned by May 15th; 2) that the bases for the rejection be dealt with; and, 3) that the Board's Executive Director, Stephen Berger, be allowed to participate in the negotiations as "an observer".[24]

A new set of negotiations began with Berger and Deputy Mayor John Zuccotti directly involved this time. This new

intervention by City Hall broke past patterns of non-interference by the Mayor in non-mayoral agency labor negotiations. But the rejection of the contract made the inclusion of EFCB and mayoral representatives a necessity. The question posed by the Bar Association report was now answered. The public employer was jointly the Mayor and the EFCB.

The attempt to renegotiate the TWU contract failed, however. Disagreement over the nature and financing of the COLA proved insurmountable. The reaction of the Control Board was to revise the previously submitted contract on its own.[25] The extent to which the Control Board involved itself in labor matters thus expanded and its insistence on enforcing the financial plan apparent.

The Wage and Salary Guidelines:

The Transport Workers were only one of the many unions which had contracts expiring in early 1976. No longer able to resist intervening in the collective bargaining process, the Control Board generalized its policies developed during the TWU negotiations to all labor unions. In May of 1976, the Board issued its Wage and Salary guidelines.

The wage and salary guidelines were a codification of the criteria used in the imposed TWU contract and a formal admission that the EFCB did indeed have an incomes policy toward

City employees. In simplified form they presented three requirements all future labor agreements would have to meet for Board approval:

> 1) No general wave increase would be allowed;
> 2) Any increase allowed would have to be financed within the bounds of the Financial Plan; and,
> 3) Each contract must encourage savings in pension and fringe benefit costs.[26]

There is an obvious attempt by the EFCB to both maintain its wage freeze on city employees while, at the same time, trying to create some room for negotiation between City Hall and the unions. Together they had the intended effect of freezing total labor costs while also opening the possibility of getting around a completely static 'wage freeze'. The combined effect of the second and third section, for example, allows for some specific increases if they are financed in part from savings in pension costs or other fringe benefits. Thus, there could be a trade-off of some later benefits for immediate, if marginal, increases in take home pay. The primary focus underlying these wage and salary guidelines is an obvious attention to the total costs of labor settlements and their effect on the Financial Plan.

Politically, the guidelines had several important effects. First, they stabilized the near chaotic process of labor negotiations that had existed since the very beginning of the financial crisis. Like policy making in general, the

impact of the MAC and then the EFCB was to set askew what had previously been a stable if inadequate collective bargaining process. For months afterward, labor negotiations continued in a disrupted political environment. The 'deferral agreement' from August was the effect of informal discussions and political pressure from the MAC's Board of Directors. The strike of the teachers in 1975 and ongoing conflict over their contract is matched by the erratic process of negotiations with the Transport Workers. With the issuance of the wage and salary guidelines the EFCB defined its own role in labor bargaining. In doing so it cleared up one of the most important unanswered questions of the first year of the emergency period. The Control Board's members would still try to avoid becoming directly involved in negotiations. But with the issuance of the guidelines they did set clear and open criteria toward which labor negotiations could be directed. Not incidently they also left open the opportunity to intervene when they wished on the grounds of 'clarification' during discussions and 'interpretation' afterwards.

Secondly, the guidelines created a broad and all inclusive labor policy. This was important on both sides of the bargaining table. For the public 'employer' the previous ambiguity in the Mayor's role toward labor talks in the 'non mayoral' agencies was clarified. The focus on costs and the

EFCB's intent on playing a role in labor policy closed off the door that some mayors had, in the past, used to avoid the political costs of more forceful leadership in negotiations concerning these agencies. If they forced both the EFCB and the Mayor toward intervening in all labor bargaining with the accompanying political costs they also minimized costs associated with variations in benefits to different unions since all would be treated the same under the guidelines. On the other side of the bargaining table the Board's wage and salary guidelines also had some therapeutic possibilities. Interunion competition has always been intense in New York, each demanding at least what the others receive. In a contracting budget, the competition is transformed. Union leadership seeks to lose as little as possible.
If enforced equally the wage and salary guidelines had the potential of assuring union officials, and more importantly union members, that no city employee would suffer more than any other. No union would fair better because of its numbers, its prestige or its political influence. In short, for both union leaders and City and EFCB officials, the Wage and Salary guidelines tended to minimize the political costs of retrenchment by spreading them around.

Lastly, the creation of the wage and salary guidelines tended to alter the process of collective bargaining.

Beforehand, in the midst of fragmented representation, inter-union competition, and mixed negotiating timetables, a distinct process of City-union relations developed called 'pattern bargaining.' The wage and salary guidelines were in direct conflict with this previous pattern. As mentioned beforehand, they had the potential of minimizing competition among the unions. In addition, as the guidelines set the major dimensions of any new labor agreement before the parties seriously talked there was no real bargaining timetable. Most critical issues had been set, only details remained. Lastly, the guidelines cut across all policy arenas and thus also all unions. This matched perfectly the movement among the unions themselves to negotiate jointly. Since the preceeding summer, the unions had begun working together through the Municipal Labor Council and their consultant, Jack Biegel. The Wage and Salary Guidelines along with the previous 'deferral agreement' had changed the process of labor negotiations in New York from 'pattern bargaining' to what we might call 'general bargaining'.

Federal Intervention and the 'Interim Agreement':

The disposal of the Transport Workers' contract still left the bulk of city employees without definitive agreements for the remaining two years of the emergency period. Police,

firemen, sanitationmen, members of D.C.37 (AFSCME) and the innumerable smaller unions with which the city dealt were still without contracts extending through to June of 1978. Most mayoral agency contracts expired July 1, 1976. It was in preparation for these talks that the Control Board issued its wage and salary guidelines. They were to serve as the basis for all further talks.

Unlike the TWU negotiations, and with much more at stake, the Control Board did not hesitate to become more directly involved in meetings between the City and the unions. Felix Rohatyn representing MAC and Berger sat in on the talks. Their intent was to gain the acceptance of the three essential points of the Board's guidelines by the unions. Cooperation with the unions would be better than confrontation.

To the pressure of time was added pressure from Washington. Under the federal loan agreement the Secretary of the Treasury needed to approve each quarterly loan to the City. The Congress intended the Treasury Secretary to act as an oversight for the loan agreement making sure that the commitments the city made in testimony, and more formally in the contract between the City, EFCB, MAC, and Treasury that instituted the loan program, would be lived up to.[27] This made the City vulnerable to political 'input' from the Secretary or his assistant as each transfer day approached. With

the July 1st contract date approaching, as well as the next seasonal loan, the Treasury Department expressed some concern on the ability of New York to live up to its financial plan particularly in regards to labor costs. In a letter dated June 19th, Assistant Treasury Secretary Robert Gerard, on behalf of the Secretary, made the next federal loan contingent on the City fulfilling three points in its labor negotiations:

1) "that agreements in principle have been reached with the City's principal employee bargaining organizations";
2) "that such agreements are consistent with the Emergency Financial Control Board's wage policy regulations, and
3) "that such agreements will result in no net increase to the City in its costs of compensating its employees."[28]

In an important report in May, Senator William Proxmire focused in on the need for a wage freeze and the control over pension costs in this round of negotiations.[29] Proxmire, as chairman of the Senate Banking Committee which has oversight jurisdiction on the federal loan program, was consistently critical of the way New York ran its labor relations.

With the July 1 expiration date approaching, new pressure from Washington and the enormity of the stakes for both the City and its employees the parties met in a series of intense conferences in mid-town Manhattan at the

Hilton Hotel. Given the restrictions of the EFCB's wage and salary guidelines, the general lack of funds and the several pair of federal eyes overlooking their shoulders the City and the EFCB representatives could offer little more than a cost of living adjustment which itself was tied to other savings made by the city from labor cost. This was called a "productivity COLA" and became the focus of all future City-union relations through the end of the financial emergency period. On June 30th, the city and the unions agreed to a Memorandum of Interim Understanding (although there was some hesitation on the part of the Uniformed Firefighter's Association). The Memorandum was approved by the EFCB that day and triggered Treasury approval of the next federal loan of $500 million.[30]

As the name implies the 'interim agreement' still required final and formal contracts be drawn between the individual unions and the respective agencies. Like much of the politics of the financial crisis the interim agreement was primarily concerned with aggregate costs, their effects on the financial plan and long term perspectives on cost control. The memorandum was not meant to substitute for final contracts nor to alleviate the need for them. Rather it was to serve as a guide for the parties in writing the many individual contracts.

The Interim Agreement incorporated the stipulations of the Control Board's wage and salary guidelines and formally stated the willingness of the unions involved to conform to them. It was a major concession on the part of labor representatives. There would be no major wage gains for city employees through to June of 1978. Meanwhile, attrition would continue and inflation would likely mount. The only real concession to the unions was the COLA which might partly offset the impact of inflation on the worker's purchasing power. As the EFCB's guidelines demanded this COLA (which was capped at 6%) would have to be financed from increased productivity and other revenues approved by the EFCB. A joint Labor-Management Committee on Productivity was established by the agreement and composed equally of City representatives and delegates from the unions working through the Municipal Labor Council. Its task was to recommend mechanisms for increased employee efficiency and to oversee productivity estimates as they effected the COLA provisions of the agreement. The unions also agreed that all future contracts would be within the outlines of the financial plan and that when finally written they would be for a period of two years or more.

The emergence of an EFCB labor policy was gradual. It was eight months between the passage of the financial

emergency act and the resolution of the act's ambiguity toward a labor policy in the issuance of the Control Board's wage and salary guidelines. The guidelines were made necessary by the chaos that reigned in the process of collective bargaining after the emergency act and the need to define what would or would not be acceptable for the Board in a Transit Worker's contract. The wage and salary guidelines had two overall effects: 1) once accepted by the unions, under EFCB and federal pressure, in the Interim Agreement, the guidelines ensured 'no cost' contracts through the end of the financial emergency; 2) they left open some areas of flexibility through a productivity financed COLA to keep negotiations open and continue to include labor in the crisis regime.

As in the case of the financial plan, instituting policies during the crisis did not end political conflict but displaced it onto policy implementation. For a fuller view of labor policy through the entire emergency period we must also examine the administration of the COLA program.

ADMINISTERING "PRODUCTIVITY C.O.L.A."

For the public official, the fundamental political problem posed by a contracting public pie is to maintain a level of

consensus and legitimacy sufficient to govern in the face of accumulating grievances and denied expectations. In such a situation there is little room for employee bargaining since there is little to give out. The notion of a cost of living adjustment funded out of productivity savings had the dual advantage of creating some bargaining space between the City and the unions while also tieing it to incentives toward greater efficiency in service delivery. In the context of contracting resources all policy conflicts and particularly labor negotiations tended to become zero-sum situations. What might be gained by one union would be lost on another. What might be gained my municipal employees in general would be lost to other groups and programs in the City. The productivity funded COLA was an obvious attempt to find an area of overlapping interest to at least partly moot the zero-sum characteristics of budget retrenchment as it effected the collective bargaining process.

The problem with the COLA program was that it offered the City's workforce very little. The best an employee of New York could expect was to maintain his purchasing power in the face of rising rates of inflation. Actually he was likely to do much worse. More properly, union members could hope to lessen their losses; but only if enough funds could be found from savings to fully fund the program. Thus, in

addition to creating an incentive toward efficiency the productivity funded COLA program also created a political demand by the unions on the City and the EFCB to find enough savings without costs to employees or to interpret free money as applicable under the program's criteria so that each employee would receive the maximum designated. In reality then the politics of the situation directed attention not only toward managerial reforms and changes in work rules, but also toward finding new monies wherever they could be found and providing arguments to justify the application of these new monies in terms of the program. In the end the labor policy of the EFCB devolved into the administrative questions of interpretation and enforcement of the COLA program.

Interpretation and Enforcement:[31]

The Memorandum of Interim Agreement which contained the COLA clause was signed on June 30, 1976. Immediately questions arose. These were of three types: theoretical, operational and interpretive.

The most prominent theoretical problem involved a basic question already facing public administration. What is meant by the term 'productivity' in the public sector? Has it any meaning at all? While in the private sector the productivity

of any unit can ultimately be measured against a single criterion of judgment -- i.e., profitability -- employee output in the public sector is more difficult to determine. How, for example, does one measure the productivity of a policeman or the entire force: by reduction in the crime rate?; the number of street arrests?; the number of crimes 'deterred'?; the number of miles covered by each patrolcar?; or man-miles? The problem is compounded by the fact that cities are largely service delivery organizations. With such 'soft' outputs the measurement of productivity is not easy.[32] The failure of previous attempts to include employee productivity at the bargaining table in New York demonstrate the theoretical problems involved.[33]

Aside from the problems of theory and measurement, there were also more practical problems which arose in application. Two are important enough to note.[34] The first involved the application of savings for COLA funding. Should a single pool be created for all the mayoral agencies? Or should savings be identified and matched with the COLAs on an agency by agency, union by union, or even bureau by bureau basis? If a single pool were created the intended incentive functions of the program would be diluted. The problem was settled through negotiations with the result that claims made by individual unions would be assessed by the City and the

EFCB and then applied to individual bargaining units. The second operational problem involved what might be termed a 'negative incentive'. The productivity COLA notion was designed to benefit agencies and workers who allowed reforms which made the delivery of services more efficient. But what about an agency which was relatively efficient beforehand? In operation the COLA program actually benefitted those who in the past were more wasteful. The Fire Department was among those agencies which protested. The department, among the City's more efficient, found it difficult to achieve cost savings without service reduction. To solve the problem the EFCB and the City allowed for the inclusion of 'other revenues approved by the Board' to partly fund COLA increases and thus protect workers in more efficient agencies. While this resolved the immediate issue it also opened the door to the third problem.

The third set of general questions which arose in applying the COLA program appears on the surface to be purely administrative, but actually is the residual conflict point between the City, the unions and the EFCB in the area of labor policy. Here is the problem: Once the door was opened to allowing other revenues not derived from savings to fund the COLA program the question of interpretation and degree remained. How far would the City and the EFCB go in allowing

other revenues to be applied. The issue arrose even during the negotiations at the Hilton Hotel before the Interim Agreement was signed. Rohatyn indicated that he was not opposed to applying part of funds expected to be made available from a MAC 'stretch out' -- that is, a refinancing of some MAC bonds having the effect of lowering debt service per annum -- to cost of living adjustments.[35] What were the limits?

That there would be some conflict over the program's enforcement was soon apparent. By September, when the outlines of individual agency savings plans were to have been submitted for EFCB approval, only 22 of 25 agencies had complied. In the view of the Control Board's staff many of these were 'rudimentary and unacceptable'. The Joint Labor Management Committee on Productivity had met only twice over the summer with little accomplished. The City's position on the program became clearer in a December 6th letter to the members of the EFCB. In it the Mayor's budget officials proposed to fund 83% of the first quarter COLA costs for non-uniformed mayoral agency employees from sources not directly accounted for as productivity savings. Although agreeing to the proposal would have diverted only $8.8 in 'found' money toward new wages rather than other purposes if generalized through the remaining two years of the financial plan and for

all City employees the cost would, according to one estimate, come to $180 million.[36]

An attempt to more effectively enforce the original idea of the productivity funded COLA was tried with the Transit Authority. In a December 3rd, 1976 resolution, the Control Board members threatened to deny Transit Authority employees any cost of living adjustments until the TA submitted an acceptable program to fund it.[37] On February 7, 1977, the Board voted to reduce the agreed to adjustment if a program to fund it fully were not found acceptable by the Special Deputy Comptroller by February 15. In early May, however, the Control Board finally agreed to the use of "other revenues and other savings" to fund up to 50% of the Transit Authority's COLA program.[38]

The frustration felt by some members of the Control Board's staff on the COLA issue was expressed by the Board's Executive Director, Stephen Berger, in a report on the subject to the EFCB's members:

> We see several reasons for the erosion of the productivity concept. The most basic one is that achievement of productivity through a management labor program requires intensive planning, cooperation and true commitment. Other revenues and other savings can often be "found", productivity must be "achieved". Thus the temptation to ignore productivity runs strong even among the most well-meaning of policy-makers.[39]

On June 14, 1977, the EFCB passed a new resolution which

implemented a COLA program for most City employees. Although it still demanded the adjustments be partly funded for productivity savings it also effectively allowed the City to use 'other revenues' for 50% of the program's financing. The unions did not win. The Control Board did not lose.

THE TEACHERS' CONTRACT

If the Transport Workers' contract was the beginning of a process of increasing intervention in collective bargaining by the EFCB the teachers' contract set its limit. In addition, since the teachers worked independently from the other unions, the case is interesting on its own.

The contract between the Board of Education and the United Federation of Teachers expired on September 9th, 1975. Problems arose early between the contending parties. As discussions continued through the summer months the Mayor had declared his wage freeze under pressure from the MAC. A similar restriction was of course also contained in the Financial Emergency Act. Coincidently, the Emergency Act was passed and signed the same day the UFT contract expired. No agreement had been reached however and the union's leadership called a strike (in violation, by the way, of state law). Schools in New York were closed for one week until the UFT membership voted to accept a 'preliminary agreement'.

This preliminary agreement was submitted to the EFCB for approval under the new Act. The Control Board refused to accept the agreement immediately on the grounds that the Financial Plan had not yet been approved. Nevertheless, it also indicated that a contract based on the points outlined in the submitted memorandum of agreement would violate the requirements of the act because the costs of the contract would probably exceed the money available. Despite the EFCB's rejection the memorandum was reduced to a formal contract and submitted by the UFT leadership to the teachers for approval. The membership accepted the contract on November 10th and in January Chancellor Irving Anker, the chief executive officer of New York's school system, submitted a resolution to the full Board of Education for approval. In February 1976, the Board of Education accepted the agreement ending, what under normal circumstances, would have been the collective bargaining process.[40]

Despite initial rejection of the memorandum of agreement the Board of Education never formally submitted a contract to the EFCB for approval between February and December of 1976. The ongoing development of the Control Board's wage and salary guidelines was, of course, known to the two parties. Discussions between the UFT and the Board of Education continued but no agreement acceptable under the guidelines

could be reached.

With the pressure on the City and the Control Board by the Treasury Department and in an attempt to finalize labor costs through the emergency period the EFCB became directly involved in the UFT negotiations. At the June 30th meeting of the Board, and at the request of the mayor's office, a resolution was passed which instructed the Board of Education to reach an agreement with the teachers' union that would provide:

> . . . for a deferral of wages and payments of deferred wages which does not exceed the costs contained in the Financial Plan . . .

Moreover, it also ordered the parties to submit:

> . . . a definitive agreement . . . consistent with the Financial Plan . . . and with the wage and salary policy of the Control Board.[41]

The insistence of the Control Board went further in August when Berger sent a letter to Dr. Robert Christen, President of the Board of Education, restating the order of the June 30th resolution and outlining the criteria against which a final contract would be judged by the EFCB.[42]

Negotiations between the Board of Education and the UFT continued through the Fall of 1976 and a contract reexecuted in December. This new contract was submitted to the EFCB on December 29, 1976; fifteen months after the teachers struck the school system. Everyone was exasperated;

particularly Albert Shanker, president of the UFT. At one point he suggested that collective bargaining might as well be suspended in light of the EFCB's powers.

The Politics Behind the Issues:

Conflict over the UFT contract did not abate with its submission to the EFCB. In fact, the process of review and approval of the teachers' contract was more intense and complicated than that of any other labor agreement. The EFCB staff opposed the contract as submitted as did the private members of the Control Board. The Mayor, Deputy Mayor and Board of Education supported the contract, as did the UFT. Two issues were at hand. One was the recurring problem of interpreting and applying the Control Board's wage and salary guidelines. The second was a more political problem given the import of the UFT contract. First the issue of cost.

The technical issue surrounding the UFT contract was whether it lived up to the edicts of the EFCB wage and salary guidelines. The Control Board justified its initial rejection of the October, 1975 memorandum of agreement partly in the basis of a report by two consultants from NYU.[43] The consultants concluded that while the exact language of the contract did not violate the legislated wage freeze it would

cost an additional $140 million to the Board of Education in FY 1977 alone. The new monies would be needed to fund three new increases. The first was a 'longevity' increase based on the number of years an employee had taught. The second was a step increase based on several service critiera. The third was a cost of living adjustment. None of these were general wage increases and thus, since the EFCB had not yet promulgated its wage and salary guidelines, rejection could only be based on total costs.

After the issuance of the wage and salary guidelines, the UFT's lawyers submitted a brief in support of the contract which argued that the agreement was acceptable under the Board's requirements. A number of cost savings introduced earlier in the year by the Board of Education were claimed adequate in fulfilling the EFCB's order that all increases be funded through savings.[44]

But the contract as finally submitted on December 29, 1976, was moderately revised. Additional cost savings were identified as justifying the contract and a deferral of the 'longevity' increase for one full year was agreed to. Still, the EFCB staff and the Special Deputy Comptroller opposed the contract. The OSDC submitted a report to the Control Board which, in part, concluded:

> . . . several items of the proposed agreement do not conform to either the precedent established by the

> 1975 City-Union wage deferral pattern of the EFCB's general wage and salary policy; that several provisions are ambiguous in intent and that while the City's Financial Plan appears to have sufficient funds . . . some of these funds may have been made available by service reductions.[45]

The service reductions in the schools included after class activities, sports programs and reduced class time. Savings from service reductions could not be applied to any increases under the Control Board's policies.

Behind the technicalities applying the EFCB's labor policy to the teachers when a contract was finally and formally submitted lay the second more political issue. In its own accounts, the Board of Education had set aside funds to cover collective bargaining agreements being negotiated in 1975. This money was reserved before the deterioration of the MAC's market position and months before the Financial Emergency Act was passed by the Legislature. In a somewhat smaller amount the fund was included in the assumptions underlying the Financial Plan.

The creation of a collective bargaining reserve is not unusual in public sector negotiations. For the wise public employer the goal is to bargain for the most efficient distribution of the fund and to resist any agreement which might require new monies. Thus, one object for the public's bargainers is to keep the size of such a reserve; of the employees' to discover what they are 'entitled to'.

It was held by many engaged in the dispute over the UFT contract that the Board of Education had not proportionately reduced the size of the collective bargaining reserve as employees were layed off or left through attrition. Thus, on a per capita basis, this fund from which increases would be negotiated actually increased. Throughout the debate over the UFT contract these funds were a point of controversy between the Board of Education, the Mayor, the UFT, the Control Board and various community and public interest groups. The policy trade off was simple. Acceptance of the teachers' contract as submitted meant that these funds would be used through several mechanisms toward increasing the salaries of pedagocial employees. Rejection and renegotiation might lead to the use of some of the monies for other purposes including the rehiring of 'excessed' teachers. While all were conscious of this trade off, the EFCB was specifically banned by the Emergency Act from interfering in City policy making. Thus, all arguments against the contract were made in the context of the technical aspects of the Control Board's labor policy.

The policy implications of accepting the UFT contract led to the most direct intervention in New York's policy making process attempted by the EFCB. The staffs of the OSDC and EFCB became committed to the contract's rejection. In

fact, there was an attempt made by Berger and other staff members toward mobilizing many of the educational interest groups to oppose the contract. Some did join the fight. Beame, and his First Deputy Mayor, John Zuccotti, were committed to supporting the agreement. 1977 was an election year in New York City and UFT support in the Democratic primary is always valuable.

In the final showdown on the contract -- the February 3rd, 1977 meeting of the EFCB -- Deputy Mayor Zuccotti argued for support of the contract claiming that it did not violate the wage and salary guidelines of the Control Board. He also objected to the implied expansion of the EFCB's powers that a rejection of the contract indicated. Albert Shanker, president of the UFT, also argued that the EFCB had moved beyond its authority in threatening to disapprove the agreement and that the teachers of New York's children deserved some increases to combat inflation. They had already made important contributions to the solution of the financial crisis including layoffs, deferrals and investment of union pension funds in MAC and City paper. To drive his political points, Shaker also had AFL-CIO headquarters in Washington intervene in an endorsement of the contract. Shanker, who also holds leadership positions in New York State and national teachers unions, sits on AFL-CIO national board. The UFT

influence in State politics was also evident as Shanker had called upon both of New York's Senators -- Jacob Javits and Daniel Moynihan -- to speak in support of the contract before the EFCB with Carey chairing the meeting.[46]

No final decision was taken at that February 3rd meeting. The members of the Control Board did order the parties to renegotiate some minor portions of the contract and return it to the EFCB within four days. With minor variations the Control Board approved the UFT contract on February 7th, 1977.[47]

The UFT contract is more important than the particulars of the Agreement might indicate, however. Much of the pressure that made up the politics of the financial crisis came to a head with the teachers' agreement. Despite the fact that they finally voted for the contract both David Margolis and Felix Rohatyn (then a full member of the EFCB) expressed concern that priorities of the Board of Education were not the most beneficial to the children of New York City. In fact, these two private members of the Control Board had threatened to vote against the teachers' pact if the minor changes made at the last were not made. Such a vote would have broken the informal agreement among the Board's members to vote unanimously on all issues so a common front could be shown the municipal bond market as well

as the voters of New York.

On a larger stage, the UFT contract vote is also a hallmark. In it we see a realignment of forces engaged in the politics of the crisis. The EFCB had largely been a tool of the governor to deal with New York City's financial problems. In any conflict between Carey and Beame during the crisis the Control Board's legal powers and the political power of the governorship easily outweighed those of City Hall. Although the inner politics between City and State under the emergency act were largely characterized by accommodation rather than confrontation it was clear who had the upper hand. We need only remember the gradual but consistent expansion in the use of available statutory powers of the EFCB -- the evolution of a labor policy being one important example -- to illustrate the point. But with the UFT contract that expansion had reached its limit. Against the private members of the Control Board, its own staff, the OSDC and a hesitant Carey stood Beame, the Board of Education, New York's two United States Senators, the United Federation of Teachers and Albert Shanker's influence in Washington. This was a potent alignment. Even the editorial writers of the New York Times who previously were forceful in their demands for 'sound' management and conservative financial policies warned that the EFCB was overstepping its legal bounds in

attempting to influence Board of Ecucation policy.[48] By the time the UFT contract finally came to a vote the immediacy of the financing crises of 1975 had passed. The political alliance which underlie the Control Board's creation and its approach in dealing with the crisis had been strained. With the benefit of hindsight it can be said that the attempt to influence the use of the Board of Education's collective bargaining reserve set the highwater mark in the rise and decline of the EFCB's influence over policy making in New York City.

CONCLUSION

The financial crisis had three major identifiable effects on the collective bargaining process between the City and its employees' unions. First, there is a direct intervention by State and federal officials. Under normal circumstances, federal officials would never be directly concerned nor exercise the important influence they did during the crisis. The Senate Banking Committee, the General Accounting Office and the Treasury Department all had oversight responsibilities for New York and focused some concern on labor policy. The pressure exerted by Treasury was particularly important. In contrast, it is not unusual for New York State political leaders and budget officials to become involved in City

labor negotiations. The need for State aid in paying for many local labor agreements ensures State involvement. Nevertheless, the degree of State intervention in the 1975-78 period was new. The creation of the EFCB, the STate legislated wage freeze, the right of the Control Board to reject any labor pact along with its own wage and salary guidelines are all new and institutional changes as opposed to the ad hoc intervention typical on a contract by contract basis. The participation of Rohatyn and Berger in some negotiation sessions along with the 'showdown' over the UFT contract before the Control Board all indicate that the legal powers of the EFCB over labor policy led to the State being in fact, if not in law, the ultimate public employer in New York City.

Second, the financial crisis at least partly modified the functional separation of labor negotiation. Two factors point to this. First, in changing the focus of labor policy from individual contracts to total labor costs the crisis led to the creation of a unified labor policy applicable to all unions and all titles. I noted in the preceding chapter that a 'side view of the budget' cuts across the functional categories usually associated with fiscal politics. The need to control labor costs regardless of the policy area goes hand in hand with a general labor policy. Secondly, across the bargaining table there was a pattern of

greater cooperation among the unions to compliment the general labor policies pursued by the MAC, the City, the EFCB and the Treasury Department. Many old grievances between the unions were put aside as the need to work together became paramount. The increased importance of the Municipal Labor Council, through the unions worked, and of Jack Biegel, consultant and analyst for them, are two side effects of this new comraderie.

The third impact of the crisis on the collective bargaining process is the change in the 'scope of bargaining'. Earlier 'scope of bargaining' was identified as the types of issues admissible at the bargaining table. In a strict sense the crisis did not change this important dimension at all. Once admitted as part of any negotiation it is difficult to later bar discussion on that issue. What did change was the relationship between the more usual issues of compensation and other 'work rule' issues. There was a conscious effort on the part of City and State officials to recapture some of the perceived loss in managerial flexibility over work rule resulting from previous concessions. The costs of many such regulations were never included in 'total contract costs'. In the context of the financial plan they would. Moreover, the very idea of a productivity financed COLA linked compensation with output. What changed here is not so much what would be admitted to the bargaining table but

the attitudes of the negotiators toward them.

Possibly the most interesting outcome of this brief review of the case of labor relations, however, is its implications for the broader questions of the crisis' impact on policy making in New York. The fundamental aspect of Sayre and Kaufman's view of politics in New York, as well as that of their students, was a weakness at the City's political and administrative center leading to dominance by various outside groups in their area of interest. In personnel relations the 'outside' groups were the unions. The issuance of a labor policy by the Control Board can be seen as an attempt to reassert the center in this area. It was not just the product of forces completely extraneous to the City but it also had the support of the Mayor and the Governor, and was formulated under persistent pressure from the Treasury Department, the Senate Banking Committee and occasional recommendations from the General Accounting Office. Some might argue that it was an attempt to redress a 'power imbalance' in New York's employee relations. Nevertheless, while the wage and salary guidelines resolved the ambivalence toward the unions in the Financial Emergency Act, the political ambivalence toward them did not cease. Their dual role as both employees and creditors -- as well as their political muscle in elections and their ultimate strike

weapon -- eliminated the possibility that the EFCB could simply dictate terms to them. The most lasting impression of labor relations from this period is that while the Control Board was forceful in pursuing its goals there was a consistent pattern of bargaining and some accommodation with the City's municipal employee unions.

NOTES

1. For a review of the historical roots of some of New York's public employee unions see Sayre and Kaufman, Governing New York City (New York: W.W. Norton, 1965), pp. 423-440.

2. See Raymond Horton, Municipal Labor Relations in New York City (New York: Praeger, 1973), chapters 2 and 3.

3. Theodore J. Lowi, "Gosnell's Chicago Revisited via Lindsay's New York: Foreward to the Second Edition," in Harold F. Gosnell, Machine Politics: Chicago Model (Chicago: University of Chicago Press, 1968), pp. 14-15.

4. For some of the factors contributing to the 1968 teachers' strike see Diana Ravitch, The Great School Wars (New York: Basic Books, 1974), chapters 23-33.

5. For a review of the political role of the unions in New York see Sayre and Kaufman and Horton, op. cit., as well as Ken Auletta, The Streets Were Paved With Gold (New York: Random House, 1979). For a commentary from the left see Francis Fox Piven, "Militant Civil Servants"; in: Richard A. Cloward and Francis Fox Piven, eds., The Politics of Turmoil (New York: Pantheon Books, 1972), pp. 226-238.

There are a number of studies on the economic standing of New York's employees in real and relative terms. Two reports of the Temporary Commission in City Finances published in 1976 dealt with associated issues: The Fiscal Impact of Retirement Benefits: Some Proposals for Reform (Sixth Interim Report; May, 1976) and, The Fiscal Impact of Fringe Benefits and Leave Benefits: Some Proposals for Reform (Seventh Interim Report; June, 1976). The reader should be open to the possibility of bias in such reports. In response to the above mentioned TCCF reports the Department of Research and Negotiations of D.C.37/AFSCME issued a report questioning the assumptions and methods of the City reports which had concluded that, for the most part, New York's employees receive total compensation including benefits much greater than other cities. See: District Council 37's Response to McGivern Commission (TCCF) Misstatements on Salaries, Leave Benefits, Uniform Allowances, Pension Costs (June, 1976). After noting the differences in outcomes between the City and DC 37's analyses of labor costs in New York one young researcher for the EFCB, Jon Weston, concluded that "these differences are not accidental. While

both sides make technical errors the major differences between them are basically the result of the differences in the timeliness of each sides' data and the conceptual differences between Employee Compensation and Total Labor Cost. . . . (they are) more a product of differences in objectives rather than one of fact."

6. Horton, op. cit., p. 11.

7. See Arvid Anderson, "The Structurre of Public Sector Bargaining," in: Sam Zagoria, ed., Public Workers and Public Unions (Englewood Cliffs, N.J.: Prentice-Hall, 1972), pp. 37-52.

8. See, John Leavens, et. al., "City Personnel: The Civil Service and Municipal Unions," in Lyle Fitch and Annmarie Walsh, eds., Agenda for a City (Beverly Hills, Calif.: Sage Publications, 1970), pp. 605-628.

