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THE DILEMMAS OF FISCAL POLICY MAKING IN NEW YORK CITY, 1978-1996

by
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Submitted to the Committee on Undergraduate Honors of Baruch College, City University of New York, in partial fulfillment of the requirements for the degree of Bachelor of Arts in Political Science with Honors

Faculty Advisor: Professor Alan DiGaetano

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INTRODUCTION

The central purpose of this thesis is to identify the crucial factors that influence fiscal policy making in New York City. Since the city's brush with fiscal crisis in 1975, financial worries and problems have plagued New York's municipal leaders. The most commonly proffered explanations for how New York City has managed its fiscal difficulties in the last two decades either emphasize the importance of economic factors or the role of politics in shaping the city's fiscal policy making. Although there are elements of truth in each of these theoretical approaches to New York City's fiscal decision making process, neither adequately or wholly accounts for the patterns of revenues and expenditures since the fiscal crisis. The aim of this essay is to determine the relative importance of economic and political factors in New York City fiscal policy making. Specifically, by analyzing fiscal policy making from 1978 to 1996, this paper attempts to discern the extent to which the city's fiscal policies are a consequence of the performance of the local economy and/or the politics of mayoral coalition building.

The mayoral administrations of Edward Koch and Rudolph Giuliani have been selected for this study because of the sharply different economic climates in which each operated. The Koch administration coped with the aftermath of the 1975 fiscal crisis and then

enjoyed the fruits of the more prosperous mid-to-late 1980s. The Giuliani administration, in contrast, has struggled with a stubbornly stagnant local economy. This comparison, then, will enable us to track the effects of the business cycle on fiscal policy making in New York City. Also, mayors Koch and Giuliani built conservative political coalitions, and a comparison of the two administrations will also allow us to assess the extent to which their administrations were able to reward their constituencies in periods of boom and bust.

This paper seeks to explain how New York City has managed the difficulties of fiscal policy since the late 1970s. The first section discusses the different schools of thought on urban fiscal policy-making. The second provides some background on New York City's fiscal policies since the 1975 fiscal crisis. Part three examines the importance of the economy in shaping the New York City fiscal decision-making process. Here, the mayoral administrations of Edward Koch and Rudolph Giuliani are compared to demonstrate how the performance of the local economy has set parameters for fiscal policy-making. Again, comparing the Koch and the Giuliani mayoral administrations, the fourth section focuses on the political dimension of fiscal policy making, The conclusion draws the various strands of explanation together by assessing how the New York City case helps us to understand the relative importance of economic and political factors in the process of urban fiscal policy making.

THEORETICAL PERSPECTIVES ON URBAN FISCAL POLICY MAKING

The fiscal troubles of American cities, according to David Stanley, can be divided into three broad categories: fiscal crisis, long-term decline and fiscal distress. (1) He defines *fiscal crisis* as the dramatic, immediate problem that occurs when a city has neither cash nor credit to meet near-term expenses, such as payroll and supplies. Fiscal crisis then, according to Stanley, is the extreme condition of bankruptcy or near bankruptcy. Secondly, *long-term decline* is a situation in which a deteriorating local economy and social conditions erode a city's tax base. Finally, *fiscal distress* entails the everyday struggle of even the most affluent of communities to balance their budget without raising taxes or cutting services. Although Stanley's definition of fiscal distress implies that the fiscal problems of many cities may have been poorly diagnosed, it also indicates that urban fiscal troubles, in whatever form, are a recurrent feature of American city politics.

Two competing theories claim to explain the reasons why cities often experience financial problems--the economic approach and the political approach. What follows is a discussion of the basic elements of each approach and how each explains chronic structural imbalances in municipal budgets.

AN ECONOMIC THEORY OF URBAN FISCAL POLICY MAKING

Paul Peterson, in his book *City Limits*, interprets fiscal policy making as a function of local autonomy. (2) Local autonomy refers to the degree of discretion that a local government exercises over local affairs. Peterson argues that the fiscal problems of cities are largely determined by external forces beyond the control of local government. That is, Peterson holds that local governments are constrained by a number of factors, legal and otherwise, that serve to limit their autonomy, making "city politics, limited politics." (3) Not only is a municipal government's legal autonomy limited, but within this institutional arrangement, external factors, particularly economic ones, constrain the decisions municipal leaders are able to make.

Peterson construes economic interests as the primary or 'unitary' interests of a city. (4) A city's economic well-being is defined as a condition of relative economic prosperity that cities seek to attain. Cities constantly seek to maintain or improve their economic position in the national and international system of cities. To compete effectively, local governments must pursue policies that enhance a city's ability to attract labor and capital. Development policies, which provide necessary infrastructure and services, enhance the economic position of a city. In contrast, redistributive policies, which transfer benefits to low-income residents, adversely affect a city's economic standing.

Peterson argues that because a city's economic position varies relative to the larger national socioeconomic trends, "the place of the city within the larger political economy of the nation fundamentally affects the policy choices that cities can make. (5) Cities are not autonomous in the policies they can execute because economic prosperity is contingent upon the performance of the national economy. In short, constrained by factors beyond their control, local policy makers operate within a limited sphere of influence.

According to Peterson, general consensus usually forms around development policies because these programs strengthen the local economy, and thus increase a city's competitiveness relative to other cities. A stronger local economy, in turn, enlarges the local tax base and generates additional resources that can be used for a community's welfare. In addition to producing economic benefits, developmental policies can nm the gamut from being totally self-financing (such as user fees), to those that demand a sacrifice (such as tax concessions and abatements to businesses), which means "paying for themselves in the long run."(6)

Redistributive policies, in contrast, seek to transfer benefits from higher to lower income segments of the population through social services, which adversely affects a city's economic position. That is, redistributive programs prove fiscally burdensome to municipalities to maintain, supplying benefits to those least needed by the local economy, but financed by those who are most needed.

Peterson applied the "city limits" theory to the 1975 fiscal crisis in New York City. Peterson argues that the New York fiscal crisis was "externally determined by long range socioeconomic forces and by national policies that facilitated suburban growth." (7) For example, Peterson attributes much of the blame for the 1975 fiscal crisis to federal highway programs that facilitated the exodus of the middle class to the suburbs and businesses to less costly areas. These trends, in turn, were exacerbated by New York City's fiscal policy, which provided generous redistributive programs that were a response to increasing demands of the poor minority groups, and increased salaries and benefits of city employees beyond local government's capacity to pay for them. In other words, socioeconomic trends set the parameters of fiscal capacity, and politicians managed the city's fiscal problems within these limits.

