CURRENTS and SOUNDINGS

Retrenchment and Recovery: American Cities and the New York Experience

Charles Brecher, New York University
Raymond D. Horton, Columbia University

■ This paper relates New York City's experience since 1975, a period characterized by local economic and fiscal crisis and a gradual recovery from it, to four prevailing themes in the contemporary literature of cities and public administration. Drawing on analysis in the first five volumes of the Setting Municipal Priorities project, the authors suggest that: (1) urban economic decline is neither a continuous nor inevitable process, and that local government policy can play an important role in reversing such decline; (2) public officials have more ability to alter spending priorities than the incrementalist/decrementalist model of budgeting admits; (3) municipal government retrenchment, or the paring down of "slack" resources, promotes rather than impedes managerial innovation and improvement; (4) cuts in public expenditure do not necessarily translate into reductions in the level and quality of public services. From the authors' perspective, studies that emphasize the immutability of forces causing urban decline, the inability of public officials to control the allocation and improve the management of public resources, and the dependence of better services on more expenditure contribute to undue pessimism about the future of cities and their management.

Retrenchment has been a common theme in municipal government for the better part of a decade. Contraction raised serious challenges for elected officials, professional administrators, and students of city government who were accustomed to nearly continuous growth in the local public sector. It was not clear what role, if any, municipal policy could play in reversing the local economic decline that often underlay public sector retrenchment. Nor was it clear that municipal managers could alter their behavior in ways that would permit services to be maintained in the face of resource reductions.

Because of its dramatic fiscal crisis in 1975, New York is perhaps the best known example of retrenchment in America's cities. In that year, the City of New York was bankrupt in all but a legal sense. The city's private economy declined sharply for the sixth straight year; its municipal government could not pay its bills; its elected leaders defaulted to a coalition of state officials and local business and labor leaders.

In subsequent years, however, the city moved toward recovery, albeit at a slower pace than was anticipated initially. A three-year plan for fiscal recovery proved unsuccessful, leaving the city with continued deficits and without access to the capital market in 1978. A second, four-year plan was somewhat more successful, yielding a balanced budget in 1981 and limited access to the capital market. Since 1981, the city has had budget surpluses and further expanded its access to capital markets. However, the recovery was costly and remains incomplete. In balancing the budget, New Yorkers suffered serious reductions in the volume and quality of many municipal services. And after four years of recurring budget balances, the city is still unable to finance all of its capital needs through the bond market. It took roughly a decade for the city to move to the point of fiscal crisis, and it is likely to take more than a decade to recover fully.

Continuing analysis of New York City's economic and fiscal condition since 1979 has provided a substantial body of evidence from which to derive broader postulates about municipal response to retrenchment.[1] But to extrapolate credibly from the New York experience, analysts must counter the argument that New York City's large size, diverse socio-economic base, and activist political culture make it atypical and, thus, an inappropriate exemplar. A suitable response is that New York City's distinctive features strengthen rather than weaken the insights it provides to other urban areas. This view is rooted in the premise that New York City's well developed service economy, its ethnic and economic diversity, and its large public sector make it a forerunner of developments among other American cities because virtually all urban areas are moving in

Charles Brecher and **Raymond D. Horton** teach, respectively, at the New York University Graduate School of Public Administration and the Columbia Business School. They are co-directors of Setting Municipal Priorities, a research project that since 1980 has produced annual volumes on the economy and government of New York City.

these directions. If this view is correct, then the New York City experience sheds considerable light on four topics important to social scientists, public administrators, and political leaders in other urban areas: the processes of urban decline and transformation; patterns of public sector resource allocation or budgeting; the nature of public management; and the relationship between the availability of resources and the level of public services.

Urban Decline and New York City

The recent history of New York City contradicts some urban development theories. One of the most pessimistic urbanologists, George Sternlieb, argues that large American cities will continue to decline in size and importance because manufacturing, their initial economic base, has largely decentralized, and because services, which replaced manufacturing in many cities, are undergoing a similar process as computer and communications technologies reduce the locational advantages of central cities. In Sternlieb's words:

> Central city economic decline is *not* a mere accompaniment of general national job lethargy but rather at least in major part is independent of it. The plans for redress whether of the right or the left face an enormously potent degenerative inertia which will not be easily corrected.[2]

Economic forces undeniably are powerful, working to shape and reshape America's metropolitan areas. But the economic incentives for geographic dispersal do not make urban decline immutable or universal. Anthony Downs and his colleagues at The Brookings Institution found that one-third of American cities with 1970 populations over 100,000 are growing, and they concluded that the causes of urban change are multiple, including the basic economic trends identified by Sternlieb as well as other factors, like tax rates, that are subject to local influence.[3] In the Brookings scholars' words:

> The adverse situations in which many cities find themselves are not solely the result of their incompetence or of "natural" market forces working themselves out. Rather, these situations are strongly molded by political institutions, legal regulations, social prejudices, and market imperfections.[4]

While recognizing the potency of economic forces, their analysis suggests that public policy can play a role in counteracting the forces of urban decline.

