

Capital City:
New York in Fiscal Crisis, 1966-1978

Michael Reagan

A dissertation submitted in partial fulfillment
of the requirements for the degree of

Doctor of Philosophy

University of Washington

2017

Reading Committee:

James Gregory

Margaret O'Mara

Moon Ho Jung

Sarah Quinn

Program Authorized to Offer Degree:

History

© Copyright 2017

Michael Reagan

University of Washington

Abstract

Capital City: New York in Fiscal Crisis, 1966-1978

Michael Reagan

Co-Chairs of Supervisory Committee:

James Gregory

Margaret O'Mara

Department of History

This dissertation is a history of the 1975 New York City fiscal crisis. It explores the cultural and material causes and consequences of the city's near bankruptcy and subsequent social and fiscal restructuring. It argues that the cause of the crisis was a combination of a severe economic depression in the city's real economy, and a market failure, the worst in the nation's history, in the municipal bond market. The combination of these factors meant that the city was forced into deficit spending, and simultaneously frozen out of the credit markets. With the federal government taking no action, the city was forced to make severe, historic, cuts on its social programs, a move to austerity that has come to define our own era. This shift requires more than a fiscal explanation, as previous crises, when deficits were twice as large as those of the 1970s, were successfully navigated without the resort to the kinds of austerity seen in 1975. Instead, we have to look to a cultural turn on the part of the city's elites. Where in the 1960s, bankers, state planners, and academics were willing to manage deficits as part of a larger social contract that included a commitment to the city's poor, by 1975 that commitment was largely undone. The rejection was a reaction to the victories of the social movements of 1960s, specifically those for civil rights and black liberation. City elites sought mechanisms to check the costs, and more, the power and the politics, of the movements. This was achieved through fiscal measures, which profoundly reshaped social life in New York. The result for working people, women, and people of color was a pervasive sense of hopelessness and despair, evident even decades later, the artistic work of figures like Notorious B.I.G. His 1994 album of lost opportunity and personal "everyday struggle" spoke for the generation born to austerity; Big and his generation were "Ready To Die."

For Angela and Arthur

And Abraham drew near, and said, Wilt thou also destroy the righteous with the wicked?
- Genesis 18:23

Enduring interest groups require a sense of “responsibility” – that is, class consciousness.
James O’Connor, *Fiscal Crisis of the State*

Contents

Introduction	11
Chapter 1: Culture.....	41
1.1 Introduction	41
1.2. The 1966 Fiscal Crisis and Keynesian Consensus	46
1.2.1 When Banks Were Keynesian	62
1.3 Bankers Counterrevolution, a Changing Consciousness.....	69
1.4 Culture of Poverty	84
1.5 Inflation and Anxiety: New Economic Thinking	102
1.6 Synthesis '75	119
1.7 Conclusion.....	124
Chapter 2: Economy.....	126
2.1 Introduction	126
2.2 The Post-War Economy.....	129
2.3 Death of an “Industrial Agglomeration”: The Changing New York Economy	133
2.4 “A Revolution in Banking” New York’s Go-Go Years: The Financial Sector	157
2.5 “Two for the seesaw”: Inflation and Recession	176
2.5.1 Piercing the Threshold	181
2.6 Market Failure.....	189
2.7 Conclusion.....	216
Chapter 3: Finance	219
3.1 Introduction: State and Market	219
3.2 “The Budget is Everything:” New York City Budgets from 1966 to November 1974	221
3.3 “Wolf Through the Doors:” New York City’s Market Descent	251
3.5 Rose of another Name: Failure of the Big MAC.....	281
3.5 “Nibbling the bullet:” Standard Austerity.....	304
3.6 Conclusion.....	320
Chapter 4: Austerity.....	325
4.1 Introduction: “The Falsest Kind of Economy”	325
4.2 “Jaws” Big MAC with Teeth: The EFCB.....	328
4.3 Unions: “\$700 Million in Human Tragedy”	358
4.4 “The CUNY Problem”	381

4.5 “War in our hospitals”	394
4.6 “Double Barreled:” Remaking New York’s Racial Capitalism.....	415
4.7 Conclusion	441
Chapter 5 – Politics	444
5.1 Introduction	444
5.2 Politicians	445
5.3 Labor	481
5.4 Social Movements.....	515
5.5 Popular Culture	525
5.6 Conclusion.....	542
Conclusion.....	543
Bibliography	551

Acknowledgments

Writing a dissertation is a lonely yet crowded affair; this project could not have been completed without the love and support of dozens of people, too many to all mention here.

First to my committee, Jim Gregory, Margaret O'Mara, Moon Ho Jung and Sarah Quinn, whom I considered a dream team for scaffolding and support. To Jim, who has been with this project from the beginning, for introducing me and pushing me to think about institutions, and for giving me enough of a tether to explore the parameters of this project on my own. Those who've had the pleasure to work with Margaret know what a delightful experience it can be. At every stage she has been pushing and supporting me with thoughtful attention and support. I owe her a tremendous debt of gratitude. To Moon, who taught me a model of engaged scholarship that I hope to replicate. His insistence on finding marginal voices, and on bringing perspective's like Big's into the picture helped me to find my own voice. To Sarah, who came late to this project, but opened doors to scholarship and conceptual frames that let me know that I was not alone, and gave me all the support and encouragement to pursue those conversations.

A number of people closely read chapters or fragments and provided tremendous guidance. First to Andrew Hedden, who acted in advisory role, more than as a peer, directing me to new sets of literature, providing detailed readings of drafts that did not deserve it, and all along friendship and support that I worry about paying back. To my dissertation writing partner, Bruno George, without whom the first and most difficult stages of writing would not have been possible. I am very glad to call Bruno a friend; I owe him a debt (both materially and culturally constructed.) And for my crew of municipal finance and pensions specialists, Garret Shishido Strain and Riddhi Mehta Neugebauer, you were both experts for me to rely on, and a support group to push me forward. I will be forever grateful.

Some scholars read drafts and conference papers, provided comments, and to whom I owe a debt. Samuel Zipp was always engaging at every chance meeting. Louis Hyman is an ideal fellow to be spearheading the move capitalism studies. His insistence on empiricism gave me pause, but also hope that there is space in the academy for work like mine. Jefferson Cowie and Richard White also both seemed to be floating around at conferences, and always had kind words of support. Nathan Connelly's work seem to point the way forward, as far as I'm concerned. Closer to home, Arbella Bet-Shlimon, Lyn Thomas, Bill Rorabaugh, Michael McCann, Linda Nash, Polly Myers, Adam Warren, Glennys Young, Dan Berger, Shirley Yee,

Charles Bergquist, and Richard Kirkendall all provided important comments, sharp questions, or helpful conversations. George Lovell, my GSR, provided tremendous support and encouragement. The university administration also taught me important lessons about the personal impacts of austerity and the ways to successfully struggle forward.

The community of peers inside and around the history department also helped pull this project along. Mira Green, Roneva Keel, Jessie Kindig, Ryan Archibald, Sarah Zaides, Matthew Van Duyn, Brad Horst, Alyson Roy, Patrick Lozar, Symbol Lai, Gonzalo Guzman, Michael Damien Aguirre, Anthony Adler, Jon Olivera, Kevin McKenna, and Michael Esveldt, all helped me get through a long and at times difficult process. Chris Grorud always provided spirited conversations that seemed to give me strength. His early passing was a tremendous loss for all those who knew him. Trevor Griffey gave me leads to think about race in public sector unions. My departmental accomplice, Eleanor Mahoney, has become a friend, and a guiding light of personal and academic integrity. Farther afield, the community of young capital scholars was also tremendously helpful, in particular Destin Jenkins, Lyle Rubin, Michael Fritz Bartel, Betsy Beasley, David Stein, Kathryn Boodry, David Spataro, and Nathaniel Matthews-Trigg.

To my movement comrades, in both struggle and scholarship I have learned from you tremendously. To Adam Weaver, Romina Akemi, Jen Rogue, Carlos Perez, Daniel Tilton, JM Wong, Chris Dixon, Tamara Meyers, Harjit Singh Gill, Phil Neff, Wayne Price, and Pablo Abufom Silva I have benefited from your writings, conversations, and friendship. To Kurtis Dengler, my guiding light autodidact. To my comrades in AWDU and UAW 4121: Sebastián López Vergara, Andrea Delgado, Paige Sechrest, Alan Michael Weatherford, Justin Bare, Andre Stephens, Seth Trenchard, Caitlin Palo, Caitlin Alcorn, Collette Yasi Naraghi, Will McKeithen, Rod Palmquist, Morgan Currier, and Adrian Kane. To the community of undergraduate activists and scholars I have had the joy to work with, especially Adrienne Hubbard, Gordon Shelton, Becky Fuller-Phillips, Emilie Woodd and the entire UW USAS crew. It is in these folks I find hope for the future.

A tremendous debt is owed to a network of librarians and archivists. At my home institution Theresa Mudrock and Jessica Jerit were thoughtful and helpful throughout. At the city municipal archive Sylvia Kollar, Lenora Gidlund and their staff helped find documents and provide my own space for study in the very busy archive reading room. For Tim Holtz and especially Elizabeth Druga at the Gerald Ford Presidential Library, you both provided invaluable

direction in the archive. To Giana Ricci, Douglas Dicarlo, and Heather Mulliner at the Tamiment / Wagner Archive at New York University, who likewise provided invaluable leads. To Sandra Roff and especially Alex Gelfand who literally worked with me through the weekends to enable my scholarship at Baruch College Archives and Special Collections. Finally to Mattie Taylor at the Financial Control Board in New York. I was delighted to find her introduction to the Board in meeting minutes from 1978, I think she was less than thrilled. Ms. Taylor gave me run of the archives, and was always in favorable spirits; I am thankful. Lastly, to the Trigg family, especially Bruce and Mopsy for their documents and their interviews, and their lifetimes dedicated to health and social justice. I was glad to meet Mopsy before her passing; she will be missed. Thanks also to Brian Balogh for his conversation and guidance.

Financial support was provided by my home department and the Bridges Center for Labor Studies at UW. I am thankful.

Finally, thanks to due to my mom and dad, and especially my sister, Mars, who has pointed the way forward even when I didn't realize it. And most especially to Angela, for all your hard work and feedback throughout this long process. You have both challenged and supported me, at time simultaneously, in ways that I didn't know were possible. It is with love that I dedicate this project to you.

* * *

Introduction

*They are not long, the days of wine and roses:
Out of a misty dream
Our path emerges for a while, then closes
Within a dream.*
- Ernest Dowson

* * *

In his first address to the state legislature of New York in January of 1975, just days after his inauguration, Democratic Governor Hugh Carey bluntly told the people of New York that “the times of plenty, the days of wine and roses, are over.” As the New York City fiscal crisis threatened to bring down city, and perhaps state finances, the new Governor was promising harsh, in his words “deep and hurtful cuts, into cherished programs.” As he sought to explain the necessity of the cuts, Carey relied on a new logic that would have puzzled many just few years before. “In the very simplest terms,” he said, “we as a people, have been living far beyond our means.” He urged rollbacks at every level of government, “to live within our means,” and promised that “we will cut the budget not to destroy it, but to make it an effective instrument of our public purposes: to impose a set of priorities, above all to choose.” Carey’s speech came with cuts, he was introducing his new budget, dramatically reduced, to the state legislature. And as he correctly pointed out, this was a “choice,” a move to a new budgetary logic with long lasting consequences. He told his audience, “we must all live by a rule of austerity for as far ahead as we can see.”¹

¹ New York (State). and Hugh L. Carey, *Public Papers of Hugh L. Carey, Fifty-First Governor of the State of New York*. (Albany: State of New York, 1982), pg. 21-26

Carey's speech at the dawn of 1975 promised a new era of American politics, one in which the material, structural limitations of Keynesian orthodoxy were to be reshaped, but also in which the meaning of budgets and deficits carried new cultural and political resonance. The promise for government to "live within its means" had suddenly attained primacy for state priorities, over other social and policy goals, like countercyclic, consumer focused spending and redistribution. Carey's speech, and the policies implemented in New York City in response to the fiscal crisis slashed social spending, gutted government programs for the poor, and turned New York into the national model for economic restructuring. This turn, to the politics of austerity or neoliberalism, was a major shift in the culture and political economy not just of New York, but national and indeed global history. Austerity defines our world today; and the New York fiscal crisis has become an important cultural and policy touchstone. In the words of two scholars on Hugh Carey, his speech, and the restructuring of New York City marked, "a major turning point in the country's political direction."²

The New York City fiscal crisis is at the center of this turn. It was a dramatic restructuring of city governance, an experiment in rolling back the social programs of the Keynesian state won through decades of social movement organizing, for both labor and black liberation. In 1975 New York City ran a \$12 billion budget deficit, the result of the cumulative impacts of economic depression, loss of tax revenue, a market failure in the municipal bond market, and poor accounting and borrowing practices. Unlike the past, where social spending as a countercyclic measure, even at deficit, was seen as an economic and social good, in 1975 attitudes toward debt had changed. Running budget imbalances was suddenly inexcusable. The

² Seymour P. Lachman and Robert Polner, *The Man Who Saved New York: Hugh Carey and the Great Fiscal Crisis of 1975*, Albany, New York: SUNY Press, 2010, pg. 5

nation's banks and the federal government refused city pleas for credit to stem the crisis. This refusal, equal parts cultural and material, forced New York into an austerity program not seen in the United States since the Great Depression. City spending was frozen at 1975 levels in an attempt to achieve balanced budgets in three years, and new state agencies like the Emergency Financial Control Board and the Municipal Assistance Corporation were created to use extraordinary coercive power to implement the change. As a result, 65,000 New York City workers, roughly a fifth of the city workforce was laid off, and with the layoffs came concomitant cuts to social welfare programs, primarily those benefiting the city's poor and minority populations, and largely won in the recent past through social struggle.

Capital City argues that the New York City fiscal crisis needs to be rethought. Important questions about the causes of the crisis, and the historic turn to austerity as a solution, have never been adequately answered. Even a cursory glance at the historic record show that city deficits in the early nineteen-seventies were at an historic low, roughly half as much as they were a decade previous. The city's \$12 billion budget deficit was real, and significant, but only half of deficit to revenue ratios from 1966. Fiscal matters therefore cannot account for the historic turn in social policy. Instead, the cause of the fiscal shortfall was a textbook Keynesian economic crisis. The city, long suffering from deindustrialization, faced an economic avalanche of lost jobs, lost manufacturing firms, fleeing residents, disappearing tax revenues, and increasing social costs in the context of a national economic recession in the early 1970s. This economic decline, an unquestionable depression for New York, was combined with an historic market failure in the city's primary resource for credit, the municipal bond market. Bond market failure, itself a result of high inflation and a deteriorating national economic picture, froze the city out of credit markets and gave tremendous political leverage to lenders who had the power to grant market

reentry. It was a combination of these forces, economic depression and market failure, that caused the financial side of the city's 1970s crisis, yet the severe cuts to the city's budget are not explained by fiscal necessity.

If city finances can't explain the move to austerity, what does? For that we have to pull back and look at the social, political and cultural context of New York in the 1970s. For the city's elite – bankers, economists, academics, businessmen, and state planners – the social disruptions coming from popular movements of the 1960s and 1970s were alarming. Civil rights victories were gaining access to the benefits of US Keynesian policies for African Americans and racial minorities for the first time in U.S. history. This was won in part through unions, particularly in the public sector, which were being forced open to people of color in many instances for the first time, and social movements like welfare rights organizing, student movements for open enrollment, and community groups and radicals like the city's Young Lords and Black Panthers who were successfully establishing community based health care clinics partially paid for by the city. The financial sector's concerns were twofold, material and cultural. On the material, they worried about the increasing costs from these social movement victories. On the cultural, they expressed explicit concern about the growing "rights consciousness" on the part of the population, a consciousness which was redefining the specifics of "social need" in an ever expansive direction upward. To check these developments, city elites, academics and bankers, deployed a rationale used at the origins of modern counterrevolutionary thought – to question the rhetorical foundation of rights, and the standards of material need being demanded and won by people on the bottom of New York society. This counterrevolution from the top was part of a much broader cultural turn against Keynesian economics, one that redefined "deficits" and "responsibility" to carry greater cultural and political weight. By 1975, social responsibility

for the city's economic elites meant commitment to balanced budgets and harsh austerity, rather than any notion of social wellbeing. This turn had dramatic consequences for the order of racial capitalism in the city, cutting programs that benefited working class people of any race, but had particular "double-barreled" impacts on women and people of color.

This is the portrait of the crisis in nutshell, and one that has been little understood. In 1974 and 1975 it was these three factors – depression in the real economy, a historic failure in the municipal bond market, and a cultural turn away from Keynesianism and civil rights by city elites – until then only nascent, that were solidified in the events of the New York City fiscal crisis. A brief narrative of the major events of the crisis show this. By the end of 1974, years of economic depression were devastating city ledgers. Revenues of all types were shrinking while expenses were being driven up by the increased need for relief and the international forces of inflation. In November of 1974, the office of City Comptroller Harrison Goldin made public warnings about the state of city finances. At virtually the same moment, the city's access to credit evaporated in the failing municipal bond market, where bond yield rates hit levels not seen even during the Great Depression. The city's situation deteriorated further when other state agencies caught in the same crisis as the city, and similarly reliant on the tax-exempt bond market, like the New York Urban Development Corporation (UDC), defaulted on its notes in February of 1975. From that moment, widespread market panic about the security of city finances and the failure the muni market drove New York City to the brink of default. In March and April, commercial and investment banks that composed the bulk of the buyers for city notes, and acted as market gatekeepers through the clearinghouse system, refused to vend or purchase any New York City bonds. This act, blocking city access to the credit markets, was the definitive moment of the city's fiscal crisis. Following March of 1975, all subsequent city action

was determined by efforts to regain market access and the credit needed to run city government. Banks were demanding unprecedented cost trimming and roll-backs for this privilege. And it was this dynamic, market access in exchange for harsh austerity, which is the defining characteristic of the New York fiscal crisis.

Losing market access in March of 1975 however was just the beginning of the narrative of the fiscal crisis. Initially, the city and state attempted market solutions to its loss of credit. In June, driven by Governor Hugh Carey and investment banker Felix Rohatyn, the state created the Municipal Assistance Corporation (MAC or alternatively the “Big MAC”), a state backed agency to sell fresh bonds on the market, retire city notes, and provide much needed cash to finance governance. But by August of 1975 it was clear that the market based solution of MAC was failing, largely because the tax-exempt market on which it relied had further deteriorated in the months since its creation. Additionally, the MAC had no direct power to enforce austerity on city accounts, as the banks were now demanding. To remedy both these shortcomings, in September of 1975, in a radical imposition of state power, the state created the Emergency Financial Control Board (EFCB) to force austerity and disrupt the networks of social institutions that composed the matrix of the Keynesian state. In October of 1975 the EFCB began its work targeting unions through a wage freeze and productivity hike, taking back employee benefits, imposing tuition at the City University, hiking transit fares and city fees, and closing or shrinking portions of the city’s health care system that had been won through social movement victories in the 1960s. More than any other factor, the creation of the EFCB marks the fiscal crisis as a historic moment. It was this radical use of state intervention to undo the networks of civil society that had grown up around and buttressed the Keynesian state that was unlike anything seen in the US since the Great Depression.

Even with this dramatic, unprecedented assault on the institutions of Keynesian governance the city still faced deteriorating budget pictures through 1975 and 1976. This was because the economic fundamentals of the city continued to worsen and it remained locked out of the credit market. Additionally, the type of austerity implemented by the EFCB, a push back against the city's unions and social movements, was more political than it was fiscal, and its budgetary benefits were minimal. As a result, New York turned to union pensions to provide much needed cash and avoid bankruptcy. In October of 1975 New York nearly defaulted when one of the city unions, the United Federation of Teachers headed by Albert Shanker, threatened to not purchase city notes as a payment deadline drew near. Even though Shanker eventually relented at the eleventh hour (banks were forced to remain open past closing to process the sale, and the White House received midnight calls about the potential looming default), the near miss made it clear that barring a miracle, ultimately, federal action would be needed to resolve the crisis. The Ford Administration however was adamant in its obstinance. Days after the Shanker brinkmanship, President Ford in a strongly worded speech addressed the nation promising to veto any Congressional effort to rescue New York. The political ramifications were swift and severe. Ford was lambasted in the press; the following day the *New York Daily News* ran its famous headline, "FORD TO CITY: DROP DEAD." The Ford Administration simultaneously took heat from European heads of state and the domestic financial industry afraid of what a city default would do to international credit markets. By the end of November, the President reversed course, offering a federal loan package designed to allow New York to avoid default.

If our story was strictly fiscal, the Federal loan package delivered in December of 1975 would have marked the end of the crisis. Federal action resolved any fear of default for the city and ended the period of near-miss bankruptcy and eleventh-hour saves. As New York moved to

balance its budget in FY 1978, it should have been granted market reentry, as all conditions of the banks, by that point, had been resolved. But New York couldn't reenter the market in '78, nor in 1979 or even 1980. It wasn't until 1982 that New York again sold its notes in the marketplace. This timeline is significant; it points to the combined impacts of culture, politics, and economics that this project hopes to unpack. By 1982 the municipal bond market had finally recovered from the massive shocks and disruptions of the two 1970s inflationary crisis, and the Volcker interest rate hikes that closed out the decade. This market resolution was a factor beyond banker control, even as many argued that New York was ready for credit as early as 1978. Banks, as powerful as they were, to some degree were subjects of structural forces like the rest of us.

But the delayed market reentry allowed greater cultural and political work to be done in the furtherance of austerity. In the years 1977 and 1978, as the austerity crisis wore on, much of the fight-back coming from social movements was overcome. Tuition was imposed at CUNY in 1976; in 1977 Dr. John Holloman, a physician with a long civil rights pedigree was finally forced to resign his executive position at head of the city's hospital system; unions had productivity quotas imposed on them in addition to the wage freeze. This was a fight, at times violent, to impose the austerity regime, a further kind of structural violence. By 1980, Sydenham Hospital, a culturally symbolic institution in Harlem was finally closed through a massive police raid. It had been occupied by Black Panthers and Young Lords attempting to save vital public health infrastructure. Here the crisis finally comes to its denouement, in a broad victory for the cultural logic of austerity. Governor Carey's budget and the logic used to support it, was introduced in 1975 as a dramatic change, a warning of the end to the "days of wine and roses." By 1980, that

shift was largely complete. New social and political priorities were ascendant, as were the cultural logics that justified them, and the material realities they produced.

* * *

This picture is one that is not widely shared in the literature on the New York City fiscal crisis. Indeed there is only one historical account of the crisis “Fear City: New York’s Fiscal Crisis and the Rise of Austerity Politics,” published by Kim Phillips Fein in April of 2017. Phillips Fein provides an important intervention into the literature. Focusing on politics, she correctly argues that the crisis marked a significant turn in city, indeed US politics, and importantly, not so much a victory of conservatism, but a radical turn of US liberalism, one in which the prospects of social democracy were significantly diminished. She further argues that these kinds of policy turns are not so much fiscal, as they are political, that New York attempted to “use debt to settle problems that were at heart political.” Phillips Fein sees the crisis as the fruition of this short-sighted reliance on municipal debt to paper-over broader social and political questions. This is an important scholarly and political intervention, but it is one that takes city deficits at face value, and subscribes to the cultural logic that deficits seek resolution in either cuts or increased revenue.

Instead, historicizing city deficits shows us the interplay of culture and materiality at root of the crisis. A decade earlier, in the 1966 fiscal crisis New York City attempted to elide politics for deficits just as in 1975, and was successful both because the economic outlook was different, and because the cultural meaning of deficits was less significant in relation to broader macro-economic and social welfare concerns. In 1966 state planners and financial interests maintained their commitment to social spending, even at alarming deficit, to produce other social goods.

Phillips Fein's *Fear City* misses this and another important explanatory salient, the bond market. The struggle to gain market reentry defined the crisis, and for that, particular attention needs to be paid to bonds and financial markets. The market's historic failure is a major cause of the city's crisis. While an important intervention, the Phillips Fein study misses a profound transformation of American cultural and political economy that helps to explain the crisis; the lack of focus on the cultural meaning of bond markets fails to explain why the crisis happened when it did, and not ten years earlier, when deficits were twice as large. For that, we need the combined cultural and material interpretation provided here.³

Besides the work of Phillips Fein, the literature on the fiscal crisis is sparse and comes mainly from journalists or political scientists. Most of the literature falls into two camps, a liberal set that sees the fiscal crisis as a legacy of fiscal profligacy on the part of the city,⁴ and left inspired literature that seeks to show that the crisis was a kind of bankers' coup, demonstrating the state as an instrument of class power.⁵ Each is right in its own way, but they both miss the bigger picture of the significant cultural and economic turn that the crisis represents. For the liberal set, fiscal profligacy simply cannot explain why the crisis happened

³ Kim Phillips-Fein, *Fear City: New York's Fiscal Crisis and the Rise of Austerity Politics* (New York: Metropolitan Books, 2017) pg. 6.

⁴ Ken Auletta, *The Streets Were Paved with Gold*, 1st edition (New York: Random House, 1979); Robert W. Bailey, *The Crisis Regime: The M. A. C., the E. F. C. B., and the Political Impact of the New York City Financial Crisis* (Albany: State University of New York Press, 1985); Fred Ferretti, *The Year the Big Apple Went Bust*, 1st Edition edition (New York: Putnam Pub Group, 1976); Lachman and Polner, *The Man Who Saved New York*. The most significant work here is Martin Shefter, *Political Crisis/Fiscal Crisis: The Collapse and Revival of New York City*, Morningside Ed edition (New York: Columbia University Press, 1992).

⁵ Robert Fitch, *The Assassination of New York* (London ; New York: Verso, 1993); David Harvey, *A Brief History of Neoliberalism* (Oxford: Oxford University Press, 2007); Doug Henwood, *Wall Street: How It Works and for Whom*, edition (London; New York: Verso, 1998); Kim Moody, *From Welfare State to Real Estate: Regime Change in New York City, 1974 to the Present* (New York: New Press, The, 2007); Jack Newfield and Paul Du Brul, *The Abuse of Power*, First Edition (New York: Penguin Books, 1978), Newfeild and Du Brul operate somewhat between these two sets of literature. William K. Tabb, *The Long Default: New York City and the Urban Fiscal Crisis*, First Printing edition (New York: Monthly Review Press, 1982).

when it did. Although right to point to budget “gimmickry” to keep the city afloat, New York deficits were shrinking from their 1960s high. New York did not finally come to a reckoning with its spending in 1975, instead its deficits were being reduced. The left position argues that the fiscal crisis was a kind of power grab by city banks who sought to establish control of municipal governance in the interest of class prerogatives. To believe this argument, one would have to accept that somehow Wall Street banks, then at the height of their global power in the 1960s and 1970s, were somehow not part of municipal and national governance before 1975. This is simply not the case, Wall Street banks and city elites supported Keynesian policies throughout the 1960s until they believed it was no longer in their interests to do so. That shift was attitudinal, cultural, as this study hopes to show. For the somewhat conspiratorial coup thesis, this project finds that the discussion, debate, and transformations of the fiscal crisis were all done in the open; and further, that Wall Street had been in the policy driver’s seat both before and after the crisis. Indeed, one can’t have a palace coup if you already own the palace. What both sets of literature assume is that deficits necessitated the cuts; they lack the historical analysis that show deficits as only of minor significance in causality. Instead, the failure of the municipal bond market, and the cultural reorientation of city elites are the two most immediate causes, two significant points all extant literature have missed.⁶

Despite the paucity of literature on the fiscal crisis on its own, New York is often deployed in debates on the origin of so-called neoliberalism in the middle of the 1970s. That

⁶ The literature on Lindsey is often a stand in for discussions on the fiscal crisis and roughly follows the same categorization mentioned here. Vincent Cannato, *The Ungovernable City: John Lindsay and His Struggle to Save New York* (New York, NY: Basic Books, 2001); Sam Roberts, ed., *America’s Mayor: John V. Lindsay and the Reinvention of New York* (New York: Columbia University Press, 2010); Charles Morris, *Cost of Good Intentions: New York City and the Liberal Experiment*, 1st edition (New York: WW Norton & Co, 1981). For a more nuanced treatment see Joseph P. Viteritti, ed., *Summer in the City* (JHUP, 2014).

literature is growing richer by the day, but unfortunately can't seem to agree what it is we're talking about when we discuss neoliberalism. Much of the debate revolves around the role of the state in creating the neoliberal order, whether neoliberalism deploys market friendly reforms by absenting state agency, or is itself a dramatic form of state intervention but for specific purposes. The later position tends to favor some form of state as instrument of class power position, and clearly informs some of the left literature on the crisis itself. If New York is the foundational moment for U.S. based neoliberalism, then a couple points need to be clarified. Looking the cause of the crisis and the use of austerity, it seems that the state / market divide that is at the heart of neoliberal debate is not exceedingly helpful. When we turn to look at municipal governance, city budgets, and city financing mechanisms, the state and the market are virtually indistinguishable. City funding relies on private finance, and to a remarkable degree private finance markets are made possible not only through state legal structure, but through government funds that make capital markets possible in the first place. Government bonds are a leading source of investment capital at every level of state and market hierarchy.⁷ This is clear in the case of New York where the institutions of governance were composed of both state and market actors through the municipal bond market. From the city's Technical Committee on City Debt, to the Municipal Assistance Corporation, the Financial Community Liaison Group, to more longstanding groups like the municipal bond clearinghouse system and the commercial banks that made the market, these sets of dichotomies – government and market, public and private – are not meaningfully distinct terms of analysis.

In addition to the state / market problem, if we take “neoliberalism” to mean financialization, this analytic too breaks down when we look at New York. Financialization was

⁷ See Henwood, *Wall Street*, the section in chapter 1, “bonds and other credits.”

at the heart of the Keynesian state, as governments sought new and innovative mechanisms to spur growth through spending. In New York, this meant the creation of “moral obligation” bonds and other mechanisms. And so, neither state / market, nor financialization, can really explain to us what was significant about neoliberalism and the social turn implemented in 1975. Thus *Capital City*’s institutional look at governance and the fiscal crisis breaks down some of the central analytics of the neoliberalism debate. Indeed, in Chomsky’s memorable phrase, neoliberalism is neither “new nor liberal;” instead we are left with an archipelago of institutions, both public and private, all financial, that compose the matrix of state and private power through the New York City budget.⁸

Despite the failures of the neoliberal debate on the topic, something definitively changed in New York in the 1970s. In whatever way we may want to characterize the subsequent decades of U.S. political economy, in 1975 austerity planners were making a definitive break with certain aspects of Keynesianism, and this project seeks to make an intervention here too. New York is the beginning of the US transformation away from Keynesian policies, it marks an end, as much as a beginning, and goes a long way to explain the close of Salvatorre and Cowie’s “long interregnum,” the decades of Keynesian policies in the middle of the twentieth century bookended by more classically liberal policies. Why did Keynesian policies fade in favor for US elites in the 1970s? We hope to show largely for reasons explored here, economic and cultural shifts at the top that had dramatic consequences for social policy and the lived experiences at the

⁸ Manfred B. Steger and Ravi K. Roy, *Neoliberalism: A Very Short Introduction*, 1 edition (Oxford ; New York: Oxford University Press, 2010); David Harvey, *A Brief History of Neoliberalism* (Oxford: Oxford University Press, 2007); Gérard Duménil and Dominique Lévy, *The Crisis of Neoliberalism*, Reprint edition (Cambridge, Mass.: Harvard University Press, 2013); Sarah Quinn unpublished papers and forthcoming work; Noam Chomsky, *Profit Over People: Neoliberalism and the Global Order* by Noam Chomsky, 1st Edition (Seven Stories Press, U.S., 1998). Noam Chomsky Videos, *Chomsky “Neo-Liberalism” is Neither New nor Liberal (2014)*, 2014, <https://www.youtube.com/watch?v=fGouSUmdKHI>.

bottom. This explanation, that a change in cultural attitudes at the top of society brought an end to Keynesianism in the U.S. also helps to explain its origins. The history of the New York City fiscal crisis shows that Wall Street banks were broadly supportive of Keynesian policies in the 1960s, and that consensus began to unravel in the 1970s. If business and financial leaders' turn away from Keynesianism is responsible for its demise, perhaps their acceptance of these ideas is also partly responsible for their rise. In this, *Capital City* sees a harmony of explanatory power in the work of Colin Gordon, James Livingston, and Gabriel Kolko (and now Jefferson Cowie published just this year) in their explorations of the rise of the regulatory state. This insight reveals the alarming degree to which the US was, and remains a business run society.⁹

Examining the central role of business in urban politics, this study would be remiss if it did not draw on Clarence N. Stone's work on "regime politics." Looking at a forty year sweep of Atlanta's political history, Stone finds that informal networks of power between various class interests provided a surprising degree of rigidity to policy outcomes despite electoral change. Now nearly thirty years old, Stone's study has been a foundation of work on urban political economy, but it has not been without critics. Most challengers find Stone's structuralism too rigid, unable to account for moments of change, neither too for the agency of lived experience. This study both compliments and complicates Stone's argument. An "austerity regime" is a useful concept for thinking about the new set of governing practices and priorities that remade New York's social order. This was both an institutional change, through the Emergency

⁹ Jefferson Cowie and Nick Salvatore, "The Long Exception: Rethinking the Place of the New Deal in American History," *Articles and Chapters*, October 1, 2008, <http://digitalcommons.ilr.cornell.edu/articles/594>; James Livingston, *Origins of the Federal Reserve System: Money, Class, and Corporate Capitalism, 1890-1913*, 1 edition (Ithaca (NY) etc.: Cornell University Press, 1989); Colin Gordon, *New Deals: Business, Labor, and Politics in America, 1920-1935*, 1st Edition (Cambridge England ; New York, NY, USA: Cambridge University Press, 1994); Gabriel Kolko, *The Triumph of Conservatism: A Reinterpretation of American History, 1900-1916*, (New York: Free Press, 1977); Jefferson Cowie, *The Great Exception: The New Deal and the Limits of American Politics*, Reprint edition (Princeton University Press, 2017).

Financial Control Board and others, and attitudinal, as the priorities of governance simply changed. What did not change however, was the fundamental ruling coalition of New York politics, composed of so-called FIRE, unions, the Democrats, and others. This coalition remained in power on either side of the fiscal crisis, just with new sets of political priorities. This persistence, in line with Stone's regime framework, highlights the importance of the cultural in order to explain New York's move to austerity. It also restores some of the agency of political actors and forces in thinking about regime politics. Political regimes are constructions that are continually made, and remade, to borrow a phrase; this constant remaking takes work, conscientious effort to keep the networks of governance intact. Further, when the terms and scope of governance are under negotiation, made into new and particular formations, as it was in the fiscal crisis, this takes an extra degree of explicit thought and action – changes have to be negotiated, explained, and argued for, or sometimes simply imposed. But this is active; somebody is doing the imposing. These agents are drawn into focus here.¹⁰

Exploring agency from the top, and thinking about the tensions between structure, agency, change and crisis is also at the heart of another set of literatures, that of the history of capitalism (HOC), an emerging field that hasn't quite seemed to find its feet either theoretically or methodologically. What this study shares with HOC is an interest in history "from the bottom, all the way to the top," to borrow a useful conceptual frame from Louis Hyman. At its most basic the history of capitalism seems to be interested in politics and power, markets, finance, social formations and institutions, at both the top and bottom of society. HOC is also

¹⁰ Clarence N. Stone, *Regime Politics: Governing Atlanta, 1946-1988*, 1st US-1st Printing edition (Lawrence, Kan: University Press of Kansas, 1989); and Clarence N. Stone, "Reflections on Regime Politics: From Governing Coalition to Urban Political Order," *Urban Affairs Review* 51, no. 1 (January 1, 2015): 101–37; the language of "making" comes from EP Thompson, see the following footnote on the history of capitalism.

interested in the institutions and structures of capital, from finance, banks, corporations, bonds and markets, and so too for *Capital City*, for which a historical analysis of the municipal bond market is a central contribution. Historians of capitalism are increasingly interested in the flip side of history from the bottom up, that of power, elites, and politics, that of the top. The shift was informed by the insights of social, and in particular, labor history. Some of the early studies of history of capitalism, as Sven Beckert's *Monied Metropolis*, or Richard White's *Railroaded*, or Kim Phillips Fein's *Invisible Hands* looked at elite institutions and classes. In Beckert's case, he took the methodology of social history, in particular EP Thompson's work on class formation and class consciousness, and applied it to fin de siècle New York bourgeoisie. He found a rather consciously articulated, and violent, expression of class solidarity formed in response to the social disruptions and social movements of 1870s and 1880s. This study is not unlike Beckert's. Indeed there are many parallels of New York elites defining themselves in opposition to popular movements, and forming a consensus political agenda, a counterrevolution in the language of *Capital City*. This project, then, starts at the top, and moves all the way down, looking at how cultural, political and ideological changes by city elites had far reaching impacts on the lived experiences of New Yorkers at the bottom. It also highlights the importance of bonds, budgets and deficits, showing their particular cultural and material constructions.¹¹

This particular attention to both top and bottom, culture and materiality, is an important part of the study of racial capitalism, a growing field related to the history of capitalism.

¹¹ Sven Beckert, *The Monied Metropolis: New York City and the Consolidation of the American Bourgeoisie, 1850-1896* (Cambridge: Cambridge University Press, 2003); Richard White, *Railroaded: The Transcontinentals and the Making of Modern America*, 1 edition (New York: W. W. Norton & Company, 2012); Kim Phillips-Fein, *Invisible Hands: The Businessmen's Crusade Against the New Deal*, Reprint edition (W. W. Norton & Company, 2010); Louis Hyman, *Debtor Nation: The History of America in Red Ink*, Reprint edition (Princeton, NJ: Princeton University Press, 2012); E. P. Thompson, *The Making of the English Working Class* (New York: Vintage, 1966). The work of Sandy Hager should be mentioned here. Sandy Brian Hager, *Public Debt, Inequality, and Power: The Making of a Modern Debt State* (Oakland, California: University of California Press, 2016).

Currently racial capitalism as a conceptual frame is going through something of a renaissance, with a slate of books from Ed Baptist and Walter Johnson, a feature in the Boston Review, and numerous post-docs and special research projects, all drawing on an intellectual lineage that has been an important contribution of black scholarship throughout the twentieth century. For example, the concept of racial capitalism comes from Cedric Robinson and his 1981 work *Black Marxism*. At its most basic, racial capitalism is a framework used to explore how systems of racial oppression and capitalism strengthen and reinforce one another. Robinson's particular interest was in how race making and class formation are co-constitutive, and in the tradition of black resistance to these processes in a field he identified as black radicalism. This project does not pretend to be part of that storied legacy, but it does use the framework of racial capitalism to think about how austerity, much like Keynesianism, was racial, remaking America's capitalist order.

To understand this, we have to look at the racial politics of the New Deal. FDR's programs were race based, writing exclusions into the institutions of Keynesian social welfare policy. The civil rights movement began to undo these exclusions, as African Americans fought and won greater integration into American society, particularly institutions of social welfare, and importantly, unions. This change, had the possibility, was beginning, to undo centuries of racial inequality in the US, and represents a period of hope not unlike Federal Reconstruction a century earlier. Indeed, as was explicit, the austerity regime sought undo the growing benefits that came from the synthesis of the civil rights and labor movements in the somewhat more generous social tolerance of late stage Keynesian political economy. This dramatically reshaped New York's order of racial capitalism, with particularly deleterious effects on black New York. Additionally, while many of the studies on racial capitalism rightly focus on slavery and its legacies, this

project hopes to show that the regimes of American racial capitalism are not fixed in the nineteenth century. Much like urban political regimes or class consciousness, formations of racial capitalism are continually made and remade in an ongoing process of social, political, economic and cultural struggle – they are made in the process of history. If our present looks particularly bleak from this perspective, this project hopes to show that there were indeed other political possibilities, alternative courses of history that if they were not pursued, it was not because they were unviable. Throughout, race remains at the heart of these processes.¹²

A quick word about structure and agency is important here. The history of the New York City fiscal crisis reveals the dramatic and surprising interplay between structure, agency, and the nature of capitalist democracies. What I expected to find as I began this investigation was that structural limits imposed from the souring national and international economic picture forced an adjustment in the expectations and social programs of New York. Looking at city budgets and booming Wall Street interests, that turned out not to be the case. Instead, the so-called structural limits to social benefits, if indeed there were any, were reformed not by economics, but by culture. The limits of what was socially acceptable government policy was set not by changed profits, by structure, but by changed social attitudes at the top. These changes set new, lower, limits on social wage policies, first in New York and then nationally. *Capital City* therefore explores both the structural limits of political economy in capitalist democracies, and the limits of structural interpretations in explaining moments of crisis and transformation when rather

¹² Walter Johnson, *River of Dark Dreams: Slavery and Empire in the Cotton Kingdom*, (New York: Belknap Press: An Imprint of Harvard University Press, 2017); Edward E. Baptist, *The Half Has Never Been Told: Slavery and the Making of American Capitalism*, (New York: Basic Books, 2014); Nausicaa Renner, “Race Capitalism Justice,” *Boston Review*, (January 13, 2017), <http://bostonreview.net/race/race-capitalism-justice>; Cedric J. Robinson and Robin D. G. Kelley, *Black Marxism: The Making of the Black Radical Tradition*, (Chapel Hill, N.C: The University of North Carolina Press, 2000); W. E. Burghardt Du Bois and David Levering Lewis, *Black Reconstruction in America, 1860-1880* (New York: Free Press, 1998).

dramatic historic shifts play out. In particular, it looks at the interplay of these two, how culture can help set and define what come to be seen as structural limits. In this it draws heavily on the ideas of Joshua Cohen and Joel Rogers. In their now obscure 1983 work, *On Democracy*, they argue that the “structural limits” of capitalist democracy are set primarily by one significant factor, the satisfaction of the investment class for continued profitability. Without this, investment dries up, and the entire process of capitalist political economy, indeed all of society, falters. But “satisfaction” is as much cultural as it is materially determined. This is what happened in New York, a fixed structural limit was hit in 1975, but one that had been set and redefined by new cultural standards and practices.¹³

What structural limits I did find was in the market collapse for municipal bonds in the mid nineteen-seventies. That change came through the accretion of small but substantial changes to the financial industry in the 1960s and 1970s. From the growth of global markets, lax regulatory oversight in the federal Office of the Comptroller and SEC, and an internal “quiet revolution” on Wall Street all forced historic changes for municipal paper. In particular, commercial banks which had accounted for roughly 90% of the tax exempt market in the 1960s, had lost interest in munis in the 1970s. Because of their new corporate holding company structure, their heavy investment in emerging untaxed foreign markets like Euro and petrodollars, increased international state bond competition through loosened regulation, and inflation, banks stopped buying domestic municipal notes in the mid-1970s, and they never returned in as significant numbers. The resulting market collapse is a major causal factor of the fiscal crisis, and a major intervention of this project, left completely absent in current

¹³ J. M. Cohen and J. Rogers, *On Democracy* (New York: Penguin Books, 1983). See in particular chapter 3, “On Structure” for their discussion of this and the similarly useful concept of “capital strike.”

scholarship. But as I hope to show, even that structural, market, material shift, was culturally constructed. Bankers “lost interest” not because of an iron rule of economics. They were chasing profitability, but desires for profit have been disciplined in the past, and they could have been here too. Very simply, this could have been done by forcing banks to live in the letter of the already extant Keynesian regulatory law, and preventing further deregulation and regulatory envelope-pushing by the banks themselves. Alternatively, the federal government could have acted as note purchaser of last resort, a power they too already possessed. The point here however is that as banks discovered that the so-called “needs” of welfare recipients were socially-constructed, to paraphrase their language, so too are the needs and desires of Wall Street. In the right circumstances, specifically a preponderance of working class power, they can be disciplined too.

In this framework of cultural and material causality, of disciplining desires, I draw heavily on the work of French anthropologist Pierre Bourdieu. His work on the construction of housing markets, what makes sales possible, and the exchange of cultural and material factors, of disciplining desires and how individual aspirations are met and structured in institutional frameworks, underlies this entire project. Specifically I see his work as a more sophisticated version of the work of Oscar Lewis, another anthropologist, used in this project as a primary source, on what he calls the “culture of poverty,” the interrelation of cultural and material factors in shaping consciousness, history and society. Important here too is fellow anthropologist David Graeber, in his work on the cultural constructions of economic phenomenon like debt. Graeber argues that debt, something that appears to be ubiquitous in human society, and a mathematical fixity in accounting ledgers, is in fact largely culturally determined, and undergoing continual revision in a changing moral universe. What Graeber, Lewis, and Bourdieu help us see is this

complicated and ever changing relationship between materiality and culture in complex and novel ways. This project picks up these ideas, and argues that budgets are cultural documents, and that debts and deficits are not so much fiscal matters, as they are political, and that the fiscal crisis is best explained by a new cultural logic of austerity, debt, and responsibility. Bourdieu in particular is attractive because his conceptions are rooted in an empirical framework that lends itself to historical study. This is a nice fit for those of us interested in racial capitalism, itself a complicated interweaving of cultural and material factors.¹⁴

* * *

To make this world a little more concrete, it is helpful to look at the lived experience of those who went through the transformation to austerity, particularly to compare those who grew up on either side of the fiscal crisis. Chelsea born labor sociologist and activist Stanley Aronowitz, and Brooklyn born Christopher Wallace, better known as rapper Notorious B.I.G., illustrate the impacts of the changing order of racial capitalism in New York. Born to a working class Jewish family in 1933 at the height of the Great Depression, Aronowitz had available to him an array of social institutions designed to support New York's white ethnic working class. In an oral history preserved at the Wagner Tamiment archives in New York City, Aronowitz recalls growing up in post-war industrial Chelsea, where working class politics and culture dominated the social dynamics on the street. As he matured into young adulthood, Aronowitz made use of the programs and privileges of white working class New York, attending tuition free Brooklyn

¹⁴ Pierre Bourdieu, *The Social Structures of the Economy*, 1 edition (Cambridge, UK ; Malden, MA: Polity, 2005); Oscar Lewis, Margaret Mead, and O. LaFarge, *Five Families: Mexican Case Studies in the Culture of Poverty* (New York: Basic Books, 1975); Oscar Lewis, *LA Vida: A Puerto Rican Family in the Culture of Poverty--San Juan and New York*. (New York: Random House, 1966); and an additional Lewis essay in Corinne Saposs Schelling, *On Understanding Poverty: Perspectives from the Social Sciences*, ed. Daniel P. Moynihan (New York, NY: Basic Books, 1969); David Graeber, *Debt - Updated and Expanded: The First 5,000 Years*, (Brooklyn: Melville House, 2014). Also influential here is Noam Chomsky, *The Culture of Terrorism* (Black Rose Books Ltd., 1988).

College, working in unionized metalworking and trades jobs, and participating in the vibrant labor movement. His passages between academic and industrial institutional pathways available to the working class show the scope of options open to white ethnics in the post-war period. In the 1960s, Aronowitz went on to become a powerful force of support for civil rights and black liberation, working to integrate African Americans into the Keynesian New Deal state from which he benefited, through close work on lunch counter sit-ins with the Student Nonviolent Coordinating Committee, organizing labor support for the March on Washington for Jobs and Freedom with Bayard Rustin, and other significant contributions. Eventually, Aronowitz became a well know author and academic at CUNY, transcending his working-class origins, but maintaining his commitment to class politics and black freedom in his scholarship and numerous and invaluable public interventions.¹⁵

The world that Aronowitz and others fought to create in the 1960s, and the tremendous hope and possibility that the period of the late 1960s represented for remaking the order of America's racial capitalism along much more egalitarian lines, was undone by the fiscal crisis of 1975. And we can clearly see the impacts in the life of Christopher Wallace, Notorious B.I.G.. Born in Clinton Hill near the Crown Heights section of Brooklyn in 1973, Wallace, or Biggie as he was known as he matured, witnessed the destruction of the institutions of Keynesianism immediately before he had access to them. In just his neighborhood in Brooklyn, school staff and programs were cut, drug treatment facilities closed, job training and crime prevention programs eliminated, the path to higher education barred through failing public schools and the imposition of university tuition. By the 1980s, the exodus of manufacturing jobs led to real economic privation in working-class New York, with black New York particularly hard hit. A promising

¹⁵ Stanley Aronowitz, oral interview, Tamiment Wagner Labor Archives, pg 4

and bright student, especially in English, Biggie dropped out of public high school to pursue a career selling drugs. Busted and imprisoned twice for sales, Biggie's life was marked by three of the remaining social institutions available to black New Yorkers in the wake of austerity: the drug world, the prison industrial complex, and music. As demonstrated in his tremendous artistic achievements before his murder in 1997 at the age of 24, his worldview was one of hopelessness and despair, the world offered a scope of options all shaped through violence, racism and misogyny, one in which Big was born "ready to die."

The difference in Aronowitz and Biggie's experiences is significant, and race is not incidental to this change. Racial logics explained and buttressed the Keynesian order for white ethnics in the 1930s, as much as it did the cultural logics of austerity for African Americans. Indeed, the extreme forms of racism and the structural violence that came with austerity definitively turned on particular racial logics formed in the wake of the civil rights movements. And so race is central to this story, even as the impacts of austerity were felt by all workers, white and black, in New York. For example, in 1976 the Shalom Senior Center in Biggie's neighborhood of Crown Heights was closed. The Center was an elder care facility for neighborhood workers, too old to provide for themselves. The closure, as with most of austerity, was justified in part of the racial logic of the "cultural of poverty," itself defined by racialized thinking about social welfare recipients. But this particular closure impacted almost exclusively white ethnic elders, in particular Jewish working class residents, the parents of Aronowitz's generation, many of whom had no place to go. On learning the news that the center was to close, resident Sydney Horowitz, a 76 year old retired window cleaner responded that if the center were to close, "then I would close too, I would fall down." Justified on racial terms, to keep African Americans and people of color from gaining access to the social programs of the Keynesian

state, the turn to austerity undid aspects of the social wage for all workers, white and black. The difference in prospects and life pathways for Aronowitz and Big help illustrate these dynamics.¹⁶

To uncover the story of the fiscal crisis, *Capital City* is organized into five chapters. In Chapter One, on culture, we look at the transformation of New York elite in the wake of the social movements of the 1960s. It chronicles the cultural turn from Keynesianism and the political economy it supported to austerity economics on the part of social elites. The first section shows how in the city's fiscal crisis of 1966, the "consensus" framework for solutions, from banks, state planners and academics, was Keynesian. The next section explores how thinking in the financial sector began to change in the aftermath of the movements of the 1960s. Key here was an intersectional analysis on the part of the banks that tied class, race and gender together for a portrait of city poverty that largely blamed the victim, and held that social need was a socially constructed concept, rather than a true reflection of economic or material necessity. Also key was bank discussions of "rights consciousness" something they explicitly challenge, and that places them in a long history of countervolutionary thought. To draw their conclusions banks were pulling from the broad scope of academic research on poverty from the 1960s, which constitutes the next section of the chapter. This section shows how academic and political uses of the "culture of poverty" concept reinforced this backlash, rather than open up liberatory possibilities, as its original author, Oscar Lewis, intended. The literature on the "culture of poverty" was a fundamental support for the turn to austerity, evident in the language of the austerity planners themselves, and defining the entire scope of American political thought, from progressive left, liberal centrist, and right positions. The next two sections show how changing thinking about fiscal matters in response to the inflation crisis of the 1970s solidified some of

¹⁶ Eleanor Blau, "Planned Closing of 3 Centers Dismays the Elderly," *New York Times*, Nov 13, 1975.

this anti-poor thinking. Social spending was seen as inflationary, and needed to be checked, with the poor, the “poverty movements” and labor movements all being singled out as problems. Indeed, part of the problem was the democratic process itself, another major trope in counterrevolutionary thought. All this was articulated and crystalized at the 1974 Presidential National Conference on Inflation, and taken into the White House and Gracie Mansion, the final section of the chapter, where this thinking played out during the 1975 NYC crisis.

Chapter Two, on the economy, looks at the material nature of these changes. It shows the economic history of New York City by way of exploring the causes of the 1975 crisis. It argues that a depression in the real economy of the city, combined with the worst market failure in the history American municipal bond market, was the direct cause of the fiscal crisis that confronted New York in 1975. After the post war boom, the manufacturing sector of the New York economy faced devastating losses. In the mid-seventies, particularly the period from late 1969 to 1974, the city of New York was in a major depression, with significant job loss, firm loss, and population loss. The sector of New York’s economy not hit by depression was the financial sector, which was increasingly global, and national, and was booming. In the sixties and early seventies Wall Street had developed new investment mechanisms, like the CD, and new markets, like the Eurodollar market, that were breaking the rules (and laws) of established commercial banking. They were also creating tons of available capital, and acting as a dramatic inflationary mechanism. In the middle of the 1970s, two major economic crises, unprecedented national inflation and the largest national recession since the Great Depression disrupted national markets and shook up attitudes from bankers and others. Banker anxiety was high, old bedrock investments were no longer trustworthy. Amidst all this uncertainty, bankers began to look for assured profitability, and push aggressive policy solutions, ones that sought to exacerbate the

recession by limiting social spending in order to check inflation. One impact was on the municipal bond market, which experienced the worst market failure in its history, including the depression of the 1930s. These two factors, depression and market failure, are a recipe for Keynesians macroeconomic policy. But New York, and the nation, did not employ Keynesianism in 1975, and in many ways this solution wasn't even considered at the time. Instead unprecedented austerity was imposed. The reason was the combination of these economic factors, plus the cultural turn at the top as explained in Chapter One.

The next three chapters take us chronologically through the crisis itself, moving from the relationship of the city budget and market failure in late 1974, to the creation of the Municipal Assistance Corporation and the Emergency Financial Control Board in 1975, the mechanics of budget cuts in 1976, and the legacy and impacts of austerity on New York and the nation in 1977 and beyond. Besides the chronological frame, Chapter Three is organized around the concept of "finance," and it seeks to explore the interrelationship of state and market in the New York City budget. It hopes to show how, operating as part of the network of institutions called the state, the financial sector won the day because of its role at the center of, not the periphery, or merely shaped by, the state. To get at this, Chapter Four explores New York City budgets and bond markets in detail. The first section shows that New York deficits in the 1970s were at an historic low, and that the types of austerity imposed in 1975 was not proportionate to the level of fiscal crisis the city faced. Instead budgets show that the city's crisis was caused by a combined failure of the municipal bond market and a generalized economic depression, both factors were indicators of the extremely close relationship of state and market. The creation of the Municipal Assistance Corporation in June of 1975 to address the crisis, is another indication of market failure. The MAC was a market based solution that crashed on the failing national bond market

in August of 1975 and necessitated further statist intervention. Throughout, New York had been implementing austerity of the Keynesian type, trimming jobs and programs, but which was now widely seen as insufficient, merely “nibbling the bullet,” in the changed cultural climate of the mid-1970s. After taking us through the relationship of the budget and market failures in 1974 and 1975, Chapter Three concludes with the failure of the MAC in late summer of 1975.

Chapter Four picks up after the fall of the MAC in August of 1975, the creation of the EFCB in September of 1975, and carries us through the first tense political battles to impose austerity on city agencies through the beginning of 1977. It is organized around the concept of “austerity” to show that dramatic, emergency, statist intervention was necessary to beat back the social forces that had constructed the Keynesian social state. The Emergency Financial Control Board was the main institution through which austerity was imposed. Based on emergency martial powers of the state, and in keeping with a historic tradition, the EFCB quickly moved to discipline labor, which it did through a wage freeze, benefit reductions, and layoffs. These battles and the ensuing harm is shown in the three target areas of EFCB activity: the unions, the CUNY system, and the Health and Hospitals Corporation. Each of these show tense contests for power, at times violent, and the extent of the use of state power to impose austerity. The CUNY example in particular shows that the concerns of the Control Board were not so much fiscal, as they were political. The attack on the city’s hospital system shows the degree to which the austerity regime sought to check civil rights and social movement victories.

Chapter Four also argues that the New York austerity regime was a dramatic reshaping of the trajectory of American racial capitalism. Where public sector unions and the social wage were two major institutional avenues for social and economic equality and struggle for African Americans, women, and people of color, austerity greatly undermined the ability of these

institutions to provide anything by way of adequate gains for their major constituents and members. It also argues that '75 was unique because it went so much further than typical austerity measures imposed under Keynesian regimes. The new extent of the cuts focused on undermining the victories of social movements, the social wage benefits to students, welfare recipients, hospital patients, and others. Impacts were devastating for the working people of New York, white and black, but with particular impacts on people of color.

Chapter Five shows the ongoing political and cultural impacts of the rise of austerity. It argues that the crisis transformed national politics, labor and social movements, and popular culture in subsequent decades. First, Chapter Five shows that the Ford Administration was committed to austerity, and used New York as part of a bulwark against the growth of national Keynesian policies. It shows that for the 1976 presidential election, that New York and national urban policy was at the heart of the contest, with both Reagan and Carter making political use of New York. Once elected, Carter dramatically expanded the deregulatory and permissive state policies tested in New York, cutting taxes for the rich, undoing regulatory protections, and arguing that Americans needed to make do with less. Local politics were changed as well, as New York Mayor Ed Koch, elected in 1977, represented a new type of Democrat, fiscally austere, opposed to social programs, and a model for future national Democrats. Labor was also transformed. Reluctant to fight, organized labor suffered greatly, the start of a decades long process divorcing productivity from wage increases and the continuation of disciplining labor to set its sights lower and lower. Social movements and the left were similarly fractured and divided with austerity. Those able to successfully fight back won very small and limited victories, and typically were exhausted emotionally and physically by the losing fight. All this had dramatic impacts on popular culture. For those grown in the shadow of austerity the world

was a very different place. Popular attitudes, I argue, can best be seen in the success of rapper Biggie Smalls, who lived the entirety of his life under New York austerity before his murder in 1997 at the age of 24. The result, as reflected in his widely popular 1994 masterwork *Ready to Die*, was an attitude of hopeless, desperation and resignation. As the major themes of his artistic work attests, Biggie's worldview reflects the violence and moral universe of austerity. These moral and political considerations are taken up in the conclusion which highlights and recaps the legacies of this complicated story, and attempts to show the lasting cultural and material impacts of the fiscal crisis.

In the end, *Capital City* hopes to tell a different story about the New York fiscal crisis than the one we are given. This is a story of structure and agency, materiality and culture, finance and social movements, race, class and gender. It is a story about the making of our current political moment. As Puerto Rico has a federal control board imposed, and as Detroit files for bankruptcy, there are certainly direct and immediate political parallels. But this project is more than a tale of the fiscal matters of governance. It shows us that budgets are cultural documents, and that the structural limits of austerity that are commonly seen as self-evident are in fact social constructions much like anything else. In our current landscape we see austerity ascendant. With the election of Donald Trump, those who seek to destroy the “administrative state” are gaining access to the reigns of federal power, their expressed ideas have strong resonance with those articulated by austerity planners in New York. Cities too face major structural crisis, and social crisis imposed through poor choices, at times posing serious threats to human health and safety as in the Flint drinking water crisis - a crisis still left unresolved as of this writing. Closer to home, we see universities impose austerity as our departments have TA and tenured positions cut. This is a world made from the cultural attitudes and material

institutions of the New York fiscal crisis. This project hopes to show its origins, and that they can be undone just as they can be uncovered.

Chapter 1: Culture

* * *

- 1.1 Introduction
- 1.2 The 1966 Fiscal Crisis and Keynesian Consensus
- 1.3 The post-‘60s turn: Au-revoir M. Keynes
- 1.4 Culture of Poverty
- 1.5 New Economic Thinking: Inflation and Anxiety
- 1.6 Synthesis in ‘75
- 1.7 Conclusion

* * *

1.1 Introduction

In 1966 New York City was Keynesian. As was true of the nation, orthodox economic policy involved state social welfare spending and private sector subsidies to grow the economy and level the dips of economic recession. Government debt was an obligatory part of this picture. Under Keynesian orthodoxy, public debt was an instrument that differed fundamentally from individual or private sector debt. It was a tool that could be used to produce other social and economic good, and there was no inherent or fundamental moral property or economic law by which public debt, municipal debt, should be determined. Instead, debt was viewed as one element of socio-economic policy that could be used in a holistic approach that took other economic factors, like growth, social need, or overall economic health, into account.

So in 1966 when New York City faced a major fiscal shortfall and rapidly rising debt burdens, the consensus political response was to try to rectify the imbalance through measured

cuts and revenue increases that might, with time, further city fiscal solvency. The consensus perspective looked to the long term view, that while large debt burdens were immediately troubling, they should not impede state social programs and social spending in the interest of the greater economic goals, and one might say, the broader public good. The city's response to its 1966 fiscal crisis was Keynesian, and one that as the decade closed maintained a commitment to social spending while reducing municipal indebtedness.

From our perspective fifty years later, it is perhaps surprising that some of the leading advocates of a Keynesian approach to the city's fiscal crisis were Wall Street banks. The city's major response to the crisis was the Temporary Commission on City Finances, staffed largely by bankers and businessmen, it recommended a measured Keynesian approach, including tax increases, to help solve the city's spending problems. This view was echoed by public literature issued by private banks like First National City, then one of the nation's largest commercial banks and the forerunner of today's Citibank. First National City Bank argued that "local government, for its part, needs to concentrate on maintaining, and even increasing, services required by the people without injuring the local economy by prohibitive taxation in the process." Presumably, this could be achieved through debt. This commitment to maintaining and even increasing social spending by First National City and other banks and bankers reflected a fundamentally different conception of social responsibility from ones deployed just a decade later.¹

Indeed, by the 1970s, this consensus position had fundamentally changed. In its place, a new set of ideas about race, gender, politics, and social responsibility had grown up. These new ideas were largely a response to the social movements of the 1960s; the increasing concern with

¹ First National City Bank, "Metropolis New York: An Economic Survey," New York, November 1966, pg. 23

costs was directly tied to the success of domestic social movements and the “ungovernability” of places like New York, where “special interest groups” increasingly won demands from the state. In particular, banks worried that the expanding social consciousness from political movements had transformed the meaning of material and economic “need.” Instead, they viewed social “need” as a culturally constructed rhetorical category that had been unnecessarily inflated with the growth and success of 1960s social movements. These new discourses were at their core, racialized and gendered, as the city’s black and Puerto Rican populations, in particular mothers, were seen not just as beneficiaries of the programs, but perpetually dependent populations reliant on government largesse.

Much of this discourse came from the academy, from an intellectual genealogy of the concept of “the culture of poverty” (COP) that was shared across the political spectrum, from those on the right like Edward Banfield and Walter Miller, to liberal centrists like Daniel Patrick Moynihan and Nathan Glazer, and aspects shared by progressive liberals like Kenneth Clark. At its core, the notion of the culture of poverty blamed the victims of structural poverty for their own condition through the practice of cultural traditions that prevented them from breaking free of poverty and contributing to society. Furthermore, the COP discourse argued that material solutions for poverty, like increased government economic aid to raise standards of living and provide access to levers of economic betterment were doomed to fail when confronted with entrenched cultural practices that ensured social failure. The language of the culture of poverty was used by austerity planners, by banks and city officials, and even unions to explain and justify the turn to fiscal discipline. Walter Wriston, for example, head of Citibank praised the career of Daniel Patrick Moynihan, one of the main champions of COP, and employed his colleague, Nathan Glazer, to write public relations books for the bank on urban politics and welfare.

Edward Banfield was employed by Presidents Nixon and Ford to rewrite the rules governing federal anti-poverty spending. The discourse on the cultural of poverty was embedded in American elite culture, and a major ideological support for the turn austerity in 1975.

While domestic social movements were giving rise to a new set of social policy ideas, economic transformations in the 1970s were giving credence to longstanding heterodox economic ideas. With the inflation and recession crisis of the 1970s, the nation's financial elite sought to curb record breaking inflation through cuts to social spending, at the federal level, but also to state and local governments. When in 1974 President Ford organized the National Conference on Inflation, calling rising prices "public enemy number one," these ideas were further crystalized into a political agenda. The take away message for legislative observers at the conference was to impose fiscal "discipline" at all costs and to "cut the budget, cut the budget, cut the budget." The genesis of this new economic thinking came from Milton Friedman, a rising star of economics, soon to win the Nobel Prize. His analysis was fundamentally political, rather than economic. It centered on the failure of democracy, that Congress in creating inflationary policy "has imposed the cost of special interest legislation on the most defenseless among us." Instead of an economic problem, he argued, "the problem is political. The only effective cure for inflation is to slow down total spending," and left unsaid, curb the power of these special interests. This anti-democratic element was widespread in both academic and policy circles in the mid-1970s.²

² Statement by Henry Reuss, The Financial Conference on Inflation, Held at the Request of President Gerald R. Ford and the Congress of the United States, Washington D.C., September 20th, 1974 pg. 149; Statement by George Shultz, in same, 56; And Statement by Milton Friedman, The Conference on Inflation, Held at the Request of President Gerald R. Ford and the Congress of the United States, Washington D.C., September 27th, 1974 pg. 256-257

For all these reasons, in seeking answers to the cause of the New York City fiscal crisis in 1975, an exploration of the 1966 crisis is illustrative. It points to the fundamental role a shifting cultural framework played in creating the response to the 1975 crisis. Banks played a dominate role in both the 1975 and 1966 crisis. This story is therefore not about the rise of the financial sector as paramount institutions of New York political economy in '75. Instead, the 1966 crisis reveals that these institutions continued to play a large role in the governance and policy agenda of the city, as they had in the 1960s. What changed was the financial sector's commitment to social programs given the disruptions and "excesses" of domestic social movements post-1968. These changed political commitments were in some ways consciously articulated, but more broadly they were embedded in elite culture, part of a fundamental shift in the meaning of "social responsibility" in the 1970s. Race, gender, and public debt were at the heart of this shifting discourse, and its implementation in New York would have dramatic impacts on the rest of the nation.

The 1966 city debt crisis was just as alarming, and city finances more out-of-whack, than the famous version in the mid-1970s. Despite being much over looked in the literature on New York, the '66 crisis' lessons are instructive. First, they show that deficits existed for a long time in New York without a resort to austerity. The fiscal crisis of the early 1960s also reveals the changing attitudes of the financial sector, a dramatic shift to a hard line push for austerity in 1975, from its broad support for Keynesian policies in the 1960s. It shows us a time when banks were Keynesian, and how and why they changed.

