




March 1986

## Technology, Corporate Mobility, and a Decline in Urban Services

Marcus D. Pohlmann  
*Arkansas State University*

Follow this and additional works at: <https://scholarworks.wmich.edu/jssw>

 Part of the [Social Work Commons](#), and the [Urban Studies and Planning Commons](#)

### Recommended Citation

Pohlmann, Marcus D. (1986) "Technology, Corporate Mobility, and a Decline in Urban Services," *The Journal of Sociology & Social Welfare*: Vol. 13 : Iss. 1 , Article 14.

Available at: <https://scholarworks.wmich.edu/jssw/vol13/iss1/14>

This Article is brought to you for free and open access by the Social Work at ScholarWorks at WMU. For more information, please contact [maira.bundza@wmich.edu](mailto:maira.bundza@wmich.edu).



TECHNOLOGY, CORPORATE MOBILITY,  
AND  
A DECLINE IN URBAN SERVICES

Marcus D. Pohlmann  
Arkansas State University

Abstract

Technological changes have produced a postindustrial economy which has both facilitated and encouraged the flight of capital and well-to-do people from the older industrial cities. Left in their wake are increasing levels of unemployment, poverty, and crime. Service needs have increased accordingly, but at a time when these cities have not only smaller tax bases but also less electoral clout with which to acquire additional financial assistance at the state and federal levels. In a nearly futile attempt to reestablish a healthy degree of private investment in their cities, municipal governments let service levels decline and focus on spurring capital accumulation.

Introduction

Technological changes in production, transportation, and communication have given rise to the postindustrial economy. Corporations, no longer tied to a particular geographic location, are now free to move to a less expensive environment. And those individuals and families who can afford it are apt to live in the suburbs, even when they continue to work in the city. Thus as industries mechanize or leave the oldest and largest cities of the Northern United States, the ranks of the urban poor increase while their economic opportunities decline. Meanwhile, their host cities face ever-greater demands for services while their tax bases decrease.

The implications of these developments for the service-dependent poor of the inner-city and for the cities they inhabit are considered in the light of theories presented by James O'Connor, Frances Fox Piven, and

Richard Cloward.

a. Conceptual Framework

James O'Connor (1973) has developed a theory that adds a political dimension to these events. He argues that capitalist economies require two contradictory functions of their governments. He calls the first the "accumulation" function. Here government attempts to guarantee an adequate supply of venture capital and productive labor, so that the capital-owning class can and will invest in ways that will lead to stable economic growth, e.g., by offering corporations tax abatements and subsidies ("social investment"), as well as roads, sewers, and so on ("social consumption") to provide the necessary infrastructure for production. He also refers to the "legitimation" function, whereby government compensates those who become economically dislocated as the economy grows, e.g., by providing social-welfare programs ("social expenditures") and increased maintenance services. This helps secure the necessary level of social harmony. Then as the ownership of capital becomes more concentrated and mobile, the capitalist class can coerce the government into assuming even more of the costs of capital accumulation and production, while the benefits remain largely private. This requires that the government spend increasingly more on social expenditures in order to retain legitimacy with non-owners. The result is an ever-increasing fiscal strain on the government, as it must increase spending on accumulation and legitimation, even though its revenues are limited.

The work of Frances Fox Piven and Richard Cloward (1971) adds a historical perspective to O'Connor's viewpoint. In view of the fact that the health of capitalist economies depends ultimately on the profitability of their private corporations, Piven and Cloward suggest that governments such as the United States, for example, have tended to reduce legitimation expenditures in favor of accumulation spending whenever possible. At certain points, however, the lower classes rebelled both in the streets and at the ballot box. Government responded with repression, but it was also forced to alter its priorities. Thus social expenditures were increased in order both to quell unrest and to legitimate the system; yet once the turmoil subsided, this aid was once again gradually redirected into accumulation expenditures.

## b. Focus

By combining these concepts and extending them, it is possible to outline particular dilemmas faced by the United States' twelve largest Northern cities. Sometimes referred to as the "Troubled Twelve," these cities are Baltimore, Boston, Chicago, Cleveland, Detroit, Milwaukee, Newark, New York City, Philadelphia, Pittsburgh, St. Louis, and Washington, D.C.

Technological advances have allowed once concentrated corporate capital to become mobile, and thus is able to demand increased accumulation assistance. At the same time, both the central-city poor and the bureaucrats which have arisen to provide the legitimation services have begun to organize themselves to protect their periodic gains. Therefore, city governments are locked in a vicious cycle. They are required to spend increasing amounts of money to boost capital accumulation, while it becomes increasingly difficult to retrieve the social expenditures surrendered during the previous rounds of civil unrest. The precise nature of the immediate dilemma, as well as local government's response to it, will be discussed below.

### Technological Change and Postindustrial Cities

When a society acquires the technology necessary to perform large-scale manufacturing it is said to be industrialized. Industrialization requires that factories be located near to specific natural resources, work forces, and markets. Thus large cities arise in locations that allow manufacturers to obtain the materials necessary for large-scale production. These cities then grow in size as people come in search of the opportunities for employment that industrialization has created for managers, skilled artisans, and unskilled manual workers.

The beginning of the postindustrial period (roughly 1920-present) can be distinguished by the introduction of such technological developments as automated assembly lines, automobiles, airplanes, computers, and telecommunications.

Considering automobiles, for example, the number of Americans owning cars has increased steadily, from a few thousand at the turn of the century to millions in the postindustrial period. Consequently the

development of the automobile and interstate highways did much to facilitate the decentralization of the nation and its metropolitan centers. Additionally, the development of high-speed air travel and advanced telecommunications – via the Wide Area Telephone Service (WATS lines), teleconferences, and the like – further facilitated this dispersion. Among other things, such technologies have freed many companies from the necessity of locating near specific workers, markets, waterfronts, and related businesses. In addition, the workplace has become further mechanized with the introduction of computers and robotics (Faux, 1983; New York Times, 1983c). These developments have serious implications for this society's industrial cities in general, and those cities' work forces and political power structures in particular (Condit, 1974; Goldmark, 1972; Marx, 1964; Rae, 1971; Tabb, 1984a).

