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Cities Are Headed for Fiscal Trouble Again, Especially if There's a Recession.

New York City's lessons from the 1970s can help as Covid largess ends and tax receipts ebb.

Years of excess borrowing and slipshod accounting caught up with New York City in the 1970s. It would take tough choices, hard sacrifices, and a federal bailout to put the city on a sound fiscal path. To help the city emerge from its crisis, the state Legislature in May 1975 passed the Financial Emergency Act for the City of New York. The law subjects the city to increased oversight, requiring it to plan for financial shortfalls and adopt a balanced budget in accordance with generally accepted accounting principles, which require accounting for promised payments when liabilities are incurred and discourage one-time maneuvers to achieve balance.

Four months later, President Gerald Ford approved a $2.3 billion revolving loan to help the city to pay its debts and begin its recovery. Since then—through economic booms, recessions and disasters, including 9/11 and superstorm Sandy—New York has never seen a replay of its brush with bankruptcy, and its budgeting remains as close to a model of fiscal responsibility as there is.

Despite this, no other major American state or local government has followed New York's budgetary lead. While most state and local governments are flush with cash following an unprecedented $5 trillion in federal Covid-19 relief spending, they are nonetheless facing an inevitable fiscal cliff, created by the one-two punch of a possible recession this year and the expiration of hundreds of billions of dollars in pandemic aid by 2026.

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By Richard Ravitch and William Glasgall

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