9. For this argument from the perspective of a leader of one of the major New York unions, D.C.37/AFSCME see: Victor Gotbaum, "Collective Bargaining and the Union Leader," in Sam Zagoria, op. cit., pp. 77-88.

10. Horton, op. cit., pp. 120-122.

11. There was more to this, however. The Central Labor Council had also threatened a general strike if Rockefeller called in the National Guard as Lindsay was requesting. (Interview with Vincent MacDonald, former chairman, NYS Mediation Board; WNBC-TV/4, March 24, 1980).

12. Ferretti, op. cit., pp. 220-226.

13. Facts on File, New York and the Urban Dilemma, op. cit., pp. 122-123.

14. Ferretti, op. cit., pp. 275-276.

15. Lee Dembart, "M.A.C. Stands Over City-Union Talks," New York Times, July 26, 1975.

16. Financial Emergency Act; NYS Laws, 1975, Chapt. 868, Section 10.

17. Association of the Bar of the City of New York, The Record, Vol. 31, No. 5/6.

18. New York Times, March 19, 1976.

19. New York Times, March 20, 1976.

20. Minutes, EFCB; March 26, 1976. In addition Carey allowed two EFCB representatives, Stephen Berger of the staff and William Ellinghaus a member of the Board, to hold informal discussions with the parties. New York Daily News, March 28, 1976.

21. New York Daily News, April 13, 1976.

22. New York Times, April 3, 1976.

23. Minutes, EFCB, April 30, 1976. Also: New York Times, May 1, 1976; Daily News, May 1, 1976; Newsday, May 1, 1976. Incidently, the rejection of the TWU contract was seen as a test of the EFCB's determination by more than Washington and Albany. Every major newspaper in New York had editorials generally critical of the contract and supporting strong EFCB action. New York Daily News, April 21 and 30, 1976; New York Times, May 1, 1976. Just north of New York, in Yonkers where a similar financial control board was created to deal with that city's inability to market bonds, the Herald Statesman, the major daily in Yonkers, also supported rejection of the transit pact. Herald Statesman, April 30, 1976.

24. Minutes, EFCB; April 30, 1976. New York Times, May 1, 1976.

25. Minutes, EFCB; May 18, 1976. Also: New York Times, May 19, 1976; New York Daily News, May 19, 1976.

26. The legal wording is as follows:

1) No agreement shall provide for general wage or salary increases or increases in fringe benefits.
2) No agreement shall provide for increases or adjustments to salaries or wages, including those based upon increases in the cost of living, unless such increases or adjustments are funded by independetly measured savings realized, without reduction in services, through gains in productivity, reduction of fringe benefits or through other savings (or revenues) approved by the Board, all of which savings ahll be in addition to those provided for in the financial plan.

3) Each agreement shall provide for a mechanism to permit savings in pension costs or other fringe benefits during the term of agreement.

Source: Minutes, EFCB; May 18, 1976.

27. Credit Agreement By and Among United States of America and State of New York, City of New York and the New York State Emergency Financial Control Board, Including Undertakings by the Municipal Assistance Corporation for New York City; December 30, 1975.

28. This letter detailed the demands in a June 16th letter from William Simon to Carey which will be quoted in chapter 10.

29. In mid-May, Senator Proxmire's Committee had issued a report critical of the City's response to the crisis. Francis X. Clines of the Times reported on May 18th that this Senate report contributed to the private members insistence on a strong EFCB labor policy. The Banking Committee report suggested the Treasury link the continuation and effective enforcement of a wage freeze to the quarterly loan program. The leadership of the City's unions called the suggestion 'fiscal blackmail' and threatened to use their strike option if a labor policy were imposed and not negotiated with all. Source: New York Times, May 23, 1976; Daily News, May 21, 1976; Associated Press (Schenectady Gazette, print), May 21, 1976.

30. Minutes, EFCB; June 30, 1976.

31. Background sources: Internal EFCB memoranda including: "Cost of Living Adjustments and the Emergency Financial Control Board: A Chronology," drawn by Jay Holt, Secretary to the EFCB and "COLA Payments/An Historical View," by Anthony Gliedman.

32. The literature on productivity in the public sector is a large one and outside the range of the present politically oriented study. See: J. Sirefman, ed., Productivity Bargaining in the Public Sector (Hempstead, N.Y.: Hofstra University Press, 1977); Frederick Hayes, Productivity in Local Government (Lexington, Mass.: Lexington Books, 1977).

33. See: Edward Hamilton, "Productivity: The New

New York City Approach," Public Administration Review, Nov./ Dec., 1972; pp. .

34. Source: Above cited internal EFCB memo: "COLA Payments/an Historical View," (Note #31).

35. But only in the "context of a balanced budget for FY 1978 and in the event the City had fulfilled its obligations under the Financial Plan, in the spirit of the original wage policy guidelines which talked to (sic) using other savings or other revenues where productivity shortfalls were unavoidable . . . " Source: EFCB Memorandum; Stephen Berger to Members of the Emergency Financial Control Board, RE: "Issues Regarding the Payment of Cost of Living Adjustments Open to Municipal Employees Under the Productivity Program," March 22, 1977.

36. Ibid., pp. 5-6.

37. Minutes, EFCB; December 3, 1976.

38. Minutes, EFCB; May 2, 1977.

39. Internal EFCB Memo, Berger to Members, op. cit. (Note #31), pp. 6-7.

40. Minutes, EFCB; September 29 and October 8, 1975. Internal EFCB Memoranda: "Chronology of UFT Contract;" Chronology of EFCB Consideration of UFT Contract;" and Memorandum from Stephen Berger to Members of the Emergency Financial Control Board, RE: Report of the Proposed UFT Contract, February 1, 1977.

41. Minutes, EFCB; June 30, 1976.

42. Appendix D; above cited Berger Memo to EFCB (Note #31).

43. Minutes, EFCB; October 7, 1975.

44. "Memorandum on Behalf of the United Federation of Teachers in Support of its Application for Approval of 1975-77 UFT-Board of Education Collective Bargaining Agreements;" Kaye, Scholer, Fierman, Hays and Handler, Attorneys for Applicant, UFT., June 8, 1976.

45. Office of the Special Deputy Comptroller, Review of the Proposed Agreement Between the Board of Education and the United Federation of Teachers for the period September 9, 1975 to September 9, 1978. EFCB-50-77 January 31, 1977.

46. Minutes, EFCB; February 3, 1977.

47. Minutes, EFCB; February 7, 1977.

48. Compare for Example a New York Times editorial of February 13, 1976, titled "Fiscal Fantasies" which is skeptical of the contract with that of February 3, 1977 titled "Self Control for the Controllers".

CHAPTER 5

CASE #3: THE AUTONOMOUS AGENCIES

There are two types of public agencies in New York's government. The first are the 'mayoral' agencies, so-called because they are directly accountable to the Mayor. Among them are the Fire and Police Departments, sanitation and environmental protection, water and sewers, ports and terminals, some housing functions, consumer affairs and a panoply of smaller agencies. Each has a commissioner that serves at the Mayor's pleasure. The finances of each have been under the direct control of the Office of Management and Budget, or the Bureau of the Budget beforehand.

The second are the 'non-mayoral' or 'semi autonomous' agencies; what the Financial Emergency Act termed the 'covered organizations.' There are at least a dozen such agencies in New York's public sector. Some are quite large, others small. They fall into four broad

categories. First, the City's public enterprises: services which usually need subsidy but have substantial receipts of their own. Among these are the New York City Transit Authority -- which operates the subway and bus system in the City under the Metropolitan Transportation Authority -- the Housing Authority, the Health and Hospitals Corporation, the Staten Island Rapid Transit Operating Authority (SIRTOA) -- which manages a small rail service in New York's 'forgotten borough' -- and the Off Track Betting Corporation which runs one of the largest legal gambling systems in the United States. In the second category are two capital finance agencies for the City's educational systems: the Educational Construction Fund (ECF) and the City University Construction Fund (CUCF). The ECF is authorized to issue bonds toward the construction of multi-function office buildings, parts of which are to be for schools. Rents on office space go to pay the debt service on the entire office-school complex. In cooperation with the State's Dormitory Authority, the City University Construction Fund finances expansion of CUNY's facilities. The third group of 'covered organizations' includes economic development agencies: Battery Park City Authority, the Convention and Exhibition Center Corporation, the Industrial Development Agency and the

Rehabilitation Mortgage Insurance Corporation (REMIC). Each of these development agencies were created in the early seventies, attesting to the still positive attitude toward what City Government could accomplish if it put its own resources to work. The Battery Park City agency was to develop housing and retail outlets, possibly a convention center, possibly a new headquarters for the American Stock Exchange on land fill in lower Manhattan. (Construction finally began in late 1980). The Convention Center Corporation is building the new convention center on Manhattan's west side. The Industrial Development Agency was created to provide low cost financing for construction, acquisition or modernization of commercial or port sites. Each of these three agencies is a public benefit corporation of New York City and each is authorized to issue its own bonds. REMIC was created to help subsidize the 'risk' of writing mortgages in 'marginal' neighborhoods in New York. Needless to say, as most of these agencies in the second two categories relied on the market for their financing they were largely inactive during the three years of the financial emergency period. Lastly, are the City's two major educational systems: the dependent New York City school district governed by the Board of Education and the City University, governed

in 1975 by the Board of Higher Education. The City is responsible for the debts of all.

The major distinguishing factor which separates the autonomous agencies from mayoral agencies is the existence of individual boards of trustees or directors which serve as their respective primary policy making bodies. It is for this reason that they are all characterized as 'non-mayoral' or 'autonomous' agencies. It is also for this reason that the authors of the Financial Emergency Act made sure that the powers of the EFCB were broad enough that the requirements of the Act 'covered' each agency that did or could receive monies from the City of New York (except for the Port Authority of New York and New Jersey). While many if not most of these covered agencies had substantial revenue streams of their own, very few operated in such a way that they did not require subsidies from the City's general fund. If legally 'autonomous' they also placed a severe strain on the City's resources.

Although the Mayor has different appointive[1] powers toward each of these governing boards, it is they that oversee the making of policy and the finances of the agencies directly. The creation of these individual agencies has been justified on many grounds. In education,

for example, it grows out of a fifty year tradition of reform which has tried to keep party influence away from professional and service criteria in decision making.[2] In regard to the economic development agencies, the purpose is to create independent and self sustaining enterprises authorized to issue revenue bonds which, not incidently, would be excluded from the state imposed constitutional debt limits. In the case of the Health and Hospitals Corporation, the justification was to form a more effective health care delivery system than the previously highly centralized Department of Hospitals provided.

The power of the Mayor over these agencies before the crisis varied from each to the other. Those over which he had full appointive powers were easily directed to mayoral priorities. Others, such as the Board of Education, and the Board of Higher Education were less susceptible to mayoral influence. Their structure isolated them from political intervention often ensuring that professional and thus internal criteria would be the touchstone of policy choice. While this structure tended to work against the imposition of city-wide policy criteria, it also provided the mayor with an 'easy out' if service delivery was poor. After all, these weren't his agencies. In some cases the mayor could intervene as he saw fit, judging his advantage. As we have seen,

before the crisis it was the agencies such as the Board of Education or the Hospitals Corporation which would deal with labor unions. The structure of the relationship between the agencies and City Hall allowed the mayor to intervene when he found it attractive; or stay out when he did not.[3]

The relationship as it existed before the crisis set the stage perfectly for a series of confrontations between these agencies and the new policies and institutions wrought by the financial crisis. The shuffling of priorities imposed by the City's central political authorities could be resisted by these autonomous agencies in ways that the mayoral agencies could never attempt. Tied into broad based clientele groups and professional service delivery bureaucracies, the Board of Education, Board of Higher Education and the Health and Hospitals corporation particularly resisted the imposition of new City-wide priorities. Had the changes occurred over a longer period of time and in a more stable fiscal and financial environment, there still would have been opposition. But the demand for sudden change of long standing policies in a contracting public pie meant full resistance.

In this chapter we will review the conflict over

policy changes between the three major autonomous agencies -- the City University, the Board of Education and the Health and Hospitals Corporation -- and the crisis regime. More specifically, three issues will illustrate the relationship between these 'covered organizations' and the 'crisis regime'. The first is the struggle over the finances of the City University. The second the passage of the Stavisky-Goodman Bill by the State Legislature which was designed to shield the public school system from any further budget cuts. The third deals with the attempt to gain control over the massive Health and Hospitals Corporation, leading eventually to the ouster of its chief executive officer. The incorporation of the lesser agencies through individual financial plans is also briefly dealt with.

As in the cases of labor policy and the master Financial Plan, a marked centralization in policy making is evident. Both the EFCB and the Mayor exert influence over these 'covered agencies' in a way they were never dealt with before. But unlike the case of the unions, the leadership of these autonomous agencies had little direct access to decision making and no independent capital pools, as the unions had, to 'buy into' the crisis regime. Instead, they turned to other political resources and

arenas including the State Legislature, the mobilization of clientele groups, resistance and resignation.

THE CITY UNIVERSITY

The case of the City University is revealing in a number of ways. Two are perhaps most important. First, as a case of the broader policy toward the 'covered agencies' and their resistance toward budget cuts. Second, as illustrative of the dynamic relationship between City Hall and the EFCB.

In 1961, the municipal colleges in New York City were reorganized into a university system. Separate schools in business administration and criminal justice were created, affiliation with a medical school was established, an integrated graduate school was instituted, and approval for a planned but never built law school was secured. In addition, several new two-year colleges were created and separate senior colleges for the Bronx and eastern Queens were established. As elsewhere in the country, public higher education was a boom industry in the 1960s for New York. And, as elsewhere, the role of the university in alleviating social inequity was highlighted. Under State sponsorship the University established the SEEK program in the mid-1960s providing study

grants to undergraduates in need. In the early 1970s, CUNY launched its 'open admissions' program, usually misunderstood outside New York, to redress what inequity the City's own public school system may have introduced. The expansion of the University's physical plant, as well as attempts to reduce financial and educational impediments toward admission, were reflected in the growth of the student body. Total enrollment had jumped from 93,000 in 1960 to 271,000 in 1975. The growth in the University's budget was even more dramatic: from $45 million in FY 1961 to $612 million in FY 1975. While State aid had greatly increased, much funding for the University was from the City.

The independent agencies of New York City had a convenient financial relationship with the City. Although they were obliged to plan their finances within the City's budget, they were not mandated to live within the budgets. In the event of unexpected obligations by them or a sudden revenue shortfall on the part of the City, the City still was responsible for all debts incurred by its agencies. Up to the financial crisis the policy of the Comptroller's office had been to issue checks for these agencies as requested by them, even if they were overspending previous projections. With an expanding

revenue base this was not much of a problem. Under circumstances of contraction, though, it would be an obvious point of conflict.

As the 1975-76 academic year opened, there was already uncertainty. In July, under pressure from the MAC, the City cut the University's allocation by 32 million dollars. Not only was this a significant reduction, but it also was a mechanism toward the imposition of tuition on the undergraduate student body. $32 million was the approximate amount of revenue that estimates indicated would be raised if tuition and fees equal to those levied at the State University were established. The municipal colleges of New York had been free since first established. An additional source of uncertainty was the new Financial Emergency Act passed only a few days before classes began. The Emergency Act put the University, along with all other bodies receiving City funding under the jurisdiction of the EFCB.

Among the first actions of the Control Board in the early fall of 1975 was to exert authority over the independent or, as the Emergency Act defined them, 'covered agencies'. At the October 7th meeting, the Board members directed all covered organizations to "discontinue all . . . capital construction projects as may be

financially and legally feasible."[4] It also ordered these agencies to defer any salary increases which were suspended by the wage freeze section of the Act. The capital construction ban was particularly hard on the City University. The expansion of its physical plant had not kept up with the enlarged student enrollment. Many of the campuses, particularly the Manhattan ones, were overcrowded with college administrations turning toward rental as a temporary option. CUNY had a number of important projects under way at City College, Hunter College, Kingsborough and Borough of Manhattan Community Colleges, as well as other sites.

With the jurisdiction of the EFCB over the 'covered agencies' established, the relationship between the Control Board, the Mayor and these agencies needed to be defined. At the October 18th meeting, Melvin Lechner, the City's Director of the Budget:

> expressed concern that once an agency or covered organization has been able to present its case directly to the Board, the City will no longer be able to effectively deal with such an agency.[5]

At the next day's meeting -- in the first two months existence, the EFCB met several times a week -- Governor Carey said "that the Board had not received the cooperation it would have liked from the covered organizations".

The concern was more with the Health and Hospitals Corporation than the University, but, in terms of jurisdiction, they were all treated the same. A few days later, the Board members agreed that they would inform each of the covered agencies that:

> . . . the Board ha(d) designated the City to deal with the covered organizations and that they must supply all required financial information with the appropriate City officials.[6]

Collecting information was only the first way the EFCB used the City as its agent.

In mid-November, Deputy Mayor John Zuccotti, working on the financial plans of the covered agencies, informed the Control Board that the City could not say that it had a workable plan of reductions for two of these organizations: the City University and the Health and Hospitals Corporation.[7] The City was taking the position that it would deny the University and the HHC cash if the reductions were not achieved. But the City would need the backing of the EFCB to carry out the threat if the situation went that far. The limited powers of City Hall over these agencies was often referred to. At the December 8th meeting of the Control Board, Deputy Mayor Kenneth Axelson said that these agencies were "structured to resist City control":

> Mr. (David) Margolis noted that although the Board had the power to say "no" to these agencies when the money ran out, it was not in a position to develop a politically sensitive plan. Mr. (William) Ellinghaus said that if the Board was going to be able to do its job properly, the City should deal with the covered agencies, and if they were unhappy with the results, they then can inform the Board. Mr. Axelson agreed that that was a very important principle.[8]

There was a consensus among EFCB members that the resolution of the fiscal problems of these covered agencies involved some modification in their structure and accountability to City Hall. And there was agreement that City Hall would be agent of the EFCB in its dealings with the independent agencies.

The Board of Higher Education was in a tight position. The BHE, the governing body for the university, resisted cuts for a number of reasons. Given the reliance on annual enrollment, the University necessarily planned on an annual basis. Thus, CUNY was not as susceptible to quick expenditure reductions as other agencies might be. The commitments made by the university to its students and faculty, in terms of course offerings, financial aid, tenured positions and single year contracts locked it into a longer term budget cycle than other services. Nevertheless, this was only part, and a small part of the problem. The $32 million reduction in support from the City

that the University had to absorb was in fact much greater. State aid was contingent, at that time, on a matching basis. A $32 million loss from the City meant an additional loss of $32 million from the State. Thus, in fact, CUNY would be required to absorb reductions of at least $64 million, quickly, if the edict from City Hall was to be carried out.[9]

Only one other option was really available. The BHE could find $32 million from somewhere else and apply it to State matching fund requirements. The most obvious source was imposing tuition on the undergraduate student body. But the position of the University's Board of Trustees, as expressed by Alfred Giardino, Chairman of the Board of Higher Education, was that free tuition was a tradition in New York City forcefully maintained for over a century and a quarter through several 'panics, recessions and depressions.' Any change, Giardino argued, was an important policy decision and thus should be made by those accountable to the general electorate. With the BHE spending at its previous expenditure levels, and City Hall threatening to cut off cash, a conflict of some intensity was clearly developing between the governors of the University on the one hand and the EFCB and City Hall on the other.

The harder line Governor Carey and the EFCB took toward enforcing the City's Financial Plan (Chapter 3) was reflected in policy toward the covered agencies. The City University was one of the major targets. In late January, Carey said that the EFCB "would mount an aggressive campaign to get the City University and other semi-independent agencies to stop balking at the City's austerity measures."[10] At the January 30th, 1976 meeting of the Control Board, Deputy Mayor Zuccotti again indicated that the Mayor did not have the necessary legal authority to deal with the covered organizations. He asked for a clarification of the Control Board's powers. Carey directed "Counsel to the Governor and M.A.C. counsel," Paul, Weiss, Rikind, Wharton and Garrison, to prepare a legal analysis on the extent of the Board's powers. Carey indicated that if the Control Board did not have adequate powers to enforce the financial plan on these agencies, he would seek amendments to the Emergency Act.[11]

Two weeks later, the lawyers reported back. The Control Board did indeed have the power to enforce aggregate spending limits on the covered organizations within the context of the City's financial plan. Its powers on effecting how cuts were to be made were, however, severely limited. The specific statutory bans against

intervening in the City's policy making contained in the Financial Emergency Act were the important impediments. But the Control Board had other options. Proposals could be measured against their long range impact on the financial plan, not just the short term effect. The Board could make its monitoring functions 'more meaningful' by: 1) insisting on a more detailed financial plan or planning on shorter time periods and holding the City and its various agencies to it; 2) exploit its statutory function of review and publically report on the efficiency, productivity and management of specific agencies relying on public pressure for enforcement. Or "the Board may enforce compliance with the financial plan by refusing to release funds for unauthorized purposes or in excess of budgeted amounts."

A specific program suggested by CUNY to deal with its problem was a subject of the memo. The Board of Higher Education had considered a four week furlough for its staff without pay toward cutting its deficit. Could the EFCB reject such a proposal in favor of another? "The Financial Emergency Act leaves the initiative for determining policy and programs under the financial plan with the City and the covered organizations," wrote counsel. But again there were other avenues:

> Because CUNY's four week furlough proposal has an impact only on fiscal 1976 and does not have any cost reduction effect that will continue into subsequent fiscal years, the proposal could be disapproved by the Board for failing to achieve substantial progress toward the goal of a fully balanced budget for fiscal 1978 . . .[13]

The point is that while the Control Board could not initiate nor direct specific policy choices by the covered organizations, it could, as in the case of labor policy, use its power of interpreting the Emergency Act and its own regulations to reject various individual proposals justifying such action in the context of its broader purposes.

The members of the Board of Higher Education were trying to come up with some plan among themselves. They faced two problems. The immediate cash problem of FY 1976; and the longer term financing of the University system, suddenly and completely uncertain. The first problem was becoming critical. With their allotted revenues for the year being consumed and without a plan to reduce their deficit the Control Board took stronger action. Donald Kummerfeld, Director of the City budget office and later to be Deputy Mayor and then Executive Director of the EFCB, noted at the March 26th meeting of the Control Board that it was not part of the City's proposal to

discriminate among payment claims received from the various covered agencies.[14] He recommended that the EFCB approve the imposition of a monthly cash allotment on CUNY but authorize payment of the March 31 payroll as a specific exception. Comptroller Goldin indicated, according to the EFCB minutes, that he had no discretion in choosing among competing claims by the covered organizations as long as there was still City cash on hand. If CUNY was overrunning its planned expenditures he would need Control Board approval to refuse payment.

The Control Board's decision to grant the City power over CUNY's monthly cash flow severely undermined the University's position. From this point on it was problematic whether CUNY would be able to successfully complete the semester. The Control Board had authorized payment of the March payroll but those of April, May and June remained. A two week furlough for University staff with accompanying compensation deferred until after the emergency period was one way CUNY did reduce its need by several million dollars. By the end of May, however, it was clear that if the City and the EFCB maintained their positions there would be inadequate funds available for June. In the last week of May, the University's Chancellor, Robert Kibee, ordered CUNY shut down until new

funding was assured.[15]

The longer term financing of the University was in a similar state of irresolution. The City clearly intended to decrease its contribution in the future.[16] In fact, City Hall had made total State financing of CUNY an assumption of its initial financial plan submission.[17] Whether a bargaining point or a serious intent, the University's future had become subject to political negotiations between City and State. In this context, the Board of Higher Education apparently had four options: 1) impose tuition; 2) cut back enrollment through changes in its admissions policies; 3) increased State aid; 4) close down or merge some of the twenty or so CUNY institutions. They were not mutually exclusive. An initial plan by Chancellor Kibee envisioned drastic course cutbacks and different admissions policies. But this plan still left the University short over $50 million. A second plan approved by the BHE called for the closing and merging of several of the newer CUNY colleges established in the 1960s.[18] The tuition issue remained the cutting one, however. Both City Hall, through Deputy Mayor Zuccotti, and the EFCB, through staff director Berger, indicated that the BHE would have to change the University's hundred and twenty-nine year tradition of

tuition free undergraduate education.[19]

Both the immediate and long term financing problems of CUNY came to a head in late May and June of 1976. With the University closed and pressure building for tuition the State Legislature took up the CUNY issue. It was clear as early as the previous summer that any new aid to the City University from the State would have to be accompanied by a change in policy. The State Board of Regents had recommended fees at a parity with the State University. The political realities demanded no less. Assemblymen and Senators from outside the City were not likely to vote for increased aid while their own people paid fees at SUNY. But the BHE refused. The issue had taken on both class and racial overtones. On May 25, 1976, four of the University's trustees, including Chairman Giardino, resigned over the issue. With the quick appointment of new members, the Board of Higher Education voted in favor of imposing tuition. Within a week, the State Legislature appropriated monies to reopen the University and increased State financing for CUNY. A commission was created to recommend changes in the University's governance and finances with particular attention paid to its relation to the State and the State University system.[20]

THE STAVISKY-GOODMAN BILL

Without any financial reserves of its own and with only a limited political base, the options available to the BHE members gradually shrank until the only political action left was resignation; always an attention getting device, but rarely effective. The Board of Education, in cooperation with the teachers' union, did have other options, however. Together, they attempted to outflank the Mayor, EFCB and MAC by going directly to the State Legislature to protect its interests.

Like every City agency -- Mayoral or autonomous -- the Board of Education had suffered severe cuts as a result of the crisis. Through the summer of 1975, threats of layoffs and real layoffs were thrown back and forth. The Board of Education was forced to end most extra-curricular activities, cut back on preparation periods and sabbaticals for teachers, cut back on guidance and counselling services and greatly reduce the number of special programs for students. After twenty years of expanding support for urban education, this was traumatic. Despite layoffs and attrition, the City's several teachers' colleges continued to graduate some of the most qualified teaching apprentices in the country. More important, many parents had come to agree that the crisis had reached

a point where their children's future was being put in jeopardy. School financing cut both ways for the City's increasingly important middle class. While they generally supported many of the policies which resulted from the fiscal crisis, school issues were qualitatively different. Few things are as important in drawing the City's middle class to the suburbs as the perceived quality of education. They might support cutbacks in welfare, day care and jobs programs or the closing of some municipal hospitals. These were all identified with the poor and minorities. They might even accept higher subway and bus fares or tuition at the City University given the alternative costs of midtown parking and private colleges. But the quality of primary and secondary education is an absolute priority.

This general prejudice served as the background to a broad based attempt to protect the school system from further cuts. Again, the critical time period came in early 1976 when the City was having difficulty living up to its financial plan. The federal government, through the Secretary of the Treasury, Carey and the EFCB, were about to press the City toward further cuts. Inevitably, the Board of Education would again suffer. In January, 1976, the Stavisky-Goodman bill was introduced into the State Assembly as one mechanism to protect the schools

from a new round of reductions. Assemblyman Leonard Stavisky was a Democrat representing a middle class district in Queens. Roy Goodman was the Republican State Senator from Manhattan's East Side, a liberal, chairman of a special State study commission on the City and the 1977 candidate for Mayor on his party's line.

The Stavisky-Goodman bill[21] was an obvious piece of special legislation. It applied to "a city which had, according to the federal census of nineteen hundred forty, a population of one million or more".[22] Needless to say, no other city in New York State met that criterion but New York City. The critical section of the legislation required the City to appropriate for its schools no less than the average percentage of the City's total expense budget provided for schools in the preceeding three fiscal years.[23] This had the effect of putting a floor under the FY 1976 schools budget equal to the average percentage of the City's total expenditures for FYs 1973, 74 and 75. And, as long as the legislation remained in effect, it would, by mathematical fluke,[24] effect a slightly higher floor for 1977 and thereafter. In short, the bill's authors intended a permanent 'save-harmless' floor imposed by the State ensuring the schools would get a constant share of New York City's resources.

It met what Stavisky and Goodman saw as a critical need arising from the financial crisis. Schools, they argued, had received a disproportionate share of the cuts. As educational services were already cut back severely, any new reductions might permanently damage the educational structure in New York. There is some evidence that in fact schools were subject to larger cut backs than other services. But this was less a singling out of education as having more 'fat' than other agencies than what appears to have been an unintentional effect. Services heavily dependent on the City's own raised revenues -- police, fire, sanitation, primary and secondary education -- had less of a cushion than other services supported mostly by State and federal grants, such as welfare.[25] While the Stavisky-Goodman bill would have redressed this problem for schools, it would also have exacerbated problems for other agencies in the same situation as education. For them, it was a zero-sum conflict.

Sides drew up early. The Board of Education and the Teacher's union were the primary advocates. Some parents groups and educational associations also supported it. City Hall, Carey and the EFCB opposed it. Those in favor argued that this unusual intervention by the State

Legislature was justified on the grounds that assuring the quality of education was a State responsibility. Implicit in the State's right to accredit and regulate public and private education was also the responsibility to demand adequate funding be made available. Besides, after the creation of the MAC, the EFCB and the Special Deputy Comptroller arguments against State intervention based on the notion of home rule could not be very persuasive. While schools were singled out by the Stavisky-Goodman bill for 'protection,' proposals for other agencies, police for example, were also introduced in Albany. Schools should take priority, though, according to the bill's supporters, because the education and future of the City's children should not be sacrificed to the immediate needs of the financial plan. Surprisingly, an early editorial in the New York Times[26] supported the bill minimizing the political precedent it set against the EFCB, despite the Times' general support of the policies of the 'crisis regime':

> . . . it (the Stavisky-Goodman Bill-RWB) does not diminish the power of the Emergency Financial Control Board to determine the ceiling on overall expenditures. It would merely prevent the City from saddling the schools with additional cuts out of proportion to the austerity imposed on other services. . . . The measure's immediate effect would be to prevent another round of staff cuts this

> week. Such cuts would necessitate the fourth reorganization of public school classes since the beginning of the academic year, with yet another round of chaotic disruptions in the children's education.[27]

In later editorials, the Times opposed the Stavisky bill. Given the technical and administrative problems of the proposal, as well as its vagueness, others held that the bill was really just a bargaining chip designed to strengthen the position of the Board of Education in its negotiations with City Hall. As for the legislative politics involved, a Daily News editorial pointed out the attraction to City as well as Upstate legislators:

> Large numbers of lawmakers see the proposal as a can't lose proposition. It will enable them to curry favor with a large and politically potent union while also posing as noble defenders of 'quality education'.[28]

Unlike the Times, the News opposed what it called a "frivolous and completely irresponsible" measure from the start.

Opposing the bill besides the News was Carey, Beame and the EFCB. Carey indicated that if passed he would veto it. Beame called it irresponsible. Both argued that if the legislature forced the City to increase funding for the schools, the result would be cuts in other

services. At the January 30th meeting of the EFCB, Beame was more direct in his concern for the Stavisky bill. He had testified in Albany against it. Beame indicated that other agencies such as police and fire were preparing similar proposals. With the EFCB in charge of the City's finances in the aggregate, and the State Legislature intervening on behalf of individual services, City control over its own budget would erode further. The Control Board members unanimously passed a resolution against the bill "and any other legislation which would threaten the ability of New York City and the EFCB to achieve the objectives of the (Financial Emergency) Act."[29]

The legislation had already passed the Democratic controlled Assembly on January 21st. The vote was 128-10, testifying to how difficult it is for a Democrat to vote against both the UFT and good schools. Not wanting to be what an aide to the Majority Leader called "fall guys" the Republican controlled Senate passed the bill.[30] As promised, Carey vetoed it, but the same coalition pushed even harder for an override. There had not been an override of an executive veto in New York State in 104 years. On March 31st, the Assembly achieved the necessary two-thirds vote. Several days later, Senate Republicans narrowly missed an override when they were polled. But

on April 13th, the Senate took another vote. Not only had a chief executive's veto been overriden for the first time in a century, but a precedent had been set allowing the State Legislature to intervene in a single City's priorities setting process.

The response by the City and the EFCB was not enthusiastic. Albert Shanker, president of the City's teachers union, charged that City was violating State law by not immediately appropriating the funds: "Instead of restoring $125-$150 million in school services as mandated by the law, the City proposes even further reductions."[31] The parties involved were quickly in court. The City sued on one track on constitutional grounds against the intervention by the State. The Board of Education sued the City on another track for the monies mandated by the Stavisky bill which the City refused to appropriate.[32] After considerable delay -- one of the court's primary functions in the financial crisis -- the issues were resolved against the City. But by then, 1977, pressure on the City's budget was not as severe as in the Spring of 1976. The City's budget officials and representatives of 110 Livingston Street negotiated a political solution which transferred some of the funds to the schools' system.