### Postindustrial Cities

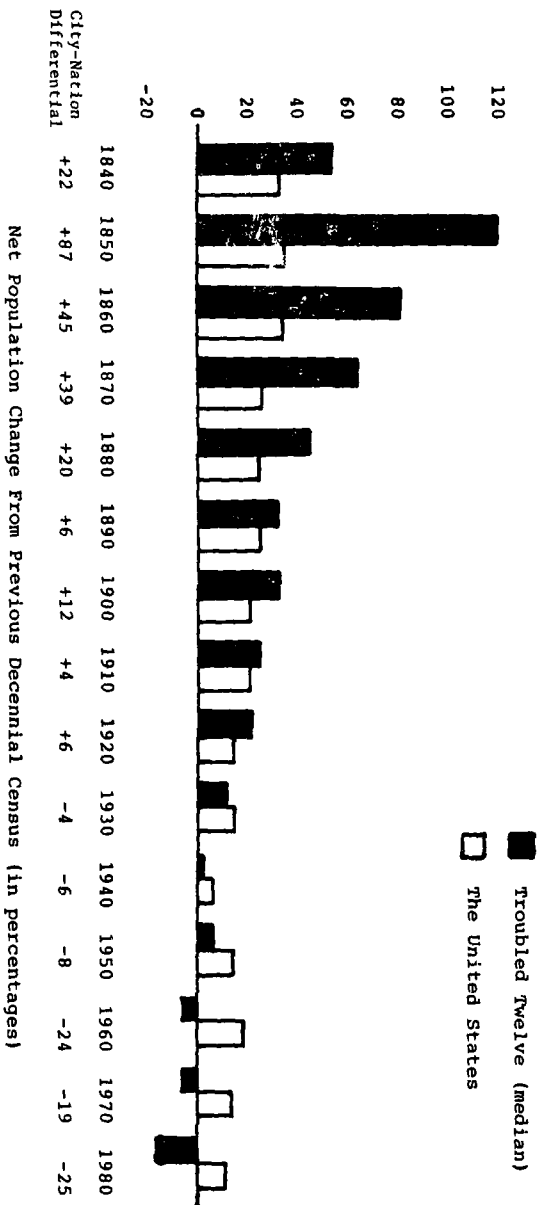
Population Flight. Technological innovation made possible the rapid increase in the number and size of inland cities throughout the nineteenth and twentieth centuries. Innovations in transportation, for example, also allowed affluent workers to live outside the congested and deteriorating "inner ring" immediately surrounding a city's downtown area. From small "pedestrian cities" clustered around a fort or waterfront, cities were becoming "distended metropolises" extending more than twenty square miles, functionally segregated and reaching outward in a star-shaped fashion along the various transportation lines.

### Figure 1 Here

Figure 1 indicates the chronology and pace of American urbanization, and these population trends provide a rather clear index of the rise and decline of this country's older industrial cities. The largest cities of the North have witnessed a net loss in the number of their inhabitants in the postindustrial period, while the national population has continued to increase.

The suburbs have become the fastest-growing areas in the nation, attracting central-city residents, as well as a number of nonmetropolitan people who previously would have been unlikely to migrate into the central city. In addition, although census data have yet fully to reflect it, studies are beginning to show that a considerable number of people have

Figure 1  
City Population Trends, 1840-1980



Source: U.S. Department of Commerce, Bureau of the Census, Census of the Population, 1840-1980

opted to move entirely away from the immediate metropolitan areas, in favor of small towns within commuting distance of their jobs (Fugitt, 1979).

People also seem to have moved away from the Frost Belt (the U.S. Census Bureau's Northern and Eastern states) and into the Sun Belt (Southern and Western states) to the point where the population of the latter region has been increasing at a rate almost six times faster than the former. Or, to put it another way, 86 percent of the U.S. population increase in the 1970s occurred in the Sun Belt (especially California, Florida, and Texas), and that figure rose to over 90 percent in the first half of the 1980s.

It also should be noted that not only are more Americans leaving the cities than are coming to live in them, but the average income of those who leave clearly exceeds that of both those who come and those who have remained. This trend is estimated to have cost cities at least \$48 billion in purchasing-power/taxable income between 1970 and 1976 alone (Barabba, 1976).

Industrial Flight. Manufacturers, on the other hand, are now free to escape the high cost of locating in the downtown sector of the older cities. Many industrial firms have moved because the transportation and communications revolutions allowed them the benefits of agglomeration, economies of scale, and trade efficiency without clustering in the center of the older waterfront cities (Brown, 1974: 36-69; Mills, 1972: 1-20).

Jobs left the Troubled Twelve in the 1960s at well over twice the rate of their population flight. New York City, for example, lost 32 percent of its manufacturing plants between 1958 and 1972; Detroit 29 percent; St. Louis 32 percent; and Baltimore 24 percent. As a result, manufacturing jobs disappeared, e.g., New York City lost 18 percent of its manufacturing jobs between 1960 and 1970.

By the 1980s, however, the Troubled Twelve were once again gaining jobs as fast or faster than they were losing them, yet the nature of this reversal is important to note. What have been increasing are white-collar jobs in the professions and services. However, such a trend is problematic for at least two reasons.

First, when Philadelphia, for example, lost one hundred blue-collar manufacturing jobs, seventy of them had been held by city residents. When, however, it added one hundred white-collar office jobs, only thirty were held by city residents. Thus the present labor-market shift has led to a situation in which only about half the jobs found in the Troubled Twelve are held by residents of those cities.