New York City provides an example of both rapid urban decline and the potential for local public policy to help reverse this trend. The decline in New York was dramatic (see Table 1). Between 1969 and 1977, the city lost over 600,000 jobs, nearly one-sixth of its employment base, and its population fell by more than one-tenth or nearly one million people in the 1970s. The scale of this decline is unprecedented. Consider that the number of jobs *lost* in New York City was the equivalent of *total* employment in San Diego, and that its population loss was equivalent to one of the nation's ten largest cities disappearing.

Beginning in 1977, however, the local economy began to recover, though slowly, and job gains were posted each year through 1982. The causes of this reversal have not been fully sorted out, but the national business cycle does not provide the sole explanation because the city outpaced the nation in the rate of employment growth during parts of the post-1977 period. New York City's unique position in the international economy certainly contributed to its growth, but so apparently did changes in local policies. During the last half of the 1970s, municipal officials refrained from passing new tax measures, lowered rates on selected business taxes, and froze the property tax rate.[5] When access to capital

TABLE 1
Employment in New York City and United States, 1969-83

	New York City		United States	
	Number (000s)	Percentage Change	Number (000s)	Percentage Change
1969	3,796	2.1%	70,383	3.7%
1970	3,743	−1.4	70,879	0.7
1971	3,608	−3.6	71,211	0.5
1972	3,566	−1.2	73,675	3.5
1973	3,541	−0.7	76,790	4.2
1974	3,446	−2.7	78,265	1.9
1975	3,286	−4.6	76,945	−1.7
1976	3,210	−2.3	79,382	3.2
1977	3,188	−0.7	82,471	3.9
1978	3,237	1.5	86,697	5.1
1979	3,279	1.3	89,823	3.6
1980	3,302	0.7	90,406	0.6
1981	3,357	1.7	91,156	0.8
1982	3,345	−0.4	89,596	−1.7
1983	3,344	0.0	89,977	0.4

Sources: U.S. Bureau of Labor Statistics and New York State Department of Labor.

TABLE 2
City of New York Expenditures by Function, Fiscal Years 1975, 1978, 1982 (dollars in millions)

	Amount			Percentage Change	
	1975	1978	1982	1975-78	1978-82
Total	$12,340.8	$13,099.1	$16,370.8	6.1%	25.0%
Debt Service	1,896.0	2,184.0	1,879.7	15.2	−13.9
Subtotal	10,444.8	10,915.1	14,491.1	4.5	32.8
Redistributive Functions	3,399.9	3,864.6	4,670.0	13.7	20.8
Public Assistance	1,203.3	1,368.9	1,356.3	13.8	−.9
Health Services	1,007.3	1,052.6	1,271.4	4.5	20.8
Social Services	1,019.6	1,314.6	1,708.5	28.9	30.0
Housing	169.7	128.5	333.8	−24.3	159.8
Developmental Functions	1,167.3	734.4	1,263.8	−37.1	72.1
Infrastructure Projects	893.5	352.7	733.7	−60.5	108.0
Other	3.3	6.8	38.1	106.1	460.3
Transportation	270.5	374.9	492.0	38.6	31.2
Allocative Functions	5,877.6	6,316.1	8,557.5	7.5	35.5
Education	2,982.2	3,139.6	4,141.4	5.3	31.9
Elementary and Secondary	2,508.7	2,639.8	3,591.6	5.2	36.1
Higher	473.5	499.8	549.8	5.6	10.0
Criminal Justice	1,324.4	1,411.0	1,737.2	6.5	23.1
Police	1,035.0	1,134.0	1,380.7	9.6	21.8
Other	289.4	277.0	356.5	−4.3	28.7
General Government	1,571.0	1,765.5	2,670.0	12.4	51.2

Sources: Annual Reports of the Comptroller of the City of New York as reported in Charles Brecher and Raymond D. Horton, "Expenditures," in Brecher and Horton, eds., *Setting Municipal Priorities, 1984* (New York: New York University Press, 1983), pp. 68-96.

markets was regained, they developed a 10-year plan for infrastructure improvements and steadily increased annual capital investment to a target of $2 billion in 1985.[6]

The economic future of New York City is far from secure. Its past teaches that growth is neither continuous nor inevitable. But the most recent experience also demonstrates that the same is true of urban decline.