* * *

1.2. The 1966 Fiscal Crisis and Keynesian Consensus

“The City of New York. . . [is] approaching a financial crisis.” The second report from the Temporary Commission on City Finances, released in the summer of 1965, was dire. The budget shortfalls were approaching a “crisis beyond dilemma” with city money, and possible solutions from city government, rapidly disappearing. In the middle 1960s New York City faced an economic crisis virtually identical to the one in 1975. For several years the city was running budget deficits, and they were growing. In 1962 Mayor Robert Wagner proposed a \$200 million tax increase to meet the rising budget problems, but the City Council pushed back, proposing a commission investigate the fiscal problems in the city and propose solutions. Both were passed, and from 1964 to 1966 the Temporary Commission on City Finances issued a series of reports on the causes of the city’s shortfalls, and potential solutions.³

The ’66 Commission was not the only group to express alarm about the size of city deficits in the mid-1960s, the *New York Herald Tribune* was similarly concerned about New York City debt. In 1966 they published a book about it; *New York City in Crisis*, tackled a number of social problems in the city, from manufacturing and employment, city services like hospital and drug care, to crime, education, and the changing demographics of the city. Linking all the issues together was city over spending and reliance on debt. And they too used alarmist language: not since the “black hole” budgets of the 1930s, and the near bankruptcy in 1934, the

³ Second Report, “Toward Fiscal Strength: Overcoming New York City’s Fiscal Dilemma,” Temporary Commission on City Finances, pg. 53, 58; “Panel will Study Finances of City,” *New York Times*, Oct. 31, 1963; “The City’s Fiscal Inquiry,” *New York Times*, Dec. 14, 1963; Charles Bennett, “Mayor Swears in 9 on Fiscal Panel,” *New York Times*, Dec. 24, 1963

Herald Tribune wrote, was New York so close to going under – “today, New York is again in the middle of a financial crisis.”⁴

For precedent regarding the scale of the city’s fiscal crisis, these writers looked to the Great Depression. In 1933, the fourth year of the Great Depression, the city faced its greatest fiscal crisis to date. The city’s lenders, the major national banks, imposed strict conditions on spending, what today would be called austerity. The problem then, as in 1966 and 1975, was that economic pressures had put a crimp on city revenue, and were driving up social spending. In 1933 the city could only obtain short-term bonds at an astronomically high, for the time, six percent rate, effectively locking them out of the market. In the 1930s the financial community’s political leadership came from Thomas W. Lamont, partner in J.P. Morgan & Co., who refused loans to the city in the spring of 1932, before relenting. By that fall, the entire banking sector forced a \$40 million budget reduction on the city “of which \$20 million was to come from salaries.” The very next year, still failing, the banks refused to “roll over” short-term debt payments for the city. The Bankers Agreement, referenced in both 1966 and 1975, came out of this crisis. In exchange for guaranteed loans, the city adopted a seven point program, including a four year freeze on real estate taxes, to drop taxes on banks, stocks and life insurance, and to take “certain tax funds and deposit them in the banks.” The *New York Times* characterized the arrangement, known as the “Banker’s Agreement,” as a time when banks “virtually ran the city’s business.” The *Times* also characterized this as a “rescue.” In fact in many ways the fiscal crisis of the 1970s can be seen as a return to the political order before the New Deal, when bankers bailed out the city at the height of the Great Depression. Dedicated to orthodox economics, and

⁴ Barry Gottehrer, *New York City in Crisis*, prepared by the New York Herald-Tribune staff under the direction of Barry Gottehrer, New York: Pocket Books, Inc., 1965, pg. 76

familiar with an older style of class warfare, the banks imposed strict conditions on spending, an early version of austerity.⁵

But between 1933 and 1975 New York City operated in a different universe. The Keynesian social order produced a growing economy, an array of social wage benefits, and for which debt was incidental to these larger macro-economic concerns. At the base was a diversified economy with a large industrial manufacturing sector in which fully one-third of city workers were employed. These jobs were largely unionized, the working class itself politicized through these institutions in addition to an array of left and social justice organizations that helped give structure and outlet to working class politics and priorities. As historian Joshua Freeman argues, “a large, vibrant political left,” coming out of and buttressed by the city’s unions were able to transition their power in the shops to electoral and policy gains. Workers were elected to executive positions in their unions, and to similar positions in city government, at times simultaneously. Unions were strong enough to foist candidates into the mayoralty when the two major parties refused to back them, as happened with Mayor Robert Wagner for his third term, and to discipline anti-union mayors to back the political agenda of labor, as with Mayor John Lindsay’s second term. The foundation of Keynesian economics was the manufacturing sector and the political agency of the working class.⁶

In post-war New York this empowered working-class built, in the words of Freeman, “a social democratic polity unique in the country in its ambition and achievements.” Indeed the breadth and richness of New York’s public services is difficult to describe with brevity. Some of the city’s crowning jewels were the free public university system, which added open enrollment

⁵ John Darnton, “Banks Rescued the City In a Similar Plight in ‘33,” *New York Times*, May 14, 1975

⁶ Joshua B. Freeman, *Working-Class New York: Life and Labor Since World War II* (New York, NY: New Press, The, 2001), pg. 56; Raymond D. Horton, *Municipal Labor Relations in New York City* (Praeger Publishers, 1973).

in 1970 after a struggle by an organized student movement. The city's free municipal health care system, which boasted 24 city hospitals and dozens of neighborhood clinics for both primary and pediatric care, was the most extensive in the nation. The transit system was similarly the most developed in the country, and a yearly political goal of the left, and often the city's mayors, was to keep transit fares affordable. In 1973 Mayor Abraham Beame, who would oversee the fiscal crisis, ran on this platform, when the fare was just 35 cents. Another jewel, the city's library system, provided research and information services that equaled any university in the world. In addition to these gems, the city offered day care facilities, youth job training programs in the summer, community centers with arts and culture programming, drug treatment facilities and abuse services, elder care services and elder homes, orthodontics for children, pools and recreation facilities, as well as major building and construction, public housing and many other public services. As mentioned in the introduction, this was the world in which Stanley Aronowitz, and other white ethnic working class people would grow up in and benefit from. And this scope of services was justified, according to historian Kim Phillips Fein, by "a clear economic rationale to the investment in public goods." That logic placed consumer spending at the heart of economic engine that drove municipal growth, and for which public debt was a secondary concern.⁷

The cultural logic that supported public spending can be seen in the city's fiscal crisis of 1966, where austerity was not the approach even when city deficits were much higher than what they would be in the 1970s. Indeed, the fiscal crisis was so bad in the 1960s that it was only with a bit of hyperbole that the *Herald Tribune* found New York "a nightmare – a hopeless city" and

⁷ Freeman, *Working Class New York*, pg. 55; Samuel Zipp, *Manhattan Projects: The Rise and Fall of Urban Renewal in Cold War New York*, Reprint edition (Oxford ; New York: Oxford University Press, 2012); Kim Phillips-Fein, *Fear City: New York's Fiscal Crisis and the Rise of Austerity Politics* (New York: Metropolitan Books, 2017), pg. 19; Robert A. Caro, *The Power Broker: Robert Moses and the Fall of New York*, n Later printing edition (New York: Vintage, 1975);

in serious “trouble.” The concern came from the scope of city problems, a tangle of economic, social and political shortcomings that all contributed to an increasing reliance on debt as an instrument of social policy. Indeed, they worried about the future of the city. “During the last two decades,” they wrote, “as problem has piled upon problem and crisis has followed crisis, more and more people have begun to wonder whether New York will continue to survive as a great city, or at least whether they can continue to survive in it.” For the *Herald Tribune* and others, debt and social spending was a matter of survival. And of great concern was Mayor Robert F. Wagner’s plan to borrow \$250 million more to keep the city afloat.⁸

In 1966 Wagner did more than borrow, he created a municipal Commission to investigate the source of the crisis and find possible solutions. The Commission, appointed by Wagner, was made up of bankers, philanthropists, and budget watchdog groups, all members of the city elite, and they largely backed Wagner’s policies. The chairman, Earl Schwulst, was president and chairman of the Bowery Savings Bank and a well-known New Deal liberal. Other commission members included Joseph Davis, President of the Carver Saving and Loan Association, Peter Grimm, vice president of the Citizens Budget Commission, William White, a vice president of Morgan Guarantee Trust Company, and Milton A Gordon, president of a private investment firm. Given the Commission’s pedigree, its analysis of budget problems and proposed solutions were remarkable, from a contemporary standpoint. The Commission saw that the problems of city financing were rooted in long term structural changes to the nation’s economy, just barely evident in the early 1960s, and they proposed increased revenue streams, including higher taxes

⁸ Gottehrer, *New York City in Crisis*, pg. v - vi

and greater federal involvement to help solve the problem. In short, in 1966 the consensus from city elites was to commit to Keynesian social policy.⁹

In its analysis of the causes of fiscal shortfall, the Commission's final report reflects the concerns of banks and city elite in language markedly similar to that used a decade later by leaders of the financial community to discuss the problems of the city's 1975 fiscal crisis. Summing up the City's problems in their final report, the Commission wrote that for fiscal year 1963-1964 "expenditures were rising . . . revenues were not keeping pace . . . reserves were being depleted. Municipal employees were demanding higher wages and fringe benefits. Diverse interest groups were seeking greater service. National social problems were manifesting themselves locally with increasing severity." All of these forces were putting pressure on the City's budget, and the government seemed unable to meet these necessities. The Commission asked "why? Why is a city with New York's vast wealth and premier world position in such a situation – living from hand to mouth, borrowing to survive from year to year, increasingly pressed by unmet needs for municipal service?"¹⁰

For answers, the Commission's report highlighted structural issues. The top two causes they identified were the city's "shifting population" and "deindustrialization." These are by now well known stories. But in 1966 "white flight" and the loss of urban manufacturing were barely legible social phenomenon. "Since 1950," the report found, "more than a million middle-and-upper-income people have been replaced in the City's population . . . by a like number of people of less education and lower income." The result was lower taxable incomes, and higher social

⁹ Dennis Hevesi, "Earl Schwulst, Banker, Dies; Led New York City Tax Study," *New York Times*, Jul 19, 1987, Charles Bennett, "Mayor Swears in 9 on Fiscal Panel," *New York Times*, Dec 24, 1963; "Final Report: Better Financing for New York City," Temporary Commission on City Finances, August 1966.

¹⁰ Final Report, Temporary Commission on City Finances, pgs. 1, 11.

spending needs for the city's population. And for city government this meant having to support more programs, with diminished means to do so.¹¹

Particularly troubling for the Commission report authors were the racial dynamics of the population shift. The loss of white middle class New Yorkers were replaced by “in-migrants with poor educational endowments, limited skills, and racial disadvantages, restricting their chances to develop and prosper.” The “City’s Negroes and Puerto Ricans,” were undereducated, represented 75 percent of the City’s welfare case load, and were imposing a burden on city financing. And so in 1966 concern about demographic shifts in the city was not solely tied to class, taxes and revenue, although those were paramount concerns. There was also an awareness of the racial dynamics of those shifts, and a concern with the increasing minority composition of city populations.¹²

Directly linked to white flight was deindustrialization. The Commission’s report found a sharp decline in the number of manufacturers in the city, and “a consequent drop of 15 percent in industrial employment” in the last fifteen years. And the same time, the growing sectors of the city’s economy have not compensated for the loss in employment. “The growth of financial and service businesses,” they wrote, “while adding to overall employment, has not provided new blue-collar jobs to counter balance those lost in manufacturing.” The Commission found deindustrialization, and the related job and population loss to be the city’s paramount problem. They wrote that “the central problem here, as in many large cities, is the decline in opportunities

¹¹ But only in other cities. There is shockingly little secondary source work on New York and deindustrialization. See chapter 2 for more. Final Report, Temporary Commission on City Finances, pg. 12

¹² First Report, Temporary Commission on City Finances, pg 44

for industrial and blue-collar employment” as these jobs were a key factor in strengthening the overall economy, a key tenet of Keynesian orthodoxy.¹³

On these counts, the report was correct. According to City demographic data lots of manufacturing jobs left the city. And lots of middle class white people did too. Between 1960 and 1970, although the population of the city remained roughly the same, the City lost 570,000 white residents, and whites declined as a portion of the population from roughly 85 percent to 77 percent in 1970, lower if “Spanish origin or descent” is included. By 1980 over two million whites had left the city since 1960, and their portion stood at 60 percent of the overall population. At the same time, black and Latino resident numbers increased, both in straight population and in proportion to the rest of the City. In 1960 there were just over 1 million black New Yorkers, by 1970 that number had increased by over 600,000, and their proportion of the population grew from 14 to 21 percent. By 1980 that portion had increased to a quarter of all inhabitants. For Latinos, not counted in the 1960 census, their numbers similarly grew, from just over 800,000 and 10 percent of the population in 1970, to nearly 1.5 million and 20 percent in 1980. Remarkably, New York’s overall population declined by nearly 825,000 between 1970 and 1980. In 1966 these trends were just beginning, in 1975 they were accelerating. The growing perception among city elite, and the demographic reality, was that New York City was increasingly populated by people of color.¹⁴

And New York was not alone. “Many of the fundamental problems are the same here,” the report noted, “as in Los Angeles, Chicago, Detroit and Philadelphia – central city crowding,

¹³ Final Report, Temporary Commission on City Finances, pgs. 12, 14. And 3rd Report, “Blueprint for Fiscal Improvement,” Temporary Commission on City Finances, pg. 143

¹⁴ 1960 and 1970 Census, accessed through *Social Explorer*. In 1970 the US Census started tracking “Spanish decent” as a demographic category. In 1970 10.3 percent of New York City identified as of Spanish origin or descent, but those numbers were not related to white and black racial categories until the 1980 census. 1980 U.S. Census, accessed through *Social Explorer*

deteriorating neighborhoods, middle class flight to the suburbs, growing pressures for welfare services and police protection, in short a congeries of interrelated social and physical ills.” The position of the Commission was that the nation’s largest cities faced many of the same problems that were rooted in “national economic, social and technological forces,” affecting dozens of cities mostly in the Northeast and Midwest, what was becoming America’s rust belt. “New York is not sharply out of line with other U.S. metropolises,” the Commission wrote in that, “New York and the other great central cities are not struggling with locally generated problems alone, but with basic national and regional difficulties.”¹⁵

From the Commission’s perspective, these structural changes, beyond the scope of control of municipal governance, were the core sources of the budget shortfalls of the mid-1960s. As manufacturers in ones and twos relocated outside of the five boroughs, the process of deindustrialization moved with them, and took relatively high-paying, union jobs out of the city. Residents chased the jobs, as they left, and manufacturers left, the city’s tax base was eroded. And as new populations moved in, largely black and Latino, both new residents and old timers were left with fewer job options, higher unemployment, and were more reliant on social services. This was the core of the 1960s “urban crisis,” and New York’s 1966 budget woes show their fiscal dimensions.

Besides white flight and deindustrialization, on a second order of causality, the Commission pointed to a slew of interrelated issues including the city’s propensity for spending, its insufficient tax structure, inadequate intergovernmental aid, basic budget inefficiencies, as well as dramatically rising short term credit costs. These were all costs and factors that were internal to City governance and contributed to the City’s fiscal crisis. “Over extension” is what

¹⁵ 3rd Report, “Blueprint for Fiscal Improvement,” Temporary Commission on City Finances, pg. 220. Final Report, Temporary Commission on City Finances, pgs. 1, 26.

the Commission called the City's unique public sector spending, including NYC's hospital, university and transit systems. "The City provides about twice as many hospital beds . . . as other large cities," the Commission wrote, and "spends about three times more per capita than they do on higher education, is nationally unique in the size of its transit subsidy," and had other unique costs. Indeed, New York's public infrastructure and social services were somewhat unique in the nation; New York was a leader in social spending, and social commitment through a comparatively generous social wage. The city had for decades played this role nationally, often developing social welfare policies that would later go on to be implemented at a national level, and many of which were akin to an American version of social democracy.¹⁶

There were other factors contributing to cost inflation for the City as well. One was the growth, in number and pay, of the city workforce. In 1958 Mayor Robert Wagner Jr. granted city workers the right to unionize. This "Little Wagner Act" came during a wave of public sector organizing and the recognition of federal employee unionization rights by President Kennedy in 1962. This order reflected a recurrent pattern in national politics during the Keynesian era. New York would experiment, and develop social welfare policies far more advanced than those of the rest of the nation. Since the beginning of the century, New York would act first, and Washington would later follow, adopting the social policies that New York Progressives and New Dealers had pioneered. In the case of recognizing public sector unions, the city was again leading the way, and this was having a significant cost in the 1960s. "During the past decade," the Commission wrote, "City employment has risen by more than 25 percent and the expense budget has more than doubled, increasing at a rate averaging \$175 million a year. In the past five years

¹⁶ Final Report, Temporary Commission on City Finances, pg. 14

the rate of increase has been close to \$250 million annually.” The Commission found that both employment numbers, and increasing wages and salaries were driving the cost increase.¹⁷

Besides increasing costs, New York was facing a revenue problem. Notably, the Commission found that federal and state monies were inadequate given the special role New York played in covering some of the nation’s most needy and vulnerable populations. They found that “The City gets less in grants from the federal and state governments relative to either population or community income, than do less urbanized areas,” and that overall “intergovernmental aid to New York is not adequate to the City’s role in handling national and regional problems.” This was a longstanding problem, and New York’s unique cost sharing arrangements didn’t help. Where most cities had their costs for federal programs covered by state and federal expenditures, New York City paid fully one-quarter of these costs out of pocket.¹⁸

According to the Commission, there were other mounting problems as well, notably increased debt costs and capital financing problems. With larger budget shortfalls the city found itself borrowing more short term loans to get through crucial pay periods. Because of “borrowing and other expedients to cover operating deficits,” the city was exacerbating its shortfalls, and “high annual debt service is another special characteristic” of the city’s crisis. The Commission’s report found that “City reserves were drained almost to exhaustion from 1961 to 1965, while temporary borrowing through budget, tax anticipation, and revenue anticipation costs increased more than five times over the same period. Even worse, substantial current and recurring expenses, including ongoing planning, judgments and claims, and pension contributions, are

¹⁷ First Report, Temporary Commission on City Finances, pg. 31 and United States., *Wages and Benefits of New York City Municipal Government Workers, May 1975*. ([New York], 1976); and Raymond D. Horton, *Municipal Labor Relations in New York City* (Praeger Publishers, 1973).

¹⁸ Final Report, Temporary Commission on City Finances, pg. 15

being financed through funded debt.” This led to a “fivefold increase in temporary debt” from \$50 million to \$276 million in just five years, an astronomical leap. Of course, it was Wall Street that was funding and profiting from this debt. This was largely a redistributive measure upward, to fund social programs and city projects through interest bearing bonds. While the city was facing fiscal dire straits, the banks were benefiting in the form of commission sales of city bonds and from direct investment, the banks being the largest single buyer of city debt.¹⁹

Much of these short-term funding costs came through a new debt mechanism known as “anticipation notes.” An anticipation note was a bond the city could issue in expectation of some revenue stream, like a tax payment or upcoming bond issue. The notes were identified through their funding stream, TANs for taxes, BANs and RANs for general bonds and revenue, and were issued on very short term basis, usually three to six months. With this new mechanism, the city could cover its costs at a minimum of interest, and repay them quickly with incoming monies. By the mid 1960s, because of the structural problems highlighted in the Commission report, the city was more and more reliant on anticipation notes, and less and less assured of reliable repayment sources.

Remarkable as it is for its analysis of the problems facing the city, the Commission’s reports proposed solutions that became unthinkable in the neoliberal era. Arguing that, “civilization has to be paid for,” the Commission favored short term budget solutions that targeted revenue, rather than cost cutting solutions. To solve the problems “*first*, the city must raise new and additional revenues. *Second*, municipal management must be considerably reformed. *Third*, the City’s economy and livability must be strengthened. *Fourth*, the city must

¹⁹ Third Report, “Blueprint for Fiscal Improvement: Recommendations for Strengthening Municipal Development,” Temporary Commission on City Finances, pg. 223. Final Report, Temporary Commission on City Finances, pg. 19. Second Report, Temporary Commission on City Finances, pg. 58

get more state and federal assistance.” Possible taxing solutions included progressive taxes, like an income tax, a gross margins tax or a “business net income tax.” This is a balanced budgetary response that took into account both fiscal and social responsibility. The Schwulst Commission called for budgetary efficiencies and reductions, but its primary assessment was that new revenues should be found solve the shortfalls. The report emphasized that “the budget gaps must be closed mainly on the revenue side.”²⁰

With their report, the Commission, and the banks in general, exhibited an outstanding commitment to city social programs. Despite enormous and complicated problems of poverty, health care, education and transportation, “the City government has quite properly faced up to these problems. Through its welfare, health, hospital and housing programs, it has greatly increased expenditures in an effort to assure a minimal standard of living to our least well-off residents.” The Commission advocated increased efficiency in these programs, in part because the costs and the caseloads were likely to expand. As the social need expanded, the Commission argued, so should the social services and spending to meet that that need. “We are convinced,” they wrote,

that City programs should be operated less expensively than they are. Consequently, an immediate economy program is essential. But we also believe that there are large unmet needs for City services, needs which will lead to rising expenditures in the years ahead. The essential problem facing the City, to which the Commission is addressing itself, is to find the fiscal resources for meeting these needs. These will come in part by frugal management of the City’s programs and reappraisal of their present value, in part from new revenues which do not damage the City’s economy, in part through a division of the fiscal burden with the State and federal governments.²¹

²⁰ Second Report, Temporary Commission on City Finances, pg. 126. Final Report, Temporary Commission on City Finances, pg. II.

²¹ First Report, Temporary Commission on City Finances, pg. 31-32.

For the Schwulst Commission, because of the importance of the programs, and the growing social need, cuts should be avoided: “realistically, the City cannot hope to flatten much the expenditure trend . . . though it must everlastingly try. . . So long as the evident needs for municipal services continue strong . . . the budget gaps must be closed mainly on the revenue side.” In the final report they proposed a city income tax while recognizing that taxes, especially on manufacturing, may harm long term economic viability in the city, and could contribute to the largest single sources of the fiscal problems. Because of this, the report authors emphasized that to ameliorate the crisis would require, “above all – larger state and federal aid.” Where taxes alone couldn’t solve the problem, the bankers allied with Schwulst and Wagner advocated larger federal and state action “the further uplift of the revenues must come chiefly in assistance from the state and federal governments; they are the only feasible places it can come from.”²²

From the perspective of 1975 and beyond, this document is remarkable. The “essential problem” and primary task of the Commission and the city, was to find the “fiscal resources” to meet the city’s growing social needs – despite the growing deficit. For solutions, their overall approach was eminently reasonable, a three part holistic fiscal accounting that involved “frugal management” and cost-saving economies, new revenue sources, and increased aid from branches of the federal system. These solutions were to be unthinkable in 1975, despite the near identity of causes of the city’s fiscal problems.

To this end and to develop new revenue streams, in 1966 leading members of the banking community called for increased taxes to help the City’s financial situation. These included creating a 2 percent city income tax to get over a regressive tax base, to charge city service fees,

²² Final Report, Temporary Commission on City Finances, pg. 10-11. For example, the Commission wrote that “the City cannot afford to tax these industries ‘to the suburbs’ only to become responsible for welfare payments to those they formerly employed.” Second Report, pg. 91

to amend and increase real estate taxes, and to restructure city business taxes to retain manufacturing and create a “net profits” tax as a means for progressive business taxation and as “the *only* practicable way for the city to tax commercial banks,” and a crucial mechanism for restoring fiscal solvency.²³

The city implemented at least some of these tax reforms. Under Republican Mayor John Lindsay, the city created the 2 percent city income tax, one of a few municipal income taxes in the nation. In addition to the income tax, the Mayor’s plan created a business income tax, a stock transfer tax, and additional water service charges. The plan was controversial from the moment it was suggested. When Governor Rockefeller and prominent State legislators came out in opposition to the city tax, Earl Schwulst, the Commission chair, condemned them for “shocking irresponsibility.” What Schwulst meant by use his use of “responsibility” was radically different for its meaning in the 1975 crisis. Here Schwulst’s discourse on responsibility includes the city’s role in “paying for civilization” and providing for commitments to the poorest residents. In rather histrionic tones, Schwulst pleaded that “Mayor Lindsay has got to have this tax. He’s got to have it. He’s got to have it or we’re heading for disaster.” Remarkable about this, is that the appeal to “responsibility” in 1966 meant social responsibility, concern for the city’s least well-off, the opposite of its meaning 1975, when responsible action meant severe austerity and attacks on the poor.²⁴

While Schwulst’s dire warning of disaster sounds hyperbolic, there was some truth to it. The disaster that Schwulst imagined involved the banks, and the very relationship of public governance and private finance. Dependent on private capital to fund normal operations, the

²³ Second Report, Temporary Commission on City Finances, pg. 106, 119

²⁴ Robert Alden, “Albany Assailed by a City Expert for Lag on Taxes,” *New York Times*, June 5, 1966. Clayton Knowles, “The City Eyes A Tax on Income,” *New York Times*, Dec. 5, 1965;

city's financial well-being was contingent on banker good will. Addressing the threatened upstate legislative block, Schwulst told the *New York Times* that "the people in Albany just don't comprehend how serious the situation is. I'm telling them that the people in the financial community are going to get tired of buying city bonds for deficit financing. The time is just around the corner – when the city will not be able to sell its obligations. That's how serious the situation is." Schwulst was highlighting that city operations were contingent on financial sector goodwill. In the 1960s, banks for cultural reasons remained committed to the city's social priorities. But all this would change in the very near future; Schwulst's warning was prescient as it would turn out.²⁵

Facing a set of problems beyond the scope of city governance meant New York had few options to address the fiscal situation alone. Because "many of the City's problems stem from causes beyond its reach and impose burdens beyond its capacities," the City itself could only temporize, seeking band-aid solutions to its immediate problems, while hoping for relief through a revived economy or increased federal aid. The essential point for the Commission authors was that "basic forces far beyond internal municipal contrivance and manipulation are working in New York and other cities" making meaningful local action next to impossible. The city's crisis was the nation's crisis, its solution would require addressing some of the fundamental structural failings of Keynesian political economy.²⁶

²⁵ Alden, "Albany Assailed," *New York Times*, June 5, 1966

²⁶ First Report, "Meeting New York City's Urgent Fiscal Problems," Temporary Commission on City Finances, pg. 44. Final Report, Temporary Commission on City Finances, pg. 20

* * *

1.2.1 When Banks Were Keynesian

The Commission's position, that long term structural problems were at the root of the City's fiscal woes wasn't only the view of Commission members, but was shared more widely in the banking community. In fact one could say that in the middle of the 1960s Keynesian policies represented the consensus political view of Wall Street. The most politically astute banks, like First City National Bank, the firm that was soon to become Citibank, and acted as a prime mover both in markets and the in political orientation of the financial sector, strongly favored Keynesian policies in response to the 1966 crisis. A few years later, when in 1971 President Nixon took the nation off the gold standard and justified his actions by explaining he was "now a Keynesian in economics," popularly misquoted as "we're all Keynesian now," he was reflecting this reality. Oh, how quickly times would change.

The position of First National City and other banks can be seen in numerous public relations documents and statements from the industry published throughout the 1960s. In one from the 1966 crisis called "Metropolis New York," First National City identified the "changing structure of the region's economy" as the salient problematic in relation to the city's budget. Much like the Commission report, the Bank highlighted white flight and deindustrialization. These shifts had brought rising costs. "During the recent past," the Bank wrote, "there have been substantial movements of middle- and higher-income residents from New York City to the rest of the region, and sizable increases in the number of poor and disadvantaged in the City." These shifts, were "increased social responsibilities," ones that had to be met by the city. These were responsibilities even though they created tension in the budget, contributing to the "mounting costs of providing municipal services," which resulted in the city's expenses "rising steadily."

Interesting here, the use of the phrase “responsibilities,” tied to “social” factors, like the “poor and disadvantaged” of the city. These were responsibilities that in 1966 the bank could not see easily breaking.²⁷

In the banking literature, again, the big problem was the loss of the manufacturing sector and the shifting population changes that came with that. By 1968, the bank public relations and research department published a book on “Poverty and Economic Development in New York City.” In it, bank researchers Jac Friedgut and Nathan Bloom took note that the city’s economy was in transition from a manufacturing, to a service oriented economy. Using government statistics they noted the change from 1950 when 30 percent of city jobs were in the manufacturing sector, to 1968 when “this figure had been sliced by more than a quarter, down to 23% and the manufacturing job count had fallen by almost 200,000 from the 1950 level.” That was just between 1950 and 1968, NYC would lose another 500,000 between 1969 and 1974. Meanwhile, service, finance and government jobs were on the rise: “service, government and finance sectors . . . between 1950 and 1968 [were] rising from 35% to 46% as a proportion of total employment.” Especially in the service sector, these were mostly non-unionized, poorly paid, less economically beneficial jobs.²⁸

The changing job-scape had demographic consequences, and like the Commission, the Bank found itself concerned with race. Bank public relations figures remarked that the new populations were black and Latino – “the whites have continued to outmigrate, while the minority groups continue to flow into the City.” And they were paying careful attention to the changes, “the Negro population of New York City has increased from 92,000 in 1910 (2% of

²⁷ First National City Bank, “Metropolis New York: An Economic Survey,” New York, November 1966, pg. 5

²⁸ Jac Friedgut and Nathan Bloom, Economics Department of First National City Bank, “Poverty and Economic Development in New York City,” 1968, pgs. 8, 11.

total population) to 1,085,000 in 1960 (14% of population).” And it wasn’t just African Americans, Puerto Ricans were also coming in large numbers, who by 1960 totaled over 600,000 residents or 8 percent of the city’s population, according to bank figures. Wall Street and First National were aware that non-white in-migrants were using more and more of city services, up to 48.2% of city public school enrollment, up ten points from just eight years previous. Not only in schools, minorities were an increasing proportion of social welfare recipients as well, as much two-thirds of first year welfare recipients by some measures.²⁹

At the heart of both the unemployment problem, and the increasing use of social services by the city’s minority populations, the Bank believed, was what they called the “skills gap,” the failure of education and social services to produce workers needed for the growing service and administrative work in the economy. The Bank wrote that the “skills gap” was generated from high school drop outs and poor educational standards in an era of service and office work that exacerbated the unemployment problem. Poor training and skills meant that workers were not prepared for the type of employment demanded of the sectors with growing jobs, government, service, and finance. To address the problem the City should seek to preserve “low skill entry level jobs” by “arresting the exodus of industrial firms from the city.” Here again, the Bank is taking a structural approach and is concerned with unemployment. To address the problem they recommend halting the manufacturing flight from the city to preserve jobs.³⁰

²⁹ Jac Friedgut and Nathan Bloom, Economics Department of First National City Bank, “Poverty and Economic Development in New York City,” 1968, pg. 6. First National City Bank, “Metropolis New York: An Economic Survey,” New York, November 1966, pg. 9. It is important to note that First National saw these moves as a benefit, a first step toward “broader participation in American life.” First National City Bank, “Metropolis New York: An Economic Survey,” New York, November 1966, pg. 9. Lawrence Podell, “Families on Welfare in New York City,” Center for the Study of Urban Problems, Graduate Division, Bernard M. Baruch College, The City University of New York, 1966, pg. 27 Table 5-1

³⁰ Jac Friedgut and Nathan Bloom, Economics Department of First National City Bank, “Poverty and Economic Development in New York City,” 1968, pg. 13

In the 1966 crisis banks simply did not mention tax increases in their public literature as part of the solution to city's budget shortfalls. They did however discuss higher state and federal involvement. With falling budgets for the foreseeable future, "for the longer run," First National wrote, "the revenue systems of state and local governments . . . will have to become more meaningfully related, through appropriate Federal-state-local fiscal arrangements." The bank discussed the need for "the cooperation of local government, business, labor, and the people at large," to get through the budget crisis. The bank did complain about high taxes, and city service user charges they deemed too low, but the bulk of their suggestions had to do with recognizing the regional and national role New York played, and asking other entities in the federal system to step up.³¹

Increased federal and state dollars were part of a larger commitment to the social fabric that made economic viability and prosperity possible. For First National City and others, this was true not just in New York, but in cities across the country. Calling cities "the crucibles of the nation's domestic problems," which faced a "persistent flow into the City of poorer, less educated, less skilled and consequently less employed, immigrants," causing fiscal problems that were "nationwide in their genesis and scope," the bank wanted an increased share of federal funds for municipal needs. "It is difficult to envisage how this and other American cities can continue receiving a minor share of overall governmental revenues while being called up to assume the increasing burdens," the bank wrote. Indeed, the bank wanted to "ensure that metropolitan areas . . . are fiscally able to bear properly their increased burdens." As individual municipal income taxes were out of reach for most cities, the singular avenue to ensure fiscal commitments, they argued, was to increase federal tax portions to cities "to meet the needs of the

³¹ First National City Bank, "Metropolis New York: An Economic Survey," New York, November 1966, pg. 5, 10-11.

present and the future.” Evident here, social commitments were unquestioned, the necessary question from the bank’s perspective was how to find the funds, for New York and cities nationally, to deal with the problems of urban crisis.³²

Even more striking, the Bank wrote in its 1966 “R_x for Metropolitan Health” concluding section that the City should maintain, and *expand*, its social services. “Local government, for its part, needs to concentrate on maintaining, and even increasing, services required by the people without injuring the local economy by prohibitive taxation in the process,” it wrote. Although supportive of such policies in the mid-60s, the bank was also calling for increased efficiency in government spending. “This calls for an intensification of the drive,” they wrote, “already being planned by the City of New York, to promote greater efficiency through such techniques as systems analysis, program budgeting, cost-benefit analysis, etc.” If costs were going to increase, the government should make those dollars go as far as possible. This was part of a fundamentally different understanding of what “responsibility” meant in the context of municipal finance in the 1960s.³³

³² First National City Bank, “Metropolis New York: An Economic Survey,” New York, November 1966, pg. 24 It is likely that in their argument for increased federal tax dollars to aid the cities that the banks were attempting to avoid the imposition of municipal taxes, then being discussed, and finally implemented in 1967 by Mayor John Lindsay. It was also likely that the banks hoped federal payments would standardize national social services in a way that would bring down New York’s standards. For example, in a 1968 document First National City argued that “it should be recognized that a reduction in the control of the City over its own programs is likely to follow any reduction in fiscal responsibility for these programs. If higher governments were to fully take over the financial responsibilities for the welfare program while leaving its administration completely up to the City, the welfare standards of the higher governments could not be exceeded unless the City were again willing to undertake additional financial responsibility. The City would lack control over the relevant public program if it were fully financed by the state or federal governments, even if the administration of the program were to remain nominally in the hands of City officials. In fact, it is to be expected that any welfare program acceptable nationally, - even if fully funded by the Federal Government – would appear unsatisfactory in New York. The alternatives are to make do with such an ‘unsatisfactory’ program or to return to a system under which city taxpayers bear a special burden for welfare and for other redistributive programs.” See First National City Bank, “The Financial Outlook of the City of New York in Long-term Perspective,” 1970, pg 19-20

³³ First National City Bank, “Metropolis New York: An Economic Survey,” New York, November 1966, pg. 23

In this and other ways, banks exhibited ideas typical of Keynesian economic thought. One of these ways was attention to countercyclic policy in the 1966 crisis. In “Metropolis New York,” First National City Bank’s pamphlet published during the 1966 crisis, the bank discussed the role of cyclic business swings, and noted NYC’s ability to weather the troughs. It was aware of the city’s fairly stable economy and counter cyclic effect on the region. New York had a “degree of stability in the face of cyclical swings affecting the nation as a whole . . . the New York Region shows as relatively high degree of stability: in years when the nation’s employment went down – 1954, 1958, 1961 – employment in the New York Region was less adversely affected.” This is partly because of the structure of the City’s industries. Durable goods and other volatile commodities were a “significantly smaller share” of jobs, than were other sectors less sensitive to economic downswings. Although not stated in the Banks literature, this at least implies a counter-cyclic Keynesian approach to the fiscal crisis in 1966, the expectation, and a reasonable one, is that despite the current downswing, it was practical to expect that the City’s economy would recover, and the fiscal crisis would abate through a later surge in economic activity.³⁴

The banks were not alone. Their thinking about the 1966 city’s fiscal crisis was part of economic orthodoxy at the time. Their ideas had an intellectual pedigree going back to John Maynard Keynes and the post war hegemonic rise of Keynesian economic theory. The reason the banks and others focused on social responsibility, meaning aid, social spending for needy persons, was deficits on a public ledger were less significant than other social benefits, like economic stability and proper stewardship of the domestic political economy. According to this thinking, public deficit spending, like war, “could also be used as an effective tool of

³⁴ First National City Bank, “Metropolis New York: An Economic Survey,” New York, November 1966, pg. 14-15

macroeconomic management.” An important part of the thought here was that debt of different types required different types of responsibility and action, that “a public debt differs fundamentally from a private debt,” in part because of the profoundly different character of governance, and private business, or even, individual and family finance. Many of these notions were developed to their theoretical apogee by Keynesian economist Abba Lerner. The child of Russian Jewish immigrants who grew up in the lively and vibrant, if poor, working-class, Jewish communities of London’s East End. Lerner studied with both Friedrich Von Hayek and Keynes, before gravitating toward Keynes at Cambridge during his advanced study. Upon moving to the States in the late 1930s, Lerner wrote that policy actions, including those that produced public debt should be “undertaken with an eye only to the results of these actions on the economy and not to any established traditional doctrine about what is sound or unsound.” Public debt was less significant than other factors driving overall economic performance. According to this view, public debt then was not to be held to the principle of private accounting, for reasons that should be obvious.³⁵

Interestingly, the Keynesians based part of their exemption of public debt from private standards, on the notion of social debt as an “internal” form of debt, from an assumption in classical economic theory that turned out to be faulty. Keynesians argued that, in the words of Lerner, regarding public debt, “we owe it to ourselves,” and hence public debt is not external like a private business loan, but internal to the national economy. As history would show, there were a couple of faults with this thinking. One, in a globalized economy debt could be foreign owned, with devastating effect, as in the Mexican debt crisis of 1982, or no effect at all, as in the ongoing foreign ownership of U.S. Treasury notes. More troubling, was the assumption that the

³⁵ Sandy Brian Hager, *Public Debt, Inequality, and Power: The Making of a Modern Debt State* (Oakland, California: University of California Press, 2016), 24-25

debt-holding class would consider themselves “internal,” a part of society, and thus would seek to maintain fiscal solvency, despite debt costs, in the interest of good economic stewardship. As the 1970s broke open, bondholders and the investment class began to develop alternative political orientations with tremendous impacts on New York City. This was the fatal flaw that drove the 1975 crisis in New York, a changing cultural orientation, rooted in class prerogatives and in the interest of power, broke open this flaw, a bedrock fault of Keynesianism, and a fault that has given rise to the neoliberal era.³⁶

In 1966, there was enormous outward, public support for Keynesian style response to the fiscal matters of the city. This included dedication to maintain, and in some cases increase, the level of public assistance for people in poverty. Although there was some concern for increased taxes, the Banks favored more state and federal support, there was at least public expressions of support for maintaining community services provided by the government at some level. Unfortunately, these ideas had an unstable intellectual foundation in Keynesian economic theory that would turn out to be faulty. What is remarkable, is how quickly this all would change. And the role the banks played in the next fiscal crisis.

* * *

1.3 Bankers Counterrevolution, a Changing Consciousness

Within a few years of the 1966 fiscal crisis, the tone and ideas coming from the banks would drastically change. As seen in their public relations material, the First National City Bank and others began to take a radically different approach to city governance and finance. Instead of a commitment to social responsibility and Keynesian social spending, “responsibility” in matters

³⁶ Hager, *Public Debt*, 24-25

of municipal policy meant attention to fiscal solvency. As we will see, this shift is the primary cause of the transformation of the 1975 fiscal crisis – the change in elite consensus from outward support for the ideological framework of Keynesianism, to one that favored austerity. This change, was at once ideological, political, and cultural, a reflection of the changing consensus of New York elites of the social supremacy of capital, in both economic and political terms, and a revised notion of elite responsibility to the rest of society. The break came largely from the reaction of U.S. and global financial elements to “1968,” the social movements that were part of a worldwide upsurge in popular liberation movements. Importantly, this is not an institutional turn, but a cultural one. In the 1970s budgets, the structure of public finance would become the lever on which counterrevolutionary forces would yank, and the global political economy was to pivot.

Starting in 1968 the First National City Bank began expressing growing concern about the portion of the budget dedicated to social spending. Their primary concern was that social spending on welfare, hospitalization, and other social programs was growing, and at rates faster than other budgetary items. Municipal outlays tripled in the 1960s, mostly from payroll costs, which grew between 75 and 110 percent, and because of what the Bank identified as the “population workload” of the City, the number of people on the dole. Suddenly the emphasis was on cost, rather than the social impacts of spending.³⁷

Clearly, the Bank’s mood on these issues was changing. In ’66 where these programs were seen as necessary, a fundamental part of good governance, by ’68 banks were raising concerns. “To be sure,” the bank wrote in a pose similar to that of 1966, “the city’s fiscal position is difficult. New York has traditionally been a haven for the poor and disadvantaged,

³⁷ First National City Bank, “The financial Position of the City of New York in Long term Perspective,” 1970, pg 3.

and cannot be expected to carry this disproportionate share of a national problem unaided.” But, fiscal responsibility was now paramount: “however,” it wrote, “these burdens cannot relieve the City of the responsibility to view its total budget picture in an analytical rather than rhetorical framework.” The distinction between analytical and rhetorical comes from the Banks growing frustration with the political process, and the role of the politicians in promising and providing an ever increasing array of public programs. Proper budgetary analysis would lead to diminished deficits. Interesting is the shifting use of “responsible,” here not used to refer to responsibility to people and social obligations, but instead to purely fiscal matters: responsibility to black budgets and bookkeeping.

The period between 1968 and 1973 represents a clear, progressive evolution in this thinking. In the late 1960s the Bank presented a middle position between the Keynesian approach taken earlier, and a hard fiscal austerity agenda in the mid-1970s. The Bank explained that “responsibility” meant making difficult choices, “in the public, as in the private sector, economic resources are scarce and decisions concerning priorities must be made. Decisions must also be made concerning the relative benefits of public versus private expenditures.” Here there is no distinction made between public and private ledgers and accounting, both face difficult and fixed choices regarding resources. And although committed to public support for states covering the costs of social spending, First National worried about resources pulled from the “private sector” to cover the costs. “The City has by no means run out of sources of potential increases in revenues,” it wrote, “to be sure, there are political obstacles to increased tax rates and coverages and further charges for public services because any such increases are painful to those who must pay them. But even the receipt of intergovernmental aid cannot come about in any way except by having a government raise revenues from the private sector.” Even from the

federal level, increased aid had to come from somewhere; money didn't grow on trees. This meant more costs borne by those who could afford it, commercial entities and the rich. In their writings in 1968 and 1970 gave voice to these growing concerns.³⁸

Regarding city budgets, increased costs were primarily due to social services, and this was in part the fault of federal policies. City expenditures for things like education and public health more than tripled over the course of the sixties, putting strain on city budgets. The biggest single problem was welfare. Its costs had grown at a rate much faster than overall budget increases, as much as a six fold increase according to bank figures. The cause of the increase, the bank found, was complicated, a three-fold causality of rising costs of providing services, an increase in the number of users of city social wage services, and, perhaps most important from a political perspective, "attempts to improve the scope and quality of services." Attempts to improve services were both coming from the ground, from the agencies, public sector unions, and social movements or organized social forces pushing for improvements, and from the federal government, who provided federal spending to meet city spending, while expanding into new services in the 1960s. This, "the liberalization of older aid programs and the development of new aid programs," were accelerating costs from the social service ledger of the city budget in particular. This combined numerical growth the programs as well as the increased liberalization of programs were costly.³⁹

Regarding welfare, First National asked why; why was there "this burgeoning welfare load in a population that is probably not noticeably larger than in 1960, and an economy which is basically sound." "By all aggregate measurements," the Bank wrote, "the City is prospering." So

³⁸ First National City Bank, "The Financial Position of the City of New York in Longterm Perspective," 1970, pg. 20

³⁹ First National City Bank, "The Financial Position of the City of New York in Long-term Perspective," 1970, pg. 8, 14

why the increased welfare load? As the Bank found, the city was prospering, except for “minority slum dwellers,” those at the very bottom of society, roughly a fifth of New Yorkers. The Bank remarked that by 1968, one million city residents, roughly 12 percent of the population, was on welfare. City wide poverty rates were hovering around 20 percent, but those numbers were higher for blacks and monitories; 27 percent of African Americans and 33 percent of Puerto Ricans were living below the poverty line, while only 10-12 percent of whites were deemed poor.⁴⁰

The Banks didn’t understand why ghetto neighborhoods faced much higher unemployment than other parts of the city in a period of relative economic strength. And they found that anti-poverty programs treated symptoms, over causes, which in their estimation included lack of job skills, or basic unemployability. In 1968 they wrote that “the signal failure of the welfare approach to the disadvantaged is that it places almost all its emphasis on the symptoms of the disease – poverty, unemployment, abandonment – and virtually none on the causes which include the inability to earn adequate income due to lack of appropriate job skills.” This approach was driving up costs. The causes of the increases for welfare and poverty services were therefore complicated, but First National identified two main sources: “one is that average payment per recipient will rise from \$794.53 last year to \$863.11 in the current fiscal year. The other element is the sharp increase in in number of recipients.” The banks viewed these policies and their increasing costs as treating the symptom, rather than the cause of unemployment and poverty.⁴¹

⁴⁰ Jac Friedgut and Nathan Bloom, Economics Department of First National City Bank, “Poverty and Economic Development in New York City,” 1968, pg. 12, 17-19, 30

⁴¹ Friedgut and Bloom, “Poverty and Economic Development in New York City,” 34

In addition to increased need by “slum dwellers” for welfare, welfare payouts were up over the decade; but maybe welfare itself was part of the problem. Bank reports indicated that “welfare recipients are receiving higher payments than a decade ago.” Their literature found that after adjusting for changing living costs, also rising, and “the average monthly welfare payment per recipient increased by about 15 percent during the Sixties.” Additionally increased costs also came from increased eligibility from greater numbers of New Yorkers. Their lament, was that “this public aid has spread a broader net and has improved the living standards of those persons eligible to receive it.” Average welfare payments were between \$50 and \$120 a month, but that number had been increasing, and by 1968 total welfare expenditures for the City were up by a third, to \$1.359 billion according to the Bank.⁴²

These welfare funds were not just direct payments, but covered an array of social services and programs. For example, “funds for ‘individual and family services’ cover the costs of providing counseling and supportive services to delinquent youth, dependent and neglected children, multi-problem poverty area families and dependent adults. The remaining funds are for various welfare-related activities such as manpower, early childhood, community development and narcotics programs.” These costs were not just cash handouts, as important as those resources were, buy an extensive variety of services to mitigate the impacts of urban poverty on children.⁴³

Banks were increasingly aware of the racial and gendered dynamics of welfare recipients too. By the late 1960s the nation’s welfare programs were targeted at children; structurally this meant programs were distributed through women. In odd phrasing the bank wrote that “the lion’s

⁴² First National City Bank, “The Financial Position of the City of New York in Long-term Perspective,” 1970, pg. 13. Friedgut and Bloom, “Poverty and Economic Development in New York City,” 29, 30

⁴³ Friedgut and Bloom, “Poverty and Economic Development in New York City,” 31

share of public welfare is dedicated to family oriented programs,” First National wrote, “indeed, children constitute about 60% of the total caseload, and an additional 18% are parents of dependent children.” So roughly 78% city welfare monies went to aid impoverished children and their families. In the Bank’s consideration, women were a big problem for the welfare rolls, as “persons living in homes without a male breadwinner constitute the largest and most rapidly growing welfare group and account for a substantial proportion of the City’s other poverty-related expenditures.” And there was a racial component to this as well. “The proportion of the population in such homes and receiving welfare differs sharply among ethnic groups, being high for Puerto Ricans and blacks . . . Persons not born in the city also constitute a group with high welfare needs.”⁴⁴

Banks were particularly concerned about single mothers. If social service programs were limited to those with disabilities and who were unable to work, the programs would be fiscally sound, the banks reasoned. “However, the dimensions and growth of the family programs,” the bank wrote, “pose serious challenges to the City. Most of the families in these programs are headed by women.” Women headed households were problematic from this perspective because “a substantial number of the City’s poor persons may almost be considered as being chronically welfare-prone, in that they are in families headed by females.” So femaleness here is equated with dependency, and woman headed households were on the rise. Citing U.S. Census Bureau figures, the bank worried that such households grew by 40 percent between 1960 and 1968, it would reach a rate of 50 percent if trends continued to 1970s. Further, First National found that “it is probable that the percentage increase was substantially larger in New York,” and that “the

⁴⁴ Friedgut and Bloom, “Poverty and Economic Development in New York City,” 30; First National City Bank, “The Financial Position of the City of New York in Long-term Perspective,” 1970, pg. 15

greatest increase in numbers of persons on the welfare rolls between 1961 and 1968 in the city was due to the addition of deserted wives.”⁴⁵

From this perspective, single mothers weren’t so much the problem as the lack of patriarchal family structures and the relationship to fraud. For the bank, “the basic unknown is the extent to which fathers ‘desert’ in order to enable the rest of the family to receive the full benefits of ADC grants, accruing to the mothers and the now dependent children, while the ‘errant’ fathers are able to keep their wages.” The bank mentioned this only made sense: “all – or . . . most – of earned income is subtracted from welfare payments, so that welfare substantially serves as an *alternative* to work . . . As such, it can and does function as a disincentive, assuming low-wage employment.” What was needed for men were job training programs and opportunities for employment with strong career ladders built-in. And true for women too: “for those mothers who are genuinely separated or divorced, widowed or unmarried, it is perhaps appropriate to reexamine the prevailing belief that they are entitled to welfare without being required to work.” They will need day care services, “however, most welfare mothers can work and many have done so.” In short, single mothers were increasingly on the dole, and without evidence the bank speculated that families were hiding fathers to access benefits. They wrote that because of the structure of welfare, hiding employment and favoring payouts created a “disincentive” to work. For those women legitimately single, they should likely be forced to work to undo their beliefs about “entitlements” to social services. This philosophy, the Bank called “self-help,” and summed it up in the words of an unidentified “black observer:” “the whole anti-poverty program is seen as a grand hustle for all involved.”⁴⁶

⁴⁵ Friedgut and Bloom, “Poverty and Economic Development in New York City,” 30-31. First National City Bank, “The Financial Position of the City of New York in Long-term Perspective,” 1970, pg. 10.

⁴⁶ Friedgut and Bloom, “Poverty and Economic Development in New York City,” 34-35, 42

Not only were welfare recipients dominated by women, but they are largely minorities. In the late sixties in New York City, about half the mothers on welfare were black, forty percent were Puerto Rican and ten percent were white. Based on these demographic changes the Bank noted that “it is clear that an increasing number – and proportion – of the poor will be Negroes and Puerto Ricans,” and that those populations were crowded into dense and homogenous ghettos. The Brooklyn neighborhood of Bedford Stuyvesant for example, was 85 percent black in 1950, in 1960 that proportion had increased to 95 percent. And in these neighborhoods unemployment was often twice that of city average, which stood at 4 percent. Harlem had 8.1 percent, East Harlem where the densest contraction of the City’s Puerto Rican immigrants lived had 9.1 percent, and Bed-Stuy had 6.2 percent unemployment, all well above the city, and national average.⁴⁷

First National found all these factors mutually reinforcing. Black and Puerto Rican women and their children were the majority of welfare recipients in the city. According to this view, lacking patriarchal family structures, women and children felt themselves entitled to social welfare programs. Because of strictures placed on such funds, recipients dodged work, produced more children, and hid husbands as an “alternative” to work. At times, this view was barely above caricature, First National City writing that, “in New York City at least, the rich get richer and the poor have children.” This intense and fanciful scrutiny of women of color’s sexuality and reproductive habits has a long intellectual pedigree in the U.S. By the late 1960s it was taking on a new character, one that would go on to undermine Keynesian policies.⁴⁸

But concerns with identity, the intersections of race, gender and class for New York’s welfare recipients was the tip of the iceberg of the financial sector’s new cultural turn. A major

⁴⁷ Friedgut and Bloom, “Poverty and Economic Development in New York City,” 30-31, 19

⁴⁸ Friedgut and Bloom, “Poverty and Economic Development in New York City,” 32

concern was the political and cultural impacts of social movement, particularly around a “rights consciousness” exhibited in the wake of the U.S. movement for civil rights and black liberation. First National argued that “another factor which has affected the growth in the number of welfare recipients is the increased claims of poor people of their ‘right’ to welfare. Part of the change in attitude has resulted from the civil rights movement. Much of it has occurred from the publicity that has been given to antipoverty programs as well as the new Medicaid program.” According to this view, a changing consciousness of rights was pushing up social costs and demands on the state, and was part of a general decline of social authority. This was true in other arenas as well, argued Nathan Glazer, in a report published by First National, that a field like public education “faced rapidly increasing cost,” as well as “loss of authority in the face of challenges from militant communities and rebellious students.” These were problems that were national in scope and “no longer distinctive New York City problems.”⁴⁹

This view of “rights” and “needs” as culturally constructed had far reaching impacts. The banks, especially First City, began to see budget problems as intractable. The attempts to spend for the poor will never be satisfied they argued, because social “need” is relative, a culturally constructed notion that shifts with the changing standards and expectations of society. “In New York City,” they wrote, “which has a strong representation of well-to-do liberal people and poverty-stricken minority groups, there is a constant effort to redistribute economic resources. As a result, the ‘need’ for public resources in the City will remain insatiable regardless of the level of funds flowing in.” It was a view of the city as a haven for the poor that most trouble the banks. “The City is a major concentration point for the nation’s poor and both the City and New York State have a traditional liberal voting population . . . the City makes very heavy outlays for

⁴⁹ Friedgut and Bloom, “Poverty and Economic Development in New York City,” 32. Members of the Economics Department, First National City Bank, *Profile of a City*, New York, McGraw-Hill, 1972, pg. 2

such income redistributing activities as welfare and public health. Other functions also make relatively heavy demands on the City Budget as a result of more intense needs for such activities as firefighting and police protection and also as a result of the high wage rates of municipal employees.” And so, from this perspective, the problem was in part a combination of “liberal” minded elites, sympathetic to the plight of the poor, and a result of the new attitudes of social right and need.⁵⁰

These ideas fed into the rhetoric and political agenda of the banking sector in the late 1960s. Here, a new argument relating to the role welfare had on recipients was beginning to take shape. Taking all this into account, increasing costs and the new political moment post-civil rights, banks and other New York elites were ready to turn their backs. For First National: “In view of this relentless growth of the welfare burden thoughtful persons are asking themselves how this increase can possibly be stemmed.” How to stop the increasing cost now came clearly into focus as a political and social priority. “Clearly, the issues are extremely complex,” they wrote, but two causes were “family size among the poor and the other relates to incentives to work.” In a section titled “To work or not to work,” the Bank claimed that “the opportunity exists to prepare the Negroes and Puerto Ricans for more productive participation as workers, and more constructive involvement as citizens by cutting off their destructive inheritance of joblessness and welfare as an expected way of life.” Welfare was a social hindrance. Its programs were too costly. Its rationale was limitless.⁵¹

Unions were also a major causal factor of overall budget growth and a target of bank analysis. If welfare costs and social spending inflated budgets, unionized workers and the growing bureaucracy to meet increases in city programs were further major factors. It was

⁵⁰ First National City Bank, “The Financial Position of the City of New York in Longterm Perspective,” 1970, pg. 7, 19

⁵¹ Friedgut and Bloom, “Poverty and Economic Development in New York City,” 32, 25.

unions in particular that were a central pressure on city budgets. “The organization of municipal employees into unions,” First National wrote, “and the willingness of these unions not only to bargain strenuously but to undertake strikes, illegal as these may have been, has accounted in part for employee gains.” While new municipal unions were emboldened, political leadership was not up to the challenge: “Government administrators have not responded from a position of strength to union militancy and there is no evidence that the answer is close at hand. If there is a vulnerable point in the fiscal outlook of the City, this is it.” And so union militancy in particular, the relation of strength between the city and municipal unions, was directly tied to city finance. Perhaps at one point, the bank argued, city unions could be justified on the grounds of bring municipal worker pay in line with other industries – but no longer. “The increases in compensation secured by City employees during recent years,” the bank argued, “have put them in a fairly favorable position. Whereas in the past it might have been valid to argue that municipal employees were underpaid, it would be difficult to argue this now.” Militant municipal unions and weak political leadership were part of the city’s fiscal problems.⁵²

The politics of fiscal cost was not only about unions and worker’s political power, in the climate of the 1960s it was also about social movements, community organizations and the power of social protest and disruption. Banks were concerned with the power of community groups to incur costs on the operation of business in the city. While only tangentially related to fiscal matters, the bank found a tension between “community groups” and business climate and investment in the city. “One other way for local government to contribute significantly to an improved climate for urban renewal,” they wrote, “is to act as a buffer between community groups and the developer. Neighborhood citizen involvement is fully justified. . business. .

⁵² First National City Bank, “The Financial Outlook of the City of New York in Long-term Perspective,” 1970, pg. 15, 14

cannot however be expected to sustain their investments in costly and excessively protracted conflicts with local factions.” In this view, making New York a business friendly city, open to urban renewal and development, which presumably would impact city budgets favorably, would be to check the power of community and neighborhood organizations. The role of governance in this formulation was to act as a “buffer” between power blocks, and presumably, allow the business agenda to move forward, or at least deflect some of the cost. Note this is hardly a fiscal matter, primarily this is about power relations in the city, the relation to city budgets here is a third or fourth degree of separation.⁵³

But power had been a longstanding concern from banks, and even the 1966 Schwulst Commission report couldn’t help but point to political power blocks in NYC as a problem in city governance. Underlying all of the secondary causal agents of fiscal imbalance, the rising costs of city operations, the Commission found a much more difficult operative factor, the “special interest group.” They argued that “the public interest is obscured by the welter of interest groups. In no city, it seems, are special interests of all kinds – liberal and conservative, business and labor, social and economic – as widely and powerfully organized as in New York.” New York in this sense was unique, a leader the political dynamics of interest group politics, in part because of the strength of its unions and social movements. Even in 1966, the city Commission wondered if these social forces had made New York “ungovernable and in permanent decline.” From sectors of the financial elite, concern with social power from below, what they called “ungovernability,” was a longstanding problem. While in 1966 it took a second seat to broader issues of social responsibility, by 1975 these political concerns would become paramount.⁵⁴

⁵³ Members of the Economics Department, First National City Bank, *Profile of a City*, New York, McGraw-Hill, 1972, pg. 117

⁵⁴ Final Report, Temporary Commission on City Finances, pg. 19, 1.

What all of this represents is a new cultural standard for state finance and debt. Gone was the commitment to taxes and the social wage as the cost of civilization. More important now than the “well intentioned” policies that together comprised the city’s social welfare programs was the primacy of establishing “the City on a sound financial basis.” This shift, in the meaning of the word “responsibility,” from a social to a fiscal basis, underlay, and was reinforced by the crisis of New York.⁵⁵

In this, the thinking of banks and the change in elite culture echoed 18th century counterrevolutionary thought. In the revolutionary tumult of the 1770s and 1780s, conservative social thinkers like French writers Jacque Mallet du Pan, Nicola-Henri Linguet and Joseph de Maistre and Edmund Burke in England, began to articulate a political philosophy defined in distinction to the new “rights” consciousness. Two ideas that made show in the fiscal crisis 200 years later and are the definition of counterrevolutionary thought are the critique of individual rights, and opposition to notions of popular sovereignty. Indeed, Burke, by no means a monarchist, established a tension between society, meaning governance, and “abstract rights,” which could undo the basis for social organization based on extravagant claims of principle. When it comes to rights, for Burke, “their abstract perfection is their practical defect,” by which he explained that men, “by having a right to everything they want everything.” It’s hard not to see echoes of Burke in the thinking of the bank in 1970. The extension of rights, and a consciousness of rights, knows no bounds disrupts society, and needs to be checked. Burke argues that because of this, society faced a need of “sufficient restraint upon their passions.” He wrote, “society requires not only that the passions of individuals should be subjected, but that

⁵⁵ Council of Economic Advisors, Alan Greenspan Chair, Memorandum for the President, “An Economic Analysis of the New York City Financial Crisis,” Oct. 27, 1975, William Seidman Files, Ford Presidential Library

even in the mass and body, as well as in the individuals, the inclinations of men should frequently be thwarted, their will controlled, and their passions brought into subjection.”⁵⁶

This is the important second idea of counterrevolutionary thought present in the fiscal crisis. As Burke and others argued, the restraint of “passions,” a consuming rights consciousness, required external forces, that, in Burke’s words, “no man should be judge in his own cause.” Here, a profoundly anti-democratic idea took root, and carried through to the twentieth century. In Burke’s estimation, to impose “sufficient restraint upon the passions,” could “only be done by a power out of themselves, and not, in the exercise of its function, subject to that will and to those passions which it is its office to bridle and subdue.” The power must be wholly external, a complete break with democratic self-governance, if the proper check is to be established. This is in part why Burke praised the American Revolution over that of the French, and where he found echo in other counter-revolutionary thinkers who were similarly relentless in their critique of popular sovereignty. At the height of the French revolution, Mallet du Pan objected not the making of a new order, but to the “democracy of the rabble.”⁵⁷

These ideas at the foundation of western counterrevolutionary thought were at the core of the new thinking in the 1970s. First National and others began thinking out loud about the loss of control of the city over decisions relating to welfare spending. It’s not hard to see the synthesis, the historic distillation of these ideas in the casual thought of bankers and city elite throughout the crisis. At a celebration of Felix Rohatyn in the late ‘70s, one unnamed banker

⁵⁶ Edmund Burke, “Edmund Burke: Reflections on the Revolution in France,” 1790, http://www.constitution.org/eb/rev_fran.htm

⁵⁷ Bee Wilson, “Counter-Revolutionary Thought,” in *The Cambridge History of Nineteenth-Century Political Thought*, ed. Gareth Stedman Jones and Gregory Claeys (Cambridge: Cambridge University Press, 2011), pg. 14 This thought is also at the core of vanguardist ideas in the work of Lenin and Trotsky who found workers interests too parochial for self-governance. See especially chapter 3, section 3 of Leon Trotsky, *The Revolution Betrayed*, (New York, NY: Pathfinder Press, 1973).

told the film makers James Gaffney, Martin Lucas, and Jonathan Miller, that the benefit of the EFCB was that it “separates the constituency of the politicians, it puts an intervening layer in there, and enables the system to work for the better by adding a note of fiscal responsibility that is not responsible directly to the political people who have to elect them.” Separating politicians from the constituency, breaking the democratic process, was an important part of reestablishing the success of the system.⁵⁸

* * *

1.4 Culture of Poverty

The changing attitudes on Wall Street were broadly reflective of larger attitudinal shifts in society at the same time. Import here was an emerging academic literature on the “culture of poverty” (COP). The concept, originally developed by cultural anthropologist Oscar Lewis became a bedrock of political discourse on welfare and the social wage more broadly, and was used as a rhetorical wedge to challenge the necessity of Great Society programs. Authors across the political spectrum shared some aspect of the trope that persistent cultural practice of the poor made policy attempts to address structural inequality a losing battle. Even Kenneth Clark, a well-regarded black scholar and activist embraced the notion that a lack of patriarchal family structures in poor, particularly black households left black families perpetually prone to welfare dependence. This notion was actually the opposite of what Lewis argued, and his political and scholarly intervention, nonetheless, by the middle of the 1970s, politicians, bankers, union leaders, virtually everyone on the political spectrum deployed some aspect of the “culture of poverty” trope to rhetorically undermine the social wage.

⁵⁸ James Gaffney, Martin Lucas, and Jonathan Miller, *Tighten Your Belts, Bite the Bullet* (Icarus Films, 1980), http://icarusfilms.com/cat97/t-z/tighten_.html.

This discourse on the “culture of poverty” is important for a number of reasons. As will be clear, the ideas parallel those of the public literature from banks in their turn away from Keynesianism. Citibank in particular drew heavily upon this literature. Their public relations department for example employed Nathan Glazer to write books on urban policy and welfare for the bank. In his public speeches and addresses bank head Walter Wriston also referenced the scholarship of Daniel Patrick Moynihan as model for academic work engaged in policy and lamented his treatment by the public for his ideas. More than this, the discourse on COP was deployed by austerity planners during the imposition of austerity in New York. For example, a joint bank and union group in the wake of the fiscal crisis called on the federal government to rethink its commitment to anti-poverty programs because of what it called a “culture of poverty,” also employed in numerous documents and statements from austerity planners. For our purposes, however, this section attempts to show how the COP discourse pervaded the entire spectrum of American political thought, from the right, to centrist liberals, and the progressive left, all deploying some aspect of the COP in their understanding of urban problems. Hence in 1975 when the austerity regime moved to implement major cuts, opposition was all the more difficult based on a shared discursive framework.

Take for example, on the right, Edward Banfield’s “Unheavenly City” and on the left, Daniel Patrick Moynihan, whose work spoke of the cultural determinants of poverty. Banfield, a Harvard scholar and advisor to Presidents Nixon, Ford and Reagan, argued that social problems, especially those concerning poor and “lower-class” populations, were intractable. In his highly controversial “The Unheavenly City,” Banfield argued that quality of life and standards of living were rising in post-war America across the board: poverty, racial equality, access to education and other social indicators. Banfield asked why, given the overall improvements, the nation

faced an “urban crisis?” For answers Banfield pointed to culture and consciousness. The urban crisis was caused because “improvements in performance . . . have not kept pace with rising expectations. In other words, although things have been getting better absolutely, they have been getting worse *relative to what we think they should be*.” Society was “objectively” improving, but peoples’ consciousness kept them from appreciating the benefits. Social problems were not so much factors that could be addressed through policy, but had to come through “internal” transformation. In fact, the problems with poverty, police brutality and education were only matters of perception, that “we judge [them] by an ever more exacting standard.” The problems of the cities therefore, according to Banfield, were insoluble. No matter the improvements found in society, there would still be large scale disaffection with society. Again, note the parallels to counterrevolutionary thought.⁵⁹

Banfield saw this as a class problem, but one defined by culture rather material factors. Social hierarchy and division, based on “distinction . . . honor, victory and power,” are inherent in societies, and since “some persons receive more than others” it is impossible for everyone to be satisfied. “Since there can never be enough of these things to go around,” he wrote, “the problem of poverty with respect to them is logically insoluble.” Given that the “material level of the poor” is “above the level of hardship in most cases” poverty cannot be defined by economic lack. It was mistaken, he wrote, to consider “poverty as a lack of income and material resources (something external to the individual.)” Instead, he wrote, poverty should be viewed as an “inability or unwillingness to take account of the future or control impulses (something

⁵⁹ Edward C Banfield, *The Unheavenly City: The Nature and Future of our Urban Crisis*, Boston, Little, Brown and Company, 1970, pg. 19-20.

internal).” In this sense, Banfield saw class as a “psychological orientation,” rather than a fixed material condition.⁶⁰

There’s a lot to recommend this perspective, after all, E. P. Thompson’s work in the early 1960s was based on the much the same appreciation for the cultural dynamics of class and class formation. However, where Thompson and others rooted worker consciousness and culture in a material relationship that was constantly evolving, Banfield uses fixed psychological typologies devoid of social, political and economic context. For him, class was not a material relationship, or level of economic independence or status, but a matter of “prestige” or “standing” determined by whether one is “‘looked up to’ or ‘looked down on.’” The defining characteristic, had to do with one’s “orientation toward the future,” which he defined as the “(1) ability to imagine a future, and (2) ability to discipline oneself to sacrifice present for future satisfaction. The more distant the future the individual can imagine and can discipline himself to make sacrifices for the ‘higher’ his class.”⁶¹

With this “present-oriented” typology in mind, Banfield goes on to explain characteristics of the “lower-class” person. “The lower class individual,” he wrote,

lives in the slum and sees little or no reason to complain. He does not care how dirty and dilapidated his housing is either inside or out, nor does he mind the inadequacy of such public facilities as schools, parks, and libraries; indeed, where such things exist he destroys them by acts of vandalism if he can.⁶²

Banfield seems to have sincerely believed that “features that make the slum repellent to others actually please him [the low-class individual]” as a place of excitement and hustle, citing “Malcolm Little” as an example. This is because “in the slum one can beat one’s children, lie

⁶⁰ Banfield, *The Unheavenly City*, 240, 251, 256, 47.

⁶¹ Banfield, *The Unheavenly City*, 46-47

⁶² Banfield, *The Unheavenly City*, 62. This is true; he actually wrote this.

drunk in a gutter, or go to jail without attracting any special notice; these are things that most of the neighbors themselves have done and consider quite normal.” Therefore for Banfield, it was “extreme present-oriented-ness,” a cultural and psychological factor, and “not lack of income or wealth,” that was both the definition of class and “the principal cause of poverty.” In this sense, with some exceptions, “lower-class poverty” is “‘inwardly’ caused.”⁶³

Another writer on the right, Walter Miller, took a similar stance. Miller argued that poverty was no longer an economic phenomenon, but was relative. Instead, the “Poverty Ideology” was used by a “Movement” of academics and radicals to further their own ends. The Movement uses “poverty” as a “code word for the subculture of low skilled laboring populations,” he wrote. Like scholars on the right and left, Miller found that throughout the 1950s and 1960s “the United States was experiencing the highest level of material prosperity in its history and probably the highest ever experienced by any nation. And yet, in the face of this unprecedented wealth there still remained ‘pockets of poverty.’” These pockets, Miller argued, were in fact ‘relative:’

The fact that poverty in the absolute sense is virtually non-existent in the United States, or at best, sufficiently rare as to provide scant justification for the allocation of billions to its eradication, the ideologists have been constrained, upon rejecting the obvious alternative of scrapping the term entirely, to resort to the concept of ‘relative’ poverty as the prime justification for the Movement.⁶⁴

Interestingly, Miller argued that behind the discourse on poverty were “true conflicts” of “class interest” that pitted the “Negroes” against the “power structure.” In the blame game of poverty, he wrote, both African Americans and the “establishment” blame each other, “each of

⁶³ Banfield, *The Unheavenly City*, 62-63, 125, 126

⁶⁴ Walter Miller, “The Elimination of the American Lower-Class as National Policy: A Critique of the Ideology of the Poverty Movement of the 1960s,” in Daniel P Moynihan, ed., “Understanding Poverty,” pg. 268, 298, 266

these categories of persons has a set of *class interests* that are directly related to the general welfare of that particular category or class; that these class interests arise logically and understandably form the conditions of existence of each class and the kinds of tasks its members customarily pursue.” At the same time, “in no society is it possible to maximize all these class interests at the same time, so that there will always exist *true* conflicts of interest among the several classes.” In this formulation, the class conflict at the core of the civil rights and black liberation movement between African American’s and social elites was legitimate; Miller’s solution was to favor one class over the other.⁶⁵

For Miller, this vision of “class conflict” at the basis of social wage discourse necessarily lead to violence. He worried that given these conflicts of interests, and fueled by an ideologically driven Movement that took the “culture of poverty” as a core belief, “that the increase of citizen violence in the United States can be taken as direct evidence of the success of the Movement, and the more violence, the more success.” He concludes by asserting that “however well the Poverty Ideology may serve the purposes of a cult movement, it is critically inadequate as a basis of effective policy formation.”⁶⁶

Here Banfield and Miller, writing from the right, had significant corollary with the political left. In the writings of Daniel Patrick Moynihan, Nathan Glazer, and even Kenneth Clark, the culture of poverty was the defining factor to explain America’s poor. For Moynihan, poverty needed to be understood in its social and historical context. In the United States this meant a racialized system of poverty, in which African Americans were disproportionately poor. In his infamous 1965 Department of Labor report for the Office of Policy Planning and Research, *The Negro Family: The Case for National Action*, Moynihan stressed the role of the

⁶⁵ Miller, “The Elimination,” in Moynihan, “Understanding Poverty,” pg. 297 italics in original

⁶⁶ Miller, “The Elimination,” in Moynihan, ed., “Understanding Poverty,” pg. 300-301

history of slavery, reconstruction and Jim Crow segregation in preventing black access to job, housing, and social benefits. However, Moynihan found that in regard to black poverty, “the fundamental problem . . . is that of family structure.” For Moynihan, a history of violence and degradation of black men, led to a “matriarchal structure” of female headed households, which, by deviating from the “standard feature[s] of middle class upbringing,” render poverty inescapable for African Americans. Because of this “subculture,” “the breakdown of the Negro family has led to a startling increase in welfare dependency.” While Moynihan was careful to place black poverty in a complicated social context that included discrimination and structural causes, he argued that “at the center of the tangle of pathology is the weakness of the family structure.”⁶⁷

Writing with leading Harvard academic Nathan Glazer, Moynihan went on build on these ideas throughout the 1960s and into the 1970s. In the preface to the second edition of their work “Beyond the Melting Pot,” Glazer and Moynihan put forward a “tentative” argument that “a significant check to the economic rise of the Negro might be found in the values of American Negroes themselves.” Indeed, writing at the end of the decade, Glazer and Moynihan note that a big “political failure of the sixties . . . was the failure of Negroes (and Puerto Ricans) to develop and seize the political opportunities that were open to them.” They conclude the preface to their second edition, writing in 1970, that for the American “Negro,” following “the period of accommodation, and the period of protest, one can detect the need for a period of self-examination and self-help,” with an “inward” focus.⁶⁸

⁶⁷ U.S. Department of Labor, *The Negro Family; The Case for National Action*,” Office of Policy Planning and Research, March 1965 preface, pg. 16,25,29, 11-12, 30.