Thus unemployment has become a way of life for many residents of the Troubled Twelve. Except for the years in the 1960s, immediately following Lyndon B. Johnson's War on Poverty, these cities have absorbed a disproportionate share of the Nation's unemployed since the end of World War II. Furthermore, it is important to note that unemployment figures understate the problem. For the old central cities in particular, unemployment figures can be doubled if "discouraged workers" - those no longer looking for work - and black teenagers are included (National Urban League, 1977: 1; PURPG, 1979: 43).

Second, 43 percent of the jobs in the Troubled Twelve were blue collar by the end of the 1970s, only some of which are in the "primary labor market" (Brown and Hymer, 1977). Thus many of those fortunate enough to have found work, toil in the less attractive "secondary sector" of the labor market. Here they are employed primarily by small-scale service-producing businesses, where unionization is rare, wages are low, benefits are often nonexistent, and their job futures are tenuous at best. As early as 1970, a U.S. Bureau of the Census survey of fifty-one urban areas found 60 percent of those employed not making enough for a "decent standard of living," with half of them not earning even poverty-level incomes. They also found that in New York City when discouraged workers, involuntary part-timers, and those underemployed are combined, "subemployment" was somewhere in the vicinity of 40 to 67 percent (Spring, 1977). Thus, there would seem to be far less likelihood of today's ghetto residents working their way out of the underclasses by means of the primary labor market, despite their documented willingness to work (Hilaski, 1971: 45-52; Ryscavage and Willacy, 1968: 15-21; New York Times, 1983b).

A case in point is Barberton, Ohio, where the 1981 closing of a large industrial plant cost hundreds of workers their jobs. More than a year later, 20 percent had managed to find comparable jobs, 40 percent had



acquired "low-paying, low security" jobs, while the remaining 40 percent were still unemployed (Akron Beacon Journal Magazine, 1983).

Where have the manufacturers gone? They, too, have headed for the open suburbs and the Sun Belt.

In 1970 alone, St. Louis saw forty-three corporations move to its suburbs. Between 1970 and 1972, Boston lost seventy-five companies, Cleveland lost Stouffer Food's Frozen Food Division, National Screw and Manufacturing, National Copper and Smelting, and the headquarters of the B.F. Goodrich Chemical Company, among others, while Detroit lost S. S. Kresge, Delta and Pan American Airlines, R. L. Polk Publishers, and Circus World Toys. Additionally, looking at the period between 1939 and 1969, Cleveland's share of its metropolitan area's blue-collar jobs declined from 85 to 56 percent, Chicago's from 86 to 56, and Newark's from 48 to 25.

Northern cities have also witnessed industries expanding in the Sun Belt, e.g., Republic Steel in Alabama, ITT in Florida, and Phillip Morris in Phoenix and Los Angeles. In addition, entire corporations have been lost to the Sun Belt, e.g., Cleveland lost Westinghouse Electric to Vicksburg (Mississippi), Diamond Shamrock Corporation to Texas, Multigraph Corporation to Los Angeles, Harris Corporation to Melbourne (Florida), and Packard Electric Company to Mississippi.

The Sun Belt's share of all new nonagricultural jobs increased from 57 percent in the 1960s to 73 percent in the 1970s. And in terms of blue-collar positions, the Sun Belt gained 1.2 million such jobs in the 1970s, while the Northern states lost 900,000.

Lastly, another shift is under way which could well prove to be the most significant of all. As the President's Urban and Regional Policy Group (1979: 24) stated,

Foreign industrial competition has grown in America and has had a growing impact on the domestic economy and cities. The United States is losing manufacturing jobs to foreign countries, especially in labor-intensive industries....Air freight today is fast and relatively cheap, so foreign workers can perform labor-intensive steps related to production, while domestic

workers carry out the skilled or capital-intensive steps.

In the wake of this postindustrial population and business flight are left a host of social pathologies, such as increasing rates of school dropouts, crime, and poverty.

Inadequate Education. As far as training the unskilled, so that they can compete effectively for high-paying white-collar positions, the nation has made considerable progress in terms of educating its population. The central-city high school dropout rate, for example, declined from 83.4 percent in 1940 to 46.4 percent in 1970. Nonetheless, whereas in 1940, residents of the Troubled Twelve dropped out of high school at a rate of 77.8 percent - less often than urban dwellers in the rest of the country - their rate of 57.1 percent was well above the national average in 1970. Yet even if they do graduate, the quality of most public schools in the center of these declining areas tends to be questionable at the very best (Gordon, 1977: 206-271).

Crime. Harvey Brenner (1976), doing research for the Congressional Joint Economic Committee, found rather clear correlations between unemployment and crime. And as urban crime trends imply, a sizable number of inner-city residents are apparently turning to the "irregular" job market.

Whereas crime rates rose steadily across the United States between 1960 and 1980, they soared in the inner cities. Violent crime in the Troubled Twelve, for example, was three times the national average during the 1960s and 1970s. And even though national and urban crime rates began declining in the early 1980s, the absolute and relative crime levels of the Troubled Twelve scarcely place these cities in a position to attract or to retain industrial corporations and more financially secure inhabitants.

Poverty. The 1979 President's Urban and Regional Policy Group report indicated that poverty was declining everywhere in the nation, except in the large central cities, where real incomes had actually decreased. (PURPG, 1979: 35, 43). By the mid-1980s, more than one out of every five central-city residents lived below the federal government's poverty level, and the figure was significantly higher in a number of the Troubled Twelve cities. Focusing on the Troubled Twelve,

median family income declined 13.5 percent in constant dollars between 1970 and 1980, while the population below the poverty level increased by nearly 30 percent, from 15.9 to 20.5 percent. In addition, the government's definition of poverty excludes many who could reasonably be placed in that category (PURPG, 1979: 43; New York Times, 1981a, 1981b, 1983a).