THE POLITICS OF URBAN FISCAL POLICY MAKING

A second theoretical approach focuses on the *politics* of fiscal policy making. Martin Shelter, in his book *Political Crisis/Fiscal Crisis*, claims that New York City's 1975 fiscal crisis was precipitated by political decisions, not, as Peterson argues, middle-class flight to the suburbs,deindustrialization, and other large-scale structural shifts that eroded the city's tax base. Instead, Shelter contends that fiscal problems arise from the inability of local officials to meet the most "immediate imperatives" without spending more money than is collected in taxes and intergovernmental transfers. Shelter regards the "immediate imperatives" for fiscal policy as the need to: (1) generate sufficient votes to win elections; (2) maintain the health of the city's local economy; (3) preserve the city's credit rating, and (4) maintain social harmony by mediating conflicts among competing groups. (8)

To explain the 1975 New York City fiscal crisis, Shefter contends that public officials sought to maintain high levels of expenditure in the face of an eroding tax base in an effort to serve their constituencies and thereby retain political power. In his view, politicians or local officials forge alliances with interest groups on whose support they depend to remain in office. And they do this by satisfying ever increasing interest group demands. Rapid increases in municipal expenditures in the face of declining revenues occur, as a result, when local officials seek to mobilize or maintain political support or forestall opposition. Simply put, Shefter explains the rise and fall of municipal expenditures by analyzing how city officials attempt to meet the demands of organized or, in some cases, disorganized interests. The motivation for politicians is to win re-election. (9)

Shefter depicts the relationship between city leaders and political coalitions as dynamic and dialectical. The process of bargaining and compromise between municipal leaders and their political coalitions is the critical factor in fiscal policy. Shefter distinguishes between two types of interests in fiscal politics: "the service demanders and the money providers." (10) Typically, the money providers include homeowners, small businessmen, real estate interests, bankers, and other economic and business interests. Service

demanders, in turn, are the poor, ethnic and racial minorities who are often politically less powerful. These two coalitions compete for influence in local government and, according to Shelter, the choices public officials make may win them the approval or enmity of these electoral interests. The fiscal choices are, therefore, based decisively on the calculation of which political interests they can least afford to alienate.

In sum, Shefter suggests that to explain the rapid growth of municipal budgets and debt, one must analyze the political logic of actions taken by city officials in response to changes in the city's social and economic structures. In otherwords, fiscal policy making is a process of highly contested interest group competition, in which organized interests engage in power struggles over the level of taxation and the distribution of municipal expenditures.

Ester Fuchs, in her book *Mayors and Money*, perceives the urban fiscal policy making process a little differently. Fuchs considers the mayor to be both the key fiscal decision-maker and the final arbiter of budgetary decisions. As the key player, the mayor's ability to gather support for his/her policies of generating revenue sources and capping expenditures shape the dynamics of the fiscal policy process. The mayor's power to centralize and control the budgetary process and limit public demands are what Fuchs terms the political context for fiscal policy-making.

Fuchs contends that politics and the political context of economic scarcity are central to understanding the urban fiscal condition. She identifies five political factors that figure prominently in the fiscal policy of American cities. They include: (1) long-term budget trends; (2) local party organization; (3) interest group activity; (4) intergovernmental relations; and (5) formal legal arrangements. (11) Although Fuchs recognizes these factors as establishing the context of fiscal policy making, she emphasizes the role of the mayor as decisive. Given that the mayor's power is mandated by law, Fuchs argues that the mayor's actions greatly affect and sometimes determine the degree of fiscal stability. When one official exerts so much influence over local fiscal policy making, fiscal stability can be achieved in two critical ways. First, the mayor can reduce the burden of service delivery to the city by shifting the responsibility to other governmental jurisdictions. Second, the mayor can control interest groups by ignoring or resisting demands for increases in existing services or the provision of new services that would strain the local revenue base.

Ultimately, according to Fuchs, the mayor possesses the authority and the political independence to make decisions that shape or reorient the budgetary process. Unlike other explanations, Fuchs insists that city leaders retain some degree of control over fiscal decisions and it is this autonomy, however limited, that helps to explain the process of urban fiscal policy making.

The remainder of this research paper assesses the political and economic factors that influenced New York City's fiscal management over the past two decades. It is argued that economic factors are most important for explaining revenue related decisions, while

politics is of greater importance in determining the patterns of municipal expenditure. So, it is not economic or politics that are determinants, but a combination of the two.

NEW YORK CITY FISCAL POLICY: 1978-1993

Financial ruin threatened the City of New York in the Spring of 1975. Carrying a $12.3 billion debt and an operating budget deficit of $1.68 billion, (12) the city was unable to meet its debt obligations as they fell due or even to cover operating expenses such as payroll. Moreover, excessive short term borrowing (between 1971 and 1972 the city issued almost $12 billion in short term securities) (13) meant that the city began experiencing difficulties in selling its notes. Eventually, the city was locked out of the bond market, which precipitated a cash flow crisis and forced municipal officials to own up to the impending disaster.

New York's virtual default has been attributed to many causes: a collapsing private economy, suburbanization, and increased spending on social services, education and health services. Moreover, New York City may have employed questionable and imprudent financial practices. For more than a decade, city expenditures had exceeded revenues, due in part to a growth in expenditures related to social services for the massive influx of more than 2 million immigrants. Over this period, the city filled the gap between revenues and expenditures by resorting to extensive short term borrowing. That is, the city had engaged in chronic deficit spending and amassed huge short term and long term debt, a clear indicator of fiscal danger. The banking community earned substantial profits from the resale of the city's bonds and therefore conspired in what one observer called "denigrating the city's fiscal integrity." (14) Almost when it was too late, the banking community expressed 'deep concern' over the city's mounting debt and demanded reforms in the city's fiscal policy. As a consequence, the city was suspended from the municipal bond market, leaving Mayor Abraham Beame a confused and hapless player in the drama that was yet to unfold.

On June 10th, 1975, the New York State legislature passed the Municipal Assistance Corporation Act, which established the Municipal Assistance Corporation (MAC). The MAC's mission was to restore the City's creditworthiness. It was authorized to sell bonds to meet the city's borrowing needs. In addition, to curb the profligate spending habits of New York City government, the state legislature passed the Financial Emergency Act, which created a seven member Emergency Financial Control Board (EFCB). The EFCB was charged with the mandate of reorganizing and overseeing New York City's financial affairs. (15) These two institutions placed the city into virtual receivership of its major creditors -- a group of elite bankers and businessmen.

The city's new fiscal overseers imposed a severe austerity program designed to retrieve the city from imminent financial ruin. Such reforms included immediate reductions in the municipal workforce, cuts in basic as well as redistributive services, and postponing capital investments in the city's infrastructure until 1981. The MAC and EFCB also

introduced several new practices, such as attaching user fee charges to some services that were heavily subsidized. This included charging tuition at the City University of New York and raising transit fares.