⁶⁸ Nathan Glazer and Daniel Patrick Moynihan, *Beyond the Melting Pot: The Negroes, Puerto Ricans, Jews, Italians and Irish of New York City*, Cambridge, MA, MIT Press, 2nd edition, 1970, pg xi, xviii, 30.

Echoing Banfield, Glazer and Moynihan wrote that “during the second half of the 1960s Negroes made probably the most rapid economic and occupational gains in their history . . . However, for a variety of reasons, possibly including the message of deprivation that accompanied the poverty movement, and certainly owing to greater attention being paid to their condition, the *perception* of well-being seems not to have accompanied the reality. To the contrary, the often false optimism of the past was seemingly supplanted by the pervasive sense of deprivation and impending doom among the more vocal and militant elements of the New York City population.” Here again is the idea that in actuality conditions were getting better, but black people were only increasing their demands because of a perception of deprivation, and a new consciousness brought about through the movement.⁶⁹

Writing in his 1969 work “Maximum Feasible Misunderstanding” Moynihan explained that the failures of liberal idealism, largely through the failures of the war on poverty, shifted his, and many other liberal opinions on social spending and social responsibility. The failures however, were not with policy, but with the combined problems of the radicalization of a “poverty movement,” headed not by the poor themselves, but intellectuals and radicals. Further, primary blame should rest with the “tangle of pathology” that made black Americans poor in the first place. Even though “it was the war in Vietnam that made the war on poverty untenable,” for financial reasons, Moynihan pointed to the increasing militancy of black civil rights, and anti-poverty groups as the focus of his analysis. For Moynihan “the events of that decade [the 1960s] had progressed from vision to nightmare,” in that the nation had “incredibly, monstrosly – been

⁶⁹ Glazer and Moynihan, *Beyond the Melting Pot*, pg. xii italics in original

brought to the point of instability.” It was this development, radicalization, social instability, that were at root of failed federal anti-poverty programs.⁷⁰

For example, Moynihan saw problems coming from the uses of federal policy, especially the 1964 Economic Opportunity Act which began President Johnson’s war on poverty. It called for local participation in federal anti-poverty programs through funding of community groups and organizations. The problem with funding community participation in the 1964 Act, Moynihan thought, was that the funding came right as the political radicalization and fragmentation of the 1960s developed. By the early 1970s, Moynihan was questioning his commitment to participatory governance.

The model for the EOA community participation program, was the New York based Mobilization For Youth, which sprang from the Henry Street Settlement on the Lower East Side and flourished with \$12.5 million in grants from the Ford Foundation, the City, and federal executive agencies in just three short years. Formed to tackle juvenile delinquency in the LES, MFY transformed into an anti-poverty program that used a holistic approach to delinquency that included tackling poverty “from the bottom” up. The problem for Moynihan, was that the project was radicalized, and moved to bite the hand that fed them, leveling attacks on City Hall, the establishment and the white power structure. MFY started, in the words of Moynihan, “talking about the ‘powerlessness’ of the poor *with respect to city government*. A program that had begun as a promising device for helping to resolve the private difficulties of young persons, which in the aggregate were creating a social problem, a device the city government was more than willing to support and encourage, began of a sudden to pose a challenge to that very government . . . One dares to detect a measure of glee, almost, as the MFY theorists turned on City Hall,

⁷⁰ Daniel Patrick Moynihan, *Maximum Feasible Misunderstanding: Community Action in the War on Poverty*, New York, Free Press, 1969 pg. 5, xii

capitalism, racism, American itself.” MYF, along with much of the ‘60s movements exhibited a steady “progression from a politically neutral concern with organizing the slums, to a fully engaged animus for the city ‘Establishment.” In 1964 the *New York Daily News* ran a series of exposé stories on the role of communists and radicals in the MFY. The red baiting didn’t concern Moynihan, what was of concern were the actions the group took, including confrontation with school and city officials, and using mimeograph equipment in support of anti-police riots in Harlem. He complained that MFY’s housing committee had become a ‘rent strike coordinating committee.” Quoting from MFY documents, he found the committee planning to “coordinate all direct action campaigns in a militant manner,” and the MFY staff were “just itching” to “bring to the Lower East Side what Harlem has begun.”⁷¹

Another example of the excesses and extremism of the anti-poverty community action programs was the Crusade for Opportunity in Syracuse. Again a well-meaning federally backed poverty program began to go awry when “systematic agitation began among the Negro poor, demanding that Negroes take over Crusade for Opportunity.” When the executive director was replaced with a “militant Negro” he helped “Negroes acquired a majority on the Board itself,” and contributed to the group’s radicalization. The group had “gone black” in Moynihan’s words. Moynihan quoted the new director, James Tillman Jr. saying “no ends are accomplished without the use of force . . . Squeamishness about force is the mark of not idealistic, but moonstruck morals,” adding “how else do you gain power for the poor?” For Moynihan, this was anathema, although a neat parallel to Miller’s ideas about class struggle and violence. He found the “Negroes turned out to have been running Crusade for Opportunity with all the concern for

⁷¹ Moynihan, *Maximum Feasible Misunderstanding*, 58, 78, 111 italics in original, 113

niceties of a Reconstruction legislature.” Reference to Reconstruction legislatures were meant to demean and belittle black self-governance. Here, Moynihan’s racist language is not so coded.⁷²

In more than one way did Moynihan echo the sentiments of redemption following federal Reconstruction. All the trajectories of the 1960s were fused together for Moynihan as blackness, radicalization, empowerment and violence became a singular phenomenon. “As Negro rioting grew endemic,” he wrote, “the association between community action and violence also grew in the minds of legislatures.” And in the mind of Moynihan, he might have added. Writing again in 1969, Moynihan argued that over the course of the 1960s “from having been the passive victim of oppression or the righteous and dignified exemplar of a great and honorable tradition of peaceful protest, the Negro assumed the role of aggressor: violent, intimidating, threatening.” Couching his observations as “some people,” DPM wrote that the poverty programs were linked to the violence, as some “associated the change with the poverty program, which began its community-action work at just about the time the communities involved became violent.” By 1974, Moynihan was writing that civil rights militancy was creating a powerful “special interest group” that was forcing a direct role in governance. The issue of “welfare dependency moved from near obscurity to the center of national politics in an often ugly and divisive way” because of “militant civil rights activists who . . . are in revolt, not only against white American society, but also against the established Negro leaders.” These problems were made worse by federal policy, which supported this type of organizing. The militants were “greatly stimulated by the federal government’s poverty program, with its emphasis on organizing the poor . . . these militants are seeking to transform welfare recipients into a powerful interested group that will no longer be forced to accept whatever bargain the welfare establishment could strike with the

⁷² Moynihan, *Maximum Feasible Misunderstanding*, 132-133.

larger society, but rather will themselves become a part the negotiations.” For all of this, “American liberalism,” Moynihan wrote, “had created its own version of a *politique du pire*,” and staged a “general retreat from responsibility.” Here again, a conscious articulation of the changing thought about social responsibility, from an emphasis on social need to restrained elite stewardship.⁷³

A big problem, was that with organized anti-poverty and welfare activism, access to their benefits was increasing and transforming the programs. In particular, with increasing rolls, welfare policies were taking on a class character which offended Moynihan’s liberal sensibilities. For example, Moynihan cites a report from the City Youth Board that found in 1965 that overall Brooklyn based welfare dependency among children was 170 per thousand borough wide. However, when broken down neighborhood by neighborhood, those numbers fluctuated widely, from 1.8 per thousand in some, to a nearly unbelievable 781.1 per thousand in others. “In short,” he wrote, “from being a program designed to aid unfortunate *individuals*, AFDC gradually turned into a subsistence program for both individuals and for a *class*.” We can’t have that.⁷⁴

And again, the problems of race, poverty, unemployment and welfare are equated in Moynihan’s writing, reflecting an elite consensus in academia. “The chief problems of race relations in the city is the disproportionate presence of Negroes and Puerto Ricans on welfare . . . as long as one-third or more of the members of these groups are on welfare, as long as welfare remains . . . the largest single item of expenditure in the city,” then race will be a problem and “the city government must not place itself in the position of appearing to encourage welfare or of

⁷³ Moynihan, *Maximum Feasible Misunderstanding*, 150; Daniel Patrick Moynihan, “The Professors and the Poor,” in Daniel P. Moynihan, ed., *On Understanding Poverty: Perspectives from the Social Sciences*, New York, Basic Books, 1969, pg. 16. Daniel Patrick Moynihan, *Coping: Essays on the Practice of Government*, New York; Random House, 1973 pg. 20, 154, 21,22.

⁷⁴ Moynihan, *Coping*, pg. 148

actually encouraging it.” “The right to welfare,” they wrote, “should not be endowed with the same dignity and virtue as the right to work.” Welfare should be undignified.⁷⁵

With Moynihan, as with the others, the overriding concern for black Americans and federal welfare policies was with women. In his 1965 report, Moynihan found that “almost one-fourth of Negro families are headed by females,” and that the “breakdown of the Negro family has led to a startling increase in welfare dependency.” Moynihan sought to explain the problem identified by Banfield and others about the growth of welfare rolls in an “affluent society” through the phenomenon of women headed households. “The steady expansion of this welfare program [ADC],” he wrote, “as of public assistance programs in general, can be taken as a measure of the steady disintegration of the Negro family structure over the past generation in the United States.”⁷⁶

Those who were disabled were not the problem: “the blind, the aged, the disabled . . . are not now and are never likely to be, either a threat to social stability or a serious charge on public resources . . . *the heart of the problem is dependent children from broken families*. The swelling number of such children must be reversed if we are not to create out of our very affluence the ‘under class’ of which Gunnar Myrdal as warned.”⁷⁷

Moynihan again twists the politics of poverty to at once express patriarchal concern for the poor, while at the same time blaming them for their condition. He worried that in a country as rich as the United States, welfare posed a moral, rather than fiscal problem: “*the true issue about welfare is not what it costs the taxpayers, but what it costs the recipients*.” Even though the evidence for this is “practically nonexistent,” he wrote, “the probability is strong that the

⁷⁵ Glazer and Moynihan, *Beyond the Melting Pot*, lxxxvi, lxxxvii

⁷⁶ *The Negro Family*, 11-12, 14

⁷⁷ Moynihan, *Coping*, 158, italics in original

present welfare system is serving to maintain the poorest groups in society in a position of impotent fury.” In effect, he found “being poor might eventually lead to structural changes in personality and behavior, much as the state of being hungry can lead to a condition of malnutrition.” The moral act, therefore, was to remove the structures of dependence, and class assistance, to help create fully autonomous individuals.⁷⁸

Even Kenneth Clark subscribed to the matriarchy trope. In his 1965 work “Dark Ghetto,” based on his work with a Harlem based community organizing group, Clark highlights the psychology and pathology of the ghetto resident. Even as he stressed the responsibility of ghetto conditions and ghetto mentality on the structure of “white society” and places the “roots of the pathology” on the “menial low-income jobs” available to black residents, he can’t help but draw the “pathology” back to “family instability.” In his section on “negro matriarchy and the distorted masculine image,” Clark echoes Banfield and Moynihan in highlighting the historic role of the “system of slavery” whereby “the only source of family continuity was through the female,” as a continual failure of black families to create properly patriarchal households. The result is an “institutionalized pathology” that is “chronic [and] self-perpetuating,” exemplified in the mantra expressed by a Harlem youth in the Haryou program: “As long as I can survive, I don’t care about nobody else.” While certainly better than the others, regrading race relations and social policy, even Clark, on the left margins of political scholarship, can’t help but blame the victim when it comes to the “pathology” of poverty and the lack of sufficiently patriarchal family structure.⁷⁹

⁷⁸ Moynihan, *Coping*, 157 italics in original. Moynihan, “The Professors and the Poor,” in Moynihan, ed., *On Understanding Poverty*, 22

⁷⁹ Kenneth B. Clark, “Dark Ghetto: Dilemmas of Social Power,” New York: Harper and Row, 1965, pg. 11, 34, 48, 70, 89

The entire framework for the late 1960s scholarly and policy debates on poverty and government action came from the work of anthropologist Oscar Lewis. The New York born Lewis, a graduate of City College and professor at Brooklyn College, developed the concept of the “culture of poverty” to help explain poverty in American and third world cities. Through a series of ethnographic studies in Mexico, Puerto Rico and New York City, Lewis defines the culture of poverty among “slum dwellers” as “strong feelings of marginality, of helplessness, of dependence, and of inferiority.” In his descriptions, first published in 1959 and continued throughout the decade of the 1960s until Lewis’s early death in 1970, one can find all the elements of the politically useful tropes employed by liberal scholars, and eventually making their way into the political rhetoric of the 1970s. Lewis went on to define the characteristics of the culture of poverty as including a “high incidence of material deprivation, of orality, and of weak ego structure; confusion of sexual identification; lack of impulse control; strong present time orientation, with relatively little ability to defer gratification and to plan for the future; sense of resignation and fatalism; widespread belief in male superiority; and high tolerance for psychological pathology of all sorts.” Ideas similarly found in his 1959 work “Five Families: Mexican Case Studies in the Culture of Poverty,” lay the foundation for the ideas expressed in the works of Banfield and Moynihan.⁸⁰

However, where liberal scholars of the American academy placed the culture of poverty as an inherent and almost immutable characteristic of the urban poor, Lewis was careful to specify very limited condition for the rise of the culture of poverty, and to explain the context in which the COP develops. For example, Lewis distinguishes between poverty, and what should be more properly called the “subculture of poverty” which refers to “one way of life shared by

⁸⁰ Oscar Lewis, “The Culture of Poverty” in Daniel P Moynihan, ed., “Understanding Poverty,” pg. 191-192

poor people in given historical and social contexts.” The context includes “(1) a cash economy, wage labor, and production for profit; (2) a persistently high rate of unemployment and employment for unskilled labor; (3) low wages (4) the failure to provide social, political and economic organization either on a voluntary basis or by government imposition, for the low income population (5) the existence of a bilateral kinship system rather than a unilateral one, and finally, (6) the existence in the dominant class of a set of values that stresses the accumulation of wealth and property, the possibility of upward mobility, and thrift and that explains low economic status as the result of personal inadequacy or inferiority.” It seems clear that Lewis was attempting to develop framework for understanding the relationship of social structure, and the production of culture for people now identified as the “subaltern.” In it, Lewis is critiquing the structure of transnationalist capitalist class relations. Cultural traditions based on contingent structural causes can be changed, if the social structure producing those outcomes is altered. Ideas not possible to express in liberal scholarship.⁸¹

Lewis was careful to distinguish between “poverty and the culture of poverty.” Where “there are degrees of poverty and many kinds of poor people,” he writes, “the culture of poverty refers to one way of life shared by poor people in given historical and social contexts.” This usually meant countries transitioning to early capitalist development, those of the third world, not highly industrialized societies with extensive social spending and social safety nets. Therefore, while “there is still a great deal of poverty in the United States . . . there is relatively little of what I would call the culture of poverty.”⁸²

Furthermore, as might be too obvious to state, poverty and the culture of poverty, is conditional on the existence of capitalism, and its cultural and social formations. For example,

⁸¹ Lewis, “The Culture of Poverty” in Moynihan, “Understanding Poverty,” 193, 187-188

⁸² Lewis, “The Culture of Poverty” in Moynihan, “Understanding Poverty,” 193, 196

Lewis writes, “the culture of poverty is both an adaptation and a reaction of the poor to their marginal position in a class-stratified, highly individuated, capitalist society,” and just as importantly, he adds, class distinctions. The culture of poverty, Lewis writes, is “part of the larger culture of capitalism, whose social and economic system channels wealth into the hands of a relatively small group and thereby makes for the growth of sharp class distinctions.” For Lewis, his analysis relied on a structural framing that created a dynamic relationship between the materialism of capitalism and the cultural formations it engendered. This was not solely a one-way street, as Lewis tried to show, culture could have its own lasting impacts that outlived material change. But still, the emphasis was on the relationship, the fundamental link of material and cultural factors.⁸³

But all of this emphasis was lost on scholars and policy wonks in later works. So, where Lewis emphasizes that “the main reasons for the persistence of the subculture of poverty are no doubt the pressures that the larger society exerts over its members and the structure of the larger society itself,” those ideas are forgotten in favor of Lewis’s subordinate reasoning in the culture of poverty that COP “develops mechanisms that tend to perpetuate it, especially because of what happens to the world view, aspirations, and character of the children who grow up in it. For this reason,” Lewis writes, “improved economic opportunities, though absolutely essential and of the highest priority, are not sufficient to alter basically or eliminate the subculture of poverty. Moreover, elimination is a process that will take more than a single generation, even under the best circumstances, including a socialist revolution.”⁸⁴

In the literature on poverty that followed the work of Lewis in the late sixties, all of his context and nuance are dropped. The emphasis was on the responsibility of the poor for their

⁸³ Lewis, “The Culture of Poverty” in Moynihan, “Understanding Poverty,” 188, 199

⁸⁴ Lewis, “The Culture of Poverty” in Moynihan, “Understanding Poverty,” 199

own condition, and the intransigence of their “pathology.” Given the mutability of race for class, and the prevailing patriarchal attitudes in American society, the elite discourse around poverty became racialized and gendered in way not to excuse or explain the poor, but to condemn them. Not a new idea in the western tradition, but definitely a new iteration.

This can be seen in the back end of the New York City fiscal crisis. For example, major austerity figures used the language and rationale of the culture of poverty to justify their cuts. One health administrator told the press that “what the community perceives as needs often are simply wants.” And out of the mayhem of crisis planning and restructuring, new institutions were formed. One of them, the Municipal Union Financial Leadership Group was a joint labor and bankers’ organization to shape political agendas and lobbying efforts for the city. Early in 1978 they were asked by the White House for their opinion on President Carter’s urban policies. They found that “within the ‘poverty’ sphere of problems, it would be useful to distinguish between ‘economic’ poverty and a ‘culture’ of poverty. Providing command over resources such as housing, food, health care may not put an end to the ‘culture’ of poverty and may not provide the means by which persons can prepare themselves for a useful place in society. Family breakdowns and school truancy may be both symptoms of past, and causes of future unemployment and ‘poverty’ regardless of programs that provide material resources to the disadvantaged.” Here is a remarkable reformulation of attitudes about attacking poverty in America. In this framework, why bother. An attitude shared by banks and labor in 1978.⁸⁵

For all these reasons, the culture of poverty is essential to understand how and why the 1975 New York City fiscal crisis happened exactly when it did. By 1975, COP had completely

⁸⁵ Ronald Sullivan, “New Chairman of Hospital Agency Calls for Abolition of Corporation,” *New York Times*, Jan 26, 1977; Municipal Union Financial Leaders Group to Stuart Eizenstat, Assistant to the President for Domestic Affairs and Policy, January 6, 1978, Bigel Collection, Newman Library, Baruch College

saturated New York elite culture, from high ranking policy intellectuals on the right, like Edward Banfield, whose work *Unheavenly City* was one of the most significant works of the 1970s, going through numerous printings and a celebratory retrospective in the 1990s, to his counterpoint on the left in the work of Daniel Patrick Moynihan, and even to the left most fringe of political and academic debates in a progressive like Kenneth Clark. This near unanimity of political opinion meant that when austerity planners in 1975 and 1976 employed the culture of poverty discourse to justify their cuts to the public sector, the mainstream ability to resist the move was hamstrung by its basis on the same rhetorical and ideological foundations. But by 1973 and 1974, the discourse on COP was cross-pollinating with new ideas coming from the business class and economics. In the economically anxious period of the 1970s, business owners were concerned with the impact of inflation on profitability. Their solution, cut social spending to limit inflation, a policy prescription that sang harmony with policy recommendations from the discourse on COP.

* * *

1.5 Inflation and Anxiety: New Economic Thinking

“We stand on the brink of an historic crisis for American capitalism,” said Donald T. Regan in the fall of 1974, “and the brink is crumbling.” Regan, president of Merrill Lynch and future Treasury Secretary under Ronald Reagan was speaking at President Ford’s Financial Conference on Inflation. He was expressing the concern of those in the financial community that in the early 1970s, the rules of Keynesian capitalism, especially those that related to profitability, were being undone. The phenomenon that came to be known as “stagflation,” high unemployment with high inflation, posed a serious problem for state planners and those on Wall

Street. In the slump, profitability faced a double bind, through low corporate profits from the recession and from inflation which eroded equity and diminished returns. The question was, how to tackle the double-sided problem? Classical Keynesians advocated getting unemployment numbers down, and reviving the economy through strong consumer spending. But those who had a lot to loose from high inflation, like banks, were opposed. For them, increased consumer spending would only exacerbate inflation and further depress profitability. When Regan spoke in apocalyptic terms at the conference on inflation he was expressing the fears of the financial sector at a moment in the early 1970s when the very fabric and structure of the Keynesian national economy was coming undone. At this point, the economic compromises and coalitions of the New Deal looked less like an economic rescue raft and more like soggy drift wood. Regan, and those similarly situated, were looking to restructure those relationships.⁸⁶

The concern with inflation was that it eroded profitability on investments, particularly bonds. Bonds are the bedrock financial investment, they make modest returns of just a few percentage points, but they are guaranteed to grow. In periods of high inflation, if a bond's return is less than the rate of inflation, they can lose money, and because they are considered a very safe investment, if the bond market is failing, it can throw other markets into disarray. Even more troubling, as happened in the 1970s, it can create a climate of anxiety and self-doubt in investors and the financial class in general. And this is what happened on Wall Street in the mid-1970s. At the National Conference on Inflation, Regan highlighted exactly this, the role of inflation disrupting national markets. He found that Wall Street faced "the worst financial markets in 40 years," and that market chaos was having a psychic impact: "Our financial markets

⁸⁶ Statement by Donald Regan, The Financial Conference on Inflation, Held at the Request of President Gerald R. Ford and the Congress of the United States, Washington D.C., September 20th, 1974 pg. 235

today are in disarray and thoroughly demoralized.” The markets were troubling, more troubling still was that market uncertainty was leading to tremendous anxiety in the investor class.⁸⁷

More important than the changing economics of stagflation, was the changing psychology of the financial sector in response to stagflation. In the 1960s a tremendous sense of confidence in perpetual economic growth dominated the financial outlook. So with the recessions of 1958, 1960 or 1969, a general sense of optimism at a return to profitability pervaded the crises. In 1974 for example, the Conference Board, a national economic think tank comprised mostly of Wall Street economists, wrote that “the 1962 to 1969 period was one of excess expectations for the stock market. Every portfolio was to go up 20 percent, and corporations did not care what pension fund agreements they made with the labor unions, because if stocks could go up 20 percent, there would be no problem.” In the uncertainty of the 1970s, that kind of profitability was no longer assured, and so Wall Street largesse was also under question. Stagflation, with the OPEC oil shock, the drop in consumer confidence, and other factors meant high anxiety, with investors trying find the bottom of the market dip. According to the Conference Board, “the stock market needs, more than anything else, a fairly flat economy – probably a recession – so that the investor will know ‘how far is down.’ Therefore anti-inflationary policies are bullish for the market.” With all the uncertainty enforcing a market bottom through policy could help restore confidence. But the crisis of confidence was there, and Wall Street sought mechanisms to find assurance.⁸⁸

The National Conferences on Inflation called by President Ford were an attempt to form a political agenda in support of policy that would curb inflation, temper uncertainty, and aid the

⁸⁷ Statement by Donald Regan, same, 201, 235

⁸⁸ The Conference Board, “Inflation in the United States: Causes and Consequences,” proceedings from the Conference Board Economic Forum, May 21, 1974, Waldorf Astoria, New York, pg. 89-92

investor class. Thus in 1974 President Ford declared inflation “public enemy number one,” and announced the conferences. The austerity agenda that came to be implemented in New York was formed in embryo in the years preceding the fiscal crisis, and the views and attitudes of the financial sector played a crucial role. Those views were clearly expressed in the national debate around inflation that came to a head in the early 1970s, many of them at the National Conference.⁸⁹

At the Conference segment held specifically for members of the financial sector, participants spoke freely about their analysis of the inflation problem, and their proposed responses to it. Their biggest concern, was that inflation would eat away at portfolio profitability. This was true especially for bond holders. As discussed earlier, for bonds marketed an annual return of 5%, during a period of double digit inflation, bond holders were effectively losing money on their investment. For investors, this meant financial uncertainty, inability to plan, and lack of profitability, at least in the bond markets.

Speaking at the financial sector’s conference, the vice president for Manufacturers Hanover Trust and Wall Street economist, Tilford C. Gaines, worried aloud about the relationship between inflation, uncertainty, and market profitability. “Domestic financial markets are currently in a state approaching disarray,” he said. “This is true of the equity market, the bond market, the mortgage market, and to a much lesser degree of the money market,” he went on, “the single most important reason for this condition is the current rate of price inflation and deep [sic] fears that inflation will not be controlled.” In his informal comments Gaines went on to say that capital markets were “seriously eroded” and that as “indelicately for a commercial banker to make this last suggestion,” as it was, he recommended the state and financial

⁸⁹ Statement by President Gerald Ford, the Conference on Inflation, Held at the Request of President Gerald R. Ford and the Congress of the United States, Sept 27-28, 1974. Pg. 5

community “go back and take a look at the Glass Steagall Act.” For Gaines, and other financial sector representatives, inflation was a serious concern, and could be used to expand a political agenda that had little to do with inflation.⁹⁰

For solutions, bankers weren’t just looking at markets and monetary valuations, they had their eyes on fiscal resources and social spending. A major source of inflationary pressure was government spending, at all levels, which should be checked. Bruce Maclaury, president of the Minneapolis Federal Reserve advocated just this approach, the use of fiscal policy to tackle inflation. “Monetary policy has shouldered too large a part of the task of resisting inflation,” he said, “fiscal policy must now take a more active role in slowing the rise in prices.” He also threw in an obligatory recommendation for the reduction of corporate taxes by 20%.⁹¹

The chairman of Merrill Lynch, Donald T. Regan, agreed. He said that “Every weapon, fiscal, monetary or otherwise must be employed. Sound fiscal policies at all levels of government are the most potent weapon in our arsenal to combat inflation.” That the federal government should adopt a 3% across the board cut and “state and local governments should be urged to follow the leadership of the federal government.”⁹²

Along those lines George Shultz, former secretary of the Treasury and the executive vice president of Bechtel, urged fiscal restraint, what he called “discipline,” which should be the highest social priority. “The first word,” he said, “the basic watchword that has to be followed is ‘discipline’ . . . discipline on the budget, discipline on the off-budget borrowing, discipline on monetary policy, discipline of our political process as it seeks to satisfy special interests against the general interests.” He reiterated the point again, and again, saying that “on the budget it

⁹⁰ Statement by Tilford C Gaines, The Financial Conference on Inflation, Held at the Request of President Gerald R. Ford and the Congress of the United States, Washington D.C., September 20th, 1974 pg. 196

⁹¹ Statement by Bruce Maclaury, in same, 167

⁹² Statement by Donald Regan, in same, 169

seems to me the word has to be discipline, and discipline, and discipline.” In this sense, senior vice president and economist at Manufacturers Hanover Trust, Tilford C. Gaines, emphasized that “the tightest possible rein be kept on federal spending.” Echoing the widespread monetarist beliefs circulating, Donald Regan argued that “liberal augmentation of the money supply would simply worsen inflation. It is essential that we discipline our spending both individual and as a society, until a reasonable supply-demand balance can be struck.” Even President Ford agreed, saying that “discipline is imperative,” and that “nations which cannot impose on themselves a disciplined management of their fiscal and monetary affairs are doomed to economic disorder and widespread inflation.” In the final summary of the Economist’s Conference on Inflation, conference chair and former chair of the Council of Economic Advisers, Arthur Okun of the Brookings Institute opened by emphasizing that “the stress in discussion expenditures was on discipline and on long term control.”⁹³

They wanted the budget cut. “A balanced budget must be the cornerstone in the nation’s fight against run away inflation,” said Edwin G. Alexander, president of Frist Savings and Loan Shares, Inc. He continued that “to do this we need a reduction in federal spending by \$10 to \$15 billion.” Alexander advocated a loosening up of the liability restrictions on banks arguing that “the asset –liability structure of our financial institutions is far too rigid and inflexible to cope with today shifting worldwide demands,” – remarkable, given that bank capital liberalization and

⁹³ Statement by George Shultz, in same, 56, 52; Statement by Tilford Gaines, in same, 162. Statement by Donald Regan, in same, 201. Statement by President Gerald Ford, The Conference on Inflation, Held at the Request of President Gerald R. Ford and the Congress of the United States, Washington D.C., September 27th, 1974 pg. 290. Statement by Arthur Okun, The Economist Conference on Inflation, Held at the Request of President Gerald R. Ford and the Congress of the United States, Washington D.C., September 5th, 1974 pg. 3

regulation dodges in the 1960s contributed to both inflationary pressures and international market volatility, as we will see in Chapter Two.⁹⁴

This wasn't just at the federal level. Donald Regan of Merrill Lynch made clear that fiscal discipline and spending cuts should happen at every level of the government. "Leadership in the war against inflation must come from the federal Government. It must come now. Every weapon, fiscal, monetary or otherwise must be employed. Sound fiscal policies at all levels of government are the most potent weapon in our arsenal to combat inflation." And he recommended that "state and local governments should be urged to follow the leadership of the federal Government."⁹⁵

Over the course of the Conference for the financial sector, a consensus was emerging, and the lawmakers who were there to hear from their constituents couldn't miss the signals. In the words of House Representative Henry Reuss, the message from the financial community "comes through loud and clear to me that the advice is 'cut the budget, cut the budget, cut the budget.'" Dr. Tilford C. Gaines concurred, saying the message from the conference was that "the tightest possible rein be kept on federal spending." When asked by Senator Jacob Javits why not consider tax increases to balance the budget, presumably from corporations and business, a panelist responded this would only exacerbate the problem. Charles Walker responded that "corporations don't pay taxes. People do" because the price would be passed on to either owners or consumers. Inflation could be solved through cuts, which would also solve budget shortfalls, and the message from Wall Street was clear – impose fiscal discipline.⁹⁶

⁹⁴ Statement by Edwin Alexander, The Financial Conference on Inflation, Held at the Request of President Gerald R. Ford and the Congress of the United States, Washington D.C., September 20th, 1974 pg. 327, 321

⁹⁵ Statement by Donald Regan, in same, 169

⁹⁶ Statement by Henry Reuss, in same, 149. Statement by Tilford C Gaines, in same, 162. Senator Jacob Javits and Charles Walkers, in same, 192, 248.

Besides fiscal discipline, labor needed to be brought in line as well. Richard Gilbert, the president of the Citizens Savings Association, wanted “to see the full employment budget scrapped as a concept.” Beyond that, careful attention should be given to productivity, to ensure that wages that trailed productivity gains and wealth went to the top. “Labor,” he said, “including organized labor, should be called on to limit its request for wage increases to something below productivity increases to afford some reward for capital.” This tie between wages and productivity would become a crucial mechanism of the austerity regime in the 1975 fiscal crisis.⁹⁷

In another forum, labor costs and control was seen as increasingly problematic. In 1972 the Committee for Economic Development published its solution to the inflation problem. Its major proposal was “productivity bargaining,” to tie any wage gains to productivity increases. The biggest problem was public sector unions, which unlike the rest of the labor movement had been growing in the 1960s. “From 1956 to 1970,” the CED wrote, “union membership in the public sector more than doubled in absolute numbers while there was virtually no growth in private sector union membership. At the same time, public sector unions have become substantially more militant as evidenced by the surge in public sector strikes.” The biggest problem was that the structure of the negotiating relationship was inadequate because “the fact that public officials sit at one side of the bargaining table is not a sufficient guarantee that there will be proper representation of the broader public interest in avoiding clearly inflationary agreements.” Thus, “a basic restructuring of labor laws and regulations should be undertaken to bring about a better balance in the relative powers of unions and management.” They called for supplementing the Taft-Hartley Act and Railway Labor Provisions Act to include “national

⁹⁷ Statement by Richard Gilbert, in same, 107

emergency strike procedures” and the extension of presidential powers. Their paper included an appendix of the “emergency procedures under the Taft-Hartley and railway labor acts.”⁹⁸

Labor costs were tied to inflationary pressures, and economists like Milton Friedman and others pointed to wages as a major inflationary push. They identified the “wage-price spiral,” in which wages chased last year’s higher prices in yearly contract negotiations and sought to get a leg up on next year’s inflation, thereby pushing it ever upward. A nice theory, but it was mostly bunk, as by the mid-1970s wages were lagging both inflation and productivity increases.

Citibank for instance, in April of 1975 was writing that “rapid inflation and reduced working time have led to a steady erosion in real earnings over the past year, despite a 9.8% increase in wage rates since March, 1974.” By that month the average worker had “real wages 0.5% below a year earlier. But in addition to eroding the purchasing power of each dollar of wages, inflation has pushed workers into higher tax brackets, thereby squeezing their spendable earnings even more. Thus, while gross earnings in March . . . were up 5.7% over a year earlier, inflation,” and higher taxes, “have reduced the wage earners purchasing power by 4.7%. Between 1973 and the close of 1975 real wages dropped two percent for American workers. In August of 1975 it was clear that “productivity picks up as wages cool.” In 1975 inflation was still climbing at a record rate, looking at double digit increases in the summer months, but given the high level of unemployment and the low numbers for manufacturing capacity, “it is difficult to view recent price hikes as a symptom of pervasive demand pressure.” Nonetheless, despite the economic

⁹⁸ “High Unemployment without Inflation: A Positive Program for Economic Stabilization a Statement on National Policy,” Research and Policy Committee of the Committee for Economic Development, New York, 1972, pg. 58, 60, 51, 52, 76

reality of wages following, rather than pushing, inflationary spiral, economists like Friedman and others advocated cutting labor, and disciplining unions much like they sought fiscal discipline.⁹⁹

In 1973 and 1974 bankers had a profitability problem, the source, they believed, was in inflation. But they also had a political problem, a longstanding one, that they thought they could address at the same time. A year earlier, in March of 1972, Tilford Gaines was loudly complaining to the *New York Times* that federal spending for state aid, largely welfare and social programs, was up from \$36 to \$41 billion from 1972 to 1973 federal budgets, the largest increase of any single sector. Gaines went on to say that “what’s happening is really quite a massive income redistribution to the identifiable poor, and away from the other income groups. Well the group that’s carrying the bulk of this burden is only a step or two up the line from those who were defined as poor.” What he means is that lower middle class people, white people, were paying the welfare costs of those on the bottom, and this was leading to the “tax revolt” of the 1970s. He went so far as to call the system regressive. All of which had “social and political consequences.” His prescription: “I’d like to tear up all of the welfare and income-support and so forth programs in existence in this country and simultaneously repeal all existing tax legislation at the Federal, state and local levels and restructure the whole damned thing. [sic]” In some sectors, there was clearly a desire for a radical restructuring of American society. Gaines continued, that for welfare, “if all it’s doing is enabling them to continue to live as submarginal members of society, well, then it’s a failure.” This was part of a broad and growing consensus in the financial sector to undo a much larger set of social and economic policies than just those relating to inflation.¹⁰⁰

⁹⁹ Citibank, Economic Week, April 28, 1975 pg. 3. Citibank, Economic Week, Dec. 1, 1975, pg. 3. Citibank, Economic Week, Aug. 4, 1975, pg. 5. Citibank, Economic Week, Aug. 25, 1975, pg. 1.

¹⁰⁰ H. Erich Heinemann, “3 Years in the Deep Red?: Banker Assesses U.S. Deficit: *New York Times*, March 26 1972

Of all the attendees, Milton Friedman best politicized the issue. “In producing inflation,” he said, “Congress, the Administration, and the Federal Reserve have simply responded to the public will . . . It has imposed the cost of special interest legislation on the most defenseless among us . . . continuing on this inflationary road will destroy our free society. We must stop kidding ourselves that we can all tap the public purse at the expense of someone else. There is no technical or economic problem to stopping inflation. The problem is political. The only effective cure for inflation is to slow down total spending. Congress and the Administration must restrain Government spending.” For Friedman and those inclined to his thinking, the problem was political. The economic thinking was tied to politics – anxiety could be cured through an aggressive political agenda related to not simply fiscal and economic issues, but a class agenda that had naught to do with inflation or government budgets.¹⁰¹

Friedman’s solutions were preposterous, having little to nothing to do with inflation in any sense, but represented a laundry list of pro-business, especially pro-bank, ideological formulations that were ridiculed by John Kenneth Galbraith and other prominent economists in attendance at the National Conference on Inflation. Friedman called for repealing the interest rate ceiling on long term government bonds, deregulation of the post office by opening up express service to private firms, to “remove all rate and commodity restrictions on ICC licensed carriers,” deregulate air travel, to prohibit “unreasonable” restrictions on union membership like dues or prior apprenticeship, “abolish union hiring halls,” end minimum wage increases, make seat belts and airbags voluntary, and end Davis-Bacon wage standardization for federal contracts. Perhaps most outrageous, Friedman and others called for exacerbating inflationary pressures by “eliminating Regulation Q and other regulations which prevent savings institutions from paying

¹⁰¹ Statement by Milton Friedman, The Conference on Inflation, Held at the Request of President Gerald R. Ford and the Congress of the United States, Washington D.C., September 27th, 1974 pg. 256-257

competitive rates on deposits.” This is remarkable given that the lax approach to regulation, and financial sector expansions in general were one of the key sources of inflationary pressure, from a strictly monetarist perspective, as Freidman proposed (more on this later).¹⁰²

Again from Freidman, “there is one and only one cure and we all know it. We have to slow down total spending. Only the federal Government can do that.” He argued that there will be “a substantial cost. We have to reconcile ourselves to the fact that we will not get out of inflation except by going through a temporary but maybe fairly prolonged period of slow economic growth and higher unemployment.” He argued that cutting government spending is “desirable in its own right,” because governments are wasteful and inefficient.¹⁰³

For some this wasn’t enough. Senator John Tower the first Republican senator from Texas since reconstruction said that the list of recommendations from the conference “needs to be expanded on considerably. There is no mention of the impact of the occupational safety and health act, environmental protection, and various of our other consumer protection laws and regulations,” adding that what was needed was “to eliminate all of these things and we need a more comprehensive list than recommended here.” Here, a far right position, one might say extreme, was coming to be expressed in policy and financial circles. In subsequent years and decades positions like this would only gain in mainstream political acceptability.¹⁰⁴

In some instances, what the bankers were asking for, and the language that they used, would make the most crass class-conscious Marxist blush. Expressing a bastardized version of “surplus value theory,” Richard Gibert, the president of Citizens Savings Association told the

¹⁰² Statement by Milton Friedman, The Economist Conference on Inflation, Held at the Request of President Gerald R. Ford and the Congress of the United States, Washington D.C., September 5th, 1974 pg. 13, 12.

¹⁰³ Statement by Milton Friedman, in same, 76, 77, 123

¹⁰⁴ Statement by Senator John Towers, The Economist Conference on Inflation, Held at the Request of President Gerald R. Ford and the Congress of the United States, New York, September 23rd, 1974 pg. 161, 162

assembly that “labor, including organized labor, should be called on to limit its request for wage increases to something below productivity increases to afford some reward for capital.” Harry E Kapnick Jr., the Chairman and CEO of the accounting firm Arthur Anderson, said that the goal of the administration should be “to move capital to highest social priority.” In addition to moving to balance the budget, cutting social programs, and taming labor demands, the government should “eliminate tax on stock dividends” and “reduce capital gains tax,” Kapnick Jr. argued. Some, like Southern Bank Corporation President Charles Zwick elevated the position of the banks, and the primacy of capital, to a moral issue. Cutting federal spending he said, is “a matter of equity, a moral issue.” He went on, “it’s immoral for government to spend while asking individuals and business to curb inflationary spending.”¹⁰⁵

The problem, as Wall Street saw it, was that the necessary economic solutions (necessary from their perspective), were inhibited by their extreme unpopularity; they were hindered by the democratic process itself. Charles Walker, president of Charles E Walker and Associates, and former Deputy Secretary of the Treasury under Nixon remarked that the problem “is one of those that arises in a democracy when politics and economics collide, and the built-in propensity to overspend as a result of the democratic process. People like more spending and they don’t like high taxes, and they don’t like tight money, so you have this natural propensity. To the extent, that that a return to the administrative budget, or some other approach . . . and maybe the budget Impoundment Act, can work in this direction.”¹⁰⁶

Walter Wriston, president of First National City Bank lamented both the current political climate of antagonism, and the loss of a democratic tradition that went to the founders. To

¹⁰⁵ Statement by Richard Gibert, The Financial Conference on Inflation, Held at the Request of President Gerald R. Ford and the Congress of the United States, Washington D.C., September 20th, 1974 pg. 107. Statement by Harry Kapnick Jr., in same, 165-166; Statement by Charles Zwick, in same, 174

¹⁰⁶ Statement by Charles Walker, in same, 182

exemplify the current climate of “sniping” and “nit-picking,” Wriston highlighted the career of Daniel Patrick Moynihan, who was shipped off to be ambassador to France because of his correct, but unpopular political formulations, left unspecified by Wriston. For the tradition of democracy the banker espoused, Wriston pointed to the role of the founding fathers, who, during the Constitutional Convention, “not only was the press barred entirely from all the meetings, but also each delegate had to pledge to preserve the confidentiality of the discussions. Without obedience to that fundamental rule the great compromises that lie at the heart of the Constitution’s success could never have been achieved.” For Wriston, the media played a key role in needlessly uncovering the human frailties of political and business leadership. In the wake of Watergate and the revelations of COINTELPRO, this is a remarkable position. But he nonetheless wondered if “we are making ourselves ungovernable by total exposure of all human frailties exacerbated by constant repetition of things which often turn out to be fundamentally irrelevant to the conduct of leadership?” For Wriston, the problem was irresponsibility from the bottom. “Democracy requires the most difficult of all disciplines,” he wrote, “self-discipline.” Here again, a new notion of democratic discipline and responsibility was taking form.¹⁰⁷

Friedman and Walker, Gibert and Kapnick, Gaines and Wriston were not alone in their anti-democratic attitudes, academics and policy makers were also expressing concern with the impact social movements had on democracy itself. These ideas were most clearly expressed by Harvard scholar and Carter administration official Samuel Huntington in his 1975 contribution to the Trilateral Commission’s “Crisis of Democracy.” The problem for Huntington stemmed from the democratic upsurge of the 1960s. This created an “excess of democracy,” much like the

¹⁰⁷ Walter Wriston, “Liberty, Leadership and License: Remarks by Walter B Wriston, Chairman Citibank before the management conference at the University of Chicago graduate school of business,” New York: Citibank, 1976 pg. 3, 8, 9, 15

period preceding the American Civil War, while what is “needed . . . is a greater degree of moderation in democracy.” In rather circuitous logic Huntington explains that a democracy “usually requires some measure of apathy and non-involvement on the part of some individuals and groups,” that it is in fact “inherently undemocratic,” but has to happen in order to “enable democracy to function effectively.” Huntington, like Wriston, looked to the anti-democratic impulses of the founders, to argue, along with the federalist papers of Madison, that good governance needs to maintain a “balance” between the ability of the “government to control the governed,” while at the same time it has the power to “control itself.”¹⁰⁸

For Huntington, and others “by the early 1970s Americans were progressively demanding and receiving more benefits from their government and yet having less confidence in their government than they had a decade earlier . . .the vitality of democracy in the 1960s raised questions about the governability of democracy in the 1970s.” For proof, Huntington looked to the spending priorities of the federal government in the 1960s and 1970s. He found a major shift from military and corporate spending in the early 1960s to social, welfare, and public benefit spending at the end of the decade, and attributed the shift to the “excess of democracy.” Again, welfare played a key role. By the 1970s more and more government spending as a percentage of GDP was spent on “transfer payments” like “welfare and social security” rather than spending that directly benefited GDP growth. The implication for Huntington and others, was that popular movements were getting the goods. The collective demands of organized popular forces and constituencies were effectively leveraging the state to provide an unprecedented level of social benefits outside of normal military and corporate gifts. For Huntington and others in this

¹⁰⁸ Report on the Governability of Democracies to the Trilateral Commission: The Crisis of Democracy, New York, New York University Press, 1975, pg. 113, 114. Samuel Huntington quoting Federalist Paper #31, in The Crisis of Democracy, 63.

tradition, to restore the governability of democracy, the excess of democracy had to be checked.¹⁰⁹

These attitudes were expressed at the National Conference on Inflation and other forum discussed here, and were forged in the climate of economic anxiety produced in the mid-1970s. But there were other contributing factors to the change. For decades the field of economics was in the process of undergoing a geomagnetic reversal, and Keynesian orthodoxy severely challenged, and was soon to be dethroned. This is the story of the rise of the Chicago School, founded on the works of Ronald Coase and Gary Becker, the movement reached its early zenith the 1970s with the work of Milton Friedman gaining widespread acceptance. His 1960s works *Monetary History of the United States*, and the more popular *Capitalism and Freedom*, became a bedrock of the new economic thinking, and gained ascendancy in economics departments across the country. Backed by business funding of positions, research and departments, Friedman was awarded the Nobel in 1976, the second year of the New York fiscal crisis, a singular moment signifying the triumph of the new school.

The movement in economics was given political thrust with the decades old war waged against the New Deal regulatory regime, by a marginal, but growing sector of business interests. The works of Elizabeth Fones Wolf and Kim Phillips Fein chronicle this rise. From segments of capital like the Du Ponts or GE that remained steadfast opposed to New Deal regulations, especially in regards to labor, waged a decades long propaganda campaign, targeting workers and popular attitudes, but also elite opinion makers that began to bear fruit in the 1970s. The creation of the Business Roundtable in 1973 is also a singular moment that represents the crystallization of these ideas and their formation into a politically motivated group.

¹⁰⁹ Huntington, in *The Crisis of Democracy*, 64, 68

Back at the National Conference on Inflation there were other voices. Banker Robert Dederick of the Northern Trust Company of Chicago questioned the framework of the conference and the reforms being offered: “we really have to ask ourselves a question,” he said, “do we need these . . . do we really recognize what is involved in satisfying them. We are really talking here in some of the position papers in any event, about some rather drastic changes in the tax structure, some rather fundamental moves, and we really have to ask ourselves, do we need these fundamental moves?” Adding that he favored a return to a “normal environment.” For him, and other traditionally minded bankers and economists, the set of ideas coming from the Friedman crowd which dominated the conference were unnecessary to restore economic confidence and profitability.¹¹⁰

Dederick was not alone. At the second session of the economists conference John Kenneth Galbraith responded saying the proposals from the conference that echoed Friedman’s ideas, “has no relation whatever to the problem with remedying inflation.” Calling the proposals “a hodgepodge,” economist and researcher with the AFL-CIO, Nat Goldfinger agreed, saying they were “a hodgepodge that is largely if not entirely irrelevant in terms of the current problem, and in fact, that aggravates some the problems rather than solve them.” He added that “currently there is nothing here that is relevant to the issue of reducing the wave of inflation.” Despite this, the economists conference adopted a twenty-two point plan that embraced most of Friedman’s recommendations.¹¹¹

¹¹⁰ Statement by Robert Dederick, The Financial Conference on Inflation, Held at the Request of President Gerald R. Ford and the Congress of the United States, Washington D.C., September 20th, 1974 pg. 250, 251

¹¹¹ Statement by John Kenneth Galbraith, The Economist Conference on Inflation, Held at the Request of President Gerald R. Ford and the Congress of the United States, New York, September 23rd, 1974 pg. 150. Statement by Nathaniel Goldfinger, in same, 153, 150.

The new economic thinking was made possible in part because of the generalized anxiety on the part of the financial sector. The security of the 1960s was gone. Writing in November of 1969, President Johnson's Chairman of the Council of Economic Advisors, Arthur Okun, noted that "the nation is in its one-hundred-and-fifth month of unparalleled, unprecedented, and uninterrupted expansion." Nationally, over half of corporate after-tax profit was from domestic manufacturing, representing \$13.3 billion of the \$25.3 in profits. By the mid 1970s, the assuredness of constant and predictable growth was being eroded. Instead, the financial sector seemed to be in a new world, one riven by uncertainty. In the words of a Citibank public relations document, "In short, the textbook wisdom of 1950s and early 1960s has come unstuck in the inflationary atmosphere of the 1970s." This was a radical turn in the culture of economic thought that would have dramatic impacts for years to come. But they would play out first in New York in 1975.¹¹²

* * *

1.6 Synthesis '75

These ideas all came to play in the 1975 New York fiscal crisis. The central document of the austerity regime, the Three Year Financial Plan for the City of New York developed by the Emergency Financial Control Board in the first month of its existence makes this clear. The document calls the Great Society programs of the 1960s "a social services revolution" that New York sought to support and expand despite a lack of fully funded federal programs. New York "can no longer afford to do this," it wrote, and that the planned "reduction in the level of City

¹¹² Okun quoted in Barry Bluestone and Bennett Harrison, *The Deindustrialization of America: Plant Closings Community Abandonment, and the Dismantling of Basic Industry*, New York: Basic Books, 1982, pg. 206. U.S. Department of Commerce, Bureau of Economic Analysis, National Income and Product Accounts, 1929-1994, Volume II. Citibank, Economic Week, Nov. 17, 1975, pg. 7

contributions will mean closing some day-care and senior citizen centers and cutbacks in family planning, neighborhood action, manpower training, and addiction treatment service and the anti-poverty program.” The revolution in services must be undone; so too with the social movements and civil society networks that helped make them possible. That this was a political revolution from the top, using fiscal means to achieve desired political results, there can be little doubt.¹¹³

This is striking because the EFCB document recognized that the cause of budget shortfalls were beyond the scope of city activities. It found that “just as much of the budget is beyond our immediate control, the deficit too, resulted in large measure from the national migration patterns and economic forces and policies beyond the City’s control.” In shared this framework with stateplanners from 1966. The source of the city’s problems were largely outside city control. Despite the shared framework, the conclusions in 1975 were very different – cut, not uniformly, but with surgical precision to do most damage to labor, social movements, and social benefits.¹¹⁴

Numerous public relation and investment documents produced about the 1975 New York crisis by major banks repeatedly drew the connection between racialized and gendered social welfare policies and the city’s fiscal status. As Mayor Beame was before Congress asking for federal loan guarantees, a Solomon Brothers investment guide argued that New York was in fact asking “for a permanent subsidy” because the city felt it bore “the brunt of the national problems of race and poverty.” Solomon believed this was far from true, instead it tried to frame the city’s welfare policies as a “style of life to which New York has grown accustomed,” and that the

¹¹³ Financial Plan for the City of New York and Covered Organizations, in United States Congress House Committee on Banking Stabilization Currency and Housing Subcommittee on Economic, *Debt Financing Problems of State and Local Government: The New York City Case : Hearings Before the Subcommittee on Economic Stabilization of the Committee on Banking, Currency and Housing, House of Representatives, Ninety-Fourth Congress, First Session* (U.S. Government Printing Office, 1975).

¹¹⁴ Financial Plan for the City of New York and Covered Organizations

majority of its benefits, like free public university, and “high salaries and unbelievable pensions” “goes to the middle class.” For such “gravy,” according to the bank, “the pressing need is not to finance it, but to persuade the city to change it.”¹¹⁵

This new culture of economic thinking can be seen in White House planning documents produced during the city’s crisis too. Ford’s Council of Economic Advisers, then chaired by Alan Greenspan, produced an “Economic Analysis” of the NY fiscal crisis, in which state planners recognized that the city’s fiscal crisis was part of a larger economic depression, loss of jobs, firms and tax receipts, as well as increasing social costs, that were pushing revenues and expenditures out of line. In short, according to the report, “the influence of the recession” was negatively impacting city ledgers, a decades long process, in which “inflation has raised the costs of services, unemployment and recession have increased the needs for services.” This was a stagflation economic crisis, one that came to define the decade. Much like the 1960s crisis, causes beyond “municipal contrivance” were at the heart of the city’s problems. Despite that, the economists of the White House, Alan Greenspan among them, Paul MacAvoy another, argued that short and long term fixes for the crisis needed to come from expense reductions almost exclusively.¹¹⁶

For example, White House planners argued that to achieve “long term cost reductions” would require both employment “cutbacks and “reductions in real income for those employed by the city.” These cuts would need to be supplemented with “much more drastic” cuts to union

¹¹⁵ Salomon Brothers Investment Guide, no date, in United States Congress House Committee on Banking Stabilization Currency and Housing Subcommittee on Economic, *Debt Financing Problems of State and Local Government: The New York City Case : Hearings Before the Subcommittee on Economic Stabilization of the Committee on Banking, Currency and Housing, House of Representatives, Ninety-Fourth Congress, First Session* (U.S. Government Printing Office, 1975) pg 1882

¹¹⁶ Council of Economic Advisors, Alan Greenspan Chair, Memorandum for the President, “An Economic Analysis of the New York City Financial Crisis,” Oct. 27, 1975, William Seidman Files, Ford Presidential Library

jobs and city workers, particularly police, fire and sanitation. White House planners urged job and salary cuts even though city worker compensation was comparable to other major city municipal employees. Council economists complained that “although wages are comparable, fringe benefits . . . are well beyond those offered elsewhere,” making up roughly 55 percent of total compensation costs for the city, compared to 20 percent for other similarly employed workers. Therefore, “employees should pay a significant part of their own health insurance premiums, vacation periods should be reduced, and there should be an elimination of annuity payments.” The Council found that “it will be extremely difficult to curtail these fringe benefits,” that it must be done, and therefore confronting the city unions would be necessary.¹¹⁷

More than just attacking the unions, White House state planners identified the “social wage” as a major target of the austerity program. For example:

In the longer period, the services extended to the City resident[sic] have to be reduced as well. Cutbacks in education, health, and welfare services would be a prime consideration. Particularly important is a cutback in the municipal hospital system – an 18 hospital complex and related health care facilities that provides medical series for more than 2 million patients per year Proposals have been widely made to phase out or severely reduce the number of municipal hospitals. These plans have been opposed not only because the facilities provide health care particularly to the poor, but also because there are an important source of jobs to members of minority groups. Suggestions to close a hospital have provoked bitter protests among neighborhood residents fearing the loss of this resources and have touched off sensitive racial issues. Nevertheless, cost savings must be made the most effective way is to reduce the number of small inefficient facilities. Eliminate hospitals has been a tentative municipal goal for years, but has been abandoned each time the issue is raise because of strong local community reaction.

¹¹⁷ Ibid

But no more. With the new cultural turn and expanded state powers, community and social movement resistance could be overcome.¹¹⁸

Other foci of White House planners included aspects of the social wage that “will have to undergo drastic pruning.” The CUNY system, for example was “attempting to carry out policies of open admissions” and had a hundred plus year legacy of free tuition. Open enrollments however, were achieved just a few years early, in 1970, the result of massive student protests and a system wide student strike. Those policies, the White House worried, were costing the city \$600 million a year, and wanted both open enrollment and free tuition policies dropped. Other targets included education more broadly, and the city’s welfare programs. Taxes now too were a special item of focus, but only to be capped or reduced. The White House argued that “corporate taxes should not be raise unduly,” and that “the City’s archaic rent control law” should be removed.¹¹⁹

The Ford Administration’s agenda to curb domestic social programs was expansive, one might even say extreme. According to Domestic Council planning document prepared by James Cannon, the administration was considering reform or “replacement” of nearly every social program on the national ledger, and this included attention to state and local programs as well. Cannon wrote to the President that the Domestic Council should work on “Alternatives for the replacement of current Federal programs of all income assistance, including food stamps, AFDC, SSI, the new \$50 social security bonus, and the new 10% ‘earned income credit.’”¹²⁰

¹¹⁸ Council of Economic Advisors, Alan Greenspan Chair, Memorandum for the President, “An Economic Analysis of the New York City Financial Crisis,” Oct. 27, 1975, William Seidman Files, Ford Presidential Library

¹¹⁹ Ibid

¹²⁰ James Cannon to Gerald Ford, Memorandum for the President, “Domestic Council Study: Federal Social Programs,” Apr 12, 1975, Alan Greenspan Files, Ford Presidential Library

At the heart of this agenda, a new understanding of “debt” and “responsibility.” Paramount over social concerns, were fiscal concerns, more significant now, indebtedness represented a social boogey that must be eliminated whatever the cost. White House documents speculated about rejecting “the notion that State and local governments have a self-evident right to be sheltered from the financial consequences of recession” while keeping in mind impacts such consequences would have on the national economy. According to this perspective a New York City default “will have some beneficial demonstration effects which will contribute to the health of our fiscal system in future years.” Especially important here was that “the sorry object lesson provided by our greatest city should lead to a tightening of the standards of accountability and civic responsibility in our fiscal system.”¹²¹

New York, had long been the national incubator of such programs. Home to the progressive movement and the Roosevelt governorship, the political launching pad of the Wagners, and uniquely innovative social programs of La Guardia, its political dynamics and social policies were frequently translated to the national stage. These dynamics featured particularly strong unions, social movements and community groups, and leftist organizations of all types. New York was the heart of the nation’s Keynesian policies, any effort to check the growth of social programs would have to go through New York.

1.7 Conclusion

This chapter explored the cultural transformations formed in the wake of the social movements of the 1960s and 1970s. Where the consensus from city elites, even from banks,

¹²¹ George von Furstenberg to John Davis, Memorandum: “New York City Default,” Nov 3, 1975, Burton Malkiel Files, Ford Presidential Library

throughout the early 1960s exhibited a commitment to Keynesian fiscal and social policies, after 1968 all that changed. A new thought regarding political economy emerged in which debts and deficits became the paramount concern for municipal governance. This idea came first from the financial sector, exasperated by the disruptions and costs of the social movements of 1960s, but was also widely supported by social elites, especially state planners and academics. A key set of literature that demonstrates the consensus thinking was the body of thought around the concept of the “culture of poverty,” which, despite its original intensions, was used as a rhetorical wedge to challenge the ideological justification for the war on poverty. These ideas floating around in elite circles crystalized in the 1970s. With economic turns, the national crisis brought by inflation and recession, political opportunities opened to implement the new sets of ideas and the new cultural understandings of finance and social responsibility. That opportunity was New York.

By 1975 elite attitudes had fundamentally changed. Where consensus thinking from banks and policy leaders in the mid-1960s revolved around Keynesian policies, by the 1970s the ideological commitment to New Deal social spending was disrupted in the wake of the “Negro American Revolution,” in the words of Daniel Patrick Moynihan, and the attendant social movements that grew up with it. The defining break came in the early 1970s, when not only the ideological commitment to the New Deal broke, but the economic one did too. The stagflation recession of 1973 and 1974 rewrote the rules of economics, and was a green light for U.S. elites, especially the financial sector, to move ahead with a restructuring of U.S. domestic policy. New York City was the first test case, and it would set the precedent for much of the restructuring that came in the following decades. The next chapter will explore the breakdown of the economic rules of Keynesianism, and economic and political ascendancy of the financial sector.

Chapter 2: Economy

* * *

2.1 Introduction

2.2 Post War Economy

2.3 Deindustrialization

2.4 Financial Sector

2.5 “Two for the seesaw:” Inflation and Recession Parts 1 & 2

2.6 Municipal Bond Market Failure

2.7 Conclusion

* * *

2.1 Introduction

While the response to the crisis, the use of austerity as a policy tool was shaped, in part, by the cultural turn and counterrevolution discussed in Chapter One, the cause of the crisis itself was a matter of city budgets and economies. In 1975 New York City budgets were hit with a double whammy, a severe generalized depression in the real economy, and a historic market failure for municipal bonds. More than anything else, these two factors help explain the city’s fiscal crisis. The city’s depression, part of a crisis of American manufacturing, saw a massive exodus of firms, jobs, and working class residents, which in scale, was unlike any comparable city in the landscape of American deindustrialization. Meanwhile, the failure in the municipal bond market meant that the city couldn’t access credit to ease the pressures from the collapsing industrial economy. This double hit, economic depression combined with market failure, was a textbook case for Keynesian countercyclic fiscal policies, a course not taken in 1975.

New York City's manufacturing sector experienced a post war boom, along with the rest of the nation. But looking close, one could see the signs of industrial decline early on. In no year did manufacturing employment in the city reach its 1947 high, instead a steady decline in jobs and firms proceeded apace in the decades of the 1940s, 1950s, and 1960s. With the 1969 national recession, the city's industrial economy fell off a cliff, losing an average of 1,000 industrial firms a year for the period between 1969 and 1976, and 57,000 jobs a year in roughly the same period. In 1975 industrial employment was roughly half its post-war pinnacle, and the driving force behind plant relocations was likely an effort to get costs down, especially wages and taxes, both high through the influence of the city's labor unions. The result was a full scale economic depression for the city, with roughly a million people reliant on welfare and an unemployment rate of 10%; all had dramatic consequences for city finances.

While the real economy and real people struggled, the financial sector was booming. The late 1960s were a "quiet revolution" for Wall Street. Commercial banks were pushing the regulatory envelop with innovative practices that directly challenged, or in some cases undid, New Deal firewalls between banking and investment. Among these, the development of the Negotiable Certificate of Deposit, and the rise of the Eurodollar, and commercial paper markets flooded Wall Street with cash and pushed the supply of money ever higher. Further, a new generation of banker, aggressive young hot shots, for whom the crisis of the Great Depression was known only in history books, were taking executive chairs in the nation's leading banks. Their mentality reflected a new orientation for Wall Street, and their commitment to Keynesian policy was weak.

These changes and others produced an economic crisis for the Street in the mid-1970s. Starting in 1973 with the OPEC price hike, and unhinged from regulatory protections, financial

markets entered a period of uncertainty and unpredictability, conditions that had bankers clamoring for federal and local policies that would favor profitability. Bankers' worry was being driven by unprecedented rates of inflation. As inflation skyrocketed, to over 12% during the final months of 1974, profitability was eroded, especially in bedrock investments like municipal bonds. From 1973 to 1975 the municipal bond market experienced its worst failure in history, worse even than the catastrophic losses of the 1930s. The market experienced its sharpest decline between April of 1974 and September of 1975, the most dramatic period of New York's crisis. The collapse of the market was exacerbated by an ebb tide of commercial banks leaving the municipal market, as it would turn out, for good. Banks, which as late as 1970 accounted for 90% of municipal purchases, stopped buying and started selling their inventories as bond performance tumbled. For New York, this meant as their costs were rising, credit was increasingly costly, before it completely disappeared in March of 1975 when banks collectively refused to lend to the city. This move completely locked out New York from the credit markets and began the event we know as the New York City fiscal crisis.

This chapter will explore the dual impact of depression and market failure on the political economy of New York. It will look at Wall Street's role in the process of industrial relocation, and the transformations, a "revolution" according to one observer, on the Street in the 1960s and 1970s. These transformations, deindustrialization and financialization, created severe structural strain in the 1970s. Financialization created tremendous inflationary pressure that destabilized markets and forecasting in the 1970s. The result was a loss of the sense of the fundamentals of economic planning and genuine worry, near panic, in 1974 and 1975. At the same time, New York and other cities were facing a longstanding depression, with the loss of hundreds of thousands of jobs in a few short years. The combination was a recipe for Keynesian fiscal

policies, a path not taken. Instead, as 1975 opened, a new approach in urban political economy was possible.

* * *

2.2 The Post-War Economy

Like much of the nation, New York experienced an economic “golden era” in the post war period, and manufacturing was the key. Employment in the city steadily grew from the end of the war through 1970 when it peaked at nearly 3.8 million jobs. In 1950, when the city had roughly 3.5 million jobs, over 1 million of those were in manufacturing, the largest single job sector in the city by far. By 1950 there were over thirty-seven thousand manufacturing establishments in the city, and the wartime Regional Plan Association found that manufacturing was “the chief support of the New York Metropolitan Region.” Indeed, manufacturing provided the life-force for the city’s economy, having a much bigger impact on jobs through a “multiplier effect.” Jobs that produce require ancillary industries to transport, warehouse, sell, market, and insure and finance goods. This leads to an employment multiplier, estimated between 1.25 and 1.4 times the number of jobs for every export manufacturing job in other major industrial cities in 1955. Economist John Griffin wrote that this status as “basic employment” gives manufacturing employment a “special significance.” As labor historian Joshua Freeman points out, by war’s end, almost half of the workforce of New York “made, moved, or maintained physical objects for a living.” And New York had a greater number of jobs in manufacturing than Detroit, Los Angeles, Boston, and Philadelphia combined. The city was like the nation, where

nationally, over half of corporate after-tax profit was from domestic manufacturing, representing \$13.3 billion of the \$25.3 in profits during the 1960s.¹

The city's manufacturing was defined by its diversity. Even a quick view of production located in the city found a wide variety of goods – pencils, chewing gum, electronics, metals, sugar, oil, pharmaceuticals, cosmetics, machine tools, even wine – were made and exported from the city. The three largest sectors by employment, apparel, printing, and food processing combined for half of all manufacturing employment and only sixteen percent of overall jobs. Furthermore, the average manufacturing plant was small – with just 20 production employees, and only 348 plants in the entire metropolitan area had more than 500 employees. Take for example the garment industry; if New York had a singular industrial identity, it would have been the garment trade. In 1975 New York's garment district on 7th Avenue hosted roughly 11,000 companies with over 167,000 workers, an average of 15 employees per firm. This diversity and specialization made New York, in the words of Freeman, “a non-Fordist city during the age of Ford.” New York was no Detroit or Pittsburg, cities tied to single, large scale industrial manufacturing. But it was industrial, and working-class, as much as the others.²

Labor scholar and activist Stanley Aronowitz remembers growing up in Chelsea in the 1930s and 1940s as the heart of an area of diverse industrial, transit, and related industry. “Chelsea was an industrial center primarily because it was contiguous with the Hudson River,”

¹ U.S. Department of Labor, Bureau of Labor Statistics, “Employment, Hours, and Earnings, States and Areas, 1939-82, Volume II: New Hampshire-Wyoming,” Washington, D.C., 1984, (Henceforth BLS, “Employment”); Joshua B Freeman, *Working Class New York: Life and Labor Since World War II*, New York: the New Press, 2000, pg. 7-8. John I Griffin, *Industrial Location in the New York Area*, New York: City College Press, 1956, pg. 103-105. Los Angeles and Wichita are the other cities used to calculate the multiplier effect. Citibank, Monthly Economic Letter, Jan. 1979, pg. 11

² Freeman, *Working Class New York*, 10, 15; Herbert Koshetz, “Garment District is Alive but Ailing,” *New York Times*, Jan. 5, 1975.

Aronowitz remembers. “It bordered the Hudson River and particularly it was close to the Battery,” he continued, “it had very good port and transportation industry, ships, the docks, and the trucks, all had major facilities in the Western part of Chelsea . . . that nearness to transportation, that proximity, gave rise to a wide variety of manufacturing industries. Largely light machine and needle trades manufacturing.” Aronowitz recalled that his boyhood ball games on the block would become noon-time spectator sports as workers on their lunch break perched along the street, flooding the block to watch the kids play. His reflections show that New York industry was integrated with transit and other sectors, and that it produced a working-class culture and very visible presence in the city.³

Many of these industrial workers were in unions. By the early 1950s over one million workers in New York were dues-paying union members. These unions, combined with a “large, vibrant political left,” to implement some of the most humane municipal social programs in the United States. These programs included a bevy of municipal hospitals, 22, more than any other city by a factor of seven. Free university tuition for all city high school graduates under a program called open enrolment. And supplemental and expanded social welfare spending that included elder care, child care, drug prevention and recovery programs, job placement and training, cash assistance, and other benefits. In the words of one scholar, it was closest the United States got to social democracy. This was made possible by strong unions. Unions were instrumental to the political process in New York, often able to elect political candidates when major parties were fractured. For example, Robert Wagner Jr.’s three terms in the 1950s and 1960s were made possible through union support. In return he provided city rules that made organizing municipal workers possible for the first time in 1958. In many of the “sweated”

³ Stanley Aronowitz, oral interview, Tamiment Wagner Labor Archives, pg 4

industries of NYC, unions supplemented employer concessions with public action. Where employers couldn't or wouldn't provide health care, unions turned to the city, and they were able to leverage their economic and electoral power into policies that benefited working-class people.⁴

Another contributing factor was strong social movements from the bottom, including left and civil rights organizations. CORE and Ella Baker were working on jobs in the city. Students of color foisted open enrollment on the schools through student movements in 1970. And communists of many stripes were always strong in NYC. Murray Bookchin ran a study group out of his apartment for young anarchists. The CP kept visible presence in NYC's political scene. Many Marxist-Leninist parties placed workers in the city unions, both public and private sector, in attempts to boost worker militancy.⁵

The lynchpin for all of these developments was the strong manufacturing sector in the city. Good manufacturing jobs, created through the struggle for unionization, contributed to a vibrant working class collectivity, including social, ideological, and political components. But beginning in the late 1950s, manufacturing faced a long, slow decline. There was no single moment of loss, just the slow erosion of jobs for two and a half decades that would have dramatic impact on the culture and politics of the city.

