Statement of Albert Shanker, President, United Federation of Teachers, AFT Local 2, AFL-CIO, and President, American Federation of Teachers, AFL-CIO, for the Subcommittee on Economic Stabilization of the House Committee on Banking and Currency on the Crisis in New York City

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Mr. Chairman, members of the Subcommittee, we welcome this opportunity to present our view of the New York City emergency to this Committee so that in making your decision upon this momentous issue you will have before you a record that reflects fact and not prejudice. Prevailing sentiment seems to be that New York City is in a financial bind caused by extravagant spending on a bloated public employee payroll and utopian social welfare schemes. This view, which seems to appeal to so many observers of the crisis in New York City, including former governors and mayors, is a simplistic and fundamentally untrue picture of a series of complex and interrelated events that, taken together, are the root cause of the city's crisis.

We do not doubt that part of the cause of New York's problems lies with the way the city's fiscal affairs have been run over the last decade, but what has triggered the immediate crisis in New York is what has triggered the massive deficits by the Federal government over the past few years; that is, gross mismanagement of our economic affairs on the Federal level. If the Federal government did not own the money press, it would be in line with New York. Massive unemployment and the resultant rise in social welfare costs and decline in tax revenues, spiraling interest rates and runaway energy costs are at the heart of New York's problems just as they are at the heart of the problems faced by other states and localities and most American families.

One myth that should be dispelled is that of the exorbitant salaries of New York's public workers. As the following chart shows, the salaries of New York's public workers are essentially comparable to those of workers in other cities.

The average teacher in New York earns $17,440 per year. That figure is not even close to being the top in New York State, let alone the rest of the nation. Class size in the New York City public school system is in fact considerably less favorable than in many other jurisdictions within the State of New York and throughout the country. The same is true in other occupations such as police and fire, with New York having the top salary among major cities only in the area of sanitation. Nor does New York have many more public employees than a great many other cities. New York averages 242.9 public employees per 10,000 of population while Chicago averages 258.2, Philadelphia 255.2, and Baltimore 260.1.

In fact, according to a background paper by the Congressional Budget Office dated October 10, 1975 and entitled New York City's Fiscal Problem: Its Origins, Potential Repercussions and Some Alternative Policy Responses,

> "Comparisons of the expenditure and employment patterns of New York City with those of other large municipal governments indicate that New York is far out of line with other jurisdictions (see Table 7, columns 3a and 4a). Yet this is a misleading conclusion which stems from the fact that New York City provides services that in other areas may be supplied by a county government, a school district, or another specialized government. If one compares the New York employment and spending patterns with those of all of the local governments providing services to the residents of other large cities, New York appears to be less extraordinary (see Table 7, columns 3b and 4b). While its per capita expenditure and public employment levels are above those of any other major city area, some of the differences with respect to such cities as Boston and Philadelphia can be explained by the fact that welfare is a state function in Massachusetts and Pennsylvania. While New York also spends a great deal more than other cities on higher education, hospitals, and mass transportation, its expenditure on the services commonly provided by municipalities is not out of line with those of other large cities (see Table 7, columns 3c and 4c). With respect to the salaries paid public employees, New York is generous but not the most generous of large cities (see Table 7, column 5). Considering that New York's cost of living--as measured by the Bureau of Labor Statistics (BLS) intermediate family budget--is higher than all but that of Boston, its wages are not particularly out of line (see Table 7, column 6)."

There are differences, however, between New York and other cities, again according to the C.B.O. paper.

> "While New York's situation in many ways does not differ markedly from that of other large central cities, some of its problems are clearly not shared with other cities. First, there is New York's debt situation.
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> "On a per capita basis the city has far more debt outstanding than do the local governments providing services in the other central city areas (see Table 7, column 7). This is particularly true of short-term debt in which New York stands alone in its needs continually to enter the market to 'roll over' large quantities of notes. Second, New York, as far as can be told, has been the only major city that has chronically run a large current operating deficit in both good and bad economic years."

This is not because of extravagance; this is because New York City has had to do more for its residents than many other cities because it has always been the center through which millions of immigrants have begun their lives as American citizens, and migrants from other parts of the country have sought to better their lives. These individuals have usually been in need of services to an extent unheard of in other population centers. The city has had to do it with minimal help from the state.

In the area of welfare expenditures, for example, New York is one of only 21 states that requires its local governments to contribute to the support of the cash assistance aid to the Families with Dependent Children Program. Of these 21 states, the local share is highest in New York where it amounts to one-half of the non-Federal share. New York's welfare related expenditures amount to $4 billion annually, or one-third of the current budget.

New York has provided a city university system, municipal hospitals, low-income housing, and mass transit--services provided by state and county governments elsewhere. These services have provided the means by which generations of the children of our nation's immigrants have attained social mobility and increased earning power. The increased tax revenues produced by the citizens who benefitted from the services of New York City--especially its public school and city university systems--cannot be accurately measured, but if the Federal statistics are at all applicable, investment in education yields $4 in tax revenue for every dollar invested.

Further, New York has made do without substantial Federal help. New York, according to the Census Bureau, receives slightly more than 16% of its revenues from the Federal government. On the average, states receive 20%, and some states such as Alabama receive in excess of 27% of their revenues from the Federal treasury. If New York received only the national average, that would be an extra $700 million this year or enough to cover New York City's entire operating deficit for this fiscal year. If New York received as much percentagewise as Alabama, that would be almost $2 1/2 billion more, in which case there would not be any crisis worth mentioning in New York. Even given these facts, New York could probably have continued along for many years without this crisis. Possibly it might never have occurred at all except for three actions and inactions of the Federal government that amount to gross mismanagement of our national economy by the current and previous Administrations.