Under this austerity program, many of the routine operations of the City were put under direct supervision. The City was required to submit its contracts for EFCB review and approval. State mandates also required the City to prepare balanced budgets annually, devise four-year financial and longterm capital investment plans, and, finally, submit its operating results for independent audits each year. (16) These measures formed an integrated financial management system designed to institute sound financial practices and, most of all, accountability.

It did not take long for economic recovery to return the city to fiscal stability. In the meantime, the measures imposed by the fiscal monitors disciplined municipal leaders and instilled a new ethic of fiscal conservatism. By 1981 the City achieved a balanced budget in accordance with the criteria of the Generally Accepted Accounting Principles. Also, the EFCB gave way to a Financial Control Board, which remained an advisory agency whose former powers could be invoked if the city ended a fiscal year with a deficit of $100 million or more.(17)

The 1980s proved to be a prosperous decade, not only for New York City, but for the nation. The city's key industries, finance, insurance, and real estate (FIRE), grew by more than 18 percent. Almost instinctively, the City responded to economic success with expansionary budget policies. The municipal operating budget grew by 81 percent or 11 percent in constant dollars between 1981-1989. (18) Public sector employment in the city rose by 8 percent, nearly twice the rate statewide. (19) The unexpected stock market crash in October 1987, however, signaled to city leaders that they were not yet clear of financial problems. In fact, a slow recovery from the crash left the city unprepared for the recession at the end of the decade.

During this period, Mayor Edward Koch had engaged in a self-defeating practice of cutting spending in some areas and significantly increasing expenditures in others, thus causing budget gaps. For example, the city's contribution to public assistance programs increased exponentially. This growth continued under the Dinkins administration with Medicaid spending increasing by nearly 59 percent in constant dollars, while Aid to Families with Dependent Children and Home Relief rose 12 percent in constant dollars from 1989 to 1992. Moreover, more than half of that growth occurred during the recessionary period of 1989-1992. (20)

In addition, debt service proved unwieldy. This, in part, was due to the fact that capital spending had been deferred in the aftermath of the 1975 crisis. As a result, to pay for much needed infrastructure investment, the total debt service (including the Municipal Assistance Corporation and the Water Finance Authority) grew by 95 percent, from $1.5 billion in fiscal year 1986 to over $2.8 billion in 1993.(21)

Finally, in fiscal year 1989, the Koch administration proposed a budget that "cares where it counts," employing the guiding principles of "common sense and compassion." (22) This budget, however, was laden with financial burdens that hampered David Dinkin's administration (1989-1993), and threatened to bring the city once again to the brink of bankruptcy.

THE ECONOMICS OF FISCAL POLICY

As Peterson suggests, the local economy has had a far-reaching and profound effect on a city's fiscal decision-making process. This has resulted from the direct link between the state of the local economy and the amount of municipal revenues collected. When a local economy expands, generally speaking, the flow of municipal revenues enlarges. Conversely, during a recession, revenues contract and expenditures that were affordable during periods of strong economic growth become more difficult to finance.

This section discusses how the economy sets the parameters of fiscal policy making by determining the amount of money available for spending. These "city limits," as Peterson calls them, in turn, influence the decisions made by municipal leaders in the fiscal policy-making process.

CITY REVENUES AND THE ECONOMY

The composition of a city's revenue base determines, to some extent, how susceptible the level of municipal income is to changes in the business cycle. New York City's revenue structure is composed of a complex set of income streams. Taxes account for most of the city's revenues. These include property, local sales, local wage, and corporate taxes. Other sources of municipal income flow from charges or fees derived from various services provided by the city government. Intergovernmental revenues, which are transfers of funds from either the federal or state governments, form the last principal source of city revenues.

One problem concerning municipal finance stems from the relative sensitivity of a city's revenue base to swings in the economy. The greater the reliance on a single revenue stream, the more vulnerable a municipality is to changes in the business cycle. Because of this, municipalities seek to diversify their revenue base to insulate city budgets from the fiscal instability caused by fluctuations in the economy. As Fuchs relates, "If a city's revenue structure is not diversified, then long-term dependency can develop on one revenue source, increasing the city's vulnerability to fiscal problems if that source should be reduced."(23)

Property taxes, which are the least sensitive to cyclical fluctuations, are thus, much more reliable and lend greater stability to a city's financial base. Elaine Sharp reports that most

cities rely heavily on property tax revenues. (24) According to her research, cities, on average, receive 37 percent of their revenues from property taxes, with 25 percent of the cities studied generating more than fifty percent of their local revenues from this one source. (25) In fact, property taxes usually contribute the largest share of revenues to the municipal coffers, when compared to other sources.

Table 1 shows that over the twelve year period from 1984 to 1995, New York City relied on property taxes for about a quarter of its revenues--the actual range was from 22 percent to 27 percent. Even during periods of recession, property taxes constituted the largest source of New York City revenues. For example, in 1987, the year of the stock market crash, which marked the end of the boom era in New York City, 23 percent of city income was generated from property taxes. This was the same proportion as in 1984, when the city was enjoying an economic boom. In the 1990s, the proportional share of city income generated by property taxes inched a little higher (by 1-2 %), but remained relatively constant through the recession of the early 1990s and even into the recovery of the mid-1990s.

table 1
General Fund Revenues

go to larger image

Compared to other municipalities, however, property taxes comprise a smaller share of New York City's revenue base. And, because it relies less on property taxes, New York City is forced to depend on other revenue streams that are more susceptible to fluctuations in the level of economic activity. This complicates balancing the budget, as municipal revenues will rise and fall more dramatically in relation to the performance of the local economy.

Cities tend to rely less on sales taxes than property taxes as sources of income. According to Sharp, on average, cities obtain 16 percent of their revenue from the sales tax. The biggest problem with the sales tax as a source of municipal revenue is its susceptibility to changes in the economic cycle. Sharp explains that the potential of sales taxes to generate significant revenues depends directly on the level of local economic activity. (26) In good economic times, people simply spend more than during a recession, which directly affects the amount of sales tax revenues collected by the city. As Table 1 indicates, the proportion of New York City revenues generated by sales taxes from 1984 to 1995 mirrors the performance of the local economy, which confirms Sharp's claims. The portion of revenues from the sales tax was constant fi:om 1984 to 1989. It declined steadily from 1990 to 1994, with a slight recovery in 1995. In short, New York City's reliance on sales and consumption taxes has exposed it to the vicissitudes of the economic cycle.