Retrenchment and Resource Allocation

For most of the post-World War II period, governments at all levels expanded. Thus social scientists concerned with resource allocation in the public sector had few opportunities to study budgeting during retrenchment. The literature described a relatively consistent pattern of budgetary behavior. As resources expanded, they tended to be distributed in an incremental pattern. Current-year agency expenditures were recognized as a "base," budget decisions focused on the size of the increment to this base, and little variation occurred in the mix of public spending over time.[7]

The prevailing pattern of incremental budgeting led many observers to believe that public budgets would shrink in decremental fashion during retrenchment. The evidence testing this hypothesis is inconclusive in places other than New York City. Studies of California's initial experience under the revenue limitations imposed by Proposition 13 are of limited applicability because of the large state surplus initially available to offset local income losses.[8] Only in the most recent year or two have California's localities been forced to cope with significant cutbacks, and their responses have not been systematically studied. Evidence from the first year of retrenchment in Massachusetts localities under Proposition 2½ suggests widely differing resource allocation patterns among types of localities, but firmer conclusions will require a longer period over which to assess the impacts.[9]

In contrast, available evidence from New York City provides an in-depth, multi-year basis for examining budgetary responses to retrenchment. Table 2 summarizes municipal budget allocations during the initial period of the fiscal crisis (1975-78) and the subsequent period of gradual recovery (1978-82). Following an analytical framework suggested by Paul Petersen,[10] expenditures are divided among three broad programmatic areas: *redistributive* programs shift resources from one group to another, generally by providing broadly financed welfare, health, and social services to the poor; *developmental* programs are designed to make the city a more competitive location for business activity, typically by providing efficient transportation and maintaining other basic infrastructure components; and *allocative* programs provide benefits to the community as a whole, including the various "housekeeping" functions such as sanitation, fire protection, the criminal justice system, and education. (Debt service is shown separately because the city's complex financing arrangements and need to borrow for earlier years' operating deficits make this sum not suitable for allocation to a given function.)

After the fiscal crisis, city officials had to allocate among these three functions a budget that contracted in real terms. Between 1975 and 1982, the combined city expense and capital budgets grew at an annual average of only 5.7 percent compared to an average regional inflation rate of 7.5 percent annually. However, the extent of contraction varied between the 1975-78 period of fiscal crisis and the 1978-82 period of recovery. City spending exclusive of debt service increased less than 5 percent over the entire first period but rose nearly one-third in the second period. Even more important, each period was characterized by a distinct set of expenditure priorities that changed between periods.

New York City's distinctive features strengthen rather than weaken the insights it provides to other urban areas.

During the fiscal crisis, redistributive functions were accorded the highest priority; their spending increased nearly 14 percent or more than three times as fast as all spending exclusive of debt service. Developmental functions were assigned the lowest priority; their spending was cut more than one-third. Allocative functions received a slightly increased share of funds; their spending increased by nearly 8 percent compared to the 4.5 percent gain for all spending exclusive of debt service.

During the recovery period of 1978-82, municipal priorities were altered significantly. Developmental functions went from least-favored to most-favored status; their expenditure increase totaled 72 percent compared to the overall spending (exclusive of debt service) rise of 33 percent. Redistributive functions were downgraded to the lowest priority; their spending grew 21 percent or about two-thirds the overall rate. Allocative functions continued to receive a slowly growing share of city services; their spending increased 36 percent.

These data contradict the incremental view that expenditure changes, whether increases or decreases, tend to be made "across the board" with all units experiencing roughly proportional increments or decrements. The analysis also contradicts a second model of budgeting emphasizing the "uncontrollable" nature of public spending. According to this view, shifts in local priorities occur because of uncontrollable commitments rather than the deliberate exercise of judgment by local officials.[11] Uncontrollable commitments are defined as those which budget-makers cannot alter in a given year without statutory or contractual changes. At the local level, the major "uncontrollable" items are debt service, contracts, and legal mandates imposed by higher levels of government.