### Fiscal Crisis and Corporate Power

The President's Urban and Regional Policy Commission (1979) concluded that such changes have

left many people and places with severe social and economic problems - and without the resources to deal with them. For example, many areas which have lost both jobs and people face a declining tax base and mounting public costs resulting from the need to serve increasing numbers of poor residents, maintain deteriorating infrastructures, and revitalize substandard communities.

Expenditures. To begin with, these cities end up spending far more on city services. For example, once roads, sewers, waterworks, and the like have been built to serve a population of a given size, maintenance costs do not decrease simply because people leave. Actually these costs generally increase as the physical plant ages, and they certainly increase in terms of cost per capita (Peterson, 1976: 47-51). In addition, more and better services need to be provided in an attempt to cultivate and maintain an attractive business climate. As for the people remaining, Demetrios Caraley (1977: 407) has described them as "high-cost citizens." These are the low-income families, the school-age children of the poor, the elderly, and others "who are direct consumers of expensive services and cash benefits like welfare payments, subsidized housing, etc." Finally, it has become extremely difficult to reduce a city's budget given the decline in private-sector jobs, an organized and militant public work force, and pension payments that have become a large and "fixed" short-term expenditure (Piven, 1977).

Revenues. Setting aside the question of expenditures for the moment, there are revenue problems. In the late 1970s, William Tabb (1984b:

333) estimated that each departing job took with it between \$650 and \$1,035 in local tax revenues. Therefore, when speaking in terms of cities losing hundreds of thousands of jobs in a matter of a few years, there are bound to be short falls even if services are only maintained at their previous levels. As for raising taxes, their residents are already among the highest taxed in the nation. Moreover, they not only believe that taxes are presently too high, but have been part of a nationwide effort to lower the tax rate (Flower, 1974; New York Times, 1975). Voters across the country have succeeded in passing tax-cut referenda and have become more likely to vote down tax-increasing ballot issues (Peterson, 1976: 106; Pfiffer, 1983: 45-56).

City Debt. The resulting dilemma becomes visible if one looks at mounting city debt. Inner cities borrowed heavily to appease their fleeing industries, affluent upper and middle classes, unionized bureaucrats, and turbulent poor, as the vicious cycle reached crisis proportions in the 1960s. Gross debt per capita more than doubled in constant dollars between 1950 and 1970, despite the fact that the combined contributions of the state and federal governments had more than doubled since 1950 and amounted to roughly 50 percent of municipal revenues. Currently the deficits have leveled off to some extent, but this is deceptive.

Cities have come to hide their fiscal problems in at least three ways. First, crucial long-term maintenance expenditures continue to be postponed. Second, they have surrendered a number of functions. For example, surrounding counties have been absorbing a number of the duties performed previously by the cities. Thus when it appears that some cities are faring better than others, it is important to remember that their counties may be providing services that other cities have to provide for themselves. As might be expected, the counties encompassing the Troubled Twelve have been accumulating deficits in a pattern very similar to their central cities. And third, there is "off-budget financing." When voters refuse to approve the issuance of new revenue-raising city bonds, "public corporations" are created. These corporations are then able to sell revenue bonds without any form of voter approval, and neither the spending nor the borrowing of these agencies appears anywhere in the budgets of the governments that created them. Between 1972 and 1982, over \$250 billion was borrowed by means of this method, whereas less than \$54 billion had been borrowed in the preceding decade (Bennett and DiLorenzo, 1983).

In the end, greater shares of city and county budgets are spent to pay the interest on their debts. But even more importantly, this combination of city and county insolvency has begun to shake investor confidence in their revenue-raising bonds. Once investors get nervous it is not long before the cities lose their ability to borrow on the open market. This development generally means that one of two things is likely to occur. Either a city will have to pay escalating interest rates if it hopes to continue borrowing to pay for long-term capital investments and prevent short-term cash flow problems, or it may be closed out of the borrowing market entirely, which means that it will soon be on the verge of default and possible bankruptcy.

The Federal Response. Overall, population shifts have meant a net loss in electoral clout for the older industrial cities despite court-ordered reapportionment, and this loss has been reflected most dramatically at the federal level.

In the 1960s, Michael Harrington and others (Harrington, 1971; Kotz, 1969) documented what many had deduced from the social turbulence of the period: there was still an alarming number of seriously indigent people in the United States. And like a festering sore, the situation was coming to a head as the urban ghettos rocked with unrest. In the face of this, Lyndon Johnson declared war on poverty. With the help of Congress, he added a host of relief, education, jobs, training, and urban redevelopment programs to the welfare-state programs previously instituted during the 1930s (Piven and Cloward, 1971, 1977). It was not long, however, before much of this was reduced considerably (Donovan, 1967).

Following this intermittent and often clumsy effort to achieve the Great Society these programs were altered, as economic and social policies shifted significantly under two successive Republican administrations. Instead of categorical grants directed toward the poorest areas of the nation, block grants and revenue sharing emerged which allowed a far greater number of areas to compete for federal assistance (Newfield and DuBrul, 1981: 43-62; Pressman, 1975). As Frances Fox Piven and Richard Cloward (1977: 356) stated, "Once the turmoil of the 1960s ebbed, the federal and state governments could and did reduce grants-in-aid to the older central cities, thereby widening the disparities

in the city budgets even more."

Then, as the American economy struggled in the 1970s, the general public was anything but ready to launch another "war on poverty." For instance, in January 1978, only 41 percent of the self-styled liberals and 21 percent of the self-identified conservatives favored any increase in governmental spending on domestic programs (New York Times, 1978a). Accordingly, this sentiment was reflected clearly in the policies of the Carter and Reagan administrations. As the federal government's latest burst of new legitimization spending was over, the cities would be left to their own resources.