Another tax that is quite sensitive to changes in the performance of the local economy is the corporate income tax (this is included in the category called "Other" in Table 1). New York City's fiscal and economic fortunes are closely linked to the FIRE sector, particularly the financial service sector. For example, from 1991 to 1993, the cumulative increase in municipal income from taxes on the securities industry exceeded $11 billion. When higher interest rates in 1994 triggered a drop in bond values and investment banking activities, profits for the industry plummeted from the record $8.6 billion in 1993 to $1.2 billion in 1995. As a result, the city's fiscal year 1995 tax revenue collections fell $431 million short of the level projected at the beginning of the fiscal year. (27)

Local income taxes, according to Sharp, are used mostly by large cities and tend to be more reliable than the sales tax. Herson and Bolland assess income taxes as sensitive to the economic climate in general, but are particularly affected by changes in levels of unemployment.(28) As Table 1 indicates, the proportion of revenue derived from the New York City's income tax fluctuated from 17 percent in 1984 to 19 percent in 1993 and in direct relation to recessionary and expansionary periods. In 1994 and 1995, as unemployment eased, the income tax share of city revenues grew to 20 percent and 21 percent, respectively.

Income taxes also contract when businesses migrate to other areas. For instance, corporate flight from central business districts, according to Herson and Bolland, produces a loss in the number of high paid executives, corporate lawyers and professional staff. (29) This proves costly to cities as they lose the income of these workers as well as their taxes. Peter G. Gosselin reports that New York City's position as the nation's premier financial center has declined. (30) According to Gosselin, a steady exodus of banks, brokerage houses and insurance companies in recent years has left the city grabbing at thin air. Vacant space in office buildings remains stubbornly at 25 percent, 15 percent higher than what real estate specialists consider to be healthy. The loss of major corporate firms, in short, threatens the fiscal base of the city and portends future distress. (31)

In the 1960s there was a growing reliance by local governments on federal aid. Intergovernmental aid to cities, however, has declined since the late 1970s. In the 1980s, the Reagan administration's New Federalism, which was an attempt to relieve local fiscal dependence on the federal government, rolled back federal aid to local governments. As Sharp points out, dependence on federal aid in particular declined by an average of 6 percent between 1977 and 1983. Federal cuts, however, effected only a modest decline in New York City's dependence on intergovernmental aid, which slipped from 36 percent in 1984 to 33 percent in 1987. Intergovernmental aid as a proportion of city revenues remained at 33 percent for the remainder of the decade. In the 1990s, intergovernmental aid varied only slightly, from 33 percent to 34 percent. Intergovernmental aid, however, has little impact on a city's structural imbalance because such aid is largely categorical in nature, providing reimbursement to the city for expenses incurred. That is, it is only after expenditures have been incorporated into the budget that the intergovernmental aid is included.

Since intergovernmental aid plays a very limited role in budget balancing, the onus for supporting normal recurring expenditures falls squarely on the shoulders of locally generated revenues, consisting of property and non-property taxes and miscellaneous receipts. Because most of these revenue streams are sensitive to economic trends, fiscal policy making in New York City is all the more volatile. Decline or stagnation in the economic activity that produces these revenues may seriously curtail the discretion of municipal leaders in *making* fiscal policy. Although the city's revenue base is diversified, the particular mix has failed to insulate city budgets from the sort of fiscal instability caused by changes in the business cycle. Overall then, New York City's revenue structure is fairly sensitive to the performance of its local economy.

To demonstrate how shifts in New York City's economy have imposed constraints on fiscal policy-making, the following compares the ways in which the Koch and Giuliani administrations coped with problems of raising revenues in good times and bad.

The Koch Era: 1978-1990

During the 1980s, under the mayoral administration of Edward Koch, New York City experienced an unprecedented economic boom. For example, the FIRE sector, which is the engine that drives the local economy, grew by 18.3 percent between 1980 and 1989, or at an annual rate of 1.9 percent. Private sector employment, in turn, increased by 8 percent over the decade (32) The city's workforce rose to 3,608,000 in 1989, from 3,302,000 in 1980-- a 9.3 percent increase or an annual growth rate of 1.0 percent. The unemployment rate fell to a remarkably low 5.8 percent. (33) As a result, the city's expenditures grew from $13 billion in 1978 to $25 billion in 1989, as measured in 1983 constant dollars. (34) This rapid growth in tax revenues, in turn, enabled the city to increase the number of city employees and diversify its array of services. In this economic context, Koch promoted private investments, advocated budgetary reform, facilitated real estate development, and assisted community-based social service providers.(35)

On the revenue side, the city collected a substantial amount of income from the sectors that grew in direct proportion to the increased economic activity. The real estate market saw property values rise significantly, generating more tax revenues from higher assessed valuations. Similar growth rates were evident in other revenue streams. After a slight dip between 1980 and 1983, real retail sales grew by 9.8 percent between 1980 and 1989, or 1.0 percent annually. From 1983, retail sales grew from $37.9 billion to $44.2 billion in constant 1989 dollars (36) Translated, this means that, during the 1980s, the Koch administration was receiving more sales tax revenues every fiscal year. In short, as each revenue stream responded to the rise in economic activity, city revenues grew.

The prosperity of the mid-to-late 1980s fueled the expansionary policies pursued by the Koch administration. Economic growth enabled Koch to enlarge almost all aspects of city government operations. City operating expenditures decreased modes fly during the post fiscal crisis period from 1980 to 1983. During the recovery years from 1983 to 1989, however, expenditures grew from $20.4 million in 1983 to $24.5 million in 1989, as

measured in constant 1989 dollars (37) In addition, city government employment rose 26.6 percent from 1980 to 1989, reaching 238,383 employees at the end of 1989 (an increase of 50,037 full-time city workers). Inflation adjusted or real income increased over the same period by an average of 2.6 percent annually, equaling $154 billion in 1989 constant dollars (38)

With a robust local economy generating higher revenues, the Koch administration was also able to increase its capital commitments dramatically. Indeed, city capital expenditures grew explosively over the decade by 275.8 percent, from $836 million in 1980 to $3,142 million in 1989 (39) Given the relative prosperity that the city was enjoying, fiscal policy making was less constrained. As a result, Koch was able to divert much more money to capital spending than was possible immediately after the fiscal crisis.

The Giuliani administration: 1993-1996

Mayor Rudolph Giuliani, in sharp contrast to Koch's last several years in office, has faced a more difficult fiscal situation. Given the lackluster performance of the economy in the 1990s, the city has encountered the dual fiscal strains of rising expenditures and shrinking tax revenues. Of the two, rising expenses have posed the greater challenge to the Giuliani administration in terms of achieving structural balance.

In the mid-1990s, the city experienced sluggish economic growth, only slowly rebounding from Wall Street's downturn in 1995. Actions by the Federal Reserve in 1995, in their attempts to curb inflationary pressures at the national level, placed unusual strains on New York's economy. Recent reductions in interests rates, however, may revive the city's financial and interest-rate sensitive sectors, thus paving the way for a full recovery. Nonetheless, with the unemployment claims at 9 percent in the beginning of 1995, the city has only barely begun to recover. For example, New York saw only a slight growth in the number of jobs. Total employment grew by 14,500 in the local economy for the first three quarters in 1995. As a consequence, the unemployment rate (not seasonally adjusted) for New York City for the first nine months in 1996 dropped to 8.3 percent (40) This constituted only a modest improvement over the 1995 rate of 8.5 percent, but was still far higher than the 1989 rate of 5.8 percent.