While other attempts to protect different agencies failed and while in the end the clear choices presented by the Stavisky-Goodman bill later became muddied in legal challenges and political negotiations, we should not dismiss its importance. The Stavisky Act is illustrative of one tact the covered organization's could take to "protect their base," as Wildavsky[33] might say. Not having direct access to the negotiations effecting them at the EFCB and between the EFCB, City Hall and other actors in the 'crisis regime,' they had to find some other means to press their interests. For the Board of Education and the UFT, this meant going to the State Legislature. If Albany could create the EFCB, MAC and the OSDC, then surely they could also insulate the schools from some of the fiscal fall-out of the crisis. The Board of Education had a broad political base plus the lobbying muscle of the Teachers' union. And the issue was right. As the editorial writers of the News had said, wouldn't all want want to be seen as defenders of quality education?

Why did the Board of Education succeed in Albany while CUNY failed? Two reasons. First, Stavisky-Goodman cost upstaters nothing. It merely took funds from other City agencies. Second, the UFT was larger, better organized and more political than the union of staff professionals

at CUNY.

Beyond this, though, the passage of the Stavisky bill indicates a theme to be pressed later. Despite Carey's veto, despite an EFCB resolution, and despite City Hall pressure against it, the legislation passed. Twice. Not only was it a personal defeat for Carey, but it also revealed that the EFCB did not operate in a political vacuum. Nor was it omnipotent over municipal affairs in New York City. It too was subject to limits and not just the financial limits presented by the federal government and the unions by the need to get financing from both. In a contracting pie, other avenues of influence could be used and alliances with other groups established to protect joint interest.

THE STRUGGLE FOR CONTROL OF THE HEALTH AND HOSPITALS CORPORATION

New York's Health and Hospitals Corporation -- "The Corporation" as it is known among New York's bureaucrats -- is a billion dollar a year enterprise consisting of 17 major health care facilities providing over three million days of inpatient care, 1.5 million emergency room visits and four and a half million ambulatory care visits.[34] By far it is the largest public hospitals system in the United States except for the federal military and veterans

systems. The Hospitals Corporation was particularly vulnerable to the politics of the financial crisis for a number of reasons. Many outside New York and many in it pointed the New York's municipal hospitals' system as a sign of its extravagance, of an excessively enthusiastic attitude toward the liberal notion that health care was not a privilege but a right. The HHC was the administrative umbrella for the City's hospitals of last resort, where the poor, excluded from the proprietary hospitals which serve the City's most affluent and often given only a low priority by the voluntary units, must turn. In the most densely populated portions of New York, often also the poorest, black and hispanic, the HHC facilities had become the replacements for the family practitioners and GPs who had fled with the rest of the middle class to the suburbs.

Beside its class and racial identification, the Corporation suffered from other factors which made it vulnerable. Only established in 1970 as a public benefit corporation, the HHC was still institutionally unstable. It was created to alleviate many of the administrative problems of the previous highly centralized Department of Hospitals. One 1973 State study of the HHC indicated that between 1965 and 1968, not less than six major reports or studies on the City's hospitals had been

conducted leading up to the creation of the new non-mayoral organization of New York's public hospitals. Waste and inefficiency were the charges. Centralized financial control had created too many roadblocks to speedy change. The solution was the Health and Hospitals Corporation. The enabling legislation prescribed the HHC as a planning and administering board to oversee a more decentralized organization of the City's hospitals.[35] In addition, it would aid in the administration of the new Medicaid and Medicare programs established by the federal government in cooperation with New York State. The political ramification, however, was similar to that of other independent agencies. Changing the state of the hospitals from a 'mayoral' to a 'non-mayoral' agency provided limitations to the mayor's influence over policy and isolated the HHC from bureaucratic accountability[35A] to central political authorities. Professional justifications were provided, as was support from the unions involved. We should not be too naive about this, though. While there may be a managerial problem for central decision-makers arising from political isolation, there is a political advantage for the Mayor. As then Representative Herman Badillio, a former member of the HHC's Board of Directors, told one interviewer:

> First, you have to understand that the idea behind setting up the Hospitals Corporation was to get (former Mayor John) Lindsay off the hook on health care. Now Lindsay can say it is not his responsibility, because there is a corporation, so the effect of the corporation and the intent was to place another layer of bureaucracy between City Hall and the poor.[36]

The same can be said of other mayors and other public benefit corporations. When the financial crisis hit in 1975, the HHC was only five years old. It was still undergoing organizational growing pains. The corporation's first president resigned the day before the HHC Board was to take a vote of confidence in him. A State Study Commission had charged mismanagement and waste in 1973 and by 1975 the most often used word to describe the way New York's hospitals were run was 'disaster'.

The same charges used to justify its creation were now leveled against the HHC: waste, inefficiency, unaccountability. With the flood of money brought into public health care through medicaid and medicare, the hospitals budget had exploded. But neither the poor, nor the middle class paying for it all (or so they thought), could shake the notion that doctor's salaries were rising faster than the quality of health care. Thus, when the financial crisis and its attendant cut backs came, these three factors -- identification with the poor, institutional

instability, and the wide perception of waste -- singled out the Health and Hospitals Corporation for special attention; with special resistance.

Many issues concerning the administration of the hospitals came for the fore during the financial emergency period (including the closing of some facilities). But the most dramatic was the public fight for control of the HHC. No single case better illustrates our central point in this chapter: the fact of budget cuts is less significant and would have been impossible without attendant changes in the political arrangement of New York City's public sector. Less resources meant a change in the institutional arrangement of New York's government. The sudden imposition of a new set of priorities and a more forceful role by the central authorities of the City's government meant that the City would be operated on criteria different from the past.

Like all agencies in the City, the Hospitals Corporation had gone through several rounds of budget cuts. An attrition program had begun as early as January of 1975; before the banks had pulled out of New York's financing. By the end of 1976, nearly 8,000 employees had been separated from the payroll. This included 3,400 employees laid off in December of 1975. In March of 1976, the

Hospitals Corporation submitted its initial financial plan to the City which was then incorporated into the Mayor's Executive Budget for FY 1977. The Plan called for the closing of four medical facilities and a resulting additional lay off of 3,200 employees. Like other agency plans in the Spring of 1976, the HHC plan indicated a new round of budget cuts in response to a strict interpretation of the City's Financial Plan by Carey and the EFCB.[37]

The union, however, was vocal in its opposition. Most non-medical personnel of the Corporation were members of District Council 37, A.F.S.C.M.E.. D.C.37 had the highest percentage of minority members of any of the City's major employees' unions. In response to a potential strike Beame requested Basil Patterson, a labor lawyer active in Democratic politics, and also black, to head a non-binding mediation panel to resolve the conflict between the City and the union. Patterson's group reported back in June with a conciliatory proposal. They recommended postponing the closing of at least one major health care facility and cutting back on a planned lay off of 1500 employees to only 800. A planned second wave of firings -- 1,700 -- was to be delayed thirty days while a new panel would study ways the Hospitals

Corporation could find new revenues to replace planned cut backs. This second group reported back a month later. But its recommendations were less attractive to the union. 1,400 of the planned 1,700 lay-offs should be accomplished the panel said. An enhanced revenues program tied to an attritions policy might delay the need for the remaining 300 firings. On August 4th, the union struck the municipal hospitals system. The strike lasted four days and ended in an agreement largely to the union's favor. 900 of the 1,400 terminated employees would be rehired, part of the cost being handled by the union foregoing its 1976 COLA payment. In addition, yet another committee was empanelled to review ways the Hospitals' Corporation could adapt to the fiscal situation without recourse to layoff.[38]

Meanwhile, service reductions and other financial problems were reeking havoc on the Corporation's management. In the first four months of 1976, four senior officials had resigned. Although offering different justifications, each more or less pointed to the sudden instability of the HHC. One, Charles Windsor, Senior Vice-President for Operations, blamed his resignation on what he termed the "destructive force of financial mandates from non-elected officials."[39] Another Vice-President,

Joseph Giglio, credited by many, according to the Times, as having improved the financial structure of the Hospitals' Corporation, praised in his resignation statement Dr. John Holloman, the increasingly controversial president of the HHC.[40] The low morale among senior officials of the Corporation was reflected also in the Board of Directors. Disagreement among Board members often became public as the role of the hospitals became politicized during the crisis. As for Holloman, he intended to keep his position as president of the HHC. A medical doctor and activist in civil rights activities -- Holloman was with Dr. Martin Luther King during the Selma marches -- he viewed the Hospitals' Corporation as an important facility for the poor of New York. A plaque on his desk carried the motto: "Health care is a right." In Holloman was combined the professional concern for quality services, even if at high cost, and an identification through his own personal history with the minority community in New York and its experience with racism. Holloman held the most important post any black had ever held in public health in New York's history and likely America's. He was not a man in sympathy with the types of policies the financial crisis brought.

Although the EFCB and the Mayor had been having problems with the Hospitals Corporation all year long, it was in August of 1976 that the showdown which inevitably led to Dr. Holloman's forced resignation began. The problem revolved around the ability of the Hospitals' Corporation to make cuts in its budget or demonstrate sufficient revenues to the satisfaction of the Mayor and the EFCB. The original plan of the Corporation was, as every other agency's, difficult to live up to. It was not just resistance by the union to any further layoffs that was the problem. The State of New York had changed its medicaid reimbursement rates to the City's disadvantaged. In addition, revenue projections were apparently optimistic. An audit by the Special Deputy Comptroller's office found many to be problematic. It also said that many savings originally planned were not being carried out.[41] In response to these factors, and the result of the strike the financial officers of the Hospitals' Corporation submitted a revised financial plan to the Mayor for FY 1977, which substituted $26 million in enhanced revenues for planned cuts. The Mayor never submitted the new plan to the EFCB. Rather, he ordered a new revision with cuts made if necessary. The Corporation failed to meet Beame's deadline, however, as it had missed

two EFCB deadlines; September 1st and 15th. As the Control Board had decided that it wanted the entire City's FY 1977 budget decided by October 15th, a showdown was clearly developing.

The financial position of the Health and Hospitals Corporation was the center of a lengthy discussion at the October 15th, 1976 meeting of the EFCB. The financial plan for the HHC was only submitted to the City the night before, but even without a final document it was apparent there were problems. The plan resolved the projected debt of the Corporation with mostly revenue enhancing devices including more active bill collection efforts aimed against Blue Cross, private insurance companies and the Medicaid and Medicare agencies. On behalf of the City, Deputy Mayor John Burton recommended that the HHC, like the City University before, be put on a monthly cash allotment to control its overruns. But such a step did not appear attractive to the Control Board members. David Margolis questioned whether the step was adequate in the face of the problem. Rohatyn went further. The EFCB minutes summarized his comments in this way:[42]

> Mr. Rohatyn stated that the management of the Health and Hospitals Corporation was generally recognized as inept, and therefore it would be insufficient to put HHC on a monthly allocation based on uncertain

> numbers. He observed that the problem of dealing with the HHC was of special concern because of the important and difficult social function of the hospitals system. Since this Board (EFCB) cannot tell the Corporation who should run it and how it should be run, the City must do so.

The minutes further note that a consensus had developed among the Control Board members that there could be "no resolution of the financial problems of the HHC without resolution of its management problems":

> The HHC board of directors should be put on notice immediately of the need to reorganize its management to adequately deal with the fiscal crisis.

To make the point more direct Carey restated the consensus of the Control Board:

> When the financial plan submission of the HHC comes before the Board for consideration, it should include a plan for restructuring the management of HHC.

In the next morning's Times, City Hall bureau chief Steve Weissman quoted one of the private members of the Control Board with a more direct statement of the problem as they saw it:

> A consensus was reached that Holloman is a disaster, that there is no way costs can remotely be controlled if he and others continue to run the corporation, and that it's an invitation to chaos if the board (EFCB) just keeps continuing to provide guidelines without the remotest chance of their being implemented.[43]

Telegraphed through the morning paper was the simple message: John Holloman had to go.

But Holloman had no intention of leaving office. He viewed his role as one protecting the Hospitals system from excessive and poorly planned cuts and the poor from policy changes it had taken nearly twenty years to accomplish.

> Neither the Health and Hospitals Corporation nor the people of the City of New York will permit Stephen Berger (EFCB's Executive Director) to destroy the municipal hospitals system, which is something he has been trying to do for a long time without success.[44]

Two days later it was revealed that the HHC was planning to sue the State of New York over changes in Medicaid reimbursement rates. Holloman had decided to fight.

Still without an approved plan submitted by the City for the HHC, the EFCB cancelled a meeting scheduled for the last week in October called to deal with the Corporation's finances. The Special Deputy Comptroller had meanwhile shown that the deficits of the HHC were higher than expected. The corporation had run a deficit of over $45 million in FY 1976 with, in early October, a projected debt, if unchanged, for FY 1977 of $96 million. Meanwhile, rumors around City Hall indicated that Beame was looking for a qualified black to take Holloman's place and also,

obviously, to take the bite off the racial overtones of the Mayor's and the EFCB's policy toward the Hospitals Corporation's management. At least two qualified out-of-towners who were reportedly offered the job rejected it, feeling the position was not worth the bother given circumstances.

In the first week of November, Beame moved forcefully. He summoned the members of the HHC's Board of Directors, most of whom he appointed, to a meeting at Gracie Mansion. He requested the Board create a special committee and direct it "toward the timely preparation of a revised budget and financial plan" for the municipal hospitals' system through the remainder of the financial emergency period. The Board of Directors agreed.[45] The next day, the import of Beame's intention was made clearer. What one mayoral aide had called a bloodless coup had occurred. Among those appointed to the new planning committee for the HHC were two of Beame's Deputy Mayors: John Burton and Donald Kummerfeld. They were to work closely with the staff of the EFCB and OSDC toward an acceptable financial plan. More important, though, it was also announced that the committee would not use Hospitals Corporation budget aides for research and staff work, but would instead hire outside consulting firms,

effecting a complete bypass of the HHC management. Not only did this have the effect of taking the budgetary future out of the hands of the Corporation's leadership, but it also isolated Holloman from the flow of decision making. This allowed Beame, with the EFCB's quiet backing, to still push for Holloman's resignation while also accomplishing the retrenchment policy Holloman resisted. A few days later, the EFCB formally approved Beame's action and extended the deadline for a formal submission of the HHC's financial plan.

The special committee worked toward a plan for the Hospitals' system that both alleviated the corporation's projected deficits, now estimated at over $150 million through to the end of fiscal year 1978, without recourse, if possible, to further layoffs. In early January 1977, the special committee reported to the HHC Board and Beame with a draft financial plan for HHC with combination of policies aimed at reducing the deficit. Among these were some service cutbacks at individual hospitals; possible closing of some hospitals, but only on a contingency basis and greater billing efficiency. There would not, however, be a need for further wholesale layoffs. Continued attrition would provide sufficient personnel costs savings. On January 12th, the Corporation's Board

of Directors approved the plan. But the "problem of the Corporation's management" remained.[46]

Holloman, in the meantime, had been attempting to gain support on behalf of his policies. He directed his attention toward establishing a solid alliance among black and Puerto Rican political leaders. Of particular interest was Manhattan Borough President Percy Sutton. Sutton, an old friend of Holloman, was the highest ranking elected black in New York City's government, having a seat on the Board of Estimate. He also was a strong force in the City's minority community, and was planning a run for Mayor in 1977. A number of religious and community leaders supported Holloman, arguing that pressure against him and the policies in general of the financial crisis were racist in effect if not intent.[47] Sutton came out in support of Holloman, but stressed that it was his policies that were important. The Times reported that a delay in the borough president's announcement was interpreted in City Hall as less than unequivocal support and resulted in the final push for Holloman's ouster.[48] Beame intended to ask the HHC Board for a vote of no confidence. The Board meeting was called for on January 26th. Beforehand the new chairman of the HHC, Dr. Pascal Imperato stated that the 'management' problem still needed

to be resolved before the Corporation could submit its financial plan to the EFCB. He was assured, again according to the Times, that there were enough votes for a resolution of no confidence to pass. Imperato had also suggested that the HHC itself should be dissolved and reorganized as a mayoral agency.[49]

The HHC Board's meeting on January 26th was held in executive session. They had voted to exclude press and public. When it ended, Holloman had lost and he had submitted his resignation. The vote was nine to seven. Of the five blacks on the Hospitals' Board, four had voted with him. One, Dr. Frank Folk of Brooklyn, had not. As Folk left the meeting, he was assaulted by demonstrators outside the HHC's offices who supported Holloman's position. Holloman had stated that his dismissal was a capitulation to "financial interest and to the labor unions." Beame's letter to the HHC's Board of Directors asking for the vote was afterwards quoted as stating that Holloman's removal was necessary as he had lost the confidence of "outside jurisdictions," an apparent reference to Emergency Financial Control Board.[50]

As for the Corporation's financial plan, the EFCB and OSDC staff were reviewing it informally from the middle of January on. Questions had arisen over $27 million

(out of an approximately $1 billion budget this would seem negligible), and recent State decisions on medicaid rates to the loss of the City. On February 25, the EFCB formally rejected yet again the Corporation's plan, but with a more conciliatory tone.[51] It posed specific questions and requested a revision by March 15. The City, however, was not willing to absorb the $27 million deficit if in fact it materialized. While debate between the City and the HHC continued throughout the rest of the year, the amounts fought over were substantially less than before. In the previous fall it appeared that HHC would run a deficit of nearly $100 million. By the Spring of 1977, they were fighting over less than $50 million.

Moreover, control had passed from the Corporation's previous leadership to Beame and the EFCB. Wherever there was conflict it would likely be resolved to the favor of City Hall. To ensure this, Beame secured the appointment of two aides to the top managerial positions of the Hospitals Corporation. Joseph Lynaugh, a critic of the HHC, was made president and Donald Kummerfeld, who worked on Beame's special committee on the HHC's financial plan, took charge of all policy making for the City's municipal hospitals.

THE FINANCIAL PLANS OF THE COVERED ORGANIZATIONS

The Financial Emergency Act included the covered organizations in the Financial Plan of the City as a whole. But they were not the focus of immediate attention. The City as a whole was. After the acceptance of the initial Plan for the City in October 1975, the City and the EFCB turned their attention to the individual plans for the covered agencies. This was both a requirement imposed by the Emergency Act and a political necessity given the fact that the major weakness in the City's total Financial Plan was not the mayoral agencies which, with the cooperation of the mayor, were under control. Rather, the weakness in the City's fiscal position was with the independent agencies. Those most dependent on subsidies from the City's general fund were most resistant. As these agencies were to be incorporated into the Financial Plan of the City itself, they presented three basic problems over the long term: 1) to control expenditure growth so City subsidy could also be controlled; 2) ensuring adequate cash was on hand as their debts matured; 3) incorporating them into evolving reforms in the City's management structure.

Upon acceptance of the City's Financial Plan in October of 1975, there remained the problem of a more

definitive outline of how the individual independent agencies would be incorporated into the Plan. If the major non-mayoral agencies received the most attention of the media, as well as the City and the EFCB, the other agencies also were required to file acceptable plans. The EFCB delegated the mayor as its agent in the negotiations toward establishing such plans. Again, an emerging theme in relations between the covered organizations, the mayor and the EFCB was the manner in which the Control Board extended the powers invested in it by the State Legislature to the mayor. This included more than the above noted control over cash to the City University, but also information and managerial control. In March, after complaints from the Special Deputy Comptroller Sidney Schwartz that he was having trouble obtaining information from some agencies, the EFCB voted to grant its Executive Director and Special Deputy Comptroller Sidney Schwartz the Board's powers over financial information of these agencies.[52] Preparation by the City and independent assessment by the OSDC of the agency plans was being delayed with important fiscal consequences for the City. In June, Berger issued a report on the status of the City's financial performance, in which he took aim at the covered organizations, particularly the Board of

Education, the City University and the Health and Hospitals Corporation.[53] Berger held neither these nor the other independent agencies had instituted plans bringing expenditure rates into the overall City Plan. But the underlying question remained the political control over the independent agencies. At the June 4th, 1976 meeting of the Control Board, the issue of political and fiscal accountability among the agencies arose again. Beame responded to Berger's claims by taking full responsibility for control of mayoral agency expenditure. But in other areas, Beame said his powers were limited. Although he had used the EFCB's powers in his clash with CUNY, Beame still argued that control over the autonomous agencies were tenuous at best. Even the Control Board's powers were questioned at one point. Deputy Mayor Zuccotti wondered aloud whether the EFCB could enforce a resolution ordering all such agencies to submit all data requested by Schwartz or Berger. Carey noted the enforcement options available to the Control Board in the Financial Emergency Act, including the removal of any agency official violating EFCB declarations.[54]

Before the June 4th meeting was over, the members of the Control Board passed a resolution which eliminated any future doubt as to who was in ultimate control over

the non-mayoral agencies. First, they were to supply information on all projected revenues and expenditures for the period covered by the Financial Emergency Period (through June 1978). They were also to assure the City and the Control Board that their plans were consistent with funding allocations made available to them under the City's Financial Plan through to the end of the 1978 fiscal year. Second, each was ordered to propose a plan for implementing expenditure reductions through the Emergency Period that would bring their expenses in line with City subsidies; that is, plan for further cuts if necessary. Third, each was also to provide an outline of the assumptions the other two plans were based on, including all assumptions regarding local, state or Federal legislative or administrative actions. This was added because one tactic in avoidance had been to base revenue projections in part on the assumption that favorable decisions would be rendered by State and federal officials when administrative aspect of programs were problematic or, even more questionable, on legislation yet to pass. In addition to these three directives, the Control Board also restated and expanded the powers of Berger and Schwartz to act in its name. It also reserved the right to prescribe the form these requested individual plans

would take.[55]

A few days later the mayor's office released a twenty-eight page response to Berger's report. It assured an active role by Beame and his aides in attaining control over the independent agencies:

> . . . with the clarification of the powers of the EFCB and the Mayor over such agencies, now taking place, it is the intention of the OMB (The City's Office of Management and Budget - RWB) to bring such agencies under the same rigorous scrutiny with to accomplishment of their reduction plans, and subject to the same monitoring, quarterly expenditure allotment and personnel ceilings as mayoral agencies.[56]

Under the bureaucratic language, the City, in cooperation with (and under pressure from) the EFCB, began the formal process of incorporating the independent agencies into the City's overall management structure.[57] Financial control meant political control; political control meant financial control. Changing the expenditure patterns of the covered organizations had lead to a change in the political relations between the mayor and these agencies.

In November, there was an increased concern over the details of the individual plans and in July of 1977, the City submitted revised plans for each of the non-mayoral agencies.[58] Informally, the EFCB staff pursued greater[59] detail in these, but the pattern of relations

never changed. The mayor, the Control Board and their respective staffs would cooperate in enforcing financial control over these once more independent agencies. Their instruments included the individual financial plans.

CONCLUSION

The structure of New York's 'autonomous agencies' has always reinforced what Sayre and Kaufman described as the tendency toward stasis inherent in the City's political system. Insulated by independent policy making bodies, these major public agencies are often charged with waste, inefficiency and unaccountability. There is a whole body of literature on their lack of responsiveness to minority group demands in the late fifties and sixties.[60] Complaints are often heard that decisions are made on internal critieria rather than citizen needs. On a day to day level, this might mean a bureaucracy unresponsive to local demands. On a longer term basis, it might mean service and capital planning based on professional criteria measured against an internal status ladder rather than broader community-wide needs.

In the context of a contracting budget this tendency toward stasis easily translates into constant strategies to forestall reductions in agency subsidies. As Deputy

Mayor Axelson had said: "They are structured to resist".[61] On the streets and in the neighborhoods of New York, the most obvious and painful impact of the financial crisis has been in the reduction or elimination of services. Nevertheless, possibly the most lasting impact, at least on these 'covered organizations,' has been a change in their relation to the central political authorities in New York City. Control over their cash, their management, and their accounting systems were gradually integrated into the City's overall systems. Agencies which resisted budget cuts were dealt with harshly. In CUNY's case, their cash was shut off and they were forced to close. The executive officer of the Health and Hospitals Corporation was forced to resign. All the other agencies were integrated into the City's master Financial Plan through individual financial plans. This also brought them under the enforcement powers and legal sanctions of the EFCB. Thus, one central conclusion to be drawn is this: the need to gain control over the finances of the independent agencies in New York's government resulted in a new political arrangement within the City's government to the loss of the 'autonomous agencies'. Whether this will eventually be extended into greater responsiveness to the communities is an open question. That after the crisis they are more accountable,

at least in the area of finances, to the central political authorities in New York seems a certain conclusion.

This leads to a second point. While it is clear that the financial crisis (and Beame and the EFCB) forced change on the independent agencies, the nature of the change during the first two years at least is not so clear. To understand this we should recall the dynamic between the mayor and the EFCB in dealing with the non-mayoral agencies. Each used the other to protect its prerogatives and to ensure compliance. Beame and his Deputy Mayors were insistent that the agencies not deal directly with the Control Board. Any contact should be through the Office of the Mayor. There would be no new channels of influence which might undermine the limited mayoral control there was. Similarly, the EFCB used the Mayor to ensure control over the non-mayoral agencies. Having neither the staff to deal with the intimate financial details of these agencies nor wanting to take all the political 'heat' for cuts, the members of the Control Board were anxious to strengthen the position of the mayor vis-a-vis the covered organizations. This may seem unimportant until one thinks of the alternative and its political implications. Had the EFCB dealt directly with these agencies, permanently undermining the mayor, policy making in New York's public

sector would have been divided into two stages. On the first would be the mayor and his agencies directly accountable to the EFCB. On the second would be the non-mayoral agencies each, independently, accountable to the EFCB. Such an arrangement would result in the Control Board and Carey becoming directly involved in allocating funds between the mayoral agencies on one side and all the other non-mayoral agencies on the other. Inevitably, this would have led to the EFCB becoming the focus of all budgetary politics, not just aggregative politics, and involve Carey and other EFCB members in the detailed matters of managing the non-mayoral bodies. Incorporating the autonomous agencies into the Financial Plan <u>through</u> the mayor is more significant than mere administrative detail.

One final point. In each of the cases presented in this chapter we have seen how the officers of the non-mayoral agencies used what limited political resources they had to maintain their independence and policies. In cooperation with the teachers' union, the Board of Education attempted to outflank the mayor, governor and EFCB by going directly to the State Legislature. The Board of Higher Education (CUNY) resisted cuts as long as it could seek changes in State policy and attempt to activate faculty and students for whatever leverage was

available. In the case of the HHC, the leadership attempted to mobilize community support, clientele interests and unions of health professionals. Each, however, pursued strategies outside the main arena of conflict; outside that exclusive core of decision makers and institutions we have tagged the 'crisis regime': the MAC, the EFCB, the Mayor, the Governor, the banks and the federal government. They instead directed their attention toward the media, the communities, the unions, elected officials not involved in resolving the crisis and other 'third parties.'

NOTES

1. As of 1977, the mayor's appointive powers to the two largest independent Boards of Directors were as follows:
Board of Education: the mayor appointed two of seven members.
Health and Hospitals Corporation: five direct mayoral appointees and five City officials, appointed to these posts by the mayor, are ex-officio. These are of a total of 16.
The Board of Higher Education, the governing authority for the CUNY system, had been dominated by mayoral appointees. Under reorganization effective in 1978, Gubernatorial appointees dominate.

2. Diana Ravitch, The Great School Wars: New York City, 1805-1973 (New York: Basic Books, 1974); Chapters 9, 11, 20.

3. Sara Silbiger, "Collective Bargaining and the Distribution of Benefits: Education in New York City," in Dale Rogers Marshall, ed., Urban Policy Making (Beverly Hills, Calif.: Sage Publications, 1979), pp. 261-79.

4. Minutes, EFCB; October 7, 1975.

5. Minutes; EFCB; October 18, 1975.

6. Minutes, EFCB; October 24, 1975.

7. Minutes, EFCB; November 19, 1975.

8. Minutes, EFCB; December 8, 1975.

9. It was generally understood in the press that the $32 million cut was an indirect attempt by the City to impose tuition on CUNY undergraduates.

10. New York Times, January 31, 1976.

11. EFCB Minutes; January 30, 1976.

12. Internal Memorandum; FROM: Paul, Weiss, Rifkind, Wharton and Garrison; TO: EFCB, dated February 10, 1976; pp. 3-5.

13. Ibid., p. 4.

14. Minutes, EFCB; March 26, 1976.

15. Memorandum from Robert J. Kibbee to College Presidents, May 28th, 1976.

16. This was stated in most Financial Plan submissions and public pronouncements of the mayor. See Chapter 3, in the Financial Plan formulation.

17. The initial and preliminary City submission dated October 7, 1975. See EFCB minutes of that date.

18. Long Island Press, March 20, 1976.

19. New York Times, April 8, 1976.

20. The legislation as passed had actually assumed the outcome. The State Legislature declared that it:

> "finds that the state must assume the responsibility for public post secondary education in the City of New York beyond the associate degree, as it does elsewhere in the State." (Laws of NYS, 1976, Ch. 345, Section 1)

The Legislature thus created the Temporary State Commission on the Future of Postsecondary Education in New York State to propose a method of transition. The "Wessell Commission" was given a broad mandate for its study, but the recommendations, described by the Assembly's Higher Education Commission as having "unexpected scope and . . . magnitude" were rejected. Both CUNY and the New York State Board of Regents undertook reorganization studies. The Higher Education Committee of the State Assembly conducted hearings taking all these recommendations into account and submitted proposals to the Legislature as a whole in April of 1979. The committee recommended CUNY remain independent of the SUNY system but with equivalent and full funding by the State to be phased in. With the transferring of financing, the members of a partially rearranged BHE were appointed predominently by the governor.

see: New York State Assembly, Higher Education Committee; Proposal to the Legislature on the Governance and Funding of the City University of New York, Mark Alan Siegel, Chairman; April 9, 1979.

21. McKinney's New York State Consolidated Law, Education Law, Section 2576(5).

22. Ibid.

23. Ibid.

24. By wording the legislation 'the previous three years,' rather than specifying any particular years, the bill ensured that the size of the Board of Education's budget could not contract relative to the other functions of New York's government regardless of circumstances. As each year the amount could not fall below an average of the previous three years, the budget in the second projected year would be based on the then three preceeding years which would, of course, include the previous year's floor. Thus, as the smaller amounts were dropped off as the years passed, one would get to a point, after three years, where the protected floor could not be less than the average of the previous three years -- all of which were also protected.

25. An EFCB Staff estimate on agency employee reductions provides some interesting information on this question. The agency hardest hit was the Board of Higher Education (CUNY). Its staff was reduced by 22%. Police and the Board of Education were reduced 21% each. Welfare agencies averaged only a 14$ reduction in personnel. In addition, a 1980 report done for the Office of the Chancellor, New York City Board of Education, revealed a consistent pattern of displacing increased State aid into the City's several funds and away from educational expenditures. Source: Ray Domanico, Report to the Chancellor on the Effect of State Funding on City Funding of the Board Education; April 25, 1980.

26. New York Times, February 2, 1976.

27. Ibid., para. 4.

28. Daily News, February 3, 1976.

29. Minutes, EFCB; January 30, 1976.

30. New York Times, January 27, 1976.

31. "WHERE WE STAND," by Albert Shanker; New York Times, Week in Review, May 9, 1976 (paid advertisement).

32. The Board of Education announced it would sue Beame for a full appropriation of $110 million for FY 1978.

Several days later Beame and his Budget Director offered the Board $10-15 million if the Board dropped its suit.

33. Aaron Wildavsky, The Politics of the Budgetary Process, 2nd. ed., (Boston: Little, Brown and Company, 1974), pp. 102-108.

34. Financial Plan of the Health and Hospitals Corporation, in Office of the Mayor, City of New York, Revised Financial Plan of the Covered Organizations; July, 1977.

35. State Study Commission for New York City (Scott Commission); Health Care Needs and the New York City Health and Hospitals Corporation; pp. 33-100.

35A. For a discussion of different types of accountability -- political, professional, bureaucratic and economic -- particularly as they relate to the management of public health care systems, see: James W. Bjorkman and Christa Altenstetter, "Accountability in Health Care: An Essay on Mechanisms, Muddles and Mires," in the Journal of Health Politics, Policy and Law, Vol. 4, No. 3, Fall 1979; pp. 361-381. For the most part, I have used the word "accountability" in this chapter as what Bjorkman and Altenstetter might term "bureaucratic accountability." That is: ". . . the requirements, both formal and informal, that subordinates answer to their superiors inside large-scale organizations. Theories of democratic control assume that these superiors answer to the elected leaders."; p. 363.

36. Ibid., p. 40.

37. Background Source: "HHC Financial Plan Chronology," Appendix A to: Office of the Special Deputy Comptroller for New York City, Report on the New York City Health and Hospitals Corporation Financial Plan for FYs 1977 and 1978, (EFCB-51-77) February 24, 1977.

38. New York Times, August 25, 1976.

39. New York Times, February 24, 1976.

40. New York Times, May 1, 1976.

41. In an audit released October 5, 1976 (EFCB-30-77)

the OSDC:

> "reviewed HHC's revenue base and identified projected shortfalls of $45.6 million due largely to Medicaid rates and inpatient workload which were lower than levels assumed in HHC budget projections."