### The Power of Local Capital

After World War II, technological changes in transportation, communication, and automation made it possible for increasingly centralized and internationally dominant U.S. corporations to comb the globe for more attractive industrial environments. However, they generally did not take immediate advantage of these opportunities, striking instead a truce with American labor unions and continuing to make sizable profits by virtue of their superior international position. As late as 1960, there was little or no Third World production of manufactured goods for export. Yet in the face of mounting international competition from Japan and Western Europe, in particular, the economic downturn of the mid-1970s seems to have set off what Barry Bluestone and Bennett Harrison (1982) have called the "hypermobility of capital." Since that time, many U.S.-based multinational corporations have launched worldwide searches for production settings that provide cheap and abundant resources, inexpensive and pliant labor, and a high degree of political stability, while often times these countries are nothing more than military dictatorships (Storper and Walker, 1984: 19-22; Vernon, 1977). Furthermore, some of the last remaining legal impediments to such mobility have been removed recently by the National Labor Relations Board (NLRB) and federal court decisions (New York Times, 1984a, 1984c).

The resulting shifts in capital have come in a variety of ways. Although the overt physical relocation of an entire plant is relatively rare, such techniques as redirecting profits and depreciation allowances, relocating pieces of physical capital, laying off workers while contracting

out their work to cheaper plants, and of course, shutdowns and/or bankruptcy are quite common (Harrison and Bluestone, 1984).

In a very real sense, the economic fate of a city hangs on the investment decisions of its largest private corporations. And such decisions have an enormous impact on the cities, neighborhoods, and individual citizens involved.

These decisions can, for example, create additional dilemmas for what is often already a hard-pressed municipal government. The city finds that departing firms have also taken with them their share of the tax base, and the newly unemployed can no longer serve as a tax source. Obviously this has an effect on the number of services that can continue to be offered to a city's population, not to mention the fact that the need for social services will increase due to layoffs. In order to remain solvent, therefore, a city is generally forced to raise taxes and cut services, both of which drive away even more taxpayers.

For when there is a clear threat of capital disinvestment, city governments are compelled to grant concessions in order to avoid bankruptcy. Because the health of a city is dependent upon the profitability of its private corporations, the corporate elite often do not have to lift a finger to exert their political will for their interests are inherent in the prevailing economic arrangement.

Consider the 3,500 lower-income residents of Detroit's half-white, half-black Poletown neighborhood. In 1980, General Motors threatened to locate 6,000 jobs elsewhere if already ailing Detroit would not raze 1,176 Poletown homes, so that a new \$600 million Cadillac plant could be built there. The city had little choice. A number of residents became concerned and appealed to the mayor, the city council, and the courts, but to no avail. With the help of millions of dollars in public subsidies 465 acres were to be razed, on which sat 1,176 homes, 100 small businesses, 16 churches, 2 schools, and a hospital, so that Cadillacs could soon roll off these publicly financed assembly lines. In return GM promised 3,000 jobs, "economics permitting."

As capital becomes increasingly more mobile and cities more financially crippled, such corporate power will increase accordingly.

## Declining Services: Advanced Cases

As the 1970s and 1980s unfolded, city officials were pressured into accepting significant changes in their public policies, as well as in their policy-making processes. These changes included cuts in legitimation services and increases in accumulation incentives. More specifically, as the reins were pulled in on the welfare state, services to low-income areas were disproportionately cut and municipal layoffs were felt most by those last hired and least able to find alternative employment.

New York City and Cleveland are the two cities which reached the most advanced stages of this phenomenon. In each case, a small group of bankers led local corporate elites in a political coup of sorts, culminating in a formalization of corporate political power and a significant alteration of governmental policies.

### New York City

In its most basic components, New York City's tale of fiscal woe appears to be a standard one. Between 1950 and 1970 the number of available jobs remained relatively stable, but the government and service sectors had become far and away the major growth industries, while jobs in manufacturing and construction were disappearing most rapidly. For example, some 80 percent of all new positions available in the 1960s were found in the public sector. Then between 1970 and 1978 nearly 600,000 jobs in the private sector disappeared, including half of the city's manufacturing positions (450,000 in manufacturing between 1971 and 1976 alone). By 1980, only 15 percent of all payroll employment was in manufacturing, half of what it had been in 1950. Thus, it was estimated that of the jobs that would be available between 1981 and 1985, less than 9 percent would be accessible to the 40 percent of New York City's adults who lacked a high school diploma (New York Times, 1981c, 1984e).

Meanwhile, the city was also losing population - i.e., 10.4 percent, or more than 800,000 people, between 1970 and 1980. At the same time, the city was becoming older, poorer, and more crime-prone. For example, from 1950 to 1970 the number of elderly residents increased by 50 percent. Additionally the number of families making less than the median national income increased from one-third to one-half of the city's



more than seven million people. What this means is that 1 in 7 families was receiving welfare (at least 90 percent of them eligible recipients), not to mention those who were not receiving the aid for which they were eligible. Amidst this poverty, violent crime increased by almost 700 percent between 1960 and 1977. On the average, nearly 1 out of every 60 New Yorkers would annually fall victim to a violent crime.

Subsequently, in an attempt to meet the service requirements of its needier inhabitants, the city increased its expense budget between 1961 and 1975 at an annual rate of 12.2 percent, with far more being spent in the years following the ghetto unrest (1966-1971) than in all the others combined. In particular, this growth came in the area of social services. Although the percentage of the city budget devoted to police, fire, and sanitation actually decreased slightly between 1961 and 1975, services related to health, education, and welfare increased from one-half to two thirds. Thus, the city came to be spending at least one-half of its \$12 billion expense budget on legitimation programs, with a quarter of it devoted to welfare alone. Where welfare had comprised 14.6 percent of the total city budget in 1961, by 1975 it came to be 26.7 percent.

In the end, of course, the city budget would not balance. Again focusing on the decade prior to the crisis that would develop in 1975, despite a 33 percent increase in local taxation and a doubling of aid from outside governmental sources, expenditures were still growing three times faster than revenues. The result was a cumulative (illegal) deficit in the short-term expense budget which increased from \$0.5 to \$4.5 billion, not to mention a long-term capital budget debt which increased from \$5 to \$7.8 billion. Combined, these sums amounted to a debt of \$1,936 for every child, woman, and man in the city. Interest payments alone had grown to 14 percent of the city's operating budget.