What is more, real wages for many New Yorkers have stagnated. The average wage for New Yorkers, after adjusting for inflation, declined by 1.1 percent from 1994 to 1995, (41) which means that earnings for most workers possess less purchasing power today than 5 years ago. Depressed wage levels may have resulted from the shift from high-paying to low-paying jobs in New York's labor market. That is, over the last few years, New York City has tended to lose higher paying jobs, while the economy has added jobs in industries with lower than average wages.(42) Nevertheless, the slight increase in private sector jobs, which totaled 25,600 for the first three quarters of 1995, reversed a downward trend, since, in recent years, job losses in government have offset the growth in the private sector. This engendered a 0.4 percent growth in overall employment, which was clearly an improvement over last year's net loss. To date, New York has managed to

regain only 28 percent of the private jobs lost during the protracted recession of 1989-1992. (43)

Table 2
Debt ratios for selected fiscal years

go to larger image

The Giuliani administration came into office with an agenda to implement conservative fiscal management measures. The dismal economic climate provided a rationale for Giuliani's fiscal austerity agenda. Indeed, examining New York City's budgets from fiscal years 1990 to 1995 reveals that the local economy has abetted Giuliani in this task. First, from 1991 to 1995, general fund revenues grew by 15 percent ($4.1 billion) or about 3 percent per year. This rate of increase was at about the same as inflation, which means no growth occurred in real terms. In 1995, general fund revenues totaled $31.6 billion, up $238 million or 0.8 percent from 1994, which was far below the rate of inflation. This small increase in city revenues reflects the slow pace of growth in the local economy. (44)

Second, the Giuliani administration has tried to reduce the debt ratio in the face of slow revenue growth and rising expenditures. Table 2 reports that debt service from 1993 to 1995 halted its precipitous rise, both as a percentage of total expenditures and as a proportion of general fund revenues (excluding categorical aid). In 1995, debt service as a percentage of total expenditures stood at 7.2 percent, down by 0.9 percent from 1993. Debt service as a percentage c>f general fund revenues other than categorical aid remained relatively high at 11.0 percent, following a 0.8 percent reduction from 1993. For fiscal years 1991 to 1995, long term debt service stood at $470 million, with a $4.1 billion increase in general fund expenditures during the same period.

Recently, however, the city's borrowing costs have rapidly escalated, which alarmed the city's fiscal monitors. The city's outstanding debt is reportedly at an all time high of $30 billion, not much less than its current budget of $33 billion, (45) Mounting debt service, in turn, has curtailed the Mayor's ability to spend more in other areas he has deemed necessary, such as foster care, park clean-ups, picking up garbage, or, as he often lmnents, reducing the city's tax rates. Despite reassurances given by Joseph J. Lhota, the Mayor's budget director, the fiscal monitors remained very worded, since rising debt service is a clear indicator that fiscal danger lies ahead.

The current estimated costs of debt service, which reached $3 billion in 1996, (46) stems largely from two factors: the declining local economy and capital spending on sorely needed infrastructure, such as roads, bridges and schools. Robert A. Kurtter, the Vice President at Moody's Investors Service, summed up the dilemma faced by the city as follows: "The city can't afford to borrow more because its debt burden is high, but at the

same time it can't not afford to borrow more because its infrastructure needs are so great." (47)

THE POLITICS OF FISCAL POLICY

Although greatly affected by the performance of the local economy, city budgets are highly political documents and bear the mark of a grueling process of fiscal policy making. That is, a city's budget sets out a plan for managing municipal fiscal affairs, while at the same time defining mayoral policy priorities and preferences. Few if any policies receive allocations without a political agenda. Moreover, according to Shefter and Fuchs, there is a political context that constrains the choices municipal leaders make in fiscal policy making. Politics creates exigencies within the already constrained economic environment, determining "who gets what and who gets cut." (48) In short, Peterson's "City Limits" theory that fiscal policies are largely products of economic conditions is far too mechanistic to explain the nuances of municipal expenditure decisions.

The political context that frames decision-making in the fiscal arena consists of competing sets of interests. These interests form the blocks of political power in a city. Moreover, amid the demise of local political parties in urban politics, municipal leaders have been forced to become adept independent political operators who must mediate among the competing blocks of political interests. Mollenkopf suggests that mayors face three types of competing sets of interests: (1) public sector producer interests (inside local government); (2) constituency interests; and (3) private market interests (with special attention given to large corporations that exercise considerable discretion over private capital investment) (49) These differ only a little from Martin Shefter's two sets of interests discussed earlier. (50) From these three sets of interests, according Mollenkopf, "political actors in municipal government, in order to govern, must construct and maintain a dominant coalition by using city government's relationships with its economic and political/electoral interests to win elections."(51) From this conception of local governance, it becomes clear that political leaders face a major dilemma. That is, the problem of striking a balance between forging a winning electoral coalition, on the one hand, and attracting and retaining private investments in the city, on the other. (52) Mayors who fail to achieve this political balance inevitably experience very short public careers as chief executives in city government.

In assessing the role that politics plays in the fiscal policy-making in New York City, this paper adopts a somewhat modified version of Mollenkopf's analytical framework. First, constituency interests can be further divided into Shefier's two types of electoral coalitions: service demanders and money providers. Service demanders constitute the poor and ethnic racial minorities who tend to contribute less in the way of taxes, but are heavy users of the city social services, school system and other redistributive services. In contrast, the money providers include homeowners, small business owners, and other property interests who generate substantial amounts of tax and other revenues for the city

but place fewer direct demands on redistributive services. Private market interests, in turn, are composed of businesses that contribute large amounts to the city's coffers and depend on the city to provide a favorable climate for investment. As Mollenkopf indicates, the business community's "tax payments provide the bulk of the city's revenues; their investment capital is required to bring public development initiatives to fruition; their senior executives or partners provide the bulk of campaign financing and post government employment opportunities for departing senior official; and they exercise extensive influence over institutions that shape mass and elite public opinion." (53) Finally, public sector producer interests (local government) are the city's public employees in city agencies.

To ascertain the role politics plays in shaping New York City budgets, this section compares the expenditure side of fiscal policy making during the mayoral administrations of Edward Koch and Rudolph Giuliani. The extent to which budget decisions made by these two mayoral administrations conform to Mollenkopf's political coalition thesis will demonstrate whether city officials indeed formulate fiscal policy by *responding* to the demands of the different blocks of political interests in the city.