Another audit focused on expenditures. EFCB-9-77 was released on June 7, 1976. It:

> "Reported on the status of programs to close the ($109.8 million) budget gap as follows: cost reduction programs for a total of $34.1 million were in place or achievable; others, for $75.5 million, were uncertain."

Source: EFCB-51-77. See note 50.

42. Minutes, EFCB; October 15, 1976.

43. New York Times, October 16, 1976.

44. New York Times, October 16, 1976.

45. New York Times, November 4-5, 1976.

46. New York Times, January 11, 13, 1977.

47. New York Times, January 19, 1977.

48. New York Times, January 26, 1977.

49. New York Times, January 26, 1977.

50. New York Times, January 27, 1977.

51. Minutes, EFCB; February 25, 1977.

52. Minutes, EFCB; March 12, 1976.

53. "Report of the Executive Director of the Emergency Financial Control Board," Stephen Berger; June 3, 1976.

54. Minutes, EFCB; June 4, 1976.

55. Minutes, EFCB; June 4, 1976.

56. Office of the Mayor; "New York City Response to The Report of the Executive Director of the Emergency

Financial Control Board"; June 9, 1976.

57. Ibid., pp. 15; Also:
"Regarding . . . the need for greater fiscal control over (the) covered organizations, the City intends within the limits of its legal authority to bring such agencies under the same rigorous scrutiny with regard to accomplishment of their reduction plans, and subject them to the same fiscal control procedures as are applied to mayoral agencies." (p. 3)

58. Office of the Mayor, City of New York, Revised Financial Plan of the Covered Organizations; July 1977.

59. Initially a more formal response to the City's submission was drawn up in which inconsistencies between these individual plans and the City's budget, as well as internal inconsistencies were outlined. Instead a less aggressive stance was taken.

60. Among them: Jewel Bellush and Stephen David, eds., Race and Politics in New York City (New York: Praeger, 1971), particularly chapters 1, 5 and 6. David Rogers, 110 Livingston Street (New York: Random House, 1968) and the second chapter of The Management of Big Cities (Beverly Hills, Calif.: Sage Publications, 1971). Marilyn Gittell, Participants and Participation: A Study of School Policy in New York City (New York: Praeger, 1967); in regards to unions see Gerald Benjamin, Race Relations and the New York City Commission on Human Rights (Ithaca, N.Y.: Cornell University Press, 1974).

61. Minutes, EFCB; December 8, 1975.

CHAPTER 6

THE EFCB AS A POLITICAL ACTOR

Each of these cases lends considerable weight to our central thesis that policy making during the financial emergency was not 'politics as usual.' The institutional framework was different, the actors were different, new policies were formulated, new administrative and financial controls were established and, while the game of politics always continues, the pattern of actor and group interaction had changed. Before examining the dimensions of these changes in a more systematic manner, we should examine the institution at the center of so many of them. In this chapter we will view the Emergency Financial Control Board as an institution and political actor in and of itself. Specifically, the Board's political resources, its internal decision making processes and its limitations are our subject.[1] The EFCB did not exist in a political vacuum but was conditioned in its actions by the political

and financial contexts in which it operated. As we proceed it should be remembered that the EFCB was created to serve two overriding functions: 1) to provide the State of New York with a vehicle to oversee the City's finances; and 2) to persuade the 'market' that New York City (and New York State) was indeed creditworthy. As in the cases we will limit the discussion to the financial emergency period which ended in June of 1978. Nevertheless, much of what follows is still applicable to the renewed (and renamed) Financial Control Board (FCB).

THE CONTROL BOARD'S POLITICAL RESOURCES

The range of political resources and formal administrative controls available to the EFCB to effect policy making in New York were extensive. While the administrative controls were directly stated in the financial emergency act, the less formal political resources will be dealt with first. It was in fact these, and only occasionally intimating that the Board might use more potent sanctions made available in the Act, that allowed the EFCB to both oversee a contraction in the City's public sector while also mediating political conflict between the City and its creditors, including the unions.

Membership:

The most apparent political resource of the Control Board was its membership. The Emergency Act defined its makeup. The EFCB was composed of seven members. The Governor of New York and the State Comptroller, the Mayor and Comptroller of New York City were all ex-officio members. The combined prestige of the four most important governmental fiscal officers in the State indicated the severity of the crisis and the degree to which the State and the City had to go to resolve it. In addition to these four public officials, three private members, serving at the pleasure of the Governor with the approval of the State Senate, were also included. The prestige of these Board members was equally impressive. Among those who served on the EFCB (or FCB) in its first four years are: William Ellinghaus, then president of New York Telephone Company and Vice-Chairman of A.T. and T. (now President); Albert Casey, president of American Airlines; David Margolis, president of Colt Industries; Felix Rohatyn, Chairman of the MAC and Senior Partner in Lazar Freres, Investment Bankers; John Sawhill, former federal 'energy czar' and president of New York University; Kenneth Axelson, former Deputy Mayor of New York City and a senior Vice-President of J.C. Penney; Francis Barry, president of Circle Lines, the perennial tourist attraction; Gilroye Griffen, vice-

president of Bristol-Meyers Corporation; and Stanley Shuman, Executive Vice-President of Allen and Company. The combination of the four most important political executives in the State and these senior executives from some of the nation's largest corporations combined to make the EFCB a weighty institution.

Beyond the prestige of the members some also brought considerable political resources of their own to the Control Board. Most important in this category is the Governor who also serves as the ex-officio Chairman of the Control Board. The Governor's access to the information and resources of the State's bureaucracy as well as the political resource of the State's democratic leadership, much of which was from his home county of Kings (Brooklyn), which Carey usually had were important at key points of the crisis. The two Comptroller's brought their own staffs. The Mayor had all the resources of the government of the City of New York at his disposal.

The private members brought something a little different. They brought reputations for 'no-nonsense' management practices. What little personal resources their respective companies lent was bolstered by their 'semi-official' status as representatives of the business and financial communities. They were perceived among these

economic elites as being 'our boys'. If things were not going right they could blow the whistle. The real power of the private members of the Control Board was never their respective voting powers or their knowledge of City or State government, but their ability to undermine what little confidence the business community placed in the 'political solution' to the crisis.

Staff and Financing:

The EFCB actually had access to several staffs. As Chairman of the Control Board and as an active participant in its creation, Carey naturally involved his own personal staff. In addition, the Control Board also had at its disposal the entire staff of the Office of the Special Deputy Comptroller which had also been created by the Financial Emergency Act. The OSDC had a professional staff composed mostly of accountants, economists and budget analysts. They amassed budget information on the City, examined revenue estimates and evaluated expenditure reduction programs submitted by City budget officials. In addition, they also 'costed-out' labor agreements and provided background seminars on special topics including econometrics.

In March of 1975, the Control Board created a staff

of its own independent of the MAC, OSDC or the personal staff of the Governor. Herbert Elish, who had served as Executive Director of both the MAC and the EFCB, was replaced at the Control Board post by Stephen Berger. By late 1976, the EFCB had a staff of about 24 professionals. Unlike the OSDC, however, the Control Board staff was largely political in nature. It was not composed of budget experts but by lawyers, political scientists, policy analysts and public management experts. None were accountants. This was reflective of the different function the Control Board performed. The chief function of the EFCB staff was to convert the fiscal and financial information compiled by the OSDC into usable bargaining positions for the intense political negotiations retrenchment required. Although the OSDC and EFCB staffs were different in nature, they were highly cooperative. Located together on two separate but enjoined floors of the State Office Building in lower Manhattan, the level of interaction was high.

The staff of the OSDC was to be paid by the City as billed by the State. This was stipulated in the Financial Emergency Act, although later it was negotiated and shared by the State and the City. The staff of the MAC was funded through the sale of MAC bonds. The staff of the EFCB was

financed through charges made against the Executive Office of the Governor and by agreement between the EFCB and the MAC. The MAC/EFCB agreement provided up to $500,000 a year for for the EFCB staff.[2] In return, the Control Board would make available to the MAC its own staff work.

"Stage Center":

The politics of the financial crisis were both real and symbolic. It was real in the form of the retrenchment that followed several years of financing the expense budget deficits by borrowing and finally by the forceful intervention of the City's creditors. The budget cuts, program curtailments, layoffs and broken promises were painful for many. Their impacts are still being felt in New York. In the broad sense, the financial crisis grew out of the fiscal problems New York had not more directly faced for several years. To finally solve the problem there was a precipitous break in the expenditure growth patterns so as to more properly match growth rates in revenues.

But the politics of the crisis were also symbolic. In the narrow sense, the financial crisis grew out of a series of individual cash flow crises which occurred

between January and December of 1975. Each of these was the result of maturing or ongoing obligations which could not be met with cash on hand. Thus, there was a need for short term borrowing. The market for city securities, however, was narrowing for many reasons until it virtually vanished in the Spring of 1975. The sudden vulnerability of the City's policy making processes to its creditors and potential creditors followed these short term cash flow problems. Nevertheless, although New York was finding it difficult to market its notes the financial status of the City was actually better than it appeared. The assets, tax ratables and revenue streams of New York City are and were enormous. Even the bankers agreed that New York would eventually pay its obligations.

Thus, the politics of the crisis can be seen as symbolic in this sense: To expand the potential market for short term city securities, a market in 1975 increasingly dependent on households rather than institutions, one criterion of policy choice that emerged among what we have called the 'crisis regime' was a policy's persuasiveness toward potential new investors in proving that New York was being 'reasonable' and 'responsible' in handling its affairs. The threat always existed that the symbolic form of policies as they effected investors might overshadow real policy content as they might better the City's fiscal

and financial position. Thus, those engaged in trying to find some solution to the crisis perceived part of the problem as one of 'credibility,' 'fiscal responsibility' and other such phrases never quite defined but always common in discussions. Manipulating impressions was 'part of the solution.'

Media attention was thus an asset. The EFCB was at stage center. Immediately it was the focal point for a number of debates over basic issues in New York. The attention paid it by the press created an arena to operate and a vehicle to set the agenda for public discussion on important issues. The MAC and less so the EFCB also gained the attention of the financial community outside New York through the media. Carey's role as chairman was important here. His presence always served as a 'draw' for the TV cameras of the three network flagship stations in New York. The financial press also covered the EFCB meetings closely as did the national news magazines at important points.

Budgetary and Financial Controls:

Possibly the most important political assets of the EFCB were provided by the Emergency Act in the form of its budgetary and financial controls. The EFCB had almost

unlimited powers over aggregate budget decisions. Revenue estimation, financial planning, capital planning, management reforms, productivity estimation and labor policy, and budget deficits were all areas where the EFCB had the legal right to intervene in policy making. Indirectly also the Board could exercise influence. Like the MAC and the OSDC, the Control Board was also a 'fiscal monitor.' It too was more credible in the market that the City. Since one of its functions was to persuade the market to invest in New York control over information on the City's budget was an important ancillary resource.

A second legal source of the Control Board's influence was its control over the financing of New York City. No borrowing could be accomplished without EFCB approval. This included loans from the MAC. Given the City's need to borrow on a short term basis, regardless of the size of its debt, this requirement created the opportunity to intervene and control the City's cash. It also effectively centralized control over the capital budget in the hands of the EFCB. No project requiring borrowed funds could be built without Control Board approval. The political resources of the EFCB in the area of capital planning were almost unlimited in the first period of its existence.

The 'Ultimate Weapons':

The ultimate legal sanctions available to the EFCB were never used. Nevertheless, they were still political resources in that they were present if needed. The first of these was control over the Emergency Financial Control Board Fund. As mentioned previously the Fund was created by the Financial Emergency Act and the City was required to deposit all revenues into EFCB Fund accounts. The Act allowed the Control Board to delegate administration of the Fund to the City, which it did, but all residual powers rested with the EFCB. The second 'ultimate weapon' was contained in the enforcement provisions of the Emergency Act:

> In addition to any penalty or liability under other law, any officer or employee of the city or any of the covered organizations who shall violate (the prohibitions of the Act - RWB) shall be subject to appropriate administrative discipline, including, when circumstances warrant suspension from duty without pay or removal from office by order of either the governor or the mayor . . . [3]

A close reading of this section of the Act indicates that the provision does not exclude the Mayor from being removed himself by the Governor.

Neither of these legal powers were ever used. In some cases they were not necessary. Dr. Holloman was

forced from office at the Health and Hospitals Corporation through more political pressures. In some cases just the threat was enough. When Chancellor Robert Kibbee closed the City University in June of 1976, he partly justified the action on the grounds that continued expenditure of funds beyond those allocated to CUNY could result in his removal from office and other sanctions.

Political weapons such as these need not necessarily be used to effect policy making directly. Just the threat of removal from office or of loss of day to day control over City accounts would be sufficient to affect the political behavior of various actors. Their importance rests in the relationship they illustrate. Clearly, the EFCB was to have whatever powers it needed to carry out its functions. That it never used these ultimate powers is indication that other powers invested in the Control Board were sufficient to accomplish its tasks.

THE CONTROL BOARD'S INTERNAL PROCESSES

The preceeding six aspects of the EFCB gave it important political leverage over the City, its officials, and other contenders in the conflicts that arose during the crisis and retrenchment. They derive from the statute, from the political environment in which the Board operated and

from the political acumen of the Board's members. They also imply that the EFCB operated in an interactive dynamic with other actors. The same can be said of the internal workings of the Board. There is a temptation to view the EFCB as a single unified body, but there were tensions internal to it which also were effected by environmental factors.

Consensus Agreement:

During at least the first two years of EFCB's existence, an informal agreement among the Board's members held that all decisions should be made by consensus. If possible, all decisions were to be voted on unanimously. The consensus agreement goes to the heart of the Control Board's functions. How could the EFCB persuade the financial markets that the City was creditworthy when its own members disagreed among themselves? Public arguments over important issues could also endanger seasonal loans from Washington since the EFCB was used by the Treasury and the Congress as their direct link to New York's budget oversight. How could the EFCB certify to the Treasury Secretary that New York was living up to its financial plan if they could not agree that it was? Thus, the primary reason for a consensus agreement is that it

maintained the unity and credibility of the Board before the public, the financial community and Washington.

The impact of this agreement on the public officials sitting on the Control Board was important. Since the Control Board by its very nature made unpopular decisions the role played by the elected members was particularly difficult. All decisions would involve costs to constituents. Media attention would greatly magnify their dilemma. Each wished to avoid the impression that he was individually responsible for service reductions. The consensus agreement precluded any one of them -- the Governor, the Mayor, as well as the Comptrollers -- from taking an independent position. The burden of responsibility for cut backs would be equally shared. Consensus worked against 'grandstanding' by any one of the public members of the Board and minimized political infighting over who was to be blamed for unpopular decisions.

The consensus agreement also effected the 'private' members of the Board. These three appointed members had no political bases of their own. As already mentioned, the power of the private members did not derive from their voting power but rested on their ability to 'blow the whistle' on the politically accountable board members if they did not live up to the commitments implied to the

financial community in the passage of the Emergency Act. Consensus enhanced this power. In discussions behind closed doors the private members could threaten to use their own ultimate weapon: to withdraw confidence. While only a minority of the Control Board's members, the concerns of the private members would always have to be taken into account if a unanimous vote was to be achieved.

The consensus agreement also had an important effect on the process of decision making at the EFCB. It forced the bargaining process one step down below the board members. Advocacy, disagreement, negotiation and settlement occurred between the staffs of the Governor, the Mayor, and those of the MAC, EFCB and the OSDC and City Comptroller's office and sometimes the unions and senior agency executives. Agreements were often presented to the Board members in nearly completed form. Only issues irreconcilable at the staff level would require more active intervention by the principals. The UFT contract is an example of conflict which could not be settled at the staff levels. This role of the staff as negotiator for the Board and mediator among groups is a source of whatever power the Executive Director of the EFCB has. (And in order to ensure that the power of the Executive Director is controlled by both City and State, the renewal

legislation granted both the Governor and Mayor the right to veto any candidate for the post.) It also explains why the EFCB staff was largely political in nature, while that of the OSDC was budgetary and fiscal, and of the MAC, financial.

One final impact of the consensus arrangement should also be noted. As it necessitated inclusion of the concerns of the private members, it also required the confidence of City representatives: the Mayor and the Comptroller. Like the 'private members,' the two City representatives could also be 'out voted.' To do so, however, would clearly be a confrontationist strategy for other Board members. Thus, the consensus agreement ensured the inclusion of New York's senior officials' views in decision making. It also served the purpose of legitimation. Any agreement reached came about through the participation of the Mayor. This, in fact, was one of the political limits of the Board's powers. The Mayor and Comptroller could resist expansion of the Board's political powers in the same manner that the private members could exert their influence: by withdrawing their confidence in it.

Relations With Other Agents of the Crisis Regime:

The solution to the financial crisis offered by the State required the marshalling of State and City officials

and the breaking of old political patterns. It required the advancement of State funds, the creation of MAC, then the creation of the EFCB and all along lobbying for aid from Washington and negotiation with the banks and trustees of the union pension funds. It resulted in a refinancing of the City's debt and reorganization of its public sector. Coordination of State and City policies was critical for all these to be accomplished. The EFCB was one of several important overlap points where state and local policy could be coordinated, but it was not the only one. The relations between the EFCB and other agents of the crisis regime is also important. First, the EFCB was used on a day to day basis as one of the federal government's 'watchdogs over city finances.' The EFCB had actually been a party to the loan agreement between the City, MAC and the U.S. Treasury Department under which Washington forwarded seasonal loans to New York. In that contract, the EFCB took on obligations to the Treasury in regards to the Financial Plan. It had to enforce the Plan and inform Treasury officials of any modifications to it. A representative of the Treasury Department, or one of its outside consulting firms, were often present at EFCB meetings during the first two years of the EFCB. Second, the Control Board

took over most of the political responsibilities of the MAC. Although the MAC still had the legal means to influence City policy making, the real points of political conflict between City and State evident when only the MAC existed had largely transferred to the EFCB. With Carey becoming directly involved through the EFCB, and the more potent legal options available to the Control Board, the MAC concentrated on financial arrangements for the City. Third, the OSDC served as both an independent agency having all the legal responsibilities of the State Comptroller toward the City, and as staff for the EFCB. To the degree that the OSDC served as a staff resource for the Control Board the relationship was highly cooperative.

Staff Cleavages:

Given the broad discretion over City finances assigned to the EFCB by the State Legislature disagreements among the staff became important. Beyond expected policy prejudices and loyalties to specific agencies, party or personality, there was one major cleavage among the staff with broad political overtones. It concerned the relative level of activism the board should pursue.

Interviews with staff members indicate that two

basic attitudes existed toward the Financial Emergency Act among them. One was a conservative reading of the Act. Strictures against direct intervention in priorities setting by City officials should be followed to the letter. As much as possible, decision making should rest with the City. Where there was doubt as to the Control Board's mandate the City should be given the benefit of interpretive leeway. This strict reading of the statute was limited to some of the legal staff. A more activist attitude was present among other staff members. Here the perception was that the basic problem leading to the financial crisis was one of policy making itself. For them the solution rested on a wide reading of the Act and a prejudice toward intervention when feasible.

Differences in interpretation of roles is certainly common among government agencies. In the case of the EFCB this is more important than usual. The Control Board was constructed with intervention in mind. Debate over the degree of intervention -- and given the extra-ordinary discretion available to the Board, such debate is understandable -- is doubtly important. It is a question that will never be settled since it is endemic to the nature and functions of an external fiscal monitor

with such political powers. Two internal factors will, however, influence enthusiasm for intervention among staff members. The first is the relative aggressiveness of the Executive Director -- which is why the City demanded the right to veto his (her) appointment in the FCB renewal legislation. The second is the attitude of the Governor of New York, as both chairman of the Control Board and the principle political figure in the State.

THE CONTROL BOARD'S LIMITATIONS

Despite extraordinary legal powers several political factors set real limits on the Control Board's flexibility. Six will be dealt with here.

Statutory Limitations:

The first real limitation on the EFCB was the Act that created it. Although the Control Board was directed to assume an important role in the finances in New York, it was prohibited by the Emergency Act from prescribing any particular expenditure priorities. The bar against intervening priorities setting was a source of conflict throughout the emergency period. Although there is no

record on any EFCB directive to provide monies for this rather than that, it would be naive to think that the Control Board and the Emergency Act did not effect priorities. Very early on the EFCB stopped all capital construction sponsored by New York City. One of the Act's basic intents was to guarantee debt service. Even though the Control Board stuck to looking at the City's budget as a whole, there were several points where it would be impossible to enforce aggregate budget limits without having some impact on the policy choices of City Hall. The UFT contract provides one example. Nevertheless, while at some points the normally clear distinction between budgeting in the aggregate and the allocation of resources among competing programs became blurred, the Control Board could never justify intervention on legal grounds. This legislated limitation meant that the EFCB either had to resist such intervention or, if it decided to attempt to influence policy, to do so indirectly and in terms that could not be challenged as violating the Emergency Act.

The Financial Markets:

If the Emergency Act defined the legal limits on the Control Board, the financial markets defined its purposes.

One of the major functions of the EFCB was to aid in regaining access to the money and bond markets for the City. It should be remembered that when the State of New York advanced the City several hundred million dollars in the Spring of 1975, most believed that the City could regain market access in a matter of weeks. With the creation of the MAC in June of 1975, the expectation was expanded to a matter of months. In September, the EFCB was created on the assumption that, with federal help, New York City would be able to finance its capital, cash flow and debt financing needs from private sources at the end of the three year financial plan. This then was constantly on the minds of the EFCB, Congressional Committees and Treasury officials. Fluctuations, suspicions and even whims of the financial community were thus important factors taken into account. Each fiscal and financial act of the EFCB, MAC and City Hall had their own symbolic quality which would effect the way the markets saw the City. We have noted earlier how this sometimes led to an overemphasis on policy as symbol rather than policy as substance, particularly in the summer of 1975 before the declaration of a 'financial emergency.' But even by June of 1978, the expiration date of the emergency period, there were

too few willing to invest in City paper. The market refused to be persuaded. It was not until 1979 that New York sold issuances on its own. Nevertheless, the amount sold -- $150 million -- was only a fraction of the City's total financing needs.

The behavior and expectations of the market thus were taken into account and set limits on the options of all. But as this limit was critical it was also quite vague. What in fact was taken into account by officials was this: Their perceptions of the market's perceptions of attempts to resolve the crisis. The MAC, the Governor, the Mayor, the EFCB and others participating in policy making did so with this two-level perceptual dynamic in operation. Given the critical significance of such an imprecise factor, the continued failure of policies to regain access is not all that surprising.

Political Accountability:

An additional limit on the EFCB, and its stepchild the FCB, is that a majority of their members are elected officials. While the Control Board as a body is not politically accountable, four of its members are. They must take into account the pressures and interests of the various groups and individuals that make up their electoral constituencies. Upcoming elections

offered one opportunity to exert influence over the process of retrenchment. Unions, community groups, minority groups, individual clientele groups and up-state constituencies among others held support in elections as a political weapon. Beyond concern for constituency interests, electoral politics played other roles. One example may reside in Carey's March 1975 decision to take a more forceful attitude toward the City in enforcing the financial plan. The Mayoral election would be in 1977. The State elections in 1978. It was to the obvious advantage of Beame to delay cuts imposed by the financial plan until after the 1977 election. But that would mean even more severe cuts in 1978 and possibly bankruptcy if, having disregarded pledges to the federal government, the Congress refused to renew the seasonal loan program. Implementing budget cuts early was thus in the interest of Carey.[5] In any event, the fact that several members of the Control Board are subject to elections and popular review, there is a limit on the Board's flexibility set by those groups, individuals and party institutions that go into a coalition sufficient for reelection.

Administrative Limitations:

Two important administrative limitations can be identified. One was the small staff. At first, the EFCB had only little staff. In 1976, it was expanded to about twenty-five professional members. When compared to the immense size of New York's public sector, the large number of executive level employees on the City side of the table and even the Mayoral staff, the Control Board staff was minor. In (NYS FY) 1977, the EFCB's budget was only $750,000. The size of the Board's staff is important in that it defines its role and is one indication of the attitude of the full Board toward the City. With so little professional support, the Control Board cannot literally 'run New York,' as some journalists have written. The most it can do is serve as a broker among powerful parties toward accomplishing the goals of the Emergency Act. Any sudden expansion or contraction in staff size is a certain indication of change in the aggressiveness of EFCB policies.

A second administrative limitation is present. The EFCB never really had an independent information flow. Much of the information needed to make decisions was supplied by City Hall. Although the EFCB had the

legal authority to demand information in the form it desired, there often were political and time factors which inhibited the firm control this right implied. The City might, for example, submit a proposal for modification of the Financial Plan as merely differential and marginal amounts without base line figures or the data base on which the new statistics were assessed. The City's apprehension that the Control Board was interfering with budget decisions legally left to City Hall often led the administration to provide only a minimum of detail to the Control Board. The only sources of independent information were the State of New York and City data which might be checked by the Special Deputy Comptroller.

The Press:

In any political community the press serves two basic functions. The first is to provide in simplified form political information on what Wallace Sayre once described as 'who is doing what to whom and with what implied consequences'.[6] The second is to serve as a forum for criticism and alternatives participants in the political process may wish to advance. As a flow of information, the press presented a limit common to many

institutions. It tended to remind all of their democratic accountability. In fact, when first created the EFCB held all its meetings in private. The press was banned from attending. As part of the move toward 'open meetings,' one effect of the Watergate scandals, there was pressure for opening the EFCB meetings to the public. The State Legislature required all agencies, including the Control Board, to hold open meetings and make available documents, as requested, to the press and public. The effect may not have been as desired, however. Carey preferred the Board meetings to be kept private, likely, in part, to allow meetings to be less formal than public meetings would require and, in part, to minimize the political consequences of Board's decisions. When forced to hold open meetings, the temptation was to split EFCB meetings in two -- part held informally in private and part formally in public. The desire to keep EFCB meetings closed is indicative of the limits the press imposed on Control Board flexibility.

As forums for criticism, the press was also potent. With the Wall Street Journal on the right and the Village Voice on the left, the Control Board's actions were consistently critiqued. The Times may have been the most

significant. Its role during the UFT contract was particularly important.

Legitimacy:

How does an institution perceived by many to be undemocratic in nature operate in a community where residents have been socialized around a cluster of democratic values? The tradition of political participation is a strong one in New York. The creation of the EFCB was in direct opposition to that tradition. The political beliefs of many New Yorkers were thus a final limit on the Control Board's powers. Books, commentaries, demontrations, hand bills and speeches pointed to the basic legitimacy problem the EFCB faced. The Control Board was characterized as a 'bankers' take-over of the City' and the 'death of home rule'. In either event, all understood in broad terms if not in detail that democratic decision making had been altered.

Nevertheless, as many arose in opposition to the MAC/EFCB complex, the point must also be made that a large number of New Yorkers supported the creation of new institutions to control municipal spending. Many tax payers, tired of escalating tax rates and declining services, were willing to accept dramatic surgery on

the City's political system. Some, broadly suspicious that the City had become the hostage of its own employees and welfare clients, were actually enthusiastic for the new regime governing New York. In their eyes, it brought the 'efficiency' of business and a curtailment of pressure toward greater and greater public spending. The tone of politics had changed in New York. The two leading candidates for Mayor in the 1977 general election -- Congressman Edward Koch and lawyer Mario Cuomo -- competed for the middle class constituencies in Brooklyn, Queens and Staten Island that held the key to election. Having already defeated Mayor Beame and the more liberal former Congresswoman Bella Abzug, the run-off between these two 'liberal' democrats seemed more like a Republican primary. Efficiency, fiscal responsibility and a clear anti-union tone were the hallmarks of the campaign's final days. Soon after Koch's election, he came out in support of an extension of the EFCB into the 1980s and, ever since, has pursued policies with his middle class constituency in mind.

Thus, the issue of legitimacy is a complex one. As tax payers, many New Yorkers were not too concerned with the problematic nature of the EFCB. But as victims of the retrenchment that it and the MAC represented

many were. The losers in the battle over retrenchment consistently pleaded the undemocratic nature of the MAC and the EFCB. Union members, clientele interests, professional provider groups, community leaders and others pointed to the obvious: The channels of access and participation that they had previously relied on and found effective were now either closed off or significantly less influential in effecting policy choice. Few could be enthusiastic (at least publically) for the curtailment of democratic processes the EFCB represented. Many protested in the strongest terms. The point though is that the Control Board could never go so far as to completely disregard the standing civic culture to which New Yorkers were socialized.

CONCLUSION

The political history of the Emergency Financial Control Board is not a consistent one. After its initial creation and the formation of the Financial Plan, the members of the EFCB kept a low profile. They avoided becoming directly involved in labor negotiations. Most time was spent pulling together financing for the City. In Albany, the focus was on the Debt Moritorium Act and, in Washington, on the Seasonal Loan Program. When, in early 1976,

the City appeared unable to live up to the financial plan as initially accepted, the Board became more interventionist. It instituted its own labor policy, created a staff and hired a more vocal Executive Director. It also forced a new round of budget cuts to maintain the Financial Plan. As the history of the EFCB progressed, however, this new stance met its limit during the conflict over the Teachers' Contract in early 1977. With City Hall, the Board of Education, the UFT in New York, AFL-CIO headquarters in Washington, the New York Times and New York's two United States Senators aligned against the private members of the Board, its staff and the OSDC the political limits of the EFCB were reached. From that point to the end of its 'first life' (June 1978), the Control Board returned to a lower profile. By mid-1977, the major private members who were presented from the start -- Rohatyn, William Ellinghaus, David Margolis and Albert Casey -- had left. The aggressive Berger also resigned. He was not replaced for several months, not until after the November 1977 mayoral election. When he was, Carey chose Donald Kummerfeld, a former Executive with First Boston Company, the investment banking firm, who had served as City Budget Director and then as a Deputy Mayor and who was involved in financial planning. Kummerfeld's

style was a quiet one. Unlike Berger who sought out public controversy, Kummerfeld preferred to deal behind the scenes. Commer Copie, who followed Kummerfeld, kept an even lower profile. The change in style is indicative of the change in policy.[7]

Viewed as a political actor in and of itself, the EFCB was less a monolith and all powerful State body to 'run' New York City than an institution through which a coalition of forces seeking a contraction in the City's public sector operated in a changing political environment. The coalition consisted of the banks and other creditors, the business community as taxpayers, many New Yorkers as tax payers, and the State and Federal governments. The real political limit on the Control Board was the potential for conflicts among the coalition of parties that supported or used it.

Nevertheless, the low profile that the (E)FCB actually returned to should not mislead us into believing it is impotent. It remains, along with the MAC and the OSDC, as part of the City's institutional structure. Even when inactive, the Control Board is effective. This is because it is not so much concerned with policies as managing the context in which policy making is conducted. Its decisions effect the 'rules of the game'. They

structure the politics of the budgetary process and thus indirectly nearly everything else. Decisions taken in 1975 continued to effect policy making in 1980.

NOTES

1. The contents of this chapter are derived primarily through interviews with EFCB staff members during 1976 and 1977.

2. Letter of Agreement, Municipal Assistance Corporation (Felix Rohatyn) and Emergency Financial Control Board (Hugh Carey), April 30, 1976.

3. NYS Laws, 1975, Chap. 868, §11.

4. Office of the Mayor; Memorandum: Proposed Amendments to the Financial Emergency Act (Chapter 865 of the Laws of 1975), May 4, 1978; p. 3. Also: The Fiscal Observer, The New School for Social Research, March 22, 1976; p. 6.

5. One junior staff member for the EFCB told this author that upon the appointment of Berger to the post of Executive Director he told the staff that if New York found it necessary to go to bankruptcy it was part of their task to ensure it be done during the mayoral election year (1977) and not the gubenatorial election (1978).

6. Wallace Sayre, "The Mayor," in: Lyle Fitch and Annmarie Hauck Walsh, eds., Agenda for a City (Beverly Hills, Calif.: Sage Publications, 1970); p. 579.

7. Heather Ruth, Executive Director of the MAC, made a similar point in unpublished remarks at the University Seminar on the Changing City, Columbia University; Faculty House, March 16, 1981.

PART THREE

The Political Impact of the Financial Crisis

CHAPTER 7

LOCAL POLICY PROCESS

Having reviewed some policies and the politics of the financial emergency our present task is to tease out from this material some broader generalizations. If, in Part II, we used theory to illustrate our cases in this part we will sacrifice the cases for the sake of theory. Part III is dedicated to a more systematic answer to our basic question: How did the financial crisis effect the way public policy is made in New York City? This chapter deals with the process aspects of local policy making. Subsequent chapters deal with two major structural dimensions: intergovernmental relations and private economic relations.