In early March 1975, a delegation of bankers confronted Mayor Beame, informing him that under present circumstances they would no longer be able to lend money to the city. (Although they did continue to sell the city's bonds, at least in part to protect their remaining investments in New York City securities by boosting public confidence in city solvency). By April, however, the banks were quite openly dumping city notes and bonds by selling them for as little as two-thirds of their face value, thus causing Standard and Poor to suspend the city's "A" bond

rating. Soon, the city was very close to defaulting as each new payroll came due.

On June 10th, the state government intervened. They created the Metropolitan Assistance Corporation (MAC) which would borrow money for the city as long as municipal officials proceeded to mend their misguided ways. The concept, structure, and authority of MAC were essentially devised by investment banker Felix Rohatyn and several other commercial bankers. The corporation's governing board was to include nine members, all of whom were to be appointed by the governor. As it turned out, however, eight of the original nine had either banking or brokerage connections (Newfield and DuBrul, 1978: 178-182).

Furthermore, MAC-backed bonds proved difficult to sell. Thus, in order to make these investments secure, the Emergency Finance Control Board (EFCB) was established on September 9 to remove the city's fiscal fate even further from the hands of its elected officials. This time the idea was developed by bankers Rohatyn, William Butcher (Chase Manhattan), Walter Page (Morgan), Edward Palmer (Citibank), and the sole elected official in the room, who was Governor Hugh Carey (Newfield and DuBrul, 1978: 179). It was decided that the control board would consist of the governor, the state controller, the mayor, the city comptroller, and three public members appointed by the governor. The public members turned out to be Rohatyn, William Ellinghaus (president of New York Telephone Company), and David Margolis (president of Colt Industries).

The control board, in consultation with MAC, was to submit a "financial plan" for the city, based on a review of the operating and capital budgets, all borrowing, all large vendor contracts, and all union contracts. Thereafter, the board was to monitor closely the city's adherence to the plan. In essence, the members of the board were delegated the final authority over the city's budget. In addition, control of the city's elected officials, and thus of local residents, was reduced even further by the modus operandi of the city's new governmental structure. The meetings of both MAC and the EFCB were closed to the public, although minutes were kept and guests were occasionally present. These guests included such members of the corporate elite as Walter Wriston and David Rockefeller. As for policy making, Robert Greenblatt et al. (1979) concluded that this new "Super Government" was essentially a business dominated by a financial elite, whereby corporate goals and

methods prevailed.

The policy priorities of "the Super Government" were not difficult to predict. Local investors still held sizable amounts of city securities, e.g., local banks held \$1.2 billion in regular municipal bonds and \$1.1 billion in MAG bonds. Thus the legislation which created the Emergency Finance Control Board mandated that debt service was to be "the first priority." To facilitate both debt service and future borrowing, city policy was revised.

What did not change were accumulation expenditures. For example, tax abatements were still extended to private corporations. This was done primarily through the New York Industrial and Commercial Incentive Board, created in 1977. As of May 1983, some four hundred projects had been funded by the board at a cost to the city of hundreds of millions of dollars in foregone revenues.

What actually were reduced, then, were maintenance and legitimation expenditures. The city work force, for example, was cut by 20 percent (61,000 jobs). A wage freeze was declared. Property taxes and bridge tolls were increased. And after only a half hour of discussion and no public debate, the mass transit fare was raised 43 percent and free tuition was ended at the City University of New York merely for what Rohatyn called "the shock effect" (Newfield and DuBrul, 1978: 184-190; Shefter, 1980: 9-10). The implications of some of these moves are worth nothing.

School budgets were slashed \$262 million at a time when "high-cost" students - those requiring some form of special education - were increasing and when roughly one-half of the freshmen entering high school could be expected to drop out before graduation (up from 36 percent in 1961, and higher yet for black and Hispanic students). Between 1974 and 1976, 23 percent of the city's (13,000) teachers were laid off, while the school day was reduced by 90 minutes. Student/teacher ratios increased from 24 pupils per teacher to 29 in elementary schools, from 16 to 21 in junior high schools, and from 22 to 30 in senior high schools. Foreign language, history, mathematics, and social studies electives were eliminated from the high school curriculum. "Extra programs," e.g., interscholastic sports, adult education, evening trade schools, accelerated and remedial summer school, etc., were

roughly cut in half. In addition, in-school health services were reduced 84 percent between 1970 and 1980.

As for health care in general, a visiting committee sponsored by the United Hospital Fund of New York studied the functioning of seventeen city hospitals in 1978 and delivered a 155-page report. In it, the committee stressed the critical shortage of nursing care arising from the cutbacks. In particular, due to cuts in the support staff, nurses were being forced to spend an inordinate amount of time doing housekeeping, clerical, messenger, and escort work, which the committee concluded "substantially reduced the time left for patient care". They even termed these shortages "life-threatening" in many cases, especially in the intensive care and neonatal wards. In addition, half the nurses at Coney Island Hospital were unlicensed and thus could not give medication. Patients were subject to waits of up to three and a half hours in emergency rooms and of four to five hours in some clinics. Mental-health care was seen to be plagued by "marked understaffing, poor professional training, extraordinary shortages of supplies, and poorly maintained space." An adult psychiatric ward in Harlem was described as "crowded, grim, dirty, and appalling," with eight beds crowded into a room. And it was just such conditions that prompted an unprecedented "strike" by a large group of doctors-in-training, to protest what they felt to be shortages of physicians, nurses, technicians, and other support personnel that were "endangering the lives of patients" (New York Times, 1978b, 1984b).