⁴ Freeman, *Working Class New York*, 41, 56; Raymond D. Horton, *Municipal Labor Relations in New York City* (Praeger Publishers, 1973).

⁵ Bruce Trigg, Interview with author, Oct. 5, 2014, and Freeman, *Working-Class New York*.

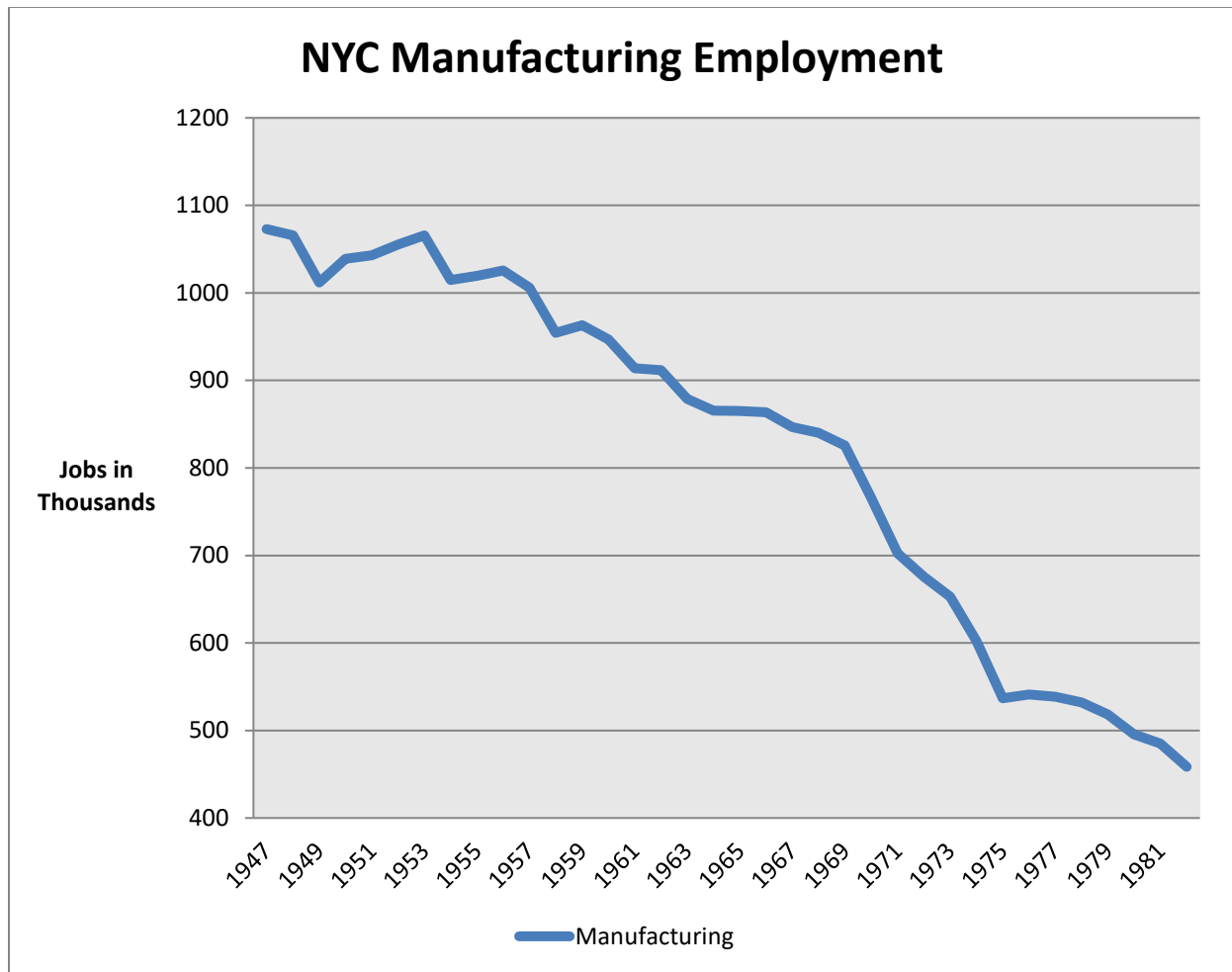
* * *

2.3 Death of an “Industrial Agglomeration”: The Changing New York Economy

Although New York was experiencing a golden era like much of the nation, beneath the major trends was a serious economic rot. The city’s manufacturing sector faced severe pressures, and, evident from the late forties, the city began to lose substantial numbers of plants and jobs. Deindustrialization meant the city’s economy was in serious decline for quite some time. By the recession of 1969, the city was in crisis.

Beginning in 1947 manufacturing jobs in New York City began a slow and steady decline throughout the decades of the 1950s and 1960s. Overall manufacturing jobs dropped from a high of over a million in the post-war period, to just 825,800 in 1969, an average drop of over 10,000 jobs a year. By 1966 the editors of the *New York Herald-Tribune* were writing that “industrial development in New York City is at the crossroads,” with the recession of 1969, New York employment in industry went over a cliff. It began a precipitous decline, shedding 60,000 jobs by 1970 and continuing a sharp decent through 1975. The city lost nearly 300,000 jobs by the middle of the 1970s when manufacturing employment stood at just 536,000, down nearly half from its post-war high, an average loss rate of nearly 70,000 jobs per year for the first half of the 1970s. All told, from 1969 to 1975 New York City lost over 500,000 jobs. That number would increase to over 600,000 in the years after the fiscal crisis.⁶

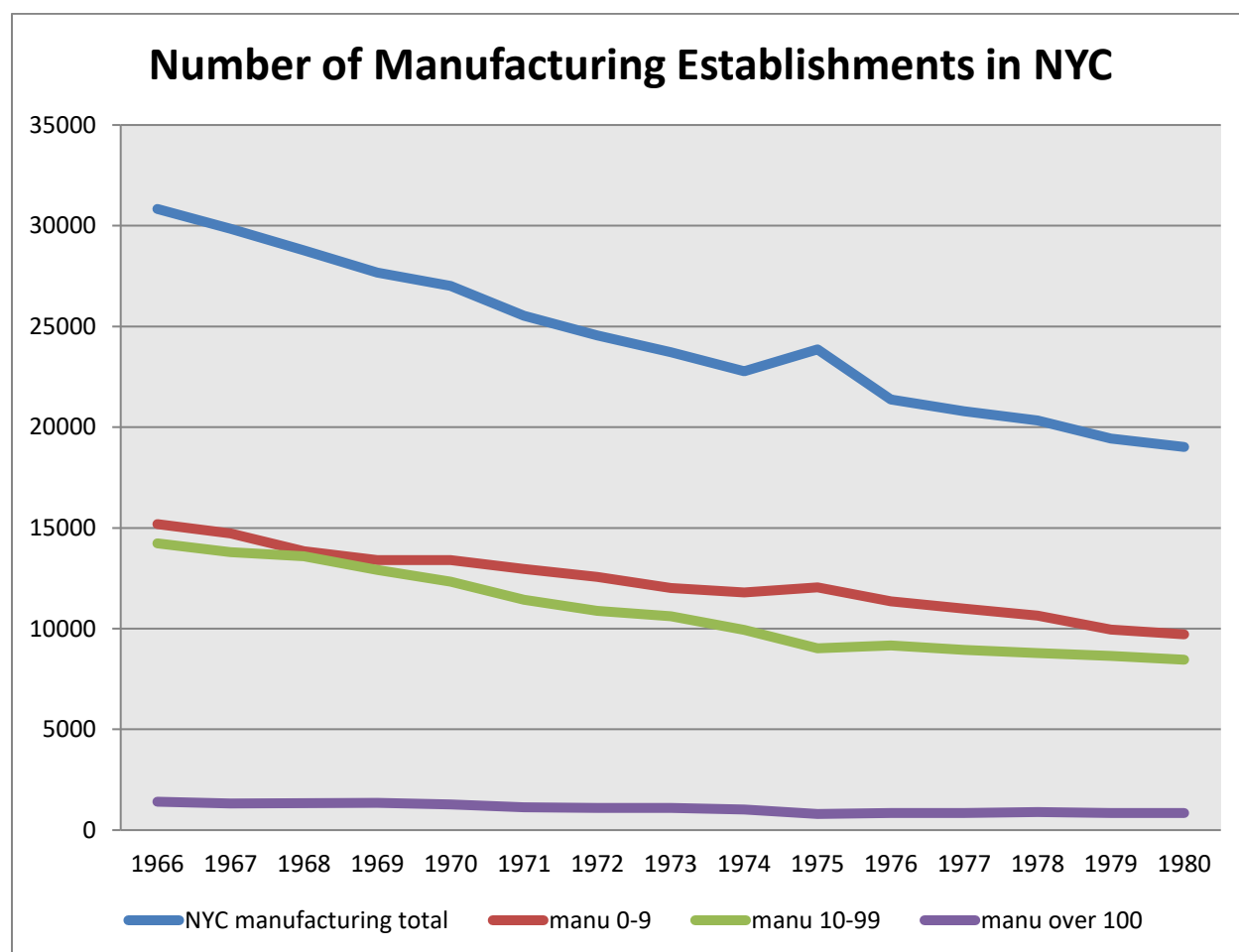
⁶ Barry Gottehrer, *New York City in Crisis*, prepared by the New York Herald-Tribune staff under the direction of Barry Gottehrer, New York: Pocket Books, Inc., 1965, pg. 92; BLS, “Employment.” From 3.79 million in 1969 to 3.26 million in 1975.



Source: U.S. Department of Labor, Bureau of Labor Statistics, *Employment, Hours, and Earnings, States and Areas, 1939-82: Vol. II, New Hampshire-Wyoming*.

The process accelerated in the late 1960s, and especially in the first half of the 1970s. Combined with the job loss was factory relocation. Between 1964 and 1974 the city lost nearly eight-thousand manufacturing establishments. By 1980 that number increased to over eleven-thousand. Between 1967 and 1972, a short five year period that covered part of the most precipitous decline, “manufacturing establishments with 20 or more employees went out

business in New York City at the net rate of nearly one a day.” The average decline between 1969 and 1976 was the loss of over 1,000 firm per annum.⁷



Source: New York State Department of Commerce, *New York State Business Fact Book*

These kinds of drops make New York the U.S. rust belt city *par excellence*, as no other city even approached these kinds of numbers. However, there is surprisingly little literature on the topic, and no definitive interpretation of decline for New York. Much of the

⁷ New York State Department of Commerce, *New York State Business Fact Book*, Number of Reported units covered by employment. And the graph below. Felician F. Foltman and Peter D. McClelland, eds. “New York State Economic Crisis: Jobs, Incomes, and Economic Growth – Proceedings and Commentary from the Labor-Management Conference on the Business Climate and Jobs in New York State,” Buffalo, New York: Nov. 6-8 1975, New York State School of Industrial and Labor Relations, Cornell University, pg. 1

contemporaneous literature on New York deindustrialization pointed to spatial concerns of the city's manufacturing sector as the chief reason for the exodus. Expansion and the search for space, they argue, drove employers out of the city in what became a global narrative, first to the suburbs as a short stepping stone before the great leap to Mexico, Central America and Asia.

The key progenitors of the spatial thesis came from Harvard. Funded by the business backed Regional Planning Association, the Harvard scholars published a ten volume study on the political economy of the city in 1960. Edgar M. Hoover and Raymond Vernon's *Anatomy of a Metropolis* looked at the growing tensions between city and suburb, and gave manufacturing a prominent role in the demographic and economic relocations. They argued that "the search for space" was the largest single factor in factory relocation in the 1950s. Their argument came largely from several survey's conducted by the Regional Planning Association, the Brooklyn Chamber of Commerce and similar sources. They disparaged other interpretations, primarily wages and taxes as paramount causal factors. For wages, they saw rates more or less equalize between city and suburb, such that out migration could not be due to labor. Furthermore, business attitudes toward taxes were "steeped in pure emotion and impure data," and therefore could not be considerable factors in plant relocation. With the assumption that business leaders were rational and efficient actors, emotional factors like labor and the taxman could not be primary causal agents.⁸

Another volume in the Harvard study elaborated. Robert M. Lichtenberg's *One-Tenth of a Nation* argued that "standardization" of production, the transition of industries from specialized

⁸ Edgar M Hoover and Raymond Vernon, *Anatomy of a Metropolis: The Changing Distribution of People and Jobs with the New York Metropolitan Region*, Cambridge, MA: Harvard University Press, 1959, pg. 29, see footnotes 1 and 2, 45, 55.

to mass production, was a centrifugal force for city manufacturing. This was the “mature” industry thesis: that with time, as manufacturing improved in efficiency and broadened its market share, the cost benefits and economies of scale that came with large volume standardized production would induce companies to expand. In jammed packed New York, where space was at a premium and property values high, manufacturers had a hard time locating single story industrial space needed for continual through-put.⁹

The solution for scholars like Lichtenberg, Hoover, and Vernon concerned with spatial / technical aspects of city manufacturing was similarly technical. The city needed to provide industrial zones to help facilitate the kinds of Fordist production to which every manufacturer should aspire, according to this efficiency theory, perhaps in east Queens or Brooklyn. Mostly, however, the municipal experts seemed unconcerned with the phenomenon of plant relocation, at least in the early 1960s. If manufacturing was leaving for more efficient waters, so much the better for all concerned.

These kinds of academic policy proscriptions got picked up by policy makers. The Lindsay administration’s 1969 *Plan for New York City* incorporated the analysis of the Harvard study in their discussion of NY manufacturing. While expressing commitment to maintaining manufacturing in the city, the *Plan’s* analysis, based on spatial concerns, sought innovative real estate and zoning initiatives to stem the tide of industrial flight. With one-half of industrial space in the city found in Manhattan, over 190 million square feet, the Commission found that special incentives should be given to decentralize the concentration of industrial shops in the “Central Business District” – the area of Manhattan roughly south of Central Park. This meant creating

⁹ Robert M Lichtenberg, *One-Tenth of A Nation: National Forces in the Economic Growth of the New York Region*, Cambridge, MA: Harvard University Press, 1960, pg. 138-139

industrial zones and tax incentives in the outer boroughs, giving manufacturing concerns space to expand. Even contemporary scholars, like Joshua Freeman, write that “it was almost a rule of New York manufacturing that as soon as a product become standardized and began to be sold in large quantities, its production was moved out of the city and often out of the region entirely.”¹⁰

Roger Starr, administrator of the city’s Housing and Redevelopment Administration, subscribed to the leading liberal theorization of the deindustrialization at the time too: “we found it economically more efficient,” Starr wrote, “to build all of the externalities into a one-story factory.” The strength of New York’s industrial sector, was its integration into a network of industry services and products. For Starr, “our garment industry depended on a chain of externalities. The ability to push a dress from the buttonhole maker to the button sewer-on, from the hem stitcher to the collar turner, they are all gone.” As firms started to leave, it could contribute to a cascade effect. If a particular supplier or resource was gone, the advantages of city location were diminished. Starr and others saw this transition as a move to greater efficiency.¹¹

There is a lot of merit to this interpretation. With the exception of the Navy’s shipyard in Brooklyn, New York never had the kind of single firm, large-scale manufacturing that characterized the other major industrial cities in the at the beginning of the twentieth century. But this seems to be a New York City constant. Even in the period of tremendous growth, between 1899 and 1954 when NYC manufacturing grew 248%, manufacturers were cramped for space and would leave the city as they grew. What the mature industry thesis and the search for space

¹⁰ Freeman, *Working Class New York*, 14

¹¹ Roger Starr, “The Dilemmas of Governmental Response,” in George Sternlieb and James W. Hughes, eds., *Post-Industrial American Metropolitan Decline and Inter-Regional Job Shifts*, Rutgers, State University of New Jersey Press, 1975, pg. 248

does not explain is why in the early 1950s New York City began to experience a slow and constant industrial decline; why the firms that left were not replaced. Industrial flight is of course a complicated phenomenon, and there is no comprehensive, or even singular study of deindustrialization for the city. However, it does appear that the very factors the Harvard study discounted may in fact have been the leading causal agents in plant relocation.¹²

A much overlooked study, *Industrial Location in the New York Area*, published in 1956 by John Griffin, a CUNY economist, not only identified the trend, but used survey information of industrial firms in the city as well as those recently relocated to try to get a fix on what was behind the movement. In a survey of 2,582 manufacturing firms in the fifteen county New York area in 1955, the leading responses for problems with manufacturing in the city were taxes of various kinds, followed by wages and labor issues, then other factors like attitudes of government officials, traffic, and other costs specific to the city. In the five counties of the city respondents were most concerned with wages and taxes. In Kings, New York, Richmond and Queens Counties, taxes, wages, and unions were all top vote getters. In the Bronx the attitude of local officials was the leading problem, with taxes and unions also ranking high.¹³

In individual respondents' answers frustration with labor and city officials ran high. One respondent from Brooklyn wrote that the leading factor in relocation was frustration with "obsolete or union-sponsored regulations or codes which place manufacturers at a disadvantage in plant operations." A Manhattan based employer wanted "better and more realistic attitudes of the part of local labor unions." Where difficult labor relations was a major reason for relocation, satisfactory labor relations was a cause to stay. Griffin's study found that historically, New York

¹² Griffin, *Industrial Location*, 1

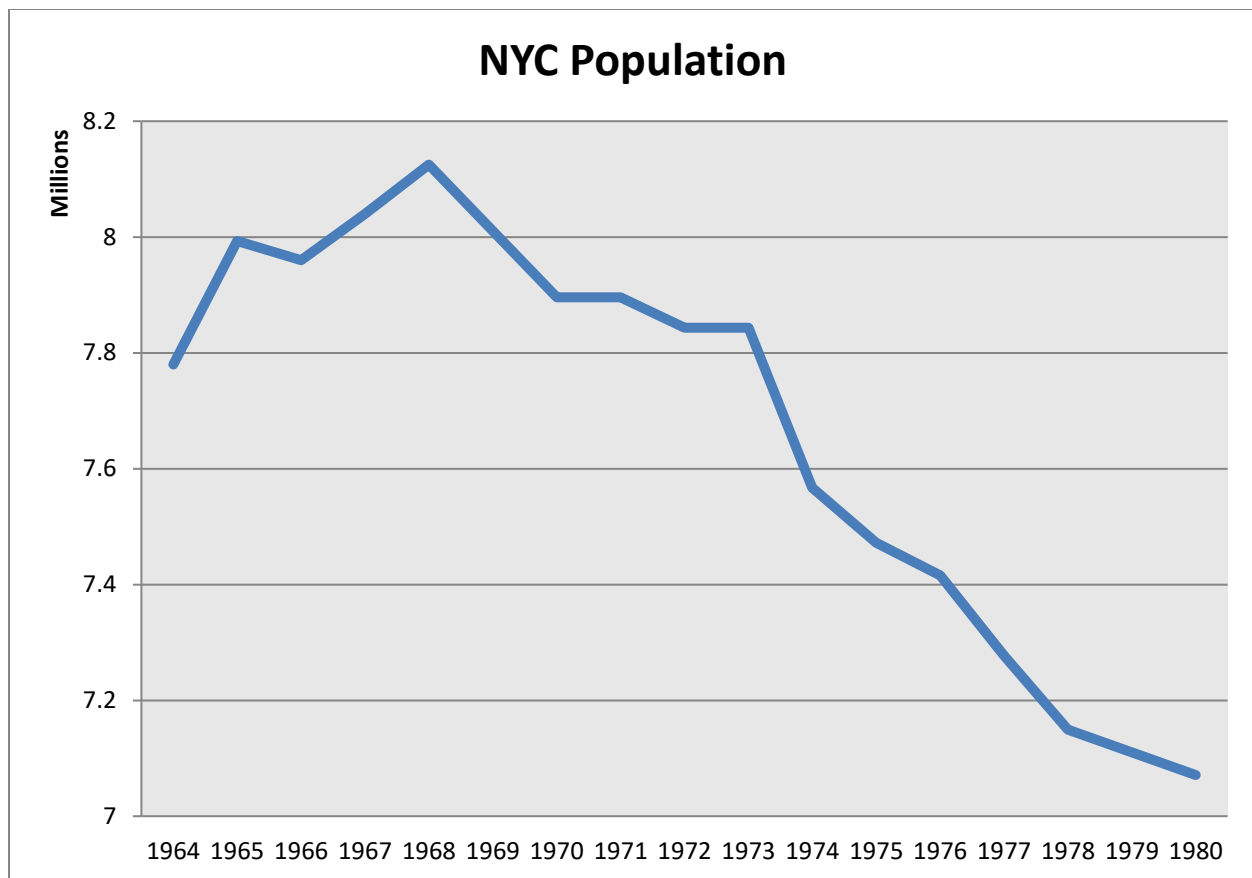
¹³ Griffin, *Industrial Location*, 54, 72-76, and tables xxiii-xxvii

based industry, especially apparel, “were drawn to New York City because of the presence of cheap immigrant labor.” One firm in the Bronx found that the borough’s chief benefit was “proximity to unskilled labor supply.”¹⁴

But all that was changing. New York City population started to decline in the late 1960s, and continued to slide throughout the 70s. The great escape from New York meant the overcrowded conditions, with waves of new immigrant workers piling in to take on onerous jobs were dissipating. While New York City gained just over 100,000 residents on the decade of the 1960s, they lost over 800,000 people in the 1970s. White flight and suburbanization may have been the story of the 1960s and 1970s demographic trends in the city, but losing the city’s working class residents and the impact on labor costs made firm competition in New York more difficult too. If indeed cheap labor was a major contributor for New York industrial site location as the Griffin study seems to indicate, the demographic shifts certainly played a big part in changing labor markets, and firm location. As would unions, who fought to keep wages higher for those that remained.¹⁵

¹⁴ Griffin, *Industrial Location*, 64-65, 20, 63

¹⁵ U.S. Department of Commerce, Bureau of the Census, *City Government Finances*. New York population numbers did not return to their pre-crisis heights until 2000.



Source: New York State Department of Commerce, *New York State Business Fact Book*

The changing cost, and control, of labor and unions would continue to vex employers in the post war period. Economists Pearl Kamer and Dennis Young point out that unit labor costs “are generally the largest cost element in production-oriented manufacturing.” If the end to net in-migration was driving up the cost of labor in the city, this could be a major contributory factor to the exodus of manufacture. However, it was not just costs, as “labor in the city presents to manufactures some other acute problems,” notably ones of control. CUNY economist Edwin Reubens writing in the late 1970s found that an analysis of manufacturing surveys all put labor costs and control high on their priorities list. In a 1979 survey of 3175 businessmen conducted by Louis Harris and Associates, the business polling firm, found that while a majority of city businesses placed overall costs, taxes, and land costs as their top priorities, manufacturing firms

put taxes and labor as their top two concerns. Another city manufacturing survey found that “the most important factor include the supply and productivity of labor, wage levels, and access to raw materials, markets and means of transportation.” Reubens concludes that “availability of workers, their regularity and stability, their trainability, their willingness to cooperate, are crucial matters to this city.”¹⁶

In an interview with the *Wall Street Journal*, Donovan Dennis an executive at Fantus Corporation, a firm that specialized plant relocation consulting confirmed labor was the single largest contributing factor to plant moves. “Labor costs are the big thing, far and away,” he responded. “Nine out of ten times you can hang it on labor costs and unionization.” Hardly anyone outside of displaced workers gave serious attention to deindustrialization in the 1960s and 1970s. In 1980, when broader sectors of the society were taking notice, Citibank wrote a lead story in their Economic Newsletter on deindustrialization, summed up in the headline: “Labor Costs: Why Factories Leave Home.”¹⁷

The leading urban economist, Wilbur Thompson, writing in 1975 found that more than just labor, class-based “racial dilemmas” also influenced New York employers proclivity to move. Thompson noted the racial character of the move south, writing that “manufacturing is moving to the Delta,” because “relocating manufacturers find the hill country white workers are

¹⁶ Pearl Kamer and Dennis Young, “New York City’s Competitive Position: A Review of Selected Manufacturing and Service Industries,” in Benjamin J Klebaner, ed., *New York City’s Changing Economic Base*, New York: Pica Press, 1981, pg. 45. Edwin Reubens, “Urban Industrial Parks versus the Exodus of Manufacturing,” in Klebaner, *New York City’s Changing Economic Base*, 113, 115 table 1, 114, 113

¹⁷ Barry Bluestone and Bennett Harrison, *The Deindustrialization of America: Plant Closings Community Abandonment, and the Dismantling of Basic Industry*, New York: Basic Books, 1982, pg. 165. Citibank, “Labor Costs: Why Factories Leave Home,” Monthly Economic Newsletter, November 1979

free thinkers who reject unions, while black workers seek the protection of unions. With white labor,” he wrote, “there is neither a union problem nor a racial problem. It’s just easier.”¹⁸

Southern mayors, eager to attract industry, echoed Thompson’s ideas on race and unions. In the early 1960s Schieffelin and Company, a cosmetics and pharmaceutical company based in Cooper Square in lower Manhattan moved to Apex, North Carolina, a small city near Raleigh. Apex’s mayor, Richard Helmold, told the Herald-Tribune that “we don’t buy unions down here. The people here are a little more independent. They wouldn’t stand for it. They wouldn’t even honor a picket line. I have a friend who had a shop where a union came in and called a strike. He just put out a sign, ‘help wanted.’ That ended the strike.”¹⁹

The majority of scholarship since the 1980s has emphasized labor as an explanatory cause too. Jefferson Cowie’s study of RCA found that the repeated moves of plant relocations were largely responses to “workers’ increasing sense of entitlement and control over investment in their community. Capital flight was a means of countering that control as the company sought out new reservoirs of controllable labor.” Cowie was writing of RCA in Camden, New Jersey, but the logic applies more broadly.²⁰

The major study of deindustrialization, Bluestone and Harrison’s *The Deindustrialization of America*, also gives labor a prominent role as a major cause of the industrial dislocations. In the search for profitability in the 1970s meant targeting unions. The strength of unions in the post-war period had effectively limited “the discretionary power of management” on a whole host of firm concerns. Because of this, “management had to find some mechanism for disarming

¹⁸ Wilber Thompson, “Economic Processes and Employment Problems in Declining Manufacturing Areas,” in Sternlieb and Hughes, *Post-Industrial*, 190

¹⁹ Gottehrer, *New York City in Crisis*, 99

²⁰ Jefferson Cowie, *Capital Moves: RCA’s Seventy-Year Quest for Cheap Labor*, New York: The New Press, 1999, 4

organized labor of its standard weapons: the grievance process, various job actions, and work stoppages.” Given the crimp on profitability, “instead of accepting the new realities of the world market place, one firm after another began to contemplate fresh ways to circumvent union rules and to hold the line on wages” and, they conclude, “the solution was capital mobility.”²¹

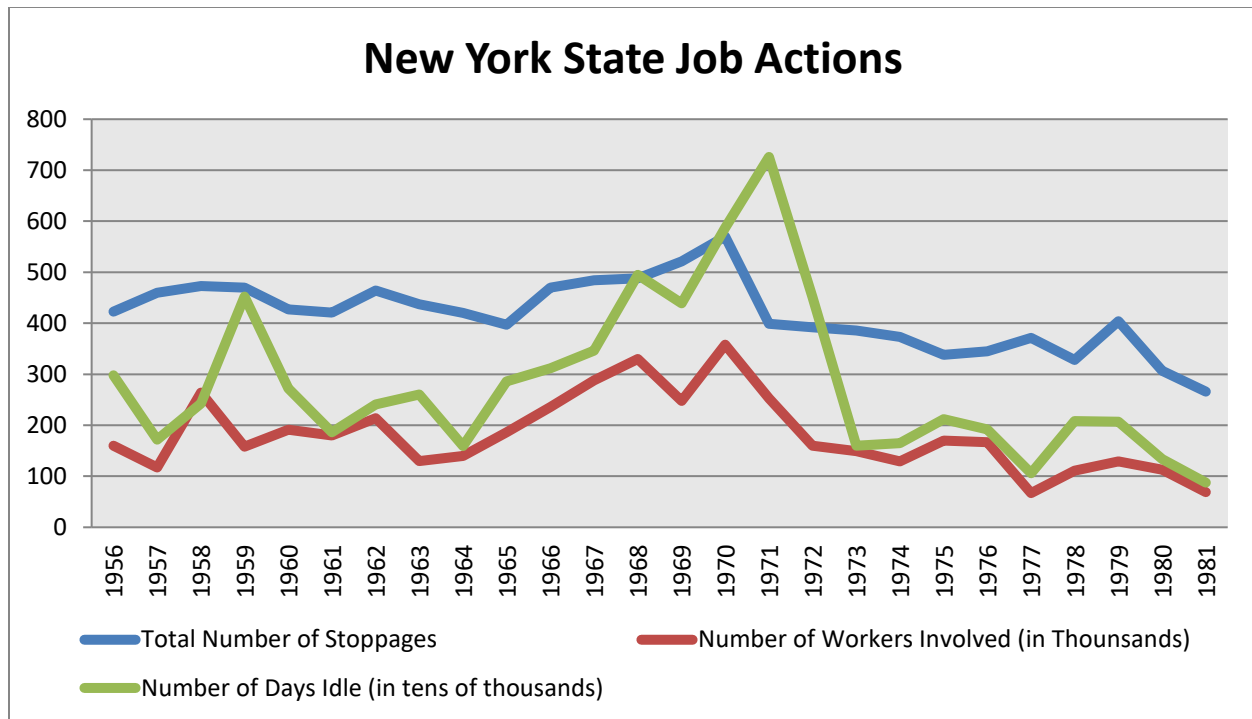
Samuel Bowles, David Gordon, and Thomas Weisskopf agreed. In their book *Beyond the Wasteland*, “corporate power” responded to the labor radicalism of the early 1970s, events like the GM Lordstown strike, with an attempt to reassert control through plant relocation. Even Robert Lichtenberg, part of the RPA and Harvard study series, placed high production costs, “especially high wages,” along with “mature” industries, and the transit revolution, as the top three factors in industrial plant relocation.²²

And there was in the 1960s a growing trend of worker job actions that impacted production. While numbers are not available at the city level, for the state, the number of job actions increased from 427 to 587 over the decade. During the same period, the number of workers involved in strikes more than doubled, from 191,000 in 1960 to 358,000 in 1970. And from 1961 to 1971, almost the same period, the days lost to strike activity exploded from 1,860,000 to 7,260,000. For the city, that number also peaked in 1971 and made up over half of the state number, with 4.2 million workdays lost. It seems reasonable to place New York City deindustrialization in the context of expanding worker action and worker militancy.²³

²¹ Bluestone and Harrison, *The Deindustrialization of America*, 16, 17

²² Samuel Bowles, David A Gordon, and Thomas E. Weisskopf, *Beyond the Wasteland: A Democratic Alternative to Economic Decline*, Cedar City, New York: Anchor Press / Double Day, 1983, pg. 136-137, 148. Lichtenberg, *One-Tenth of A Nation*, 109

²³ U.S. Census, *City Government Finances*; Freeman, *Working Class New York*, 251.



Source: U.S. Department of Commerce, Bureau of the Census, *City Government Finances*.

This would seem to point to wages, labor and unions as a major concern for the business community, and a significant factor in the phenomenon of industrial flight. But taxes were another significant factor. Municipal tax rates have been overlooked because between municipal and county rates the difference was usually only a fraction of a percent, hardly a compelling motivation to shoulder the millions of dollars in cost of plant relocation. But as Griffin points out in a case study of the American Safety Razor plant relocation, while the property tax rates between Brooklyn and Staunton, Virginia, where the plant moved, were almost identical, the property valuation was one-tenth that of New York, dropping the companies taxes from \$55,000 to \$5,000. Even without aggressive recruiting by southern and suburban municipalities, including

special incentives and subsidies, tax savings alone could be significant inducements. For the city, this meant a significant loss of commercial tax revenue.²⁴

Besides labor and taxes, the 1960s redevelopment projects also dramatically impacted the ability of manufacturing to thrive in the city. Many of the major redevelopment projects of the post-war era, the United Nations complex, the Brooklyn Civic Center, Stuyvesant town, and others, were placed right in the heart of industrial districts. Historian Joel Schwartz writes that “redevelopment decisions obliterated the industrial legacy on both sides of the East River,” and he highlights that the projects “not only brought the largest elimination of blue-collar jobs in the city’s history, they preempted future space for manufacturing and warehousing.”²⁵

Development Project²⁶	Industrial/Commercial Structures Lost	Jobs Lost
UN	155	2600
Brooklyn Civic Center	254	8200
NYU Bellevue Center	25	1100
VA Hospital / Stuyvesant Town	78	2200
Corlears Hook	176	2200
Housing Authority Projects	39	1600

In the 1960s the pace and scale of the office and residential redevelopment quickened, at the expense of the city’s manufacturing. In 1961 the city passed a zoning ordinance that made industrial development much more difficult. The act “vastly shrunk” the area where manufacturing was permitted. As Robert Fitch notes, the Act “narrowed the ring on manufacturing all over the city, but Manhattan suffered most.” As Fitch rightly points out, these changes were facilitated by municipal policy, a kind of benign neglect by city officials. In the

²⁴ Griffin, *Industrial Location*, 92

²⁵ Joel Schwartz, *The New York Approach: Robert Moses, Urban Liberals and Redevelopment of the Inner City*, Columbus: Ohio State University Press, 1993, pg. 238

²⁶ “Job Clearance Along the East River, 1945-1955,” in Schwartz, *The New York Approach*, 238

worst case interpretation, city official were actively undermining city industry. A draft version of Lindsay's 1969 Plan for the City of New York states that "in the long run, New York does not want to retain the low skill, low wage segment of its industrial mix . . . the displacement of manufacturing activity in the CBD is the complement to the expansion of office construction which results in more intensive land use, higher investments and more jobs than manufacturing activities they replaced." By 1969 there was an additional 30 million square feet of office space in Manhattan, much of it unused in the ensuing depression and corporate flight from the city in the 1970s.²⁷

According to the 1956 Griffin business survey, in addition to labor and taxes, city indifference to plight of manufacturing in an era of post-industrial redevelopment also contributed to plant relocation. A Bronx employer responded that city officials view industrial firms as "eyesores" to be replaced by dwellings usually of the slum clearance type," and that the city "no longer cares about maintaining manufacturing industry in its environment." A Brooklyn firm chimed in, "New York, apparently, does not want manufacturing industries." Another, from Queens, that "City officials are completely uncooperative towards business." Griffin concludes that "public agencies in the Area and particularly in New York City have not been sufficiently sympathetic to and conscious of manufacturing industry as a vital force in preserving the community as a viable one." This should be taken with a grain of salt. Businessmen are forever complaining that the state doesn't address their concerns adequately, even in a business run society like our own. Nevertheless, in the late 1960s and early 1970s city planners seemed to deprioritize manufacturing in setting policy.²⁸

²⁷ Robert Fitch, *The Assassination of New York*, New York: Verso Press, 1993, pg. 135, 120, 122

²⁸ Griffin, *Industrial Location*, 63, 66, 3-4.

Still another contributing factor to job loss and industrial relocation was the loss of the New York Port. In 1958 the Port of New York estimated that 430,000 jobs in New York City were related to port activities. Historian Marc Levinson, concurs; based on U.S. Census Bureau numbers, he found that roughly 410,000 jobs were tied to the port in 1951. Yet by 1966, New York City became the “epicenter” of the “container revolution” in shipping. In April of 1956 the Port of Newark shipped the first containerized cargo from their docks, to ports on the Gulf coast. The reduced cost and increased profitability made containerization irresistible and the result was a dramatic shift in portage from the New York archipelago, to the mainland of New Jersey: in 1965 New Jersey held about thirty percent of the port’s cargo, by 1970 that number had increased to sixty-three percent. This containerized shipping revolution was also part of the reason industrial firms were able to move inland.²⁹

By 1965 the city had given up on its ports, Mayor Wagner’s City Planning Commissioner, Leo Brown, saying, “we believe it is neither necessary, desirable, nor indeed feasible to 'turn back the clock' and attempt to rebuild two more miles of Manhattan waterfront for cargo piers.” The impact on city jobs was tremendous. According to Levinson, “in 1963-64, Manhattan employers used 1.4 million days of longshore labor. Hirings slid below a million in

²⁹ Fitch, *The Assassination of New York*, 76: Marc Levinson, “Container Shipping and the Decline of New York, 1955-1975,” *The Business History Review*, Vol. 80, No. 1 (Spring 2006), table 2 pg. 54. He goes on to explain: “The port was a vastly important source of jobs in New York City. In 1951, more than one hundred thousand New Yorkers worked in water transportation, trucking, and warehousing, not counting railroad employees and workers in the municipal ferry system. Another fourteen thousand worked in “transportation services,” handling the complexities of international trade in an age when each leg of a journey had to be arranged, and paid for, separately. More than one third of all “transportation services” workers nationally were in New York. About three-fourths of the nation’s wholesale trade in the early 1950s was transacted through New York. Then there were the factories located on the waterfront for ease of shipping. In 1956, ninety thousand manufacturing jobs within New York City were “fairly directly” tied to imports arriving through the Port of New York. Marine construction and ship repair employed thousands more. Add in the marine insurance brokers whose offices lined John Street in Lower Manhattan and the lawyers and bankers who serviced the shipping business, and it would be fair to assume that the livelihoods of half a million workers may have depended directly on the port.”. Levinson, pg. 72

1967-68 and dropped to 127,041 in 1975-76 a 91 percent decline in 12 years.” Adding that “by the middle of the 1970s, the New York City docks were mostly a memory.” Furthermore, warehousing was also reduced as it was no longer necessary to store, sort and arrange goods before shipping. Levinson concludes: “By reducing the need for factories to be near docks or customers, it diminished New York's power as an industrial center. By opening the way to low-cost shipment of goods made in cheaper locations, the container contributed significantly to the decline of New York's economy in the 1970s.”³⁰

Despite the avalanche of firms, jobs, and whole industries leaving the city, there was a remarkable dearth of serious discussion about the phenomenon, at any level in the city, until the late 1970s. Yardly Electric, Queens Cosmetics, American Safety Razor Company, Otis Elevator Company, ER Squibb, Mergenthaler Linotype, Union Carbide all left in the post-war period. Yet serious resistance or rethinking of the process is hardly evident. The one place where there was conflict around the process of deindustrialization in NYC came through the unions, especially left influenced ones. The American Safety Razor (ASR) relocation stands out as particularly relevant.

ASR is noteworthy both because it was an early effort at plant relocation, coming in 1954, and because it was closely followed in the press and the political community of New York, unlike the tens-of-thousands of other plant closings and relocations in the city. Ostensibly, the company decided to move because of the Brooklyn Civic Center's redevelopment project then underway. Although there were never any plans to seize and transform the ASR property, company president Sidney Weil insisted that city officials never assured him that the ASR

³⁰ Levinson, “Container Shipping,” 67, 72, 73, 53

building was safe from redevelopment plans. When the union at ASR, the communist led United Electrical workers, heard of the definitive plans to move, they promised to fight back. They staged a two prong campaign to halt the move, an occupation of the facilities that became the longest such strike action in NYC history, and a boycott of ASR products. In both aspects they were hindered by their isolation from the rest of the labor movement. The approach of other unions, including left influenced ones like the ILGWU was to negotiate to keep New York labor competitive with other regions. This meant lower wages, or benefits, or other perks for employers. The UE tried direct confrontation, at the same time that they were being attacked and demonized through anti-communist purges in the labor movement and show trials of the HUAC. The union refused to have officers sign anti-communist oaths, and their defense of the ASR plant made NYT headlines for weeks, as workers struggled to keep their jobs. But the union was politically isolated. Other unions failed to support the boycott and plant occupation. Undoubtedly weakened by their isolation, and despite heroic efforts of the part of UE, the company moved their plant to Virginia.³¹

Most notable about the ASR move, is that the city did not actually have any plans to remake the property. In the words of Brooklyn Borough President John Cashmore, “the general plan for the downtown area would not only permit the Razor Company to remain, but would in our opinion provide better opportunities for improvements and expansion.” John Griffin obliquely comments for “some observers” that “the Civic Center Plan was really never an issue but merely an excuse for the outmigration.” Meanwhile, militant unions like the UE, the only organized sector of New York society that seemed able to try to combat the phenomenon of runaway shops, was being pinched by the combined assaults from the rest of the labor movement

³¹ Griffin, *Industrial Location*, 88-92

and the relocation plans of the corporate sector. The success of the plant relocation drive left unions like the UE with diminished capacity to fight future changes.³²

In the 1970s Seatrain, a private ship construction firm based out of the former Navy Yard in Brooklyn, provides another noteworthy example. In January of 1975, right at the height of the city's budget crisis, Seatrain laid off 1,800 workers, 85 percent of its Brooklyn workforce and 60 percent of all the Yard workers. A majority of the workers laid-off, 85 percent, were minorities. This came on top of another 1100 layoffs just two months previous. The reason, the price spike in oil, and restricted market, was forcing them to delay tanker production until the market returned. But there was a deeper reason. President Ford had vetoed the Energy Transportation Security Act, which would have given American made tankers a thirty percent mandate for ships bringing in oil to the United States. In fact, Citibank, and its ties to shipping magnate Aristotle Onassis had been moving to squash such regulations for a decade. Ford's veto was a major victory, and allowed the bank to further the process of offshore production and financialization of the economy. Meanwhile Mayor Beame was left to call the layoffs "tragic" and hope for federal relief. In the wake of the Seatrain layoffs local businesses that benefited from Navy Yard workers remarked that "the streets are like a morgue."³³

The Seatrain layoffs capped a brutal mid-'70s depression for the city and region. New York was "worse off than most," in that it's unemployment through the dip was as much as two points higher than the nation, at 8.5 percent in December of 1974. Thousands more, like the Seatrain workers and thousands of city employees, lost their jobs at the break of 1975; the city's

³² Griffin, *Industrial Location*, 88

³³ Grace Lichtenstein, "Seatrain, Builder of Tankers, Lays Off 1,800 at Brooklyn Yard," *New York Times*, Jan. 23, 1975. New York officials hustled for federal aid to replace the jobs in the wake of the layoffs. See Joseph Fried, "Navy Yard Rebirth Brings Joy to Area," *New York Times*, May 18, 1975.

unemployment rate hit 10.5 percent in January of 1975, the highest since the Great Depression. The *New York Times* explained that the region, including New York Metro, New Jersey and Connecticut, faced higher unemployment because “the area is more industrialized than most, and manufacturing is more depressed than other sectors of the economy.” The depression, in what was then known as a “union town,” had “accelerated a trend of five years,” and had disparate impacts; “blacks are jobless in far higher percentages than whites.” In May of 1975, the height of the crisis for the city, the dramatic job slide for the city continued, up by a full percent, to 11.5, “the highest in nearly 30 years,” with fully half of the state’s unemployed resident in the city.³⁴

In places like Aronowitz’s Chelsea, and the neighboring Garment District it meant radical changes. As the process of deindustrialization accelerated many lamented the changing character of the city. Roger Starr, administrator of the city’s Housing and Redevelopment Administration, remarked on his “melancholy daze” as he walked “through the garment district of New York City, hoping to be knocked into by a young man pushing one of those hand trucks.” For Starr, contact with the working class didn’t “happen anymore because the young men have gone,” absent with the flight of industry. The peak year for the apparel industry was 1949 when it employed 356,000 people. By January of 1975 that number had dropped 43 percent to just over 200,000, while at the same time national employment for the apparel industry grew 14 percent from 1.19 million to 1.34 million during that same period. Jerry Silverman, president of a well-known firm in the garment district noted that in the five years previous he estimated 4500 firms

³⁴ Michael Stern, “80,000 Unemployed May Lose Aid,” *New York Times*, Mar. 4, 1975. “Nowhere To Turn,” *New York Times*, Feb. 2, 1975. Paul Cowan, “The Region In Summary,” *New York Times*, May 4, 1975

left the city. “We’re sick,” Silverman told the *Times*, “the sad fact of the matter is that we’re losing, going down the drain.”³⁵

At least in the 1960s industrial job loss was more than made up for in service sector hiring, but this was not true in the 1970s when the city entered a major depression. Many service and office jobs were in fact created in the financial sector, which experienced tremendous growth in the 1960s. Even so, a switch to service sector employment meant a drop in revenue for the city. According to work done by the New York Federal Reserve, manufacturing jobs have a multiplier effect, creating more supplemental employment than other types of employment. Additionally, typically nonunionized service work was paid at rates lower than manufacturing work, creating less taxable income and purchasing power. And lack of unions in service work had political consequences as well, as collective working class interests had diminished outlets of organized power, and were less able to support social wage policies. So, even with service sector strength, the loss of the manufacturing sector for the city would have meant economic and fiscal hardship. But with the depression of the 1970s, even those jobs were being lost. The financial sector, for example, began laying off thousands of back end office staff as they switched to computerized accounting in the 1970s.

Service work and other commercial or financial employment diminished property tax returns as well. Service and government employment, the fastest growing job sectors in the 1960s, did not pay property tax rates like manufacturing, if they paid at all. And this was true of income tax too. The New York Federal Reserve found that “the structural shift in employment

³⁵ Roger Starr, “The Dilemmas of Governmental Response,” in Sternlieb and Hughes, *Post-Industrial*, 248; Herbert Koshetz, “Garment District is Alive but Ailing,” *New York Times*, Jan. 5, 1975. John Corry, “About New York: 7th Avenue Meets the Mayor,” Jan. 8, 1975

from manufacturing to service and governmental jobs has a deleterious effect on the city's tax collections." In a study published in 1980 Thomas M Stanback Jr., a New York University economist, argued that service worker undermined the middle-class tax base. "Urban Economists have long recognized that a manufacturing city with its capital-intensive production activities is likely to provide a fairly well balanced income distribution," he wrote, "with a relatively large proportion of middle-income jobs." But service work was something else: "Not so for the service-based economy . . . the services tend to provide disproportionately large numbers of both well-paying and poorly-paying jobs, but relatively few in the middle range." So service work would have diminished city returns anyway, had it not also suffered a crisis in the mid-1970s in the city.³⁶

By 1975, the economic rot was all around; New York was indeed facing a full scale depression. The twin 1969 and 1974 national recessions turning into one long depression for the metropolis. A 1973 BLS report found that "New York City's factory job decline represents the continuation of a long-term downtrend that was accelerated by the 1970 recession. The 1969-1972 factory job loss exceeded the drop of the 10 preceding years 1959-1969 combined. In 1973, the long-term downtrend continued, but at the 10,000 annual rate of loss of the last half of the 1960's. After 20 years of decline, by 1973 New York City had lost nearly 400,000 factory jobs." And those numbers would only increase in the coming years. According to the same government report, "New York City was more significantly impacted by the 1970 recession than the rest of the New York-Northern eastern New Jersey area or the Nation as a whole, and had substantial job losses during the subsequent national recovery period. During 1970 and 1971, New York City

³⁶ Rona B. Stein, "New York City's Economy: A Perspective on its Problems," *NYFRB Quarterly Review*, Summer 1977, pg. 50 . Thomas M Stanback Jr., "New York City and the Services Transformation," in Klebaner, *New York City's Changing Economic Base*, 53

lost 188,000 jobs, and employment loss of 5 percent. In contrast, nationally the recession brought the employment growth of the 1960s to a virtual halt, but no job losses occurred. In the rest of the New York-Northeastern New Jersey area, while employment dropped 0.5 percent in 1971, an employment rise of 1.2 percent in 1970 kept the job total above the 1969 average level. New York City's 257,000 job loss since 1969 contrasted with a national employment growth of 5 million, and a 139,000 rise in the New York Northeastern New Jersey area outside the city over the same period of time."³⁷

By 1978 economists and banks were putting the pieces together, and found the city faced a major depression. Urban Economist Howard Samuels told Congressional Hearings on the fate of New York in 1978 that "the city has lost one-sixth of its economy since 1969 . . . I can't find any comparably sized region in America which, in such a short period of time, lost so much of its economic base." And even Citibank explained that the collapse of manufacturing, fueled by a competition to cut labor costs, had a detrimental impact on city taxes and budgets. Putting the pieces together they wrote, "On the economic side, the change in the city's role has fallen most heavily on its small manufacturing firms. A quarter of a century ago, manufacturing employed over a million New Yorkers; it employs half of that number today . . . the city's small manufacturers have faced severe competitions from low wage areas abroad and in other parts of the country." With the lost businesses and no new start ups meant "the loss of taxes and jobs they might have provided has impoverished the city even more."³⁸

³⁷ 1973 year-end report on employment, prices, and earnings in New York City, New York, U.S. Department of Labor Statistics, 1974

³⁸ Testimony of Howard Samuels in United States Congress Senate Committee on Banking Affairs Housing, and Urban, *New York City Financial Aid: Hearings before the Committee on Banking, Housing, and Urban Affairs, United States Senate, Ninety-Fifth Congress, Second Session, on S. 2892 ... and H.R. 12426 ...* (U.S. Govt. Print. Off., 1978) pg. 471. Citibank, Monthly Economic Letter, July. 1978, pg. 11

For New York, the impacts were devastating. In the words of Bluestone, “disinvestment on a large scale draws on the government treasury in two ways. First, it immediately reduces tax revenues. Then, gradually, it increases the need for additional public expenditures.” In the words of CUNY economist Edwin Reubens in the post-crisis era “it became generally accepted that a declining local economy was the basic cause – however much aggravated by social and political factors” of the 1975 crisis.³⁹

The result of deindustrialization trickled down through society. No jobs meant displaced, destroyed or severely weakened unions, and so too with the left and other social justice groups. In Wilbur Thompson’s appraisal, using the imperial “we,” he found that “we don’t really build cities in America; we build industrial agglomerations.” When major industries in American cities were broken apart in the 1960s and 1970s, the results were an unraveling of the social fabric of the American city.⁴⁰

In 1975 the city’s budget reflected this crisis. Its funds were vanishing and it needed new sources of income. The tax base was being eroded, and by the 1970s so was the population. NYC lost 900,000 residents on the decade. In terms of population, NYC recovered from the 1969 recession and depression of the 1970s only in the year 2000. The city’s crisis was rooted in a depression, with causes outside the “internal contrivance” of the city; its fiscal problems were not caused by liberal over spending. For other sectors, however, it was the best of times.

³⁹ Bluestone and Harrison, *The Deindustrialization of America*, 75; Edwin Reubens, “Urban Industrial Parks Versus the Exodus of Manufacturing,” in Klebaner, *New York City’s Changing Economic Base*, 110

⁴⁰ Wilber Thompson, comments in Sternlieb and Hughes, *Post-Industrial America*, 265

* * *

2.4 “A Revolution in Banking” New York’s Go-Go Years: The Financial Sector

While the industrial sector in New York was floundering, the financial sector was flourishing. The decade of the 1960s was one of tremendous growth for the industry; by every measure, assets, earnings, profitability and employment, these were Wall Street’s “go-go” years. Wall Street’s growth wasn’t limited to New York, but it began to play a much larger role in the national economy as well, but this had particular impacts in NYC. Richard Debs, vice president of the New York Federal Reserve Bank wrote in 1976 that observers of the banking industry in the 1960s could not “fail to be impressed by the rapidity of the growth of the banking industry during these years and the speed and scope of the banking innovations that were introduced.”⁴¹

But this tremendous growth had consequences. Wall Street pushed the boundary of New Deal regulatory controls, meant to stabilize the economy and contribute to predictable growth. As those regulations were ignored or circumvented, industry trading and investment became increasingly volatile, uncertain, and had broader consequences in the real economy. The corporate merger and acquisition movement of the late 1960s and early 1970s, for example, was a leading contributor to urban deindustrialization. Wall Street influence in the corporate sector financialized the economy, as firms were increasingly concerned with share growth, rather than straight profitability. As a result, firms sought to increase production profitability, either through increased pressure on workers, plant relocation, or both. With the creation of “certificates of deposit,” the Eurodollar market, commercial paper and the single bank holding company, portfolio investment also mushroomed. These new mechanisms blurred the line between

⁴¹ Richard A Debs, “Our Changing Financial System,” *Monthly Review*, New York Federal Reserve Bank, Vol. 58, No. 5, May, 1976, pg. 119

commercial and investment banking, a major regulatory bulwark of the New Deal state, as was their intention. It also led to tremendous market volatility and inflationary pressure, as with these new investment mechanisms banks were able to access or invent new sources of credit, pushing up the money supply and creating tremendous inflationary pressures. These changes came to a head in the mid-1970s. In the new environment of uncertainty, the financial sector clamored for new sets of fiscal and regulatory policies, ones that further undid the New Deal regulatory regime.

Take the process of deindustrialization. At a national level, plant closure or relocation was shaped by the '60s wave of the corporate merger movement, known as conglomeration. Not new to capitalism, the mergers of the 1960s took a particular form, linking corporate entities that had little to do with one another, and increasing the economic scope of corporate America. Wall Street drove much of the process. Firms had an incentive to facilitate conglomeration, often they financed and managed the mergers from start to finish. And their fees were driven by the size of buyouts and mergers, and the bump to stock valuation another source of potential revenue for the firm. Coincidentally, Felix Rohatyn, partner at investment bank Lazard Freres, who would go on to play a major role in the NYC fiscal crisis, was also a key figure in the corporate merger movement in the 1960s.

Indeed, conglomeration meant a turn from production to finance for post-war corporate America, a process now called "financialization." Increasingly corporate managers were oriented toward the stock valuation of their firm, over the nuts and bolts of production and profitability. Whether attempting to foist a merger with a company, or stop one, corporate leaders turned to manipulate their stock price, inflating or shrinking the company's value to make the group look as attractive or costly as possible, depending on the goal. A major turn was the transformation of

the meaning of the “bottom-line.” In a single industry corporation, straight profitability was the major indicator of the company’s success. With financialization, the new measure, the new bottom-line, was profitability per share, the measure returns that corporation made for the financial sector, not the firm itself. While Wall Street had always been concerned with profitability per share ratios, corporate managers increasingly conducted their business with an eye to this measure. With executive recompense increasingly tied to stock value as well, corporate managers were shifting their business focus from production to financial markets.

Once a company was acquired, it became part of a much larger corporate conglomeration for which the swallowed company was simply a line item on their revenue and expense accounts. The resulting company’s products and subsidiaries had little to do with one another. For example ITT, the company that initially was strictly an international telephone service, was by the 1970s a diversified corporate conglomeration that included Avis car rentals, Levitt homes, the Sheraton hotel chain, Scott’s brand fertilizer and chemical products, insurance firms like Hartford Fire, and food products like Wonder Bread and Morton’s frozen foods. The Hartford Fire Insurance merger, for example, made the investment bank Lazard Freres tremendous money. The key facilitator of the deal was Felix Rohatyn, the man who would go on to become the key architect of the austerity regime implemented in New York during the crisis.

And the mergers were no easy deals, Hartford was a hostile takeover. The Nixon administration moved to block the Hartford merger for violations of anti-trust laws, before quickly changing course and allowing the sale. Speculation that Rohatyn or others at ITT may have greased the wheels by spending large sums to finance the Republican national convention that year, led to a federal investigation, but no conclusive proof of a quid pro quo (made possible in part by ITT’s liberal use of the paper shredder). The deal made Rohatyn’s private sector

career, getting him a board seat at ITT, leading to his reputation as a major financial sector player, and the nickname the “fixer.”⁴²

For huge firms, like ITT, the commitment to any one element of the corporate structure was reduced to the profitability per share ratio. Individual units, even ones that may have been profitable in their own right, if they were not contributing significantly to income per share, were axed or reorganized. Additionally as firms were trimmed in prelude to a sale, or cannibalized after the fact, industrial units were streamlined, relocated, or simply closed. Felix Rohatyn wrote that “the mere threat of takeovers changed corporate values. Vulnerable companies were desperate to raise the value of their stock to make them less attractive and avoid takeover, which usually required focusing on improving profits in the short run, often by cutting wages and jobs, just as if they had been taken over.” In the words of financial historian John Brooks, “the economy and *amour proper* of whole communities became disrupted. Conglomerates’ headquarters were mostly on the two coasts, and often enough their corporate victims resided in the cities in between. The result was the repeated reduction of mid-American cities’ oldest established industries from independent ventures to subsidiaries of conglomerate spiderwebs.” True not just in the “mid-American” cities of the growing rust belt, but in manufacturing centers like Manhattan and Brooklyn as well. In the case of Pittsburg, Brooks writes, “the conglomeration phenomenon was like a tornado that left it battered and shaken; it is unlikely to think of itself in quite the old way every again.”⁴³

⁴² Felix Rohatyn, *Dealings: A Political and Financial Life*, New York: Simon and Schuster, 2010, pg. 45. In his biography Rohatyn is clear to express that “the contribution to the Republican National Committee was not related in any way to the settlement of ITT’s antitrust problems,” and that there was “no conspiratorial quid pro quo.” Pg. 47. He largely bases his defense on his commitment as “an instinctive democrat” and lifelong work for the Democratic Party. Pg. 45

⁴³ Rohatyn quoted in Jeff Madrick, *The Age of Greed*, New York: Random House, 2010, pg. 81. John Brooks, *The Go-Go Years*, New York: Weybright and Talley, 1973, pg. 177.

Deindustrialization was driven by Wall Street; Companies were encouraged to move by the financial industry. In an ever escalating search for profits, constant pressure was placed on manufacturing to improve numbers. Often that meant getting out of the Northeast. The conglomeration movement driving deindustrialization and jobs displacement was just one element of a rapidly changing financial industry in the 1960s. But three other major elements transformed the industry, marking a “revolution” in the financial sector that began in the 1960s and faced major consequences for its actions in the 1970s.

One element of the industry’s growth was the creation of new financial mechanisms. One was the CD – negotiable certificates of deposit – created by First National City Bank in the early 1960s. Initially, these were credits of deposit from large clients that could be resold on a secondary market and were hence, negotiable. In essence, the bank had created a new credit market, and could, in effect, buy money to finance, or cover, all kinds of other transactions. Ostensibly, banks like First National would turn to clients as sources of cash, but the banks could self-finance as well, turning small amounts of money into large lendable quantities. Economist and journalist Jeff Madrick writes that the CD revolution likely violated “the spirit and perhaps even the letter of the New Deal regulations that prevented conflicts of interest,” and separations of commercial and investment banking, as large commercial banks like First National could now invest their clients’ deposits.⁴⁴

A big part of the regulatory dodge was Regulation Q. Part of the 1933 Banking Regulation Act, Regulation Q put strict ceilings on interest rates from savings deposits. The rates were flexible, and the Fed could change them, but the rule removed control from the

⁴⁴ Madrick, *The Age of Greed*, 17

market. The Q rule, in the words of historian Greta Krippner, “was at the very heart” of the New Deal regulatory system. According to Krippner, “Regulation Q drew a bright line between a tightly controlled credit market, which was subject to strict limits of what financial institutions could pay for funds, and an uncontrolled capital market, in which rates of return reflected the unbridled forces of supply and demand.” Regulation Q was a problem for banks because it put a crimp on their access to credit in boom times. If market forces were driving interest rates higher than Regulation Q ceilings, investors would stop placing funds into banks, and look to direct investments to reap the market inflated returns.⁴⁵

The 1971 Hunt Commission report, a sort of consensus document of the financial sector on regulatory issues, complained loudly that between 1966 and 1971 Q ceilings forced funds outside of banks, while large borrowers could go to the commercial paper markets, others were left out in the cold with no access to credit, and as a result, “loss of liquidity caused serious concern for many businesses.” This process, sidestepping bank investment, was called disintermediation because the intermediary institutions, the banks, were left out of the investment picture, obviously very frustrating for Wall Street. An investment guide from 1969 wrote that CDs were developed to “attract funds back to bank deposits which large business corporations were investing to an increasing extent in Treasury Bills, commercial paper and other money market instruments.” CDs became a major way to sidestep Q ceilings and overcome the problems of disintermediation, placing banks back in the center of the action.⁴⁶

⁴⁵ Greta R. Krippner *Capitalizing on Crisis: The Political Origins of the Rise of Finance*, Cambridge, MA: Harvard University Press, 2011, pg. 61

⁴⁶ Report of the President’s Commission on Financial Structure and Regulation, December 1971, pg. 25. A Gilbert Heebner, “Negotiable Certificates of Deposit: The Development of a Money Market Instrument,” New York University, Institute of Finance, 1969, pg. 3

With the advent of the CD in the early 1960s, the investment landscape was dramatically altered. Because they could be sold on a secondary market, with the CD “banks could effectively bid for money, securing continual access to credit at a price,” and circumvent Regulation Q ceilings. Further, deposit requirements were more flexible with CDs. In the words of one analyst, “CDs afford to banks a measure of discretionary control over deposit volume.” No longer reliant on holding fixed deposits, banks could purchase money and then sell it.⁴⁷

Aware of the questionable status of the CD, First National City, with a compliant SEC and Federal Reserve, cautiously avoided attracting the regulators. Banker John Exter said that at the time certificates of deposit were created in part to “force the Fed to eliminate Regulation Q.” Walter Wriston, not yet head of Citi, the firm that initiated CDs, asked rhetorically about federal oversight, “Do we go to the Fed? Well if we go the Fed, they will probably say no as a matter of principle while they study it. So we agreed not to go to the Fed.” Simple enough, with a compliant SEC.⁴⁸

In the early 1960s, this process was facilitated by the regulators themselves, who routinely lifted Q ceilings when moments of disintermediation approached. Economist Gilbert Heebner wrote that “each time the ceiling appeared to be preventing (or about to prevent) banks from offering competitive rates on CDs as rates on other money market instruments rose, the ceiling was increased.” In the words of the Hunt Commission, in the early 1960s, “the regulatory

⁴⁷ Krippner *Capitalizing on Crisis*, 65. Heebner, “Negotiable Certificates of Deposit,” 4

⁴⁸ Phillip Zweig, *Wriston: Walter Wriston, Citibank and the Rise and Fall of American Financial Supremacy*, New York: Crown Publishers, Inc., 1995 pg. 113. Madrick, *The Age of Greed*, 17. Citi maneuvers to avoid regulation are notorious. Walter Wriston, the head of First National’s international division in the 1960s “would stretch interpretations of the law in order to get business.” Wriston’s biographer Phillip Zweig, says that the origin of the negotiable CD came from an unnamed Greek shipping tycoon, possibly Aristotle Onassis with whom Wriston had extensive business dealings, who wanted “to put some money in your bank . . . I don’t want my name on it because frankly I don’t trust your Internal Revenue Service.” Zweig, *Wriston*, 63; 113

authorities relaxed the environment surrounding commercial banking through administrative interpretations.” The key agency was the Office of the Comptroller of the Currency who “revised capital adequacy formulas, allowed the issuance of capital notes, enlarged permissible real estate lending, eased restrictions on the services offered, and modified the provisions for chartering.” The four Q ceiling increases from 1962 to 1965 made “it possible for CDs to remain competitive,” in the words of one analyst. Other agencies loosened up as well, the Fed raised ceilings, and regulators turned away from hard looks at CDs.⁴⁹

The process of relaxed regulation for the financial sector in the 1960s provides a key analytic from which to understand the 1975 fiscal crisis. Institutions like the OCC, the Fed, and banks themselves made up an archipelago of institutions of governance and finance. The Fed is probably the best example of this, it was designed as a public / private hybrid institution with the powers of governance and the interests of private capital. The OCC is similar. Its task is to maintain the currency, and before the era of the Fed, was the chief agency regulating the national bank system. In the 1960s, OCC head, Comptroller of the Currency, James Saxon, pushed the regulatory edge of the industry, providing liberties to the financial sector they had not known before. Saxon, a financial industries attorney for the American Banking Association and First National Bank in Chicago, used his role as a Washington regulator to grant large-scale permissiveness to financial actors. The liberal use of CDs, and the lifting of Regulation Q ceilings are just one example.

State theorists, Samuel Huntington most famously, call this process “agency capture,” a development by which government institutions tasked with monitoring private sector actors are

⁴⁹ Krippner *Capitalizing on Crisis*, 66; Heebner, “Negotiable Certificates of Deposit,” 14. Report of the President’s Commission on Financial Structure and Regulation, December 1971, pg. 45-46.

“captured” by industry. The framework misses the point. State and private actors operate in the same network of institutions that constitute state and private power – the ability to govern and the prerogatives of capital. They each support, define and delimit one another, they each work to support and entrench one another, with contestations of power between institutions and actors always at play. From this framework, “agency capture” doesn’t cover the dynamic institutional matrix of state and private power. After all, why capture what you already possess? The OCC had been dominated by bankers from its inception, again, as by design. Instead, cultural and political changes in the 1960s mark the change in regulatory attitudes. And where the Fed and the OCC mark this synthesis of institutional practice at the federal level, municipal governance is also defined by these relationships, as we will see in the case of New York.

With the relaxed regulatory environment, CDs were so successful that First National moved to issue them in lower denominations, drawing in small consumers and simultaneously acting as commercial and investment banking. In the words of Wriston biographer Phillip Zweig “the introduction of the negotiable CD was a shot heard around the world,” the “spark of a revolution in banking,” and an “opening salvo in a war that City Bank, as an advocate of free markets, would wage against the Federal reserve and Regulation Q.” According the market analyst Gilbert Heebner, “within a few years [CDs] became the second most important money market instrument by dollar volume.” Within one year of the first issuance of the negotiable CD in 1961 the market exploded to over one billion dollars, a “key development” in the new financial centers that were increasingly able to access credit, no matter the market rates.⁵⁰

⁵⁰ Krippner, *Capitalizing on Crisis*, 75. Zweig, *Wriston*, 141, 143. Heebner, “Negotiable Certificates of Deposit,” 3. Madrick, *The Age of Greed*, 23.

For the first time, a strategy of “liability management” became widespread on the Street. Liability management is process of monitoring lending as a ratio of capital reserves. With the negotiable CD, when both capital and lendable funds were purchasable on the secondary market, banks entered a much more fluid risk environment. Banks could balance liabilities, deposits, and capital outside regulatory limits and would need to hedge against possible interest rate changes that could throw their balancing acts out of whack. This was risk management, a euphemism for gambling. Asset liability management became and remains an important part of bank portfolio management to this day, a major shift in the direction of Wall Street, and a significant contribution to industry instability.

And there were other more troubling developments in the early 1970s as well. Fischer Black and Myron Sholes 1973 paper “The Pricing of Options and Corporate Liabilities,” published by the Journal of Political Economy, opened the way for future hedging and complicated risk management. Their formula, known as the Black-Sholes equation, helped initiate a process of hedging that continues to this day. Another was the beginnings of securitization. In 1977 Robert Dall, a trader at Solomon Brothers, and an expert in the mortgage market, bundled \$100 million worth of mortgage loans into an investable package, a securitized form of mortgage lending. Although these changes would not have significant impacts for many years to come, they point to the changing role of Wall Street in the early 1970s.⁵¹

Besides the CD, there were two other fundamental transformations and other sources of funds developing in the early 1960s as well. The commercial paper market and the Eurodollar market were thriving, the introduction of credit cards, greater allowable geographic coverage for

⁵¹ Jacques BBC (Firm) and Peretti, *The Super-Rich and Us.*, 2017.

individual banks, and new technologies, all facilitated this growth. Commercial paper and Eurodollars were the result of increasing corporate internationalism. By the late 1960s, Europe was just beginning to emerge from its post war slump. And U.S. based multinational corporations were taking advantage of the boom in European consumer and financial markets. The market was created by post war exchange deficits to Europe and the stockpiling of U.S. currency in Europe. For First National City Bank alone, international loans booked in foreign countries jumped from nine-hundred-seventy million in 1960 to over two and a half billion by 1967, an annual increase of sixteen percent. First National's growth in international banking was "in large part a response to the rapid foreign deployment of American multinationals." The growth in international funds lead to the creation of what became known as the Eurodollar market – U.S. dollars held in foreign banks and not repatriated. Interestingly, the origins of the market came from Soviet financial managers. Worried that the United States might seize Soviet assets in some a cold war political maneuver, the USSR opted to keep a store of dollars in European markets. The result was a cache of funds held in European banks that could be tapped, turned into lendable assets, or other securities for the banks. Morgan Guaranty Trust Company wrote in an investor guide to Eurodollars that the market represented "a new and truly international money and capital market in which the convertible currencies of the more industrialized nations can be invested and borrowed with a minimum of government regulation." Walter Wriston of First National City said the Euromarket "broke open the mobility of capital like the world had never seen."⁵²

⁵² Susan Strange, *Casino Capitalism*, New York: Manchester University Press, 1986, pg. 8. Harold van B. Cleveland and Thomas F. Huertas, *Citibank, 1812-1970*, Cambridge, MA: Harvard University Press, 1985, pg. 275, 266. Fritz Bartel, "Détente: The Privatization of the Cold War," unpublished paper, Cornell History of American Capitalism Conference, November, 2014. Morgan guaranty Trust Company, International Banking Division, "The Financing of Business with Euro-Dollars," 1967. Walter Wriston quoted in Zweig, *Wriston*, 194.