Not unlike nations cities have characteristic civic cultures and social particularities associated with their politics which have been conditioned by their histories, economic functions, geographic location and their relations

to other governments. The differences between Boston and New Orleans are deeper than dominant architectural style or the traces of what once were more heterogeneous dialects. While comparative analyses among American cities have revealed a number of common features in their governance which grows out of the urbanization process, intergovernmental relations and structural factors associated with local economics, differences in local policy making process and the dominating patterns of conflict in particular cities have also been revealed. Detroit is characterized by the social conflict arising from its principal industrial complex. In Chicago, the overlap of the Chicago City government and the Cook County Democratic Machine had allowed for a coordination of local institutions, public authority and party power. In the days of Daley at least Chicago was the 'city that worked.'[1] In Los Angeles policy making has been conditioned by extensive jurisdictional fragmentation and by an early and strong progressive tradition. The proliferation of formal jurisdictions within Los Angeles County and the lack of a strong party movement has made bargaining and accommodation characteristic of later intergovernmental relations the critical aspect of politics in Southern Californis's largest metropolis.[2]

New York's size, diversity and unique social history

have led analysts to explain the City's political conflict primarily in terms of groups. Those recurring patterns of conflict which are discernable in the City's political history--state control vs. home rule; newly arrived vs. recently arrived; black vs. white; propertied vs. unpropertied; reformer vs. machine; community planners vs. central planners; middle class vs. capital holding class--are characterized by changing alliances among ethnic, social and class groups in different issues and at different times.

In policy making also, the notion of group process has dominated New York's political system. One commentator in fact has described the City's policy making process as 'hyperpluarism;[3] thus, in a single word, making understandable the penchant for students of New York to rely on analytical categories described by the tradition of Bently, Herring and Truman. While there certainly are limits on the ability to explain all political phenomenon in New York City in this manner the utility of using group process to explain New York's governmental process has been appreciable. For nearly two decades, particularly since the publication of Wallace Sayre's and Herbert Kaufman's classic study on New York--Governing New York City,[4]--the academic metaphor for the City's politics has been a model based on the interaction of discreet groups, with its associated problems of

fragmented power, isolated issue areas, dispersion of administrative control and bureaucratic domination.

The adequacies and inadequacies of this essentially pluralist outlook are not debated here. Our only assertion is its utility in understanding the policy making process changes that have occurred in New York City as a result of its recent financial crisis. The tradition begun by Sayre and Kaufman and which continued through Theodore Lowi and Douglas Yates has been rewarding in explaining many aspects of New York's politics.

Twenty years after its completion Sayre and Kaufman's Governing New York City remains the work that dominates the study of politics in New York City. Its mastery of the detail of the City, its breadth in aspects usually ignored in the study of local government--such as the courts--and its familiarity with questions of both public administration and political science have helped maintain the book's importance despite it frequently being out of date in detail. In addition what still makes it so appealing to many today is that despite the intensity of the community power debate,[5] which was at its peak at the time of the initial publication, Governing New York City does not read like a polemic. Unlike some of the other classic works of the pluaralist school Sayre and Kaufman maintained a distance from the

questions which so inflamed the power debate. Instead they concentrated on the issue of governance. Dahl's Who Governs? despite its methodological self consciousness, its exacting detail in the cases, the historical review of the political development of New Haven and its distinctions between power and influence, resources and decisions still reads primarily as a response to the Lynd/Mills neo-structuralists.[7] The companion volume of Polsby's[8] even more so. Sayre and Kaufman's central question was not that which so fascinated the other pluralist writers. What concernced Sayre and Kaufman was the question of governance. How does a City the size of New York govern itself; if, in fact it can. Unlike Dahl and Banfield's[9] decision making approach to New Haven and Chicago respectively Sayre and Kaufman concentrated on the functions of the City government within its institutional framework.[10] The central focus was on the 'governmental process.' The central conclusion was that there was a dispersion of power within the City's government. Dahl's more sociological approach lead to broader statements concerning the dispersion of power within the urban setting of New Haven. For Sayre and Kaufman the dispersion of power was a problem; for Dahl a thing to celebrate.

Broadly, Governing New York City is conceived around the notion that politics in New York City is a game.[11]

In this game there are rules, stakes, participants and strategies.[12] The rules include federal and state constitutions, the City charter and other statutory constraints on actors such as debt ceilings and tax restrictions and election laws.[13] The stakes or prizes in the game are economic, personnel and ideological and include programs, contracts, symbols, offices, services, and patronage.[14] The contestants include public officials and hopefuls, party leaders, outside interest groups, the organized bureaucracies, the press, officials and bureaucracies of the state and federal governments.[15] Each participant follows his or their own strategy toward goals set.[16]

The governmental process as so conceived occurs among these contestant, within the 'rules of the game' for the stakes available. Each participant has their own strategies. The body of the study focused on the functions of the City's political system and its institutions; conflict and accommodation in each functional area of policy making; and the relationship between the functional agencies of the City and the central administration of the City's public sector. The authors concluded from this survey that "the decisions that distribute the prizes of politics in New York issue from a large number of sources:"

> Each source consists of two parts: a 'core group' at the center, invested by the rules with the formal authority to legitimize decisions. . .and a constellation of satellite groups seeking to influence the authoritative outcomes of the core group.[18]

These corp groups found their identification in the functions they performed in the system. Thus "party leaders are the corp groups for nominations; . . . functionally specialized officials constitute the core groups for decisions in particular functional areas of governmental action."[19] Thus, for example, decision making in education matters becomes the domain of an alliance of education department officials, officials of the teachers associations, higher officials in the State and federal education administrations and parent and community groups which organize in attempts to influence the disposition of educational resources. Similar patterns are discerned in transportation, health, and other governmental service functions.

From a different perspective Theodore Lowi[20] came to a similar conclusion. Lowi's views were based on his discovery of recurring patterns of appointments in different periods of the City's history. He noted the transition from predominantly party influence on appointments to that of functional interest groups.[21] The decline of the party machine left no single elite in the City's government.

Rather he shows that there were in fact established structures of power in the City but that 'power tends to develope along subject matter of functional lines.'

> Every area of governmental activity or policy tends to develope its won distinct political process or power structure. To control for areas of policy is to expose arenas of power.

Lowi held that the transition from party to bureaucracies--from central control to 'arenas of power'--left New York more efficient in terms of service delivery but less accountable; in his apt phrase 'well run but poorly governed.'

There is an interesting aspect to the development of this perspective. For Sayre and Kaufman New York's political system was open and well governed although they felt there were serious perils associated with such a multicentered system. For Lowi, the lack of any central authority in the City was critical. While the City was historically moving toward a pluralistic one it was also moving away from a well planned one. Douglas Yates completes the movement along these line in his The Ungovernable City.[23] Yates held that the central problem with the cities of today is that the fragmentation of their political and governmental systems has lead to failure of city governments to resolve

their problems.[24] Rather than have any virtue, and with the community power debate mooted, highly articulated urban governing structure becomes the source of urban problems.

The utility of this model in understanding New York's policy process is well established; particularly when viewed from the central administration of the City and if confined to the traditional service delivery functions of New York's government. At the margins of the political system--where residual interests are not organized or organized well--and in other functional areas such as redistributive programs and capital infrastructure planning, the model presented is less persuasive in providing an adequate framework for understanding the City's governance. Thus, it should be seen as a special case of a more general if as yet unarticulated, theory. It is not my purpose here to completely review such a model before assessing the process impact of the 1975 financial crisis, but simply to indicate some touchstone for assessing changes induced by the crisis.

Can New York's governance still be understood through the concepts and categories of Sayre and Kaufman? On one level yes. In even the briefest of conversations City officials and other participants in New York politics point out how things are much the same. Individuals and groups still attempt to influence policy outcomes. Unions officials

continue to call assistant commissioners; community leaders meet with City Councilmen; bureaucrats shuttle to Washington seeking favorable interpretations of federal statutes; and politicians still court the attention of the media. The 'game' of politics continue: the advocacy, the bargaining, the conniving. Political resources are still mobilized and agreements are still struck. Both the idealistic petitioners and the quick fixers remain. In this sense nothing has changed.

The consistency is misleading, however. While the game continues, the rules have changed. Politics is quite different from the way Sayre and Kaufman saw it. The institutional setting is different. The relative powers of principal institutions are different. The roles played by some significant actors are also different. Four major changes in New York's local policy making process evident during the financial emergency period can be identified: 1) Centralization of Policy Making; 2) an Enhanced role for the Mayor; 3) further weakening of the City's legislative bodies; and, 4) a more stable policy making process. Although most of these changes are likely to remain for some time it is clear that they were present and dominant during the three year financial emergency period.

CENTRALIZATION OF POLICY MAKING

Sayre and Kaufman reduced their fundamental finding to a single sentence: "The decisions that distribute the prizes of politics in New York City issue from a large number of sources."[25] They went on to describe a political system characterized by a weak center surrounded by a series of functionally organized 'decision centers'; or what Lowi called 'arenas of power.'[26] It is this central observation of Sayre and Kaufman's that some cite in concluding that New York's is a bureaucratically dominated political system. A weakness at the center and the scale of New York's public sector sets an interesting stage for an important political dynamic. According to Sayre and Kaufman a devolution of allocative decision making toward the bureaucracies emerges. The paths of democratic accountability are undermined as decisions are legitimated on the grounds of expertise. Agencies tend to become the captives of provider and clientele groups, all specialized around function, while escaping control of central institutions which must justify decisions on broader community wide bases. It is for this reason that New York has always been cited as the model of the bureaucratic political system and Sayre and Kaufman's work as a hallmark in understanding this modern phenomena.

Sayre and Kaufman did identify several 'intergrating'

factors countering the tendency toward devolution. Following standard group theory they wrote of five such mechanisms that "help to keep the system from flying apart." The first was overlapping membership among different groups. Under the group model this helps contain conflict as no group powerful enough to upset the 'balance of forces' is also so isolated that its gain might outweigh the loss. Second--and a corrolary of the first--many at the 'decision core' of one issue area where also influential in other issue areas. In their vocabulary 'core groups' from one decision center also serve as 'satellite groups' in others. The third factor pulling New York's political system together are the 'overhead agencies.' Among these are the Office of Management and Budget, the Corporation Council, the City Planning Commission and others. These cut across the barriers to the integration of the functional decision centers. The isolation of agencies, and their 'capture' by client and supplier groups, can thus be partly overcome. A fourth factor is the presence of some 'general' interest groups. By general we do not necessarily mean collective but merely non-functional. Thus, while the Citizens Budget Commission clearly avoids focusing on any one issues area and, instead, concentrates on the budget as a whole, its reformist politics reveals a business and class bias which belies claims of

being a 'public' interest group. The final factor identified by Sayre and Kaufman were the central institutions of government themselves. The mayor, the comptroller, and the City Council and Board of Estimate, as well as the courts, all have broad mandates of legitimate authority and oversight prerogatives.[28]

Nevertheless, on balance, Sayre and Kaufman saw these integrative factors an inadequate in the face of a quite real decentralization of policy making in New York. The resources at the disposal of the bureaucracies are immense; the personnel extraordinary when compared to those of City Hall. "What is perhaps most surprising" they wrote, "is the failure of the central organs of government to provide a high level of intergration for the City's system."[29] There was very little added to the center of New York's governing structure in the ten years between the second edition of Governing New York City and the onset of the financial crisis. Indeed, the three major changes that did occur in that period--increase of State and federal intervention, pressure for community participation and the final success of unionization of public employees--all added to the problem. The financial crisis occurred in the face of the continued development of strength in the local decision centers. One result of the crisis is that several

new centralizing forces have been added to the City's governance. Their relative effectiveness can be debated and, doubtless, will be tested in time. But they are present.

New Institutions:

To those institutions at the center of New York's political system--the Mayoralty, the City Council and the Board of Estimates--have been added three new ones: The Municipal Assistance Corporation, the Emergency Financial Control Board (FCB) and the Special Deputy Comptroller. Each brings new political resources to the governing center thus supplementing those of institutions which have existed, more or less, since the reorganization of the City's government at the turn of the century. The MAC and the FCB carry with them the prestige and power of the Governor while the OSDC brings those of the State Comptroller. Each had a broad constituency among upstate legislators, the critical committees of the Congress, and New York's own banking and business sectors during the financial emergency period. Although their powers were extensive during the crisis, while the City had no access to the private money markets, it is likely some of their powers will be diluted as New York again finds a market for its debt.

Financial Planning and Politics:

Throughout our discussion of the financial crisis a distinction between fiscal politics and financial politics has been maintained. While fiscal politics is generally reflective of the functional arrangement of power--the representatives of different issues areas compete for available resources--'financial politics' cuts across disparate issue areas. The decisions at the center of 'financial politics' involve choices among options that are 'non-functional'--labor costs, debt service, capital maintenance, capital construction as well as issues including productivity, borrowing. At the core of financial politics is the financial plan. Institutionalizing financial planning resulted in the centralization of fiscal and financial processes in New York. The financial plan assumes the integration of different fiscal and financial ingredients previously dispersed. Among these are revenues estimation and budgeting, the expense budget, cash flow, capital planning and intergovernmental receipts. The very nature of the plan and its concentration on available resources leads directly to central financial management. Moreover, the Financial Plan also expands the jurisdiction of central authorities over the different agencies of the City's government and provides a potential sanction against them in central control

over cash flow. This is particularly important in regards to the semi-autonomous agencies: the Health and Hospitals Corporation, the City University, the Board of Education among others. The tendencies toward functional isolation are now presented with a forceful counter-tendency: centralized financial planning.

New Policies:

Sayre and Kaufman had noted that often instruments at the command on central decision makers were not used to influence policy making in the separate 'decision centers.' Elected officials particularly tended to simply accept agreements reached by consensus within the individual issue areas rather than impose broader interests over the functional negotiators. The political costs of such intervention might have been higher than the potential benefits. This was particularly true in regard to labor policy.[30] The discretion over intervening was wide. But the financial crisis led to a more activist role by central authorities. The Mayor, his Deputy Mayors and the Comptroller all were forced to impose directly new policies. Three possible explanations can be offered. First, it was required by Financial Emergency Act and EFCB policies. Second, the contraction of resources available led to the choice of

new policies. Third, there suddenly was a broad constituency for a more activist Mayor to become involved in the financial affairs of all agencies. That is: New Yorkers as tax payers became the fundamental electoral base; not New Yorkers as service consumers. Whatever the reason, we saw the Mayor pursue more activist policies in regard to labor relations and the covered organizations. Unlike the institutional changes and the incorporation of financial planning, both permanent alterations in the City's governance, policies are policies. They can be changed. As the crisis subsides and the political pressures mount, the inherent tendency for politically accountable officials to delegate responsibility to the 'decision centers' may again come to the fore. This will be dependent on the three factors mentioned: whether there is an electoral constituency for comprehensive policies; the availability of 'slack' resources; and, the degree of political pressure from the MAC or FCB.

ENHANCED ROLE OF THE MAYOR

Tied closely to a new centralization in policy making is also an enhanced role for the Mayor. There has long been a debate over the position of the Mayoralty in New York's government.[31] Is the office a 'strong' one or a 'weak' one?

Against normal criteria the Mayor of New York appears to be one of the more powerful of American mayors. Usually New York's government is described as a 'strong mayor/ council' form of government. In that, New York is similar to most other very large American cities. In fact, charter revisions made in 1963 gave the mayoralty an even greater role in governing New York. By every measure of legal authorization the Mayor of New York City is powerful.

Nevertheless, there has also been a consistent theme in the social science literature on New York pointing to the relative weakness of New York's mayoralty. This weakness is not in regards to the City Council, however, nor is it based on legal criteria. Rather it is a weakness toward the immense bureaucracies that compose the City's service delivery mechanisms and the accumulated political resources available to them beyond statutory authorization. In this regard New York is not alone. Theodore Lowi has stated the point in his devilishly polemical style:

> No mayor of a modern city has predictable means of determining whether the bosses of the New Machines--the bureau chiefs and the career commissioners--will be loyal to anything but their agency, its works and related professional norms.[32]

For Lowi, New York is 'the most modern of cities.'

With specific reference to New York Jewel Bellush

critiqued the "Myth of Mayoral Omnipotence.' In a 1973 report done for the Citizens' Union,[33] a local public interest group, Bellush argued four factors limited the real power of the Mayor. The first was the division of power among the mayoralty and New York's two legislative bodies, the City Council and the Board of Estimate. The second was the public service bureaucracies. Third was the remnants of the Democratic Party organization which, now too weak to exercise control over the City's government, was still strong enough to present opposition to mayoral leadership. Lastly, where were state and federal restrictions. Together these four factors cast real doubt on whether New York's governmental structure is in fact a 'strong mayor/ council' form of government.

The financial crisis has resurrected this debate. When the MAC was originally created many saw its powers as a 'coup.' While not removing Beame from office it did seem to remove the 'office' from Beame. Serious journalists[34] not directly involved in the crisis viewed the MAC, and then the EFCB, as a severe blow to mayoral authority. His legal powers now subject to new outside monitoring agencies the Mayor appears much weaker still. The fact is, however, that the powers of the Mayor have been reinforced as a result of the financial crisis. True, he is now

subject to greater restrictions by external authorities--particularly the State--but in terms of the policy making process some of the real weaknesses of the New York mayoralty have been addressed. The impact on the Mayor thus runs in two directions: his legal powers have been circumscribed; his political powers enhanced. Both internal and 'environmental' factors have contributed to these new mayoral powers.

The Indirect Influence of the MAC and the EFCB:

Contrary to what might be expected, the creation of the Municipal Assistance Corporation and the Emergency Financial Control Board were to the benefit of the mayoralty, although in ways not immediately apparent. The legislation that created these two agencies also required the City to report to them in a wide area of fiscal and financial matters. It must present data in support of the financial plan, cash flow estimates for approval of federal and MAC loans, information in regards to labor contracts and major capital constructions, budget and revenue estimates and other data. But as the MAC and EFCB legislation required these of the City so too it required them of the Mayor. If there were any doubt beforehand that the Mayor was in charge the EFCB and MAC assumed it. Moreover, the MAC and Financial Emergency

Acts gave both these institutions extensive jurisdiction. Where the mayor had previously had problems effecting 'central' policy the financial controls imposed by these statutes added important managerial controls and potential political sanctions over the major 'semi-autonomous' agencies. The Mayor was thus made responsible for the financial performance of these agencies under the financial plan. He was also backed by the stiff penalties the Emergency Act imposed on those who might violate important provisions of the Act. Thus, as the MAC and the EFCB forced a sudden centralization in the fiscal management of New York's public sector they did so <u>through the Mayor</u>.

<u>New Management Techniques</u>:

One of the many explanations offered for the near bankruptcy of New York City is poor management. Management, however, is a relative term. It might be better to say that the development and introduction of new management systems by the City did not keep up with the growth in the City's expense budget. Of course, underlying this might well be the lack of any political incentive to do so. Each year the public sector in New York was getting a little more out of control. The people at the top could less and less predict what would happen at the bottom.

The financial crisis brought with it a new Taylorist mood; a new wave of reformism. Efficiency, scientific management, increased productivity and financial expertise were constant themes among critics of New York's fiscal performance. Businessmen became directly involved in oversight of New York's management through the MAC, EFCB, the Mayor Management Advisory Committee and in the new Deputy Mayors. They brought with them a businessman's faith in control and management. If their faith was untried, and often proved inapplicable to public affairs, two major new management programs were introduced which bolstered 'command, control and communication' and which also enhanced the role of the Mayor.

The first of these is the Integrated Financial Management System. IFMS was introduced as a requirement of the Financial Emergency Act. It is largely an information system built around central computer facilities and a proliferation of terminals throughout the City's central and agency administrations. The key word in the IFMS title is 'integrated.' IFMS integrates fiscal and financial information in two directions: across financial functions and across different agencies. In terms of financial functions, IFMS brings together most citywide management issues including "budgeting, payroll, purchasing, accounting centers and financial reporting

of all kinds." In terms of agencies IFMS brought together all bureaus including the 'autonomous' agencies.[35] Not incidently, it also reconciled differences in accounting methods between the 'Executive Budget' as approved by Mayor and City Council and the Annual Report of the Comptroller which is the final official 'books' of New York. Combined with its design based on "Generally Accepted Accounting Principles" IFMS also facilitates external monitoring of New York's finances.

The second major managerial reform is the introduction of the Mayor's Management Plan and Reporting System (MP/R). Unlike the IFMS system the Mayor's Management Plan was not a direct outgrowth of the MAC or Financial Emergency Acts. It was introduced into the City's management structure through amendments to the City's Charter drawn by a special state study commission. The voters approved the proposal, however, in November of 1975; one of the most difficult months of the crisis. The MP/R system is essentially an adaptation of Management by Objectives systems from the private to public sectors. The plan requires individual agencies to provide specific goals with the agency's overall 'mission.' It also requires them to report regularly on progress toward these goals. To judge performance of individual agencies and programs quantitative indicators

suitable for that agency or program are chosen and used.[36] The City Charter amendments only required the MP/R system of 'mayoral' agencies, but at least in the case of the Board of Education, the largest of the non-mayoral agencies, a voluntary agreement included the schools' system under the plan.

There is a long and fruitful tradition in American political science which is skeptical of the effectiveness of such management reforms.[37] More sophisticated politically than either accountants or financial managers these scholars provide a 'real life' critique of the economic rationale toward policy making that underlie most attempts at greater managerial effectiveness. The persistent criticisms by Wildavsky, Lindblom and others is the major but not the only example. Public policy is simply too important to be contained by the categories of management experts. But a complementary point is sometimes missed. If viewing management reforms through the perspective of a 'political rationality' serves to defuse excessive claims of management experts it should also shed new light on management systems as political resources, within the political process. Both of these new management systems (IFMS and MP/R) have important political effects. They can enhance accountability, prediction and control. In doing so they also undermine the avenues of

potential independent action available to the bottom rungs of the City's bureaucracy. And they are ready made justifications for imposing sanctions on wayward bureau chiefs. Moreover both feed directly into the Mayor (or to be more exact his Office of Management and Budget). We needn't accept all the claims made for adopting more rational approaches to policy making to recognize that improving management adds new political resources to any chief operating executive's arsenal. In New York City's case, that means the mayoralty.

Expanded Executive Office:

A third source of increased mayoral power--at least during the emergency period--is an expansion in his Executive Office. While much of this was temporary to resolve the financial crisis it should be noted. Two new commissions were created under the Mayor to deal with the types of analyses made necessary by events. The first was the Temporary Commission on City Finances. This commission, chaired by former Appellate Division Justice Owen McGivern, issued sixteen interim reports over a two year period in addition to a final report in June of 1977. The work of the commission's staff served as an important information base on which the City often drew arguments in its negotiations

with State and federal officials. The second commission was the Mayor's Management Advisory Board. This group was chaired by Richard Shin President of Metropolitan Life Insurance Company and made a series of recommendations on how the City's efficiency could be improved. The membership lists of both commissions read like a "Who's Who in New York" with several members interlocking with the EFCB, MAC or major New York banks.

In addition there was also an expansion in the mayoral staff with an increase in the number of mayoral assistants and importantly an increase in the role of Deputy Mayors. Created in the 1936 Charter the office of Deputy Mayor has had an uneven history. Its duties and functions can be prescribed by the Mayor and different Mayors have used it differently. LaGuardia was suspicious of it seeing a possible division of powers.[38] Lindsay, however, brought the office to the fore. During the crisis it went through some change. The banks and the State forced Mayor Beame to appoint a Deputy Mayor for Finance to at least partly relieve the credibility problem faced by the City. He also appointed City Planning Commission Chairmen John Zuccotti as First Deputy Mayor, a new title. The Zuccotti appointment solved the potential conflict between the 'Mayor's' Deputy Mayor and the banks. Zuccotti used the

office as if he were a City Manager. He was concerned with the day to day operation of the City and much of the important political negotiations--particularly labor negotiations--that the crisis brought.

Taming Demands:

For the most part these three factors already mentioned which added to the Mayor's powers are administrative and internal to New York's government. By its very nature 'better management' implies greater control. It focuses on a point, and that point is the Mayor.

Beyond this there are changes in the larger policy making environment. The creation of the MAC and then the EFCB (FCB), as well as the general political atmosphere of the financial crisis, gave the mayor new instruments to 'tame the demands' of many groups and individuals in the City. The political vulnerability of New York's mayor is well known. Without a powerful party apparatus behind him election or re-election is not assured. John Lindsay tried to deal with this problem by establishing a series of neighborhood City Halls. Robert Wagner won re-election in opposition to the 'bosses' by relying on the City's public employees. In a local political system without a powerful party the tendency among officials is to seek whatever means

available to mollify constituencies. The EFCB (FCB), MAC and the financial crisis in general have given the Mayor important and credible arguments for not complying with constituent deamnds. "I agree," he might say, "but those bastards over at the EFCB would never go along." The disappointment is not tied politically to the Mayor. It can be diverted to these insulated agencies. During the crisis the MAC and EFCB served as a lightning rod for some criticism of the mayor. Again, we see a mutually re-inforcing relationship between the 'crisis regime' and the mayor. The continued presence of the MAC and the FCB will make this change more or less permanent.

The Crisis as Crisis:

A final factor contributing to an enhanced role for the Mayor is the nature of the financial crisis itself. There should be no surprise that in the face of substantial policy changes and institutional rearrangement the role of the City's chief executive has been augmented. A tradition of commentary on the American Presidency[16] has described how that office expanded its powers and responsibilities during national crises. In times when the 'general interest' must come forward, and systems transition is required, it should be expected that those accountable to broad clienteles

would find a greater role in the process of change. While not the only city wide elected official he surely is the premier actor among those with a broad political base. In addition the increased competition for resources sent decision making up the managerial ladder. At the top sat the Mayor.

FURTHER WEAKENING OF THE LEGISLATIVE BODIES

Competing with the Mayor and the bureaucracies for control over policy formation are the City's two legislative bodies: the City Council and the Board of Estimate.[40] As a group the City Council exerts little influence when compared to the Mayor. The legal powers of the Council are few. Most members see their jobs as part time spending the bulk of their energies at legal practise or other private concerns. Nevertheless individual members have accumulated some influence over policy through other channels. One such channel is the party. The Majority Leader of the Council will exercise some power. Others might use the media as a vehicle to some additional influence their offices might not provide. Indeed, in recent years one thinks of City Councilmen in New York more as media 'ombudsmen' attempting to alter agency service decisions than as being directly involved in critical policy making. Being in an already inferior position

to the Mayor, the impact of the financial crisis on the Council's role in policymaking has been small and mostly toward reinforcing older relationships.

The Board of Estimate is a different matter, however. Sayre and Kaufman once described the Board as the central institution in New York's government. They based their assessment on the cumulative powers of the Board particularly over finances, personnel and City property. In the intervening period charter revisions and administrative reforms had gove far toward increasing the Mayor's formal power relative to the Board of Estimate. If the Mayor was too weak to govern New York in 1975 this is not because the Board of Estimate was dominant. The impact of the crisis on the Board of Estimate is an odd one. On one level there is no change. The powers of the Board remain the same and it continues as an important competitor of the Mayor's. On another level, however, the EFCB (FCB) has replaced at least one major function the Board of Estimate served. With its powers in the area of finance the Board of Estimate was a check on the Mayor's budget. It was a monitor on revenues, taxes and a 'balanced budget.' One irony of the financial crisis might be that the weakening of the Board's powers in the preceding twenty years, largely supported by reformers and academics alike hoping to provide New York with

a modern centralized executive, did not necessarily lead to a strengthening of the Mayor. It simply made him more vulnerable in the absence of party structure behind him. In the three years of the financial emergency the EFCB played a role required of the Board of Estimate in the late fifties. Ever since, the FCB has played that role.

STABILIZING THE POLICY MAKING PROCESS

In a number of papers, and his book The Ungovernable City,[41] Douglas Yates has argued that the basic problem with urban governance is inadequate policy making processes. For Yates, the urban crisis can largely be ascribed to a faulty system of matching available resources to legitimate demands. Regardless of money available the instability of policy making, its fragmented institutional setting and the constantly changing characteristics and arenas of policy making, have exacerbated the difficulties in formulating and implementing public policy.

The notion that the policy making process itself is at the center of many urban problems is not without credit. Contrast, for example, the staid and stable bargaining processes described by 'pluralists' and incrementalist analyses typical of political science in the 1960s, with the upheavals of the sixties and the politics in New York that led up to

and through the financial crisis. In fact the two major political changes wrought in response to the urban problems of the sixties may well have contributed to making the policy making process more complex. One was the tremendous increase of State and particularly federal involvement in local affairs. The other was an attempt to provide greater community participation in decision making. Constantly changing intergovernmental recipts and requirements combined with constantly changing community leaders and agendas added to the problem of formulating and implementing policy.

We have seen one case of this layered confusion in the politics of the financial crisis. When the MAC was created and later attempted to effect City policy as a sign of 'good faith' to creditors, policy making was disrupted. Planning was adopted to the values of external clienteles. Locally accountable officials were sometimes excluded from policy making. It would not be too much of an exaggeration to state that this uncertainty and conflict over jurisdiction between the MAC and City Hall left New York without much of an effective government for nearly two months.

But the creation of the EFCB did solve much of this problem. As a body which precipitously excluded large forces of the City's policy from decision making it

simplified (and heavily biased) decision making. The inclusion of the Governor and State Comptroller on the Board meant that the problems of the City would take first priority on the agenda of these two critical state actors. Thus there was a sorting out and clarification of State policy toward New York City. In addition the Financial Emergency Act and the creation of the EFCB resolved the conflict in power between the City and the MAC in the favor of the State. Policy making could be conducted in a more consistent and settled environment at least during the emergency period. In enhancing the role of the Mayor and in forcing better coordination among State and City officials the crisis effected for those three years a more stable policy making process.

Unlike the other process impacts outlined here, the stabilization of policy making during the emergency period is the least certain to remain a permanent characteristic of New York's politics. With the financial crisis focusing the attention of all to a common policy agenda the potential for real policy difference between the Governor, Mayor, MAC and the EFCB was minimized. As the crisis recedes and other individual priorities come to fore the complex web of new institutions and statutes left by the financial crisis may well complicate policy making. What, for example, would

happen if the Governor of New York were not a 'liberal' democrat from New York City but a Republican or Conservative representing upstate and suburban interests? The possibilities for conflict detrimental to stable policy making are quite real.

CONCLUSION

The major methodological concern for any process impact study, such as this, is the integrity of the model against which change is to be measured. The model of New York's political system before the financail crisis of 1975 has largely been seen here as a synthesis of Sayre and Kaufman's view of the City and those other researchers who critiqued and expanded upon them: a system of isolated decision centers growing around functional issue areas each dominated by a particular functional elite which resist central control and external threats to their own dominance, all operating in a social environment of diverse political identities and a maldistribution of political influence.

Underlying Sayre and Kaufman's view of politics in New York was a 'game' perspective drawn from the private maximizing rationale of microeconomics. Groups were the actors, strategies the subject, process the conclusion. Given such a perspective the notion of change is a relative

thing. It does not come about through an abandonment of the 'game'--politics in any regime in any period can be seen this way--but in the rules of the game, its arenas, and the relative position of the most important actors. Similarly, while bargaining and accommodation continue as characteristics of policy making (even if the potential for serious conflict is much higher) other factors have changed in the politics of New York since its 1975 financial crisis. First, the focus of aggregative politics has switched from the Board of Estimate, City Council and Mayoralty to the MAC, EFCB and Mayoralty. Second, the Financial Emergency Act, the MAC Act, and other managerial reforms introduced by the 'crisis regime' have changed the 'rules of the game'; as has the new environment of resource scarcity. Third, the MAC and FCB have created new central arenas of political conflict and accommodation. Lastly, the power of the Mayor has been greatly enhanced in dealing with nearly all groups and organizations endogenous to New York's political system.

New York's policy making system seems more and more to be moving away from the interest group/bureaucratically dominated system described by Sayre and Kaufman as well as by Lowi to a new type of local governance; a politico-managerial form of government. The primary institutional

competitor with the Mayor is no longer the Board of Estimate or the City Council as one should expect in a Strong Mayor/ Council form of government but the MAC/EFCB complex. The devolution of allocative decision-making to the bureaucracies re-inforced by unionized employees, has been reversed for the moment at least. Decision making has become more centralized.

NOTES

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3. Robert Lineberry, Review of Greenstone and Peterson, Race and Authority in Urban Politics; APSR, Vol. LXXI, March, 1977, No. 1; pp348-349.

4. Wallace S. Sayre and Herbert Kaufman, Governing New York City: Politics in the Metropolis, (New York: W. W. Norton, 1965).

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10. Professor Raymond Horton of Columbia University has made similar comments in a paper delkvered to the 1977 American Political Science Association convention held in Washington, D.C. See his conference paper "Sayre and Kaufman Revisited: New York City Government in the Post 1965 Period."