Such commitments exist for the City of New York. Studies have shown that uncontrollable spending, by this definition, comprises roughly two-thirds of the total expense budget, and that this figure has been relatively stable in recent years.[12] The major uncontrollable items in the city budget (other than debt service) have been identified as state-mandated spending for public assistance and Medicaid, court-ordered spending for corrections, and state requirements that a constant share of the expense budget be allocated to elementary and secondary education.

However, the existence of these legal obligations does not mean that they control the city's spending priorities. First, when a perspective longer than one year is taken, most items become "controllable." Laws can be changed and contracts renegotiated to alter long-term commitments. Examples include local actions involving the renegotiation of collective bargaining contracts, restructuring of outstanding debt, and passage of state laws that relieved the city of previously mandated court and higher education expenses. Second, legal constraints do not necessarily determine spending patterns. In the case of welfare and Medicaid, for example, spending growth was curbed and their priority lowered despite state mandates. Education mandates are not determinative because the city consistently has spent more on this function than state law dictates. Only in the case of corrections can it be argued that legal mandates, in this case federal court orders that set standards for prisoners' living conditions, pushed spending beyond the level which local officials might otherwise have desired—up 88 percent from $126 million in 1975 to $237 million in 1982. However, the city could have altered the spending required by this mandate by lowering the prison population through shorter sentences or alternatives to incarceration.

If neither mandates nor incrementalism has driven municipal spending priorities, what has? An explanation consistent with the outcomes summarized in Table 2 involves four discretionary decisions. The first is the decision to link capital spending to the availability of borrowed capital. When the fiscal crisis drove the city out of public credit markets, it reduced capital spending rather than divert current revenues for capital purposes. Since agencies differ markedly in their mix of capital and labor inputs, this decision affected some agencies more significantly than others. When the city successfully sought federal loan guarantees to expand its capital budget in the 1978-82 period, those agencies with disproportionately large capital requirements benefited most.

A second set of discretionary decisions limited growth in spending for redistributive programs, particularly during the 1978-82 period. These decisions were reached and implemented by state officials who control the public assistance and Medicaid programs, but within New York City there were few influential advocates for increased redistribution. The state froze welfare grant levels and implemented a strict hospital cost-containment program, and health care spending under the city's control also was curbed. The major exception to this policy of limiting redistributive commitments was unforeseen growth in the city's Medicaid-funded home care program from $110 million in 1978 to $287 million in 1982. Initially expanded as a way of limiting hospital and nursing home expenditures under Medicaid, the program "backfired" because home care reached a new clientele instead of changing the form of care provided to those in nursing homes and hospitals.

A third strategic decision involved city and state officials in a policy of load shedding. City leaders identified a number of municipal services they preferred be funded and, if necessary, administered by the state government. The list included senior colleges of the City University of New York (CUNY), local additions to the federal Supplemental Security Income (SSI) benefits, court operations, probation, corrections, Medicaid and public assistance. The city was partly successful in achieving the transfers; the CUNY senior colleges, SSI supplements and court costs were absorbed by the state. These actions partly explain the lower rates of city spending for elements of the criminal justice and social services budget.

Finally, the budget outcomes reflect a discretionary decision to favor elementary and secondary education over many other services. In each period, total spending for education grew more rapidly than the budget (net of debt service) as a whole. While some of this increment was required to provide special services to handicapped students, the combined result of more funds and fewer students was an enriched educational program.

In sum, recent budget outcomes are not attributable primarily to either the imperatives of the past or the dictates of other governments. Public officials decided to tie capital spending to the availability of long-term borrowing, thereby causing developmental priorities to fall and subsequently to rise along with the city's access to capital markets; to curb the city's redistributive functions; to transfer certain functions to the state; and to increase disproportionately spending for elementary and secondary education. The point is not that these were "good" or "bad" outcomes, but that they resulted from the choices of public officials responsible for setting municipal priorities.

Retrenchment and Municipal Management

When the City of New York's fiscal crisis made headlines in 1975, its municipal government seemed a caricature of the "ill-managed public sector." Such indictments of municipal management were credible because they were partly true, but the charges also squared with the widely-held notion that the American private and public sectors differ in many respects, including the quality of their management. According to this view, firms are better managed than municipalities because the former operate in a competitive market while the latter operate as monopolies without "bottom-line" concerns that encourage managerial efficiency. This interpretation of management behavior is popular within the academic community. For example, Wallace Sayre, one of New York City government's most influential students, considered the nature of public and private management earlier than most and concluded that they were "fundamentally alike in all unimportant respects."[13]

New York City provides an example of both rapid urban decline and the potential for local public policy to help reverse this trend.

