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978-0-521-10553-8 - Crisis in the Making: The Political Economy of New York State since 1945

Peter D. McClelland and Alan L. Magdovitz

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STUDIES IN ECONOMIC HISTORY AND POLICY:
THE UNITED STATES IN THE TWENTIETH CENTURY

Edited by

LOUIS GALAMBOS & ROBERT GALLMAN

Crisis in the making

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ALAN L. MAGDOVITZ

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Editors' preface

The financial woes of New York, the state and the city, have been front-page news for a number of years now. Every newspaper editor in the country has had an opportunity to express his opinion about the revenues and expenditures of New York. Our U.S. senators and representatives have been forced to offer their conclusions – either by discussing the issue or by voting. What has been lacking in this public discourse, however, has been a thorough analysis of the underlying economic, fiscal, and legal issues, a historical perspective on the long-run developments involved, and a nonpartisan evaluation of who contributed to the crisis. The publication of this carefully researched volume by Peter D. McClelland and Alan L. Magdovitz meets these important needs, and we, as editors, are proud to have this book as the first in our series of *Studies in Economic History and Policy: The United States in the Twentieth Century*.

McClelland and Magdovitz untangle with great skill the factors that led to New York's long-run economic retardation and show how economic tendencies both constrained and were exacerbated by fiscal policies of the state and the city. They show the ways in which constitutional restraints on the issuance of debt were circumscribed to permit increased expenditures, in the absence of new revenues. The breakdown of controls on debt thus led both to fiscal excess and to the Balkanization of the public sector. Ironically, the withdrawal of major expenditure decisions from close public control was engineered by public figures known for their progressive stance on social issues and for their commitment to democratic principles.

McClelland and Magdovitz exhibit a high order of skill in economic and political analysis and in historical interpretation as they tell the story of the fiscal crisis in New York. *Crisis in the Making* should interest all those who are concerned with the evolution of American political economy.

Louis Galambos
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Johns Hopkins University

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Preface

This New York study had its origins in Michael Kammen's suggestion that I be included in the State Museum's bicentennial planning activities. My objections that I knew little about New York's history were overruled by a state official, who insisted that an absence of knowledge would contribute to a novel perspective. A paper prepared for these activities led to a request for a second, and then a third, and finally, to the editing of a book on New York's present-day economic problems. A growing sense of unease accompanied each task. The evidence pointed in ever starker terms to three unwelcome conclusions: New York's economy had been faltering for some time, retardation tendencies were getting worse, and little was being done to combat them. These apprehensions were intensified by the next request. The coordinator of a conference of New York historians asked for a paper reviewing the major fiscal developments of the state since 1945. I had anticipated that revenue, expenditure, and debt would show some tendency to rise. The explosions in all three were totally unexpected, particularly in a state encountering economic retardation that was becoming progressively more severe.

Here was a story in political economy that begged many questions, with few apparently interested in pursuing the answers. The problems and a proposal were therefore presented to George H. Hildebrand, then the Director of Cornell's Center for the Study of the American Political Economy. The resulting support, both in personal encouragement and in research funds, was nothing short of decisive. Without that support, this book would not have been written.

At this point, two research assistants were added to the project, whose contributions would also be critical.

One was Alan Magdovitz, then a Cornell junior. His main assignments were to dig through newspaper files and to interview politicians, bureaucrats, and newsmen throughout the state. To these tasks he brought an exuberance and concern, invariably infectious for many of those interviewed, that disguised a perceptiveness and a political

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astuteness remarkable in one so young. His humor, his unflagging zest for the job at hand, and his unshakable fair-mindedness in judging issues and personalities made all of our encounters as enjoyable as they were productive. It has been a privilege to know him as a colleague and a coauthor.

The other research assistant, John Scott Butler, was then a graduate student in Cornell's Department of Economics. A former accountant and a first-rate economist, "J.S.," as we came to know him, had, as his main assignment, unraveling the books of first New York State and then New York City. That was to be a far more formidable task than any of us anticipated. The bookkeeping practices of the state have been, to say the least, irregular, and those of the city were downright bizarre. With impeccable care and determination, J.S. put together the numerical fiscal fabric of this work. His other contributions ranged from scouring library sources to assessing legal cases to offering incisive criticisms and suggestions on a multitude of topics. Other demands subsequently diverted him from this New York project, but only after his contribution had been nothing short of monumental. It is a tribute to his exceptional integrity that he has resisted all pleas to accept joint authorship. To Alan and me, he will always have this status, along with that of respected colleague and valued friend.