11. Sayre and Kaufman, Governing New York City, preface, p. xxv.

12. Sayre and Kaufman (1965), Chapter 2, pp. 39-112.

13. Sayre and Kaufman (1965), pp. 92-108.

14. Sayre and Kaufman (1965), pp. 108-111.

15. Sayre and Kaufman (1965), pp. 39-64.

16. Sayre and Kaufman (1965), pp. 67-89.

17. Sayre and Kaufman (1965), Part III pp. 249-699.

18. Sayre and Kaufman (1965), p. 710.

19. Sayre and Kaufman (1965), p. 710.

20. Theodore J. Lowi, Atthe Pleasure of the Mayor (New York: Free Press, 1964).

21. Ibid., pp. 215-219.

22. Ibid.

23. Douglas Yates, The Ungovernable City: The Politics of Urban Problems and Policy Making, (Cambridge, Mass.: The M.I.T. Press, 1977).

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25. Sayre and Kaufman, op cit., p. 710.

26. Theodore J. Lowi, At the Pleasure of the Mayor, p. 230-232.

27. See, for example, two testimonies published in the late seventies which both recognize the contribution of Sayre and Kaufman to the study of bureaucratic politics: Scott Greer, "Bureaucratization of the Emerging City," in John Blair and David Machmias, Fiscal Retrenchment and Urban Policy, (Beverly Hills, Calif.: Sage Publications, 1979), p. 73. And Robert Lineberry, Equality and Urban Policy, (Beverly Hills, Calif.: Sage Publications, 1977), p. 150.

28. Sayre and Kaufman, op. cit., p. 714-15.

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30. See: Sara Silbiger, "Collective Bargaining and the Distribution of Benefits: Education in New York City," in, Dale Rogers Marshall, ed. Urban Policy Making, (Beverly Hills, Calif.: Sage Publications, 1979). Also Raymond Horton, Municipal Labor Relations in New York City, (New York: Praeger, 197).

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CHAPTER 8

INTERGOVERNMENTAL RELATIONS

Cities are part of States. States are part of the Union. The American federal system has become increasingly interdependent. In addition to the impact of the financial crisis on the internal arrangements of New York's government, the crisis also effected relations between governments. While intergovernmental impact has been most pronounced on the State-City level, it has also been an important milestone in the ongoing development of the American intergovernmental system.

CITY-STATE RELATIONS

Legal Status and Home Rule:

A giant of a City, New York is a legal pigmy. A long tradition of judicial interpretation had gradually but consistently undermined any legal competence independent of State authorization. By 1857 New York courts had "announced the doctrine of legislative importance in

relation to local government."[1] By the turn of the century, the Supreme Court had incorporated the 'Dillon Rule' into its own interpretive decisions on local-state affairs. It was Justice Dillon of Iowa who declared that there was no inherent right of local self government beyone that prescribed by State Constitutions or legislative action.[2] Thus, as the responsibilities of local government have consistently expanded the constitutional basis for independent action was circumscribed. Local government existed at the sufferance of the States.

This legal inferiority created a temptation for state legislatures to intervene in local affiars. Indeed, the history of State-Local affairs in the nineteenth century is largely one of tension over the form and degree of local autonomy. Particularly in the Northeast cities, where modernization and immigration created the basic social issues of the day, the conflict over local rule was really conflict over the direction of policy and finances[3] between local political machines on one side, and reform and rural interest on the other. In New York two major attempts to dilute local machine power can be quickly identified. In the 1850s the State took over the police forces of the cities of New York and Brooklyn and created a State dominated Metropolitan police force.[4] The other

action was the expulsion of Boss Tweed and, more important, repeal of major portions of a new 1870 City Charter which had given local institutions (and thus the party organization) substantially more freedom of action.[5] In fact, the reorganization of New York into greater New York in 1898 was largely a Republican and reformist attempt to dilute the power of Tammany.[6]

In response to excesses by some States many reform minded scholars and citizens presented 'home rule' as a legal solution to State domination. Although there are variations in the wording among different States the concept generally provides local government with greater legal standing by placing limitations on intervention. This was done through a combination of statutory and constitutional restrictions on legislature and through home rule charters. In a formal institutional sense 'home rule' is a delegation of State powers to localities as a basis for more vital policy making processes.

But there is a rub. William Munro, one of the earliest systematizers of information on local affairs, argued that the very inclusion of State interests in the process of writing a home rule charter went against its intent.[7] Wallace Sayre noted an ambivalence among most of the old 'reformers' toward the idea of home rule.[8]

On the one hand it would aid greatly in creating a more viable, integrated and stable local government. This, of course, was a prerequisite to the hierarchical and executive focused governance they desired. But it also had the potential of turning even more power over to local machines, the ultimate enemies of reformers. The ambivalence toward New York City's 1870 charter among what would be considered reform constituencies might be explained by this unresolved conflict. How was the problem solved? The tension between local and state interests had largely been dealt with by granting local governments legal home rule charters while, at the same time, expanding the policy role of the States. New and less severe modes of intervention were created. Service floors were prescribed, health and building regulations imposed, civil service regulations mandated and, important for our case, restrictions on local finance grew. These increased policy prescriptions made the claims for legal home rule ring hollow. In Sayre's words:

> ...the doctrine of home rule for cities, not unlike the doctrine of states' rights, has never achieved either legal or operational clarity. It has remained fundamentally a slogan, to be used selectively in behalf of specific actions but not as a comprehensive plan.[9]

Home rule should thus be seen in two quite dissimilar senses: the legal, and the political. In the legal sense

New York City is protected against State interventions in matters "relating to its property, affairs or government." In the real politics of every day, however, the prescription of legal competence to the City is largely subverted by individual State policies and constitutional strictures.

The financial crisis effected these two aspects of home rule. In the first place the crisis and its surrounding legal and political manuvering has highlighted the underlying legal inferiority of the City to the State. There has been no successful attempt to argue in court that the creation of the MAC or the EFCB violated the home rule provisions of the State Constitution. In terms of the legal status of New York nothing has changed.

In a more political view of 'home rule' there is change evident, for the most part to the City's loss. The traditional conflict between state and City has been resolved largely by granting wide legal powers to the City but imposing numerous individual policies which restrict those powers. Thus State priorities are imposed on City. The EFCB, MAC and OSDC are further steps in this pattern. They reveal two things. First the relative ineffectiveness of the home rule provisions of the State constitution. These new institutions could be created without recourse to change in the Constitution. Second they show the wide range of

options available to State government if it needs them. The EFCB and the MAC can be understood as a major new step in a continuing tradition of extra constitutional restrictions on local autonomy.

Financial Limits:

More specifically the crisis has also effected the legal relations between City and State in the area of finances. The constitutional and statutory restrictions imposed by the State on the City have now been supplemented by a permanent administrative apparatus. The history of State and local debt problems can largely explain the growth in State restrictions on local finance in New York[10] and throughout the country.[11] First, in the mid-nineteenth century, and in response to a spree of state and local defaults in the 1830s and 1870s statutory restrictions placed on localities and constitutional restrictions on the States. Then constitutional limits were placed on localities. These were amended and strengthened in response to later difficulties, particularly in the depression years of the 1930s, and special exclusions were made for some capital needs. As the underlying political function of debt limits is to 1) rationalize the relationship between the market and local borrowers; and 2) to ensure State

priorities over localities, the New York financial crisis brings their effectiveness into doubt. It was not dishonesty that undermined their efficacy, however, but the nature of the limits and the development of local government in New York City. Debt limits are almost always tied to real property taxables and refer to capital expenditures. As other sources of income developed for localities other types of borrowing, and other purposes, also evolved independent of the funded debt financed by real estate taxes.[12] First was the revenue bond financed on the revenue streams of major projects such as bridge tolls and other user fees. The revenue bond served as a major financing source for many public authority 'empires,' like that of Robert Moses.[13] The legal autonomy and difference in the source of debt service of such public benefit corporations led to an exclusion of obligations contracted by these authorities from the total local debt limited by constitutional restrictions. A second development, in a sense of continuation of the first, was the creation of the 'moral obligation' bond. Governor Rockefeller of New York was a leader in this type of authority financing which, like revenue bonds, were serviced through user fees on agency projects, but which were backed by a promise that funds would be transfered from general funds in the event these authorities ran into

financial difficulties. In New York State, at least, moral obligation bonds were used to finance new efforts at publically supported housing, medical, and higher education facilities.[14] A third major change was the extraordinary expansion in the use of short term credit. This was at least partly the result of the growth in intergovernmental transfers.[15]

All three of these developments are outside the type of debt arrangement traditional debt limitations were designed to control. Except for Tax Anticipation Notes, none are tied to real property taxes. Each is serviced through other, and newer, revenue sources: user fees, government leases, State and federal aid. Thus, there was little or no dishonesty among City officials in regards to debt limits. Nor can we be certain that these limits 'failed' in New York City's case since, as far as they went, there really was no problem. New York did not default on its general obligations. Rather, what the City's financial crisis reveals is that the type of debt controls prevalent and contained in moral state constitution were designed to deal with a type of debt once unique and now merely part of government's total borrowing behavior. The increased interaction between government on one side and the bond and money markets on the other cannot really be dealt with

through the 'passive' type of debt limits formalized in State Constitutions.

One impact of New York's financial crisis may well be the emergence of a newer and more active kind of debt monitor.[16] The oversight powers of the MAC combined with the extensive political powers of the EFCB, and later the FCB, have created what in effect is an 'administrative debt limit' on all types of borrowing regardless of revenue funding and agency issuance. Rather than rely on the legal formalities of constitutions with court interpretation and legal sanctions or enforcement, the new 'debt limit' is the financial plan, interpreted and modified by State officials who are invested with an ultimate sanction over local government: control over cash. If one political function of debt limits has been to stabilize the relationship between the public borrower and the private lender then that is exactly the function currently performed by the MAC/EFCB complex in New York City.

Service Functions:

In an advanced and managed political economy, however, it is not the legal underpinnings of policy that matter as much as the responsibilities and financing of individual services and functions. Underlying the general trend toward a more

active government has been a changing emphasis on the relative activity of each of the three levels of government. Whatever we might think of the States as being the 'missing link' in the federal system, most likely conditioned by a two decade long alliance between center cities and a Democratic controlled White House, the States have slowly become the most forceful of the three layers of policy making.[18] The financial crisis has strengthened this trend in New York.

When the financial crisis broke many outside New York City did not understand why the City's government administers such a wide variety of service. Some have ascribed this extra burden to a liberal electorate and near sighted politicians willing to indulge its whims. Although there may be some truth in these views there are certainly many other reasons for New York's active government.

One is the lopsided distribution of population in New York State. For more than 120 years the population of New York City had been no less than a third of the State's total population. In fifty years between the reincorporation of the City and the exodus to the suburbs--1900-1950--at least fifty percent of the State's citizens lived in its largest city. As a result there was little support outside the City for the State to make the kind of expenditures and administer the type of programs that such

a concentrated population required. Nevertheless, the complement to a dense population is a dense source of wealth. There was thus a substantial tax base within New York City to provide those services upstate and rural interests might oppose. Incidently, most quantitative and comparative studies of expenditures in different states tend to confirm the general thesis that in the wealthier 'state areas' local governments are more active as they have greater fiscal capacity.[19]

In addition the process of urbanization required New York to become an innovator in the delivery of services. Since the early part of the nineteenth century it has been the center of the largest area of trade and manufacturing in the United States. Combined with its population density these factors led to the early introduction of a wide range of functions including free primary and secondary education, public higher education, sanitation facilities, public health and hospitals, street lighting, urban parks, mass transport, police, highways, water supply and innumerable less important functions. The pressure to spend has always been strong in New York as there is so much to do.

As a result of these and other factors New York City became responsible for a wide variety of services that either were not introduced in other areas of the country until much

later or, when they were, the States or other jurisdictions performed them. By the 1960s the City was still performing a number of functions that had been transfered to State governments or other levels as assigned by many other of the States. The most important of these is higher education, public hospitals, courts and corrections, and the municipal administration (and partial financing) of welfare programs. While it could be argued that the extent of these services, and their rapid expansion in the 1960s, are the result of constituent and group pressures, that the City performed them in the first place is really more a factor of the City's history.

The financial crisis has had a limited effect upon the functional assignment of services between City and State. In some cases it has not. In fact, one of the most important non-decisions of the financial crisis was the refusal of the State of New York to ever seriously consider absorbing the local share of welfare and medicaid payments. Except for a complete take over of the City's debt there are few policy changes by the State that could so significantly help New York City. Overnight the operating deficit of the City would be eliminated. More than fiscal relief, however, State administration and finance of redistributive programs might also divert demands for social

change away from hard pressed cities and toward the State and Federal governments where they more properly belong. In an American context, much of social reform means redistribution and cities are at a great disadvantage if forced to pursue such policies. But a combination of rural and suburban interests, particularly in the State Senate, as well the fiscal problems of the State itself, excluded the issue from the policy agenda of the 'crisis regime.'

Nevertheless, several other things have changed. Possibly the most important case is in the area of higher education, a State dominated function in virtually every other state and large city. Although the extensive City University system is still undergoing change as a result of the crisis it is clear that the State of New York will have a much greater role in its operation and financing. Suggestions that it be included into the State University of New York have been rejected, but a reorganization of the governing body of the university, formerly the Board of Higher Education and now the Board of Trustees of the University will result in a majority of State representatives rather than City appointees. This, and a tuition rate at parity with SUNY students, was the price of supplemental funds for FY 1976 and for a long term refinancing of CUNY. The State now funds the senior colleges and professional schools of

CUNY fully. Budgetary control had been transfered to the State in the middle of the financial emergency.

Similarly, although less dramatically, the crisis has effected the funding and administration of courts, probation and corrections. In FY 1976 New York City spent $271.7 million on these three functions, only slightly less than the approximately $300 million spent by the State. The remaining 57 counties of New York State together expended on $163.9 million. Under State laws then effective localities were required to fund 75% of total state wide court costs and 50% of probation costs. The services were administered by the State. But localities administered and financed local corrections. New York City and the other 57 counties financed and administered facilities for adults and adolescents awaiting trial and, "generally speaking, all convicted persons serving sentences of less than one year." The State maintains facilities for longer sentences.[20] While this arrangement might mean small detention centers for upstate counties with relatively low crime rates and less burdened court schedules, in New York City it results in high security detention centers throughout the City and municipal operation of the Riker's Island facility. It's no wonder New York City was funding nearly a third of the total State wide costs for courts, probation and corrections.

The impact of the crisis, combined with a strong unified court movement, has gone far toward transfering court costs from localities to the State. In alliance with other cities and counties, New York pushed for full absorption. By FY 1984 the State will fund 100% of these costs. But in the areas of probation and particularly the expensive corrections function change has still not taken place.

State Urban Policy:

The Rockefeller years, like the sixties in general, were good years for the cities of New York. Not that their problems were solved, but both State and federal governments dedicated new resources to the cities and put them high on the nation's priority list. New York was a leader among States in urban program innovation. Strong executive leadership and a generally healthy State economy allowed for some important initiatives. One of the most important was the creation of the New York State Urban Development Corporation in 1968 (the legislation passed on the day of Martin Luther King's funeral). The UDC was initially capitalized at one billion dollars. In cooperation with local UDCs, but also with authority to override many local regulations, the development corporation was active in

housing and other redevelopment projects in central cities.[21] In addition the State increased its aid to cities, including New York, jntil it too became subject to the limits of its taxing power. The State also created the Metropolitan Transportation Authority by joining several previously disjointed transport agencies in the New York metropolitan area including the city's subway systems, the Long Island Railroad, the Triborough Bridge and Tunnel Authority and commuter rail service into Westchester and Putnam Counties and the State of Connecticut.

But by the early 1970s, the State itself was having financial problems. Rockefeller had become one of the most forceful proponents of General Revenue Sharing[22] as one way of dealing with fiscal stress on Albany. The New York City financial crisis was one more step on the way to reorganizing the limits of the State's government. When Hugh Carey took office on January 1, 1975 the new Governor announced that the "days of wine and roses were over." Within two months the centerpiece of the State's urban policy, the Urban Development Corporation, was in default. By March the State was already involved in efforts to avert default by New York City. Before the year was out it too was involved in a 'mini financial crisis' of its own.

The factors that had contributed to a vigorous State

policy toward the cities in the 1960s had largely passed by 1975. The New York State economy had been severely hit by the recession of 1969 and particularly the 1974-75 recession. With the cities quieter, budget problems of its own and the de-facto defaults of the UDC and the cities of New York and Yonkers there was little support for any new initiatives. Their political impact on rural and suburban interest have virtually precluded the possibility of creating a State-wide constituency for new efforts. The emphasis of the State in the late 1970 was not to solve the social and economic problems of the central cities but simply to hold the pieces of urban governance together.

The Process of City-State Relations:

Recent scholarship in federalism has tended to emphasize the process aspects of intergovernmental relations over its public law. This is the result both of developments in political science and the increasing interdependence among the levels of government. At present intergovernmental relations is largely conceived as an interactive dynamic of demands, finances, policies and impacts that move up and down the intergovernmental ladder.[22] The financial crisis has left a legacy of increased interdependence between the City and the State which, in turn, has effected

the process of their relations.

The crisis has left the City with a permanent and daily relationship to the State through the Control Board, the MAC and the Special Deputy Comptroller. The degree of State-Local cooperation during the crisis went far. It went so far, in fact, that the City and State would transfer funds back and forth to help each other deal with potential cash flow problems. At one point the City had saved a State agency from default by transfering $20 million in City funds through a confusing path which required the cooperation of State Comptroller, the City Comptroller, the Mayor, the Board of Estimate, the trustees of several state funds and public authorities.[24] Similarly, when the City's Educational Construction Fund was in danger of default in October of 1975 the State, the EFCB and the MAC cooperated in dealing with that problem.[25] The closeness and informality of the type of relationship between the State and City that developed during the crisis is a far cry from the more formal legal conception of federalism that still dominated twenty years ago. It would be ironic, indeed, if the near permanent administrative contact between City and State that the FCB represents and the mingling of credit that the MAC represents led to a greater integration of the State and City governments to the potential disadvantage

of upstate and suburban interests that had demanded fiscal monitors in exchange for their support of aid to New York City. The informality of policy making implied in the exchange of revenue through intergovernmental channels has been now institutionalized in the MAC, OSDC, and (E)FCB.

The nature of this new level of cooperation is also interesting when examined against current research on intergovernmental relations. The EFCB and MAC are both executive dominated institutions. The Governor is chairman of one, he appoints a majority of the other's governing-board. Both deal with the City through the Mayor. This tends to reinforce a general theme of the 'new federalism.' Under the 'old federalism' cooperation was in small areas and only after approval by legislatures. In the 'new federalism,' with large public sectors on all levels of government, contact tends to be dominated by executives and particularly bureaucracies.[26] While easing communication there are potential problems in the informality of the relationship. First, actors are not as accountable as they might be. Second, it relies heavily on a good working relationship between the State and City and particularly between Governor and Mayor. What would happen, for example, if the type of divisive and hostile relations between former Governor Rockefeller and Mayor Lindsay were to now develop;

or if an upstate or suburban conservative were placed at head of the Financial Control Board? This aspect of New York's new governance provides one of its weakest uncertainties.

One additional impact of the crisis on State local relations is the effect the new State institutions have on the City's bargaining status in intergovernmental channels. They can either support or undermine the contentions of New York City's advocates. For example, Carey became a strong backer of increased State aid to the City University. Both the MAC and the EFCB recommended greater urban aid and particularly welfare reform and national health insurance. But neither the Control Board nor the MAC, both State agencies, ever made a concerted effort in support of State assumption of the local share of welfare costs. The State was able to diffuse City demands for reform by 'passing them on' to Washington. The MAC and the EFCB (FCB) are able to significantly influence the City's bargaining status in the intergovernmental political process. With their 'monopoly' on credible financial information they can add legitimacy to, or fatally undermine, the City's case in 'topocratic' bargaining. They became, in Easton's vocabulary, 'gatekeepers' for the City in federal bargaining channels. Without their support

the demands of New York City on the other two levels of government are not likely to go very far.

External Stimulus; Internal Change:

A final point--admittedly more speculative than others--can be made. Largely on grounds of utility I have been pursuing a 'group' analysis through much of the text. As most of the serious studies on New York's politics have been written in that tradition it provides a touchstone to more theoretical measures of change. One of the common observations of group analysts is that intergroup bargaining systems often become quite conservative when the policy environment changes markedly. The incremental and mutually accommodating process of adjustment characteristic of this model of politics is incapable of producing qualitative change in policy that new circumstances present since, underlying the conflict and cajolling of group dynamics, is an essentially compatible set of interests. If threatened, the group consortium will protect that latent consensus. Many progressive writers in the group tradition, aware of the problem, have offered their own solutions. Some call for greater executive leadership (Dahl, Sayre, Pressman, Yates); others for a revitalization of public law and public administration (Lowi);[28] and still others view confrontation strategies to break

intergroup rigidity (Lipsky, Cloward and Piven).[29]

One way of explaining the mounting deficits in New York City's budget would be to follow this basic line of explanation and argue, as some have,[30] that the group basis of the City's politics did not adapt easily to the decline in the tax base that naturally followed structural changes in the City's economy. Given the Mayor's previous weakness politically and all those dependent on the city's budget there is little surprise that change was slow. The decentralization of power into groups and the City's bureaucracies offered little fluidity. Rather than adapt spending to revenues; revenues were matched with spending, and then some. At least that is one way of explaining things. In this case, however, what broke the 'pluralist stagnation' was not executive leadership or protest politics but an external jolt supplied by the financial community and institutionalized by the State of New York. The type of policies demanded by those who would supply funds for the City were not likely to be generated spontaneously by the actors involved in the 'game' of New York's politics. Both the State and the financial community forced new rules on City policy making. In addition the State often served as a mediator among contending groups in the process of retrenchment[31] as the increasing politicization of the EFCB shows. If viewed as

the product of a rigid group consortium the financial crisis and the role of the State of New York in it can be seen as a process of external intervention and stimulus toward internal change and reform.

State-City relations thus changed importantly during the financial emergency period, and probably permanently. We will refrain for the moment from summarizing and turn beforehand toward the impact on Federal-City relations.

CITY-FEDERAL RELATIONS

Fiscal Affairs:

It is, by now, a commonplace to write on the role of the federal government in local affairs. Scholars continue to sift through the various programs introduced in the 1960s and early 1970s for their effects on local governance. While no consensus has been reached on the details of fiscal and process impact of federal grants, all agree that they have been important.

The justifications for grants in aid are nearly as plentiful as are the number of programs. To economists they deal with both positive and negative spillovers from one jurisdiction to another.[32] They also redress imbalances in

wealth and need from one State or locality to another; thus, they are geographically redistributive. Grants also redress fiscal imbalances between the levels of government. Indeed, one justification for General Revenue Sharing when introduced initially in the mid 1960s as a 'liberal' program was as a mechanism to distribute expected (but never materialized) federal surpluses to hard pressed localities, New York among them.[33] One further benefit of federal money being a substantial portion of local revenue is that it tends to stabilize state and local expenditures in times of economic downturn thus serving a countercyclical function from Washington's macroeconomic perspective and being somewhat reassuring from the local perspective.[34]

More important are the political implications of federal aid programs. The essential political characteristic of categorical grants and a partial characteristic of block grants is that they impose central priorities over local governments without building an alternative structure of local service delivery. It allows the federal government to upgrade local spending on federal priorities while keeping some measure of administrative control in local hands. Although this fits easily into the American prejudice for 'small' government it also greatly complicates the local process of planning and policy making. In addition, requirements for

matching funds might seduce States and cities not previously known for their largess into higher appropriations. This was an important factor in the South where per capita expenditures by state and local governments were quite low.

Whatever the political intentions of massive transfers of federal revenues to localities three conclusions on their process effects seem reliable. First, there was an increased dependence of the cities on Washington. In terms of leadership that meant reliance on the White House.[35] In terms of legislation that meant reliance of shifting congressional coalitions and committee priorities.[36] In terms of statute interpretation that meant reliance on the discretionary power of the bureaucracy. Second, the complication of finance could easily be turned into a political confusion. Demands that should have been focused on Washington were focused on City Halls. Demands that rightly belonged on the steps of City Hall could be, if a mayor or other official were crafty, diverted to Washington. Third, grant aid from the central government, as well as the states, split the expenditure process from the revenue process. The temptation for local officials to act irresponsibly was greatly increased. . .

Possibly the most important effect of this halfway path of federal transfers to relieve local fiscal pressure was that it avoided more serious reform in local governance.

Metropolitan reorganization, a re-ordering of State-local tax structures, or more community oriented service delivery were options passed over. Although federal aid helped urban fiscal strain for a while it could not deal with more basic problems, as the financial problems of New York, Cleveland and Chicago illustrate. The rising tax revolt, which has its own intergovernmental implications,[37] is further evidence that the nature and function of local government is changing in the American federal system. When looked back upon, the New York City just before the financial crisis may be the highwater mark of local government activity in the American federal system.

Cash Flow in Intergovernmental Bargaining:

The major changes in City-Federal relations effected by the financial crisis are the two loan programs approved by Congress to assist New York in its short term financing. The first was passed in December of 1975, the second in the Spring of 1978. Change came two ways. One was through the process of executive and legislative action on the two bills. The other was through their administration by the Treasury Department.

As legislative process the route toward federal loans had effects on two levels. The first was in terms of the type of policies and the level of intervention required of the

State of New York before the White House or Congress would seriously consider aid. It was over nine months between initial state reaction to the City's financial plight and final approval of a federal loan program. The State had advanced the City several hundred million in cash, created the MAC and appropriated new funds, created the EFCB and added even newer funds. Throughout, both Carey and Beame made requests of the White House, the Federal Reserve Board, the critical committees of the Congress and the Treasury Department. It was not until mid-November, 1975, after President Ford had delivered his televised speech to the National Press Club (FORD TO CITY: DROP DEAD) that White House opposition to some kind of aid dropped. At this point Carey and the State Legislature made its final major legislative attempt to solve the crisis. It passed the Debt Moritorium Act, which Ford later said was equivalent to a declaration of bankruptcy. From that point on to the passage of the loan program was only a matter of four weeks. Had the federal government moved in earlier than December of 1975, the political solution to the financial crisis would have been qualitatively different.

Within the Congress the process of passage also set important limits on policy making in New York. The final program, as the name implies, was a seasonal loan program.

A number of other options were rejected, the most important of which was loan guarantees. (It should be remembered that the Financial Plan adopted in October of 1975 by the EFCB assumed that the federal government would eventually aid New York with loan guarantees.) The difference is critical politically. Guarantees would allow the city to go directly to the market with a minimum of federal supervision. The loan program would require quarterly review of the City's finances by the Treasury Department. Guarantees would not have provided Washington with a direct enforcement mechanism. Seasonal loans did. Every four months City budget officials would have to justify their use of federal funds. If they could not an ultimate sanction was available. Treasury could cut off the City's seasonal loans and, if no other compensating source could be found, it would have to default and reorganize. There was an additional policy implication of the seasonal loan program which had effects on policy making in New York. With all capital construction delayed the City was left with two basic borrowing needs. One was cash flow; the other was its floating debts. Loan guarantees could solve both these problems. Not only could short term cash be found but much of the City's debt could be restructured. Seasonal loans could only solve the cash problems of the City. Moreover, the limits on the aggregate

amount of the program set a severe constraint. Successive bills introduced through the Fall of 1975 consistently lowered the amount of loans to be offered. In the end the Congress authorized the Treasury to make quarterly loans to the City of New York, at an interest rate one percent above federal Treasury note sales, up to $2.3 billion outstanding at any one time. Each choice made by Congress, under pressure from the White House and with resistance from Senator Proxmire's Committee set restrictions on New York's government.

The potential for effecting policy making in New York these political resources gave the Treasury Department are most apparent in the administration of the loan program. At two important points the Treasury Department exerted its influence. Both have already been touched upon in our cases. The first was in the form of a report by Arthur Anderson and company in January of 1976. It contributed to Carey's hard stand on the enforcement of the Financial Plan in March of 1976. The second was in June of 1976 in anticipation of the labor negotiations and revision of the Financial Plan for its last two years. In a June 16th letter to Carey, Treasury Secretary Simon raised three points in regards to those negotiations: fringe benefits, pension costs and the status of the Board's own labor policy. The Secretary concluded:

> Mr. Chairman (Carey) both the Congress and the New York State Legislature have determined that the Emergency Financial Control Board must play a central role in the resolution of the fiscal and financial problems of New York City. The Board must act, and act promptly, to develop and approve a Financial Plan (for FYs 1977 and 1978--ed.) consistent with objectives of both Legislatures, and, at the same time, it must begin to address the longer range problems in detail. As I have indicated, certification and submission to me of a Financial Plan which meets the statutory standards and addresses the concerns set forth above is a prerequesite to our consideration of any loan request in fiscal 1977...[38]

This was the most direct use of the 'cash' influence allowed the Treasury Secretary by the loan program. Three points can be made on Simon's letter. First, the implied threat would be impossible if the loan program had been structured differently. Secondly, Simon made full use of that advantage to effect local policy making, something he defends in his pamphlet A Time for Truth.[39] Thirdly, Simon describes the relationship envisaged by Congress between Washington and the EFCB despite the fact that the statute which authorized the loan programs does not mention it. Through the Federal Loan Agreement--the actual contract between the City, the Mac, the Treasury and the EFCB--the Control Board took on monitoring responsibilities for the Treasury Department.

In addition to giving the Treasury Department important influence over City policy making the loan program also brought in the Congressional committees with jurisdiction. As Chairman

of the Senate Banking Committee William Proxmire became involved with the politics and administration of New York's affairs. Oversight hearings are regularly held by the Banking Committee where the Governor of New York, the Mayor, the Comptrollers and the MAC Chairman report on the City's fiscal and financial status and argue for new forms of urban aid. And yet, even with committee staff and assistance of the GAO, the ability of Congressional Committees to monitor the extensive public sector of New York City is limited. One function of the financial plan is to provide, in a summary form, a guidepost to the external oversight mechanisms like the congressional committees. But even here the Congress has become dependent on the new State agencies which serve similar functions: the MAC, EFCB and OSDC. What the Senate Banking Committee really does is monitor the monitors.

The renewal of the loan program in 1978 set another opportunity for Congressional influence over local policy making. Attempts to re-enter the bond market without MAC aid had mostly failed despite the efforts made during the financial emergency period. Part of the problem was that the federal aid program never allowed a complete restructuring of the City's debts but, as we have already stated, only solved the cash flow aspects of the financial emergecny. When the City went back to Congress in 1978, this time with

the backing of the White House, loan guarantees were again requested. With substantially less opposition this time, although Senator Proxmire remained unconvinced, it was achieved. The prerequisites were several, however: continuation of a State board similar to the EFCB (now the FCB); a completed set of labor agreements with only marginal increases in compensation; a new financial plan and continuation of the financial planning process to ease external monitoring; a 'balanced budget' in FY1982. The continuation of a federal loan program thus also required a continuation of the major policies and components of the 'crisis regime.'[40]

CONCLUSION

Certainly there are other, more subtle effects of the financial crisis on intergovernmental relations not so far mentioned. (For example: How has the crisis and the new fact of limited resources effected the way the City administers federally financed programs?) Yet the overall impression left is that the crisis has tended to reinforce ongoing trends in the federal system rather than reverse old ones or introduce fundamentally new ones. Three general comments can be made. First, the new legal limits effected by the crisis, and the fact of limited fiscal resources has pushed the activity of government up the intergovernmental ladder. Local government

in New York City will not be able to do anything considerable on its own. Conversely, innovation will become heavily dependent on State and Federal governments and the interests that dominate those respective levels of policy making. This is particularly true in areas where the City is quite weak, such as capital construction. Nearly every major capital project either under construction or seriously planned will be financed either by federal or state funds. That means external priorities will tend to dictate infrastructure development. The second broad theme reinforced is the increasing importance of the State. Despite the alliance between cities and Washington which underlie the programs of the 1960s it is the States which have slowly moved to the fore of the federal system. The history of relations between City Hall and Albany have always been unusual. The City government traditionally performed more functions and spent more money than Albany. Now that the City has reached its limit and New York State has become even more active the broad trend toward State dominance has become manifest in one of the more 'asymetric' of States. Thirdly, the intervention of Washington into local affairs, a hallmark of the 'new federalism,' has reached a new level. Through a new channel of intergovernmental borrowing the Treasury Department and the Congress have become involved in everything from the City's budgetary process to its labor policy. Nothing done

by New York's government is exempt from federal scrutiny; or politicization.

NOTES

1. Anwar Syed, The Political Theory of Local Government, (New York: Random House, 1966), pp. 65-67.

2. According to Dillon:

> It must now be conceded that the general weight of authority denies in toto the existence, in the absence of special constitutional provisions of any inherent right of local self government which is beyond legislative control.

See Syed, op. cit., Chapter 3. For New York Court applications, see: Frank J. Macchiarola, The Theory and Practive of State and Local Government Relations in New York State," Albany Law Journal, Vol. 33, No. 3; Spring, 1969.