It should also be noted that criminal activity was reaching record proportions and beginning to shift to middle-income areas, as thousands of the city's police officers were laid off. In addition, the number of street cleaners was reduced to the smallest number since 1881.

Finally, the personnel cutbacks in administrative agencies left 51 percent of Hispanic workers unemployed, as well as 40 percent of previously employed black males. Taxes were raised on one of the highest-taxed citizenries in the country. And fares and fees were increased on a population that was already becoming proportionately poorer and poorer, especially in the face of federal cutbacks (Time, 1980: 18-19; New York Times, 1982a, 1982b, 1982c, 1984d, 1984e).

## Cleveland

The tale of the plight of Cleveland is essentially the same as that of New York, with only differences in scale, personalities, and a few tactics to distinguish it.

Cleveland, like New York, was locked in the throes of a fiscal crisis cycle. For example, it lost 23 percent of its business firms and 30 percent of its jobs between 1958 and 1972. This is compounded by the fact that it had been losing blue-collar positions for years, with 20 percent of its manufacturing positions disappearing in the 1970s alone. Additionally, Cleveland lost over one-third of its population between 1960 and 1980. At the same time, the rate of violent crime was thirteen times higher in 1975 than it had been in 1950, leaving city police with a backlog of more than five thousand arrest orders. Thus, in an attempt to cope with the resulting service requirements, combined city and county gross debts came to \$1,500 per resident, including the city's (illegal) cumulative expense-budget deficit of more than \$52 million. Nevertheless, Cleveland managed to avert disaster by gradually surrendering service functions to countywide and regional governance. Between 1969 and 1979, the city surrendered control over its mass transit, port authority, sewers, jails, and health and welfare systems.

In the late 1970s a maverick populist mayor by the name of Dennis Kucinich entered the scene. Throughout his winning campaign he had lambasted the city's "corporate parasites," calling the executives of the mammoth Cleveland Trust Bank "the worst of the robber barons" and declaring that "the banks must be brought under public control." His other major issue was opposition to the proposed sale of "Muny Light" (the Municipal Light Company), which had come to be dwarfed by the privately owned Cleveland Electric Illuminating Company (CEI).

In December 1978, the banks made their move. The city owed \$15.5 million to five different banks, and repayment of those specific loans was due on December 15. The city owed the largest amount to Cleveland Trust (\$5 million), yet at one point the bank was apparently willing to strike a deal. It would refinance the debt, help convince the other banks to do likewise, and even extend \$50 million in new financing, if the mayor would sign a resolution promising to sell Muny Light. Kucinich countered

by offering 100 percent collateral (from property and income taxes) if the banks would simply refinance the \$15.5 million about to come due. He even indicated that a private investor had offered to underwrite the city's debt, and that his administration had agreed publicly to support an income-tax hike. Nonetheless, Cleveland Trust refused, despite the mayor's warning that default would prompt major layoffs and service cuts.

Interestingly enough, Cleveland Trust was one of CEI's three biggest stockholders, holding 782,798 shares (purchasing 91,000 more shares ten days after the city defaulted), and three of its directors also sat on the board of CEI. In addition, Cleveland Trust held most of CEI's \$140 million pension fund. Even though the Federal Reserve Board saw no impropriety in all of this, Kucinich refused to sell Mury Light because he thought it was a bad deal for the city.

On December 15, 1978, the city of Cleveland became the first major city to go into default since the Great Depression. At that point, however, there was a twist. Rather than forcing the city into bankruptcy by demanding payment, thereby surrendering precious decision-making power to the courts, the banks simply did not move to collect. Through this maneuver, the banks were left in a much stronger position to "suggest" public policy priorities and to "encourage" city voters to elect more "responsible" candidates.

With the city in default and under bank receivership, Kucinich steered through an income-tax hike, cut 20 percent of the city work force, and successfully repaid \$5 million of the loans on which the city had defaulted. Yet the banks still refused to refinance the rest of those loans. In November, a beleaguered Dennis Kucinich was defeated soundly by Republican Lieutenant Governor George Voinovich.

Within two weeks of Kucinich's defeat, the state legislature passed an "assistance" package which set up a governing structure similar to that of New York, an approach Kucinich had ardently resisted. In December of 1979 Mayor Voinovich applied for "fiscal emergency" status, and when that was granted he gained approval of his "Financial Plan." It named the following three persons as the public representatives: George Grabner (chairman and president of Lamson and Sessions Company), Robert Blyth (executive, National Citibank), and Jackie Presser (at that time a

vice-president of the Teamsters Union).

Local business elites quickly formed an "Operations Task Force" and made recommendations to City Hall. More than two-thirds of them were adopted (Akron Beacon Journal, 1983: E4). For example, social services would be trimmed and the city would begin making an even greater effort to gain and/or hold large corporations.

### Prospects

What has been suggested thus far is that technological change has produced a postindustrial economy which has made corporate capital very mobile and driven older cities into fiscal crisis. Therefore, the requisites of corporate profitability have come to prescribe the parameters for making political decisions in these cities. And even though those who do not own capital may gain material benefits from a healthy economy, this entire process precludes a serious challenge to the basic structure of ownership and power. For in the postindustrial city, if local government responds to the interests of the poor by implementing fundamentally redistributive public policies, this drives the city's private-sector capital to the suburbs, small towns, Sun Belt cities, or foreign countries. Such interest, therefore, must generally be ignored or, at best, occasionally placated.

Yet as Piven and Cloward (1971, 1977) have indicated, the service-dependent underclass becomes increasingly better informed and better organized as well, especially when concentrated in segregated inner-city enclaves. Thus, each time the members of the underclass are driven to rebel, new legitimization expenditures tend to be added to those remaining from the last round of placations.

With each new round of underclass turbulence, however, it becomes increasingly more difficult for the city, state, or federal governments to remain both successful in the struggle to stimulate capital investment in their jurisdictions and capable of appeasing their periodically rebellious, deprived classes. What is uncertain is just how much of this trauma the American fabric can withstand and how much more government can spend on subsidies and placations and still maintain the integrity of the present economic system.