THE KOCH ERA: 1978-1990

Mayor Koch was able to transform a very successful electoral coalition into an effective governing coalition. His electoral alliance included white, ethnic, middle-class voters, and conservative African Americans and Latinos. Furthermore, Koch's "electoral popularity and strong support from the financial and real estate development interests that benefited from his policies gave him the base from which to convert an electoral coalition into a solidly entrenched governing coalition." (54) No where else is this more evident than in the executive budgets proposed by Koch over the 12 years of his mayoral administration. The Koch administration reduced redistributive functions, such as welfare, while making increased private investment in the city's economy a high priority. Koch created a highly conservative governing coalition of powerful corporate and business elites whose interests he staunchly protected. (55) That is, Koch's pro-growth developmental policies provided direct benefits to New York City's business community.

Table 3
NYC Expenditures by Major Functions

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Constituency Interests

In the aftermath of the 1975 fiscal crisis, the Koch administration favored the "revenue providers" over the "service demanders." The expenditure side of city budgets during Koch's mayoral administration reflects the concerns of Koch's coalition. Table 3 reports New York City expenditures for the fiscal years 1978, 1983 and 1989. Spending increased across most areas of city services proportionate to total spending, except in redistributive services. The proportion of expenditures allocated for development-related operating costs grew from 7.3 percent to 8.9 percent of total spending. Education spending increased its share of the budget by 3.6 percent, reaching 28.9 percent in 1989. In addition, spending for criminal justice and fire protection edged up from 13.6 percent in 1983 to 15.1 percent in 1989. Finally, redistribution expenditures, as a share of the city's budget, fell from 40.9 percent in 1978 to 34.8 percent in 1983, although the amount increased in current dollars.

Table 4
NYC Expenditures by Object

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Table 5
Capital Expenditures by Function

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Examining public spending in the Koch years by object (see Table 4), we see redistributive expenditures again suffering cuts. Medicaid as a proportion of total expenditures dropped precipitously from 8.4 percent in 1978 to 4.4 percent in 1983, and dipped slightly to 4.3 percent in 1989. Public assistance, while declining, suffered only modest cuts by comparison. Public assistance spending edged downwards from 9.7 percent of the budget in 1978 to 7.0 percent in 1989. It is clear that, while Koch embarked on an expansionary fiscal policy strategy overall, the growing budget allocations differentially affected the competing blocks of political interests in the city. In

other words, the Koch administration pursued a political agenda that reduced the share of the budget that went to service demanders-- the city's poor.

Table 5 reports the distribution of capital expenditures across different functions from 1980 to 1989. The most dramatic increase in capital spending was in corrections, which expanded from $5.2 million in 1980 to $169.1 million in 1989, a whopping 3195.5 percent increase. This rapid rise in corrections spending can be seen as part of the Koch's administration's war on crime, which entailed locking up more criminals. (56) Capital spending on housing grew substantially from $32.4 million in 1980 to $366.6 million in 1989. However, much of this provided financing for lower middle-class housing. (57) Health, however, only received moderate increases in capital spending, totaling $119.3 in 1989. Other spending areas that experienced large growth were overhead functions, parks and libraries.

Private Market Interests

In forming a governing coalition, Koch closed ranks with the city's conservative business elite. The product of this alliance was the promotion of a number of large-scale development projects, which included the construction of the Jacob Javits Convention Center, the South Street Seaport, the Columbus Circle Project, Hunter's Point Redevelopment Project and the extensive, yet, highly controversial Times Square Redevelopment Project. All centered on business districts and secured lucrative benefits for private market interests. The Times Square Development Project, the most extravagant, was estimated to cost more than $2.5 billion. The city granted tax abatements worth $650 million over 20 years and allowed office development to exceed prior zoning limits. Such concessions were emblematic of the Koch administration development policies. (58)

In addition, the Koch administration, through the Industrial and Commercial Incentive Board, granted discretionary tax exemptions to firms that undertook office building construction in the city. This was done despite many doubts about the practice of giving tax abatements to commercial projects in the city's business districts. The Time Square project alone was granted $650 million in tax abatements. The National Broadcasting Corporation (NBC), through its parent company General Electric (GE), received $100 million when it threatened to leave the city. Chase Manhattan was granted $235 million to encourage its owners to build a new operations center in downtown Brooklyn. In sum, the Koch administration used its tax abatement policy to create a favorable business environment to attract and retain corporate and commercial investments. At the same time, according to Mollenkopf, the Koch administration asked for little in return in the way of concessions from companies and only weakly enforced the commitments to which firms agreed. (59)

Capital budget expenditures in the Koch years also show a clear bias in favor of private market interests. Table 5 reports the distribution of capital expenditures across different functions from 1980 to 1989. The Koch administration increased spending in almost all functions. However, the more substantial increases took place in economic development, roads, police and corrections. The allocations to economic development and Department

of Transportation (roads) in 1980 were $26.4 million and $140.8 million respectively, ballooning to $72.6 million and $421.8 million, respectively, in 1989. In comparison, spending on mass transit rose slowly, increasing only by 12.1 percent over the same period, from $421.1 million to $472.1 million.

Public sector producer interests

New York City employs more than a quarter of a million people, most of whom are represented by organized labor unions. Owing to the sheer size of public union membership, which includes District Council 37 of the American Federation of State, County and Municipal Employees (AFSCME), the United Federation of Teachers (UFT) and Teamsters Local 237 (housing authority workers), city unions represent a potent electoral force. That is, public unions are able to mobilize voters at election time and, therefore, exert considerable influence over elected officials. (60)

To balance municipal budgets, the Koch administration endeavored to trim city payrolls and thereby achieve labor cost savings. City workforce reductions accounted for two-thirds of the total amount that municipal spending was cut from 1978 to 1983. Public sector producer interests (municipal unions), as a result, were clearly losers in the budget politics of the early 1980s. This was a reversal of their fortunes during Abe Beame's tenure as mayor (1974 and 1978), when municipal unions wielded substantial political clout owing to their ability to mobilize votes. Public sector producer interests, however, did not suffer pay cuts out of proportion to other expenditure lines. Other categories such as OTPS (other than personal service), welfare, and debt service payments were reduced by much larger amounts. As Table 4 reports, the city payroll, as a share of the total budget, increased by 7.7 percent from 1978 to 1983, which was a recovery period. Although the Koch administration reduced spending on labor costs immediately after the fiscal crisis, by 1989, public employment had been restored to pre-fiscal crisis levels. Payroll expenditures grew a further 12 percent from 1983 to 1989, encompassing 53 percent of all municipal expenditures in that year. Even OTPS, which are expenditures that go to third party contract services, saw slight increases. In addition, real wages rose and the city's workforce gained 36,498 employees from 1978 to 1989. According to Mollenkopf, much of this increase in city employment took place in the areas of police, corrections, education and social services. (61) Not surprisingly, among public sector producer constituencies, Koch received the most political support from unions in these service areas.