3. See: C. K. Yearly, The Money Machines: The Breakdown and Reform of Governmental and Party Finance in the North, 1860-1920 (Albany, New York: State University of New York Press, 1970).

4. David Ellis, et al., A History of New York State, (Ithaca, New York: Cornell University Press, 1967), pp. 296-298.

5. Leo Hershkovitz, Tweed's New York, Another Look, (New York: Anchor/Doubleday), pp. 192-193.

6. Sayre and Kaufman, op. cit., p. 15.

7. William Bennet Munro, The Government of American Cities, (New York: The MacMillan Company, 1931); pp. 80-88.

8. Wallace Sayre, "New York City and the State;" in Sigmund Diamond, ed., Modernizing State Government: The New York State Constitutional Convention of 1967; (Proceedings of the Academy of Political Science, 1967).

9. Ibid., p. 107.

10. Frank Macchiarola, "Local Finance Under the New York State Constitution with an Emphasis on New York City," Fordham Law Review, December, 1966. Robert W. Cockren, Maria L. Vecchiotti and Donna M. Zerbo, "Local Finance: A Brief Constitutional History," Fordham Urban Law Journal; Vol VIII No. 1 1979-80; pp. 135-183.

11. Annmarie H. Walsh, The Public's Business (Cambridge Mass.: The M.I.T. Press, 1978), Chapter 2; James A. Maxwell, Financing State and Local Governments, (Washington, D.C.: The Brookings Institution, 1965).

12. See: M. David Gelfand, "Seeking Local Government Financial Integrity through Debt Ceilings, Tax Limits, and Expenditure Limits: The New York City Fiscal Crisis, The Taxpayer Revolt, and Beyond;" Minnesota Law Review, Vol. No. 63, No. 4, April 1979.

13. See Robert Caro's biography of Robert Moses, The Power Broker, (New York: Knopf, 1974), pp. 729-735.

14. Walsh, op. cit., pp. 263-277.

15. On the problems of intergovernmental aid and the need to finance programs in the interim between local expenditure and State and Federal reimbursement see a report by the Temporary Commission in City Finances, Synchronizing State and Federal Aid to New York City, January 1976.

16. A former analyst for the EFCB has done a comparative study among the New York City Control Board experience, traditional statutory and constitutional restrictions and the Massassachusetts "tax cap" for their relative effectiveness in controlling local expenditures. Robert S. Bennet, Increased State Involvement in City Finances: The Need and the Means, unpublished thesis, Harvard Law School; May, 1980.

17. For some comment on potential legal changes in the sections of the State Constitution that govern local finance as well as statutory reform see: New York State Legislature, Assembly Ways and Means Committee, New York's role in the Fiscal Affairs of its Local Governments: New Directions for an Old Partnership, May, 1979.

18. Ira Sharansky, The Maligned States Policy Accomplishments, Problems and Opportunities, (New York: McGraw Hill, 1978).

19. Thomas Dye's Politics Economics and the Public (Chicago: Rand McNally, 1966) was among the first major study in this school. See R. Hofferbert review of the literature in James A. Robeinson, ed., Political Science Annual, op. cit.

20. Temporary Commission on City Finances, Raymond Horton Staff Director, State Assumption of Court, Probation and Correction Services in New York City; January, 1976; pp. 1-7.

21. John N. Kolesar, "The States and Urban Planning and Development," in, Allan Campbell, The States and the Urban Crisis, (Englewood Cliffs, N.J.: Prentice Hall); pp. 119-127.

22. Robert H. Connery and Gerald Benjamin, Rockefeller of New York: Executive Power in the Statehouse (Ithaca, N.Y.: Cornell University Press, 1979), pp. 393-416.

23. See for example: Parris Glendening and Mavis Reeves, Pragmatic Federalism, (Pacific Palisades, Calif.: Palisades Publishers, 1977); Michael Reagan, The New Federalism, (New York: Oxford University Press, 1973); Charles Jones and Robert Thomas, Public Policy Making in a Federal System, (Beverly Hills, Calif.: Sage Publications, 1976); Jeffery Pressman and Arron Wildavsky, Implementation, (Berkeley, Calif.: University of California Press, 1973); Donald Haider, When Governments Come to Washington, (New York: Free Press, 1974); Suzanne Farkas, Urban Lobbying; Mayors in the Federal Arena," (New York: New York University Press, 1971); Deil Wright, Understanding Intergovernmental Relations, (North Scituate, Mass.: Duxbury Press, 1978).

24. Facts on File, Lester A. Sobel, ed., New York and the Urban Dilemma, op. cit., pp. 138-139.

25. Minutes, EFCB; September 26, 1975. New York Times, September 25, 1975.

26. See Samuel Beer's APSA presidential address, "Federalism, Nationalism and Democracy in America," American Political Science Review, Vol. 72, p. 17 (March, 1978). Also Diel Wright, op. cit., particularly Chapters 8-10.

27. Dahl, Who Governs?, op. cit.; Sayre, "The Mayor," in Annmarie H. Walsh and Lyle Fitch, Agenda for a City, (Beverly Hills, Calif.: Sage Publications, 1970); Jeffrey Pressman, "Preconditions of Mayoral Leadership," American Political Science Review, Vol. 66, 1972, p..511; Yates, "The Mayor's Eight Ring Circus," in Dale Rogers Marshall, Urban Policy Making, (Beverly Hills, Calif.: Sage Publications, 1979).

28. Theodore Lowi, The Politics of Disorder, (New York: Basic Books, 1971).

29. Michael Lipsky, Protest in City Politics, (Chicago: Rand McNally, 1970); Cloward and Piven, Regulation of the Poor, op. cit., and several articles in The Politics of Turmoil, (New York: Pantheon Books, 1974).

30. See Raymond Horton's paper delivered at the 1977 APSA Convention, Washington, D.C., "Sayre and Kaufman Revisited;" and a similar but more elaborate paper published in the Urban Affairs Quarterly under Donald Haider's name, December, 1979. Also, Paul Kantor and Stephen David, "Political Theory and Transformations in Urban Budgetary Arenas: The Case of New York City," in Dale Rogers Marshall, Urban Policy Making, op. cit.

31. This, by the way, was one of the major functions played by the courts during the financial crisis. In a series of cases involving unions, the City, the State and the City's agencies, the courts became involved in rulings which inevitably had distributional effects during retrenchment.

32. Wallace Oates, ed., The Political Economy of Fiscal Federalism, (Lexington, Mass.: Lexington Books, 1977) pp. 222-223.

33. See the congressional hearings from initial acceptance of the program: General Revenue Sharing (8 volumes), hearings before the Committee on Ways and Means, H.R., 92nd Cong., 1st sess., June, 1971.

34. See: John J. Kirlin, "Adapting the Intergovernmental Fiscal System to the Demands of an Advanced Economy," in Gary Tobin, ed., The Changing Structure of the City, (Beverly Hills, Calif.: Sage Publications, 1979).

35. Cloward and Piven, Regulating the Poor, Chapter 9.

36. Demetrios Caraley, "Carter, Congress and the Cities," in Dale Rogers Marshall, ed., Urban Policy Making, op. cit.

37. John Blair and David Nachmias, "Urban Policy in the Lean Society," in Blair and Nachmias, eds., Fiscal Retrenchment and Urban Policy (Beverly Hills, Calif.: Sage Publications, 1979).

38. William Simon to Hugh L. Carey, June 16, 1976.

39. William Simon, A Time for Truth, (New York: Berkley Books, 1979).

40. See the Congressional Hearings on the renewal legislation: New York City Financial Aid, Committee on Banking, Housing and Urban Affairs; U.S.S.; 95th Cong., 2nd ed.; June, 1978.

CHAPTER 9

PRIVATE ECONOMIC ELITES

The third of our dimensions is the most contentious. American democracy has alwasy been sensitive on this issue because it brings to the surface the contradictory implications of two claims to its legitimacy: private property rights and equality. Thus some dismiss the category as polemical while others insist on its primacy. The tension was, of course, reproduced in the professional social science literature through the community power debate. The intensity of that debate was displayed in the classic texts to the study of urban politics with many setting forth arguments to prove or disprove the contention that economic influence, unevenly distributed, is a potent force in effecting public policy. The audience too drew up sides, using the arguments developed to push for or resist change in American society. Some, however, quite rightly asked whether the two positions need necessarily be mutually

exclusive. Others preferred to move out of any discussion which focused on 'power' -- a term of elusive definition -- and instead concentrate on system, or policy process, or 'structure' as revealed through comparative analysis. One measure of the maturity of community studies may be that we no longer need argue over the role of private economic influence but simply assume it. The cutting edge of more recent theorizing is in creating the categories which will most accurately reflect the true role of economic influence without exaggerating it -- and thus falsely minimizing the real effectiveness of local institutions -- or dismissing it -- and thus relegating political science to a legitimating ideology in the neo-marxist sense.

The major road to such a synthesis has been a dual perspective of the role of market influence over policy making. Whether called direct influence or indirect;[1] process or structure;[2] or, as we shall, the 'micro' or 'macro' level of analysis, the basic point is that business influence is of two varieties. The first is in their role as direct participants in the policy making process. The second is indirect but ever present influence exerted through the policy making environment. Through such a dual perspective we can most easily see the real and seemingly contradictory effects of private economic power both during the emergency

period and after. On the 'micro' level, the level of the policy making process, the most striking impression is not the omnipotence of business influence, but its limits. On the 'macro' level, the level of the community as a whole and its interaction with the economy and other areas of the region and nation, we see clearly the forces pushing City government toward more business oriented policies. Each perspective tempers the excesses of the other.

THE MICRO LEVEL

One oddity of concentrating economic power in the United States is that in those cities where it focuses there is a fragmentation among the business community. The susceptability of local policy making to a business pressure tends to increase if the economic base of a city is a narrow one. With only a handful of major employers local political leaders can hardly ignore the demands of company officials; thus the problems of the 'Company Town.' But in the large city, the corporate capital, where multiple functions are performed and a diverse business community exists its influence is also diverse and sometimes in conflict. Even with the recent decline in its manufacturing base[3] the economy of New York City is the mose diverse of any city in the country.[4] There are identifiable segments

to New York's economy, clusters of companies and corporations which have similar if not identical interests. There are the international corporations based in the City: I.T.T., RCA, EXXON, Mobil, PAN AM, Union Carbide among others. In 1971 a full 23% of the 'Fortune 500' were headquartered in New York City. There are also the international banks in lower Manhattan which dominate the City's financial community. But there are also more locally oriented commercial banks along with the savings and loan associations. The major utilities form one segment -- New York Telephone and Consolidated Edison -- and the large nationally oriented communications industry another. There are also the real estate interests: the large managing and owning firms centered in Manhattan's business districts and the smaller housing and rental interests. And there are manufacturing interests, the most significant being apparel, electrical equipment, printing and publishing, food processing and chemicals. This extraordinary economic diversity leaves little room for any common policy stance among different companies and corporations; setting an environment instead for shifting coalitions among different companies and sectors of the City's private sector.

What is the more important issue for us, however, is whether any or all of these companies and sectors ever bother to become involved in local policy making; and if they

do are their policy goals broad or specific? In the case of the mid-town multinational corporations few find any involvement in local policy to their advantage. I.T.T. is surely more interested in their share of world markets than public policy in New York City; Chile, more than Queens. On the other hand, some private elites are quite active in local affairs. Real estate interests of all sizes are heavy campaign contributors and more than a little active in the areas of building: regulations, property tax rates and rent control. The large commercial banks, having both international and local interests, are also active in policy making. For over twenty years Chase Manhattan has led other downtown financial interests in pushing for re-development of lower Manhattan.[6] They have pursued the construction of the Westway against local community opposition, the Second Avenue subway, Battery Park City, and a new home for the American Stock Exchange. In recent years they have 'won' on the issue of the World Trade Center and 'lost' on the Lower Manhattan Expressway. Utilities focus in on regulatory policy and environmental controls while retailers watch ready to oppose any increase in retail taxes.

Given the size of New York then it is not surprising that the general pattern of private elite influence on local

policy making is fragmented and focused on issue areas rather than on general policy considerations. It is rare that the interests of any company or economic segment would range across all the activities New York City's government is authorized to perform. Some, heavily dependent on City actions are quite active -- like real estate -- while others are nothing more than citizens demanding standard municipal services -- like the television networks.

The issue area pattern of policy intervention by private elites was largely repeated through the financial emergency period. Some businesses with no interest of their own at stake did not become involved at all. Others moved in only to preserve their interests; while still others mobilized in an attempt to take advantage of the crisis to obtain long sought policy changes.

One interesting case where a private sector group moved to protect their interests was the City's two major utility companies. Usually concerned primarily with regulatory policy which effects their pricing and costs both Consolidated Edison and New York Telephone switched the focus of their policy attention to the City's finances. The reason is simple. The City of New York is the single largest customer of Con Ed, and one of the largest of New York Bell. The threat of default was also a threat to the City's suppliers.

Whether before the passage of Financial Emergency Act when it was still speculative or after, when it was codified in law, the bond and note holders appeared to have first call on City resources in the event of default. If the City did default could it pay its bills? And if it could would the utilities be first on the list? An interruption in the City's cash flow might then interrupt that of the utilities. To counter this possibility both became active. Con Ed used what influence it had in Washington to back City and State requests for financial assistance. In the case of New York Telephone, they 'lent' William Ellinghaus, then president of New York Bell to the MAC board and then to the EFCB where he was a vocal proponent of austerity.

These two are minor, however, when compared to the major New York commercial banks. Their interests were multiple. As bond and note holders themselves their interests rested primarily in the potential of a New York default and the write offs and write downs on the value of the City paper they held that would follow.[7] In addition, as major holders of local property, mortgages, and real estate in the central business districts, these banks were also concerned the impact City default would have on New York City's economy and thus also the health of their own local non-governmental investments. The Financial Community

Liaison Group was the primary vehicle of the local banks in effecting policies. Although succeeding in accomplishing most of its goals it did so only after the State had intervened and made these goals its own.

The bankers did not win every battle, however. One significant defeat came at a point when one might have thought their influence at its height. One of the solutions to the many individual financing or cash flow crises that developed in 1975 was the Debt Moritorium passed by the New York State Legislature in November of 1975,[8] which was claimed by President Ford as an unofficial declaration of bankruptcy by the State for New York City. Without going into too much detail, the Moritorium literally denied use of the State courts to note holders who might wish to use them to enforce their debt contracts with the City of New York.[9] In compensation the State offered a new MAC issue at some cost to the note holders in exchange.[10] While the moritorium act had protected the City, the State government, and the major clearinghouse banks, it was an inconvenience at least to others who depended on the maturity of the notes for paying off their own obligations. Among these was the Flushing National Bank, a community oriented commercial bank in Queens. After a lengthy court battle, the State Court of Appeals overturned the Debt Moritorium

on the grounds it violated the local finance sections (Article VIII) of the State Constitution.[11] The court's order required a renegotiation of the notes with payment in full as soon as possible. Such an order gave the New York banks another major chance to directly influence policy; the first time since the creation of the EFCB and its problems with enforcing the Financial Plan. To help the City and the MAC raise the necessary capital the 'Bankers Proposal' was submitted to State and local officials. In it the major clearinghouse banks requested even more stringent restrictions on City finances, an extension in the life of the EFCB or a similar institution, and an expansion in the types of powers of such an oversight mechanism to include not only the monitoring of finance in the aggregate, but also internal shifts of priorities and the transfer of cash from one agency account to another even if for only administrative convenience.[12]

The situation was different in January of 1977, however. Both State and union officials had been added to those of the City in negotiating with the banks. In addition, with federal seasonal loans in place there was a diversity of cash available. The bankers did not get the new restrictions they wanted.

One of the more forceful attempts to take advantage

of the financial crisis to advance a long sought after policy change was by real estate interests who wanted an end to rent control. The City's most substantive attempt to regulate a market segment, rent control had been in effect since the second world war. In the years immediately preceding the financial crisis the program had been diluted in response to landlord pressures and rising costs. It had also been blamed partly for the crisis. TIME, Barron's Weekly, the New York Times, the Wall Street Journal,[13] some congressional leaders and local real estate interests large and small subscribed to the argument that rent control had encouraged disinvestment in housing since owners could not pass along in full the rising costs of fuel oil, taxes, service personnel and other factors susceptible to inflation. Not only did it contribute to a deteriorating housing stock but it also weakened the tax base and encouraged delinquency among property owners. The subsequent loss in revenue contributed to the financial crisis. Despite the pressure, however, the rent control laws in New York City were not changed in direct response to the demands of the 'crisis regime.' Although there were rumblings among the private members of the MAC Board and the EFCB[14] against the City's government regulating housing costs in New York neither body was competent to make a policy change that important

outside their particular budget and financial responsibilities.

Even where we might think that business interests had succeeded in accomplishing their goals conflict emerges between sectors and even within the goals of some private elites. Again Con Edison is an example. Although it pressed for a financing package for the City in order to avert default, some of the other policies brought in by the State worked against Con Ed's interests. The most important has been the reorientation of City Hall's priorities toward economic development. Electricity in New York City is more expensive than in any other area of the country by more than 37%. Opposition to higher electric rates is now not only a concern of consumer groups but also a priority of the City's government,[15] its banking and real estate interests and others concerned about development. Similarly, the major commercial banks downtown succeeded in the budget and financial arenas but not without costs. Two of the projects which the EFCB suspended due to lack of capital were part of the downtown redevelopment plans urged in the City for many years: The Second Avenue Subway and Battery Park City. The subway will probably never be completed and Battery Park City had been delayed by at least five years. Other projects for business district redevelopment -- such as the Convention Center, Westway, and the new home for the American Stock Exchange --

were delayed several years.

Given the diversity of New York's economic base and the wide number of functions its government performs it is not surprising that when viewed through a 'micro' level of analysis we see conflicting business interests, both within individual organizations and among different private elite segments; nor is it surprising that an uneven pattern of success emerged in accomplishing policy initiatives of the private sector during the crisis.

THE MACRO LEVEL

But a micro or group analysis is not quite enough to judge the effect of the crisis on the relationship between the City's policy making process and private economic elites. A broader perspective is also needed, one which does not reduce the interests of economic elites to merely their own organizational interests. To obtain a clearer picture of the distinction -- and to set the stage for a discussion of the areas where the influence of pirvate economic elites has increased -- we should turn to the interaction of location theory and the institutional implications of metropolitan fragmentation.

One long standing debate in local studies has been between those who see fragmented local jurisdictions as a positive attribute of local governance and those who see it

negatively. The first, largely economists and some political scientists, see several advantages. One is that such a division increases the options available for choice. With different local jurisdictions different sets of taxes and service will arise which, in turn, will attract people and organizations which find a particular community's service-tax mix to their advantage. Thus young married couples would probably find a surburban district with good schools even if at comparatively higher taxes to their liking while the retired individual, not in need of any educational services and probably living on a fixed income, would prefer a community with few services and low taxes. The interactive dynamic, in pure theory based on several problematic assumptions, would lead to an optimality which, sui generis, would be the 'public interest.'[16] Another argument is also made that fragmented governmental units provide a structural incentive toward bureaucratic efficiency. As a monopoly producer of specific services local government is subject to the same tension and trends as monopoly behavior in the private sector. Whether they are absorbed in excess profits, ineffective administrative methods or higher labor prices the basic assumption of monopoly studies is that the lack of competition will lead to an inefficient use of scarce resources. In the absence of some mechanism to price the value of municipal services,

and with the bureaucracy in control of most information that might contribute to a non-market pricing mechanism, resources can similarly be absorbed through ineffective management, high labor costs or duplicative operations. Worse. In the case of government there is a political incentive toward the monopolist and monopsonist -- the agency and its clientele -- to form an easy alliance. The argument then follows that fragmenting local governance into many small jurisdictions presents a geographic check on the service monopoly of most local governments. If services in one locality are provided at a tax effort of 'X' and the same services are provided in another at 'X+n' the difference becomes one measure of the relative inefficiency of the latter community's government and an incentive toward moving into or investing in the first community. If a local government wishes to keep its tax base it must adapt to the competitive environment and attempt to operate more efficiently; that is, provide the same services with a lower tax effort.[17]

Obviously, these two arguments in favor of local fragmentation have an affinity to the classical economist's faith in the automatic operation of the market and that model's implication toward efficiency, optimality and stability. Those who view the multiplicity of local

governments as a problem -- sociologists, planners and some political scientists -- have no such faith in the market's invisible hand. One of the most consistent and potent critiques concern the issue of 'economy of scale.' So many problems which demand public action spill over the arbitrary borders of local government that some extra-local action should be taken. Environmental protection and transportation are two issue areas where efforts would be useless if pursued by only one small government. One response to this problem has been to create a layer of government between cities and states through public authorities and special districts. But these too can become captive of special interests or their own staffs,[18] particularly if they rely exclusively on the bond markets for their financing.[19] A second issue arises in the financing of redistributive programs. While a community may wish to administer genuinely redistributive programs to aid the poor it is at a serious disadvantage if it does. Asymmetries in location of the dependent portion of the population will be reflected in different tax rates in different communities. The inequality in tax burden reproduced by demographic vagaries places locations with large dependent populations at a competitive disadvantage. For this reason a general consensus has emerged among experts in public finance that redistributive programs

should be financed through governments with the widest possible tax base: that is, Washington.[20] A third problem associated with metropolitan fragmentation is the separation of the sources of wealth from the need for services. Lineberry and Sharkansy have referred to the 'irony of wealth'[21] in the modern metropolitan area; at once the center of great wealth and also the locus of great poverty.

In the past few years scholars from the left have added another perspective to the fragmentation of local governance. Kenneth Newton has noted the liberal 'individualism' underlying the public choice literature on which most of the positive arguments for multiple jurisdictions rest.[22] In operation, the splitting up of institutions accountable to the electorate weakens the public's ability to check the excesses of corporations accountable to property. From Paris, Manuel Castells sees the fragmentation of local governance in the United States as a good example of his theory of the spacial dimensions of the class conflict.[23] O'Connor sees the fiscal implications of the City-Suburban division.[24] The emphasis in the suburbs is toward social consumption -- schools, recreational facilities, roads -- while those left in the central cities are taxed to pay for many of the costs of being a production center -- polution,

capital construction, special training programs, unemployment, etc. Roger Friedland and his associates see the political implications[25] of fragmented localities from a neo-marxist perspective. Since there is no 'class conscious' form of political organization in the United States, the multiplicity of political jurisdictions tends to reinforce ethnic and territorial aspects of local politics. The result is structural separation that allows for participation and thus legitimation of the American political system without any real threat to the private accumulation of profits.

Certainly both the positive and negative implications of local fragmentation, as well as the left perspective, are important to local studies. Indeed, we could point to some of the issues presented as persuasive arguments as to why New York was in such poor condition that creditors could move in as forcefully as they did. For our own uses this 'macro' view of cities adds important insight to the political impact of the financial crisis in New York City. The issue of efficiency in service delivery is an example. Throughout the crisis New York's labor costs and, where available, per unit costs, were compared to those of other cities in an attempt to judge New York's relative management performance. While much of this was political argumentation, the underlying assumptions were similar to the ' public choice' view

of local fragmentation. The decline in New York City's tax base, one of the primary causes of its financial problems, creates an environment where policies aimed at maintaining the base will require producing services at lower costs: that is, better management and control over labor costs. If not, the incentive is for individuals and corporations alike to 'vote with their feet.'

More germane to this chapter is how the new policy making environment effects the susceptability of New York's government to the demands of private economic elites. In addition to producing services at lower costs attempts to maintain the tax base have also made economic redevelopment a top city priority. Where once government might have used what little 'slack' resources it had in attempts to reintegrate alienated groups into its political system, now it must spend them on keeping business in New York. Thus a most important source of increased economic influence in New York did not result so much from the creation of the MAC or the EFCB -- although these obviously were important -- but in the structural dynamic between the private direction of the City's economy and the fragmentation of local governance in the United States. A policy aimed at making New York City a more 'competitive' location to hold or attract new investment naturally leads toward subsidizing business.

This can easily be discerned by looking at Mayor Beame's plan for economic recovery issued in late 1976 to cover the 1977-81 period.[26] The plan called for the manipulation and coordination of several policy instruments aimed at stimulating private sector growth in New York City. The most important instrument available was taxing policy. Following the studies and recommendations of his Temporary Commission on City Finances Beame's plan focused in on adapting local tax laws to benefit development, particularly in the City's rapidly deteriorating manufacturing sector.[27] Several changes were envisaged: a cap on real property taxes; elimination of City sales tax on machinery and equipment; phased reduction of the commercial rent tax; increased use of tax abatement to stimulate investment; creation of special assessment districts to localize defrayed costs; and reassessment of property.[28] Each of these new policies were focused at reducing the costs of doing business in New York that were directly imposed by its government. A second set of changes were aimed at reducing the costs imposed indirectly by City government through regulatory policies. Although there would be no attempt to change the most important forms of City regulation -- fire and building codes, labor regulations, etc. -- there was to be a 'cutting of red tape.' The City would make available at its own cost advisors on how to get through City

regulations as soon as possible.

A third policy instrument is for the City to directly subsidize potential investors through land assemblage, leasing of City owned property at reduced costs, special training programs designed in cooperation with business but paid out of general revenue.[29]

In addition the plan also called for a critical change in the local finance section of the State Constitution.[30] Since the major State and local defaults of the late 1840s and 1870s the New York State Constitution had barred the direct loan or gift of monies or property to private corporations. It had been common practice in the first half of the nineteenth century for state and local governments in the old northeast to cooperate with private entrepreneurs in joint public/ private corporations. For the most part these corporations concentrated on infrastructure development -- roads, canals and railroads -- and bank capitalization.[31] They issued both equity stock and debt. Mismanagement and overexpansion, revealed during the depression that followed the panic of 1837 led to the collapse of many, however. One political reaction was the inclusion in many State constitutions of a ban against any future direct subsidies.[32] In New York State the ban is contained in Article VIII, Section 1 and has been in the Constitution, in various forms, since the 1870s.

The City's office of Economic Development argued that the ban, removed or never included in some other State Constitutions, placed New York City at a competitive disadvantage.[33]

A fourth instrument was publically sponsored capital construction. Although the city's own capital budget was tight the recovery plan focused in on funding new construction through state and federal aid loans. The most important projects were seen to be the new Convention Center and the Westway. In addition modifying Community Development Grant programs and federal economic development grants to the City's redevelopment plan was a priority.[34] The basic thrust of the plan, as it pertained to capital construction, was to delay any building that might be referred to as 'provision of life's amenities'[35] and focusing instead on infrastructure development that will make New York a more attractive environment for making money.

The curiosity in all this is that the interaction of competitive locales -- itself an outgrowth of multiple jurisdictions -- leads to a two-fold 'macro' effect on local policy making. The first, seen through the public choice models, creates incentives for more effective and efficient bureaucracies and service delivery. This can only benefit city residents 'as a whole;' that is, New Yorkers qua tax payers. But through a neo-marxist model

something quite different is seen. A trade off is created between citizens qua tax payers and economic elites. In order to make New York more attractive to potential investors city residents must forego some services and continue high taxes while business is subsidized. One estimate held that Mayor Beame's economic recovery program would cost at least $40 million in lost tax revenue in its first eighteen months.[35] And this did not include capital construction costs to be borne primarily by State and Federal governments. The danger here is not that competition between locales will create more effective service delivery thus aiding residents, but that local governments in poor bargaining relations with ever mobile capital can become involved in a competitive underpinning of each to the other leading, in the end, to ever greater subsidization of capital and poorer services for tax payers.

CONCLUSION

The effects of the financial crisis on the interaction of public and private power in New York City are both contentious and problematic. Contentious because they go to the root of any regime's legitimacy in the United States. Problematic because different models, when applied, will highlight different things.

On a 'micro' level, a pluralist-issue area model shows the limits of elite power even during the extraordinary financial emergency period. The distributional effects of retrenchment and the reorienting of public policy toward economic redevelopment have their own uneven effects on different segments of the business community. Moreover, it is also apparent that while private economic influence was greatly enhanced it was not omnipotent. Even if a model drawn from the American neo-structuralists (elitists) were a pplied, zeroing in as it would on the MAC and EFCB as self conscious coordinators or private economic elites, it is still apparent that business interests had their limit. The out of hand rejection of the 'bankers proposal' is an important example of how other interests -- the State government, the City government, the public employee unions -- could be an effective check on the arbitrary use of credit and cash flow as a political resource.

On a 'macro level' we also see an ambivalence. Public choice theorists might actually welcome the financial crisis as an instigation for the City to more properly match its wealth to its programs and to seek ways of accomplishing its goals more efficiently. The neo-marxists, however, would look at the whole procedure as a transfer of funds and power toward the private sector and thus as an aspect of governmentally

mediated class conflict in the United States.

Whatever the perspective it is certain that local government rests on the private sector for a substantial portion of its revenues. In addition government operates in an economic environment which, along with intergovernmental relations, structures local public sector bargaining and thus its policy making process. The previous wealth of New York City gave it more freedom and flexibility than it has today.

NOTES

1. See, in an international context, the same distinction in Johnathan Aronson's, Money and Power: Banks and the World Monetary System. (Beverly Hills, Calif.: Sage Publications, 1977).

2. For example: Arnold Rose, The Power Structure; Political Process in American Society, (New York: Oxford University Press, 1969).

3. For some background on this point see The Effects of Taxation on Manufacturing in New York City, Interim Report, Temporary Commission on City Finances, December, 1976.

4. On the demographic diversity of New York City see: Andrew Hacker, The New Yorkers, (New York: Mason-Charter, 1975). For a dated but still informative study on the City's economic base see Eli Ginsberg, New York is Very Much Alive, (New York: McGraw Hill, 1972).

6. See: Maynard Robinson, Rebuilding Lower Manhattan, 1955-1974, (Unpublished Ph.D. dissertation; Sociology, City University of New York, 1976).

7. See the Testimony of Rockefeller, Walter Wriston of Citibank and Elmore Patterson of the FCLG and Morgan in New York City Financial Crisis, hearings before the Committee on Banking, Housing and Urban Affairs, U.S. Senate, 94th Congress, 1st sess., October, 1975. Also, more generally, see reports submitted to Committee by the Comptroller of the Currency and the Federal Reserve Board on potential difficulties to the banking community nationally and locally.

8. New York State Emergency Moritorium Act for the City of New York, New York Laws, 1975, Chapters 874 and 875. McKinney's Consolidated Laws of New York, 1975 Extraordinary Session.

9. Ibid., section 3.

10. Ibid., section 5.

11. In Supreme Court, New York County, Justice Baer upheld the constitutionality of the moritorium (New York Times, December 25, 1975). Appellate Division court (First Department) rejected Flushing National Bank's appeal on May 4, 1976.

12. Alfred Brittan III, Chairman, Bankers Trust, (On Behalf of Major New York City Banks) to Abraham Beame, Mayor; March 4, 1977; Appendix II, Review Board.

13. New York City Financial Crisis, op. cit., pp. 121-136.

14. Owen Moritz, "Rent Control's on the Line as Board Awaits a Study," New York Daily News, December 15, 1975.

15. See: Economic Recovery: New York City's Program for 1977-1981; Office of Economic Development, City of New York; December, 1976. pp. 35-38.

16. C. M. Tiebout's 1956 article is the often cited starting point of this literature, which follows the utilitarian tradition. ("A Pure Theory of Local Expenditures," Journal of Political Economy, Oct. 1956). In summarizing the commentaries Dennis Mueller lists the assumptions underlying the model:

1: Full mobility of all citizens;
2: Full knowledge of all the communities' characteristics;
3: A full range of community options are available spanning the range of public good possibilities desired by the citizens;
4: No spillovers across communities;
5: No geographical constraints are imposed on individuals with respect to their earnings.

See: Dennis Mueller, Public Choice, Cambridge Surveys of Economic Literature, (Cambridge, U.K.: Cambridge University Press, 1979), pp. 125-147.

17. See Mueller, op. cit., Chapter 8; Norton Long, "The City as a Local Political Economy," unpublished paper, Woodrow Wilson International Center for Scholars, May 31, 1978.

18. From a neo-marxist perspective see O'Connor's (op. cit.) comments on Special Districts. Robert Caro's biography of Robert Moses shows how public benefit corporations can become captive of their staffs and bureaucracies.

19. Annmarie Walsh has shown how dependence on the bond markets can condition the policies of public corporations. The Public's Business (Cambridge, Mass.: The MIT Press), Chapter 4.

20. Richard Musgrave and Peggy Musgrave, Public Finance in Theory and Practice, (New York: McGraw Hill, 1976), pp. 623 and 625-30; Wallace Oates, Fiscal Federalism, (New York: Harcourt Brace, 1972) Chapter 1; George Break. Intergovernmental Fiscal Relations in the United States, (Washington, D.C.: Brookings Institution, 1967), pp. 22-26.