Eurodollars and CDs were closely linked. Most directly, the pools of cash sitting in Europe could be tapped to finance the purchase of CDs, before selling them off again. But outside forces were restricting the flexibility of CD purchases. With the increasing diversity and international scope of investment possibilities, money market rates rose across the board to attract investments. Regulation Q ceilings on CDs, still a form of deposits, meant they were less profitable. Banks then had to repay “large dollar volumes of maturing certificates” that they couldn’t simply repurchase. With this pinch on credit, commercial banks could turn to the Eurodollar market, for greater funds, and ones that were less regulated. Eurodollars could both fuel the CD craze, and act as a bulwark when those markets were tapped out. The Petrodollar market of the 1970s performed a similar function.⁵³

The next great transformation of the late 1960s was the development of the single bank holding company. This is part of a longer and more complicated history of capitalism. The short version is that by the 1950s and into the 1960 large corporations were able to self-finance through the development of the commercial paper market. Commercial paper are notes sold by firms on a short term basis to fund capital projects or expenditure needs – corporate bonds, part of the same investment category as municipal bonds and treasury notes. In the 1960s large companies, the conglomerates of the era, were able to access funds directly, sidestepping investment and commercial banks that previously had specialized in assembling funds for corporate needs. In essence, corporations had direct access to credit and the money market for the first time. Not only did this contribute to the financialization of companies and the economy, but it removed banks from their *raison d’être*, corporate finance. While banks baulked at the federal regulation preventing them from selling commercial paper, and the ability of firms to side

⁵³ Report of the President’s Commission on Financial Structure and Regulation, December 1971, pg. 47

step their monies, on the flip side, for a bank to access commercial paper could potentially be a source of billions of dollars for profitable reinvestment.

To gain access to the market, banks worked legal loopholes, like the single-bank holding company. Corporations that were not banks, were legally permitted to own up to one bank, and have access to commercial paper markets. First National City Bank was the first to shift to the new corporate ownership structure, creating Citibank and then Citigroup, which owned First National and nothing more. Commercial paper markets exploded: from \$8.4 billion in 1964 to \$14.2 billion just two years later. By the time banks got involved, that number more than doubled to \$39.7 billion in May of 1970. In the official history of Citibank, the corporate biographers write that “the holding company did succeed in liberating the corporation from some of the confines of the New Deal banking legislation.” With access to the commercial paper market, banks had a third source of capital access that had not existed before the revolutions of the 1960s. These changes were confirmed in the 1970 Federal Bank Holding Company Act, which “enabled” banks to expand geographically and “to engage in in nonbanking activities.” “Indeed the changes that have occurred in recent years in the financial system,” wrote the president of the NY Federal Reserve, Alfred Hayes, in 1972, “represent . . . an attempt by institutions to break out of the existing legal and regulatory environment.” These changes, often explicit violations of the regulatory regime, could then be codified *ex post facto*.⁵⁴

By the early 1970s, the changes were accelerating. Following Citi’s introduction of the CD in the early 1960s, in the 1970s Merrill Lynch introduced a “cash management account,” or

⁵⁴ Report of the President’s Commission on Financial Structure and Regulation, December 1971, pg. 47. Cleveland and Huertas, *Citibank*, 297. Judith Berry Kunreuther, “Banking Structure in New York State,” *Monthly Review*, New York Federal Reserve Bank, Vol. 58, No. 4, April, 1976, pg. 107. Alfred Hayes, “Money and Banking in a New Environment,” *Monthly Review*, New York Federal Reserve Bank, Vol. 54, No. 2, February, 1972, pg. 19.

CMA. In the biggest structural banking change since in the CD, the CMA was an integrated financial services account that included access to credit cards, a money market fund and checking account. Its importance was that it brazenly crossed the line between investment and commercial banking as was part of the 70s “serious salvos against the Glass-Steagall Act” leveled by the financial sector. Merrill, an investment and brokerage firm, was moving into commercial markets, creating single investment and checking accounts, and forcing industry pressure on regulatory distinctions. Merrill’s actions were part of an ongoing trend. In the 1960s, First National City, the quintessential commercial bank, developed mutual fund account and registered with the SEC as an investment company.⁵⁵

With CDs and Eurodollars, commercial paper was yet another new source of capital for the banks. Holding company status allowed all kinds of new activity. In the words of Richard A Debs, vice president of the Federal Reserve Bank of New York, this included “expansion into such financially related fields as consumer and commercial finance, equipment leasing, and mortgage banking.” The lines of financial sector were blurring, and the “momentum of expansionary forces . . . carried banks to the outer edge of activities, such as automatic investment and dividend reinvestment plans, private placements, and syndications of debt or equity, that the securities industry had considered its own province since the passage of the Glass-Steagall Act.”⁵⁶

⁵⁵ Zweig, *Wriston*, 541, 561. Cleveland and Huertas, *Citibank*, 294. These efforts were vigorously resisted by the main trade association of investment and brokerage firms, the National Association of Securities Dealers who lobbied to overturn SEC and Comptroller of Currency blessings for the Citi moves. In 1971 Citi was stopped by SEC decree.

⁵⁶ Richard A Debs, “Our Changing Financial System,” *Monthly Review*, New York Federal Reserve Bank, Vol. 58, No. 5, May, 1976, pg. 120 – note, these words coming from a key regulator then in office.

The development of the single-bank holding company came on top of already dramatic changes to bank ownership structure underway in the 1960s and 1970s. The biggest banks were transforming themselves from private partnerships to corporate entities, sometimes publically traded. The structural importance was that partners were no longer personally invested, or liable, for the capital requirement and investments of their firm. Partnerships, even limited ones, required firm partners put up their personal money, or harvest funds from those around them. In the corporate structure of banking, the banks operated without those personal responsibilities, and consequences.⁵⁷

The shift is notable for the change in attitudes it brought to the financial community. Where old style bankers “depended on personal relationships” and thought of themselves like “the business of a lawyer or accountant or doctor,” the new men of the Street, in both attitude and corporate structure, were free from such constraints. “By 1969,” writes John Brooks, “half of Wall Street’s salesmen and analysts would be persons who had come into the business since 1962 and consequently had never seen a bad market break.” These were the “sideburned young hotshots,” ever more visible in executive circles, and were defined by their “apolitical, unsentimental, and unself-consciously single-minded . . . devotion to profit.” New York Federal Reserve vice president Richard Debs noticed the change too, writing that “a new breed of banker” came to the fore. “Often these were individuals trained in modern business management methods who were willing to experiment aggressively to improve the profit performance of their

⁵⁷ Donald Regan, *A view from the Street*, New York: Signet Classic, 1972, pg. 128

organizations and hence, for better or for worse, had no personal exposure to the banking traumas of the 1930s.”⁵⁸

These were men like Gesualdo Al Costanzo, brought in from the IMF by Walter Wriston to First National City when Wriston was head of its international banking division. Costanzo worked on international loan repayment issues, not just enforcement, but even capital adequacy issues for foreign central banks. “An enforcer of draconian policies,” Costanzo said of his approach that he would “always go for the drastic solution . . . I’d cut off the dogs tail in one shot rather than a little bit at a time.” In the words of Wriston’s biographer there were “few men” “more like-minded than Wriston and Costanzo.”⁵⁹

Aggressive in attitude, unleashed from personal responsibility for the actions of their firm, and most importantly, the development of three new very large money markets, led to increased financialization and inflationary pressure. With all of these mechanisms, the CDs, the Eurodollar market, and the commercial paper market, banks were creating billions of dollars out of thin air, putting pressure on currency rates and driving inflation upwards. It was also financializing the economy. Bank profits were increasingly coming from services and fees, the volume of trading and deals. This led to increased market volatility. For economic historian Susan Strange, a fundamental shift happened in 1973. “The year of 1973,” she writes, “stands out as a benchmark, a turning point when the snowball of change from the leisurely 1960s to the hectic yo-yo years of the 1970s and 1980s began to gather momentum.” The key direction, according to Strange, was toward volatility, a move “from a more stable period into a much more

⁵⁸ Regan, *A view from the Street*, 128. John Brooks, *The Go-Go Years*, New York: Weybright and Talley, 1973, pg. 113, 216. Debs, “Our Changing Financial System,” 120.

⁵⁹ Zweig, *Wriston*, 164, 162

unstable one.” There were a couple state actions that drove the changes. First, the commitment to the guns and butter economy pushed inflationary policies on the Feds and put a crimp in capital markets for funds that were devoted to the war in Vietnam. When these measures became untenable, the U.S. moved off the gold standard, ending the Bretton-Woods post-war agreement, and move to floating currency rates. From 1971 when Nixon closed the gold window to 1973 when full floating rates were established international market volatility became the order of the day. Nixon justified his action on Keynesian principles, the result however was that currency was to be transformed into another negotiable commodity. The action of the OCC allowing mechanisms of increased capital fungibility contributed. ⁶⁰

In the 1950s and 1960s, financial sector profits were ten to fifteen percent of total corporate profits, by 1980 that figure was increased to thirty percent, while even nonfinancial firms were increasingly reliant on finance for their profitability. One firm Citibank, saw total assets rise at a rate of eleven percent, and earnings at eight percent between 1961 and 1967, the fastest rates since before the Great Depression. “As in the 1920s,” write Citi’s corporate biographers, “the business of banking was becoming the business of finance.” This was true across the banking industry. From 1945 to 1965 thrift institutions saw a breathtaking fourteen-hundred percent rise in assets, from nine to one-hundred-thirty billion dollars in assets. Commercial banks in the same period mushroomed from one-hundred-sixty billion to three-hundred-seventy-five billion, a growth rate of 170 percent. ⁶¹

⁶⁰ Strange, *Casino Capitalism*, 5, 6, 8.

⁶¹ Krippner, *Capitalizing on Crisis*, 28. Cleveland and Huertas, *Citibank*, 275-276. Report of the President’s Commission on Financial Structure and Regulation, December 1971, pg. 35

One measure of the growth was the tremendous increase in trading volume on the NYSE. The average daily volume in 1961 was 3-4 million shares. By 1965 that number had doubled and was 6 million shares; and in 1971 it was over 15 million. In just the first quarter of 1971 over a billion trades were executed, an average of 18 million a day, while total number of shares ballooned from 6.5 billion in 1960 to 16 billion in 1970. More than any other figure the volume of market trades reflects a high turnover rate in stock ownership. Stocks were flipped with increasing frequency as the market became increasingly fungible. In the early 1960s the market turnover rate was around 12 to 19 percent. By 1968 that number was up to 24 percent. Firms were “buying and selling securities at a record clip.” The new style of trading originated in Boston, not Wall Street, and from one trader, Gerry Tsai at Fidelity Capital whose funds had an unprecedented 100 percent turnover rate. Turnover rates this high were not seen since the before the Great Depression, when in 1928 they were upwards of 130 percent. With Tsai pointing the way forward, more and more fund managers began radically increased trading volumes for their securities. By 1968 “the fad . . . was for taking short profitable rides on hot new issues.”⁶²

These were the go-go years. “Particularly in 1967 and early 1968 the Street took on a golden glitter,” wrote Merrill Lynch CEO and future Treasury Secretary, Donald Regan. And it was all about profit, “profits for Wall Street firms were greater than they had ever been in history,” Regan wrote, and “general and limited partners were delighted by present and prospective profits.” As good as ‘67-‘68 was for his firm, in 1971, a year that saw New York City in serious depression, they were “breaking all records.” Overall, the growth in the sector was driven by “the increased size and activity of financial institutions. These institutions were enlarging their place in the economy in general and they were expanding the role they played in

⁶² Regan, *A view from the Street*, 89-90, 91, 93. Brooks, *The Go-Go Years*, 184

the financial planning of individuals as well.” In the words of one observer, “the structure of commercial banking in New York State has undergone a quiet revolution in less than a decade.”⁶³

The combination of declining manufacturing and rising finance lead to dramatic political realignments in the city of New York. With manufacturing suffering from a twenty year drop, the New Deal coalitions that grew out of the national political response to the Great Depression were strained. Large employers with incentive to support welfare policies, as well as unions, left groups, and popular forces were diminished. The financial sector was increasingly unhinged from the productive process of the economy, and was fueling the mythology of the “post-industrial” city. With new economic clout, they turned to city politics, spending on non-profit activities, and politicians. The era of the old club-house Democrat was over, as both new mayors and governors in the 1970s and 1980s would become independent Dems, so-called limousine liberals, financed through independent sources of wealth. But more than political spending, the banks held a kind of structural privilege over the city. The city was reliant on capital loans for regular spending needs. There’s only one source of capital, by the 1970s the banks were ready to use it to influence policy.

⁶³ Regan, *A view from the Street*, 92-93. Judith Berry Kunreuther, “Banking Structure in New York State,” *Monthly Review*, New York Federal Reserve Bank, Vol. 58, No. 4, April, 1976, pg. 107

* * *

2.5 “Two for the seesaw”: Inflation and Recession⁶⁴

The supreme confidence and aggressiveness from Wall Street in the 1960s came to near panic in 1973 and 1974. The inflation crisis in the mid-seventies, combined with the increased volatility in the financial sector, forced a reevaluation of priorities on the banks, and led to an aggressive political agenda in favor of austerity, structural adjustment, and “to move capital to highest social priority,” in the words of one industry figure. The inflation crisis, was in part caused by the activity of the banks themselves. Yet it was government social policies, rather than the expansion of credit and capital, that were blamed. When the inflation of the mid 1970s ran into a widespread national recession, one that was particularly bad in rust belt cities like New York, banks doubled down on their unorthodox interpretation of the crisis, and their calls for a new political solution. The years between 1973 and 1975 brought all these themes together. Inflation and recession, a new economic moment, created an environment of fear and anxiety in the financial sector. Although this circumstance was in fact a recipe for Keynesian policies, especially for cities like New York, many saw this as the undoing of Keynesian orthodoxy. Instead, the instability spread, collapsing the municipal bond market, directly causing New York’s fiscal crisis.⁶⁵

Inflation was a concern as early as the late 1960s. For the banks, “persistent inflation . . . poses a threat to economic growth. Its impact disrupts capital markets and distorts investment decisions. In the U.S. economy, a large viable market for fixed-income securities is an essential

⁶⁴ Citibank, Monthly Economic Letter, February 1975, pg.106

⁶⁵ Statement by Harry Kapnick Jr., The Financial Conference on Inflation, Held at the Request of President Gerald R. Ford and the Congress of the United States, Washington D.C., September 20th, 1974 pg. 165-166

source of capital for business and government. Prolonged inflation, even if mild, lessens the willingness of longer-term lenders to participate in this market.” Inflation was therefore a severe problem for the financial sector for two reasons. First, it made forecasting more difficult. Secondly, it eroded profitability in the bond market, bedrock investment of any financial institution. If high enough, inflation could even degrade the principle, equity, of bond investments, and that could deplete capital markets. For the investor class, the rate of inflation is perpetually a major preoccupation.⁶⁶

The causes of inflation in the late 1960s and early 1970s are difficult to parse out, and little understood by economists. For example there is no consensus explanation to this day about the causes of mid-70s inflation. The picture is further complicated by the national recession, a combined economic phenomenon that broke the established rules of macro-economics. Known as stagflation, the crisis was a major turning point in the history of the field, with little to no explanation of the phenomenon at the time, or since. The leading insurgent interpretation at the time, and orthodox since, was put forward by the monetarists, the new school of economic thought coming from economists like Milton Friedman and others that the cause of inflation was monetary policy. They argued that the quantity of money in circulation was the direct, and only, cause of inflation. When the money supply increased, it devalued the dollar and the cost of goods increased. The economists of the Chicago school turned this thesis into a religion, an iron rule of economics that explained a wide range of economic phenomenon.

For example, in 1974 Citibank argued for, what they called, the “immutable law in economics” that “in the long run, a country’s inflation rate always equals the growth rate of its

⁶⁶ Citibank, Monthly Economic Letter, March 1969, pg. 32

money supply, plus the trend growth in the turnover rate . . . of money – minus the growth in the country’s capacity to produce goods and services.” The recent spate of inflation, they wrote, “was fueled by an explosive burst of growth in the world’s money stock,” which the bank blamed on fixed exchange rates and regulatory inefficiencies. Even though by 1974 international currency exchange was increasingly fungible in a world disjointed from Bretton-Woods, the bank blamed restrictive regulation. Thus, for simple minded libertarians like Henry Hazlitt “all inflation is government made. All inflation is the result of increasing the quantity of money and credit; and the cure is simply to halt the increase.” So by 1974 and 1975, a new economic religion regarding inflation, the money supply, and so-called government regulation was emerging from economists, state planners and financial sector actors.⁶⁷

This view was increasingly widespread. Speaking at President Ford’s economist conference on inflation held in the autumn of 1974, Beryl Sprinkel, the chief economist for the Harris Trust and Savings Bank, said that the inflationary crisis of the mid-seventies was “classic in its dimensions. The large increases in the money supply averaging nearly 7 percent a year for four and half years, and large federal spending increases resulting in a cumulative five-year deficit of over \$75 billion” contributed to the high base rate inflation of six to seven percent. The rest, close to twelve percent a year at the end of 1974 came from ending wages and price controls, and “special factors,” like the OPEC crisis and food cost increases. Sprinkel does see a variety of factors for mid-70s inflation, but he seems to equate the bulk, upwards of 7 percent, to

⁶⁷ Citibank, Monthly Economic Letter, June 1974, pg. 4. Citibank, Monthly Economic Letter, September 1974, pg. 11. Henry Hazlitt, *Man vs. the Welfare State*, New Rochelle, New York: Arlington House, 1969.

the money supply. Note that he characterizes this view as “classic,” indicating its widespread acceptance in 1974.⁶⁸

Taking this argument at face value, there were a number of sources of monetary increase in the decades of the 1960s and 70s. One major one was the war in Vietnam. According to the Federal Reserve of New York, by 1966 “inflationary pressure begins to show up,” in large part they argue, from “the stimulus of military demand.” The NY Fed found “a sharp rise in prices and costs,” coming from “mounting defense needs were superimposed upon a civilian economy already operating at full capacity.” War spending, both in commodity markets and in the money supply pushed up inflation. In their 1967 Annual Report, the NY Fed argued for “fiscal restraints” to stem inflation, and that their “delay” “meant that the economic burden of the Vietnam War was reflected in a massive budget deficit, rising interest rates, mounting cost and prices pressures and a deterioration in the United States balance of payments.” All of this had costly impacts on the economy, and all with particular relevance for inflationary pressures.⁶⁹

Other sources of inflationary pressure from the federal government were increases in social spending from war on poverty and great society programs. The combined “guns and butter” economy saw a rapid increase in government spending. Perhaps more significant, was the move in 1971 by the Nixon administration to unhinge the dollar from a fixed gold standard, and in 1973 to move to a fully market rate for currency exchange. The quick result was both the devaluing of the dollar and the growth of international currency speculation.

⁶⁸ Statement by Beryl Sprinkel, The Economist Conference on Inflation, Held at the Request of President Gerald R. Ford and the Congress of the United States, Washington D.C., September 5th, 1974 pg. 29-30.

⁶⁹ Federal Reserve Bank of New York, “Inflationary Pressure Begins to Show Up,” Annual Report, 1966. Federal Reserve Bank of New York, Annual Report, 1967

According to the monetarist view, government was the primary source of increases to the money supply, and therefore inflation. Yet outside of government sources, and completely ignored by the monetarists, there was no bigger contributor to inflation than the financial sector itself. The creation of three major markets in the 1960s, the negotiable CD, the Eurodollar, and commercial paper, added billions to the currency in circulation, and were all outside government purview.

Similarly, it would very strange if the OPEC oil crisis had no impact on inflation in the early 1970s. With the price hikes following the Yom Kippur War, OPEC countries quadrupled their revenue in one year, from \$25 billion in 1973, to numbers approaching \$100 billion in 1974. Oil is the medium through which the productive economy swims; it touches virtually every good and commodity at every level of production, distribution and sale. The spike in prices had a tremendous impact on consumer prices and inflation. Importantly, those “petrodollars,” the windfall profits to the oil producing countries, were recycled into the financial markets. Tens-of-billions of dollars were reinvested in European and US financial markets and services, \$4 billion in US government securities, an equal amount in US commercial banks, \$10 to 13 billion in Eurodollar accounts, with “a significant portion of the funds being placed with the banks is going into medium-term time deposits and certificates of deposit,” according to one Treasury Department report. All of this, according to the report, “has created strains on the banking system.” According to the monetarist interpretation, yet neglected in leading

interpretations, all this should have been seen as primary causes of inflationary pressure, and leading to economic instability, volatility and unpredictability.⁷⁰

Using strictly a monetarist interpretation, financial sector activity in the 1960s and 1970s directly contributed to the inflationary crisis of the mid-1970s. Therefore, crimping financial sector activity, their attempts to break the New Deal regulatory regime and their creation of new sources of money could have helped alleviate the inflationary environment of 1974 and 1975. The fact that this course wasn't taken, and that financial sector actions were not identified as contributions to inflation, point to monetarist policy proscriptions as ideologically motivated, class based social agenda. For the financial sector, the boom years of the 1960s foundered on the rocky shores of the inflationary crisis of the 1970s. This was a crisis largely of the banks' making. The expansions of the money markets through three novel developments, the CD, the Eurodollar, and the commercial paper market, were significant, if not the leading source of economic inflationary pressures. The challenge of the 70s was that these developments coincided, and were infused, with a global economic recession.

* * *

2.5.1 Piercing the Threshold

The inflation crisis reached its peak in the mid-1970s, at the same moment that the global economy was entering a period of much slower growth, coinciding with declining profitability for the U.S. corporate sector. One bank economist called this "the double headed beast of inflation and recession." The combination frazzled Wall Street, and shifted their political

⁷⁰ U.S. Department of the Treasury, "The Financial and Economic Consequences of the Quadrupling of the Prices of Oil," report presented to The Conference on Inflation, Held at the Request of President Gerald R. Ford and the Congress of the United States, Washington D.C., September 27th, 1974 pg. 345-362, 361.

orientation. Indeed, the severe global recession combined with the shift in attitudes in the wake of 1968 were enough to spur the financial sector into much more aggressive political action. But it was in part the sharpness of the '73 slump that spurred Wall Street to take dramatic action.⁷¹

That the economy was performing poorly in the mid-1970s there is little doubt. In 1973, the economy entered its “longest, deepest recession since the 1930s,” in the words of Citibank financial analysts. The U.S. had “the worst financial markets in 40 years,” said Donald Regan. Even by the end of 1975, after six months of “recovery,” “a sense of malaise hangs over the business community – a nagging concern that the current recovery is still uninspired and that the hoped-for sustained surge in business activity has not materialized.” These moments of panic in late 1974 and early 1975 turned to a slow recognition by the end of the decade that profitability rates were not going to return to the level they achieved in the heroic days of the 1960s. In times of high inflation and falling economies, one banker told the *Times*, “no one, not even professional economists, has been able to predict economic trends accurately in the crazy kind of inflation we are experiencing.”⁷²

The inflation and recession crisis of the 1970s was linked to profitability. Profits were down, and bankers and businessmen were feeling blue. A word of caution here, corporate profitability rates are never satisfactory for the financial masters of the universe. For example, in June of 1969, the height of the golden era of U.S. capitalist expansive growth, Citibank was complaining about profitability. In an editorial in their monthly newsletter, Citi wrote that “In

⁷¹ Walter E. Hoadley, speaking at The Conference Board, “Business Outlook 1975,” A discussion by the Conference Board Economic Forum, Waldorf Astoria, New York, Nov. 21, 1974, pg. 79

⁷² Citibank, *Economic Week*, Aug. 11, 1975, pg. 1. Statement by Donald Regan, The Financial Conference on Inflation, Held at the Request of President Gerald R. Ford and the Congress of the United States, Washington D.C., September 20th, 1974 pg. 236. Citibank, *Economic Week*, Dec. 1st, 1975, pg. 2. Michael Stern, “City Budget Imbalance Tied to Misreading of Economy,” *New York Times*, Sept. 14, 1974.

the past three years, corporate profits have been under severe pressure . . . the recent high level of overall profits is the result of doing more and more business, and not of making higher and higher profits on successive units sold.” How frustrating. A lot of these problems they ascribed to labor, which was able to achieve fixed costs for businesses through union wage enforcement. Whatever they attributed as the cause of the problem, the period of greatest profits in the postwar period it was still not enough, it was a problem that profits were not higher. In the 1970s, profits were down, but not nil. Nonetheless the decline prompted widespread fears in the financial sector, anxieties about the certainty of profitability in the future, unleashing the “animal spirits” against which Keynes had warned.⁷³

Nonetheless, in the 1970s there was a legitimate dip in corporate profits, and this caused widespread consternation on Wall Street. In 1970 with the U.S. economy in its first major slump in decades, Citibank again identified corporate profits as “vulnerable.” They noted that in “1969 manufacturing corporations added 9 percent, or more than \$16 billion to their net worth, yet they were unable to boost their profits appreciably on this added investment. The rate of return on net worth dropped to 12.5 percent from the 13.3 percent return in 1968.” High profits, but not high enough compared to the benchmark of unparalleled prosperity from just a year earlier.⁷⁴

By 1971 there were more serious concerns. The numbers for 1970 looked grim, an eight percent decline in corporate earnings, in which “a substantial share of corporations sold more but earned less in 1970.” In manufacturing “margins dropped from 5.4 cents per dollar of sales in 1969 to 4.6 cents in 1970. That is the lowest figure in the entire post war period,” while “the overall rate of return declined from 10.4% in 1969 to 9.0% in 1970.” And if excluding the auto

⁷³ Citibank, Monthly Economic Letter, June 1969, pg. 67

⁷⁴ Citibank, Monthly Economic Letter, May 1970, pg. 42

sector, hit by a major nationwide strike at GM that year, corporate profits dropped from twelve, to eight percent. Citibank wrote that “never in the quarter century of postwar experience have profit margins been so thin or returns on net worth so meager.”⁷⁵

The meager returns continued for the next half decade. The 1971 recovery was disappointing. A thirteen percent increase in profitability was “lackluster,” marred by high rates of inflation that eroded real earnings. On the eve of 1974, and for the economic year of 1973 Citibank found “New Year, old problems” with “grim choices” forced from high inflation on bankers and policy makers. Even though corporate profits for 1973 were twenty-three percent, those numbers were distorted by inflation, which was very high for 1973 and higher in 1974. By the time the 1974 numbers were in the results were “disappointing yet not surprising.” Overall the corporate rate of return was up from 12.1 to 12.7 percent. But all of the gains came from the petrochemical sector, the spike from the OPEC crisis. Otherwise there was a decline from 9.0% to 8.9% in the corporate sector with manufacturing dropping from 14.7 to 14.0 percent for 1974. In 1973 and 1974 the New York Federal Reserve Bank was remarking on the “severe worldwide inflation,” and the “economic strains of exceptional severity during the past year.” The major problems included “virulent inflation,” and a “fourfold increase in the price of petroleum.”⁷⁶

The end of 1974 marked a real crisis for the business community. According the Conference Board, a business and economic association made up primarily of bankers and economists, “the U.S. economy . . . was declining at about the fastest rate in postwar history.” The prevailing mood at their bi-annual economic forum held in November of 1974 was gloomy.

⁷⁵ Citibank, Monthly Economic Letter, April 1971, pg. 8. Citibank, Monthly Economic Letter, September 1970, pg. 8-9, 6.

⁷⁶ Citibank, Monthly Economic Letter, April 1972, pg. 6-9. Citibank, Monthly Economic Letter, Jan. 1974. Citibank, Monthly Economic Letter, April 1974. Citibank, Monthly Economic Letter, April 1975, pg.10. Federal Reserve Bank of New York, *Annual Report*, 1973, 1974

The vice president of the U.S. Trust Company of New York, James O’Leary, found that double digit inflation and federal credit restraint put the “financial system of the United States to the severest test in our history,” with disintermediation “greatly reduced the availability of long-term funds to the bond and mortgage markets.” He worried that with continued high inflation, “our financial system as we have known it will be seriously undermined.” For Walter E. Hoadley, executive vice president and chief economist of Bank of America, “apprehension about the 1975 outlook for the worldwide economy and international financial markets has reached astonishing levels in recent months with almost no optimism to be found.” William Grant, president of Smith, Barney and Company noted that the unweighted index of all securities markets was down seventy-six percent from its 1968 high. The NYSE and AMEX were off sixty and eighty percent respectively, resulting in several hundred billions of dollars in paper value decline. For individual corporations, like Exxon off \$7 billion, ITT off \$5 billion, or Polaroid off \$3 billion, this meant serious losses.⁷⁷

Some painted an even bleaker picture. Alan Greenspan, then in the private sector, wasn’t nearly as sanguine as the other attendees at the Conference Board. “The United States is rapidly approaching the crisis threshold of inflationary expectations,” he wrote. “If pierced,” he continued, higher inflation “threatens massive economic disruption. Unless major economic policy changes are forthcoming, a crisis by 1977 or even 1976, is a reasonable probability.” On the eve of taking office in the Ford administration he called for “a moratorium should be quickly placed on all federal programs which create new expenditure initiatives (health insurance, welfare reform, etc.).” So here, for Greenspan, a number of factors are interrelated. Corporate profits,

⁷⁷ The Conference Board, “Business Outlook 1975,” A discussion by the Conference Board Economic Forum, Waldorf Astoria, New York, Nov. 21, 1974, pg. v, xv, xvii, 62

are eroded by inflation, which is triggered by government social spending. A clear solution, from this perspective, was beginning to emerge.⁷⁸

But Grant of Bank of America emphasized a bigger problem. He emphasized that “inflation distorts financial statement and financial analysis and makes all investors uncertain and cautious.” Without accurate forecasting, the ability to follow the predictable changes in the economy in the Keynesian era, Wall Street economists were flying blind. Corporate management, he said, “have no feeling right now of just how to forecast. Who does? . . . they feel they are in a never-never land as to the kind of price assumptions they make.” The problem was that inflation was driving up earnings, at the same time it was eating into stock profitability, and leading to an overall drop in profitability, despite ostensibly good numbers. This led to a conundrum for corporate managers in which they saw “below average returns for so many years, and . . . above-average earnings.” “There is no logical explanation,” he continued, “and that is what concerns them.” This conundrum extended out the corporate sector. “The investment community,” Grant said, “is plagued with what the economic community and the government are struggling over: a lack of knowledge about the structure of the supply side economy.” For the financial sector, and the economy in general, “it is a new ball game.” These worries - phantoms of Keynes’ “animal spirits.”⁷⁹

And things only got worse. By 1975 there was a major profitability crisis that was causing panic in business circles. In the first half of 1975 corporate profits were in “the worst slump since the 1930s.” The forty percent drop in two quarters – the last of 1974 and the first of

⁷⁸ The Conference Board, “Inflation in the United States: Causes and Consequences,” proceedings from the Conference Board Economic Forum, May 21, 1974, Waldorf Astoria, New York, pg. vii

⁷⁹ The Conference Board, “Inflation in the United States: Causes and Consequences,” proceedings from the Conference Board Economic Forum, May 21, 1974, Waldorf Astoria, New York, pg. xiii, 85, 87, 92

1975 – “was swifter and steeper than the 37% fall off in the four quarters in 1957-1958, hitherto the worst setback for profits since the 1930s.” All corporations saw an average decline of 15% in the first quarter, in manufacturing industries like textiles and autos were seeing 79 and 75 percent drop on the year, respectively. The manufacturing index adjusted for inflation and for real profits was down nearly twenty percent to 82 index points from a post war baseline high of 100 in 1967. 1975 became “the year of the trough,” with a major recession, a long-standing depression for cities like New York, coupled with high inflation, running a recessionary trend since the beginning of 1973. In that first quarter industrial production dropped twenty-eight percent, while unemployment steadily grew from six to nine percent by ’75. Industrial capacity was barely at seventy-five percent, while in the summer of ’75 inflation hit double digits. Despite a recovery in the second half of 1975, end of the year profits dropped nine percent below the 1974 level, already a poor year, and kept numbers around the lowest performance in thirty years.⁸⁰

These conditions were exacerbated by a series of business failures in the early 1970s. According to the New York Federal Reserve, the 1970 Penn Central crisis and bailout “seriously disrupted the commercial paper market and unsettled our financial system.” Bank failures and forced merges in 1973 and 1974 had a similar effect, specifically the failure and merger of the National Bank of San Diego to the Beverly Hills National Bank, and the bankruptcy of the major Franklin National Bank, dealt “a heavy blow to confidence in our financial system.” All of this, “raised serious doubts about the ability of the free world’s financial institutions to continue to

⁸⁰ Citibank, Monthly Economic Letter, May 1975, pg. 7, 9, 10. Citibank, Monthly Economic Letter, January 1976, pg. 2. Citibank, Monthly Economic Letter, April 1976, pg. 5

function effectively,” and represented “the most serious threat to domestic and international financial stability we have experienced in a long time.”⁸¹

By early 1977 conclusions were being drawn by Citibank and the financial sector, they were “lowering the sights on future growth.” This marks a major turn from the 1960s. Recall Arthur Okun’s 1969 statement of marvel at the nations’ “unparalleled, unprecedented, and uninterrupted expansion.” By the mid-1970s that predictability, and that optimism, was gone. In 1977 Citibank wrote that “At present, in widening sectors of opinion, the sentiment prevails that the United States along with the industrial world as a whole has entered a period of a slower long-term trend in economic growth – slower, that is, by comparison with the rapid expansion of the 1960s.” In 1979 the trend was clear: “During the past five years, the average annual rate of growth in real terms – adjusted for inflation – has slumped to 2.5% in the top seven industrial countries. That’s a far cry from their trend rate of economic growth for 1958-1973, which averaged 5.8%.” In 1979 a picture of the bigger trend was possible to make out. Highlighting the impact of the “world slowdown” on profits, Citibank wrote, “Over the past five years, growth has dawdled along in nearly all the industrial countries,” adding that “the post war international system” looks “pale and wan.”⁸²

Later that same year Citibank wrote, “The year 1973 marked the end of a prolonged postwar boom,” with the coming of a “worldwide recession” in 1974-75. This changed the political objectives of the financial sector as the new priorities were fighting inflation, stabilizing the dollar, and restoring profitability. They wrote in the monthly economic analysis that “the

⁸¹ Richard A Debs, “Our Changing Financial System,” *Monthly Review*, New York Federal Reserve Bank, Vol. 58, No. 5, May, 1976, pg. 121

⁸² Okun quoted in Bluestone and Harrison, *The Deindustrialization of America*, 206. Citibank, Monthly Economic Letter, April 1977, pg. 12. Citibank, Monthly Economic Letter, Jan. 1979, pg. 11

once-sacred objectives of full employment and rapid growth, which dominated the policies of industrial countries after World War II, have virtually been abandoned.” Looking back from 1976, Paul Volcker, the head of the NY Federal Reserve, remarked on the “atmosphere of gloom prevailing the opening months of 1975.”⁸³

For New York, long facing a depression of its own, the national downturn had dramatic consequences. First, it altered the “mood” of Wall Street bankers and economists. The tolerance for social largesse was diminished in a prevailing atmosphere of “gloom” and uncertainty. But it also tanked markets that New York relied on to provide credit and pay its bills. The biggest was the municipal bond market, which experienced its greatest failure in US history.

* * *

2.6 Market Failure

New York City’s budget failed not because of liberal overspending, but because the municipal bond market failed. While high unemployment was of paramount concern for the economic fundamentals of the city of New York, and ending the high rates of unemployment crucial for the economic revival of the city, for our purposes, inflation takes precedence. This is because of its impact on the bond market.

The bond market in the mid-1970s plummeted, culminating in a market collapse in 1974 and 1975. That combination, a recession coupled with market collapse, was reminiscent of 1929 when a “mass depression was triggered off by the collapse of the stock market.” But instead of a

⁸³ Citibank, Monthly Economic Letter, June. 1979, pg. 8. Paul Volcker, “Sustaining Business Expansion,” *Monthly Review*, New York Federal Reserve Bank, Vol. 58, No. 6, June, 1976, pg. 150

stock market collapse, the 1970s featured a bond market collapse. By the 1970s, and compared to stocks “the municipal bond market is much more important.” Bertram Gross, CUNY professor told Congress, “a new kind of depression or the functional equivalent of a depression, of a mass depression, can be triggered off by a collapse of the municipal bond market.” By the 1970s bonds had become a widely used mechanism in the both the public and private sector. The use of both commercial paper and tax exempt bonds had exploded in the 1960s and 1970s, and bonds themselves were a major source of capital and profit economy wide.⁸⁴

Like every economic entity, New York was reliant on bonds. Cities and counties, states, businesses and corporations, all rely on bonds to keep normal operations funded and functioning. To make payroll, cover capital expenses, pay for resources or other expenses, cities, states and corporations use bonds to cover gaps in their cash flow. For example, bonds keep companies afloat during the slow shopping season where large retailers are building inventories for Christmas, but without the income to cover their expenses. Access to the bond market is vital for the normal operations of any economic entity, and so too for New York, which used bonds both to cover large scale capital projects, and for cash flow shortfalls.

In the middle of the 1970s the bond market failed. Starting in 1973, the increased volatility coming from an aggressive financial sector, as well as major structural changes, like the end of the Bretton-Woods system, were forcing markets and financial managers into uncharted territory. In the words of the *Wall Street Journal*, the major problem was volatility, which made markets unpredictable, 1973 “saw short-term rates push far above long-term rates, virulent price inflation, price-control experiments, and wrenching realignments among world

⁸⁴ Testimony of Bertram Gross, in “Impact of New York City’s Economic Crisis on the National Economy (771) pg 128

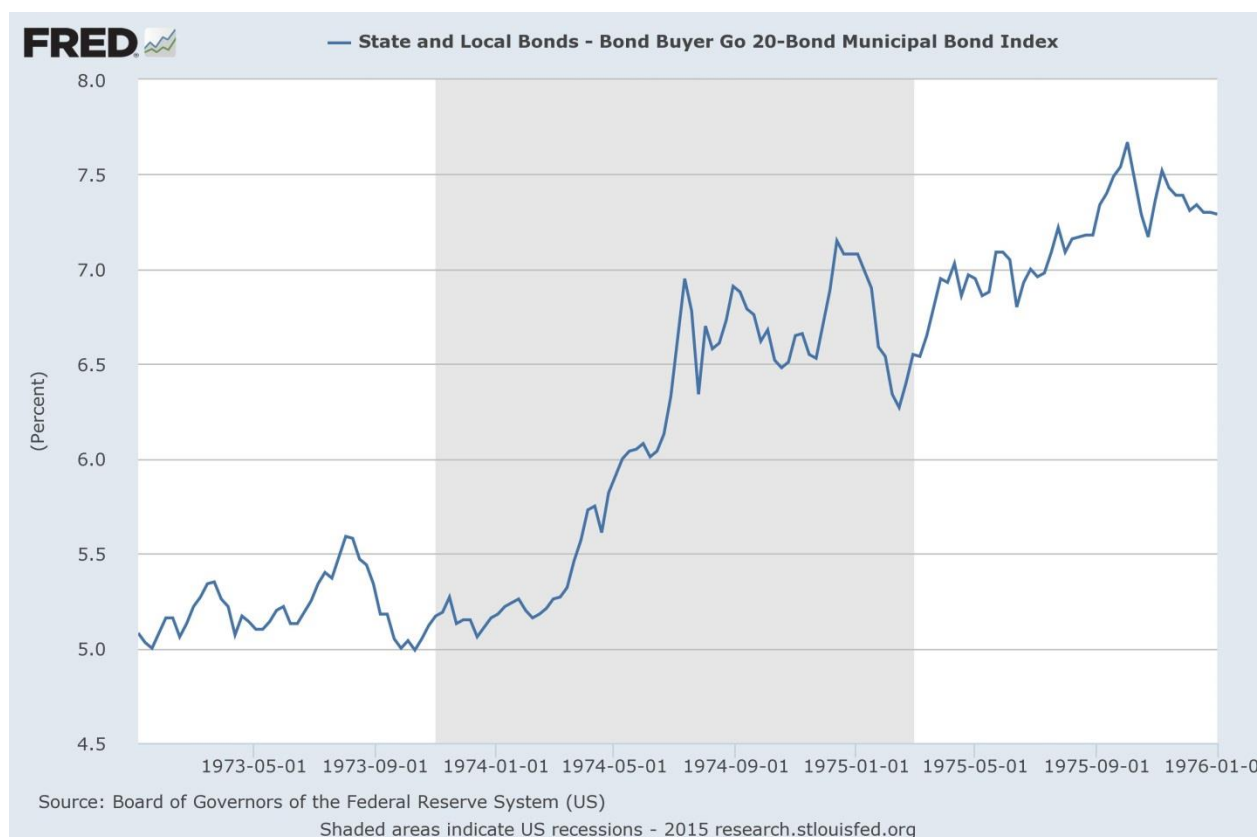
currencies.” The result was a rough year for the markets. “According to New York Stock Exchange figures, the composite net worth of member firms shrank 13% in 1973 to \$3.65 billion from \$4.20 billion at the end of 1972. Only \$49 million of the \$550 million decline was attributable to operating losses; the rest was account for by shrinkage in the market value of capital . . . and by the flight of capital as investors switched stakes to ventures that seemed less risky.”⁸⁵

Beginning early in 1974, with the stock market also sagging bonds began to slide as well. The Street “has found still another way to lose potfuls of money – the bond market,” the *Wall Street Journal* reported. The bond market began to experience widespread instability and a long descent that would not bottom out until 1976. Early in the year, according to a Smith, Barney and Co. bond trader, the market for long-term municipal bonds backed by revenue was “virtually nonexistent.” By February of 1974, there were \$2.3 billion of unsold and yet to be sold bonds for the market. The *Journal*, commented that “The tax-exempt market resembled a disaster area . . . when many unsold bonds from recent offerings . . . were marked down sharply.” And the private bond firm, A.G. Becker & Co., said that “the municipal bond market is living on borrowed time.” Don Regan of Merrill Lynch was more direct, “it’s been a bloodbath,” he said.⁸⁶

⁸⁵ “Bond Markets: Prices Are Unchanged In Year-End Tranquility Following Volatile ‘73,” *Wall Street journal*, Jan 2, 1974. Richard E. Rustin, “Unexpected Blow: Plunging Bond Prices Bring Added Problems To Securities Industry,” *Wall Street Journal*, April 11, 1974

⁸⁶ Richard E. Rustin, “Unexpected Blow: Plunging Bond Prices Bring Added Problems To Securities Industry,” *Wall Street Journal*, April 11, 1974. Lindley, B. Richert, “The Bond Markets: Yields Are Seen Rising to ‘70’s Record Levels By One Firms’ Officer,” *Wall Street Journal*, Jan. 28, 1974. Phil Hawkins, “The Bond Markets: Many Planned Sales May Be Withdrawn Due to Interest Costs,” *Wall Street Journal*, April 1, 1974. Phil Hawkins, “The Bond Markets: Richer Returns Abroad Since Ending of Barrier Spur Interest in U.S.” *Wall Street Journal*, Feb. 11, 1974. Richard E. Rustin, “Unexpected Blow: Plunging Bond Prices Bring Added Problems To Securities Industry,” *Wall Street Journal*, April 11, 1974

The key indicator for the market are bond yield rates. A high yield rate is good for the investor, but bad for the seller, because it means sellers have to pay more over the life of the bond. A high rate also means the market is performing poorly; yields go up to attract buyers when bonds might not otherwise sell. At the beginning of 1974, the rates took off, from a rough average of 5.25% for 1973, to cresting above 7% and 8% in 1975 and 1976, setting new records in the process. Between October, 1973 and April of 1974, when rates on the Dow Jones municipal bond yield index jumped from 4.94% to 5.61%, the average \$1000, twenty-year bond lost \$84 in value. A high yield means cheap prices, and a poor market for issuers of bonds⁸⁷



⁸⁷ Phil Hawkins, "The Bond Markets: Many Planned Sales May Be Withdrawn Due to Interest Costs," *Wall Street Journal*, April 1, 1974

Already in March of 1974, bond prices were at three year low and the major dealers lost \$150 million in that month alone. “Tax-exempt bonds are trading at the cheapest prices and highest yields since August 1971,” the *Journal* wrote. The trading firm A.G. Becker & Co. lamented that “the market is simply what the highest bidder, if there is one, will pay, and that price may bear no resemblance to the level at which similar bonds traded even hours before.” In April, record offerings further depressed the market. The \$2.3 billion in offerings from the corporate sector in that month alone was “more than double the monthly average of about \$1.08 billion throughout 1973,” itself a record year. According to the *Wall Street Journal*, “the bond market begins a busy April schedule in the worst condition since its 1970 debacle.”⁸⁸

As part of the 1969/1970 national recession, the bond market in those years took a beating, with rates as high 7.13% in May of 1970. A major factor in 1970 was the relatively high rate of inflation which crested at 6.2% in January of 1970. That bump, from a yearly average of 3 or 4 percent in the mid-sixties, to above 6 was enough to send the markets tumbling, and set new records in the municipal bond yield index. By the summer of 1970, however, things had already been able to recover and the decline in inflation brought a return to normalcy for bonds.

By the mid-1970s, things were different. The cumulative impact of changes in the financial sector, and the national and international political economy meant that markets were no longer acting in a predictable manner. For economist Susan Strange, 1973 marks “a change of gear, as the system moved from a more stable period into a much more unstable one.” Strange points to a whole slew of factors, from Nixon’s devaluation of the dollar and the financialization

⁸⁸ Richard E. Rustin, “Unexpected Blow: Plunging Bond Prices Bring Added Problems To Securities Industry,” *Wall Street Journal*, April 11, 1974. Phil Hawkins, “The Bond Markets: Big Paper Loss Taken On One Treasury Issue Points Up Recent Slide,” *Wall Street Journal*, April 8, 1974. Phil Hawkins, “Bond Markets: Yields Leveling Off After 2-Month Climb, But Further Rise Seen,” *Wall Street Journal*, April 15, 1974. Phil Hawkins, “The Bond Markets: Many Planned Sales May Be Withdrawn Due to Interest Costs,” *Wall Street Journal*, April 1, 1974.

of international currency, the OPEC crisis, the creation of a Eurodollar and Petrodollar market, and the increasingly aggressive role in Wall Street itself pursuing much more speculative investment prospects. The result, for Strange, is that “the year of 1973 stands out as a benchmark, a turning point when the snowball of change from the leisurely 1960s to the hectic yo-yo years of the 1970s and 1980s began to gather momentum.” Markets were more volatile and unpredictable, and the bedrock investment, government bonds, were no longer functioning as they had.⁸⁹

This was certainly true for bonds. In mid-May 1974, the market again tumbled, and it was apparent that something was wrong. Dow Jones municipal bond yield index reached above the six percent mark, cresting as high as 6.01%. And that was just the average; some bonds were selling at much higher rates. For example, according to the *Wall Street Journal*, rates on “some new medium-grade utility bonds was [over 10] %, highest in the nation’s history.” While short term rates were up to preserve profitability and counter inflation, long term rates, more inflexible, were losing money; a thousand dollar, twenty year municipal bond lost ten dollars on the year, according to the WSJ. Other tax exempts were going unsold, because returns were simply unprofitable, like a Massachusetts offering of \$125 million “about \$79 million remained unsold.” According to one specialist, the market depends “upon premium bonds to be our profitable islands in this endless sea of red ink, but the Massachusetts’ sale proved that even these superior issues must be priced realistically,” meaning severely marked up, and contributing to the overall “dismal market performance.”⁹⁰

⁸⁹ Strange, *Casino Capitalism*, 6, 5.

⁹⁰ Phil Hawkins, “Bond Markets: Some Dealers Say AT&T Debt Offering May Bear Firm’s Highest Coupon Ever,” *Wall Street Journal*, May 13, 1974. “Bond Markets: Prices Are Unchanged In Year-End Tranquility Following Volatile ’73,” *Wall Street journal*, Jan 2, 1974. Phil Hawkins, “The Bond Markets: Prices Seen Vulnerable Following New Proof of Runaway Inflation,” *Wall Street Journal*, June 17, 1974.

Massachusetts wasn't the only issuer force out of the market. With rates as high as they were, sellers paid more for access to the credit market, and for those unwilling or unable to pay numerous offerings were withdrawn. This hit the tax-exempt municipal market particularly hard, with potential offerings pulled back because cities and towns simply could not afford to participate in the market. In one day in August of 1974, five potential sellers were bumped out of the market because of "continued high interest rates." Three of them "rejected bids at competitive sales and two others failed to receive any bids." Anne Arundel County, Maryland said "excessive interest," rates over 7% forced it to reject all bids on an \$18 million offer despite its A-1 Moody's rating and double-A Standard & Poor's. The city of Huntsville, Alabama received zero bids for its \$10 million offering, also with an A Moody's rating. Same story for Plantation, Florida, while that state, and Malden, Massachusetts turned down all market offers on their bonds. All of them with A or double A ratings, the Wall Street Journal remarked that "similar instances have occurred periodically during the recent high-interest period." Like the state of Connecticut, who were informed in September that "the market simply isn't receptive to bonds at this point," forcing the state to forestall their \$100 million bond-anticipation note offering, the same type of bonds that allegedly got New York in so much trouble.⁹¹

With unprecedented yield rates and displacements, the market continued its long slide through the summer of 1974, when "prices fell sharply." In early July the Dow Jones municipal bond yield index jumped by three-tenths of a percent, to 6.62% from 6.35% in just one week pushing losses whereby "a typical \$1000 state or city bond plunged about \$34." According to the

⁹¹ Phil Hawkins, "The Bond Markets: Many Planned Sales May Be Withdrawn Due to Interest Costs," *Wall Street Journal*, April 1, 1974. "High Interest Rates Push Five Borrowers Out of the Market," *Wall Street Journal*, Aug. 28, 1974. Lindley B Richert, "The Bond Markets: Older Issues Decline Despite Light Offers In Post-Holiday Period," *Wall Street Journal*, Sept. 4, 1974

Journal, “it put the net drop by a typical bond in just four weeks at an astounding \$80.” That drop in one month was similar to the value loss for the entire year of 1973. The Smith, Barney & Co.’s fixed income group said that the municipal bond market was “totally demoralized at this juncture. The visible supply of new issues is growing, some portfolio selling has occurred (with a great deal more looming as a distinct possibility),” they said. Most troublesome, was that “the investment psychology remains bleak.”⁹²

In September, the market rate index was 6.84%, and “only a round of postponements, curtailments and rejections of new issues kept municipal prices from falling even lower,” some market analysts told the *Wall Street Journal*. John Nuveen & Co., a firm specializing in the bond market, told reporters that in the fall of ’74 the “list of nonparticipants in the new-issue area is growing every day,” adding, “defections are so numerous from most bidding groups that mergers of one or more accounts were necessary in order to make bids on last week’s scant calendar.” Nonparticipants and defections from bidding groups meant that there weren’t buyers, that the market was collapsing. The need was there, but bond buyers were reluctant to get saddled with something that might underperform inflation.⁹³

The bond collapse in the mid-1970s was a market failure of historic proportions. In December of 1974, while the New York crisis was beginning to unfold, the Dow Jones Municipal Bond yield Index hit a historic record, averaging 7.24% for the week, and topping the previous record of 7.13% set in May of the 1970 market crisis. “Never has the tax-exempt sector presented cheaper prices and higher yields,” reported the *Wall Street Journal*. On the year, bond

⁹² Phil Hawkins, “Bond Markets: Huge Volume of \$2.44 Billion New Issues This Week Threatens More Price Trouble,” *Wall Street Journal*, July 8, 1974

⁹³ Lindley B Richert, “Specialists Pin Hopes Of Continued Stability On Pension Measure,” *Wall Street Journal*, Sept. 3, 1974

prices fell like pennies in a well, the market index rise from 5.20% to 7.15% at the end of the year “reflects a decline of about \$244 by a typical \$1,000 state or city bond,” an unprecedented number. Meanwhile, billions of dollars of bonds were going unsold: “a record \$2.46 billion of planned state and city bond sales was disrupted” in 1974, which surpassed “the previous high of about \$2.42 billion in so-called ‘displacements’ during 1969.” Those rates continued into 1975, when in May the *Wall Street Journal* estimated that \$1.5 billion in postponed sales, just for corporate issues, were queued wanting to re-enter the market. Munis in 1975 fared no better, with nearly half a billion dollars in displacements in April of 1975 alone, just as New York was being froze out of the market. According to White House economic documents, between January and September of 1975 there were a record 195 municipal market displacements totaling \$1.645 billion.⁹⁴

And New York’s crisis was not the cause of the failed market. These miserable conditions continued through June of 1975, the height of the New York crisis, by which point banks had refused the city access to the market. At the end of that month the *Wall Street Journal* reported that “the bond market is being routed by signs of possibly tighter monetary conditions ahead . . . [including] concern that the Federal Reserve Board might adopt a tighter stance . . . [and] another heavy supply of fresh corporate and municipal bonds” One unnamed municipal trader remarked that “this market is just awful . . . it doesn’t know where to go; therefore, we can’t get enough buying power mobilized to mark prices higher.” Note, even with New York, the

⁹⁴ “Long-Term Municipals’ Returns Rise to Records,” *Wall Street Journal*, Dec. 16, 1974. Phil Hawkins, “Trading Is Very Light As Investors Await Year’s Final Issues,” *Wall Street Journal*, Dec. 17, 1974. Phil Hawkins, “Stable Prices Expected Until Normal Trading Resumes in New Year,” *Wall Street Journal*, Dec. 30, 1974. Phil Hawkins, “The Bond Markets: Trading Is Unsettled BY Simon’s Forecast Of Debt-Offering Glut,” *Wall Street Journal*, Jan. 17, 1975, citing information from the *Daily Bond Buyer*. Lindley B Richert, “Bond Markets: Treasury’s Light Needs Spur Price Rises As Well As Fears of Higher Interest Rates,” *Wall Street Journal*, May 5, 1975. “Analysis of Yield Spreads in the Municipal Bond Market,” table 2a, no date, Burton Malkiel Files, Ford Presidential Library.

single largest issuer of tax-exempts next to the Federal Government, removed from the market, the municipal bond market continued to fail, and would do so for the rest of the year.⁹⁵

Instead, this market collapse was what drove the New York crisis; indeed, throughout the roughest patches of New York's cash flow problems, the market continued to hit new, and unprecedented lows. In the summer of 1974, when New York began to experience serious trouble on the market, the *Bond Buyer's* municipal yield was approaching seven percent, cresting at 6.95% and 6.91% in July and August, respectively. By December, just when troubles really started for New York, the rate broke through seven percent, setting new records of 7.15% on offerings for the first time in history, after hovering at unusually high levels throughout the fall. In April, May, and June of 1975, the months when Wall Street collectively refused to purchase New York's offerings, the market breached seven percent yields in each of those months, hitting a new record high of 7.22% in July. And in September, when the Emergency Financial Control Board was created to wrest control of city finances away from city managers, the rate topped 7.5%, achieving a new record of 7.67% in the last week of September, soon after the EFCB was created.⁹⁶

And it wasn't just municipalities that were suffering. Corporate offerings were also being negatively affected and many companies were removing planned offerings on the weakness of the market. In December of 1974 Montgomery Ward's credit division, C.I.T Financial Corp.'s and Firestone Tire and Rubber Co. all postponed major sales. With an "eye-opening" 10.12% on an April Con-Ed issue, their sale was disrupted as well. Corporate rates were routinely higher

⁹⁵ "Prices Drop on Signs Monetary Conditions Might Become Tighter," *Wall Street Journal*, Jun. 23, 1975 . Lindley B. Richert, "Older Issues' Prices Are Mixed During Day Of Subdued Trading," *Wall Street Journal*, Jun. 3, 1975

⁹⁶ Federal Reserve Bank of St. Louis, State and Local Bonds - Bond Buyer Go 20-Bond Municipal Bond Index, Percent, Weekly, Not Seasonally Adjusted, accessed Feb. 6, 2015

than municipals because they did not benefit from tax-exempt status, which meant they had to offer higher rates, for higher investor returns. This was a complete failure of the bond market that was unprecedented in scope.⁹⁷

Large banks faced the same problem. In January of 1975 BankAmerica Corp., the holding company for Bank of America, backtracked on a \$150 million sale, postponing its offering because, in the words of Blyth Eastman Dillon & Co., the bond underwriters, “it was a question of so many other new issues and the nervousness that results” for tapping the market and getting undesirable rates. The BofA offering, incidentally, is an example of commercial banks using the holding-company structure to enter the bond market to gain access to commercial paper. In explaining the BofA failure, analysts at Blyth Eastman Dillon pointed to market oversaturation, too many new issues from a variety of sources, in an atmosphere that could not absorb them all.⁹⁸

And it wasn’t just commercial paper, banks and munis that were flooding the market, the Federal government too had a record year issuing debt in 1975, contributing to the collapse of the market. Treasury Secretary William Simon in reports to President Ford admitted that federal issues in 1975 will “require record Treasury borrowings,” and will “completely dominat[e] the market.” Simon reported that “the basic capital investment needs of both the private and the public sectors are greater than any sum we have had to contend with in the past.” Analysts and

⁹⁷ Lindley B Richert, “The Bond Markets: Several Firms Put Off Offerings as Price Cuts Continue on Old Issues,” *Wall Street Journal*, Dec. 4, 1974. Phil Hawkins, “The Bond Market: Six Offerings Totaling \$1 Billion Are Slated For Sale This Week,” *Wall Street Journal*, April 22, 1974.

⁹⁸ “The Bond Markets: Older Corporates Surge Despite Heavy Slate Of Offers This Week” *Wall Street Journal*, Jan. 6, 1975

economists from the private and public sector were pointing to oversaturation as a major potential problem, and cause of the market failure.⁹⁹

The rising bond rates had other impacts too, for example, they pushed up interest rates across the board as access to capital and credit became scarce. When a bank announced an 11% interest rate on straight business loans, one bond dealer told the *Wall Street Journal* that the “announcement of an 11% prime was like punching a guy who already was unconscious . . . Bonds have been knocked silly by an endless string of unfavorable rate news, with market prices falling so rapidly that investors are unwilling to consider cash purchases,” For businesses, this meant all sources of credit were being priced higher, whether through the commercial paper market or the normal credit market, as rates chased one another ever higher. By June, First National City Bank’s prime rate was also 11.5%.¹⁰⁰

All of this meant big losses for Wall Street, a huge reduction of bond profitability and bond portfolios. First, major underwriting services, like Securities Processing Services Inc., a company that “provides municipal bond and other securities clearing services to banks, municipal bond dealers and brokers,” reported in November of 1974 that its losses for the year may be as high as \$1.8 million, mostly on the bond market. Lehman Brothers, a major underwriter, was reporting in early 1974 that “profit margins on competitive underwritings have shrunk to a level where it is difficult to justify the sizable amount of capital and personnel required in order to participate,” according to their chairman, Peter G. Peterson. Meanwhile, in portfolio holdings a behemoth like Citibank lost roughly \$1.4 million in the first quarter of 1974

⁹⁹ William Simon to Gerald Ford, Memorandum for the President: Current Developments in the Financial Markets, Feb. 22, 1975, William Seidman Files, Ford Presidential Library

¹⁰⁰ Ida Walters, “The Bond Market: Some Bargain Rates Seen on Redemption Issues by Treasury,” *Wall Street Journal*, April 29, 1974. Phil Hawkins, “The Bond Markets: Drop In Interest Rates Lower Supply Provide Fuel for Recent Rally,” *Wall Street Journal*, June 10, 1974.

alone, dropping its profitability to a meager \$17,000 in its bond division, telling its stockholders that “substantial losses” in bonds affected its overall profitability performance. For Wall Street firms heavy into bonds, this was a period of heavy losses.¹⁰¹

Chase Manhattan, for example, was not as lucky as its main rival, Citibank, which, despite record losses in its bond portfolio, managed to maintain its profitability. In April, Chase Manhattan released figures that it lost a whopping \$7.5 million in its bond account for the first quarter of 1974. In April, Chase thought that its overall earnings were high enough to carry it through its bond losses. But by the fall it was clear that its yearly earnings had “been wiped out by the discovery that certain of its securities holdings were valued at falsely high levels.” A remarkable \$34 million in bonds had been wiped out. A write down that large for a single year was substantial enough to topple all but the largest of the Wall Street players. Those securities were located in Chase’s “bond-dealer operations.” And there was speculation that the mis-valuation was deliberate. Subsequently Chase invited the FBI to investigate, and leaked information to the press that “the bulk of the false valuations involved municipal securities rather than U.S. government or federal agency issues.”¹⁰²

Some firms went belly up, like Roberts, Scott & Co., a major player in national banking community as it was both “a New York Stock exchange member firm and one of the largest

¹⁰¹ “Bradford Sees Chance Of Loss From Securities Up to \$1.8 Million in ’74,” *Wall Street Journal*, Nov. 5, 1974. Phil Hawkins, “Bond Markets: New York City Sets \$436.6 Million Sale,” *Wall Street Journal*, March 25, 1974. Richard E. Rustin, “Unexpected Blow: Plunging Bond Prices Bring Added Problems To Securities Industry,” *Wall Street Journal*, April 11, 1974. Despite the poor bond performance, Citi still had a record quarter, with profitability up 26% over the same period in the previous year, see, “Citicorp Posts 26% Profit Rise For 1st Quarter,” *Wall Street Journal*, April 11, 1974

¹⁰² “Citicorp Posts 26% Profit Rise For 1st Quarter,” *Wall Street Journal*, April 11, 1974. “Chase Manhattan Posted a Deficit In Bond Account,” *Wall Street Journal*, April 17, 1974. “Chase Says ’74 Profit Gains Wiped Out By Discovery of Overvalued Securities,” *Wall Street Journal*, Oct. 3, 1974. “Chase Requests FBI Study Overvaluation Of Certain Securities,” *Wall Street Journal*, Oct. 4, 1974.

retail brokerage houses in the West” announced that it was going out of business in May of 1974. An unnamed source inside the company told the *Wall Street Journal* that “the problem was that the company had a lot of subordinated capital in the form of bonds, including triple-A municipal and corporate bonds,” and that “the bond market has taken a beating and put the company in a difficult position.”¹⁰³

In 1974, for the first time since the Great Depression, two banks completely failed, and had to be bailed out by the federal government. Long Island based Franklin National Bank and First National Bank of San Diego failed. Franklin was at the time the 20th largest bank in the nation, and its failure the largest in the nation’s history. With firms failing, sellers unable to enter the market, and dealers scrambling to find buyers for a wide-range of offerings, Leon T. Kendall, president of the Securities Industry Association, compared market conditions to a natural disaster. “This thing hit like a tornado in the Midwest,” he said.¹⁰⁴

The “thing” that hit the market, was a two pronged failure. Markets were at once oversaturated with too many bond offerings of all kinds, breaking records in 1973, 1974, and 1975, and the unprecedented rate of inflation, which made most offerings unprofitable at normal rates. In the words of the *Journal*, this was leading to a “prevailing forecast is for cheaper prices and higher yields on all bonds in the period ahead.” With “the heavy volume and abnormally high inflation,” an unnamed analyst wrote that “I simply don’t believe the market can perform

¹⁰³ “Robert Scott, Big Board Firm, Will Call It Quits,” *Wall Street Journal*, May 30, 1974

¹⁰⁴ Richard E. Rustin, “Unexpected Blow: Plunging Bond Prices Bring Added Problems To Securities Industry,” *Wall Street Journal*, April 11, 1974

well over a sustained period.” Another urged “bearishness,” “in view of this unhealthy combination of market oversupply and galloping economic inflation.”¹⁰⁵

Oversaturation had two components, one was the unprecedented volume of sales from all types of bonds, public and private. This flood was coming from increased use of commercial paper as a self-financing mechanism for U.S. corporations, including banks, which according to Moody’s through 1973 bank holding companies had issued a whopping \$4 billion in “publicly offered long-term debt,” a number that was “expected to increase substantially in future years.” That number was supplemented by U.S. corporations, turning to self-financing mechanisms on the bond market, and municipals and tax-exempts, who all saw the bond market as a steady and reliable source of funds, and were turning to it with increasing frequency in the early 1970s. For municipals, according to the *Wall Street Journal*, “faced with declining revenues during the current economic slump,” they were turning to the market with more frequency, exemplified by a scheduled \$1.58 billion of tax-exempt issues in a single month. In July of 1974, for example, the market as a whole put out a \$2.44 billion collective offering in a single week, estimated to be the largest ever – with the largest single contributions coming from a \$850 million Citicorp offering, a \$438 million NYC sale, \$300 million by Standard Oil, and \$125 million from the state of Oregon.¹⁰⁶

With this glut, beginning in January of 1974, corporate bonds were being marked down because of the saturated market from both corporate and tax exempt offerings. But 1975 turned

¹⁰⁵ “The Bond Markets: Investors Are Bracing For \$1.23 Billion Slate of Offerings This Week,” *Wall Street Journal*, Jan. 21, 1974. Phil Hawkins, “The Bond Market: Six Offerings Totaling \$1 Billion Are Slated For Sale This Week,” *Wall Street Journal*, April 22, 1974

¹⁰⁶ Phil Hawkins, “The Bond Markets: Markdowns Granted As Dealers Prepare for \$848 Million Supply,” *Wall Street Journal*, Jan. 14, 1974. Lindley B Richert, “Prices Mostly Decline As Trading Resumes After 3-Day Weekend” *Wall Street Journal*, Apr. 1, 1975. Phil Hawkins, “Bond Markets: Huge Volume of \$2.44 Billion New Issues This Week Threatens More Price Trouble,” *Wall Street Journal*, July 8, 1974.

out to be a crucial year because US federal notes, also tax exempt, doubled in that year, putting further competition on scarce capital. Salomon Brothers analysis indicated that in the five years between 1970 and 1975 state and local tax exempt volume grew from \$144 billion to \$227 billion, an annual growth rate just under 10 percent, and part of a “more universal mushrooming of debt in this country.” This muni debt growth was on par with federal and corporate debt, all of which was exploding, and putting a major crimp on credit markets, “unprecedented in the postwar period,” according to Salomon Brothers market analysis.¹⁰⁷

Even with the historic market failure, more and more issuers came to market with greater and greater capital demands. January of 1975 saw a record corporate offering of \$3.6 billion, matching the record from March of 1971, and well above the monthly average for 1974 of \$2.1 billion. That record dramatically increased just two months later, when total corporate offerings amounted to \$4.4 billion, “the largest monthly volume ever, putting the first quarter total at substantially more than \$11 billion, also a record.” The *Wall Street Journal* reported that “the monthly average was about \$2.1 billion last year and only about \$1 billion in 1973.” And then the record rose again in April of 1975 to an anticipated \$5.4 billion of corporate offerings. The next month Wall Street banks would collectively refuse to sell New York issues. Considering that in January of 1974, a year and a half earlier analysts were already worried “oversupply” was tapping out an “already saturated market,” the records reached in 1974 and 1975 were worrisome indeed. Mid-year 1974 analysts were reporting that “both the tax-exempt and corporate sectors

¹⁰⁷ Phil Hawkins, “The Bond Markets: Markdowns Granted As Dealers Prepare for \$848 Million Supply,” *Wall Street Journal*, Jan. 14, 1974. Henry Kaufman, “Comments on Credit,” Salomon Brothers, Oct 17, 1975

were described in alarming terms such as ‘boarding on chaos’ and ‘state of disarray’ by Smith, Barney & Co.’s fixed-income committee.” And the rates were only increasing.¹⁰⁸

A contributing factor to the flooded market was the end to U.S. protectionist tariffs in 1974. Kennedy era regulations, the Interest Equalization Tax, designed to keep U.S. investment dollars in domestic investments, was dropped. The effect was to open the market to European bonds with potentially higher returns, and further over saturate the market. This increased demand from foreign sellers of debt. In 1975 both Mexico and Montreal entered U.S. credit markets, joining a host of oil producing, and European countries. Together, they brought the estimated total for foreign offerings in U.S. markets up by \$1 billion, to \$3.1 billion, “matching the total annual supply as recently as 1973,” according to Salomon Brothers. And also beginning the process of foreign debt speculation that would collapse spectacularly in the 1982 Mexican debt crisis.¹⁰⁹

The second causal factor for market oversaturation was the collapse of buyers, particularly commercial banks. The abysmal market scenario was exacerbated when commercial banks started selling their municipal bond inventories in the spring of 1974. As early as April, the large banks had stopped buying, driving rates a half a point higher, “due mainly to

¹⁰⁸ “Bond Markets: Week’s \$1.14 Billion Of New Debt Offers May Curb Price Rises,” *Wall Street Journal*, Feb. 3, 1975. Phil Hawkins, “Bond Markets: Flood of New Issues Won’t Recede Soon Despite Forecasts,” *Wall Street Journal*, Mar. 17, 1975. Lindley B Richert, “Prices Mostly Decline As Trading Resumes After 3-Day Weekend” *Wall Street Journal*, Apr. 1, 1975. “The Bond Markets: Investors Are Bracing For \$1.23 Billion Slate of Offerings This Week,” *Wall Street Journal*, Jan. 21, 1974. Ida Walters, “The Bond Markets: Economic Data Sour Recent Investor Hopes That Rally Is at Hand,” *Wall Street Journal*, May 6, 1974.