## References

Akron Beacon Journal, February 13, 1983.

Akron Beacon Journal Magazine, May 15, 1983.

Barabba, Vincent "The National Setting: Regional Shifts, Metropolitan Decline, and Urban Policy," in Sternleib, G. and Hughes, J. (eds.), Post-Industrial America. New Brunswick, N.J.: Center for Urban Policy Research, 1976.

Bennett, James and Thomas Lorenzo. Underground Government: The Off-Budget Public Sector. New York: Cato, 1983.

Bluestone, Barry and Bennett Harrison. The Deindustrialization of America. New York: Basic Books, 1982.

Brenner, Harvey, "Estimating the Social Costs of National Economic Policy," in Congressional Joint Economic Committee, Achieving the Goals of The Employment Act of 1946. 50th Anniversary Review, I, Employment Paper no. 5. Washington, D.C.: GPO. 1976.

Brown, Douglas. Introduction to Urban Economics. New York: Academic Press, 1974.

Brown, Harold and Bennett Hymer. "Racial Dualism in an Urban Labor Market," in Gordon D. (ed.), Problems in Political Economy: An Urban Perspective. Lexington, Mass.: D. C. Heath, 1977.

Carsley, Demetrios. City Governments and Urban Problems. Englewood Cliffs, N. J.: Prentice-Hall, 1977.

Condit, Carl. Chicago: 1930-1970: Building, Planning, and Urban Technology. Chicago: University of Chicago, 1974.

Donovan, John. The Politics of Poverty. New York: Pegasus, 1967.

Faux, Jeff. "What Now, Willy Loman?" Mother Jones, November, 1983.



- Fowler, Floyd Jr. Citizen Attitudes Toward Local Government Services and Taxes. Cambridge: Ballinger, 1974.
- Fugitt, Glenn, et al. Growth and Change in Rural America. Madison: University of Wisconsin, 1979.
- Goldmark, Peter. "Communication and the Community," Scientific American, September, 1972.
- Gordon, Davis. Problems in Political Economy: An Urban Perspective. Lexington, Mass: D. C. Heath, 1977.
- Greenblatt, Robert. "The New Governance of New York City," paper presented at the annual meeting of the American Political Science Association.
- Harrington, Micheal. The Other America. Baltimore: Penguin, 1971.
- Harrison, Bennett and Barry Bluestone. "The Incidence and Regulation of Plant Closings," in Sawers, L. and Tabb, W. (eds.), Sunbelt/Snowbelt. New York: Oxford University, 1984.
- Hilaski, Harvey. "Unutilized Manpower in Poverty Areas of Six Major Cities," Monthly Labor Review, 1971, 94.
- Kotz, Nick. Let Them Eat Promises. Garden City, N.Y.: Anchor, 1969.
- Marx, Leo. The Machine in the Garden, New York: Oxford University, 1964.
- Millis, Edwin. Urban Economics. Glenview, Ill.: Scott, Foresman, 1972.
- National Urban League. The State of Black America. New York, 1977
- Newfield, Jack and Paul Dubrul. The Abuse of Power. New York: Penguin, 1978.
- Newfield, Jack and Paul Dubrul. The Permanent Government. New York: Pilgrim, 1981.
- New York Times:

July 21, 1975  
January 22, 1978a  
May 21, 1978b  
February 29, 1981a  
March 8, 1981b  
March 14, 1982  
January 1, 1982a  
January 9, 1982c  
April 19, 1983a  
April 21, 1983b  
September 22, 1983c  
January 25, 1984a  
January 31, 1984b  
April 11, 1984c  
July 28, 1984d  
December 12, 1984e

Oconnor, James. The Fiscal Crisis of the State. New York: St. Martin's, 1973.

Peterson, George. "Finance," in Gorham, W. and Glazer, N. (eds.), The Urban Predicament. Washington, D. C.: Urban Institute.

Pfiffer, James. "Inflexible Budgets, Fiscal Stress, and the Tax Revolt," in Sbragia, A. (eds), The Municipal Money Chase. Boulder: Westview, 1983.

Piven, Frances Fox. "The Urban Crisis: Who Got What, When, and Why," in David, S. and Peterson, P. (eds.), Urban Politics and Urban Problems. New York: Praeger, 1977.

Piven, Frances Fox and Richard Cloward. Regulating the Poor. New York: Vintage, 1971.

President's Urban and Regional Policy Group (PURPG). A New Partnership to Preserve America's Communities. Washington, D. C.: GPO, 1979.

Pressman, Jeffery. "Political Implications of the New Federalism," in Oates, W. (ed.), Financing the New Federalism. Baltimore: John Hopkins University, 1975.

- Rae, John. The Road and the Car in American Life. Cambridge: MIT, 1971.
- Ryscavage, Paul and Hazel Willacy. "Employment of the Nation's Poor," Monthly Labor Review, 1968, 91.
- Shefter, Martin. "Organizing for Armageddon," paper presented at the annual meeting of the American Political Science Association, 1980.
- Spring, William. "The Crisis of the Underemployed," in Gordon, D. (ed.), Problems in Political Economy: An Urban Perspective. Lexington, Mass.: D. C. Heath, 1977.
- Storper, Michael and Richard Walker. "The Spatial Division of Labor," in Sowers, L. and Tabb, W. (eds.), Sunbelt/Snowbelt. New York: Oxford University, 1984.
- Tabb, William. "Economic Democracy and Regional Restructuring: An Internationalization Perspective," in Sowers, L. and Tabb, W. (eds.), Sunbelt/Snowbelt. New York: Oxford University, 1984a.
- Time Magazine. August 18, 1980.
- Vernon, Raymond. Storm Over the Multinationals. Cambridge: Harvard University, 1977.