In addition to the invidious comparisons emanating from the importance attached to distinctions between the public and private sectors, management theory includes another postulate that indicated New York City's serious problems would worsen as a result of fiscal stress. Most organizational theorists posit that "slack" resources are essential to managerial innovation. In their classic study, Richard Cyert and James March defined slack resources as "payments to members of the organization in excess of what is required to maintain the organization."[14] Managers with more resources than are minimally necessary for organizational survival were viewed as able to "buy off" opposition to change. In the words of Charles Levine, a leading student of "cutback management,"

> . . . without slack resources to produce "win-win" consensus-building solutions and to provide side payments to overcome resistance to change, organizations will have difficulty innovating and maintaining flexibility.[15]

These assumptions about the weak character of public sector management and about the adverse consequences of fiscal stress led many social scientists to question the ability of municipal managers to initiate improvements and thus to blunt the effects of retrenchment. Yet, the ability of municipal leaders to deal with their problems in ways thought unique to the private sector and under conditions of fiscal stress is evident throughout New York City's recovery. Notable changes include the rationalization of budgetary practices, the achievement of greater efficiency in service delivery, the modification of collective bargaining policies to reduce real labor costs, and the establishment of a long-range planning process involving multi-year financial plans and capital needs assessments.

The shift in budgetary practices from an incremental pattern to one of clearer priority setting among functions has been noted already. Almost equally important were budgetary adjustments reflecting altered priorities *within* agencies. For example, the New York Police Department dismantled certain smaller units such as that dealing with community affairs.[16] Additional significant departmental policy changes were implemented without formal organizational shifts. A smaller police force was deployed so as to increase felony arrests and reduce arrests for less serious crimes. Specifically, while total arrests fell one-fifth between 1975 and 1979, the number of felony arrests increased 11 percent and arrests for misdemeanors and violations dropped 27 percent and 75 percent, respectively.[17] In the Sanitation

Department, workers were reassigned from street cleaning to refuse collection. Between 1975 and 1980, the average daily number of employees assigned to street cleaning declined 69 percent, from 1,542 to 475; the respective figure for refuse collection were 3,353 and 3,126 for a decline of just 7 percent.[18] These changes reflected clear choices to favor one service over another rather than to muddle through in decremental fashion.

The city also delivered services more efficiently, in part by substituting capital for labor via new technology. The introduction of larger, side-loading sanitation trucks that could be manned by two workers rather than three is the most striking example of this traditional form of "good management." In the Fire Department, expanded use of new alarm systems requiring voice responses significantly reduced the waste of firefighters in responding to false alarms. Largely due to this innovation, the number of responses to false alarms dropped 37 percent, from over 281,000 to approximately 176,000 between 1978 and 1981.[19]

The city's labor relations policies and practices were altered during the recovery in order to lower operating costs. Political leaders shifted from being notoriously "soft" bargainers who traded compensation for electoral support from unionized employees to being "hard" bargainers. As shown in Table 3, between 1970 and 1975 all categories of city workers enjoyed gains in their real or constant dollar earnings with the increases for patrolmen reaching 32 percent and teachers as much as 45 percent. In contrast, the 1975-80 period brought constant dollar reductions in pay for municipal workers with the loss as great as 16 percent for patrolmen. These reversals resulted directly from negotiations in which municipal officials bargained toughly for small pay increases in order to help eliminate budget deficits and minimize necessary workforce reductions.

Finally, the city improved its information systems and integrated them into a financial planning process with a long-term perspective. The city that literally did not know how many people it employed in 1975 now projects staffing levels, borrowing, and cash flow for four-year period, and it has a 10-year plan for capital investments. The system still has shortcomings, but its level of detail and frequent modifications make it a model among the public and private sectors.[20]

Retrenchment and Municipal Services

Undoubtedly, the most widely shared concern about retrenchment is its effect on public services. Most citizens, public employees, political leaders, and social scientists feared that reduced budgets inevitably would mean fewer and poorer quality services. One respected observer, Edward K. Hamilton, foresaw "general service default" as the likely outcome of municipal fiscal stress.[21]

The New York City experience suggests that in many instances these fears were justified. In the years after the fiscal crisis, most municipal agencies provided a reduced volume of services and in many cases the services also were of poorer quality. For example, as noted earlier, between 1975 and 1979 the number of arrests made by the police fell over 19 percent, from 245,125 to 197,805; and the share of the city's streets rated acceptably clean by a monitoring program dropped from 72 to 55 percent.[22]