Table 6 1993
Mayoral Election by Assembly District Type

TABLE 6
1993 General Mayoral Elections by Assembly District Type

AD Type	% for Dinkins	% for Giuliani
Black	88.7	11.3
Mixed minority	74.1	25.9
Latino	73.5	26.5
White Liberal	48.6	51.4
Outer borough Jewish	26.8	73.2
White Catholic	22.8	77.2
Total	47.8	52.2

Source: [illegible]
Original source: Associated Press [illegible]
Note: [illegible]

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THE GIULIANI ADMINISTRATION: 1993-1996

Elected in 1993 as the city's first Republican mayor in twenty years, Rudolph Giuliani garnered the majority of his votes from the city's more conservative and middle class voters. Further, it appears that Giuliani has sought to replicate the model of coalition building employed by Koch. That is, Giuliani constructed a conservative electoral coalition, resembling, in part, Koch's constituencies of white middle-class Jewish and Catholic voters. However, New York's large and diverse immigrant population has meant that appeals be made to the growing and potentially powerful ethnic and minority voters in New York City. Cognizant of this fact, Giuliani's policies have been racially and ethnically sensitive. Mayor Giuliani, then, has realized that in order to be effective he must build and maintain a majority electoral coalition that is multi-racial and multi-ethnic. Therefore, having secured strong support from the more conservative white Jewish and Catholic middle class, Giuliani has extended his appeal to affluent and middle-class African-American and Latinos and the business community. Table 6 reports the share of constituencies that voted for Giuliani. Giuliani received the most votes from white Catholics, outerborough Jewish constituencies and white liberals-- an unusual mix of both liberals and conservatives. However, white Catholics and conservative middle-class voters, rather than white liberals, make up Giuliani's core electoral constituencies.

To consolidate his position, Giuliani has fashioned a policy agenda that reflects the *middle-class* interests of his political base, which has included the kinds of fiscal policies that appeal to his electoral coalition. From the onset of his administration, Giuliani has sought to restructure city government in fundamental ways by setting municipal priorities that conform to the more conservative views of his constituency. The austere budgets that the Mayor has proposed over the last two years have made it clear where these political priorities lie. First, Giuliani has sought to reduce social service expenditures as a means to balance the budget and thus establish the city's fiscal policy on a more conservative basis. Secondly, to satisfy the business community, which has closely monitored his performance, Giuliani has endeavored to enlarge development expenditures as a way to stimulate economic growth. Third, Giuliani has sought to hold the line on labor costs through tough bargaining with the city's powerful unions.

Constituency Interests

Entering the Mayor's office facing a grim $2.3 billion deficit, and acting on the premise that the municipal government was too large, Giuliani issued several proposals to reduce the size of the government while still maintaining core services. In his first year, he sought to "resolve the City's structural deficit" (62) by implementing a number of austerity measures. These included reducing the city payroll, consolidating agencies, privatizing city services, selling city assets, reforming welfare, and consolidating collections of money owed to the city. Many of these austerity measures were designed to reward supportive constituencies and punish Giuliani's political opposition.

Importantly, the way in which fiscal austerity was implemented favored money providers over service demanders. First, because it was widely held that New York City's municipal government was out of control and needed to be reined in, the Mayor's budget proposed severe cuts that went largely unopposed by the Democratic City Council. In spite of the cuts, however, the city continued to face a projected budget gap of $2.7 billion for fiscal year (FY) 1994, which was $400 million higher than the 1993 deficit. Still encountering deficits in FY 1995, Giuliani adopted a $31.6 billion budget that sliced $358 million from education and another $129 million in social services. He also proposed personnel cuts of 15,000. (63) Social services had traditionally been one of the fastest growing sectors of the city's budget, which often thwarted efforts by city officials to achieve structural balance. Guided by the conservative tenet that liberal welfare policies have sapped the vitality of New York's recovery, however, Mayor Giuliani has implemented draconian cuts in social services to curb or reduce the city's commitments to redistributive expenditures. To date, the Giuliani administration has reduced the welfare rolls by 122,000. (64) This has won him praise for lowering the city's spending. In addition, the Giuliani administration has streamlined social services as a cost-cutting strategy.

In terms of reordering municipal priorities, however, Giuliani has been less successful. Table 7 depicts the city's expenditures by function for the period from 1993 to 1995. As indicated, the distribution of expenditures does not match the Mayor's conservative rhetoric or his political priorities. In spite of Giuliani's attempts at cost-cutting, since 1993, growth in redistribution, education and protection has persisted. Although most of these represent slight increases, it demonstrates how intractable levels of redistributive expenditures can be.

table 7
New York City Expenditures
by Major Function,
Selected Fiscal Year, (in $ millions)

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Also, despite the cuts implemented, deficits loomed larger, as the city failed to resolve its fiscal troubles. The austere $32.7 billion budget for FY 1996 stirred up a storm in the fiscal arena. Drafted in the usual conservative fashion, the FY 1996 budget would trim overall spending and make sharp reductions in everything from the police force to park rangers, from treatment for alcoholics to subsidies for private buses (65)

The Mayor drew sharp criticisms from citizens and advocacy groups on the severity of the cuts as "the reductions [once again] raise the specter of an erosion in services coming as they do on top of two years of severe belt-tightening." (66) Furthermore, for the FY

1996 budget, the Mayor encountered stiff opposition from the Democrat-controlled City Council, which not only contested the severity of the proposed cuts, but also had a political agenda of their own. In a direct challenge to the Mayor, the City Council issued a $1.4 billion school reconstruction plan for the FY 1996 budget. This proposal to build new schools and repair others, advanced by Peter F. Vallone, the City Council Speaker, would be financed by extending the life of a 12.5 percent personal income tax surcharge for three more years. The surcharge was to expire in 1996. Initially this was rejected because the Mayor's proposed budget included the expiration of this sur6harge as part his tax-reduction package. However, in the end the Mayor had to concede to the Council's wishes, which checked his impulses to trim mainline service provision.

