

The Federal Connection

By Seymour Melman

Something is missing from the discussion on New York's financial crisis. The wages of policemen, school-teachers, and the productivity of sanitationmen and of city employees generally, do not explain the debacle. The missing factor is the Federal connection by which New York City and the state are drained of tax dollars while forced to bear extraordinary burdens as a result of Federal policies.

Each year from 1965 to 1967 (the last reported years) the Federal Government extracted from New York State \$7.4 billion more than it spent there for all purposes. By contrast, California received \$2 billion a year more than it paid to the Government; Virginia got \$1.3 billion, net; and Texas received \$1 billion net each year.

The Federal Government has been milking the economy of New York State (and Illinois, Michigan, Pennsylvania, Ohio, Indiana, Wisconsin—all of them centers of civilian industry) and transferring, capital and purchasing power to the states that are concentrations of military industry and bases.

Of all the states with over \$1 billion net drain to the Federal Government, New York State suffered the biggest loss, with Illinois next at \$4.4 billion.

Paralleling the direct exploitation of New York State, the Federal Government's policies imposed a set of heavy costs on the city and state. Federal subsidies spurred the mechanization of agriculture in the American South after World War II, producing a castoff-labor force of poor tenant farmers. The former tenant farmers drifted to the great cities of the North, as did a wave of migrants from Puerto Rico, also seeking opportunity.

The Federal Government did virtually nothing to support economic development that would retrain, educate and re-employ these people. The

"Great Society" program was never implemented, as the needed resources were funneled off for the war in Vietnam. The city school systems and social services gave modest support for people whose traditional lives had been shattered. As a consequence there grew up in New York and other cities a substantial population of jobless and unemployable people constituting a lumpenproletariat. Their depressed condition is accentuated by the racial discrimination toward which the Federal Government practices benign neglect.

A permanently impoverished population is costly to a surrounding community. The very poor use more police and fire services, more courts, more jails, more emergency medical care, more social work, and more welfare resources of all kinds than any similar employed population.

The social cost of a lumpenproletariat also appears in the unproduced goods and services lost to the whole society owing to their unemployment and underemployment.

The city government was left to care for the mass of elderly poor who cannot live on the Federal Social Security stipend, owing to the inflation induced by the Federal priority to a permanent war economy.

The Federal Government is responsible for enforcing the laws against importation of hard drugs. The Federal failure to enforce them contributes to the formation of a large addicted population, about half of it collected in New York City. The social havoc that it generates is a Federal responsibility, until now denied and dumped onto the New York cities of the United States.

For thirty years the Federal Government has subsidized the development of suburban communities: by the tax deduction allowed on home mortgage interest; by the Federal highway network that linked the suburbs of the country and gave easy access to central cities. Meanwhile, urban renewal was neglected. So the New York cities developed blighted areas, and city transit was left to decay, deemed unworthy of Federal largesse.

These Federal connections apply to all the major metropolitan centers. Therefore the troubles of New York City are prudently read as an early warning of what awaits the rest. The Federal Government compounds the damage to the New York cities of this country by preempting the cities' tax bases while lavishing our tax dollars on foreign power plays and military adventures.

Consider that the Federal Government's net take from New York State averaged \$412 per person for the late 1960's. For the 7.8 million residents of New York City this was a loss of \$3.2-billion per year—more than enough to preclude any deficits in the city budget and to support some of the economic development for our own people that successive Federal Administrations have avoided in order to finance their own military economy.

Therefore, the abuse and contempt that the Gerald Fords now heap on New York City serves a serious strategy: to mobilize every sort of prejudice that can divide a large and diverse people; to divert attention from the actual causes of many economic problems; to divide and rule.

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Note: Source of data on New York State taxes and receipts; James R. Anderson, "The Balance of Military Payments Among States and Regions" in, S. Melman, ed., The War Economy of the U.S., St. Martin's Press, New York, 1971, pp. 137-137