But agencies in New York City provide significant exceptions to the presumed link between money and services. Some services actually improved after the fiscal crisis; others declined only slightly despite substantial reductions in agency budgets and staff; in some functions, spending rose but services declined. The most striking example is mass transit. Between 1978 and 1981, transit authority expenditures increased over 7 percent in constant dollars, and the number of employees rose nearly 5 percent. But added resources yielded no service improvement as ridership fell 2.1 percent, on-time performance fell from 96 to 90 percent, and virtually all other measures of service quality also declined.[23]

In contrast, the sanitation department improved refuse collection with fewer resources. Between 1978 and 1981, the unit's operating budget was cut more than one-fifth in constant dollars. However, no reduction occurred in the scheduled frequency of refuse collections, and the percentage of scheduled collections not performed dropped from 8.4 to 2.6 percent.[24]

A final noteworthy exception is the fire department. During the 1978-81 period, its constant dollar budget fell nearly 6 percent, but average response times to fire alarms were shortened, indicating improved service.[25]

Thus another important lesson from New York City's experience with retrenchment is that the link between fiscal resources and service levels is more complex than popular perceptions suggest. One intervening variable in the relationship between money and services is the innovative management behavior discussed above. Organizational innovation stimulated by the disappearance of slack resources helped some services to be maintained and others not to be substantially reduced.

Consumer behavior is another important complication in the link between resources and services. With any given budget allocation, any agency's managers presumably can serve better a smaller rather than a larger number of consumers. The sizable population loss in New York City thus indirectly helped improve services for those who remained. In education, for example, enrollment declines outpaced budget cuts in several years, permitting improvement in pupil-teacher ratios and eventual gains in average reading and mathematics test scores. Similarly, the ability of fewer fire companies to respond to fires more rapidly is explained largely by the decreased number of fires with population loss and the near desertion of portions of the city.

More than their numbers is important in considering the role of consumers in helping to determine service levels. Michael Lipsky's research on "street level" bureaucrats showed the importance of front-line service deliverers in determining the content of public services.[26] But the discretionary behavior of citizen-

TABLE 3
Earnings of Selected Municipal Employees, Fiscal Years 1970, 1975, and 1980 (in 1967 constant dollars)

Job Title	Fiscal Year 1970	Fiscal Year 1975	Fiscal Year 1980	Percentage Change 1970-75	Percentage Change 1975-80
Clerk	$ 4,268	$ 4,712	$ 4,691	10.4%	(0.4%)
Nurse's aide	4,660	5,367	5,000	15.2	(6.8)
Custodial assistant	4,660	5,286	4,927	13.4	(6.4)
Computer operator	5,749	6,188	5,780	7.6	(6.6)
Staff nurse	7,352	8,020	7,048	9.1	(12.1)
Administrative assistant	7,404	7,455	6,978	0.7	(6.4)
Plumbing inspector	7,491	8,338	7,324	11.3	(12.3)
Civil engineer	10,845	12,188	10,480	12.4	(14.0)
Patrolman	8,829	11,667	9,834	32.1	(15.7)
Teacher M.A.	6,774	9,811	9,814	44.8	(0.0)
Teacher M.A. + 30 credits	7,844	10,948	10,638	39.6	(2.8)

Note: Constant dollar adjustment is based on changes in the Consumer Price Index for urban wage earners and clerical workers in the New York-Northeastern New Jersey area.

Source: Mary McCornick, "Labor Relations," in Charles Brecher and Raymond D. Horton, eds., *Setting Municipal Priorities, 1982* (New York: Russell Sage Foundation, 1982), Table 7.4, p. 212.

consumers at the point of service delivery also is important. Providing public services often involves a dynamic interaction between the civil servants who "produce" the services and the citizens who "consume" them. In fact, the concept of "coproduction" characterizes municipal service delivery better than public production.[27]

Part of the explanation for the imperfect link between spending and services in New York City involves changes in consumer behavior. Examples include the declining number of false alarms and the drop in the amount of refuse to be collected. Because consumer behavior is an important determinant of service levels, public policy should be concerned with modifying this behavior. In fact, the significance of the consumers' role has received growing recognition among municipal officials in recent years. They now engage in explicit programs to alter citizen demand for services through a combination of educational efforts (that are called marketing in the private sector), regulation, and pricing.