¹⁰⁹ Phil Hawkins, “The Bond Markets: Richer Returns Abroad Since Ending of Barrier Spur Interest in U.S.” *Wall Street Journal*, Feb. 11, 1974 Salomon Brothers paraphrased in Lindley B. Richert, “Overings of Foreign Debt in U.S. Surge,” *Wall Street Journal*, Feb. 18, 1975. Interestingly, there were also elements of anti-semitism in the sale: “Inclusion of Jewish-controlled Lazard as a participant in the Mexico offering reportedly brought on serious strife within the group sponsoring that issue, sources said. The Kuwait International Investment Co., a financial house half-owned by the Kuwait government, withdrew last week as a managing underwriter.”

nonexistent demand by their chief purchasers, commercial banks.” Lack of interest quickly turned to outright hostility, as banks sought to drop the assets that were losing them money. “Far from being buyers, New York banks liquidated about \$570 million of tax-free securities during the past four weeks,” reported the *Wall Street Journal*.¹¹⁰

By May of 1974, “inventory-liquidation programs” from major commercial banks and the largest municipal holders were driving prices further downward. Banks “in such diverse locations as Illinois, Michigan, North Carolina and New York City reportedly sought bids on blocks of older bonds,” as well as sellers in “Boston, the Midwest and Philadelphia also [who] were advertisers.” In the first part of May, banks and insurance companies put roughly \$105 million back into the market and marked the first decline of municipal holdings in five years. The advent of banks selling their inventories meant “double-trouble” for the municipal market because “in addition to outright selling, also aren’t buying by an equivalent amount.”¹¹¹

That trend continued into fall and winter. In the three short months between June and September of 1974, banks devalued their bond holdings by a remarkable \$900 million of old bond issues. The Bank of New York in their analysis of the municipal market wrote that “since 1970, this experience is by far the largest net liquidation to transpire during this eight-week period under review.” Remarkably, about 88% of that devaluation was through “liquidation of notes,” selling old issues back into the market, rather than market devaluation. According to the Bank of New York, this was a liquidation of “tax-exempt holdings at an unprecedented rate.”

¹¹⁰ Phil Hawkins, “The Bond Markets: Many Planned Sales May Be Withdrawn Due to Interest Costs,” *Wall Street Journal*, April 1, 1974

¹¹¹ Ida Walters, “Bond Markets: Detroit Edison Cuts Its Planned Offering As Interest Rates Rise,” *Wall Street Journal*, May 7, 1974; and Lindley B. Richert, “Prices Move Aimlessly As Investors Await large AT&T Offering,” *Wall Street Journal*, May 15, 1974

Their analysis went on to say that for much of 1974, the data suggests “that the banking system virtually has withdrawn its support of the municipal market.”¹¹²

The selling reached a climax through the onset of the New York crisis. In April of 1975, the eve of the crisis, banks had “trimmed about \$2.1 billion of state and local tax-exempt securities from their investment portfolios.” By June of that year total liquidations for the year were up to \$2.3 billion. At that point it looked as if, according to a May review by the Bank of New York, “commercial banks will continue to be net buyers of U.S. Treasury issues and net liquidators of municipal securities throughout the remainder of 1975.” Few, if any bond specialists thought that “bank purchasing will return to its former dominant role,” explained the *Wall Street Journal*, because, in addition to other factors, “with the advent of the bank-holding company concept has reduced bank needs for tax exempt securities.” This meant the market was unlikely to turn around anytime soon.¹¹³

The absence of bank interest was particularly troubling, because according to the business press, “commercial banks are traditionally the most substantial participants in the municipal market.” The *Wall Street Journal* explained that the absence of banks from the market was “surprising” because as recently as the 1960s, “banks usually absorbed 90% of each year’s net sales . . . just five years ago, major New York City banks accounted for 43% of the net issuances, a figure that has dropped into negative percentages recently.” Even during the market crisis of 1970 banks still accounted for more than 50% of market purchasers. And most of that

¹¹² Lindley B Richert, “Bond Markets: Older Issues Decline Despite Light Offers In Post-Holiday Period,” *Wall Street Journal*, Sep. 4, 1974. Ida Walters, “Bond Markets: Detroit Edison Cuts Its Planned Offering As Interest Rates Rise,” *Wall Street Journal*, May 7, 1974

¹¹³ Peter B. Roche, “Bond Markets: Banks are Spurring Tax-Exempt Offers For Treasury Issues,” *Wall Street Journal*, May 2, 1975. Peter B. Roche, “Bond Markets: Municipal Funds Are Thriving as Woes Hit Other Types of Tax-Exempt Securities,” *Wall Street Journal*, Jun. 9, 1975. Lindley B Richert, “Bond Markets: Demand by Big Banks Is Said to Be Extending Municipals’ Price Rise,” *Wall Street Journal*, Nov. 19, 1974.

was done by just four firms. The “fearsome foursome,” as they were known, Lehman Brothers, Salomon Brothers, Blyth Eastman Dillon and Co., and Merrill Lynch, were some “of the most powerful and profitable biddings teams in the past decade.” They, and a few other Wall Street purchasers, essentially made the market for municipal bonds. Once they started selling, the prospects for New York and other municipals were poor indeed. As it would turn out, the commercial banks never returned to the municipal market. In 1981 they accounted for just 16% of new municipal issues. And city officials understood this too well, one telling the *Times* that “they’re destroying the market, and then they turn around and complain that the market has been destroyed.”¹¹⁴

Why did banks and institutional holders begin to drop tax exempt holdings in the middle of the 1970s? The reasons have to do with US corporate tax needs, and profits. According to White House reports produced during the New York crisis, the “structure” of the municipal bond market was changing through the loss of institutional investors. For insurance companies for example, underwriting losses “increased dramatically,” reducing their need to “shelter” profits from taxes through tax-exempt purchases of municipal bonds. For commercial banks, the picture was more complicated, but had to do with the changing structure of the financial sector in the 1970s. Primarily, it was because the New York financial sector was increasingly globalized. The rise of the Eurodollar and Petrodollar markets meant the US investment funds were offshore and unlikely to be repatriated. For some firms, like Citibank and Morgan Guaranty, more than 50

¹¹⁴ Lindley B. Richert, “Prices Move Aimlessly As Investors Await large AT&T Offering,” *Wall Street Journal*, May 15, 1974. Lindley B. Richert, “Bond Markets: Tax-Exempt Yields Are at 3-Month High As Bank Buying Lags” *Wall Street Journal*, Apr. 7, 1975. Phil Hawkins, “Bond Markets: New York City Sets \$436.6 Million Sale,” *Wall Street Journal*, March 25, 1974. Henry Kaufman, “The Crowding of the Municipal Bond Market,” Salomon Brothers, Bigel Collection, Newman Library, Baruch College; John Darnton, “The City Has Assets; Cash Is Something Else Again,” *New York Times*, Mar. 30, 1975

percent of their funds were in this category. And such funds, through a variety of mechanisms, were sheltered from tax income already. Based on their portfolio and profitability needs institutional investors like commercial banks no longer had the need to reduce their tax burden by holding on to modestly performing tax-exempt investments like muni bonds.¹¹⁵

The reasons that banks began dropping municipals were complex, but had a lot to do with tax reform. The Tax Reform Act of 1969 undid many of the benefits of holding tax exempt bonds like municipals, and trimmed commercial banks overall tax obligations, with rates falling from 34% in the 1960s to less than 15% in 1975. No longer interested in ways to lessen their tax burden, tax-exempt notes lost significance and banks purchase of them fell off precipitously, from a high of 95% of all purchases going to commercial banks in 1970 to less than 25% in 1974. Note, this is right at the time New York and other cities had increased borrowing needs because of national recession and inflation.¹¹⁶

In testimony before Congress David Rockefeller then head of Chase Manhattan enumerated the logic. In 1974 banks like Chase began dropping the tax exempt holdings. “Back in 1974,” he said, “we were going to cut down on our total holdings of tax-exempt securities because of reasons of business strategy. On the one hand we were undertaking a number of activities, including leasing, which made it less attractive to hold tax-exempt securities, and on the other hand, our earnings from overseas loans were growing faster than from domestic, with the result it was important for us to have a larger amount of taxable domestic income in order to

¹¹⁵ “Structure of the Municipal Bond Market,” White House Report, No Date, Presidential Handwriting File, Ford Presidential Library

¹¹⁶ Testimony of John Heimann, New York State Superintendent of Banks, in in United States Congress House Committee on Banking Stabilization Currency and Housing Subcommittee on Economic, *Debt Financing Problems of State and Local Government: The New York City Case : Hearings Before the Subcommittee on Economic Stabilization of the Committee on Banking, Currency and Housing, House of Representatives, Ninety-Fourth Congress, First Session* (U.S. Government Printing Office, 1975). Pg 1116

offset foreign taxes paid on that foreign income. So for this combination of reasons, it was our strategy – and, in fact, we pursued it – to reduce our total portfolio of tax-exempt securities.”¹¹⁷

The White House report on the changing structure of the municipal bond market had a number of policy options that could help to alleviate the situation and reduce the pressure on America’s cities. One mechanism, could have been to reduce overall demand for access to the tax exempt market. This could have been achieved through ending access to tax exempt funding for industrial development financing. This process had cities and municipalities issuing bonds for industrial facilities and construction projects, essential a huge tax-exempt gift to private corporations. When coupled with pollution control facilities (issued through tax exempt bonds for private corporations) as much as \$2.5 billion, or a quarter of the tax-exempt market for given to private enterprise. Additionally, the federal government could have funded its Urban Renewal Projects through direct federal funds, rather than relying on private market bonds. There also could have been policy moves to increase the supply of credit, through requiring federal banks to purchase municipal notes, or insure proper taxation of financial sector investments and restore the structural need for banks to use tax-exempt holdings. All discussed in the White House document. There were alternatives not mentioned too, the Federal Government could have acted as “purchaser of last resort” for municipal bonds from troubled cities, or just directly funded cities faced with depression.¹¹⁸

¹¹⁷ Testimony of David Rockefeller United States Congress Senate Committee on Banking Affairs Housing, and Urban, *New York City Financial Aid: Hearings before the Committee on Banking, Housing, and Urban Affairs, United States Senate, Ninety-Fifth Congress, Second Session, on S. 2892 ... and H.R. 12426 ...* (U.S. Govt. Print. Off., 1978) pg. 299

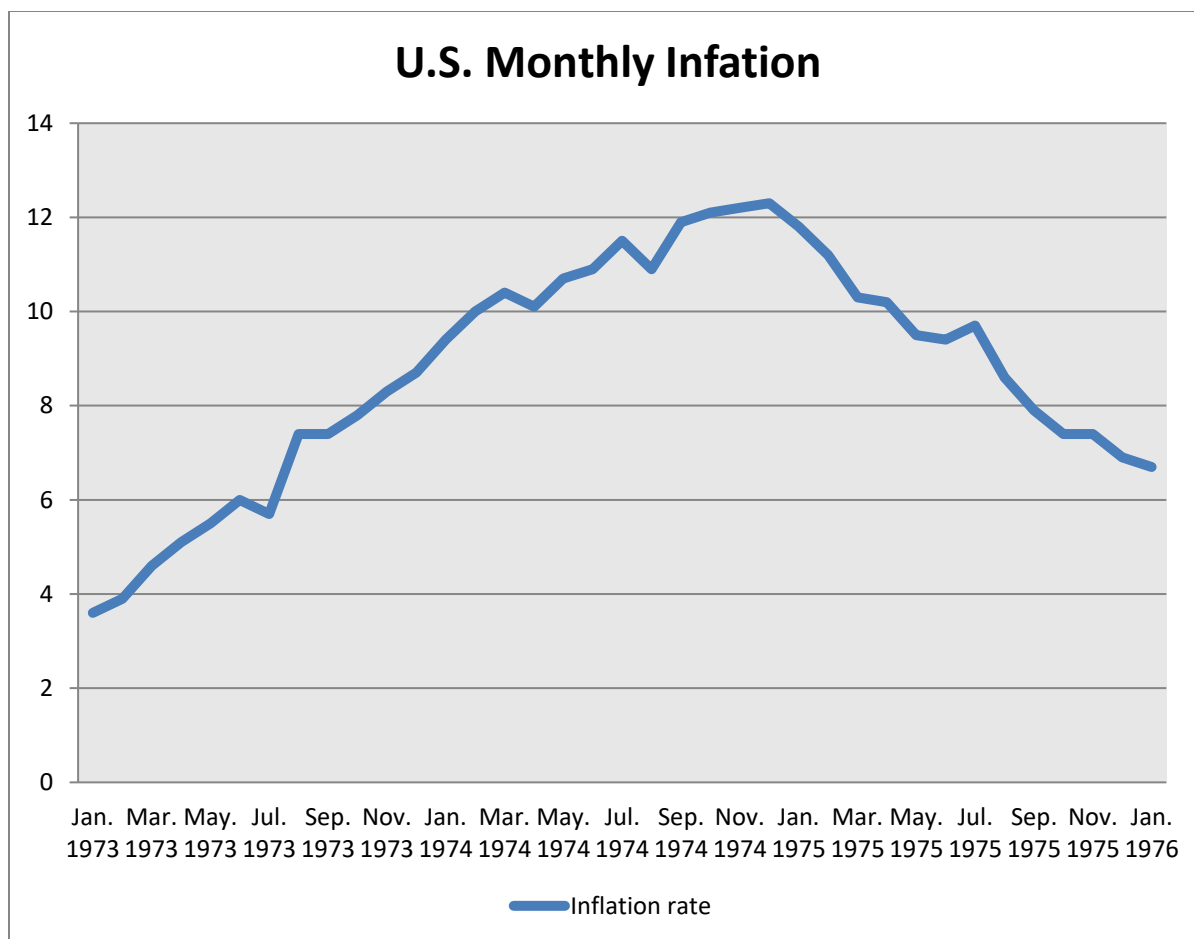
¹¹⁸ “Structure of the Municipal Bond Market,” White House Report, No Date, Presidential Handwriting File, Ford Presidential Library

Oversaturation was only one source of the market failure; behind of all this was inflation. In one of the most basic and well understood of economic phenomenon, in order to remain profitable, bond yield rates have to meet and exceed the rate of inflation, otherwise investors lose profits, or worse, equity. Bond specialist, Francis Schott explained to the *Wall Street Journal*, “Bond and mortgage rates may soon be at 12% unless the inflation rate is curbed,” because typically for the municipal market, “long-term rates reflect the inflation rate plus a real factor of about 3.25%; therefore, the double-digit inflation of the past year easily would justify a 12% bond rate right now.” Although his numbers were off, the principle is correct, as the *Journal* explained to its readers, “inflation erodes the purchasing power of fixed income from bonds.” Therefore, when inflation jumps, so too must bond yield rates if they hope to maintain profitability.¹¹⁹

Inflation hit unprecedented numbers throughout 1974 and 1975. The rate of inflation hovered around and above 10% between January of 1974 and September of 1975, the pinnacle of the New York crisis. And it hit truly unprecedented levels in the fall of 1974, at or above 12%, before leveling off again in the winter of 1975. Early on Wall Street was worried, news that January’s (1974) seasonally adjusted inflation rate was an unheard of twelve percent, confirmed bond market fears that “government officials face a monumental task in controlling rampant inflation, the chief deterrent to investing in long-term bonds.”¹²⁰

¹¹⁹ Phil Hawkins, “The Bond Market: Six Offerings Totaling \$1 Billion Are Slated For Sale This Week,” *Wall Street Journal*, April 22, 1974

¹²⁰ Phil Hawkins, “Sales of Corporates Lag As Other Securities Lure Big Institutional Buyers,” *Wall Street Journal*, Feb. 25, 1975



Source: "Historical Inflation Rates: 1914-2017," *US Inflation Calculator*, July 24, 2008

The *Wall Street Journal* and the bond press followed the interest rates and the relationship to the bond market very closely routinely linking the two in their coverage. For example, in June of 1974 the *Journal* reported "bond Prices are extremely vulnerable following fresh evidence late last week of continued runaway inflation." In August an analyst was quoted, "reports of high inflation . . . will probably weigh against lower bond yields." And, "prices of older bonds fell precipitously last week, against new signals that inflation remains uncontrolled. That enemy of fixed-income securities is figured by one official government index at an annual rate of 9.6% rather than the previously estimated 8.8% for example." Paul Johnson, treasurer of Trans Union Corporation, a \$15 million pension fund which only bought bonds told the *WSJ*,

that he kept buying bonds despite inflation, explaining, “Inflation puts rockets on interest rates, so the higher rate from reinvesting income drives up the total yield on both current long-term holdings and investment of new capital.” Johnson pointed out that for some, despite the catastrophe of the market, bonds could still be profitable; yield rates with rockets meant that some bonds could beat inflation. However, for most, the status of the market was best summed up by John P. Devine, vice president and head of Chase Manhattan Bank’s municipal bond division who told the *WSJ*, “inflation has taken its toll.”¹²¹

Of course, the two factors, inflation and voluminous offerings, reinforced one another. Russ Fraser, a credit officer at Standard & Poor’s explained, “runaway inflation has played havoc with corporate financial planning, causing everyone in the past two years to badly underestimate future money needs.” With cash flow needs uncertain because of unprecedented and unpredictable inflation, more and more economic entities – corporations, banks, and cities and states – needed the cash provided in the bond market. So credit was increasingly scarce, and markets increasingly uncertain. Even dramatic political change, a new President in Gerald Ford in the summer of 1974, couldn’t calm the markets. One unnamed investor said, with the ouster of Nixon and the assumption of Ford, that “the republic has a new President! But it has the same old bond market.” The all were factors far beyond New York’s control.¹²²

¹²¹ Phil Hawkins, “The Bond Markets: Prices Seen Vulnerable Following New Proof of Runaway Inflation,” *Wall Street Journal*, June 17, 1974. Lindley B Richert, “The Bond Markets: Light Financing Pace In Week Seen Offering Little Hope of Stability,” *Wall Street Journal*, Aug. 12, 1974. Lindley B Richert, “The Bond Markets: Interest-Rate Highs May Be Set This Week By Prime-Grade Issues,” *Wall Street Journal*, Aug. 26, 1974. “Bond Markets: AT&T Again to Offer \$600 Million in Debt It Withdrew Earlier,” *Wall Street Journal*, Jan. 27, 1975. Peter B Roche, “State, Local Units Trim Bond Proposals 20% from ’73, See Many Defeats at Polls,” *Wall Street Journal*, Nov. 4, 1974.

¹²² Phil Hawkins, “The Bond Markets: Flood of New Issues Won’t Recede Soon Despite Forecasts,” *Wall Street Journal*, Mar. 17, 1975. Lindley B Richert, “The Bond Markets: Light Financing Pace In Week Seen Offering Little Hope of Stability,” *Wall Street Journal*, Aug. 12, 1974

The relation of inflation to bond rates was a well understood phenomenon, and had an historical trajectory, beginning in the 1960s, when another period of inflation brought instability to the bond market. Citibank, for one, understood that there was almost a one to one correlation between rates of inflation, and interest on bonds. In the late 1960s when municipal interest rates were high, the bank explained the high rates through the high inflation the nation was experiencing at the same time. “The extremely high municipal interest costs in recent years have been dictated by the rapid rate of inflation. Lenders have insisted on compensation, through higher nominal rates of return, for expected losses in purchasing power of the dollars they will get in interest and repayment of principal. Borrowers were willing to incur higher interest costs when they expect to make repayment in depreciated dollars.” In periods of nominal inflation, lenders, or purchasers of bonds, want more of a guarantee that their investment will turn a profit, and ask for higher rates to combat the erosion from inflation. Bold sellers are willing to pay, with the understanding that inflation will in reality lower those rates in the future.¹²³

In 1969, much like 1974, a major reason for the collapsed market was again the monopsony of buyers from commercial banks. When they lost interest, the market suffered. This from Citibank investment literature: “commercial banks, which had accounted for the major share of purchases in previous years, were suddenly strapped for funds. Net bank acquisitions dropped from \$8.75 billion in 1968 to an estimate \$1.5 billion in 1969. This meant that rates on municipal securities had to rise to levels that would attract other investors to make up for the withdrawal of the banks from the market. Municipalities could successful bid for more funds from individuals, trust funds and corporations only if they were willing to pay higher rates relative to the yields available on corporate and Treasury obligations. Since interest rates on

¹²³ Citibank, Monthly Economic Letter, September 1970, pg.106

these obligations were also rising steeply last year, municipal bond yields soared. Rates would have been even higher but a large volume of long-term financing was displaced from the market because of legal ceilings interest rates.” And this was in 1969 and 1970, when inflation peaked at just above 6%, and the municipal bond yield index peaked at just above 7% in May of 1970. But the market suffered greater failure by mid-decade.¹²⁴

The lessons learned in 1970, were just as true in 1975. According to Citibank, inflation had an important impact on city bonds. In a look at long term interest rates from April 1975, Citibank argued that “The trend of long-term rates is critically dependent on what happens to inflation. The second is that long-term rates respond slowly to changes in inflation.” They went on to say an inflation rate higher than seven percent is necessarily to drive up interest on bonds and “a virtual cessation of inflation is necessary for long term rates to fall.” All factors not related to the internal contrivance of bond sellers whether corporate or municipal, as was well understood by the financial sector.¹²⁵

This was the environment in which New York credits needs exploded in the mid-seventies. With a stagnant economy, diminishing tax returns, increasing social costs – all common in a depression – New York had greater credit needs. This happened at exactly the same time that the municipal market tanked. New York’s fiscal crisis was the result of these two combined phenomenon. It was, in this sense, a market failure.

¹²⁴ Citibank, Monthly Economic Letter, September 1970, pg.106

¹²⁵ Citibank, Economic Week, April 21, 1975 pg. 3.

* * *

2.7 Conclusion

All of these factors came to a head in the winter and spring of 1975, and they all warped New York into a sort of fiscal hyper-speed. In the words of the New York Fed, “The long and relatively steady period of prosperity in the postwar period seems gradually to have loosened the bounds of prudent restraint and weakened the matching of expectations with the limits so the possible in the financial affairs of governments, businesses, and individuals. Close to home the clearest example of this process, and of its ultimate result, was of the course the fiscal crisis in New York.” Just as real panic began to set in on Wall Street in the autumn of 1974, banks started unloading their New York municipal bonds. A few months later, in the spring of 1975, they stopped purchasing and underwriting New York City offerings all together. It is in this context, with anti-inflation, recessionary policies as “bullish” for the market, in which the New York City fiscal crisis played out.¹²⁶

To be clear, the problem of market failure for the nation’s munis was not one of a crisis of extant capital, but available capital. Funds were available, but it was no longer profitable to invest in American cities. Gus Levy, Goldman partner, most succinctly summarized the problem. Speaking to the National Conference on Inflation, Levy told members of the financial community that the problem was not a shortage of capital, “Wall Street can finance what has to be financed,” he said, “Our worry is that there is going to be nothing to finance unless we do something to strengthen our equity market to provide the equity to balance the balance sheets before debt can be sold.” With inflation so high, equity, the principle of loans and other

¹²⁶ New York Federal Reserve Bank, *Annual Report*, 1975, pg. 22

investments, was being eroded, to the point it was no longer profitable to invest, a relationship of equity and earnings. Indeed, Wall Street had plenty of funds for investment, Levy argued that “we recently underwrote, the Street did, without any problem, \$650 million of city bank notes, and the Street had no problem. We can handle an issue like that a week or every day and have no problem.” But would they see a return given the inflationary climate, and even worse, would they see an erosion of equity? This basic question, and the paralyzing uncertainty it seems to inspire in the Street is at the heart of market failure, a classic crisis addressed by Keynes as many as forty years earlier. The New York crisis was a crisis of capitalism, a market failure, whereby the fruit rots on the trees, with a “million people hungry,” in John Steinbeck’s memorable phrase. Only in New York’s case, the fruit was credit, and it was eight million people left hungry. Little did he know it, but Levy of Goldman was expressing a crisis fundamental to capitalist production and at the heart of many anti-capitalist critiques.¹²⁷

As we move to look at the specifics of New York City financing in the next chapter, a couple of points need to be kept in mind: despite the attention to New York city profligacy, the real cause of New York’s fiscal crisis were much deeper, rooted in the structure of American finance and economy. The middle of the 1970s represented an historic economic crisis for the country, stagflation broke open the Keynesian consensus, in many ways Wall Street had already undone much of the New Deal regulations that kept markets stable. In the new period of financial uncertainty, crisis and recession pinched both cities and markets. New York faced an economic depression in the real economy, the mass exodus of firms, jobs, and people through deindustrialization, and a market failure in the bond market, restricting its access to credit right

¹²⁷ Gus Levy, *The Financial Conference on Inflation, Held at the Request of President Gerald R. Ford and the Congress of the United States*, Washington D.C., September 20th, 1974 pg. 249, 250

when it was most needed. This combination, a market failure and economic depression was the cause of the city's crisis, and there were well known policies, Keynesian policies, designed to address exactly this kind of crisis. New York did not follow this route, instead charting a new course in American political economy.

Chapter 3: Finance

* * *

3.1 Introduction

3.2 “The Budget is Everything:” Historicizing Spending

3.3 “Wolf Through the Doors:” New York’s Market Descent

3.4 Big MAC: Market Failure / State Failure

3.5 “Nibbling the Bullet:” Standard Austerity

3.6 Conclusion

* * *

3.1 Introduction: State and Market

This and subsequent chapters explore the fiscal crisis as it progressed chronologically, and develops a number of themes introduced in the previous chapters as the austerity regime moved through different stages. Chronologically in Chapter Three, we move from the interaction of the city’s budget and the municipal bond market in the waning months of 1974, on to the creation of the Municipal Assistance Corporation in June of 1975, before concluding with the MAC’s failure in August and September of that year. This chapter also hopes to demonstrate the intersection of state and market institutions at the municipal level through New York’s budgets and finance. This phenomenon, a unitary entity at the intersection of private and state power, can be seen most clearly in New York in the municipal bond market. Through the bond market, the archipelago of institutions that compose the state and market are seen most clearly. As the national market failed, New York followed close behind. Several market based attempts were made to save the city, like the creation of the Big MAC in the summer of 1975, but they couldn’t escape the gravitational pull of the failing national market. As we hope to show, not only are

financial institutions part of an archipelago of state power, they are the paramount island, the Manhattan, in this metaphor. Their interests at the heart of state power and their private control of resources allowed for outsized political maneuverability in the crisis. Their position in the crisis, based on a new political orientation to austerity, won out because of these structural privileges.

As we saw in the previous chapter, the cause of the New York fiscal crisis was market failure, the tight relationship of city finance to the private sector. In the mid-1970s when market conditions were no longer profitable for private sector banks to invest in municipal projects, they withdrew *en masse*, leaving the city unable to operate normally. The dependence of the city on reentering the credit markets that was the defining characteristic of the crisis. Continued “state-lite,” or market based solutions to the crisis, like the creation of the Municipal Assistance Corporation, the MAC or Big MAC as it was known, failed for their continued reliance on market structures. It was not until the Emergency Financial Control Board stepped in, under the extraordinary powers of state intervention, that New York City began to right itself in the eyes of the financial sector. Where virtually every narrative of the crisis depicts ’75 as excessive government spending rectified by market discipline, the opposite is true, market failure caused the crisis and radical state action, of a very specific type, austerity, was imposed through martial powers of the state.

To begin, New York City budget deficits in the 1970s were at an historic low. The 1966 fiscal crisis, from a straight dollars and cents perspective, was twice as bad as that of 1975. But by that point the entire economic and cultural climate had changed around the city, and city receipts were deteriorating. Years of economic stagnation meant declining revenues and increasing social welfare costs. Particularly bad was city real estate revenue, crippled by wide-

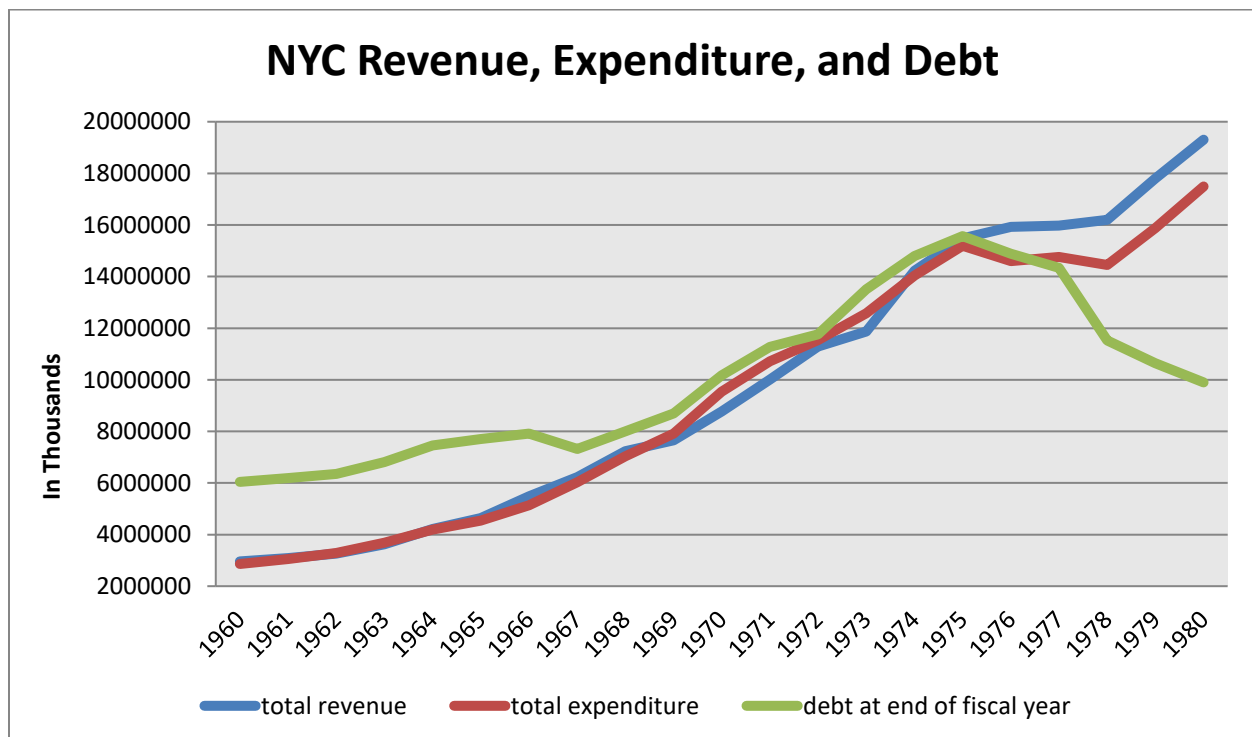
scale city abandonment and deindustrialization. Abraham Beame, Comptroller during much of this period, fought to keep budgets in line with historic deficit ratios, and bring down debts from their 1966 high. In this he was successful, but 1975 was a different era. The expectations of continual economic growth to support growing deficits was eroded, and the financial sector was no longer willing to fund social programs built on debt. In November of 1974 the city's budget picture was deteriorating rapidly, and the tax-exempt market grew worse with every passing day, prompting City Comptroller Harrison Goldin to issue dire public warnings. In February and March of 1975 the failure of the Urban Development Corporation, a New York State "moral obligation" agency, paralyzed the market for virtually all New York notes, especially those from the city. The banks began demanding stringent and unprecedented conditions for access to the market, conditions that the city could not meet. In May, when the federal government also refused New York bridge loans, the city had no place to turn. In June it faced nearly \$1 billion in obligations due, there was no way to meet the need. Through the office of Governor Hugh Carey, the city, state, and banks agreed to create a state backed debt agency that would issue notes on behalf of the city, the Municipal Assistance Corporation. But the MAC, like the city, entered a failed market, and soon it too was failing. In the summer of 1975 further dramatic steps were needed to rescue the city.

* * *

3.2 "The Budget is Everything:" New York City Budgets from 1966 to November 1974

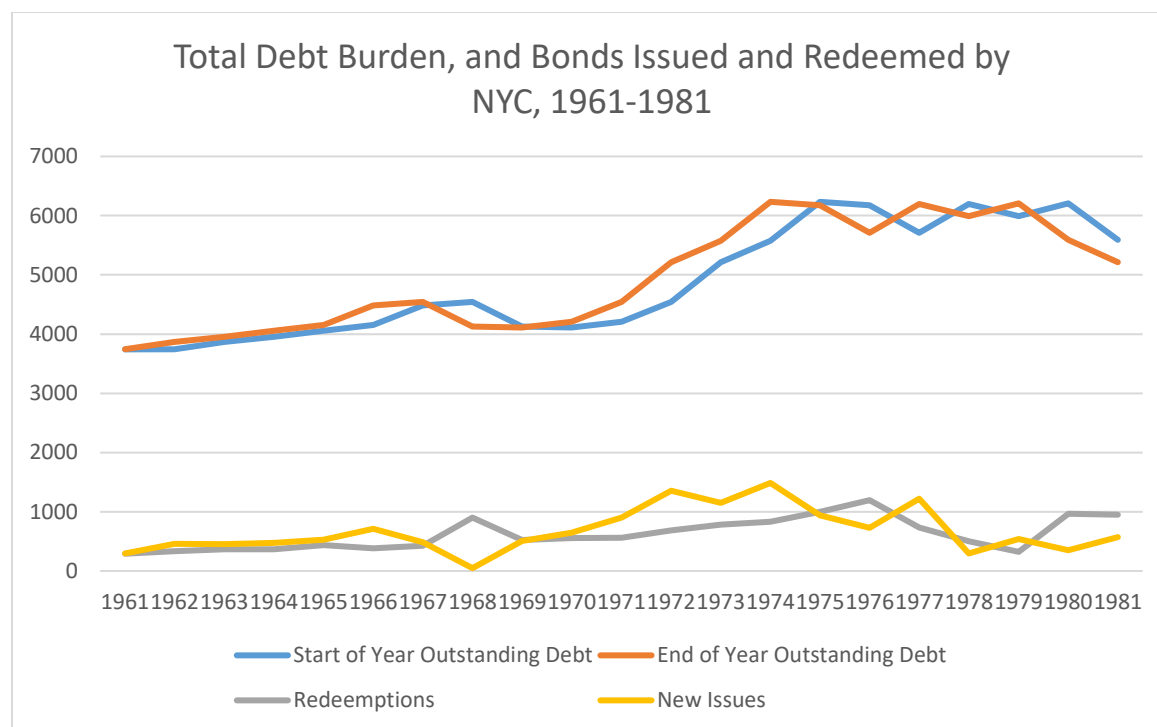
By the numbers, the 1975 New York fiscal crisis was not historically significant. New York City end of year debt was far higher throughout the early 1960s than it was at any point in the 1970s. In the 1966 fiscal crisis, as we explored in Chapter One, debt ratios were twice as

high. A true measure of the magnitude of state debt is the debt to GDP ratio. However, in New York for the 1960s and 1970s, it is difficult to find GDP equivalent numbers. Instead, we can compare city debt to revenue as an approximation. Revenues and expenditures for the city in 1960 were roughly equivalent, just short of \$3 billion for each. That balance was made possible through significant deficit spending throughout the year, leaving the city with a whopping \$6 billion in debt at the end of the year, more than twice the entire revenue or expense accounts for the city. That ratio remained relatively constant through the first part of the decade, and only began a serious shift in the late '60s with the implementation of a city income tax, a booming economy, and the fiscal conservatism of the Lindsay administration brought end of year city debt roughly in line with yearly revenues and expenditures.



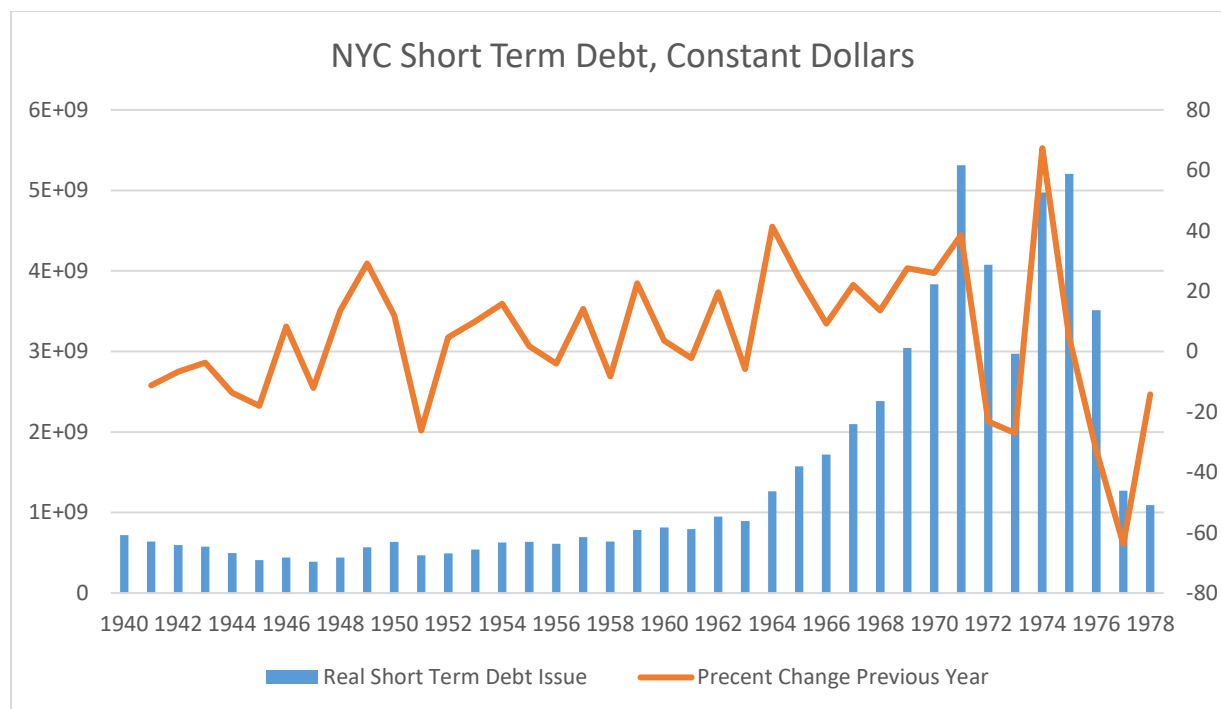
Source: U.S. Department of Commerce, Bureau of the Census, *City Government Finances*.

A more detailed look at city debt from the period of 1961 to 1981 shows that in the early 1970s, New York City was increasing its annual debt burden. In some years, like 1972 and 1974, New York issued nearly twice as many notes as it redeemed. Clearly, that level of continued indebtedness would not be sustainable. But even with the increased reliance on the bond market, city borrowing was low by historical standards. Furthermore, New York in the first half of the 1970s hit a major economic depression. Deficit spending in such circumstances was Keynesian economic orthodoxy; they were doing exactly as any government entity should, spending to mitigate the social impacts of the depression and to revive economic activity at a time of economic recession.¹



Source: 1983-84 New York State Statistical Yearbook, 10 edition (S.I.: Nelson a Rockefeller Inst, 1984)

¹ 1983-84 New York State Statistical Yearbook, 10 edition (S.I.: Nelson a Rockefeller Inst, 1984)



Source: Program Planners, New York City Debt: A Review FY 1940 – FY 1979, January 23, 1979, Bigel Collection, Newman Library, Baruch College

But in some ways, New York indebtedness was unique. The heavy use of bonds by NYC and New York State started in the early 1960s under Republican Governor Nelson Rockefeller. In an effort to keep public-private housing development projects functioning despite budget limitations Governor Rockefeller turned to bond market based debt financing in legislation like the 1960 New York State Housing Finance Agency, the 1961 New York Private Housing Finance Law, and the New York State, and New York City's, Urban Development Corporations, founded in 1968 and 1971 respectively. These projects along with the states Mitchell-Lama housing program of 1955, "created an expansive funding mechanism through which bond sales financed loans to developers." Introducing his HFA legislation, Rockefeller said his program would "get private capital to work, instead of using taxpayers' money, and that's the American way of doing things." Private funding for public projects was real innovation of the legislation.

Unable to get legislative approval for “full faith and credit” of state coffers for housing projects, Rockefeller’s team, headed by Wall Street lawyer John Mitchell, developed “moral obligation” bonds, notes “which were secured by New York State’s promise to contribute to HFA’s reserve fund if the projects” faltered. But a promise, is not legally binding, and so, also importantly, these bonds would not be subject to the state’s debt limit. Furthermore, outside the debt limit, the bonds did not require approval by popular referendum. The door was open; Rockefeller called the innovation “rather imaginative, somewhat ingenious,” and in his more optimistic moments, “the salvation of mankind.”²

The city of New York also jumped on the new mechanism, funding many new projects through off the books short term bonds. These new funding mechanisms helped the city keep a limit on official debt figures. So-called “anticipatory notes,” debits issued in the expectation of an immediate future revenue source, were used freely in the later Wagner and throughout the Lindsay years. In the early 1970s the budgets were pulled into line through the creative use of this budgeting process, and a dramatic shift from long-term, to short-term debt financing. By the early nineteen-seventies these were growing at historic rates, but remember, within a total debt picture that was not.³

But even with the shift from long- to short-term financing for city debts, the total debt burden and crisis in the mid-1970s was small-potatoes compared to the problem of the 1960s. At the height of the 1975 crisis, when the *New York Times* and *Wall Street Journal* were screaming that the city held \$15 billion dollars in outstanding obligations – an alarming figure to be sure – the city budget was also in the realm of \$15 billion, for revenue and expenditure around \$15.4

² Hilary Botein, “New York State Housing Policy in Postwar New York City: The Enduring Rockefeller Legacy,” *Journal of Urban History*, July 1, 2009, pgs. 839, 841

³ Program Planners, *New York City Debt: A Review FY 1940 – FY 1979*, January 23, 1979, Bigel Collection, Newman Library, Baruch College

and \$15.2 billion respectively. Notice, this is roughly a one-to-one correlation for the 1975 crisis, compared to two-to-one debt to revenue ratio in the early 1960s.

Short term financing through anticipation notes worked as long as New York City's economy was growing. The debt could be, and was, used to meet current expenses. So long as future growth insured new or greater revenues to meet those payments, the process was solvent. That all changed with the 1969 and 1970 national recession. What was for the nation a minor economic blip at the end of the 1960s, for New York was the beginning of a years long depression that triggered its fiscal crisis in 1975. New York's economy in those years turned sharply down, shedding jobs and closing firms at an accelerated pace. Obviously, this hurt city revenue streams; one way to cobble through the crisis was with increased debt loads.

In turning to debt in the 1969 crisis, New York was not alone. In those years, state and local governments had to find new mechanisms to meet their obligations too. One mechanism, used across the board, were the "anticipation notes" of various kinds, tax, bond or revenue. Municipalities across the country, not just New York, were using anticipation notes with greater frequency in the national recession. These issues "jumped by almost 50 percent," from 1968 to 1969 according to First National City Bank, twice the growth rate from the previous year. At the same time, cities, counties and states drew on savings to get them through the difficult market, diminishing their rainy days funds. Because of all of this, "while long-term net borrowings dropped \$3.9 billion below 1968, total net borrowing was only \$1.4 billion (or about 15 percent) lower in 1969 than in the previous year." This is precisely what New York did, expecting a turn around.⁴

⁴ Citibank, Monthly Economic Letter, September 1970, pg.106

But city borrowing, again, was largely a story of the market, as 1969, 1970, and 1971 saw the highest municipal bond interest rates in history, until they were topped by the 1975 crisis. This meant that the city had limited access to credit; and in the 1969 municipal bond market credit crunch, as in the 1975 version, market rates were pushed higher by inflation and increasing municipal needs. Higher rates, meant the city paid more for the loans, increasing their financial burden. Then city Controller, Abraham Beame told the *New York Times* that the high payments came from “the tremendous increase in interest rates that the city, as well as other borrowers, must face due to the severe condition of the money market.” In a two hour sit down interview with editors and reporters of the *Times*, Beame told the journalists that in the early 1970s, “the city’s financial plight was apparently not as bad as it was in 1965.” True, but the city’s overall economic picture was deteriorating, and this would have dramatic consequences in a few short years.⁵

Much like the 1975 crisis, the municipal market saw historic yield rates, upwards of six and seven percent. And these were again driven by commercial banks who exited the market as they sought greater performing investments. Writing in 1970s, Citibank wondered “whether the banks will return as strong purchasers in the market for municipal securities.” They did, but only in numbers way down from the 90% market saturation in the 1960s, and only to flee again during the next crisis, never to return in as significant numbers. Even then, in 1970, it was clear to Citi and others that while “the banking system grew almost twice as fast in the past decade as in the fifties,” it was putting “profound structural changes in the banking system provided a special

⁵ Iver Peterson, “Beame Blames Policy of U.S. For Rise in City Interest Costs,” *New York Times*, Feb. 13, 1970; Beame paraphrased in Richard Reeves, “Beame Says Lindsay Has Less Control Over Spending Than Past Mayors,” *New York Times*, Apr. 1, 1971

stimulus to municipal bond purchases. Chief among these was the introduction of the certificate of deposit,” which chased buyers out of the market and contributed to the overall credit crunch.⁶

Comptroller Beame raised another problem, cash-flow, as contributing significantly to the city’s 1970s credit crunch. Cash-flow had been a long standing problem. In 1970 the level of New York City debt was roughly \$850 million a year for fiscal year 1970-1971. Beame explained that this was largely a cashflow problem, rather than a strict deficit problem, because “a large portion of the expenditures financed by the state and Federal aid are incurred months before the actual aid is received,” according to a report published by Beame and quoted in the New York Times. The result, it becomes “necessary for the city to borrow temporarily to finance these costs to meet the current expenses.” For example, in 1971 the city almost tripled its short-term borrowing, Beame argued because so much of the city budget, about 43%, was comprised of state and Federal aid, payments that were routinely delayed. That meant that the city issued well over \$3.1 billion in anticipation notes for FY 1970, at a cost of \$31.8 million in interest. The Controller told the Times that the city had to borrow \$605 million for delayed state payments for schools, another \$647 million for other state payments, and \$643 million for delayed federal payments. All, he argued, the result of cash flow problems.⁷

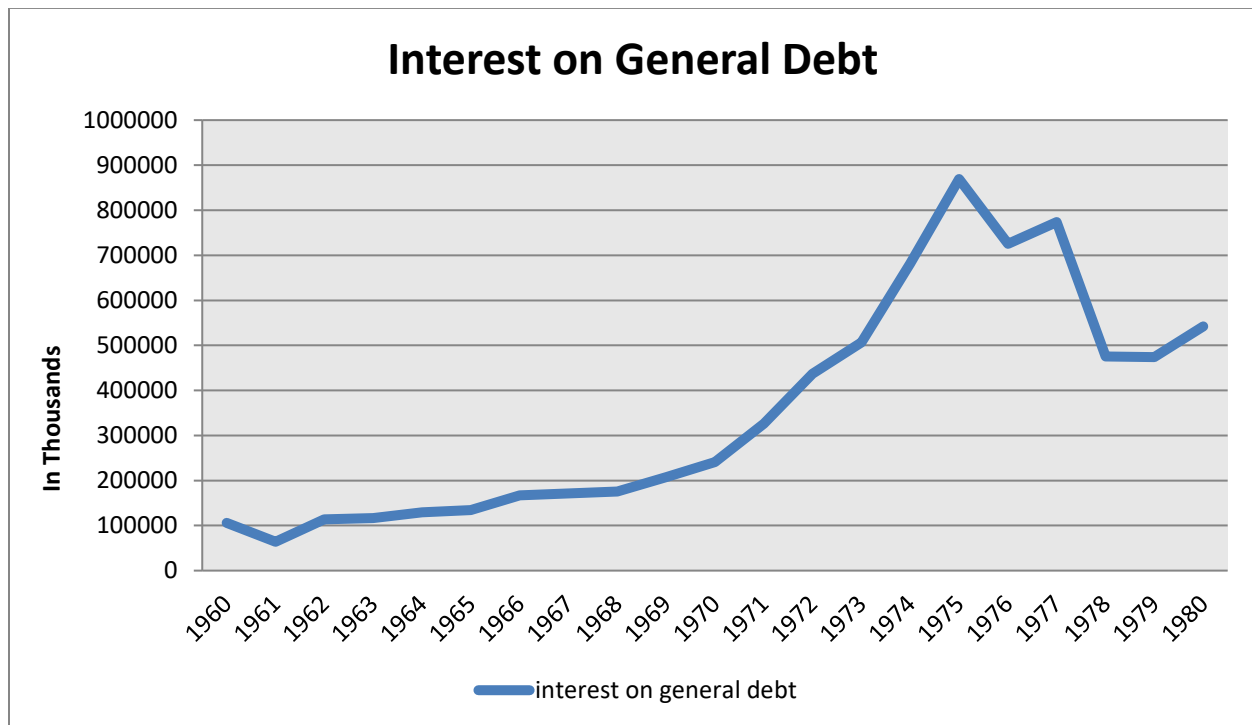
Beame would go on to make these cash-flow shortfall arguments as mayor in the 1975 crisis. And for federal and state funding they were just as true then as in 1969 and 1970. But the economic context had dramatically shifted by 1975. Beame’s 1970 cash-flow arguments were founded on the presumption of continued economic growth, that the 1969/1970 recession was an economic hiccup, and prosperity right around the corner. It may have been believable in 1969,

⁶ Citibank, Monthly Economic Letter, September 1970, pg.106-107

⁷ Iver Peterson, “Beame Blames Policy of U.S. For Rise in City Interest Costs,” *New York Times*, Feb. 13, 1970; Peter Kihss, “Beame Says Delays in Aid For City Spur Borrowing,” *New York Times*, Nov. 1, 1971

but by 1975 it was not, and in neither case was it true. New York was in the midst of a long economic slide, of which the worst years still lay ahead.

Indeed, besides the 1969 market crunch, New York was hit very hard by depression in 1969, one that continued throughout the decade of the 1970s. Its use of anticipation notes was increasing in response to the depression, and was in anticipation of revenues that were in decline either from state and federal rollbacks, or because of the declining economic picture in the city. Truncated revenue streams from the depression meant short term debt financing before a tax or revenue payout were used to cover operating costs with no source of additional funds. By 1974 payments for interest on debt skyrocketed, both through higher interest rates the banks charged the city, and the increased reliance on short-term financing.



Source: U.S. Department of Commerce, Bureau of the Census, *City Government Finances*.

Fiscal Year ⁸	Total Budget	Total Debt Service (Interest and Principal)	% Debt Service of Total
1969	\$5.994 billion	\$663.9 million	11.1%
1970	6.579 bil.	674.8 mil.	10.3
1971	7.709 bil.	778.2 mil.	10.1
1972	8.566 bil.	843.6 mil.	9.9
1973	9.407 bil.	899.0 mil.	9.6
1974	10.160 bil.	1.141 bil.	11.2
1975*	11.104 bil.	1.798 bil.	16.2

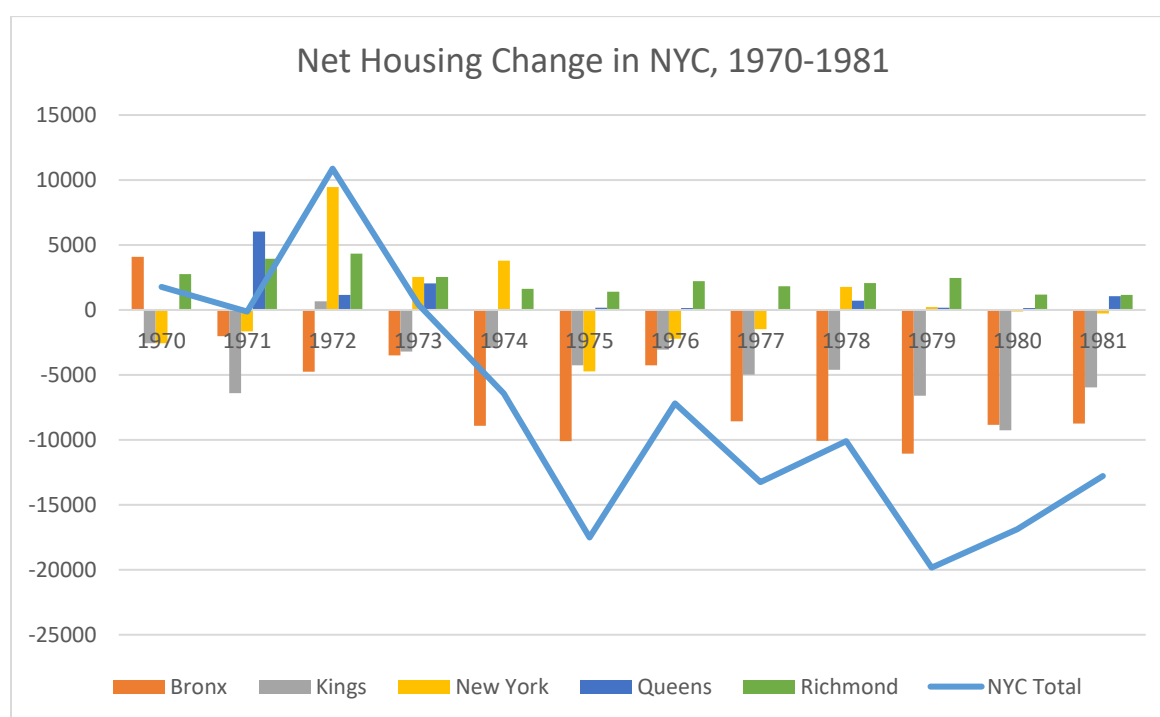
Most troublesome was the explosion in debt financing, up to \$1.8 billion in 1974, more money than the city spent on police, fire, and environmental protections – combined. This was money going straight to the Street, as one bond dealer noted, “we make a hell of a lot of money off this city.” In fact, when Mayor Beame proposed an increase to the real estate tax to help cover the costs of the unfolding crisis in February of 1975, he admitted that 63 cents of the 74 cent increase would go toward the increasing cost of debt service.⁹

New York didn’t recover from the ’69 blip. Instead the economy through the first half of the 1970s continued to deteriorate, and it had negative consequences for the city’s budgets. These problems began to compound through the first half of the 1970s, specifically, that the city’s economic depression was putting a crimp on tax revenue. The general depression was forcing jobs and people out of the city. Properties were abandoned, and demolished by the city. In the five years between 1970 and 1975 New York City destroyed over 67,000 housing units throughout the city, the majority in just two boroughs, Bronx and Brooklyn. By 1981 that number had nearly doubled to 127,000, the average for the ten period was over 10,000 units demolished every year. When adjusted for housing starts, the city lost nearly 11,000 housing

⁸ N.Y.C. Budgets, Controller’s Office, *New York Times*, Nov. 26, 1974

⁹ “Beame Calls Rise In Tax Mandated,” *New York Times*, Feb. 17, 1975. Increased taxes were quickly shot down by the Real Estate Board and other real estate association arguing that tax delinquency was already so high. Michael Stern, “Beame’s Tax Plan Decried As Futile,” *New York Times*, Feb. 18, 1975

units between 1970 and 1975. Perhaps more striking, every borough except two, the Bronx and Brooklyn, had net increases. Kings and Bronx counties in the first half of the decade lost 25,187 and 18,674 housing units, by 1981 those totals increased to a staggering 76,732 and 53,133. Remember, these figures take account of housing starts. Because of this precipitous drop in Bronx and Brooklyn, and anemic growth in the other three boroughs, New York City as a whole was pulled down by a staggering 91,045 housing units on the decade. The impact on neighborhoods, taxes and city revenues was devastating.¹⁰



Source: 1983-84 New York State Statistical Yearbook, 10 edition (S.I.: Nelson a Rockefeller Inst, 1984)

A tour of the Bronx in 1975 revealed “entire neighborhoods in the Bronx consisting largely of empty buildings and resembling bombed-out villages.” Rueben Klien, a Bronx realtor told the press, “nobody cares. Billions of dollars have gone down the drain in the last 10 years . . . We should be saving these buildings. There are thousands of people who could be put to work

¹⁰ 1983-84 New York State Statistical Yearbook, 10 edition (S.I.: Nelson a Rockefeller Inst, 1984)

upgrading these properties.” Instead, the city seemed incapable of addressing the problem. The *Wall Street Journal*, and other financial sector voices blamed rent control. But clearly the problem was more complicated. It wasn’t rent control that was forcing residents from the city and leading to wholesale abandonments; the Bronx looked like a war-zone not because of fixed rate rentals.¹¹

With the city providing no solutions, property owners revolted, refusing to pay taxes and abandoning properties. Even large property owners stopped paying. Harry Helmsely, one of the largest landlords in New York City, his company, Helmsley-Spear, Inc., owned 400 residential and 100 commercial buildings, including the Empire State Building. In 1975 he stopped paying property taxes on 190 properties because his buildings “just had no money.” All told, Helmsley paid \$26.5 million annually for his properties. In the first quarter of 1975 he and other landlords were in behind about \$1 million, just for the quarter. “Residential housing is a disaster area,” Helmsley said, “and it’s going to get worse.”¹²

In January of 1975 Roger Starr, the Housing and Development Administrator issued a report that found “significant deterioration” in collections from private apartments. The report found that in June of the previous year 22% of all walk-ups in the city were in arrears. Most troubling, was that nearly half, 46%, were newly delinquent, within the last year. For elevator buildings, the overall rate was lower, just 11%, but the increase nearly twice as large, more than 65% were newly behind. Clearly, “a sharp upsurge was under way coinciding with a tripling in

¹¹ Joseph Kahn, “Touring the Bronx Where Nobody Lives,” in United States Congress Senate Committee on Banking Affairs Housing, and Urban, *New York City Financial Crisis: Hearings before the Committee on Banking, Housing and Urban Affairs, United States Senate, Ninety-Fourth Congress, First Session* (U.S. Govt. Print. Off., 1975). Pg 433

¹² Dan Dorfman, “The Bottom Line – The Landlords’ Tax Revolt,” *New York Magazine*, Apr 14, 1975, in United States Congress Senate Committee on Banking Affairs Housing, and Urban, *New York City Financial Crisis: Hearings before the Committee on Banking, Housing and Urban Affairs, United States Senate, Ninety-Fourth Congress, First Session* (U.S. Govt. Print. Off., 1975). Pg 434

fuel costs as well as the jump in the tax rate.” Furthermore, the default rate for FHA insured and subsidized multifamily properties increased more than 100 percent over the course of 1974. “In Today’s market,” Starr said, “owners, if they are to begin to cover their costs of fuel, are faced with either defaulting on their debt service, not paying property taxes, or both.”¹³

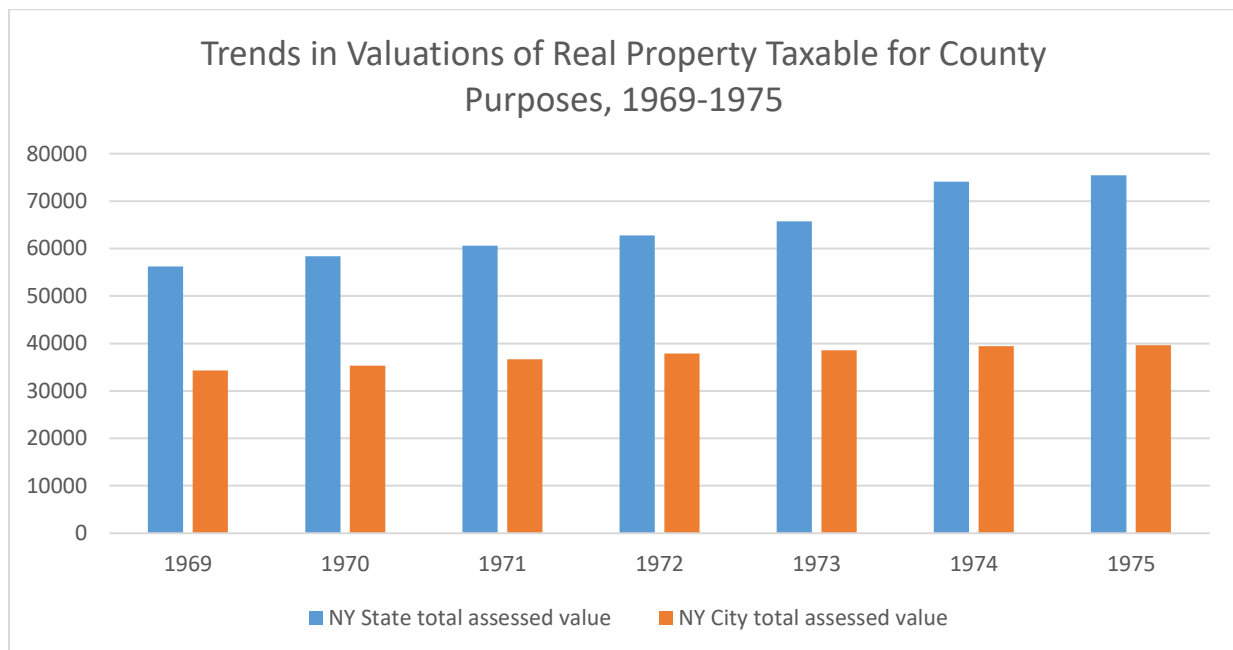
Real estate taxes were a principal source of city funds. One city budget aid told the *Times* that there was “a sharp increase in abandonments of real property, including commercial buildings. This would reduce the project real-estate tax-revenues.” And property tax problems began to compound. Delinquency rate increased over the year, to 20% by some figures. Arears quickly changed to abandonment, and by November 30, 1974 the city was short \$76 million, roughly ten percent of its property tax income, just for the second quarter. A year earlier the short fall was just \$57 million, or 8.6% of expectations. On a cumulative basis, the city was short over half a billion dollars from unpaid and abandoned real estate. Part of this was caused by rising fuel costs, as buildings had to spend more, as much as twice as much, on fuel during the OPEC crisis. But this was more complex than just fuel costs. New York’s economy was being devastated on multiple fronts, of which the residential abandonment crisis was just a symptom.¹⁴

The result for New York City’s taxable property was devastating. During a period of runaway inflation driving property values up in even the most depressed of economies, New York’s real estate valuation for the entire decade of the 1970s was stagnant. From 1969 to 1975 the city’s real estate grew from roughly \$34.3 billion to \$39.6 billion in value, or roughly 15% on the half decade. In that same period the rest of New York State properties increased from \$56.2

¹³ Alan Oser, “About Real Estate: The Financial Plight of Apartment Units,” *New York Times*, Mar. 28, 1975

¹⁴ Edward Ranzal, “Beame Says City Has Higher Costs, Less Revenue,” *New York Times*, Sept. 13, 1974; and Alan S Oser, “Arrearages for 20% of buildings indicated,” *New York Times*, Dec. 29, 1974

billion to \$75.5 billion, or 34% on the five years. Inflation in just 1974 averaged nearly 12% on the year, meaning the city's 15% growth rate barely kept pace with record inflation.¹⁵



Source: New York (State) Division of the Budget Office of Statistical Coordination et al., New York State Statistical Yearbook (New York)

And this was true from other tax streams too. Take the city's sale tax revenue for example. According to White House documents, for fiscal year 1975, from June 1974 to June 1975 the New York Consumer Price Index jumped nearly 10 percent on the year, while the sales tax base increased a paltry 1.7 percent. Indeed, sales tax revenue shortfalls perhaps were more significant than property tax drops for a city like New York where 57 percent of city revenue came from non-property tax sources. Real estate making up 38 percent of revenue streams in 1972 and 1973. In short, according to internal Ford Administration documents, "New York City has been losing population and jobs . . . the tax base has been disappearing as well." According

¹⁵ New York (State) Division of the Budget Office of Statistical Coordination et al., New York State Statistical Yearbook (New York)

to a city budget aid, the city's income taxes were also negatively impacted. As paraphrased by the *Times*, they said another source of the budget woes was "the city income tax. The aide said this revenue had been sharply affected by the increase in unemployment."¹⁶

Tied to the decline in revenue from lost jobs, were increased costs; welfare rolls increased too. In September of 1974 rolls jumped 12,750 people, six times greater than the average monthly climb of 2,136 for the year. To make matters worse, recipients were expected to survive on payments based on a 1972 schedule of prices, the consumer price index for New York metro had increase 24.6 percent since January of 1972. James Dumpson, the Human Resources Administrator, told the *Times* that increased layoffs from private and public sectors "inevitably begun to increase welfare applications," and had become an "epidemic." While payments to recipients were "at best unrealistic, at worst cruel." Dumpson requested a 21 percent increase in the city's welfare budget, to \$3.3 billion, to help cover the costs of a projected jump from 5,000 to an additional 12,000 people on the rolls per month for the term of the recession. Mayor Beame told the press that he expected to spend \$1.3 billion on welfare in the next fiscal year, \$260 million more, or a 24 percent increase on the year.¹⁷

New York faced another unique problem with welfare and Medicaid costs compared to other municipalities. The federal government reimbursed states fifty percent of welfare and Medicaid, social wage, costs. Most states picked up the remainder. In New York, the state covered only half of that cost, passing the rest of to the city. Only ten other states required similar municipal payment schemes, and most of these required a one percent payment, none

¹⁶ Council of Economic Advisors, Alan Greenspan Chair, Memorandum for the President, "An Economic Analysis of the New York City Financial Crisis," Oct. 27, 1975, William Seidman Files, Ford Presidential Library; Edward Ranzal, "Beame Says City Has Higher Costs, Less Revenue," *New York Times*, Sept. 13, 1974

¹⁷ Peter Kihss, "Welfare Rolls Increased Sharply in September, Widening Budget Gap," *New York Times*, Dec. 3, 1974; Edward Ranzal, "City to Pay 9.4%," *New York Times*, Jan. 8, 1975; Ernest Holsendolph, "Beame Bids U.S. Operate All Projects to Aid Income," *New York Times*, May 1, 1975

more than sixteen percent. Only Washington D.C., a direct federal administrative unit, paid at rates similar to New York. And as the largest city in the nation by far, New York had the largest social wage dependent population, as many as one million people in the early 1970s, one-eighth of the population. As social wage costs increased with the recession, extreme pressure was placed on the city budget. That pressure was exacerbated by the federal structure of cost sharing, and put NYC at a huge disadvantage.¹⁸

And so, if market failure and its increasing costs were one source of the problem, government payments from the federated system was another. In one visit to Albany, Mayor Beame told lawmakers that delayed state payments, coming at the end of the city's fiscal year, forced it into the bond market in amounts that should be covered through state monies. The \$400 million in state monies that went to the city were collected throughout the year, explained Beame, "you know when we get it? June 25, and our fiscal year ends on June 30, so we have to pay out expenses and borrow against the \$400 million for a year." This cash-flow argument was legit, but only a piece of the picture. Beame's focus here in 1975 seems to have hurt his credibility later.¹⁹

Nonetheless, delayed payments were an important factor, and in fact, city payment schedules were much more complicated than Beame's portrayal. State payments for schooling for example was paid quarterly, but the payments for the final quarter of the city's fiscal year ending June 30, came in September, October and November, a full three months later. So too with sales tax receipts, collected and disbursed by the state, coming in quarterly and sometimes monthly payments, but even still faced "a built in 30-day lag." And with welfare payments,

¹⁸ "Approaches to Reducing the City's Costs Resulting from Welfare and Medicaid Ineligibility," Municipal Unions / Financial Leadership Group report, February 1978, Bernard Bellush Papers, Robert F Wagner Labor Archives

¹⁹ Linda Greenhouse, "Carey Budget Denounced At Legislative Hearing," *New York Times*, Feb. 13, 1975

while the federal government paid one hundred percent advances, the state only paid eighty percent. This is not to mention that state and federal payments, because of federal fund sharing programs, only covered a portion of total welfare costs. The *Times* found that “other lags include nine months on various state fringe benefit claims, two years on parts of rent-control payments, six months for addiction services money; six months for claims by the Department of Probation; eight months on funds for libraries.” Beame pointed out that on the year the city was owed \$562 million from federal sources, some of it from years past.²⁰

After a brief national recovery in 1971, the nation was again sunk into a recession that by 1974 was impacting cities. It wasn’t just New York, other area cities were being hit by the depression too. Long Beach, Long Island told the *Times* that they too were short \$2 million and may have to suspend payroll. The state of New Jersey was in a similar situation. Said state Treasure, Richard Leone, “New Jersey’s tax system is so regressive our revenues don’t grow the way other states’ do and we are facing a budget gap of serval hundred million dollars this year.” The *New York Times* reported that “throughout the country, inflation and recession are biting deeply into the public budgets of the largest cities and forcing them, like New York, into painful austerities.” This was effecting every major city. In Cleveland, Chicago, Detroit, Boston, Baltimore, Philadelphia, and many others, the national economic situation was forcing severe cut backs. Edward Rago, Detroit’s Budget Analyst told the *Times* that “costs have never been increasing faster. Economic conditions are putting downward pressure on our revenue, and we are caught in the middle. I think our problem today is greater than it ever was before.” Mayor Joseph Alioto of San Francisco said “for the cities, it’s a genuine depression.”²¹

²⁰ Fred Ferretti, “City Faces Problems in Improving Its Cash Flow,” *New York Times*, Mar. 27, 1975

²¹ Roy R. Silver, “Long Beach Out of Funds,” *New York Times*, Sept. 14, 1974; “The Region: In Summary City Finances Have Not Eluded ‘Stagflation,’” *New York Times*, Sept. 15, 1974; Doug Kneeland, “Mayors Step Up Appeals For Federal Aid to Cities,” *New York Times*, Mar. 24, 1975

Even sunbelt cities, like Atlanta, were feeling the pinch; Mayor Maynard Jackson explained that “in a city which hasn’t had to borrow a dime in operating expenses since 1937, in a city which is in a strong financial condition, we are feeling the severe impact of inflation. The recession, which is actually a depression in many segments of the community, is having a devastating effect on the people.” Pete Wilson, then the Republican mayor of San Diego agreed; “we are feeling cruel inflation that has resulted in an increase of about 25 per cent in the cost of providing city services. In certain areas, costs have escalated almost beyond our ability to handle them. Our fuel costs, for example, are up 75 per cent.” A small sampling of mayors was asked by the *Times* what it would take to right their cities; “I would want the gift of love,” responded Moon Landrieu of New Orleans, “I can’t think of anything else that would encompass it all.” Mayor Beame’s response: “money.”²²

New York’s debt ratios were not dramatically out of line with these other struggling cities. Moody’s analysis of the city’s debt burden ratio, a comparison of debt to a city’s taxable real estate, confirmed this. New York’s was at roughly 9.6 percent, Boston, the next highest, was 9.2, and Philadelphia 8.8, while the booming sunbelt cities were ranked about half as much, 4.2 and 3.0 percent for Houston and Los Angeles respectively. Furthermore, New York’s debt burden had remained relatively constant, around nine and half percent for the last several years. What did grow for the city was the debt in absolute dollar value, from \$747 million in 1969, to more than \$5 billion in 1975, in large part due to inflation pushing figures up. While New York’s 9.6 percent rate was the highest, it was not dramatically out of line with other cities. All municipalities were suffering in the recession, New York like the others.²³

²² Michael Stern, “Painful Cutbacks Forced On Cities By U.S. Economy,” *New York Times*, Nov. 29, 1974; Doug Kneeland, “Mayors Step Up Appeals For Federal Aid to Cities,” *New York Times*, Mar. 24, 1975

²³ Soma Golden, “Experts Fear Growth In Costly City Debts,” *New York Times*, Nov. 25, 1974

This market failure was clear even to deficit hawks, who pleaded for federal intervention to shore up the market failure. In testimony before Congress MAC board member and President of the New York Telephone Company, William Ellinghaus argued that bond market failures were akin to the depression of the 1930s. “It’s as though we’re back in the 1930’s,” Ellinghaus said, “when it took Federal insurance to convince depositors that the money in their bank accounts was safe.” Asking for federal loan guarantees, Ellinghaus thought it was “going to take something like that to restore confidence in the municipal market today.”²⁴

The city’s economic depression was eroding tax revenue, and combined with inflation, and increased social welfare costs, New York’s budgets were in deficit. There were other sources of shortfall as well, particularly declining state and federal aid for social programs, and the staggered funds disbursement schedule meant the New York faced increased deficits and a cash-flow problem. But these were national problems, not unique to New York. Cities across the country faced similar problems; New York’s spending and social programs did not make it an outlier.