Table 8
Capital Expenditures by Function and Agency

Function	[illegible] FY [illegible]	[illegible] FY [illegible]
Economic Infrastructure		
Economic Development	56.1	136.8
Dept. of Transportation	[illegible]	[illegible]
Transit Authority	249.8	150.2
General Government		
Dept. General services	[illegible]	[illegible]
Dept. Environ./Sanitation	[illegible]	[illegible]
Fire	34.9	[illegible]
Dept. Technology		[illegible]
Criminal Justice		
Police	[illegible]	[illegible]
Corrections	[illegible]	[illegible]
Redistribution		
Social Services	49.6	27.9
Housing	431.3	291.9
Health	173.0	155.2
Education and amenities		
Education	[illegible]	[illegible]
Parks	[illegible]	[illegible]
Libraries	19.2	[illegible]
Total Expenditures	[illegible]	[illegible]

Source: Comprehensive Annual Financial Report of the Comptroller, Fiscal Years [illegible]

go to larger image

Finally, as with the Koch administration, capital expenditures clearly reflect Giuliani's conservative fiscal agenda. Table 8 indicates, capital spending on redistribution, which includes social services, housing and health, incurred dramatic reductions. Allocations for social services fell precipitously from $49.6 million in 1993 to $27.9 million in 1995. Capital spending on housing was reduced from $431.3 million to $291.9 million over the same period. Capital expenditure on health dropped from $173.0 million in 1993 to $155.2 million in 1995. In addition, spending on mass transit decreased from $249.8 million to $150.2 million over the same period. Capital spendings for education, parks, and libraries claimed only modest increases. In sum, service demanders clearly have fared much worse than money providers in the distribution of capital expenditures during the Giuliani administration.

Private Market Interests

In conjunction with holding the line on social services expenditures, the Giuliani administration has committed greater resources to promoting economic development. The capital budget expenditures displayed in Table 8 favor Giuliani's private market interests allies. Under Mayor Giuliani, the city has invested a much larger share of the capital budget to economic development, building roads, repairing highways (Department of Transportation). Capital expenditures for economic development increased from $56.1 million in 1993 to $136.8 million in 1995 Allocations to the Department of

Transportation grew from $340.6 million to $444.3 million over the same period. Such large capital allocations confer major benefits on the Mayor's private market constituencies, especially the developers of central business district properties. Also, as with Koch, the use of capital spending to improve infrastructure and provide competitive services serves the purpose of retaining New York City's corporate firms.

In light of the lethargic pace at which the local economy has been recovering, the Giuliani/administration also proposed a tax-reduction package in FY 1995. This meant huge losses in city revenues in the short run, but promised to produce a resurgence in the local business activity over the long haul. Indeed, the apparent boost to the city's retail, tourism, and convention industries that resulted after reductions in the hotel and the commercial rent taxes has strengthened the Mayor's resolve to pursue "carefully targeted tax reductions in order to stimulate the economy." (67) Subsequently, the Mayor crafted a proposal that called for: (1) elimination of the sales tax on clothing purchases trader $500; (2) discontinuation of the 12.5 percent personal income tax surcharge upon expiry in 1996; and (3) lowering the property tax on co-operatives and condominiums. The proposed tax cuts, which total $428 million, appear to be politically motivated, given the big cuts that the Mayor has been making on spending. That is, these tax cuts, although ostensibly based on an economic rationale, upon closer scrutiny, maybe products of political considerations, as they also appeal strongly to New York City's powerful business community.

Additionally, in his resolve to provide an environment conducive to private investment, Giuliani has granted generous tax abatements to major firms in New York City to convince them to remain in the city. For example, Peter Gosselin reports that the city has granted an estimated $350 million in tax breaks, as corporate flight persists as a threat to the city's economy. (68)

The Giuliani administration has engendered strong support from the business community for his pro-active approach to economic development. Both his capital budget and general expenditure budget have provided substantial investments in economic development that favor the city's business real estate developers and corporate investors. Giuliani's highly guarded tax reduction package, (described above) though unsuccessful, was also an earnest attempt to curry favor with the business community. A few of the targeted tax breaks that did pass, however, such as the hotel tax and the commercial rent tax, which realized huge savings for the city's tourism and retail industries.

Public Sector Producer Interests

In trying to secure the support of public sector producer interests, Giuliani has worked hard not to incur the wrath of the "politically potent union" (69) of public school teachers during contract negotiations. As one of the largest municipal unions, Giuliani has taken great pains not to alienate teachers, but rather to elicit their support or at the very least not provoke their enmity. For example, in winning a concession of a two-year wage freeze, the Giuliani administration agreed to allow teachers with 22 years of experience to earn a maximum annual salary of $70,000. That is, the newly negotiated teacher's contract basically deferred all salary increases into the future, ultimately saving the city some $15

million (in 1996 dollars). This provision, which takes effect in 1999, postpones the impact on the city budget. Nonetheless, it may be a problem that Giuliani will face if reelected for another term. The strategy of postponing fiscal impacts to future budgets is also the principle upon which negotiations with other municipal unions was based. That is, while reducing city payroll by some 22,000 jobs, the Giuliani administration has granted wage increases in several long-term contracts that take effect in 1998. These contracts impose no cuts in benefits. In other words, in trying to avoid provoking strong opposition from municipal unions to his 1997 re-election bid, Giuliani undoubtedly has saddled himself or his successor with potentially severe fiscal distress in the future.

THE IMPORTANCE of "CITY LIMITS" and POLITICAL COALITIONS in URBAN FISCAL POLICY

The analysis of fiscal policy making during the Koch and Giuliani administrations suggests that both economic and political factors are important for explaining New York City's budgetary decisions over the last two decades. First, the comparison of revenue patterns in the Koch and Giuliani administrations suggests that fiscal policy-making is limited by constraints imposed by thee economy. Moreover, given that New York City's revenue base relies more heavily than most other localities on income taxes and sales taxes, the city's budget is particularly vulnerable to fluctuations in the economy. This has meant that levels of revenues have contracted or expanded in accordance with the pace of the local economy. Economic growth during the 1980s enabled Koch to embark on expansionary fiscal policies. That is, prosperity enlargened the city's tax base, which, in turn, allowed Koch to allocate much higher levels of expenditures to a wide range of city services. Conversely, the recession-ridden economy of 1990s eliminated this option for Giuliani. The recession constrained fiscal decision-making by shrinking or stifling the city's revenue base. The rise in debt service also constrained fiscal policy-making in the 1990s. The economy, in other words, established parameters for fiscal policy-making in both cases. How money was spent, however, was more a matter of politics.

The politics of coalition building played a key role in determining patterns of New York City's expenditures during the Koch and Giuliani administrations. Both Koch and Giuliani sought to maintain their conservative political coalitions of money providers and private market interests by shifting fiscal priorities away from redistributive expenditures and towards basic service (police, fire, etc.) and developmental spending. This was particularly evident in the city's capital budgets. Both Koch and Giuliani also sought to neutralize the city's power fid public sector interests by buying them off with concessions. This was easier for Koch in the economic boom years of the mid-to, late 1980s when the city's revenue base was expanding.

Nevertheless, the Giuliani administration devised a way of postponing concessions to unions into the future, which, at least in the near-term, allowed the city to close the persistent revenue-expenditure gap.

Simply put, the "city limits" imposed by economic factors appear to be most important for explaining New York City's revenue generation policies, while the imperatives of political coalition building have had their greatest impact on expenditure decision

making. To know whether this holds for urban fiscal policy making in general, however, case studies of other large cities are needed.

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