Many others, in great and small ways, have helped us along the way to understand the politics and economics of the Empire State. Four should be singled out for special mention. To understand how the books were kept, we turned initially, and then with increasing regularity, to John J. O'Connor of New York State's Department of Audit and Control. Despite an overburdened schedule, he responded to all our requests with an Irish wit and an accountant's patience that belied the tediousness of the tasks. For guidance on constitutional matters, we relied partly upon Cornell's Law School faculty and library, but primarily upon Leon Edward Wein of Brooklyn Law School. As the reader will discover, Wein has been a voice in the wilderness, constantly attempting through legal action to force the politicians to abide by fiscal rules established in the law. For us, he was an expert guide through legal decisions and constitutional provisions that otherwise might have been an impenetrable maze. Many helped us to understand the problems of New York City, but two were outstanding for insightful generalizations combined with a mastery of detail: Raymond D. Horton of Columbia University, and Herbert J. Ranschburg of the Citizens Budget Commission.

The chapters on the economy were strengthened by consultations with, and comments from, economists in business, government, and academia: in particular, Regina Armstrong, Regional Plan Association;

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Roy Bahl, Syracuse University; Karen Gerard, Chase Manhattan Bank; Amos Ilan, Port Authority of New York and New Jersey; Walter Isard, Cornell University; William J. Lawrence, Pace University; Robert A. Leone, Harvard University; George Roniger, Citibank; Marilyn Rubin, New York Office of Economic Development; Sidney Saltzman, Cornell University; Frans Seastrand, New York Department of Commerce; Sharon P. Smith, Federal Reserve Bank of New York; Thomas J. Spitznas, Chemical Bank; and Rona B. Stein, Federal Reserve Bank of New York.

We are also indebted to those who read all or part of the manuscript, correcting errors, eradicating vagueness, and appending vital information. The list includes Regina Armstrong, John Scott Butler, Donald H. Davenport, Lance E. Davis, Charles R. Holcomb, Amos Ilan, Walter Isard, Michael Kammen, Steven L. Kaplan, Peter J. Katzenstein, Walter F. LaFeber, William J. Lawrence, Patricia G. Leeds, Arthur Levitt, Edward A. Lutz, Duncan MacIntyre, Warren Moscow, John J. O'Connor, George H. Quester, Herbert J. Ranschburg, Marilyn Rubin, Frans Seastrand, Joel H. Silbey, Larry Silverman, Robert W. Smith, Thomas J. Spitznas, Rona B. Stein, Cushing Strout, Robert S. Summers, and Ruth C. Young.

In the final months of preparation, two undergraduates, Joseph Baumgarten and Margaret Forrence, were tireless assistants in tracking down references and aiding in other last-minute details.

For secretarial help at various stages I am indebted to Fran Brown, Linda Clasby, Lynn Rabenstein, and Verma McClary. The bulk of the final manuscript was assembled with the aid of Patricia Paucke, whose competence and patience remained unscathed, despite the drudgery of repeated additions and deletions.

These acknowledgments are perhaps appropriately closed with a personal reminiscence that bears obliquely upon many issues in the text. In the story that lies ahead will be found a cast of characters whose motives and actions are often less than admirable. Not all public servants, however, are unmindful of their obligation to serve the public. This was driven home to me when I met for the first time with Arthur Levitt to review the manuscript. The discussion began with incidental matters: anecdotes and personal insights that reflected his 24 years as New York State Comptroller. Quickly he turned to issues of consequence, particularly the pressures to which he had been subjected to use state employee pension funds to bail out New York City. Retirement had not tempered his indignation. As he recalled all of those who had sought to make him violate his fiduciary role as sole trustee of those funds, he became again their guardian in spirit if not in fact. His concern even then was an essay in dedication – so much so

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that his anger and apprehension began to impair his ability to speak. Almost with a note of apology, he rose and said, "I'm afraid I cannot continue." Within the hour, he had passed away. No New Yorker could ask for greater dedication.

Peter D. McClelland

Ithaca, N.Y.
Summer 1980