21. Lineberry and Sharkansky, op. cit. pp. 64-68.

22. Kenneth Newton, "American Urban Politics: Social Class Political Structure and Public Goods," Urban Affairs Quarterly, Vol. 11 No. 2, December 1975.

23. Manuel Castells, The Urban Question: A Marxist Approach, trans. Alan Sheridan, (Cambridge, Mass.: The MIT Press, 1979), pp. 381-392.

24. O'Connor, op. cit., pp. 124-137.

25. Roger Friedland, Frances Fox Piven and Robert R. Alford, "Political Conflict, Urban Structure, and the Fiscal Crisis," in, Douglas E. Ashford, ed., Comparing Public Policies, (Beverly Hills, Calif.: Sage Publications, 1978).

26. Economic Recovery: New York City's Program for 1977-1981, op. cit.

27. In addition to specific studies done by the Temporary Commission of City Finances in regards to the Stock Transfer Tax and Taxes on Manufacturing, see: The City in Transition, The Final Report of the Temporary Commission on City Finances, (New York: The Arno Press, 1978). In it the Commission urges that the City reject either a 'decrementalist' or unmanaged retrenchment program as well as bankruptcy as options. Instead they recommend a 'redevelopment program' concentrating on private sector growth encouraged through tax policies.

28. Economic Recovery, op. cit., pp. 16-21.

29. Ibid., pp. 38-47.

30. Ibid., p. 49.

31. Stuart Bruchey, The Roots of American Economic Growth, 1607-1863, (New York: Harper and Row, 1965), pp. 124-140.

32. Morris Copeland, Trends in Government Financing, (Princeton, N.J.: Princeton University Press, 1961) pp. 87-91; Walsh, op. cit., Chapters 4 and 6.

33. Economic Recovery, op. cit., p. 49.

34. Ibid., pp. 51-59.

35. The phrase comes from a policy typology developed for local government studies by Oliver Williams and Charles Adrian, Four Cities, (Philadelphia, Pa.: University of Pennsylvania Press, 1963). The four categories they developed include: 1) economic growth; 2) provision of life's amenities; 3) maintenance of traditional services (that is caretaker government); 4) and arbitration of conflict.

36. Internal EFCB memorandum; John Maiorca to Stephen Berger; Re: NYC's Economic Recovery Program: Impact on the Financial Plan; January 3, 1977.

PART FOUR

Conclusion

CHAPTER 10

BEYOND BUREAUCRATIC FUNCTIONALISM: POST INTEREST GROUP GOVERNANCE IN NEW YORK CITY

Since the crisis is still quite with New York, the permanence of the changes effected by it remain in doubt. The financial emergency period was one of extraordinary legal powers and a politics most unusal. But has it left a legacy of a new politics qualitatively different from that before the crisis? With less than six years separating us from the events of 1975 the response must be tentative and qualified. The only certainty is uncertainty. There is too little experience to guarantee that post crisis politics is not just the policies of a new mayor, or a new governor, or of a new situation. Nevertheless, there is still the possibility that a new form of governance has emerged or is emerging from the financial emergency. Conscious of such historical limits this final chapter will present a "best case" argument that it has. Such an inquiry follows naturally from all we have already seen.

The study of politics in New York City has been heavily influenced by two important traditions: group theory and modernization theory. Group theory has an obvious utility in New York because of its historic ethnic diversity as well as its varied economic base. Students of modernization have been interested in New York because this great city has always served as the socio-economic locomotive for American development. These two traditions have not operated independently. On the surface it is quite obvious that the economic and social development of the City contributes importantly to the proliferation of politically active social groups and associations. Immigration was followed by a near century long pattern of ethnic and religious based politics. Industrialization brought the rise of politically active labor unions and accompanying demands for worker protection. More recently the expansion in the City's public sector through the fifties and sixties and its attendant expansion of public employment has naturally created the context within which municipal employees have become important actors in City politics. As society becomes more complex and produces new social forms, the potential for new types of political demands is reflected in new types of group formations.

On another level both traditions also interact in describing the manner in which New York's political system

has performed standard functions at different points in New York's political history. The City's political development portrays identifiable changes in the way demands are aggregated, converted and implemented by authorities. In fact, it is these qualitative changes in a significant number of standard political functions that delimit the important periods of New York's political history. Theodore Lowi described three such "regimes" in the past century which go beyond changes in office holders and policy: patrician governance, party governance and interest group governance.[1]

Indeed, it was this last stage of New York's political development that Sayre and Kaufman explored. For twenty years now, with a comprehensive party "machine" long dead, the political system of New York City has been described in terms of a bureaucratically dominated, interest group/issue area model: what some had called "bureaucratic functionalism", and others "hyperpluralism". The decentralization of administrative power toward the bureaucracies, each separate fiefdom's in their respective service areas led to one emphasis among writers. And the panaply of interested groups each seeking advantages in a political system with a weak governing center made the term "hyperpluralism" uniquely New York's.

While no one could claim that this overall conception of

policy making behavior found perfect correspondence or exhausted all available information on the politics of policy making in New York, the interest group/issue area model did have the ring of recognizability in which models find what little goes for "verifiability" in qualitative research.

But it no longer does. Many of the changes effected by the financial crisis are in dissonance with bureuacratic functional motifs. The centralization of power, the curbing of bureaucratic autonomy, management reforms and the new role of the "Mayor as Manager", among other trends suggest more a centralized planning model than a diversified, bureaucratically dominated one. The attempt to limit participation in broad allocative decision making to only a handful of the City's most powerful groups, while imposing a new set of priorities through new institutions with little need to justify their decisions to particular interest groups or electoral coalitions, sets a severe limit on the interest group and bargaining model that underlies Sayre and Kaufman's "game" approach to the governing process in New York.

As the City had gone through periods in which its politics could be described as a tension between patrician and party models, and between party and interest group models, it appears now that a new period in which the persuasiveness of the "hyperpluralist"/interest group model is being supplanted by what might be called a "post-interest group" model. It is as such a

tension between an interest group, bureaucratically dominated model -- largely Sayre and Kaufman -- and a "post" interest group, planning model that New York's "governing" process can be described for now and likely into the near future.

INTEREST GROUP GOVERNANCE AND "POST" INTEREST GROUP GOVERNANCE

First a definition. By "post" interest group governance, I mean this: conflict, bargaining and accomidation over the context within which interest group politics will occur. It does not mean an end to the formation of groups with political intent, nor an end to the marshalling of political resources for policy gains. Instead it refers to politics over the context of inputs, outputs and the structure of the policy making process: over the nature and stakes of the group process itself. It is centralized in power, broad in perspective and self conscious in style. It is regime politics in which only the most powerful interests can participate.

Like patrician and party governance interest group

governance is both an historical phenomena and an academic metaphor. Ironically some of the very factors that made direct patrician rule impossible--and thus contributed to the rise of the party--also contributed to its decline. A more activist municipal government in the late nineteenth century had required the more 'professional' political management and organizational skill of the machine.[2] But as the local public sector expanded further in this century even more sophisticated organization was needed beyond a 'Tory' attitude toward government or the realism of party machines. The call for greater participation once soundly pursued by Tammany Hall now came from the enemies of the party. The reformers wanted open primaries, firmer control over electoral procedure and a more open atmosphere in local politics.

The receding power of the party machine did not lead to a revitalization of central democratic institutions, however. Rather it revealed a newer structure in the City's governance: a decentralized and interest group dominated policy making process. It was this newer structure that Sayre and Kaufman had described. In fact, they may have written their text at the best possible time for describing this phenomena. The quiet of the Eisenhower years and a near two decade long economic boom hid the real problems

underlying New York and many other cities that would emerge in the 1960s. The City had had a balanced budget for nearly twenty-five years and had instituted important organizational reforms. Even in 1965, when the second edition of Governing New York City was issued New York still had only minor revenue problems and a single racial incident in Harlem the year before.

The fundamental aspect of the interest group model was that neither power nor policy making could in any way be described as centralized. Instead, the city's governing process was seen as a series of functionally based decision centers each of which accomplished a policy through the bargaining and accommocation among formal authorities and a panoply of directly interested actors. Discretionary decision making on resource allocation tended away from central authorities and toward individual bureaucracies and their attendant non-governmental actors. Possibly the best single study of one of these 'decision centers' is David Rogers analysis of integration and education politics in New York.[3] Cataloging the interaction of all interest parties in the formulation and implementation of integration policy Rogers shows the dynamics, and the problems, of policy making in America's most diverse city. In his bibliography Rogers reviews source material from no less

than 16 organized non governmental groups -- unions, racial and ethnic organizations, religious leaders and educational activists -- two city agencies not usually concerned with educational affairs, various State and Federal agencies, the formal City authorities (Mayor, Board of Estimate, Board of Education) and the Commonwealth of Puerto Rico. He concluded his study with an essay on the problems of effecting changes in a hyper-pluralist environment. No wonder![4]

It is quite apparent that the politics of the financial emergency period is different from the interest group/issue arena model that underlie Sayre and Kaufman's study of New York City. It cannot be stated that policy originated from the various policy arenas and bureaucracies -- indeed, it cannot even be said that they originated within the City's political system. Nor were these individual issue areas left to decide policy on their own with little or no interference from other arenas or central authorities. Although there are some similarities with the older interest group model it is the differences that are more striking. More specifically five characteristics can be identified which make the politics of the emergency period different from that of interest group governance. To the degree that the institutions, policies and processes form the crisis regime remain they also form a pattern of 'post' interest group

governance. These five characteristics are: 1) post interest group governance is resource oriented; 2) it is centralized; 3) it has a pattern of conflict and conflict resolution all its own; 4) it is vague in the distinction between public and private; and, most importantly; 5) it does not assume that policy making is a balanced and automatic process.

It is now clear that the interest group/decision center model of Sayre and Kaufman, and all those who wrote with them in mind, had as one of its assumptions an expansion or at least stability in the resources available to the City's government. If the view of New York City politics presented by Sayre and Kaufman were correct, and it probably was, the expansion of fiscal resources hid a fundamental flaw in that system. Like most 'pluralist' writers they highlighted he stabilizing effect of a group based polity. Following David Truman they declared that the overlapping membership of the citizenry in different groups would promote stability. No one, nor any group would be willing to pursue their interests to the degree that other if secondary interests were undermined. Thus the difficult choice policy makers have to make are reproduced in the cross pressured citizen who identifies with two or more 'groups' or positions and is thus attempting to set his own policy priorities. What happens, for example,

if policy positions of his church disagree with those of his profession or the interests of his ethnic or racial grouping? He cannot leave his church; at least not without forsaking his traditions. Nor can he leave his profession; at least not without forsaking his income. He must compromise. And in the hundreds of daily compromises among the city's cross pressured citizens rests -- the argument goes -- the system's stability. Things did not work that way, however. The isolation of each decision center and the relative weakness of the 'center' virtually assured that those groups involved in one policy area would have little if any interest in the others. Even agency officials rarely know what is going on in other City agancies. Should we expect more from citizens? That benefits in one arena may come at the cost of another group in another arena was never completely perceived. The isolation of the decision centers, the size of the City and the extraordinary number of groups seeking advantages meant that New Yorkers were never really as 'cross pressured' as pluralist theoriticians predicted. What had the neuro-surgeon at Bellvue Hospital in common with the sanitation worker in Queens? How could one know that the new labor agreement with a new pension benefit would be paid at the cost of a CAT Scanner for the HHC? Or vice versa. The real choices faced by the City never became part

of the people's daily lives. Thus the expansion of resources available hid an important implication of Sayre and Kaufman's model, one which stands in opposition to a central theme of earlier pluralists. The notion of the cross pressured citizen and the stabilizing function of overlapping group membership is seriously curtailed when the group dynamic is not focused on central institutions where allocateive trade-offs should be manifest but instead focuses on discrete policy arenas. New Yorkers never chose bankruptcy. They never sensed there was a choice to be made.

Interest group politics tied in quite well with what we called 'fiscal politics;' the cutting up of the public pie. Like Norton Long,[6] Sayre and Kaufman spoke of politics in New York as a game of things to 'get.' As long as the stakes continued to grow the pattern of politics was not likely to change. The expansion of resources encouraged the development of a decentralized policy making system; that is, it allowed the different decision centers, largely the bureaucracies, to gain some autonomy. But the politics of the financial crisis, and a 'post' interest group model, generally was first over the size of the public pie and then over its distribution. As such it confronts pressures from group and other interests which together push the budget toward expansion. Necessarily it thus effects factors

mentioned which apparently rested on expanding resources: choices 'come home' to citizens and the routes of bureaucratic autonomy are circumscribed.

The second theme is tied closely to the first. The politics of the financial crisis was largely the politics of aggregation: that is, the means and mechanisms through which a political system makes choice. One of the functions of the MAC, EFCB and the strengthened political powers of the Mayor was to force upon the City a greater combination of interests by controlling its access to the money markets. From a fiscal perspective, the goal was a balanced budget; from a financial perspective, it was a 'responsible' debtor; but from a political perspective the MAC, EFCB and OSDC were conceived as institutional mechanisms to provide the City's central authorities with the political backing necessary to fulfill the aggregative function in the absence of strong central institutions, a broad and effective party organization or a coalition of New Yorkers as tax payers rather than as service consumers. If the interest group governance outline by Sayre and Kaufman focused on individual decision centers the politics of the financial crisis concerned the allocation of resources among policy arenas. With less money on hand the competition was more intense. New priorities emerged among the types of services delivered by the City. To back

up these decisions there was also an accompanying centralization of power.

Thirdly, 'post' interest group politics has a pattern of conflict which is distinct from interest group politics. Under the interest group/decision center model conflict was rather mild and contained to the individual policy arenas. Bargaining and accommodation were the order of the day. The interests at stake were smaller. But post interest group politics has a much greater potential for conflict. Its fundamental object is the control over the context in which interest group occurs in the various issue areas. It presses the priorities of the central policy arena. As it does it also creates a policy arena in which only the most significant interests, with substantial political resources, can play. Necessarily these are quite small in number; in fact outside of the formal authorities only the banks and the unions could participate. Previously, under the decision center model, a whole panoply of groups could be active and seemingly effective in their individual issue areas. But as allocative decisions centralize and participation in the new central arena contracts there is a complementary increase in the impacts of central decision making. Decisions taken at the MAC, EFCB, City Hall, Washington and Albany during the crisis had tremendous

implications for all issue areas. The result is a much higher potential for truly serious conflict within the political system. This is particularly true in labor negotiations. A newer 'center-periphery' pattern is emerging in labor policy in New York replacing the older agency based pattern which lasted from the late fifties to the mid 1970s. The habit of different unions working together in coalitions, as they did during the financial emergency period, has largely continued. Joint negotiations continue while the City centralizes labor negotiations and the FCB oversees costs. The unions have worked together to protect and advance their interests in the new central allocative arena. One cannot be sanguine over this development for it is quite unstable. A joint labor strike in New York City would not only be a severe inconvenience for New Yorkers but also a landmark in American labor history. The stakes in this type of politics are high.

Fourthly, 'post' interest group governance has been even more vague than interest group governance in the distinction between public and private. As described by Sayre and Kaufman[7] interest group politics assumed that non-governmental groups would be active in the formulation of policy. In each of the 'decision centers' the 'core groups' of formal authorities were seen as legitimating agreements reached

among contending parties including private parties. During the 'crisis regime' and ever since, private parties have been brought much closer into the process of governance. If authoritative allocative decisions in the aggregate must be approved by the EFCB (FCB) and MAC then these must be among the formal authorities. The three appointed members of the FCB are publically known as the representatives of the business and financial communities. They are non-governmental. Under Sayre and Kaufman's model non-governmental groups were part of the policy making process but they never were among the formal authorities that legitimated decisions. Now they are; and at the center.

The last characteristic of a 'post' interest group model is more theoretical but crucial. The model of Sayre and Kaufman assumed that policy making was both a balanced and automatic affair. We have already mentioned that they followed the general theme of most pluralist writers in outlining several 'balancing' mechanisms that could counter any instability in governance. Implicit in the argument of balancing mechanisms, however, is the notion that the group process is automatic; that it needs no self conscious direction from the center. If the system were indeed balanced little time and few political resources need be spent integrating the outputs of the separate decision centers. The

balance in the group dynamic allowed for relative autonomy of the 'decision centers,' thus implying an automatic politics. On the national level Lowi drew this same inference in regard to the group dynamic in policy making comparing it to the 'invisible hand' of classical liberal doctrines of Smith and Madison. It allowed for an expansion in the role of government without an accompanying concentration of power.[8] But the development of a 'post' interest group politics belies the automatic nature of the group dynamic implied in Sayre and Kaufman's model, among others. The 'invisible hand' failed, the system was 'out of balance,' and a new, self conscious hand emerges. That is the purpose of the post interest group politics that emerged in New York City: not so much to dictate policy in its minute terms but to structure the group process, to integrate the arena outputs toward larger goals. In some ways it resembles planning politics; why in the context of a declining economic base some have termed it 'planned shrinkage.' The very notion of politically managing decline is based on a long term perspective while group politics usually has a shorter view. It calls for protecting the tax base, 'fiscal retrenchment,' managing the public sector more efficiently, and creating a policy making process more sensitive to economic rather than political rationale.

This self conscious, almost planning, style of politics also has important implications for the core arguments of the community power debate. The attempt to politically manage decline tends to integrate the previously disparate policy arenas. This runs counter to the basic conclusion of the major works of the pluralist side of community studies, that policy making in the major cities was not characterized by single elite dominance but by the interaction of different individuals and groups organized around functionally specific issue areas. One burden of Dahl, Banfield, and Sayre and Kaufman was to describe how these different issue areas could be fused into a coherent and effective broad based policy in the absence of a stable elite. In Dahl's New Haven it was accomplished by an executive centered coalition; in Banfield's Chicago by the party. In New York it was only weakly performed by the City's central institutions: the mayoralty and the Board of Estimate. The informality of arena integration once celebrated by the pluralists is dead in post interest group politics. Now it is quite conscious, more formal, and demands the expenditure of considerable political resources. This is, of course, one aspect inherent in centralized finance and budgeting. The types of issues that the crisis gave rise to in New York cross over policy

arenas: labor costs, productivity, debt service, capital maintenance and work rules. These are not issue specific but broad in perspective. That is the point. They attempt to set policy criteria more general than those limited to individual policy arenas with their attendant and dominating actors.

It is here also that the legitimacy problems of 'post' interest group politics occur. We should remember that the conclusions of the 'pluralist' side of the power debate were part of a much larger debate over the integrity of democratic institutions in the American political system. Were formal rights made hollow by more informal economic hierarchies? The elitist side said yes. Using more sophisticated techniques (at least in the initial stage of the debate) the pluralists concluded that inequalities in political resources did not necessarily mean the predominance of an elite since there was no central arena but instead disparate functionally based ones. While each of these may have had an 'elite' of its own there was no overall and ever present group of unaccountable decision makers. But the new self conscious management of arena inputs and outputs brings us back to the older issues. Some writing in the community power tradition have termed the new New York as 'elitist,'[9] while others in the neo-marxist school

have used the term 'state capitalist city.'[10] Whatever the perspective all should understand that 'post' interest group politics in New York has been an attempt to assert more general interests over the previously disparate issue areas. It is here that the legitimacy problem arises. In creating a central arena and abandoning the automatic nature of intergroup bargaining the previously dispersed inequality of political resources becomes centralized also; in Dahl's words, they become cumulative. Thus the special assets available to the city's creditors -- bankers, unions among non-governmental groups -- also places them in a special position to influence policy. While never as naive as civics texts the pluralists could eke out justification for continuing to describe urban politics as democratic in the age of capital by showing that the nature of modern political and governmental organization resisted central control. It was on the absence of an effective and stable central arena that democratic legitimacy rested. At the core of the pluralist critique of the neo-structuralists was not the absence of an elite, but the absence of a central arena. They never doubted that if a central did develop it would reflect the inequalities endemic to American society. Now that one is, they would well understand the suspicion all in New York share.

Again, these five characteristics do not exhaust all aspects of politics evidenced during the financial emergency period. Together, more for convenience sake than anything, we have used them to describe a 'post' interest group model of governance. It is also my point that in addition to describing the politics of the crisis regime, the 'post' interest group model defines the alternative pole to Sayre and Kaufman's decentralized, interest group model of policy making in New York City. As politics in New York could once be described as a dynamic between patrician and party models, party model and interest group model, so it appears today we have entered a period, beginning in 1975, when politics in New York can usefully, if only partially, be described as a dynamic between the interest group model of Sayre and Kaufman and the atavistic institutions, processes, policies and policy criteria of the crisis regime.

Much of this is still speculative. Things can unexpectedly change, as 1975 quite clearly showed. This new system is inherently unstable. What would happen, for example, if a new governor hostile to the interests of New York City were elected? The Governor of New York is also ex-officio, 'Chairman of the Board' of New York City. Thus the stable but informal contacts between City and State could well deteriorate into channels of sharp and counterproductive

conflict. Or the system could change from below. The inclusion of labor in the 'management' of the City through productivity panels, joint labor negotiations and the use of employee pension funds will have as at least one effect the displacement of union-city conflict into the unions themselves. There are important insurgency movements in nearly every municipal employee union in New York challenging the leadership that has contributed the pension funds of their members to a refinancing of the City's debt while also allowing massive layoffs and a wage freeze during a period of high inflation and unemployment.[11] The 1980 Transit strike, precipitated in part by union dissidents, is the most visible example. And there is increased instability in the leadership of uniformed employee unions. In addition, there is also potential for change from the cumulative effects of community and neighborhood opposition throughout the City. Cutbacks in services with little expectation for renewal, combined with a likely weakening of formerly effective community groups has probably undermined important channels of social integration. The riots during the blackout of 1977 are a disquieting bit of evidence that the social fabric of New York City is in even graver trouble than it was at the height of the more ideological -- and thus also basically optimistic -- unrest of the 1960s.[12] "Lowering

expectations' does not necessarily lead to a spirit of self sacrifice. Quite the opposite. The rational response to lowered expectations for tomorrow is to dismiss any argument for delaying gratification today.

CONCLUSION: THE NEW DEMOCRATIC PROBLEMATICS

'Post' interest group politics grows out of the failure of spontaneous mechanisms of integration and coordination among different policy arenas. Neither an executive centered coalition, informal bargaining among key officials, silent agreements among different particular 'decision centers,' nor intervention by party organization had been able to direct New York City's enormous public sector. To the degree that the financial crisis finds its roots in the political structure of the City is this inability to find a common policy among contending arenas and their attendant group influence in the face of changing economic factors. The response has been new institutions with new staffs, new legal powers for central actors, new political sanctions against bureaucratic independence, new statutory restrictions in the area of finance and borrowing, new channels of influence for State and federal officials, new management techniques, new measures of official accountability and a new sense of the role of the Mayor in New York's government.

In short, a whole new layer of government has been created to contain the multiple pressures to spend.

Thus the final question. Can this new layer of government be legitimated? Were political processes altered to such an extent that the many who saw the 'crisis regime' as a coup be correct?

One response might be that the MAC, EFCB, OSDC and all the other changes were created by the State Legislature, itself an elected body accountable, in the long run, to the electorate. And it could be argued that the inclusion of elected officials on the EFCB (FCB) as well as appointive restrictions on MAC board members could add legitimacy. We have implied this ourselves. The intervention of the State government in the retrenchment of New York's public sector was made necessary, in part at least, because the private sources of cash, primarily the banks, could never so influence policy and never legitimate the significant policy changes demanded. Conversely, the State did not wish to become the captive of the banks either. Its intervention can be seen as a genuinely positive attempt to save what could be saved of democratic institutions in New York City. Carey made just that argument before the Congress.

But such a response would miss the point. Regardless of the process through which 'post' interest group politics

emerged when viewed through the pluralist tradition it is inherently problematic. Since it creates a central arena it must in the end plead also that it creates the 'public' interest, and that is the problem. Like liberalism in general the pluralist tradition has always been sensitive to the tension between particular (group) interests and the 'general' interest. Resolving the tension toward either of these poles would lead to a collapse of the political system under discussion. Again, like liberalism in general, pluralism as a political theory is more a mood than an intricate intellectual system. Measure and balance are the underlying values governors must pursue. In fact, as academic metaphor (and as what Lowi has called public philosophy) pluralism's own history shows the varying elements between particular and general. Initially generated as a critique of the idealized State, pluralist theory dissolved the State into its component groups and classes thus debunking claims of national or public interest as nothing more than the particular interests of preponderate powers.[13] The realism of the tradition was so powerful that by the 1950s and 1960s it also served as the counter to claims that all policy was the result of private elites. By the late sixties, however, the skepticism of the pluralists toward 'the public interest' was countered itself by

critiques emphasizing community, idealistic notion of the 'public' and economists stressing choice. Dewey's search for the 'public' was renewed.

Today, in New York, there is an attempt to determine and implement a type of governance which serves the whole at the cost of its parts. Whether stated -- as some have -- or simply left implicit the attempt to structure the group process toward more general community wide interests presents a claim of the 'public interest' against the particular group interests; an attempt to assert the central arena over the separate issue arenas. Under the older interest group model, pluralists could more easily deal with the issues of democracy. It was seen as a process. Legitimation rested on group participation. The 'public interest' was identified as the output of the group dynamic. With the emergence of a post interest group politics the self conscious attempt to manage the group process implies an attempt to identify the 'public interest' not as the output of the group dynamic but with some predetermined goal which transcends the group dynamic. Given its centralization of policy making and precipitous decline in participation -- at least in the most important issues -- post interest group politics invests most of its claim to legitimacy on some notion of the 'general' or 'public

interest.'

Like the nascent pluralists decades ago, however, our realism leads us back to their question: How is that public interest determined? Is it only a cover for the interests of some particular group or class? We have seen the tightropes New York's officials, and especially the Mayor, have had to walk in recent years. On the inter-governmental dimension there is a tension between maintaining New York's government as an effective instrument of local public choice on one side and an historical trend, accelerated by the financial crisis, of rendering local government to the role of administrative unit for the State and Federal governments on the other. Against the private economic forces there is the tension between maintaining the City's tax base in relative stability for the good of all and the pressure to use tax and economic development policy to subsidize capital. Locally, there is the continuing issue of New Yorkers as tax payers and New Yorkers as service receivers. At what point is the public interest served by running a deficit?

One thing is certain, however. The emergence of a central arena to balance off the particular issue arenas will fail to persuade that it represents the general, public interest -- as it must -- if decision making is

characterized in power and process terms. With only the most powerful interests able to participate post interest group politics could easily decay from an antidote to the excesses of interest group politics into the tyranny of the few. The 'public' interest would again become nothing more than the outcome of group dynamics but now with many fewer groups and covering much broader issues. If the central problem of interest group politics was a dispersed policy making process and a refusal to define the public interest, the new problematic of 'post' interest group politics involves the centralization of policy making and the possibility of a poorly defined, even fraudulent, identification of that 'public interest.'

NOTES

1. Theodore Lowi, At the Pleasure of the Mayor, (New York: The Free Press of Glencoe, 1964); pp. 215-218.

2. The 'functionalist' approach in sociology and the revisionists in urban history have effected a major change in the attitude among political science toward the old urban machines. The classic works include Robert Merton's essay "The Latent Functions of the Machine," in Social Theory and Social Structure, (New York: The Free Press of Glencoe, 1957); and, in New York's case: Alexander Callow, The Tweed Ring (New York: Oxford University Press, 1966); Seymour Mandelbaum, Boss Tweed's New York (New York: John Wiley and Sons, 1965).

3. David Rogers, 110 Livingston Street, (New York: Random House, 1968).

4. Ibid., See Rogers' bibliography and his "Memo to Sociologists" which forms Appendix B to the text, in which Rogers outlines his arguments in a vocabulary more technical than in the text.

5. David Truman, The Governmental Process, (New York: Knopf, 1951).

6. Norton Long, "The Local Community as an Ecology of Games," American Journal of Sociology, November, 1958.

7. Sayre and Kaufman, op. cit., pp. 710-712.

8. Theodore Lowi, The End of Liberalism (New York: W.W. Norton, 1969), pp. 13-28.

9. See, for example, the paper of Stephen David and Paul Kantor, "Political Theory and Transformations in Urban Budgetary Arenas," in Marshall, ed., op. cit., pp. 210-213.

10. William Tabb and Larry Sawyers, eds, Marxism and the Metropolis: New Perspective on Urban Political Economy (New York: Oxford University Press, 1978).

11. Indeed, as the city's employee unions become more and more involved in the financing and management of the City's government, they take on responsibilities as participants in the 'planning' of New York City's public sector. One effect of this new role is on the internal workings of the unions. They were initially created to advance the interests of their members particularly as it concerns compensation. What happens though when the unions' leadership becomes involved in the planning process? In any planning system the unions cannot maintain a pure advocacy position but instead will spend at least part of the time telling union members the City's own fiscal problems. As the management of the City's public sector becomes more 'rationalized' and the union leadership is included an incompatability emerges between the unions as part of the politico-managerial process and as advocates for their members. Thus the tensions and points of conflict move from being between the City and the unions to the internal workings of the unions. For this reason the leadership of New York's municipal employee unions are in very weak position given current fiscal circumstances.

12. See: Robert Curvin and Bruce Porter, Blackout Looting!: New York City, July 13, 1977, (New York: Gardner Press, 1979).

13. Harold Laski, Studies in the Problem of Sovereignty, (London: George Allen and Unwin LTD, 1968 re-issue); John Dewey, The Public and its Problems, (Chicago: The Swallow Press, 1954); Arthur Bentley, Relativity in Man and Society, (New York: Octagon Books, 1968 re-issue).

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The conclusions of this thesis rest on an explication of public law changes effected by the financial crisis and the historical reconstruction of three key decisions taken during the financial emergency period (1975-1978). While it would be impractical to list all the sources used, a proper assessment of the work presented would be impossible without some indication of the quality and quantity of the original sources. Four primary sources contributed to these reconstructions: documents, observation, interviews and newspaper accounts.

The most critical among these has been documents. All legal references are based on McKinney's Consolidated and Session Laws of New York State or actual legislative drafts as approved and signed. Additional executive support materials submitted to the two legislative bodies were also used. For information on the Financial Community Liaison Group, I have relied heavily on the Staff Report of the Securities and Exchange Commission, Chapter 1 (see note 1, Chapter 2 of the present work). Decision cases during the period dominated by the EFCB (September, 1975 - June, 1978) rest on the EFCB Minutes, Minute Summaries as prepared by Mr. Jay Holt, former Secretary to the EFCB, and support material presented to the Board and included in its permanent record. Among these are all formal documents submitted to the Board by the City; both the Office of the Mayor and that of the Comptroller. In addition, audits and reports of the State Special Deputy Comptroller for New York City were relied upon for background material and as artifacts in themselves. Under the New York State 'Sunshine' Law all these materials are accessible to the public through the offices of the OSDC and EFCB, 270 Broadway, New York, New York. In addition to these documents use has also been made of staff papers from the EFCB during the 1976-1978 period. Included, by happenstance, are some important communications between critical actors; but these do not exhaust all such sources. As no corresponding sources from the Office of the Mayor, any Washington actors, or from banking or union officials were available the potential for a skewed perspective growing out of this data is recognized. On balance, however, their

utility in providing important information appears to this author to outweigh the disadvantages.

Observation and interviews have been another important source. Between 1976 and 1978 the author served on the staff of the EFCB in a limited capacity. During that period several interviews -- formal and informal -- were conducted. None of these, however, were with any of the principal actors, and, in fact, I have not referenced any. Rather, both interviews and the opportunity for day to day observation were used as a guide through the extensive and diverse documentary material available. Such a procedure tempers, I think, the multiple problems associated with 'soft' sources and provides a more objective reference point for the reader to assess the conclusions drawn.

Lastly, I have also relied to a limited extent on newspaper accounts. Carol Brownell and Sarah Lawrence, then of the Governor's press office, were helpful in obtaining an extensive collection of press clippings covering the financial crisis and the role of the Governor in it from the major New York State papers. Given the contentiousness which arose during the financial crisis, and which also was reflected in criticism among journalists themselves over the quality of coverage, the reader has a right to know the credibility the author invested in each source. In terms of events I have relied most heavily on the New York Times, the Daily News, direct re-prints from the wires of the Associated Press, and from the news columns of the Wall St. Journal. For particular issues the New York Law Journal and papers outside the City of New York were used. For commentary, the Village Voice, the New Yorker and New York Magazine were the key. In addition, Facts on File and the New York Times Index were used to supplement these other sources.

I do wish to emphasize that the text of this thesis has been arranged to answer questions typical to political science and is not intended as a history of events surrounding the financial crisis. A full history, based on a wider range of papers and interviews with the most significant actors is still needed if the subtlety and particulars of events are to be captured, and if the perspectives from Washington and Albany are to be properly dealt with. Needless to say, no claim to authority beyond the sources referenced is made; nor should it be imputed.

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