Conclusion

It is easy to be pessimistic about the future of American cities. Widespread evidence of their problems exists: Most are losing people and jobs; they often have fewer resources with which to meet growing human service needs; and the quality of their political leadership and professional administrators frequently falls short of desired standards. Prevailing frameworks of social science inquiry reinforce this pessimism. Cities are studied from vantages that emphasize the immutability of the economic forces causing decline, the inability of elected officials to control the allocation and improve the management of public resources, and the dependence of improved public services on increased public expenditures. The corresponding logic of urban decline is simple and familiar: changes in the economic base of cities leave them with financial resources inadequate to meet their public service needs; their local governments lack the capacity to change; public services decline, contributing to further employment and population losses.

The evidence from New York City suggests that urban development is a more dynamic process than prevailing theories recognize. A generation ago, when fiscal crises were unheard of, a pathbreaker in the field of urban economics, Wilbur Thompson, observed that urban development follows a path similar to Toynbee's theme of challenge and response. He suggested that as long as two decades may be required to span the period in which urban decline begins and accelerates, local leadership recognizes the problem and makes adjustments, and the new economic realities are reflected in a resurgence of growth.[28] We hope the past decade of New York City's history fits into this cycle, and that the experience is useful to others facing similar challenges.

Notes

1. The literature on New York City, particularly during the 1975-78 period of fiscal crisis, is extensive. However, much of this work focuses on a relatively brief period and often has a journalistic perspective. More systematic evidence covering a longer period has been presented in five annual volumes prepared under the auspices of the Setting Municipal Priorities project, jointly sponsored by Conservation of Human Resources, Columbia University, and the Graduate School of Public Administration, New York University. These works are Raymond D. Horton and Charles Brecher, eds., *Setting Municipal Priorities, 1980* (Montclair, N.J.: Allenheld, Osmun and Co., 1979); Charles Brecher and Raymond D. Horton, eds., *Setting Municipal Priorities, 1981* (Montclair, N.J.: Allenheld, Osmun and Co., 1980); Charles Brecher and Raymond D. Horton, eds., *Setting Municipal Priorities, 1982* (New York: Russell Sage Foundation, 1981); Charles Brecher and Raymond D. Horton, eds., *Setting Municipal Priorities, 1983* (New York: New York University Press,

1982); Charles Brecher and Raymond D. Horton, eds., *Setting Municipal Priorities, 1984* (New York: New York University Press, 1983). A collection of selected chapters from these five volumes together with new material is presented in Charles Brecher and Raymond D. Horton, eds., *Setting Municipal Priorities: American Cities and the New York Experience* (New York: New York University Press, 1984). A seventh volume is in preparation and will be published by New York University Press in 1985.