* * *

From the earliest, Beame framed the budget problems as tied to the larger economy – falling revenue and increasing expenses stemming from a stagnant economy. For example, just two months after his July 1974 budget was passed, interest on debt costs “soared” to \$104 million over expectations (a fault of the failing market), light and power were \$51 million higher (from the OPEC crisis), and “the cost of public assistance and Medicaid had increased by \$33-million because of inflation and a high unemployment rate.” Mayor Beame told the press that

²⁴ Statement of William Ellinghaus, United States Congress Senate Committee on Banking Affairs Housing, and Urban, *New York City Financial Crisis: Hearings before the Committee on Banking, Housing and Urban Affairs, United States Senate, Ninety-Fourth Congress, First Session* (U.S. Govt. Print. Off., 1975). Pg 103

“the economic downturn has created problems with welfare, Medicaid, light and power which we are billed for.” The main problems for the city: “interest has skyrocketed in the last four months and the unemployment has risen.” And his response was reasonable, to keep a close eye on spending and revenue for the rest of the year, to implement potential “belt-tightening” if costs continued to increase, and to borrow what they could not cut. Once in the thick of the crisis Beame maintained that the origins of the city’s woes were to be found in “outside forces,” as indeed virtually everyone acknowledged.²⁵

More than economic depression, Beame was aware the municipal bond market failure was a major additional pressure. In the winter of 1974/1975 Beame was looking for solutions that could break the monopoly of private interests over the bond market, and move to a restructuring that would put public interests before private. In January 1975 Beame urged the New York Congressional delegation to create a “Federal municipal financing agency” that could purchase municipal securities at rates lower than market spikes. Beame advocated Federal funds even if the government had to borrow them, arguing, correctly, that the lower rates available to the Fed could be repaid by the city. In April, Arthur Okun, the former chairman of the President’s Council of Economic Advisers “strongly endorsed” Beame’s municipal financing agency idea. Treasury Secretary Don Regan conceded that “from a pure dollar and cents view,” the Mayor’s proposal was “correct,” Regan’s main concern however was, in the words of the *Times*, the “probable impact of such Federal action on the money markets.” In another idea to rectify the market failure, Beame wanted the city to sell notes directly to the public, bypassing the role of the financial sector altogether. Controller Goldin’s office went so far to implement a pilot program that gave city workers the option to purchase city bonds out of their paychecks and

²⁵ Edward Ranzal, “Beame Says City Has Higher Costs, Less Revenue,” *New York Times*, Sept. 13, 1974; John Darnton, “Mr. Beame Blames the Red Ink on Outside Forces,” *New York Times*, Feb. 2, 1975

lowering the denominations on notes to just \$1000. These efforts were attempts to circumvent the market failure, but were not tried in earnest.²⁶

Beame also sought federal spending solutions to budget shortfalls and payment delays. Beame chaired the U.S. Conference of Mayor's panel on federal income payments, and as such he led the charge to have the federal government take "full responsibility" for income aid programs, like welfare, which the federal government only funded at fifty percent, state and local governments making up the rest. In May of 1975 Beame along with a dozen other mayors called for "emergency counter-cyclical" spending from the federal government to help cities navigate the national economic crisis. Their efforts went so far as to have Senator Edmund Muskie draw up a bill with \$4 billion in aid to states and localities. The Ford administration opposed the legislation. No action was taken, and in fact, Ford vetoed later legislation to provide countercyclic aid to cities.²⁷

After meeting with President Ford in May of 1975, Beame insisted that the city was not begging for undeserved bailouts. "We're not asking for aid," he said, "we're not asking for revenues to balance the budget. We're looking for a bridge to enable us to cope with the cash flow." This was only partially true. The city's plight in part derived from cashflow problems. But it was now also coming from real budget shortfalls and deficit spending. Nonetheless,

²⁶ Fred Ferretti, "Beame Urges U.S. to Create an Agency To Buy Municipal Bonds at a Low Rate," *New York Times*, Jan. 14, 1975; Martin Tolchin, "Beame Bids U.S. Lend City Money Without Interest," *New York Times*, Mar. 6, 1975. It is unclear what was meant here. It was likely that federal purchases of municipal notes would have dramatically improved the market. It would have taken New York, a major source of the oversaturation problem, out of the market, and would have provided a new purchaser to replace the absent banks. This undoubtedly would have cleared up credit and had an ameliorative impact on money markets. However, it is likely that Regan was employing monetarist theory in which his primary concern was inflation, not the money markets, to which this measure would have contributed; "Okum Backs Beame Plan For Federal Bond Agency," *New York Times*, Apr. 22, 1975; Ronald Smothers, "Goldin Study Group Seeks A Feasible Way to Sell City Bonds and Notes," *New York Times*, Apr. 13, 1975; John Darnton, "City Considers Direct Sale Of Its Notes to the Public," *New York Times*, Feb. 3, 1975;

²⁷ Ernest Holsendolph, "Beame Bids U.S. Operate All Projects to Aid Income," *New York Times*, May 1, 1975; Steven Weisman, "Beame Presses For U.S. Aid Bill," *New York Times*, May 9, 1975

Beame's position was sound economics of the Keynesian school. If cashflow problems were tied to the larger economy, then Beame's approach was correct. Seek "bridge" funds to ride through the economic trough, when the economy turns around, and the bond market stabilizes, the city could meet its normal expenses and pay off its debts.²⁸

Even at this late stage of the city's fiscal crisis the *Wall Street Journal* and others shared Beame's analysis. Others in the market pointed out that NYC had legitimate cash shortfall issues. "Since 1964, state and federal aid to the city has grown more than five times, till it now forms more than 40% of the city budget. Since these funds, in areas like welfare and education, are paid as reimbursements, the city has acquired the habit of floating short-term loans until the money comes in. But Albany and Washington haven't been very prompt in making payment. At the end of fiscal 1974, for instance, they still owed the city some one billion dollars on that year's budget." Meanwhile, for the city, "Temporary debt increased 40% from the end of December 1973, to the end of December 1974, when it stood at \$4.2 billion. That is too much," the paper editorialized.²⁹

As Comptroller, Beame sought to address many of these longstanding issues. He pressured the major rating agencies to change the city's bond rating, lowered in 1965 below state corporations like the Urban Development Corporation. This was unreasonable Beame argued because the city, unlike the UDC, had sound finances and the full backing of state coffers in case of emergency, as well as first lien rights to bondholders in case of default. The result of the lower rating were interest rates and expenses for the city's \$5.9 billion of bonds that were much higher than other tax exempts in 1970. Calling the agencies "capricious" and "subjective," by 1972

²⁸ Fred Ferretti, "Ford Will Study City Aid Request And Reply Today," *New York Times*, May 14, 1975

²⁹ "Going Broke in Fun City" *Wall Street Journal*, Apr. 22, 1975

Beame was advocating federal regulation of the rating agencies to assure fairness. In fact, Beame testified at Congressional hearings on the topic in the spring of 1972.³⁰

And his efforts paid off. At the tail end of 1972 Moody's bumped the city's rating from Baa1 to A, citing bondholders "first claim" on revenues and the "wealth" of the city. This is in part what contributed to the city's lower debt burden in the 1970s than what it faced in 1966. Once Beame was elected Mayor in 1973, Standard and Poor followed suit, changing the city's rating from BBB to A. Their reasoning: "the city's financial condition had improved in each of the last two fiscal years, showing 'an amazing resiliency to withstand budget difficulties.'" They also found that "welfare and education costs . . . should now level off as the welfare rolls decrease and school enrollments stabilize." In the 1970s as mayor, as in the 1960s as city controller, Beame worked to resolve debt imbalances, mitigate debt service costs, and improve fiscal solvency. It was on his reputation that the city lending picture improved.³¹

Indeed, Mayor Abraham Beame was well suited to face a problem of purely fiscal dimensions. He had built his career as a city accountant, a bean counter, a preeminent budget man. "The budget is everything," he was fond of saying, "everything you want to do comes back to money." For his entire career, and even through the early stages of the crisis, Beame was

³⁰ Maurice Carroll, "2 Investment Services Assailed By Beame on City Bond Ratings," *New York Times*, Jan. 31, 1971; "Beame Protests Rating of Bonds," *New York Times*, Feb. 18, 1972; "Metropolitan Briefs," *New York Times*, Mar. 25, 1972

³¹ Robert D Hershey Jr., "Move Was Anticipated: Moody's Raises City Bond Rating," *New York Times*, Dec. 19, 1972. In a 1994 interview with Richard Lieberman, Director of the LaGuardia and Wagner Archives at the LaGuardia Community College, Beame raised questions about the integrity of the ratings agencies. In a long and fascinating interview Beame's narrative of the fiscal crisis focuses on the role of the ratings agencies and seeks to raise questions about their actions. Beame questions why the city was denied higher ratings in 1977 as he sought to return the city to the market. Calling the ratings agencies, especially Moody's, "mentally dishonest" Beame alleges that the rating agencies were sore after he forced them through threat of federal oversight to adjust the city's ratings. He says that is "a double standard of Moody's (I didn't use the word revenge)" Moody's denied the city a credit rating that would have allowed them to reenter the market, with a syndicate lined up and ready to go, in 1977. Instead, Beame asserts, the agency gave the city the needed rating during the Koch administration when in fact the city's finances were worse off. Richard K. Lieberman to Jack Bigel, February 17, 1998, Jack Bigel Special Collections, Newman Library, Baruch College; John H Allan, "City Bond Rating Upgraded Again," *New York Times*, Dec. 15, 1973.

widely praised by all as an expert budget analyst and strategist. Although Beame came up through the notoriously corrupt regimes of William O'Dwyer and Vincent Impellitteri, in the 1950s he was praised by the *New York Times* as the “guardian of the city’s dollars,” for his fiscal responsibility. His “rigid belt-tightening” budgets of the 1950s found widespread support in the media, even garnering praise from the fiscally conservative Citizens Budget Commission whose officials called him “the best budget director the city has ever had.” The organization honored him with a luncheon in early 1958, and as late as May of 1974, by which time Beame was serving as Mayor, the CBC honored him again with a gold medal for fiscal responsibility at a black tie event at the Plaza Hotel.³²

Indeed, the Lindsay administration’s tenure with Beame as Controller dramatically reduced the debt to revenue expenditures of the city from their high point in the mid-1960s. Beame’s characterization in the 1972 survey of the mayoral field by the *New York Times* identified him as “a tight-fisted guardian of the public purse.” A quick perusal of *New York Times* headlines in 1972, admittedly as Beame was rearing up for his own mayoral run, has Beame “checking the circumstances under which a city official received double pay,” or “Beame charges irregularities in neighborhood aid,” or that Beame “bars payment for City U. Trips and ‘entertainment.’” Indeed, many in the Lindsay administration were annoyed and complained loudly to the *New York Times* at Beame’s “expense nitpicking.” Beame’s efforts may have just been to grab headlines, but no one was accusing him of “profligacy” as late as the

³² Maurice Carroll, “Beame’s Defeated Rivals Are Among Those Giving Mayor Generally High Marks,” *New York Times*, Apr. 8, 1974; “Guardian of City’s Dollars: Abraham Beame,” *New York Times*, Mar. 31, 1956 For example, the *New York Times* in a feature story just after he was elected city Comptroller for the first time, informed their readers that Beame “can say ‘no’ in several languages and, according to the heads of many city departments, knows no other answer to a demand for more funds.” “Beame Got Start as Assistant Budget Director in ‘46,” *New York Times*, Nov. 8, 1961; “City Must Economize: Beame Warns Agency Heads to Keep Budget Pleas Low,” *New York Times*, Dec. 19, 1957; “City’s Budget Head Praised by a Critic,” *New York Times*, Jan. 20, 1958 See also “Quiet but Effective: Abraham David Beame,” *New York Times*, Aug. 7, 1967; “Citizens to Salute Beame,” *New York Times*, Feb. 17, 1958; Glenn Fowler, “Civic Unit Scores Beame on Budget,” *New York Times*, May 26, 1974

early 1970s. Even in his first year in office, when he faced a large budget shortfall, the *New York Times* was reporting that “Mr. Beame’s budgetary credibility is high.” Beame remained steadfast in his commitment to fiscal responsibility. Lindsay’s record \$10.3 billion 1973-1974 fiscal year budget, announced at the height of the 1973 campaign season, was passed with Beame’s support, telling the press he could “live with this budget.” But Beame was quick to point out that Lindsay’s budget still contained “certain borrowings made the year before, as a result of action by the State Legislature, which are going to have to be redeemed in the 1974-1975 budget. It’s one of the problems any new [sic] Mayor will have to be faced with.”³³

In 1975 when New York faced depression and market failure, Beame the accountant was uniquely experienced to handle it responsibly. Throughout the 1960s and early 1970s he had deftly navigated some of the city’s worst budget crisis. As the economic conditions changed in the seventies, with depression and market failure, Beame was pursuing a two-pronged approach to the city’s budget; primarily, he wanted federal and state aid to make up the short falls, and to restructure federal payments for a more equitable cost sharing. He also sought to address the market failure, again through federal action, this time having the feds act as “buyer of last resort” for city notes. Both were sound Keynesian approaches coming from a city manager with a sterling fiscal reputation. Beame’s policy recommendations were not followed, not because this

³³ Tom Buckley, “Players Lining UP for a Game Called Mayoralty,” *New York Times*, Aug. 2, 1972; Edward Ranzal, “Beame Checking the Circumstances Under Which a City Official Received Double Pay,” *New York Times*, Jun. 12, 1972; Edward Ranzal, “Beame Charges Irregularities in Neighborhood Aid,” *New York Times*, Jun. 20, 1972; Edward Ranzal, “Beame Sees Flaw In SEEK Expenses: Bars Payment for City U. Trips and ‘Entertainment,’” *New York Times*, Jun. 23, 1972; David K Shieler, “Beame’s Admirers Are Legion, But His Expense ‘Nitpicking’ Annoys Many at City Hall,” *New York Times*, May 7, 1972. All this from a paper that was not favorable to Beame’s career, endorsing his opponent Herman Badillo, in the democratic primary, and the reform candidate Albert Blumenthal in the general election, running three editorials of endorsement in the week before the election. Maurice Carroll, “Controller Beame’s Expertise May Haunt Mayor Beame,” *New York Times*, Mar. 27, 1974; Max R Siegel, “\$10.3 Billion City Budget,” *New York Times*, Jun. 19, 1973

was a fundamentally new economic environment for the city, but because the priorities for the lending community had radically changed.

* * *

Banks knew all this. Their analysis was that national economic pressures were forcing cities into indebtedness. Take Citibank for example. In August of 1975 as the New York crisis was reaching a crescendo, bank analysts found that “states and localities” were “falling into a feast and famine cycle – feast when economic conditions are improving and when governmental aid is growing rapidly, famine when business conditions weaken and when government aid slackens off.” Citibank placed cities’ revenue “famine” in a direct relationship to intergovernmental aid and the “business cycle,” both of which were suffering in 1975. The problem for cities was that there were sources that they “do not directly control,” and left them vulnerable to cyclic downturns.³⁴

Note, this analysis just a few years previous would have been a prescription for Keynesian policy solutions, especially given the long term economic forecast, which called for improved conditions in 1976. In their economic newsletter discussing the economic context of New York’s plight, Citibank wrote that “as the economy recovers from the recession of 1974-75, state and local governments will again benefit from increased revenues from their own sources over and above those due to inflation.” Thus New York and other cities were expected to be “near the tail end of a famine,” and when the economic picture recovered, nationally, so too would their budget problems.³⁵

The analysis from other segments of Wall Street was much the same: long standing economic issues and cash-flow problems had put a crimp on the city’s budget, that market

³⁴ Citibank, Monthly Economic Letter, Aug. 1975, pg. 6

³⁵ Citibank, Monthly Economic Letter, Aug. 1975, pg. 8

volume was the major problem, and that New York was not in danger of default. In 1974 the City Controller under Mayor Beame, Harrison Goldin, explained to the *New York Times* that in private meetings with banks, the city and the financial sector possessed a shared analysis. His concern, paraphrased by “wall street informants” and the *New York Times*, “grew out of an increasing reluctance of banking and brokerage syndicates to underwrite the city’s bond and note offerings.” Furthermore, “the reluctance does not arise from fears of a default – there are no doubts that the city can and will pay its debts – but rather from the size and frequency of the borrowings, which are flooding an already overextended market for tax-exempt bonds.” Frank Smeal, a vice president of Morgan Guaranty Trust Company told the *Times*, “We are talking about a supply-and-demand situation. The city is making such staggering demands for short- and long- term credit that some banks are worried about their ability to distribute these huge amounts at a price likely to produce a profit.” These were market concerns, not fiscal ones, and importantly at this stage, no one thought New York would actually default.³⁶

Other men from the Street told the *Times* the same story. The *New York Times* summarized the wisdom from Wall Street that “bankers and brokers, who are expert in city affairs are not worried that New York will be unable to pay off its debt commitments. There is no doubt that they city can and will do that,” and that “financiers . . . view the future of their banks and New York City as intertwined.” Instead, the problem was the size of city borrowing, at a time of flooded markets. Brokers were telling the *Times* that “the market’s a disaster for the city,” and characterized the overall situation as, “it’s a crisis.” James Lebenthal, president of a Manhattan based investment firm told the press that the “current rates for New York City debt are insane,” explaining that “no one in his right mind thinks the city will default on its debt, but

³⁶ Michael Stern, “Goldin Sees Peril In City Borrowing,” *New York Times*, Nov. 1, 1974

the market is acting that way.” Others pointed to the national picture. One unnamed banker said the issue was “a recession coming down on us, inflation, and a huge budget gap,” problems beyond the city’s control.³⁷

New York City banks and city government held this shared perspective because they were working so closely together as to be indistinguishable at times. Through shared personnel, shared composition in the markets, and, most importantly, shared institutions of governance. For example, key sectors of the banking industry regularly met with Goldin through the Technical Debt Advisory Committee. The TDAC was established to share information and coordinate note sales through the clearinghouse system, but it became much more. As the crisis unfolded, the TDAC was a place bankers and city budget officials met to set priorities, and discuss possibilities and solutions, the committee representing the interests of the both the city and the banks. Besides the Technical Committee on city debt, the city also established the Financial Committee Liaison Group, again composed of bankers and city officials. Ellmore Patterson who chaired the committee said the banks and the city had “realized that they were, after all, on the same wicket.” In March of 1975, and offering to be coordinated by Bankers Trust failed. In the aftermath, the city was sharing daily receipts with the FCLG’s staff, notably David Grossman, a vice president of Chase and direct from the City Budget Director. Through these and similar institutions, the banks routinely provided staff for government agencies, in the Budget Director’s Office, and in the new state institutions of the crisis, the Municipal Assistance Corporation and the Emergency Financial Control Board. Perhaps more important than all of this, the market itself, and the banks and clearinghouses that composed it, constituted an institution of governance. Private and public,

³⁷ Soma Golden, “Experts Fear Growth In Costly City Debts,” *New York Times*, Nov. 25, 1974

state and market, banks and city officials, they were all fused through the process of financing government.³⁸

* * *

New York was not without fiscal sin; the city was in many ways responsible for its own financial mess. It had been spending operating costs out of its capital budget, a very big fiscal no-no. In 1974 about \$715 million of operating expenses were paid for out the city's capital budget, the total value of which was only \$1.7 billion. For example, in 1973 the city transferred its entire vocational education budget to capital expenses, at a cost of \$148 million. While the practice was legal, it meant that such programs were living on borrowed time. No one knew exactly how much of these funds were going toward current operations, but in 1975 some estimates were as high as 25%.

In another accounting no-no, the city was underfunding municipal pensions and collective bargaining settlements. For example, the Firefighters fund was \$200 million in arrears. Pension costs grew with the work force and inflation, with some estimates had retirement cost increases at \$700 to \$900 million per year for the remainder of the 1970s. Meanwhile, labor settlements were back, or forward paid to past or future budgets, costs that the city could legally borrow. This practice was increasingly widespread in the early 1970s, as fiscal year costs for which there was no money were punted to the next annual budget. Other ongoing expenses were placed on a cash basis, which got costs off the accrual budget, just one of the ways that funding from single, one-time sources was used to cover ongoing expenses. In the words of a review prepared for President Ford in 1975 such practices meant that "a substantial

³⁸ Soma Goldin, "Bankers Planning to Discuss Problems With Controller," *New York Times*, Dec. 16, 1974; John Darnton, "Fiscal Adversity Makes Beame and Goldin Strange Bedfellows," *New York Times*, Mar. 2, 1975; Fred Ferretti, "City Giving Bankers Data To Foster Sale of Notes," *New York Times*, Mar. 13, 1975

portion of the programs in 1974-1975 budget had no dependable future support.” All very bad accounting practices, and all compounding New York’s problems in 1975.³⁹

There was in fact a much bigger fiscal problem from New York’s short term borrowing. The city was required to make balanced budgets by state law, and did so throughout the early 1970s, but only through a process of short term borrowing to meet its operating expenses. This meant that in reality, New York was running deficit spending, to unknown figures, because they were routinely rolled-over in recurrent short-term debt issues. The Federal Reserve estimated in October of 1975 that fiscal year deficits could be as high \$2.6 billion, the city’s estimate was \$1 billion, but no one really knew for sure.⁴⁰

As the banks knew, these budget practices were not significant sources of New York’s crisis. In December of 1974 Chase Manhattan produced an analysis of the city’s fiscal situation. It found that “the general economic environment is weak” for the city, forcing cuts. While the city made mistakes in budgeting for the year, “the city administration was not alone in misreading interest rate trends and in not sufficiently allowing for the impact of inflation and recession.” The report found that the unexpected increases in city budgets at the end of 1974, roughly 40% were attributable to increases in debt service. In budget models going back to the early 1970s, with high, medium and low growth figures, “all three models showed deficits for 1975-1976.” Furthermore, while New York was “unique in the dollar dimensions of its problems, . . . it does not stand alone in facing a deficit nor in many aspects of its spending patterns.”⁴¹

³⁹ James Cannon to Gerald Ford, “Memo: Meeting with Governor Hugh Carey and Mayor Abe Beame,” Tuesday, May 13th, 1975, James Connor Files, Ford Presidential Library

⁴⁰ Christopher Taylor to Chairman Burns, “Data on New York City Expenditures and Revenues,” Oct 7, 1975, Arthur Burns Papers, Ford Presidential Library

⁴¹ Karen Gerard, “The City’s Fiscal Situation: The Budget Gap Is Real,” Paper Prepared For The Economic Group, Chase Manhattan Bank, Dec 1974

Even with New York's budgetary shenanigans, routinely cited as the sole cause of the fiscal crisis, New York's deficits and indebtedness in 1975 were at historically low numbers. There is no doubt these numbers were rising in the mid 1970s, but the sources of the increase were external to New York, a national economic slump and market failure. Mayor Beame's approach to the crisis, from early on, was based on this analysis, one that he shared at the time with the financial sector. His approach was to attempt to overcome the budget shortfall through increased state and federal aid, monies that would help resolve longstanding fiscal inequities. More than this, Beame wanted to correct the market failure, by finding purchasers of city notes in the federal government. There were further steps, a municipal countercyclic spending project, an industrial reinvestment measure, many others, that were considered but never implemented and would have done more to address New York's fiscal and economic woes than austerity. The point here is that in 1975 New York debt ratios were within historic limits, even with its economy collapsing. The problem at the heart of the New York fiscal crisis was not one of "liberal overspending." Instead, we have to look elsewhere to discover what caused New York's precipitous descent. By the end of 1974 these structural problems were looking intractable.

* * *

3.3 "Wolf Through the Doors:" New York City's Market Descent

Between November of 1974 and June of 1975, New York's crisis followed the crisis of the bond market. That November, Comptroller Goldin issued a budget statement to the press that New York was running out of funds to meet its expenses. Mayor Beame responded by making cuts right away, and searching for new sources of revenue. Those efforts might have been successful if it weren't for the default of the Urban Development Corporation in February

of 1975. The UDC was a Rockefeller “moral obligation” bond issuer, its failure put New York State on the hook for UDC debts, but more importantly, sent the fear of failure through the market for New York issued bonds. Combined with Goldin’s announcement a few months before, New York City issues took on a life of their own – no one would touch them. In February and March of 1975 banks took a hard line on the city, pressuring them to make dramatic cuts, and meet unprecedented requirements in order for banks to act as underwriters. In March, an underwriter syndicate headed by Bankers Trust demanded up to the day receipts from the city books to market their notes. The city couldn’t produce those figures, and the bank refused to sell the bonds. At this point New York’s crisis took on new dimensions. The city was frozen out of the bond market. Banks and bankers were now demanding severe austerity programs for New York to regain access to the credit market. When the city turned to the Federal Government to seek bridge loans, the Ford Administration through Treasury Secretary William Simon, refused. That same month, in May, banks issued their conditions for market reentry. Through the Financial Community Liaison Group, J.P. Morgan president Ellmore Petterson, demanded the city impose job cuts, pay freezes, program cuts, and a permanent commission to oversee New York budgeting. New York was stuck. The city was denied credit through the market, the banks, and the federal government. With close to \$1 billion in notes due June, the city was forced to severely compromise its position. Mayor Beame agreed to work with the MAC, the Municipal Assistance Corporation, which was created in June, and floated state backed notes through the summer of 1975.

These five crucial months of the crisis show us a few things. First, that New York’s crisis was definitively the result of the failure of the market, until February of 1975 when attitudes and reportage in the press changed to emphasize city insolvency. This period also

shows that after May of 1975, the central dynamic of the crisis was the city locked out of the municipal bond market, and struggling to regain the confidence of market gatekeepers, key Wall Street institutions that now were asking for unprecedented conditions in exchange for market access. This position of strength for the banks, not outside but part of the state, dictated the terms of the crisis; New York scrambled to satisfy the banks, cutting more and more through 1975 and into 1976. The city also created the MAC, a market based solution that failed because the market had failed.

New York's economic and market woes all came to a head in November of 1974 when City Comptroller Harrison Goldin announced larger than expected budget shortfalls. By 1974 a number of factors were negatively impacting the city's fiscal outlook. Goldin's yearly fiscal statement spelled out "serious concern" for the state of borrowing in New York. His report noted a multi-billion dollar growth in the city deficit, from \$747 million in 1969 to \$3.4 billion in June of 1974, and \$5.3 billion just between June and October of 1974. This came in part from a 57% increase in debt-service costs per to year to a staggering \$1.8 billion for 1974, roughly sixteen percent of the total expanse budget. Behind all of this was a 5.5% delinquency rate in real estate taxes "the highest rate since the Depression of the nineteen-thirties," and the depletion of the city's rainy day fund from over \$114 million just a few years earlier, to less than \$9 million by 1974. The deteriorating fiscal picture in November of 1974 was consistent with depression pressures, revenue shortfall from declining income, sales and other taxes totaling \$250 million, and increasing expenditures to the tune of \$400 million, the largest of which was increasing public assistance, \$125 million, and debt service, \$111 million. By the second half of

1974, the city's economic depression, and the constrained tax-exempt market ran into each other, with disastrous consequences for the city.⁴²

Even with all of these contributing factors, the single element most responsible for the New York crisis was the failure in the bond market. New York City's descent paralleled that of the market, in fact, it contributed to it. With each record sale, and each increasing need, into billion dollar single offerings by 1975, New York further depressed the market. In the prelude to the crisis, banks told New York that the market couldn't handle their offerings, and the city became desperate. When the banks collectively withdrew in March of 1975, it was a recognition that further market action could not help or solve the city's, every city's, crisis. Only state action could do that.

By early 1974 it was clear that New York was facing unprecedented pressures in light of the high inflation and interest rates. In January it was estimated that city debt service for 1975 would be more than \$1.8 billion, a tremendous 56% increase on the year, mostly from increased borrowing costs. To meet the new costs, the city had to borrow more. In one \$1.23 billion offering in single week, roughly half, \$609 million of that offering, came from tax exempt state and municipal bonds, and more than half of that, 57% or \$349 million, from New York City alone. In March of 1974 NYC announced "the largest tax-exempt bond sale ever" by a local government, \$436.6 million. This brought the total offerings just for state and city bonds to top \$2 billion for the month, and contributed to fears of an oversaturated market, with record high corporate and other issues as well.⁴³

⁴² Harrison Golding to Mayor Abraham Beame, November 29, 1974, City Archives; Michael Stern, "Goldin Sees Peril In City Borrowing," *New York Times*, Nov. 1, 1974

⁴³ "The Bond Markets: Investors Are Bracing For \$1.23 Billion Slate of Offerings This Week," *Wall Street Journal*, Jan. 21, 1974; Phil Hawkins, "Bond Markets: New York City Sets \$436.6 Million Sale," *Wall Street Journal*, March 25, 1974

The record \$436.6 million offering by NY brought a record yield as well. Its March offering expected to draw a 6.4% yield, although the actual issue saw only 6.14%, still very high, meeting the highest rates set during the 1970 crisis. In the estimation of the *Wall Street Journal*, for the mythic blue-collar investor, with a federal tax rate of 28%, the actual return on the bonds was close to 10% - of course, much higher for those in higher brackets. NYC's interest on the bonds over 40 years would amount to \$259 million for just this one sale. In the previous twelve months, the city issued roughly \$1.77 billion in bond issues, "retaining a tight grip on its standing as the largest single municipal borrower."⁴⁴

In July, NYC again announced the largest ever municipal bond offer, this one \$438 million, and a further depressionary force on the market, driving the Dow Jones municipal bond yield index to 6.35% for the month, a \$30 loss on the "typical \$1000 bond," in just one week, and a net decline of "an incredible \$140 since early February." But rates set for New York were even higher still. The city had to withdraw its July 9th \$438 million offering after getting a price of 7.92% amid news of "apparent problems with the city's books." Additionally, a sale by Citicorp from the previous week of \$650 million in commercial paper notes was "the largest single offering of debt securities on record," and according to one broker, "greatly depleted funds from the general market." With the failed offering, New York City Comptroller Harrison Goldin asked the Fed to guarantee to purchase New York issues through the depressed market. Goldin's case, summarized by the *Wall Street Journal*, was that the Fed had just bailed out a failing bank, Franklin National, and "if the Fed can lend Franklin National \$1.2 billion to keep it afloat, how

⁴⁴ Lindley B. Richert, "Bond Markets: New York City \$436.6 Million Issue Attracts Numerous Small Investors," *Wall Street Journal*, April 11, 1974 and Phil Hawkins, "The Bond Markets: Big Paper Loss Taken On One Treasury Issue Points Up Recent Slide," *Wall Street Journal*, April 8, 1974

much is New York City worth?" Fed chairman Arthur Burns declined the aid, and the city had to go back to the market.⁴⁵

The failed July 7.92% offering resold at the end of the month with 7.57% rate, but with about \$113 million less in bonds offered, and about \$37 million of that unsold at the end of the first day of sale. At this point, speculation began that the city's higher premiums meant that some things were "amiss in the city's books," and that this "contributed to that widened gap." The *Wall Street Journal* worried out loud that "the city has poured a staggering \$1.8 billion of new long-term obligations into the markets over the past 12 months, prompting one bond department manager in Texas to comment yesterday that his sales team has "run out of stories we can use to interest buyers for these bonds. Seems everybody has got his fill of New York City's." And still the city's total need increased. In mid-September New York offered a staggering \$800 million in a combined tax and revenue anticipation bonds. "The City has sold almost \$5.5 billion of short-term notes so far this year, up from about \$3.15 billion during the like period last year," reported the *Journal*.⁴⁶

In October, at a meeting of the Comptroller's Technical Debt Management Committee, members of the financial sector pushed the city on the quality of the market, not the standing of city finances. According to the SEC report, "deep concern was expressed by CTDM Committee members about the potential saturation of the market because of the magnitude of the City's projected borrowings; that a point might be reached where the City would not be able to market its securities at any yields." The Comptroller and city managers were advised that because of the

⁴⁵ Phil Hawkins, "Bond Markets: New York City Plans \$438 Million Offering, Its Largest," *Wall Street Journal*, July 1, 1974; Lindley B. Richert, "Local, Federal Issues Heavily Represented In This Week's Offer," *Wall Street Journal*, July 29th, 1974; "New York City's Finances," *Wall Street Journal*, July 26, 1974

⁴⁶ Lindley B Richert, "Bond Markets: New York City Gets Record 7.69% Cost On Its Reduced \$324.9 Million Offering," *Wall Street Journal*, Jul 31, 1974; Ida Walters, "The Bond Markets: New York City Slates \$800 Million of Notes," *Wall Street Journal*, Sept. 17, 1974

“extreme market pressure” the city should consider a prearranged negotiated sale rather than “selling the securities through competitive bids.” The minutes from the meeting have the banks emphasizing that city repayment was not a pressing concern. Instead, bankers were worried by the size of city offerings in a market already suffering from oversaturation. The minutes read that the “members of the committee expressed deep concern over the magnitude of the city’s current borrowings. The positions stated included that the city is reaching a market saturation point at which its offerings may not be marketable at any yields, that investors principal concerns are with the caliber of management rather than ability to meet debt service, that the city may not have adequate coverage in future debt issues, that indeed, this might even happen as early as the next scheduled bond sale on October 16, that the city may well have to consider reverting to the prior practice of negotiated sales for its short term offerings, and that the sheer size of the city debt may shortly influences a negative response for the rating agencies.” The banks, concerned with the city’s “caliber of management” is not a fiscal concern, as they clearly express in CTDM meetings with the city as early as October of 1974.⁴⁷

And again, at the December of 1974 meeting of the CTDM Committee at Gracie Mansion, the Mayor and the city were told by Wallace Sellers of Merrill Lynch that “no one questions the city’s ability to pay its debt; it is a question of the ability of the market to absorb issuances of such magnitude.” Gedale Horowitz of Salomon Brothers, vaguely referenced the absence of commercial banks as buyers, adding that “the city has lost its institutional market.”

⁴⁷ Securities and Exchange Commission Staff Report on Transactions In Securities of the City of New York, Committee On banking, Financial and Urban Affairs, House of Representatives, Aug., 1977, pg. 3, henceforth, SEC Report. In a 1994 interview with Richard Lieberman, Director of the LaGuardia and Wagner Archives at the LaGuardia Community College, Beame alleged that the SEC report was politically motivated, telling Lieberman that the report was “a politically dominated investigation, so much so that even the commission didn’t adopt the staff report.” Richard K. Lieberman to Jack Bigel, February 17, 1998, Jack Bigel Special Collections, Newman Library, Baruch College; Comptroller’s Technical Debt Management Committee, minutes, Oct 7, 1974, quoted in Fred Ferretti, *The Year The Big Apple Went Bust*, New York: G.P. Putnam’s Sons, 1976, pg. 91

According to the Securities and Exchange Commission investigation, by this point large banks had already stopped buying; “the institutional market was closed to City securities,” and to make matters worse, “out-of-state banks were not buying” either.⁴⁸

And so, City Comptroller Harrison Goldin’s yearly fiscal statement in November of 1974 spelled out “serious concern” for the state of borrowing in New York. Goldin’s report noted a multi-billion dollar growth in the city deficit, from \$747 million in 1969 to \$3.4 billion in June of 1974, and \$5.3 billion just between June and October of 1974. This came in part from a 57% increase in debt-service costs per to year to a staggering \$1.8 billion for 1974, roughly sixteen percent of the total expense budget. Behind all of this was a 5.5% delinquency rate in real estate taxes “the highest rate since the Depression of the nineteen-thirties,” and the depletion of the city’s rainy day fund from over \$114 million just a few years earlier, to less than \$9 million by 1974.⁴⁹

In November, the city needed an additional \$615 million in notes. To get around the absence of institutional buyers, and at the request of the banks, the city dropped the note denominations by a factor of ten, from \$100,000 to \$10,000 to try to attract smaller investors. Even still, New York rates set record, selling for 8.34% yields. On tax exempt bonds this was an “astronomical” figure and even with dealers “flooded” with inquires and sales, only about 65% of issues sold at the end of the day. One unnamed dealer said “I attempted to sell a block of New York City bonds but was unable to locate a single taker, undoubtedly as a consequence of the

⁴⁸ Quoted in Ferretti, *The Year The Big Apple Went Bust*, 107, 109; The SEC Report summarized as.” “the CTDM Committee did not question the City’s ability to pay its debt, but indicated that the market could not absorb offerings of the magnitude contemplated.”, pg. 44; SEC report, pg. 45

⁴⁹ Michael Stern, “Goldin Sees Peril In City Borrowing,” *New York Times*, Nov. 1, 1974

city having inundated our market with about \$3 billion of new notes and bonds in the past two months.”⁵⁰

Although some bond dealers and underwriters were loudly mouthing off to the press, “we’re through rolling dice with the city,” said one of the largest underwriters, market analysis continued to give city notes a high rating. In December, Moody’s issued a special review of New York City’s credit worthiness amidst the concern over the City’s unprecedented volume. Their review said “we are confirming our single-A rating on the general-obligation bonds of New York City because of its well-secured debt, its vital and internationally important economy, and the prospects for administrative control of financial difficulties. We don’t feel that payment of debt service is in question or should be in question in the future.”⁵¹

In December, when the city was forced to pay 9.5% interest on a \$600 million offering, Controller Goldin told the *Times* that rate was based on “unfounded and unwarranted fears for the security of the city’s obligations.” In January of 1975 the city paid 9.4 percent on \$620 million of bonds. In a joint statement Beame and Controller Goldin called the rate “unfair, unwarranted and outrageously high.”⁵²

An internal Citibank memo in January of 1975 showed that Citibank had a mere \$23 million of New York City debt, and that the bank was not purchasing more city obligations. Meanwhile, Chemical bank, the underwriter for a January issue of \$600 million of city notes, reported that they received a single bid on the notes, at a rate of 9.4% of city RANs. In response

⁵⁰ Lindley B Richert, “New York City’s \$600 Million Note Offer, Due Today, Is Hurt by Losses on Its Bonds,” *Wall Street Journal*, Dec. 2, 1974 and Lindley B Richert, “The Bond Markets: Several Firms Put Off Offerings as Price Cuts Continue on Old Issues,” *Wall Street Journal*, Dec. 4, 1974; Phil Hawkins, “Prices of Tax-Exempts Drop Due to Scarcity Of Usual Big Buyers,” *Wall Street Journal*, Nov. 11, 1974

⁵¹ Lindley B Richert, “New York City’s \$600 Million Note Offer, Due Today, Is Hurt by Losses on Its Bonds,” *Wall Street Journal*, Dec. 2, 1974; Phil Hawkins, “Stable Prices Expected Until Normal Trading Resumes in New Year,” *Wall Street Journal*, Dec. 30, 1974

⁵² Edward Ranzal, “Beame Blames Goldin for High Interest,” *New York Times*, Dec. 3, 1974; Edward Ranzal, “City to Pay 9.4%,” *New York Times*, Jan. 8, 1975

to the 9.4% offering, Mayor Beame called representatives of the city's major financial houses to a meeting at Gracie mansion, where he tried to persuade them to purchase and market city notes. According to the SEC report, bank representatives responded that "there were serious doubts as to the market's capacity to absorb more City securities," note, not questioning the solvency of the city, and that "clearing house banks did not have the capacity to take on all of the proposed City financing by themselves." Left unsaid, was that the lack of capacity was not due to lack of capital, but lack of will, given the profitability of municipal notes in the light of record inflation. The collective decision from this meeting was to establish a Financial Community Liaison Group with the city and the financial sector to keep New York's bonds moving. An internal memo at Citibank at the end of January of 1975 stated that Citibank would not purchase any New York issue of any kind for its accounts. A Chemical Bank memo discussed their selling of \$15.5 million of city notes in just one month. After purchasing Security National Bank, they were concerned about acquiring a portfolio with \$58 million of city notes.⁵³

The serious market cascade for New York City began in February of 1975, when the Urban Development Corporation, a housing and mortgage agency for the state of New York, defaulted on roughly \$100 million of debt obligations, in part because banks refused to rollover their holdings. The cause of the default was a combination of a drop in federal funding, and the skyrocketing interest rates in the tax-exempt market. The default led to a "standoff" over the debt, as the *Wall Street Journal* called it, and raised uncertainties about New York State "moral obligations" for state agency and municipal issues. At question was whether the state would honor their "moral" obligation to cover the debts, as they were not legally required to do so. In the case of the UDC, the banks wanted the state to pony up \$140 million to cover UDC costs,

⁵³ SEC Report, pg. 52, 54, 56, 69, 78

while they would pay for \$30 million. Even though Governor Carey had repeatedly stressed that his government would be responsible for the loans, and was simply seeking extensions from the banks for the markets to calm down, a widespread fear that New York would not honor their “moral obligations” spread quickly in the bond community: what would happen if they neglected to back the bonds? The result was that “a lot of these moral-obligation issues are going to be harder to sell.” City comptroller, Harrison J. Goldin, told an assembly of bond dealers that the UDC default “has created a most unfortunate and unwarranted climate of suspicion in the marketplace,” adding that, “New York City’s taxpayers are being forced to pay for the mistakes of another jurisdiction.” John Nuveen & Co., said that the UDC default was “psychologically devastating to the marketplace.” Adding that “no amount of reasoned explanation can change the erroneous, but nevertheless general association of many other creditworthy issues, both in and out of New York, with UDC.”⁵⁴

After the UCD default, bankers took a much harder stance with the city. The market failure was now taking on new dynamics for New York alone, as city offerings created their own gravity hole. One analyst told the *Times* that New York had become “a separate market, governed by different laws.” A March 9th meeting of major banks through the Financial Community Liaison Group found that the major banks collectively held between \$1.2 and \$1.3 billion in city notes about 20% of their total equity. A November 1975 survey by the Federal Reserve found that in June of 1975 the clearinghouse banks collectively held roughly \$3.6 billion

⁵⁴ Byron Klapper, “Crisis of Confidence: Just How Binding Is a ‘Moral Obligation’?,” *Wall Street Journal*, Feb. 28, 1975; and “New York State’s Bid To Rescue Ailing Unit Deadlocked in Standoff,” *Wall Street Journal*, Feb. 27, 1975; and Botein, “New York State Housing Policy,” 844-845; Lindley B Richert, “The Bond Markets: Municipal Sector Attempts to Shake Off Effects of UDC and New York City Crises,” *Wall Street Journal*, Mar. 10, 1975. In fact, First National City Bank, Chase Manhattan, and other underwriters of UDC debt were sued in March by bond holders, claiming the banks mislead investors. See “Underwriters of Bonds Of New York’s UDC are Sued by a Holder,” *Wall Street Journal*, Mar. 20, 1975

in New York obligations, \$1.2 billion of that city issue. These numbers were significant, but way down from earlier highs, as those back notes were now being sold in dramatic numbers.⁵⁵

Banks now started to articulate a hard line with the city, and as it would turn out, their desire for austerity shaped the formation of the MAC, the EFCB, and the restructuring of the city's political economy and social priorities. In February of 1975 an internal Citibank memo prepared by William Herbster for a meeting between Walter Wriston, the Council of Business and Economic Advisors, and the Mayor laid out the banks political agenda through the crisis. It called for zero budget deficit in the next three to five years with five major areas of attention: "1) reduce the number of city workers; 2) increase productivity; 3) institute certain service cutbacks, such as the elimination of costly unproductive training programs, 4) institute certain changes to bring these charges closer to the actual cost of the services, e.g. increase the subway fare; and 5) make major reductions in capital expenditures which mandate future operating costs e.g. the CUNY building program." This was the austerity agenda in embryo.⁵⁶

A second memo, two days later, between Jack Friedgut and Citibank president William Spencer, also urged a get tough approach. "The proposals will, not surprisingly, be unpopular with the Mayor. He will complain that he has no authority over such leviathans as the municipal unions, the Board of Education, the hospitals corporation, and other quasi-independent agencies. Such a defense is both true and not true. If the situation is critical enough (which it is) and if the Mayor is tough enough (which he might be) many things can be done even if they are technically

⁵⁵ John Darnton, "The City Has Assets; Cash Is Something Else Again," *New York Times*, Mar. 30, 1975; SEC Report, pg. 157; Arthur Burns to Benjamin Rosenthal, Nov 12, 1975 and George Mitchell to Benjamin Rosenthal, Jan 9, 1976, EFCB Archives

⁵⁶ Memorandum, William G. Herbster to Walter Wriston, Feb. 24, 1975, in SEC Report, pg. 102

not possible. The time is now.” Again, the discussion here was with city politics, opposition to cuts, rather than fiscal matters.⁵⁷

This political orientation of the banks was reiterated at a staff meeting of the Financial Community Liaison group which included Jac Friedgut of Citi, Frank Schott of Equitable, and Karen Gerard of Chase. They wanted to shift focus from the Mayor’s emphasis of the budget gap, to an analysis of the total budget picture and the need to “reduce expenditures.” The staff urged a “unified analysis which would clearly demonstrate the absolute inviability [sic] of the City if it continued on its present course,” and to work more closely with the Citizens Budget Committee. Here bank representatives are fairly open about the need for a unified collective response from the financial sector.⁵⁸

At this same time, other aspects of what would become the MAC were taking shape. For example, on February 6 of 1975, the banks were publically lobbying the state legislature to produce a provision to rescue the city that would include a measure to divert city sales tax funds directly to debt service rather than city coffers. Desires that would come to fruition in the June creation of the MAC. Meanwhile, on 20th of February members of the Economic Development Council, including George Champion, Walter Wriston, Richard Shinn and Robert Hatfield convened with the mayor to express their concerns about the state of New York finances. Wriston reportedly told the Mayor, “today was the day that the money ran out.”⁵⁹

In February and March, a “disruptive element” was introduced to New York’s offerings when two banks “refused to take delivery of \$260 million short-term New York City notes.”

⁵⁷ Memorandum, Jac Friedgut to William Spencer, Feb. 25, 1975, in SEC Report pg. 104

⁵⁸ Jac Friedgut Memo, in SEC Report, pg. 105

⁵⁹ “Chronology of New York City Fiscal Crisis: July 18, 1974 to April 4, 1997,” Prepared by Evelyn Seinfeld, Department of Research and Negotiations, DC37, AFSCME, AFL-CIO, Baruch Papers, Tamiment Library, henceforth, “Chronology”; SEC Report, pg. 100 - Reminiscent of Carey’s address to state legislators just a few months later, that “the days of wine and roses are over.”

That decision came in late February from the underwriting syndicate headed by Chase and Bankers Trust. Bankers Trust hired the law firm White & Case for the first time as bond counsel to review the sale. The firm found that the city was \$112 million over its TAN limit, and that accountancy documentation provided through January 30th of that year was not current enough, and the bank should request up to the minute figures. Bankers Trust and the syndicate now believed “in order to render a clean legal opinion, it would be necessary to obtain reasonable satisfaction as to the amount of tax collections subsequent to January 30.” This was an unprecedented request. White & Case also recommended the city purchase the outstanding \$112 million in city notes.⁶⁰

At a February 27th meeting, the city responded that this request was an unprecedented request, and the city would sue the underwriting syndicate for breach of contract if they did not go through with the sale. But the clearinghouse syndicate insisted, that given the UDC failure, they needed up to the minute information. The city said it could provide accurate figures through February 6th, and that was the best they could do, but for the banks, this was still not good enough. Once the sale was canceled, Comptroller Goldin told the *New York Times*, that the sale was cancelled because of “a sudden demand by the underwriters, unprecedented in the history of the city, for data that could not physically be compiled, checked and verified in the short time available.” At issue, were \$409 million in uncollected real property taxes, but Goldin insisted that the majority of that figure, about \$350 million, was from previous years, with little impact on the current budget, or bond issue. “It is completely inaccurate to report or imply,” he said,

⁶⁰ Lindley B Richert, “The Bond Markets: Prices Could Decline Despite Lower Volume Of Issues This Week” *Wall Street Journal*, March. 3, 1975; SEC Report, pg. 108. Interesting, the counsel for Chase, Wood Dawson, found no problems with the issue, and were recommending a clean bill of sale with funds for the TANs cover in anticipated property tax revenue. At a February meeting however the syndicate voted to use White & Case as counsel for the sale. SEC Report, pg. 112; Epley Memorandum, in SEC Report, pg. 113

“that there’s any question concerning the sufficiency of tax revenues to meet all obligations, including the notes which are subject of today’s report.” Mr. Goldin told the *Times* that the new demand was “not only unprecedented, but unreasonable, and beyond the capacity of the city to respond.” But it was no use. Goldin reported to the press that the banks “told us there was no public market at this point.” And it was as simple as that, the banks closed the market to New York City. Goldin canceled the upcoming auction. This was the beginning of the process that would see New York locked out of the credit markets.⁶¹

Anonymously other members of the banking industry were telling the *Times* that the recent changes were “only the beginning.” Although intimately involved in the city financing, bond market, with the up to day receipts, and insider knowledge of the budgeting process, the banks were turning bullish on austerity. The new demand according to one anonymous figure was “good management,” meaning the city’s position regarding “future layoffs of city personnel,” or “what budgetary cuts are being planned and what programs can be cut.” The key question now was not, according to *The New York Times*, “Has the city overborrowed?” but rather, “the real issue: Where will the banks put their investment money?” This was a significant turn in attitude, both in terms of social responsibility of the financial sector and the fiscal solvency of the city.⁶²

Deputy Mayor James Cavanagh tried to counter the argument that borrowing to meet current expenses was a problem. “That’s absolutely wrong,” he told the *Times*. Borrowing to meet expenses is “commonly done” at every level of government and “it’s a perfectly sound practice.” And so to in the private sector, using everyone’s favorite economic trope, the small

⁶¹ SEC Report, pg. 116; New York Times, March 1, 1975; Fred Ferretti, “Banks Cancel City’s Sale Of \$260 Million In Notes,” *New York Times*, Mar. 1, 1975; Goldin quoted in Lester A. Sobel, *New York and the Urban Dilemma*, New York: Facts on File Inc., 1976, pg. 120

⁶² Fred Ferretti, “The City Credit Bind,” *New York Times*, Mar. 20, 1975

farmer, Cavanagh explained that farmers borrow to cover costs they expect to recoup with their harvest – “it’s the same thing for the city,” he said. But Beame and Cavanagh were playing by the old rules. The financial earth was shifting under their feet, and they hadn’t seemed to realize.⁶³

After the failed March offering, New York again returned to the market, but with yields higher than ever. According to the *Wall Street Journal*, “New York City avoided a financing crisis by accepting an astronomical interest cost of 8.69% to sell \$537 million of bond-anticipation notes.” This was the highest rate ever paid by the city, and well above the market rate then close to seven percent. Even that offering was only possible after 26 hours of “intense negotiation” between Chemical Bank as underwriters, and city officials. Rates that high cost the city roughly \$45 million over the life of the bonds, but were increasingly necessary for city short-term solvency.⁶⁴

In April, the tone of the bond reporters from the *Wall Street Journal* switched from emphasizing market problems, to looking at New York’s failures as an extreme case of fiscal mismanagement and insolvency. “New York City, in effect, is broke,” they wrote, “It doesn’t have the cash to pay off a stack of bills coming due soon, including a staggering \$3.6 billion in the next 90 days alone. It has practically worn out its welcome in the tax exempt bond market, the only major source of borrowing available to local governments.” In April, NYC’s credit rating was suspended by Standard and Poor’s. In the words of Comptroller Goldin, this was “a cruel blow at the very time we are exerting every effort to overcome immediate problems.” The WSJ speculated whether the city could “hope to continue selling notes and bonds under present

⁶³ Steven Weisman, “Roots of City’s Current Cash Squeeze Are Traced to Budgetary ‘Magic,’” *New York Times*, Apr. 7, 1975

⁶⁴ Phil Hawkins, “The Bond Markets: Flood of New Issues Won’t Recede Soon Despite Forecasts,” *Wall Street Journal*, Mar. 17, 1975

conditions. Its publicly held debt totals a staggering \$14 billion, of which about \$3 billion is said to be held by local banks.”⁶⁵

With New York being denied access to the credit market, there was growing concern that New York, could in fact default – a possibility unimaginable just a few months before. The S&P downgrade reflected this concern. But even with the emerging crisis, and hysterics in the press, there were other voices calling for calm. Jackson Phillips, a vice president at Moody’s, emphasized the city’s overall stability, “For a half century now, it has been widely known that New York City has a revenue problem, a systematic difficulty in raising additional revenues to keep up with expanding needs. It is also well known that revenue problems are aggravated by business recession and the liquidity is impaired in some proportion to declines in economic activity. But New York City’s debt is secured by much more than its current liquidity position. The strong legal backing of the city’s obligations and the city’s unique position in the American economy provide strong assurance to the creditor.” Indeed, it was unlikely that New York would miss a payment, but that likelihood was dramatically increased when the city was barred from the credit markets.⁶⁶

As April turned to May, the city’s fiscal situation and access to the market was deteriorating. Worries from the Street were essentially psychological, and stemmed from the collapse of UBC’s “moral obligation” bonds. One dealer said that moral obligations bonds “has been practically unmarketable since its role in the recent near-bankruptcy of the Urban Development Corp.” Besides a nearly \$400 million loan from the State in April, and another

⁶⁵ Phil Hawkins and Lindley B Richert, “New York City, Fighting Off Insolvency, Is Bolstered by \$396 Million State Loan,” *Wall Street Journal*, Apr 4, 1975

⁶⁶ Ibid

\$200 million in May, the city could not meet its expenses. In that month, the Dow Jones municipal bond yield index was again at record highs, 7.07% in the first weeks of May.⁶⁷

With the situation dire, echoes of the past were rumbling in the canyons of Wall Street. By the spring of 1975, according to the *New York Times*, “bankers have been reminiscing about the so-called banker’s agreement of 1932 and 1933. Under the agreement, the Banks stepped in to save the city from defaulting on its obligations, and imposed stringent austerities.” An official of the Citizen’s Budget Commission, Colonel Harold Riegelman, told his members “if it can be done in ’32 and ’33, it can be done in ’75 and ’76.” Recall the terms of the 1933 bankers agreement from the opening chapter – the banker forced austerity on the city in exchange for loan extensions and fiscal leniency. Austerity, and the era before Keynesian economic policies was on everyone’s mind.⁶⁸

These conflicts over fiscal best practices and attitudes between city and Wall Street were brought into the open when Beame met the bankers on their own turf. Addressing the Money Marketers, a group of 200 securities traders in April of 1975, Beame and the bankers had a heated exchange where he was met with “hostile questions, ridicule and disbelief.” After Beame attacked the Street for their “corrosive negativism” for disparaging city notes, the crowd shot back that “the market place is closing in on you. The market is looking for leadership.” Beame, “his voice rising,” demanded that “two months ago the market was gobbling up securities. Tell me what has happened in two months.” “That was yesterday,” a man in the crowd shot back.

⁶⁷ “Bond Markets: State’s Ability to Raise Funds to Rescue New York City Is Subject to Rising Doubts” *Wall Street Journal*, May 2, 1975

⁶⁸ John Darnton, “The City Has Assets; Cash Is Something Else Again,” *New York Times*, Mar. 30, 1975

Another man asked “why should the state support an over-pensioned and over-salaried bureaucracy?” One anonymous banker said Beame’s approach was “the same old tired stuff.”⁶⁹

Beame’s response, quite reasonable, was that he had already committed himself to a balanced budget, “without recourse to further borrowing.” Beame’s hope, was state and federal aid could help the city through its crisis. So bankers request for a “satisfactorily balanced” budget was curious. “Satisfactory to whom, may I ask?” a sardonic Beame wrote, and speculated that dissatisfaction came from Beame’s proposal to increase securities industry taxes to help make up the gap. Echoing the politics of his revolutionary father, who fled czarist Russia for his political activities at the turn of the century, Beame told the press “our struggle today is against economic subjugation.” On the eve of the nation’s bicentennial he continued, “It is as real as our struggle against political subjugation centuries ago.” Comments like this were not to inspire confidence from the market.⁷⁰

By mid-May, the market was closing all around the city; the market was failing, and banks were locking the city out of the credit market. Resale value on some short-term New York City notes was as high as 60%, an unheard of figure, but still with few buyers. According to the *Wall Street Journal*, “the city is practically unable to sell new tax-exempt securities, the major borrowing vehicle for local governments, because it already has flooded the public market in the recent past. A staggering \$3 billion of old New York City obligations are said to be stuffed into portfolios of the city’s giant banks, which traditionally underwrote its fresh issues.” This was a recognition that the market was failing the city. Further, according to the *Journal*, “creditors would conceivably be willing to finance Mayor Beame past his immediate cash-flow crisis if

⁶⁹ Michael Stern, “City’s Fiscal Crisis,” *New York Times*, Apr. 11, 1975; Steven Weisman, “Beame and Financiers Trade Accusations About City’s Tarnished Fiscal Image,” *New York Times*, Apr. 10, 1975

⁷⁰ Steven Weisman, “Mayor Seeking New Delay For Submitting of Budget,” *New York Times*, May 24, 1975; John McQuiston, “Bankers Offer Loan Plan,” *New York Times*, May 23, 1975

they could perceive, anywhere on the horizon, the real possibility that the city's income would exceed outlays on a steady basis. But it is all too obvious that no such possibility exists." The deteriorating conditions led the city to again cancel a bond issue for May. After meeting with "leaders of the city's giant banks," Comptroller Goldin announced the \$280 million offering cancelled.⁷¹

This was a major turning point and set the terms for the rest of the crisis period. The city was now denied access to the markets by the major banks; according to the *Wall Street Journal*, it appeared that, for the city, the "wolf was through the doors." They correctly portrayed the city as caught between its expenses, and the market, with increasing debts and diminishing options. "New York can default on its bonds," they wrote, "even repudiate its debt, and take the political and economic consequences whatever they might be." But even with such drastic action, the crux of the issue was that New York no longer had access to the credit market, default or stretch outs would only exacerbate this problem. "In walking away from its present debt," they wrote, "the city could balance its budget for awhile, but it's really impossible to operate a city like New York without credit, and to rebuild credit some new administration would have still to grapple with the runaway city budget." But this was a political, not a fiscal problem. The *Journal* found that the alternative tasked to Beame was to:

do this job of credit rebuilding instead of bequeathing it to a successor, using the crisis to drive home to the people of New York that there really is no alternative this time. Any effort at budget control must start by persuading the citizenry and municipal employees that the level of services must be sharply reduced, the terms of the pensions plans renegotiated, the level of wages frozen, the subway fare boosted, and a thorough financial housecleaning begun at City University, where no tuitions are charged and the faculty is about the highest paid in the nation. Having survived the brink of disaster so many times,

⁷¹ "Bailing Out New York City" *Wall Street Journal*, May 14, 1975; and Lindley B. Richert, "New York City Seeks \$1.5 Billion to Meet Debts Due by June 30; U.S. Aid Ruled Out," *Wall Street Journal*, May 12, 1975

the citizens and employees will not be easy to persuade. But the message will start to come through after a few missed payrolls.

Here was a clear distillation of the city's position in May of 1975. The banks were refusing to participate in New York's short term borrowing any longer, largely for reasons of the failing market and profitability. But now tied to this position, the condition for market reentry, were a series of cuts targeting the city's unions and the costs of its social wage.⁷²

Denied access to the market, the city turned to the Federal Government to ask for loans. In May of 1975 as Mayor Beame and Governor Carey went to Washington to ask for supplemental funds, both from Congress and from the Ford Administration. They were quickly and publically denied, William Simon, the Secretary of the Treasury, planning the leading role in criticizing city practice. In a "circus atmosphere" press conference in NYC at a meeting of the Conference Board, William Simon told the press, "the federal government has no power to assist. It would require legislation . . . The way out is fiscal responsibility; the city has been living beyond its means for many years . . . the city must take the tough steps"⁷³

On news that Treasury Secretary William Simon was refusing loan aid to the city, an unnamed federal official told the *Wall Street Journal*, that a major reason for refusing New York, was that the city's condition was shared with dozens of other municipalities. "Where does this stop," they asked, "we'd have Newark and Detroit and 10 or 12 other cities lined up here if we do this for New York." An intriguing and telling question. This Treasury official recommended further market solutions, looking for buyers in international markets: "maybe the most intriguing of temporary 'outs' for the city is the possibility of foreign investment in its securities," the *Wall*

⁷² "Bailing Out New York City" *Wall Street Journal*, May 14, 1975

⁷³ "Bond Markets: New York City Notes Yielding 60% Attract Few Investors, Dealers Say," *Wall Street Journal*, May 16, 1975

Street Journal reported, but this was an approach the city had already tried, having “been in contact with large investment pools overseas, ‘both governments and private.’”⁷⁴

Treasury put forward these somewhat ludicrous statements even though the Ford Administration recognized that the cause of the crisis lay beyond the reach of city directed solutions. Internal White House documents recorded that even if the city were to balance its budget, it likely would not be able to access the credit it needed because of the dismal market. The Memo prepared by Robert Gerard of the Treasury reported that “the City’s planners have advised that even under the best conditions – i.e. presentation by the City of a credible balanced budget for FY 75-76 – the City could raise no more than ‘a couple of hundred million’ in May.” In part, Gerard reported, this was due the “banker’s pessimism” about “the market’s response to future offerings.” Indeed, even as these words set down, the possibility of any access to the market was quickly eroding.⁷⁵

This was monumental shift. Banks and the White House recognized that the core of New York problems lay in broader economic trends, yet both refused to act along policy proscriptions that had been successful for decades. The tide had turned, and the banks at least more or less had announced themselves; as early as March of 1975 Jac Friedgut, vice president for First National City Bank, then in Washington talking to legislators about the New York situation, told the press that his bank would no longer participate in New York offerings. Through a spokesman Friedgut later tried to back track the comments, but it was becoming clear on the part of the banks “the attitudes have hardened,” and that First National City was leading the way.⁷⁶

⁷⁴ Lindley B. Richert, “New York City Seeks \$1.5 Billion to Meet Debts Due by June 30; U.S. Aid Ruled Out,” *Wall Street Journal*, May 12, 1975

⁷⁵ Robert Gerard to Jim Falk, “New York City Financial Situation,” May 1, 1975, James Cannon Files, Ford Presidential Library

⁷⁶ Fred Ferretti, “The City Credit Bind,” *New York Times*, Mar. 20, 1975

The definitive moment came on May 2, 1975 when banks told Governor Carey that they would no longer purchase notes. Patterson, Wriston and Willard Butcher representing Chase waited for a meeting with Governor Carey. When the governor arrived, “the bankers wasting no time, announced that they would no longer underwrite the notes and bonds of the city,” according to Carey aid Richard Ravitch, in the room at the time of the banks’ announcement.⁷⁷

What was conferred in private was made public later that month. In May when bankers and investors met with Comptroller Goldin through the Financial Community Liaison Group headed by Ellmore Patterson of Morgan Guaranty Trust, and with representatives of First National City Bank, Chase Manhattan and Salomon Brothers present, “the banks didn’t budge from their earlier position,” that they were not responsible for the crisis and there was simply no market for NYC notes. This despite the comptrollers pleas for the banks “to serve as lenders” and accept “the notes for their own portfolios, instead of marketing them to other investors.” This they outright refused; and was another nail in the coffin of city access to the tax-exempt market.⁷⁸

Indeed, the financial community continued to express its collective hard line against the city. After its meeting with Goldin, the Financial Community Liaison Group published a letter in May of 1975 expressing that the city’s financing needs were “beyond the ability of the New York financial community by itself to provide.” Of course this wasn’t true. The financial industry as a whole held over \$32 billion in tax exempt bonds in 1975. It easily could have provided the bridges loans, the form of regular bond purchases, to help the city through its depression. Easier still, they could simply agree to roll over the notes, postponing payments until

⁷⁷ Richard Ravitch, *So Much to Do: A Full Life of Business, Politics, and Confronting Fiscal Crises* (New York: PublicAffairs, 2014), pg. 72

⁷⁸ “Banks Help to Rescue State Housing Unit, But New York City Fiscal Crisis Deepens” *Wall Street Journal*, May 21, 1975

the city had the money in pocket. A more accurate description was that the banks lost the will to provide.⁷⁹

In any case, the market was now closed to the city. The May letter from the banks closing the market was signed by Patterson, chairman of Morgan and Financial Community Liaison Group, and thirty other firms. It confirmed their rejection of city notes, now, and in the next month when another \$720 million came due. Their recommendations for change? A “satisfactorily balanced budget” and “fiscal reforms,” but also, “a permanent commission to review city revenue and expense matters.” The review commission was to be the basis of the MAC and later the EFCB. David Rockefeller, speaking before Congress with Walter Wriston and Ellmore Patterson said “we feel that the time has come to find other sources of finance for the city’s obligations.”⁸⁰

Once the FCLG came out with its statement, city officials vigorously challenged the banks’ position. A spokesman for the Controller’s office said that “the liaison group represents the city’s traditional financing sources – banks that have made good profits on city business when times were good. And we think that in view of such a long-standing relationship they should be willing to see the city through this bad year.” But this was not to be.⁸¹

In late May New York State Governor Hugh Carey proposed a commission along the lines of the Wall Street proposal from the FCLG, and the institutional synthesis between finance and governance were further strengthened. Governor Carey announced a four member “blue

⁷⁹ John McQuiston, “Bankers Offer Loan Plan,” *New York Times*, May 23, 1975; “Tax Exempts Held By Largest Banks From 1950 to 1981,” *The Bond Buyer*, Feb 9, 1982

⁸⁰ John McQuiston, “Bankers Offer Loan Plan,” *New York Times*, May 23, 1975; Testimony of David Rockefeller, in United States Congress Senate Committee on Banking Affairs Housing, and Urban, *New York City Financial Crisis: Hearings before the Committee on Banking, Housing and Urban Affairs, United States Senate, Ninety-Fourth Congress, First Session* (U.S. Govt. Print. Off., 1975) pg 689

⁸¹ John McQuiston, “Bankers Offer Loan Plan,” *New York Times*, May 23, 1975

ribbon” panel to help solve the city’s crisis. That panel, consisting of Richard Shinn, Simon Rifkind, Donald Smiley and Felix Rohatyn, would form the nucleus of what became the MAC, launched just a month later. Soon after the panel was announced the group proposed the formation of an outside, “non-political” group of trustees to head a new government corporation to take over the city’s financing – what would become the Municipal Assistance Corporation.⁸²

Access to the market was now the central question of the crisis, and in May, that gateway was barred by all the major Wall Street banks. Planning documents from the Ford Administration understood that Wall Street satisfaction was the key to the “long term solution” of New York’s crisis. To regain access to the credit markets, White House planners wrote, “the confidence of the financial community can probably only be restored by extensive fiscal reform, a cut back in the current level of services and expenditures, and a long term demonstration of willingness on the part of the City administration to live within the available revenues.” This view was shared by the *New York Times*, that summed up the central question of the crisis, “how can the city restore the confidence of the investors?” And when the EFCB was created in September of 1975, this became the paramount mission of the Control Board. Laying out the purpose of the new organization, Governor Carey told the board that it was important for them to have “full cooperation and unity” in order to “restore investor confidence in New York municipal credit.” Investor confidence, access to the market, these were the central rubrics of the crisis. And as we have been arguing, these are culturally constructed notions of fiscal solvency and responsibility, not economically determined ones.⁸³

⁸² “Chronology of Crisis,” May 21, 1975 and May 29, 1975

⁸³ James Cannon to Gerald Ford, “Memo: Meeting with Governor Hugh Carey and Mayor Abe Beame,” Tuesday, May 13th, 1975, James Connor Files, Ford Presidential Library; “A Sense of the Inevitable,” *New York Times*, July 20, 1975; EFCB meeting minutes, Sept. 18, 1975

Also in May, analysts began to see New York's crisis negatively impacting the overall market, rather than the other way around. New York's inability to meet its debts, and potential default, now possible for the first time, had a chilling impact on other market issuers. Hence the emphasis, from market woes to NYC troubles switched, with the WSJ reporting that "alarm over New York's worsening cash predicament hurt other local government debt issues, which were marked down in price," instead of the other way around. According to investment firm John Nuveen & Co., "events emanating from New York City's financial crisis should immobilize the municipal market until their resolution . . . the very real possibility that cash-flow shortages will be sufficiently severe to cause the nation's largest city and largest tax-exempt creditor to default have had a psychological impact far greater than any interest rate trends or internal technical features."⁸⁴

At almost the exact same moment, the city faced its first near miss with a looming default. New York had no funds to pay bond payments due at the end of May to the tune of \$200 million. Dubbed "default day" the city approached the precipice with the Federal Government, New York State, and the banks all refusing aid of any kind. At the very last minute, the State came in with an additional \$200 million for the city, essentially a forward payment of \$200 million in welfare payments due the next year. The city was saved for the moment, but at the point it was clear that they were screwed. New York faced a whopping \$792 million debt service payment just two weeks later, on June 11. There was no way the city could meet this payment without a miracle, and it was out of this crisis that MAC was forged. Banks wouldn't

⁸⁴ "Bond Markets: New York City Notes Yielding 60% Attract Few Investors, Dealers Say," *Wall Street Journal*, May 16, 1975

budge, the State and Federal Government were not forthcoming with aid. New York City was in a bind.⁸⁵

New York's situation was again compromised by the state of the market. In June, city notes on the resale market were quoted at significant write down, roughly \$910 for every \$1000 bond, interest at "an astronomical 308% on an annual basis." And also in June, the Dow Jones municipal bond yield index was again near the record high, at 7.07%, in a week when offerings from California and Ohio alone were close to totaling \$200 million, on top of an additional \$1 billion of corporate bonds in a single week, contributing to the scheduled \$3.6 billion in corporate offerings for the month, and a near record \$4 billion in May. In the first week of the month, "three huge new taxable issues totaling \$750 million" again flooded the market. At the same time that New York State was paying higher rates on its notes, through a guilt-by-association with the city; "the rate on gilt-edge government notes has remained essentially unchanged or even declined during the same period," wrote the *WSJ*. But the *Journal* mostly meant Treasury notes were stable, for other "non-gilt-edged" municipal notes, according to one market analyst, "fierce competition for borrowed funds will continue right on into the summer, and, with it, the upward pressure on rates." With the market not improving, the Feds denying funds, and the State unable or unwilling to provide more, New York had run out of options.