When the Federal Reserve shut off the money supply last year and interest rates went through the roof, a city like New York which has relied on the credit market more than it should have was placed in real jeopardy. It is verified that the sharp increase in interest rates has cost state and local governments an additional $3 billion per year with New York City and State accounting for more than 35% of the municipal bond market that amounts to an incredible amount of money that no one could have planned for, save those who can read the inscrutable mind of the Fed's Chairman, Arthur Burns.

Second, the enormous increase in energy costs which were part of an international development beyond the control of the city, but which were exacerbated by the actions of an Administration that vetoed and blocked any attempt to place reasonable ceilings upon the prices of domestic supplies. Again, the effect was to force the city to spend dollars for purposes it could not have anticipated without a functioning crystal ball.

The final blow and the most serious of all the problems faced by the city was and is massive unemployment and the accompanying loss of tax revenues because the city and state have a tax structure that is vulnerable to the business cycle because it is based more upon ability to pay than are most state and local tax structures. With the dramatic increase in unemployment has come a dramatic increase in the welfare and other social service costs of the city. Every 1% of national unemployment costs the Federal government $16 billion--$14 billion in lost tax revenue and $2 billion in additional social welfare costs.

The effect in New York is almost as dramatic. In fighting inflation, the Federal government's policy set by Arthur Burns and William Simon was to use massive joblessness as a weapon, and in using such an unconscionable weapon, the Federal government played the major role in precipitating the current crisis.

Not only are the school children of New York City suffering, because of these policies, because their fathers and mothers may be unemployed and are paying higher food and rent costs--but they are suffering because the financial crisis in New York City has led to the destruction of the greatest hope our children have--their education. Our schools have suffered a $231 million cut. Children in desperate need of guidance, attendance, and clinical services, children who were receiving these services up to last year, are left in the lurch. Emotionally handicapped children have been placed in classes already oversized and without a specially trained teacher. Throughout the system classes are too large; paraprofessionals who aided teachers and were able to help provide individual instruction for children have been laid off, like teachers, by the thousands--not only dashing their hopes for a better life, but leaving our children with a severe loss. Remedial services are cut to the bone or non-existent; electives for the bright and talented children of our city have been cut out; music and art and other such subjects are treated as frills and are the first to go. Science teaching--once a major thrust throughout our nation--has suffered a severe cut; laboratory specialists and technicians have been virtually eliminated from our schools.

The Federal government, which has shared in the creation of this problem, must play a role in solving it. It must address itself first to what can and should be done to prevent the social and economic chaos that could accompany a default. In a column published as an advertisement in the Sunday, October 19th New York Times, I outlined some of the potential consequences. That column appears as an appendix to this statement.

This Committee should report a bill that will help New York market its bonds and allow it to get through this immediate crisis. While we do not know what direction you intend to take, we hope that the approach that seems most likely in the Senate is not the final word in aid to New York City.

The Senate bill unfortunately establishes a committee dominated by the two individuals most responsible for the Federal policies that have gotten us in the mess we are now in.

The Senate proposal charges the committee with administering the city's debt. Any Federal bill also should concern itself with seeing that public services such as education, health and public safety are maintained. The final requirement we want to address is the need for a balanced budget. It is true that the city must move toward a balanced budget in order to restore investor confidence; however, to compel a balanced budget in too short a period of time, or to re-negotiate pension benefits, has counterproductive consequences. The city and all its agencies have a $3 billion debt deficit because of the nature of the situation. The only way the budget can be quickly balanced is through even more lay-offs. Such massive lay-offs cannot be in the interest of anyone concerned with the New York situation. More unemployment will only mean more deficit for New York and the Federal government. Economists estimate that between 40-50% of such a stimulus reduction will appear as Federal deficit using 50% as a median figure. A $3 billion reduction in spending would result in $1 1/2 billion in increased Federal deficit. The other more terrible consequence to such an action would be the absolute destruction of the city's services making casualties out of thousands of children and adults who cannot survive without those services.

A larger range program should include a program of aid to all our hard-pressed urban areas.

<u>What ought to be done</u>

1) The Federal government should immediately enact a program of emergency aid to cities based upon the national and local unemployment rates and directed entirely at maintaining employment in vital public services. Such a bill has already passed the Senate and the House should also follow through with such a program.

2) A big increase in the Public Service Employment Program with a goal of creating one million jobs to be used to both rehire public employees who have been laid off because of the budgetary squeeze and to create new jobs for other

unemployed workers who seek them. Half of the funds should go to local education agencies since school boards are the employers of more than half of all local government employees.

3) A program of municipal debt management. The Federal government should provide a subsidy to local governments so that they may float bonds at reasonable interest rates. Currently, the municipal bond market is running at between 9 and 11% interest, while at the same time, the Federal government, through some of its agencies, is providing loans to the Soviet Union and various Arab states at interest rates that vary between 3 and 6%. President Ford pursues detente with the Soviet Union, but conflicts with our own urban areas.

4) Complete federalization of welfare costs. Many cities have been forced to cannibalize so-called "controllable" portions of their budgets such as education in order to fund the dramatic increase in welfare costs that has been caused by the previously mentioned Federal policies. This is clearly no choice at all, and help here is needed immediately.

5) Increases should be provided in some of the Federal categorical grant programs such as aid to education, mass transit, health, and housing. If such help is not forthcoming, consequences may exceed those associated with the deterioration of life in our urban areas and with social unrest. The whole fabric of our society depends on the survival of our cities. Surely a government that can provide economic aid to the Soviet Union and can bail out with major infusions of Federal funds such corporate giants as the Penn Central Railroad, Lockheed Aircraft, and make attempts to bail out Franklin National Bank and W. T. Grant, can find time and resources for the needs of its own citizens.