2. George Sternlieb, Robert Burchell and Charles Wilhelm, "The City in a National Economic Context," paper presented at ACSP, October 21, 1983, p. 16. The general theme is developed in George Sternlieb and James W. Hughes, eds., *Post-Industrial America: Metropolitan Decline and Inter-Regional Job Shifts* (New Brunswick, N.J.: Center for Urban Policy Research, 1975).
3. Katherine L. Bradbury, Anthony Downs and Kenneth Small, *Urban Decline and the Future of American Cities* (Washington, D.C.: The Brookings Institution, 1982), 4-8, and Chapter 3.
4. *Ibid.,* 296.
5. Municipal tax policy is discussed more fully in Dick Netzer, "Taxes," in *Setting Municipal Priorities, 1982,* 119-157, and Matthew Drennan, "Local Economy and Local Revenues," in *Setting Municipal Priorities, 1984,* 19-44.
6. The capital plan is discussed more fully in David Grossman, "Debt and Capital Management," in *Setting Municipal Priorities, 1983,* 120-151, and James Hartman, "A Review of New York City's Ten-Year Plan for Capital Development" (New York: Citizens Budget Commission, November 1983).
7. The classic presentation of this view is in Aaron Wildavsky, *The Politics of the Budgetary Process* (Boston, Mass.: Little Brown & Co., 1964).
8. See Mark Menchik et al., *How Fiscal Restraint Affects Spending and Services in Cities* (Santa Monica, Calif.: Rand Corporation, 1982); George Kaufman and Kenneth Rosen, eds., *The Property Tax Revolt: The Case of Proposition 13* (Cambridge, Mass.: Ballinger Publishing Co., 1981); Alvin Rabushka and Pauline Ryan, *The Tax Revolt* (Stanford, Calif.: Hoover Institution, 1982); and David Sears and Jack Citrin, *Tax Revolt: Something for Nothing in California* (Cambridge, Mass.: Harvard University Press, 1982).
9. Lawrence Susskind et al., *Proposition 2½—Its Impact on Massachusetts* (Cambridge, Mass.: Oelgeschlager, Gunn and Hain, 1983).
10. Paul Petersen, *City Limits* (Chicago: University of Chicago Press, 1981).
11. This analysis is most commonly applied to the federal budget. See, for example, Lance T. LeLoup, *Budgetary Politics* (Brunswick, Ohio: King's Court Communications, 1977), especially Chapter 3. For a variation of this argument applied to local government, see Edward I. Koch, "The Mandate Millstone," *Public Interest* 61 (Fall 1980), 42-57.
12. See Charles Brecher and Mary McCormick, "Expenditures," in *Setting Municipal Priorities, 1981,* 65-84.
13. Sayre's aphorism is cited in Graham T. Allison, Jr., "Public and Private Management: Are They Fundamentally Alike in All Unimportant Respects?" a paper presented in 1979 at the Public Management Research Conference of the Brookings Institution and reprinted in Frederick S. Lane, ed., *Current Issues in Public Administration,* 2nd edition (New York: St. Martin's Press, 1982), 13-33. Also see Michael A. Murray, "Comparing Public and Private Management: An Exploratory Essay," *Public Administration Review* 35 (July/August 1975), 364-371. For a rejoinder criticizing Murray's "convergence" approach and upholding the traditional formulation, see Hal G. Rainey, Robert W. Backoff and Charles Levine, "Comparing Public and Private Organizations," *Public Administration Review* 36 (March/April 1976), 233-244.
14. Richard M. Cyert and James G. March, *A Behavioral Theory of the Firm* (Englewood Cliffs, N.J.: Prentice Hall, 1963), 36.
15. Charles H. Levine, "Organization Decline and Cutback Management," in his *Managing Fiscal Stress* (Chatham, N.J.: Chatham House, 1980), 15. Also see William G. Scott, "Organization Theory: A Reassessment," *Academy of Management Journal* 17 (June 1974), 243-253. Scott points out that modern management theory concerning the relationship between growth and innovation was developed during the decades following World War II, when growth was the hallmark of American corporations.
16. See Dennis Smith, "Police," in *Setting Municipal Priorities, 1982,* 229-263.
17. Data from Raymond D. Horton and Mary McCormick, "Services," in *Setting Municipal Priorities, 1981,* 85-112.
18. James M. Hartman, "Sanitation," in *Setting Municipal Priorities, 1982,* 291-321.
19. Raymond D. Horton and John Palmer Smith, "Expenditures and Services," in *Setting Municipal Priorities, 1983,* 77-119.
20. For a more complete discussion of the financial planning innovations and remaining problems see Charles Brecher and James M. Hartman, "Financial Planning," in *Setting Municipal Priorities, 1983,* 202-244.
21. Edward K. Hamilton, "On Nonconstitutional Management: A Constitutional Problem," *Daedalus* 107 (Winter 1978), 111-128.
22. These figures are from an analysis of service changes over this period in Horton and McCormick, "Services," in *Setting Municipal Priorities, 1981.*
23. Figures from Horton and Smith, "Expenditures and Services," in *Setting Municipal Priorities, 1983.* A more complete discussion of transit services is in Edward Seeley, "Mass Transit," in *Setting Municipal Priorities, 1982,* 394-415.
24. Figures from Horton and Smith, "Expenditures and Services."
25. Figures from Horton and Smith, "Expenditures and Services." A more complete discussion of firefighting services is in Peter Kolesar and Kenneth L. Rider, "Fire," in *Setting Municipal Priorities, 1982.*
26. Michael Lipsky, *Street-Level Bureaucracy: Dilemmas of the Individual in Public Service* (New York: Russell Sage Foundation, 1980).
27. See Gordon P. Whitaker, "Coproduction: Citizen Participation in Service Delivery," *Public Administration Review* 40 (May/June 1980), 240-246; also Jeffrey Bradney and Robert E. England, "Toward a Definition of the Coproduction Concept," *Public Administration Review* 43 (January/February 1983), 59-65.
28. Wilbur Thompson, *A Preface to Urban Economics* (Baltimore, Md.: Johns Hopkins University Press, 1965), 18-21.