In this context the financial community continued its' hardline. In a letter that Ellmore Patterson, chairman of the Morgan Guaranty Trust and the Financial Community Liaison Group wrote to Mayor Beame, he reiterated that "the city must reestablish its standing in the financial markets by balancing its fiscal 1976 budget. It also must meet its cash needs during the rest of fiscal 1975, ending June 30." An unnamed vice president of a "major Wall Street investment"

⁸⁵ "Chronology of Crisis," May 29 1975

bank told the *WSJ*, “The stage seems set for the city to resolve its immediate crisis through various forms of assistance, but those sources are understandably predicated on a balance budget and Abe has held steadfastly against doing this in a realistic way, including his refusal to chop welfare payments.” Banks wanted greater austerity, and were bargaining with New York bankruptcy to get what they wanted.⁸⁶

This level of brinkmanship led to a largescale social crisis in the city. On the same day, June 1st, that city unions led actions at banks and disrupted services across the city in protest of the cuts, the Governor announced the plan for the MAC, the Municipal Assistance Corporation. Again the banks argued that city sales tax be redirected straight to debt service as part of the restructuring. Beame baulked, resisting the tax measure, but as the June 11th debt service deadline approached, eventually agreed. Known hence forth after the popular sandwich, the Big MAC would attempt to save the city through market mechanisms. For the upcoming June 11th payment, the Big MAC hoped to float a billion dollar note to begin to restructure the city’s finances. The problem, as was already discussed in the previous chapter, was that the city faced a market failure. Much stronger measures would be needed.⁸⁷

All the while, and now the target of protests, banks were trying to avoid responsibility for the city’s plight. For example, in May of 1975 Edward O’Brien, president of the Securities Industry Association, claimed that “it is not the underwriter’s fault that the city is perceived as a bad credit risk,” because the banks “had absolutely nothing to do with the city’s loss of financial creditability.” His take away – “banks don’t determine interest rates, markets do.” In this he was correct, but the relationship between banks and market, much like city and market, was not

⁸⁶ Phil Hawkins, “June Sales Calendar Rises \$750 Million; New York State Note Rate Jumps a Point,” *Wall Street Journal*, May 29, 1975; “Bond Markets: State’s Ability to Raise Funds to Rescue New York City Is Subject to Rising Doubts” *Wall Street Journal*, Jun. 2, 1975

⁸⁷ “Chronology of Crisis,”

clearly delineated. President of First National City Bank, William Spencer, explained to bank employees that the bank had been more than generous with the city. Indeed, First National City had lost \$32,000 on underwriting city notes in 1973 and 1974, and that its account management fees for the city were far under industry standards; it managed the city's \$3.4 billion bond portfolio for a \$109,000, for example. In this, the banks were right, this was not a conspiracy, the market was driving these changes, in all its complex cultural, private, and state institutional dimensions.⁸⁸

While banks tried to blame “market forces” for the decline, it's difficult to parse out the factors constituting ‘bank’ and ‘state’ from those of the ‘market.’ Overall the central clearinghouse banks still held a significant amount of city paper. An internal Federal Reserve report provided to the EFCB at the end of 1975 found that in June of that year the banks still had \$1.695 billion in city obligations. In New York state 52 banks had total New York related holdings, including city, state and agency paper, amounting to between twenty and fifty percent of their total capital, and fully 41 banks had New York holdings at over fifty percent. Nationwide those figures were 367 and 179 banks. Furthermore, New York City offerings on the muni market, were the market. New York was by far and away the largest issuer of tax-exempt notes. In total in mid-1975 the aggregate involvement of commercial banks in the tax exempt market was roughly \$102 billion, making up half the of outstanding state and local debt, and roughly 15% “of all the loans and investments of the banking system.”⁸⁹

⁸⁸ John Allan, “Banks’ Own Crisis,” *New York Times*, May 23, 1975; “New York City Faces A \$92.5 Million Deficit Friday: Plans Formed,” *Wall Street Journal*, Jun. 3, 1975

⁸⁹ Arthur Burns to Benjamin Rosenthal, November 12, 1975. EFCB archive. A subsequent July letter revised those figures upwards, to 90 and 72 banks in New York, and a whopping 718 and 236 in the rest of the nation. Testimony of George Mitchell, in United States Congress Senate Committee on Banking Affairs Housing, and Urban, *New York City Financial Crisis: Hearings before the Committee on Banking, Housing and Urban Affairs, United States Senate, Ninety-Fourth Congress, First Session* (U.S. Govt. Print. Off., 1975) pg 607

Furthermore, according to the state constitution, bond holders get priority, so “if there isn’t enough cash in the city’s treasury to pay bondholders and policemen, the first revenues into coffers go to bondholders.” Meanwhile, Hank Benson, a small holder of \$7000 of city bonds, told the *Wall Street Journal*, that “with sufficient guarantees of payment, I’d be willing to forgo a first lien so the city won’t lose vital services . . . I’m not being charitable. Police and fire protection to me are important.” It was for these reasons that state action through the MAC and the EFCB was pursued by the banks. They were at risk and did not want to lose their investments. With bankruptcy, unknown outcomes were likely.⁹⁰

The market refusal to fund the city was the primary source of the crisis, acknowledged even by high level austerity planners. As Felix Rohatyn told Congress, “We could lay off 50,000 people tomorrow, put the transit fare at \$2, hand the mayor of the city of New York and we couldn’t make it.” Rohatyn was asking for funds from the federal government. The market was failing New York, and New York’s failure further drove down the market. Even though market analysts and specialists were speaking to New York’s essential solvency through December of 1974, and even June of 1975, the market was failing, and banks, the federal government, and others were unwilling to take the necessary action to protect New York from the wolf.⁹¹

⁹⁰ Byron Klapper, “New York City Faces \$21.2 Million Deficit Friday as Fiscal Maneuvering Continues,” *Wall Street Journal*, May 27, 1975

⁹¹ Testimony of Governor Hugh Carey, United States Congress Senate Committee on Banking Affairs Housing, and Urban, *New York City Financial Crisis: Hearings before the Committee on Banking, Housing and Urban Affairs, United States Senate, Ninety-Fourth Congress, First Session* (U.S. Govt. Print. Off., 1975)

* * *

3.5 Rose of another Name: Failure of the Big MAC

June 1975 was a definitive turning point for the city. On June 11 the city had \$792 million in note issues due. Their total revenue and expenses for the month was \$1.359 billion, and \$2.355 billion, respectively. A billion dollar difference for the month. With banks refusing the May note offerings of \$250 million, June was set up to drive the city into fiscal despondency. This is the turn from traditional austerity to super austerity. No aid coming from the state, the feds, nor the banks meant that the only solution was to cut – or file for bankruptcy. The cuts, coming from the priorities of the banks were two fold, the productivity of unions and city workers, a type of class disciplining, and the broad city social wage of hospitals, higher education, and the like. The Big MAC was intended to save the city through offering new sets of bonds guaranteed by the state, but this was insufficient as well. In order to sell the bonds, MAC officials found they needed to enforce draconian cuts, for which they had no power. The central question of the crisis at this point became social power. Beame was unwilling to shatter his political networks and impose super austerity above and beyond the cuts he was already making, and the Big MAC was unable to do so. With the MAC erected in June, it was failing in August. By September emergency powers were necessary to break the social coalitions of Keynesian post-war politics and impose austerity to the satisfaction of the financial sector.⁹²

⁹² This option was continually refused by state planners, each for their own reasons. The primary reason was that a city receivership in the hands of a judge would likely mean that bondholders would have to take a haircut, as would unions, pensioners, and other city contractual relationships and stake holders. Special counsel to city, Ira Millstein, spelled this out in congressional testimony. Even under the EFA “bondholders would lose their first priority under the emergency control law. Title 6(a) provides that the priorities change, and the first priority goes to maintaining essential and necessary city services. So, in the event of a default, under current State law, that would be the situation, and the same would be turn under Federal law.” Testimony of Mayor Abraham Beame, in United States Congress House Committee on Banking Stabilization Currency and Housing Subcommittee on Economic, *Debt Financing Problems of State and Local Government: The New York City Case : Hearings Before the Subcommittee on Economic Stabilization of the Committee on Banking, Currency and Housing, House of Representatives, Ninety-Fourth Congress, First Session* (U.S. Government Printing Office, 1975). I think the reason

New York entered a failed market, but that didn't stop dealers and brokers, bondsmen and bankers from attempted market solutions to the failures. There were a number of attempted market based solutions to the fiscal crisis, the largest the creation of the state backed Municipal Assistance Corporation (MAC), nicknamed after the popular sandwich, the Big MAC, all of them failed. The Big MAC was based on the model of the Reconstruction Finance Corporation, according to its chief architect, Felix Rohatyn. Its main idea was to have a separate entity, in this case a corporation backed by the state, float bond issues that would judiciously be given to the city. The flaw here of course was that the problem was not the city, but the market, so after some initial success, MAC issues into the billions of dollars also started to fail. Within three months of the creation of the Big MAC New York was largely where it had started, crashing on the shoals of market failure.⁹³

Given the new post-'60s orientation of the Street, it's not surprising that their response to this tremendous market failure, was more market solutions. One method was insurance. Excluded from the market, or gouged with rates determined by the level of inflation, and not the fiscal solvency or risk of the cities themselves, municipalities began insuring their offerings. In 1974, municipals bonds were a record \$22 billion, with over 4,000 localities using the market to fund short and long term projects. An association of Aetna Life, St Paul, and Connecticut General insurance agencies all backed municipals through the Municipal Bond Insurance

bankruptcy was never an option was that it would have prevented the "super austerity" agenda from gaining ascendancy. At the October 24th, 1975 meeting of the EFCB Governor Carey said as much. He told the board that bankruptcy was not favorable because "the probable effect of such a course of action on the access of public entities to the capital market would undermine the ability of the City's financial plan and the austerity scheme of the Emergency Financial Control Act to succeed." Again at the November 4, EFCB meeting Carey vetoed bankruptcy as a possibility, saying "bankruptcy for the city was not a workable solution and that [Carey] could not lend support to any plan that contemplated bankruptcy as its goal." Mayor Beame agreed that bankruptcy should be avoided. John Darnton, "Three Fiscal Gambits for Beame," *New York Times*, May 24, 1975

⁹³ Address of Felix Rohatyn, Chairman of the Municipal Assistance Corporation, Delivered to a Conference on a National Policy for Urban America, Sponsored by The City College of New York, May 21, 1976, Bigel Collection

Association. Their insurance, in the words of one executive, was, “the guaranty protects whoever buys it from a marketing risk, rather than a credit risk.” Underwriters, rather than issuers, more often paid the premiums, in an attempt to make sales, especially the more obscure ones, more attractive to buyers.⁹⁴

Another contemplated market fix was the use of “floating notes,” bonds with interest rates tied to the changing rates of Treasury bills, “intended to minimize price declines and to assure reasonable returns during periods of inflation.” But overall, floating notes didn’t do much to correct the market. A futures market was discussed, but not implemented. And at this time municipal bonds were not regulated by the federal government.⁹⁵

The most significant attempt at a market fix for New York, was the creation of the Municipal Assistance Corporation. Felix Rohatyn places the creation of the MAC at a Memorial Day weekend get together at the Greenwich, Connecticut mansion of Richard Shinn, Met Life executive, with Wriston, Patterson, Sanford, McGillicuddy, David Rockefeller all present. It was created in June, its job, was to “issue about \$3 billion of bonds to help New York City retire notes that ordinarily would have been rolled over by fresh borrowing in the credit market. But lenders have snubbed the city’s loan requests while it struggles through massive budget problems.” In essence, the MAC was to act as a fresh, reputable borrower, to sell its own notes in order to purchase those of NYC.⁹⁶

The real power of the Big MAC came from guaranteed sales-tax revenue devolved to the agency: “city officials agreed to give up control over the city’s 4% sales tax, one of its principal

⁹⁴ Peter B. Roche, “Use of Municipal-Bond Insurance Gains Among Localities Seeking Sell Debt,” *Wall Street Journal*, Jan. 13, 1975

⁹⁵ Phil Hawkins, “Floating Notes’ Appeal Ebbs as Spurt Is Posted By Conventional Issues,” *Wall Street Journal*, Feb. 10, 1975

⁹⁶ Rohatyn, *Dealings*, 129; and “New York City, State Step Up Bid to Create Agency to Fund Notes,” *Wall Street Journal*, Jun. 6, 1975

revenue sources. Under demands from the financial community, that tax-levying power was suspended, and turned over to the state for use by Municipal Assistance Corp.'s debt-service fund . . . The demand was made to strengthen the backing for the agency's bonds. Under an earlier version, the city council could have lowered the sales tax." This mechanism gave bond holders a direct tap on NYC revenue, in an attempt to shore up confidence in NYC notes.

The Big MAC's purpose was to restructure municipal debt. It would sell long term debt obligations as MAC bonds, and loan the money to the city to pay off their short-term, rapidly maturing debt payments. Mayor Beame recalled that in a June 1975 meeting with MAC board members he "was told that it was there estimation that MAC would get the city back into the market in 90 days – by about October" if the city "took further draconian measures." These measures included, and agreed to in July of 1975, a wage and hiring freeze, increasing city productivity, transit fare increases, ending free tuition, as well as better accounting, shifting costs from capital expense budgets, having the state cover more expanses, and calling for the federal government to insure municipal notes. Regard, a program very similar to what the EFCB eventually implemented, over tremendous opposition.⁹⁷

Soon, austerity was part of the official position of the MAC. The Municipal Assistance Corporation Program from July 31, 1975 announced the MAC's "strong support" for the "fiscal austerity program announced by the Mayor," and that "what is required is a fundamental rethinking of the level and quality of services this city provides its citizens." Indeed, the July 1975 public document issued by MAC directors is stunning in its scope for restructuring New York governance. Besides stating the MAC "strongly supports the fiscal austerity program," it noted that "dramatic changes must be made in the way the city conducts its business." In

⁹⁷ Abraham Beame, "The Myth That MAC Saved The City," unpublished document, 1985, Bigel Collection

particular, “the quality and level of City services must be made within a context of fiscal responsibility.” This means cuts, and cuts are “useless if simply restored in next year’s budget.” Therefore cuts need to “be accompanied by a long term rigorous program which reduces the scope and breadth of city government.” Because all this is pressing, the MAC directors found “an urgent need to alter the traditional view of what city government can and should do. What is required,” they wrote, “is a fundamental rethinking of the level and quality of services this city provides its citizens.” Note, this is call much beyond simple fiscal responsibility, but a careful attention to social attitudes and a dramatic rethinking of governance.⁹⁸

To this end, the MAC directors saw labor as a major obstacle. In their July statement they urged “City employees should not confront continuing threats of massive layoffs.” While warning against opposition, they also wanted city workers to work harder, to protect services amidst cuts: “it is indispensable that productivity be increased,” they wrote. Labor wasn’t enough, they also called for a curtailment of local taxes as “unduly burdensome.”⁹⁹

Indeed, throughout the crisis, at least since November of 1974, New York had been announcing and making job cuts in attempts to balance the budget and gain market reentry. Yet at the end of June 1975 it became clear that only a fraction of the job cuts were implemented. Only 5,050 of the estimated 24,735 cuts had happened at that point. So on June 30th layoff notices went to 19,000 city workers. The next day, on July 1st, wildcat actions paralyzed the city. Garbage workers walked out, policemen flooded the Brooklyn Bridge at rush hour blocking traffic, firemen called a sick out. When bridge operators threw up their bridges and walked off the job, only negotiations between the city and the Coast Guard brought in operators to keep the bridges operating. A week later, guards at Riker’s Island halted traffic to protest cuts and

⁹⁸ Municipal Assistance Corporation Program, July 31, 1975, Bigel Archives

⁹⁹ Ibid

proposed a rehiring scheme. Only on July 3rd, with the state legislature promising an additional \$330 million funding package to mitigate some of the cuts, did the wildcats end and city employees went back to work. These changes brought the total cuts down from 51,000 to just 31,000 for the year, akin to Beame's austerity budget proposed earlier that April.¹⁰⁰

But in the first months' of the Big MAC these cuts didn't happen; MAC did not have the legal authority to impose these changes. It was hoped by the MAC's creators that by controlling the funding spigot to the city, the MAC could wield influence that would curtail city spending to the degree demanded by "the markets." But MAC had no official power to do so. Instead, the MAC was tasked with raising money on the markets, and hoped that New York would bend to meet the desires emanating from the Street. The first billion dollar issue of the MAC, with rates as high as 9%, drew the "zeal of the financial community. Over three-hundred and fifty banks and financial institutions lined up to buy the tax exempt bonds. Of the fresh \$1 billion of bonds, 'more than half,' will be taken by the 'New York financial community . . . The New York financial community is enthusiastic about MAC, and we're optimistic of its success,'" said Ellmore Patterson of Morgan, etc. According to the *Journal*, Patterson "said that more than \$500 million would be put into the portfolios of commercial and savings banks, insurance companies and other institutions and wouldn't be traded."¹⁰¹

MAC's first offering, \$1 billion, was a record single offering for the bond market in June 1975, "more than double the amount in any previous tax exempt sale." Unfortunately, the MAC offering was the same week as a \$450 million Massachusetts sale, itself approaching the previous record. According to bond firm John Nuveen & Co., "the size of the two issues is

¹⁰⁰ "Chronology of Crisis," June 26 1975

¹⁰¹ "New York Agency Slates \$1 Billion Offer Next Week, a Record, to Retire City Notes," *Wall Street Journal*, Jun. 26, 1975

expected to severely strain market stability.” The offering was so large and complicated that the new computer system for dealing with back end securities sales by underwriter Morgan Guaranty Trust Co. crashed, forcing the bank to process the sale by hand.¹⁰²

Despite the claims from boosters like Patterson, while the first billion of MAC notes sold, selling them was difficult. The *WSJ* reported “investors’ rather grudging acceptance” of the notes, and some brokers felt strong-armed into the deal. Within a month the resale on MAC bonds was running a roughly a 10% discount, indicating a plummeting market for city and MAC bonds. Bond trader Roland Radford told the *WSJ* that “the only way to make these bonds salable is to force New York City to balance its budget.” Rohatyn himself said “our ability to sell Big MAC bonds depends in large degree on the kind of (costcutting) program New York City adopts.” Another broker said “there’s nothing they can do to make me join” the next offering. And there was fear MAC failures could taint the rest of the market; “there’s no question that Big MAC’s difficulties pose a threat to the stock market that could result in more than a minimal correction,” said Jules Augus, research director of Moore & Schley, Cameron & Co in July of 1975 after the first sale.¹⁰³

In the months before the Big MAC’s second sale, it was becoming clear that the continuing price decline for MAC notes indicated the agency “faces extreme difficulty in its plans to sell an additional \$2 billion of bonds.” Desperate to keep its obligations to city cash flow requirements, in July of 1975 MAC “all but drops plan to sell \$1 billion of bonds,” and instead

¹⁰² “Bond Markets: Two Record Offerings Of Tax-Exempts Seen Dragging Prices Lower,” *Wall Street Journal*, Jun. 9, 1975; Lindley B. Richert, “Bond Markets: Few Bargains Are Seen Among Taxable Issues,” *Wall Street Journal*, Jul. 7, 1975

¹⁰³ Peter B. Roche, “Bond Markets: Municipal Assistance Corp. Issue’s Pace Raises Doubts on Fate of Next \$2 Billion,” *Wall Street Journal*, Jul. 2, 1975; “New York City Plans Transit Fare Boosts As Cash Woes Grow,” *Wall Street Journal*, Jul. 28, 1975; “New York City’s Finance Picture Worsens As Rescue Agency’s Credit Prospects Dim,” *Wall Street Journal*, Jul. 22, 1975; Victor J Hillery, “Market Backtracks on Wide Front After an Attempt to Rally Fades,” *Wall Street Journal*, Jul. 22, 1975

arranged for a complicated bond swap, in which maturing city notes would be exchanged for new MAC issues. Calling the exchange a “pragmatic solution” Chase Bank VP, Thomas Labrecque, told the *WSJ* that “it’s difficult to see any environment developing by Aug. 7 for another \$1 billion of MAC bonds.” The problem with such a plan, was that if enough bondholders demanded cash, and MAC could not provide, the city would start defaulting. The exchange idea was dropped.¹⁰⁴

Others noticed that MAC seemed to faltering too. In July, William Simon wrote to President Ford that he did not expect the upcoming MAC sales to succeed. His expectation was that the limited austerity reforms then achieved by the city, while significant and “encouraging,” would not be enough to “restore public confidence quickly enough to allow MAC to sell its bonds immediately.” This would mean ongoing crisis and reliance, or at least pressure, on the federal treasury to provide assistance. Simon opined that “something more” would have to be done to win back access to the credit markets. “One possibility,” he wrote “might be to place decision-making authority in the hands of MAC’s Board and not the Mayor.” This was a power the austerity regime did not yet have, but was given to the EFCB in September of 1975.¹⁰⁵

In July, Beame began discussions with Democratic lawmakers in Albany to provide emergency powers in New York City “to suspend the wage-increase provisions of existing contracts with municipal employe [sic] unions.” The measure would save the city an estimated \$310 million, and again, had a long pedigree in the history of US class struggle. In New York, in 1932 as part of the city’s banker’s agreement, the state legislature passed the O’Brien Emergency

¹⁰⁴ Peter B. Roche, “The Bond Markets: Municipal Assistance Issue Stabilizes; Effect of Price Drop is Wide,” *Wall Street Journal*, Jul. 23, 1975; Byron Klapper, “MAC All but Drops Plan to Sell \$1 Billion of Bonds; to Seek Swap for Notes Instead,” *Wall Street Journal*, Jul. 24, 1975

¹⁰⁵ William Simon to Gerald Ford, Memorandum for the President, July 25, 1975, James Conner Files, Ford Presidential Library

Act which the city used to “cut the salaries of municipal workers by up to 14 percent.” That power was confirmed by the Supreme Court in 1939 when it upheld provisions of a federal mortgage law preventing bank foreclosures on the grounds that economic and financial emergency situations could override contractual rights. Referencing the 1932 law, a top state Democrat in conversation with Beame told the *Times*, “It was the perfect solution then and it’s the perfect solution today.” Beame was cutting to the meet the requirements of the banks, and seeking extraordinary powers to do so. But even this was to prove insufficient.¹⁰⁶

As the second billion dollar MAC issue approached, it became clear that the market would not support another MAC sale. According to the *Times*, “the Municipal Assistance Corporation had been told by its underwriting banks that they were not going to be able to sell the next \$1 billion bond issue because of continuing investor distrust of the city’s fiscal position.” As the MAC was “heading toward failure to sell its own bonds,” Beame at that point publically discussed “imposing a freeze on municipal wage increases as a step toward restoring the confidence of investors.” The freeze would impact obligations from previous labor contracts for July 1st of 1975, and were considered even though, “it was not clear whether Mr. Beame had the authority to impose a freeze . . . Nor . . . how much money could be gained from it.” Indeed he did not have that power outside of extraordinary circumstances, like a bankruptcy, or with other emergency powers.¹⁰⁷

The idea of the wage freeze initially came from Felix Rohatyn, first floated months earlier, but as his MAC project floundered, pushed it again with greater urgency. In July Beame met with MAC corporation board members and was informed that “some sort of ‘drastic action’ was needed to create confidence in both the city and the corporation.” In addition to MAC

¹⁰⁶ Linda Greenhouse, “Bill to Let City Halt Pay Raises Weighed,” *New York Times*, Jul 8, 1975

¹⁰⁷ Steven Waisman, “Beame Weighing A City Pay Freeze,” *New York Times*, Jul 17, 1975

officials like Thomas Flynn, chairman; Donna Shalala the treasurer and vice chair George Gould, the meeting was attended by David Rockefeller of Chase, William Spencer of First National City Bank and Ellmore Patterson chairman of Morgan Guaranty Trust. According to the *Times*, corporation directors were also pressuring Carey to “personally demand or even force Mayor Beame to take the drastic measures” – the wage cut. MAC officials “attributed the investors’ attitudes to confusions over the city’s layoffs and rehiring actions and to hostility in general toward city fiscal practices.” Indeed, even the first sale, ostensibly a success, still had \$50 million in unsold notes.¹⁰⁸

As unnamed corporation sources told the *Times* that the “Big MAC has to push the City to take much bigger steps,” a new “hawk” position was emerging amongst those tasked with restructuring the city’s finances. The core of the hawk group was made up by Rohatyn, William Ellinghaus of NY Telephone and attorney John Coleman. While Beame estimated that a freeze would only save the city \$240 million of its billion dollar deficit, and Rohatyn reportedly told the Mayor directly that there was “less than a 50-50 chance” that they city could do anything at all to reenter the market, the hawks argued that “even if such a freeze did not save huge sums of money, it would symbolize the city’s efforts to keep its budget down,” and would have a “psychological effect.” MAC’s bullishness extended beyond a wage freeze, calling for increasing the city’s transit fare, implementing tuition at CUNY, and additional layoffs for city employees. And again, the specifics of the cuts contemplated were not fiscal measures, but symbolic, urged for their “psychological effect” on market makers.¹⁰⁹

¹⁰⁸ Ibid

¹⁰⁹ Ibid; Ronald Smothers, “City Will Dismiss 1,424 In Sanitation Force,” *New York Times*, July 18, 1975 and John Darnton, “M.A.C. Urges Dramatic Cuts on City to Reopen Bond Market,” *New York Times*, July 18, 1975

The pull to the right and austerity hawkishness came from the press too. The *New York Times* began editorials in July of 1975 that attacked unions after the wildcats and worker actions at the onset of that month. In an editorial called “Union-Ruled City,” the entire editorial board wrote that “New York is working for its unionized civil service workers, not vice versa. The real power in the city is held by the municipal unions.” Calling the strikes of earlier in the month “a wretched charade” and “illegal” they urged Mayor Beame to take punitive action as the strikers were “as yet unpunished, although the penalties prescribed by statute allow no forgiveness.” The *Times* editorial demonstrated the unraveling of the Keynesian consensus when they wrote that the rationale “that strong, secure unions would bring cooperation for a more efficient civil service,” instead brought “a precipitous increase in personnel and payroll and a steady shrinkage in standards of performance.” To reverse these trends, the *Times* wanted the city to make “increased productivity the paramount day-to-day responsibility of every commissioner, every division head, every supervisor.” In an austerity dream-world they wrote, “Thousands of employes [sic] can be dropped with no reduction in services to the public if everyone is required to do an honest day’s work,” and that “attrition will take care of the shakeout of personnel without individual and community hardship of the kind made inescapable by the Mayor’s calculated resort to the meat-ax.” Targeting the teachers, then in negotiation with the city for a new contract, the *Times* argued that “New York cannot withstand another capitulation to union muscle.” Here was a new vision of municipal politics, one in which unions and workers faced the chopping block.¹¹⁰

By this point Beame was saying he would do “whatever is necessary” to open the bond markets. However, he argued with the bankers at a July 17th meeting at the law firm of Paul,

¹¹⁰ “Union-Ruled City,” *New York Times*, Jul. 8, 1975

Weiss, Rifkind, Wharton & Garrison, that trimming wages through a freeze would require additional powers from the state legislature and that to do so successfully may provoke a general strike, not an unreasonable expectation given the explosion of rank and file militancy as cuts were implemented at the beginning of July. “Nonetheless,” the *Times* reported, “the Mayor did not appear opposed to the idea and even raised it himself. He also suggested as possibilities additional cuts in city services and across-the-board cutbacks in personnel.” Indeed, Thomas Flynn, then chair of MAC, thought the meeting significant, noticing a “new approach” coming from the Mayor and city officials. Corporation officials and investors said it was necessary for the city to change “its life style.” The *New York Times* called the week’s events a “turning point.” When city unions publicly expressed opposition to the changes, MAC directly asked the unions informally for a voluntary pay freeze.¹¹¹

The hawks won another victory later in July when Thomas Flynn was removed as chairman of the MAC by Governor Carey, which, in the words of the *Times*, was “an attempt to bring the strongest possible pressure on the city.” Flynn was replaced by William Ellinghaus, president of New York Telephone, who “advocated a get-tough policy when the city resisted taking draconian measures.” Ellinghaus, a hawk, was expected to “be more aggressive in getting the city to reduce its payrolls, freeze wages, impose wage cuts and take whatever steps are needed to attract customers for agency bonds.” For those holding out against austerity, the tide was turning not to their favor.¹¹²

¹¹¹ Ronald Smothers, “City Will Dismiss 1,424 In Sanitation Force,” *New York Times*, July 18, 1975; John Darnton, “M.A.C. Urges Dramatic Cuts on City to Reopen Bond Market,” *New York Times*, July 18, 1975; Steven Weisman, “M.A.C. Ask City Unions For Voluntary Pay Freeze,” *New York Times*, Jul 20, 1975; “Big Mac Takes Charge,” *New York Times*, July 18, 1975; “Chronology of Crisis,” July 19, 1975

¹¹² Frank Prial, “Cary to Remove M.A.C. Chairman to Toughen Unit,” *New York Times*, Jul 20, 1975

The hawk position was only strengthened by the failing market, as the MAC failed because it was trying market solutions in a failed market, this benefited those pushing austerity. As the *Times* reported, “hopes for a rescue by the corporation dissolved last week when its directors met with investor resistance, and even outright hostility, as they tried to market the second issue.” And it was at this point that MAC became more bullish with the city, demanding, among other things, “a wage freeze of upper-income city employees [sic], eliminating the 6 per cent increase due July 1 . . . a 10 per cent cut in the work force of 275,000 . . . a 10 percent cut in salaries of remaining workers . . . elimination of city payments to subsidize free tuition at City University . . . and a transit-fare increase.” All of which Beame came to support and promote as his own proposals a few months later through the EFCB.¹¹³

The question before the MAC was whether such drastic measures could be taken without additional state powers. A unilateral cut looked less likely after Corporation Counsel, Bernard Richland “concluded that the Mayor does not have the right to impose a freeze and cuts salaries, but that such action can be voted by the State Legislature.” The mayor had already taken unilateral action, entering a closed union contract and cancelling summer hours for city workers, but he had cited emergency powers to do so.¹¹⁴

This view that MAC lacked austerity powers was shared by internal White House planning documents that discussed the failure of Big MAC. In August of 1975 Treasury Under Secretary Edwin Yeo, in an “eyes only” memo for the President reported that “MAC has not done the job it was intended to do. It was conceived as a vehicle for injecting good management into City affairs and for providing interim financing until MAC’s favorable impact on the City’s management became apparent to investors and thus responded the bond market for the City

¹¹³ Steven Weisman, “M.A.C. Ask City Unions For Voluntary Pay Freeze,” *New York Times*, Jul 20, 1975

¹¹⁴ Fred Ferretti, “Beame and MAC Agree On 3 Moves To Avert A Crisis,” *New York Times*, Jul 21, 1975

itself.” Instead, it found itself “an impotent and divided group” that couldn’t deal with growing deficits. That was because, according to the memo, MAC had “limited powers,” to impact funding decisions in city government. This inability to materially narrow the budget gap, meant that MAC’s main goal, gaining access to the credit market by reforming city budgets to the pleasing of the market, could not be achieved.¹¹⁵

By the end of July, little had moved on either side. Bankers and austerity hawks were demanding drastic reductions, far beyond the cuts the Mayor had already made as fiscally reasonable. Beame, realizing his only hope was to regain access to the market, was doing everything he could to get back in, including acceding to the demands of the banks, then being pushed by MAC which became the political agent of the interests of Wall Street. On the other side, unions were resisting the unprecedented cuts, rollbacks and disciplinary measures being imposed on them as fiscally necessary. While some unions, in particular those allied with Victor Gotbaum of DC37 were willing to consider cuts, the total package of labor discipline, including layoffs, wage freeze, wage reductions etc., were too much. While MAC, the banks and Beame sought a voluntary roll back measure from the unions, they had no power to enact or enforce one. Labor contracts were well established. It would take special powers to achieve additional labor measures.

Here the impasse stood through the end of July. State Attorney General Louis Lefkowitz brought an opinion that the city had “ample authority” to impose a wage freeze on its own. That authority, however only came through the emergency powers of the city council. Lefkowitz wrote that the council could “constitutionally enact, as an emergency measure, a local law imposing a wage freeze.” Lefkowitz’s memo piggy backed on an opinion from MAC corporation

¹¹⁵ Edwin Yeo to President Ford, “Report on New York City,” Memorandum For the President, August 18, 1975, Presidential Handwriting Files, Ford Presidential Library.

council Paul, Weiss, Rifkind Wharton and Garrison that the city and the mayor could freeze wages “if the emergency is severe enough.” In such circumstances, the firm found, “there are arguments beyond the legal.”¹¹⁶

Here unions started to cave. After the Lefkowitz announcement, the city council gave the Mayor emergency powers to implement a wage freeze. At this point some unions, representing about 175,000 of the city’s workforce, agreed to a wage freeze from Mayor Beame’s proposal. Soon after, on August 11th, Beame signs into a law the city council bill giving him emergency powers to target those unions, specifically the teachers, firemen and policemen, who refused a voluntary freeze. In the days before Beame was set to enforce this measure, the firefighters agreed to a contract with the city that included a voluntary wage freeze.¹¹⁷

With the freeze, as with much of the austerity agenda, the question of power was as much the issue as actual cost savings. Here’s how the *New York Times* characterized the city’s attitudes toward labor contracts: “First Deputy Mayor James A Cavanagh said at that time that what was important in those negotiations was not the money saving arrangements that were worked out – although several hundred jobs in the uniformed services were saved. What he stressed was that the ‘precedent’ of the city’s re-entering an existing labor contract and talking back fringes and hours that have been agreed upon at previous contract signings.” Some jobs were saved, many more were cut, but important for Cavanagh and those close to the mayor was that they demonstrated the power to win concessions from the unions.¹¹⁸

At the end of July Beame announced a massive austerity budget, one that imposed a wage freeze for all city workers on September 1 and for managerial workers back to July 1, 1973, cuts

¹¹⁶ Fred Ferretti, “Lefkowitz Finds City Has Power to Freeze Wages,” *New York Times*, Jul 29, 1975

¹¹⁷ “Chronology of Crisis”

¹¹⁸ Damon Stetson, “Gotbaum Says He Prefers Job Cuts to Erosion,” *New York Times*, May 23, 1975

to the CUNY budget amounting to \$32 million in part to force them to impose tuition, capital budget cuts of \$375 million to impact schools, libraries and parks, and fare increases on subways and busses. A tearful Beame told the press, “there is nothing I have done in public life that has been more bitter than recommending these slashing economies that affect each and every one of us,” but that the cuts were necessary to “overcome a crisis of confidence in our fiscal integrity.”¹¹⁹

The MAC however, was not satisfied, pushing for additional cuts and reforms including a three year plan that put a ceiling on city expenditures as well as limiting tax increases as a potential solution to the crisis. The MAC also wanted an independent budget oversight apparatus to work on budget management and worker productivity, and an additional 10 percent wage reduction for all officials in addition to the cuts proposed by Beame.¹²⁰

To prevent the possibility of an outside oversight agency, Beame set up a complete overhaul of city finances to be managed by Richard Shinn. Beame also agreed to “stringent ceilings” on future spending to demonstrate that the city would accommodate elements of the MAC’s three year plan. Beame appointed other austerity hawks like William Ellinghaus to the committee to help demonstrate his seriousness and keep the ball in his court. The division here represented a tight contest over governing power between the city and MAC. At the same time, MAC, gaining political ascendancy and getting traction on their proposed reforms, was moving ahead with the second of three billion dollar bond issues for the city. Hopeful that they could achieve the August sale, MAC officials continued to pressure the city on reforms.¹²¹

¹¹⁹ Chronology of Crisis

¹²⁰ Chronology of Crisis

¹²¹ Chronology and John Darnton, “MAC Head Joins Advisory Board,” *New York Times*, Aug. 15, 1975

On the eve of the sale, however the MAC issue began to fall apart. Only \$250 million of the billion dollar sale was sold to the market, and half of that was already secured, so in truth roughly \$100 million was truly put to market. The rest of the funds came from state and governmental sources, with a last minute save coming from the state pension investment plan which agreed to purchase city bonds to ensure a successful MAC note issue. Once the notes came to market, they were reported to sell “kind of slowly.” A week into the sale almost half of the notes had not been purchased, and MAC deferred the notes, postponing the remaining sale until more investors could be brought together on fears that the whole package would come apart. Once the notes came back to market in a second attempt, underwriters upped the rates for the remaining bonds to between 10 and 11 percent, “unprecedented levels for tax-exempt securities.” As the August deal came apart, city financing needs for September were projected to top \$885 million. Given the difficulty of the last sale, the September sale was looking impossible. One MAC official, faced with the ongoing pressure and stress of failed packages and last minute solutions told the *Times*, “I don’t know how much longer I can take this. I’m beginning to feel like Sisyphus. I wake up in the middle of the night wondering what we’re going to have to do next.”¹²²

One possibility was that the underwriters purchase the entire issue, but was ruled out. Investors told the *Times* that “the underwriters have the capital to take the shortfall right now, the question is whether they are willing to do so.” Banks, for their part, agreed to a loan package in August, but one that would only come to fruition in October, after the September offering. Banks agreed to rollover all city notes coming due between October and June, and to cap interest rates for city bonds at 7.5 per cent. Finally, as the August sale was going down in flames, banks

¹²² Steven Weismann, “MAC defers End of its Bond Sale to Win Customers,” *New York Times*, Aug. 14, 1975 and Steven Weismann, “Interest Rates On MAC Bonds Set At New High,” *New York Times*, Aug. 15, 1975

and underwriters agreed to purchase the remainder of the notes after all other options had failed. MAC officials also began to urge the federal government for relief, asking for a federal takeover of city welfare costs.¹²³

As banks denied leniency for the city, one banker explained the rationale: “People do not put up capital for social reasons. They do it as an investment. They make one decision in lieu of another. And if they feel their interests are not going to be protected by elected officials, they won’t put their money there. It’s extremely rational.” And another added, “nobody will invest in New York because nobody believes anything coming out of City Hall. Mayor Beame’s layoffs have become like the body counts in Vietnam.” Just numbers manufactured to make the war-makers look good. Although as we will see, the war metaphor was apt in more ways than one.¹²⁴

Meanwhile, the city was proving unsuccessful in making jobs cuts. City cuts had already been significant. By August 1st, roughly 13,000 city workers had been fired. But because of the city’s “authority” system, the series of city functions that operated as quasi-independent municipal agencies, tens of thousands of workers were beyond the reach of the mayor to discharge. While the mayor was forcing budget cuts on the Board of Education, the Board of Higher Education, and the Health and Hospitals Corporation, there was no ensuring that the agencies would fire workers, rather than implement the cost savings in other ways. The hawks hoped for 16,000 personnel reductions in these agencies alone.¹²⁵

There were other problems emerging with the wage reductions and labor disciplines. While the wage freeze would limit costs mostly by blocking a planned 6 per cent pay increase, it would not meet the zero growth budget that the MAC desired because workers had other

¹²³ Chronology and Steven Weismann, “MAC defers End of its Bond Sale to Win Customers,” *New York Times*, Aug. 14, 1975 and Steven Weismann, “Interest Rates On MAC Bonds Set At New High,” *New York Times*, Aug. 15, 1975

¹²⁴ John Darnton, “Beame Seeks a Tight Belt Image,” *New York Times*, Jul. 21, 1975

¹²⁵ Glen Fowler, “More City Layoffs Loom in Drive Against Spending,” *New York Times*, Aug 14, 1975

escalators worked into their contracts. Workers still had pay increases due to seniority, new skills, experience or cost of living increases. Austerity hawks were concerned with these planned increases, even though these were paltry 6 percent increases in years with double-digit inflation.¹²⁶

In August, two union pension funds, the New York City Employees Retirement System and the New York City Teachers Retirement System, stepped up and promised to purchase \$125 million of the second billion dollar sale. With promised bank rollovers and purchases of MAC issues, the fund was still roughly \$175 million short. With at least some funding secured, MAC broke the second sale into digestible parts. In August it issued \$275 million in bonds, and word of the sale further dropped the price of the first issue, creating a one day price plunge of \$35 on a \$1000 bond.¹²⁷

Eventually the second sale in August was successful but only after posting record breaking 11% returns on some of the MAC notes. At this point, August of 1975, the writing was on the wall; MAC's finance chair, Felix Rohatyn, was telling the press that the prospects of future MAC sales were not "very encouraging." The following day, three major New York City banks, First National City, Chase Manhattan, and Morgan Guaranty Trust, issued a joint statement on behalf of the other city banks "saying that it would be impossible for the banks to guarantee to the state of New York the repayment with one year of \$1 billion to be advanced by the state to the Municipal Assistance Corp." The statement read in part that "during discussions over the past week with the governor, his representatives, and officials of MAC, the banks repeatedly stated their judgment that a further issue of MAC bonds at this time wasn't feasible

¹²⁶ Glen Fowler, "More City Layoffs Loom in Drive Against Spending," *New York Times*, Aug 14, 1975

¹²⁷ "Two Pension Funds In New York City To Buy MAC Issues," *Wall Street Journal*, Aug. 7, 1975; Lindley b. Richert, "Bond Markets: Older MAC Securities Slide in Price," *Wall Street Journal*, Aug. 14, 1975

and that, in view of the substantial commitments already made by the New York City banks to aid the city, there would be virtually no chance, under present circumstances, of obtaining significant further commitments from that source.” The banks were now finished with Big MAC too. Instead, Mayor Beame and Gov. Carey on August 28th proposed a new plan that would create “a new state agency to supervise the city’s fiscal affairs.” This plan, was a MAC redux, the state would provide bonds to MAC, which would in turn provide funds to the city. This plan too failed after “the banks rejected” it, according to the *Wall Street Journal*.¹²⁸

The barely saved August bond sale, “MAC’s last miracle,” in the words of the *Times*, indicated that something greater was needed. By early September it was clear the MAC was not going to work. Meanwhile, fears of default trickled through the media and planning circles. The Governor and the city were drawing up a bill of spending priorities to be covered by the state in case of default. Governor Carey began a public split with Beame, pushing for more economizing from the mayor, which the mayor called “tragic.” In fact, after the August concessions, Beame attempted to draw a hard line against the cuts once more. He turned to the state, requesting \$800 million in aid from Governor Carey and said he would refuse further cuts to “vital services” and

¹²⁸ “Bond Markets: MAC’s \$275 Million Issue Is Sold, Ending Fear of August Default by New York City,” *Wall Street Journal*, Aug. 18, 1975. The sale was boosted by another, strange, incident. The day before the sale the WSJ ran a story headlined “Fed Should Stand Ready to Aid New York As the Last-Ditch Lender, Burns Decides.” The article said that unnamed city officials had guarantees from Federal Reserve Chairman Arthur Burns that the Fed would back city securities in response to a city default. In the body of that same article, Fed spokesmen, and George Mitchell, the Reserve Board’s vice chairman, all denied the backing. It also indicated that the city source admitted that the Chairman did not make “a firm flat promise.” The following Monday, Burns told the WSJ, “there is no basis whatever for the report in this morning’s (Friday’s) *Wall Street Journal* that the Federal Reserve is considering either direct or indirect financial assistance to New York City.” Nonetheless the WSJ headline had an impact, according to the WSJ the sale, “turned to a runaway success following a report that Federal Reserve Board Chairman Arthur Burns had decided that the Fed should stand ready to aid New York City as the last-ditch lender.” See WSJ, Aug. 15 and Aug 18, 1975. A week later Burns was making public pledges on Face the Nation to “aid banks if they get in trouble buying New York City securities.” See “Burns Says Fed Will Aid Banks Troubled By Purchases of New York city Securities,” *Wall Street Journal*, Aug. 25, 1975; “Plan to Get \$2 Billion for New York City Is Jointly Proposed by Mayor, Governor,” *Wall Street Journal*, Aug. 27, 1975; “Latest New York City Rescue Plan Draws Negative Response From Bankers, Others,” *Wall Street Journal*, Aug. 28, 1975; “Emergency Session Fails to Reach Plan For New York City to Raise Needed Cash,” *Wall Street Journal*, Aug. 29, 1975

berated the banks for the rates set on MAC notes in August, 11%, what Beame called a “rip-off.” MAC officials proposed that the state supervise city borrowing, and crucially, management functions.¹²⁹

At the same time that the state legislature was to consider a municipal priorities spending bill, they also began discussing an “Emergency Financial Control Board,” which was to be created “at the urging of the financial community, is designed to restore confidence in the city’s fiscal operations among investors.” This was the only mechanism possible to restore confidence. Further dramatic action was needed. This proposal, coming from MAC, is what would become the EFCB. At the end of August Beame agreed to form a new panel of the Mayor, Carey and Levitt to share control of city finances. All funds would go through this group, which would turn them over to the city only if they deemed budget responsibility. In exchange, Governor Carey would have the state purchase roughly a billion dollars of MAC notes to fund the city through the end of the year. Beame joins the group, but continues to bemoan the loss of mayoral authority over city finances.¹³⁰

In September a \$100 million payroll shortfall was only averted by four city pension funds agreeing to purchase MAC bonds at the very last minute, preventing an immediate default. After this near miss, on September 8th the State Assembly passed Carey’s proposal to create the EFCB, the Senate followed suit, and on September 9th Carey signed into law a \$2.3 billion emergency package.

Rohatyn and others believed that the failure of the Big MAC was not a market problem, but an enforcement problem. If the goal of city saviors was to “reduce the deficit” through cuts,

¹²⁹ “MAC’s Last Miracle,” *New York Times*, Aug 15, 1975 and Chronology

¹³⁰ “Priorities in Case New York City Defaults Will Be Submitted in Bill by Gov. Carey,” *Wall Street Journal*, Sep. 2, 1975; Chronology, Aug 26, 1975

then the MAC was unable to break the political coalitions opposed to the cuts. Rohatyn recalled that when the MAC program announced a wage freeze and job cuts, “the unions went to war . . . [and] the Mayor caved in,” cancelling planned sanitation layoffs in July. Similarly, Rohatyn thought that the first chairman of the MAC, Tom Flynn, a former head of Arthur Young, “should not continue as chairman. He was too deferential to the mayor and to City Hall.” Instead, what was needed was to separate MAC from the city, to “impose a tougher budgetary program on the city” and “restructure the leadership of MAC.” Mayor Beame, other officials, said Rohatyn, “just didn’t have the stomach for it.”¹³¹

Throughout the summer, before the creation of the EFCB, other members of the financial community were pushing in a similar direction. In a July letter to MAC director Thomas Flynn just before he was ousted from Wallace Sellers of Merrill Lynch and Tom Labrecque of Merrill urged that “the city is on trial for its life. Its chances are slim and mere words will not suffice.” It was therefore necessary for an “immediate, dramatic and credible program putting a firm, Spartan control on the total expenses of the City, which is endorsed and visibly supported by the Governor and the legislative leaders, and implement by the Mayor and the MAC Board,” among other reforms. Two days later David Rockefeller of Chase sent a similar letter.¹³²

MAC was failing, and the financial sector was increasingly aggressive in seeking its agenda of austerity. Because the problem with MAC notes was not so much the solvency of the notes, but the insolvency of the market in which they were sold, the MAC effort failed. Additional measures were considered, but dropped. State Republican lawmakers advocated to have provisions to impose “civil and possibly criminal sanctions against city officials for failing

¹³¹ Rohatyn, *Dealings*, pg. 135-136; Seymour P. Lachman and Robert Polner, *The Man Who Saved New York: Hugh Carey and the Great Fiscal Crisis of 1975*, Albany, New York: SUNY Press, 2010, pg. 117

¹³² Ferretti, *The Year The Big Apple Went Bust*, 258

to meet conditions in the bill,” were not included in the MAC legislation. This meant that the MAC was a toothless measure, a mechanism to calm markets with an assured claim on city taxes, but, the “Municipal Assistance Corp. wouldn’t affect the city’s budgetary problems, or prevent scheduled job cuts.” Walter Wriston viewed the Big MAC as “New York City in disguise.” In the words of Big MAC board member Donna Shalala, and future labor secretary in the Clinton administration, “MAC bonds, despite their strong protective revenue stream, were never viewed as sufficiently different from City paper . . . the market seems permanently damaged.”¹³³

The first MAC sale in July was difficult. In August, the second MAC issue was barely cobbled together, and New York found itself right back where it started in June – huge looming debt service payments, and frozen out from a broken market. In September, with another billion dollars coming due, and no mechanism to pay for all of it, desperate measures were needed. The same group that had developed the MAC, created the EFCB, the Emergency Financial Control Board, a heavily statist intervention that had the power to force austerity onto the city.

¹³³ Byron Klapper, “Banks to Renegotiate \$280 Million Debt For New York City; Other Plans Pressed” *Wall Street Journal*, Jun. 9, 1975 One article called it an effort “by Wall Street groups to make city officials criminally liable for evasion of state finance laws.” Byron Klapper, “Tax-Exempts: Underwriters May Exceed First Offering,” *Wall Street Journal*, Jun. 30, 1975; Zwiag, *Wriston*, pg. 195; “Agreement Reached To Prevent Default By New York City,” *Wall Street Journal*, Jun. 10, 1975; Donna Shalala, A Great City is an Opportunity, Remarks by Donna E. Shalala Before the 77th Annual Meeting League of California Cities, San Francisco Hilton Hotel, San Francisco California, October 22, 1975

* * *

3.5 “Nibbling the bullet:” Standard Austerity¹³⁴

What is striking about all these calls for further austerity and increased emergency powers was that Mayor Beame had been making cuts from at least November 1975. New York City’s fiscal crisis is known to us now because it went so much beyond a typical budget crisis. Mayor Beame’s approach at the outset of the crisis was to trim a little, borrow a little, and attempt to weather the storm. This fit within the Keynesian framework from which he was working. But the political world in which he operated had changed. His response was no longer satisfactory to the banks and the underwriters of the credit market. Their desire was now a drastic restructuring of city governance and reorienting the social priorities of New York. As Beame undertook a reasonable response to the crisis, the goal post kept changing. At the first stage, he implemented major cuts on city workers and unions, but that was not satisfactory, viewed as “nibbling at the bullet” by austerity hawks. As the bond market continued to fail, bond rates shot sky-high, and New York’s crisis was made exponentially worse. When the city was frozen out of the market in the spring of 1975, access to credit became the City’s preeminent priority. This meant acceding to the new political program of the banks and included a major assault on city unions and working class organizations, a roll back of the city’s social wage, arguably the broadest and most humane in the country, as well as attempts to disrupt the political networks and coalitions that made Keynesian policies possible. So when Beame’s measured austerity program was viewed as insufficient for market reentry it became clear that new tools were needed to force a social restructuring on New York. Beame resisted, attempting to keep his political coalitions and networks alive, indeed he was fighting for the Keynesian way of life,

¹³⁴ “Nibbling the Bullet,” *New York Times*, Nov. 26, 1974

albeit poorly, and in the end he quickly acquiesced to the new reality. In order to break those networks, radical state power was needed. The new austerity program targeted workers and social movements in ways that disrupted their ability to respond politically. The focus of the new institutions of austerity, like the Emergency Financial Control Board, was laser like, workers, students, people of color, were made to do with less.

Throughout the crisis, Beame had two primary strategies. First, he sought greater funds. He wanted to secure aid from other state agencies in the federal system, and get rollovers and extensions from the banks. He also wanted to mitigate cuts, maintain his political coalition, and ride the city's economic slump through to the next period of growth. On all this he failed because the economic solutions he sought, while sound, were in a new cultural reality. Key institutions of the state, the financial sector, had shifted their priorities; no longer were they interested in Keynesian social welfare, and they held the purse strings.

Months after Beame's awards for fiscal management from the Citizens' Budget Commission in the spring of 1974, the city's budget picture began to deteriorate. By the middle of October Beame was telling the press that the city faced a "fiscal crisis" that was "for real" and not "phony." City Councilmen were asked to give back half of their "lulus" – annual expense allowances – to the tune of \$2,500. This was all before Comptroller Goldin's November budget announcement.¹³⁵

After Goldin's November statement, the Beame administration began to cut in earnest. In fall of 1974 he cut \$100 million in expenses. By November Beame again was cutting \$330 million and telling all departments they would have to cut 8.5%. Beame was seeking a balanced budget by the end of the calendar year and was "determined to avoid borrowing if it is all

¹³⁵ Maurice Carroll, "Beame Says City Has Fiscal Crisis," *New York Times*, Oct. 18, 1974; John Darnton, "Each Councilman To Get Plea to Cut Expenses," *New York Times*, Dec. 16, 1974

possible” while trying to not “cripple vital services.” Calling the situation the “worst fiscal crisis that New York had suffered,” he told the press that “it’s going to be tough, very tough, for the people to accept some of these things, but I hope they will support me, and I think they will if they understand the seriousness of the situation.” The bulk of the problem, he argued, was from “inflation and the recession.” And he was upfront that this was to be “the toughest austerity program since the Depression.”¹³⁶

Beame also started to cut jobs. His administration announced that 4,700 city jobs would come almost exclusively through attrition and would save the city \$29 million. By December that number was increased to nearly 8,000 and included layoffs of permanent staff, appointees, provisional staff, as well as attrition. In January of 1975 an additional round of layoffs and austerity was announced, bringing the total to be fired to 11,985 people. Budget Director Melvin Lechner told the press when talking about a reduction of expenditures, “when you get to the bottom line this means jobs.” Victor Gotbaum the president of the city’s largest union, District Council 37 called the cuts “atrocious” and “incredible,” because “we haven’t seen wholesale cuts like this since Fiorello La Guardia,” during the Great Depression. DC37 was slated to lose 222 members, 12 fire companies were set to close, the Professional Staff Congress who represented workers at CUNY would lose 100 members. The bulk of the cuts came from dropping 1,000 provisional city employees. The Mayor’s plan to hire 3000 new police officers was also dropped. 600 had been hired at that point. Beame’s December 1974 cuts included firing 900

¹³⁶ “Beame Says City Needs \$330- Million Service Cut,” *New York Times*, Nov. 20, 1974; Michael Stern, “\$330- Million Reduction in Pay and Services Ordered by Beame,” *New York Times*, Nov. 9, 1974; Maurice Carroll, “Beame Cuts 1,150 Workers,” *New York Times*, Nov. 23, 1974

school teachers and closing 23 day care facilities, increasing fees for taxi, firearms control, city clerk and other city services, and others.¹³⁷

In a city consumed with fear of crime, the police cuts hurt politically, with the city's papers running soft features sympathetic to the police. For example, part of the outrage came from the layoff of Officer Angel Poggi, recovering after losing an eye when he triggered a booby-trapped bomb in an East Harlem apartment allegedly set by Puerto Rican nationalists. Poggi was new to the force and hadn't accrued enough time to get medical pay, and was one of the first set to be laid off when the cuts came. Very quickly, as many as 460 police officers were taken off the street. President of the Patrolmen's Benevolent Association, Ken McFeeley, said "when crime goes up, you don't fire a cop. You hire one." Meanwhile, the EFCB was considering reducing the force to use "one man police cars," but that implementation hasn't happened "primarily because the police union has objected."¹³⁸

Beame's initial cuts hurt. Most of the layoffs came between Thanksgiving and Christmas of 1974, and most of those to be let go were "recently hired Civil Service employees, many of them blacks and Puerto Ricans." These workers "were not high-salaried and have few savings," reported the *Times*. Many "are squeezed by inflation" and "barred under present law from collecting unemployment." Hervis Williams, a black migrant from South Carolina to the City in 1953, had been working for the city for five years as a driver for a Sanitation Department official

¹³⁷ Fred Ferretti, "City Works Out Plan To Save Jobs," *New York Times*, Dec. 13, 1974; John Darnton, "Beame Expects Dismissals To Cut Deficit \$1.5 Million," *New York Times*, Jan. 16, 1974; "City's Budget Experts Are Working Overtime," *New York Times*, Nov. 18, 1974; Glenn Fowler, "Dismissal Plans Shock Leaders of City Unions," *New York Times*, Nov. 23, 1974; Maurice Carroll, "Beame Cuts 1,1510 Workers And Imposes a Job Freeze," *New York Times*, Nov. 23, 1974; Mayor Abraham Beame, Press Release, Dec 11, 1974, Beame Administration Papers, Municipal Archives

¹³⁸ Selwyn Raab, "Street Patrols To Be Cut By 460," *New York Times*, Jan. 16, 1975. Beame later moved to protect the patrolman's job while he recovered. Edward Ranzal, "City Acts To Keep Policeman On Job," *New York Times*, Jan. 29, 1975; Sidney Schwartz, Special Deputy Comptroller to Emergency Financial Control Board, "Possible Areas for Cost Reductions," Dec 8, 1975, EFCB Archives

when he was laid off by the city. He had quit his previous higher paying job because he thought city employment would provide more stability. “What can I do now?” he asked the *Times*; “I’ve got no savings. I’m not eligible for unemployment insurance. At age 40, who’s going to hire me? What can I do? What can I do now?” City workers were ineligible for both severance pay and unemployment compensation. Those forced into early retirement were also negatively impacted. A secretary in the Controller’s office, forced to resign at 63 told the *Times* that the forced retirement hurt: “I like my work – I feel it is stimulating. Here I feel like somebody, but at home I’m nothing.” Adding that the ouster felt “like cutting down a tree.”¹³⁹

With this first round of cuts in the winter of 1974 the across the board cuts had an impact. For parks, fewer grounds workers in “unsupervised city parks” meant “an open invitation to vandalism” and petty crime. For the police department the cuts meant “one fewer policeman on each shift of duty in each precinct.” In the Sanitation Department it meant “a reduction in the crews that clean vacant lots and highways,” and greater down time and lack of service and mechanics were let go. Cuts hit the poor, indigent and powerless the hardest, and in some cases remaining workers were shifted from providing services to policy enforcement and monitoring. For example in the Department of Social Services, 226 case workers who once provided counseling for recipients were moved to investigating families with “absentee” fathers and “to remove ineligible from the welfare rolls.” In the prison system, 164 prison aids were to be dismissed. Their jobs, implemented after 1971 prison riots, were to “contact relatives, forward legal files or intercede with prospective employers,” was one of the only programs that got “inmates in touch with those outside the jails,” and it was “highly popular among the prisoners.”

¹³⁹ “Economic First Aid,” *New York Times*, Dec. 15, 1974; Robert McFadden, “Sad Season for Laid-Off City Workers,” *New York Times*, Dec. 22, 1974; John Darnton, “City’s Layoff Casualties Are Stunned and Bitter,” *New York Times*, Nov. 26, 1974; Diane Henry, “Retirement at 63?,” *New York Times*, Dec. 21, 1974

This was just a taste, and only the beginning of what was to come. As the *Times* reported, “virtually every service that the city offers is affected – and the cut backs vary greatly in their visibility.” Beame also hoped to cut \$10 million from welfare relief by limiting payments to those “that report the absence of the father.” Beame’s administration was also to hire 15 more sales tax inspectors to try to bring in an additional \$500,000 in unreported sales tax. This was all before the imposition of super austerity in the spring of 1975.¹⁴⁰

The cuts lead to serious conflict, and Beame held firm. When the New York Public Library system threatened to close 3 branches, unless Beame funded an additional \$500,000 and filled 60 of 160 vacant position, Beame accused the Library of “brinkmanship” and recommended they increase efficiency. Receiving thousands of letters about the cuts, and days before the branches were set to close, Beame refused to budge. On the eve of the closures, the Library Board backed down, said they would postpone the closures, and look to other economies. In May of 1975 the Libraries were closing all research facilities on Saturdays as a cost saving measure. These included the Lincoln Center Performing Arts Research Center, and the Schomburg, as well as the Central Library in Midtown.¹⁴¹

Capital projects, like school and hospital construction were also called off. For example, a \$6 billion joint city-state Harlem redevelopment project funded in part through the Urban Development Corporation, before its default in February of 1975, was put on hold. In November, Controller Goldin and City Budget Director Melvin Lechner put a thirty day freeze on all capital projects, over \$300 million in not yet started projects, including things like new school

¹⁴⁰ John Darnton, “Effects of City’s Job Cuts To Be Realized Gradually,” *New York Times*, Dec. 23, 1974; John T. McQuiston, “City To Cut 4,700 From Its Payroll,” *New York Times*, Oct. 2, 1974

¹⁴¹ Allan Siegal, “Threat to Close Libraries Scored,” *New York Times*, Oct. 12, 1974; Glenn Fowler, “City Firm Despite Protests on Closing of 3 Libraries,” *New York Times*, Nov. 11, 1974; John Darnton, “Library Budget Tactics Backfire,” *New York Times*, Nov. 15, 1975; “Research Libraries To Close Saturdays As a Money-Saver,” *New York Times*, May 9, 1975

construction in the Bronx, an occupational training center at PS 16 in Queens, a new community facility in Pelham, a south Bronx high school community center, boiler plant modernization at Sea View Hospital, florescent lights for the Bronx Hospital, a neighborhood multi-service center for central and East Harlem, and library construction, sewage modernization, traffic and pothole repairs, and more. Altogether, 22 school construction and development projects were also put on hold. As the city was freezing capital project expenses, it was revealed in November of 1974 that nearly half the capital budget was going toward paying off debits on the current expense account, a big accounting no-no. With Beame advocating a roughly 25% reduction in capital spending, this was to have impacts on services as well.¹⁴²

The next fiscal year capital budget was released by John Zuccotti, then Chairman of the City Planning Commission, in December. Limited to just \$1.79 billion, Zuccotti told the press that the budget reflected “austerity and uncertainty,” and that there was “not enough construction money to build one new school, one new police precinct, one new firehouse or one new park.” Only \$5 million of the over a billion dollar budget was for new construction, the rest was allocated to complete and cap ongoing projects.¹⁴³

By the end of 1974 cuts were starting to have serious impacts. For example, the City Hospital Center in Elmhurst, Queens, reported in November of 1974 that unless \$2 million were provided the Center would need to immediately “dismiss 21 physicians and 65 nurses and other backup employees.” The Center’s director, Stanley G. Seckler, told the *Times*, “this would

¹⁴² Maurice Carroll, “City Construction Will Be Cut Back,” *New York Times*, Oct. 13, 1974; Glenn Fowler, “Agencies Warned By Mayor To Curb Capital Spending,” *New York Times*, Nov. 2, 1974; Charlayne Hunter, “\$6-Billion Plan for Harlem Is Delayed,” *New York Times*, Nov. 2, 1974. This was in part a political consideration, Beame did not want to appear with the Republican candidate for Governor, Malcolm Wilson, just days before the election to announce a major project, but also a fiscal concern, as the question of UDC solvency was also being raised. Glenn Fowler, “30-Day Freeze Imposed on All Capital Projects Not Yet Under Way,” *New York Times*, Nov. 9, 1974; Glenn Fowler, “Planning Commission Drops 22 Schools,” *New York Times*, Dec. 31, 1974; “Near-Bankrupt City,” *New York Times*, Nov. 4, 1974

¹⁴³ Fred Ferretti, “New Construction Virtually Barred in Capital Budget,” *New York Times*, Dec. 4 1974

effectively terminate many key medical programs,” including a “special dental care for children with mental and other medical problems, respiratory intensive care for the elderly, blood bank and cervical cancer detection program for women.” The Hospital reported it served nearly three-quarters of a million people in Queens “most of whom are indigent or almost in that category.” Elmhurst had already implemented a job freeze earlier in the year and was seeking to reduce expenses, but according to a key administration “there just isn’t any fat.” To make up for soaring, inflation pushed costs, the Center requested a ten percent increase roughly \$700,000 – instead they were handed a roughly equal number in cuts, on top of \$900,000 earlier in the year. At this point, the entire 25 member medical board resigned because “the hospital was not getting a fair share of funds.” A leaked Health and Hospital Corporation report found that Elmhurst was the “most underfinanced city hospital” because it served 8.5% of city patient care but received only 7.2% of funds for city hospitals. The report recommended an \$8.7 million increase was needed.¹⁴⁴

The cuts were not just at Elmhurst, they were system wide. When Beame first announced targeted cuts to the city’s health care, city hospitals responded that “drastic reductions” would be necessary if planned Beame cuts were put into place. Indeed, once the cuts were implemented, in the winter of 1974 and 1975, workers were fired and services were reduced.¹⁴⁵

Tami Ogata was one of twelve nutritionists fired from the department of health. Calling the cuts a “tragedy” Ogata told the *Times* that there were “about 200,000 people in my district, most of them low-income families or elderly retired people who benefit from our nutritional services.” The layoffs gutted the program, dropping the total number of city nutritionists from sixteen to four. All of those cut were women. Dr. Pascal Imperato, the deputy health

¹⁴⁴ Nathaniel Sheppard Jr., “Elmhurst Director Warns of Cutbacks,” *New York Times*, Nov. 6, 1974

¹⁴⁵ “Hospitals Seek \$10 Million In Aid,” *New York Times*, Oct. 13, 1974

commissioner who seemed to relish the budget adjustments, and was rewarded years later when appointed to head the city's Health and Hospitals Corporation in 1977, called the cuts an "unfortunate necessity." He noted that the cuts had "absolutely nothing to do with sexual discrimination," because "the majority of nutritionists throughout the United States are women." Catherine Cowell, the chief supervisor of nutrition said "as far as I'm concerned, they've just wiped out our entire service." She added that "because we're a small agency dealing primarily in preventative medicine, our loss won't be immediately felt. But I assure you that in the long run the city will suffer. Expectant mothers and future generations of children will be hurt."¹⁴⁶

The Health and Hospital's Corporation, the quasi-independent city authority that managed the municipal health system, tried to push back against the cuts, the Board voting twice against a 551 personnel cut. But the Mayor's office held firm, forcing the HHC to plan to make cuts. The move by the HHC Board, not to approve the cuts, prompted Beame to explore legislation that would give him the power over the semi-autonomous agency to make the cuts himself. Promising that if that failed, he would simply withhold the funds.¹⁴⁷

Eventually, the Health and Hospitals Corporation, under Dr. John Holloman, began to fall in line. In May of 1975 the board announced that they would be closing Delafield Hospital in Washington Heights, the smallest of the 19 hospital municipal system, and to end subsidies to nursing schools for a savings of \$17.5 million a year. Holloman called the cuts "a blueprint for disaster," and hospital staff organized protests that targeted the Board and the Mayor's office with over two thousand people participating. The cuts, as hard as they were, represented a third of the cuts the mayor was asking of the HHC, and he pressured the board to cut Goldwater

¹⁴⁶ Jill Gerston, "12 Nutritionists Get Layoff Notice," *New York Times*, Jan. 18, 1975

¹⁴⁷ David Andelman, "City Insists On Cut In Hospital Staff," *New York Times*, Dec. 14, 1974; Glenn Fowler, "Hospitals Agency Bars Layoffs for Second Time," *New York Times*, Jan. 25, 1975; Steven R. Weisman, "Beame Will Seek More Control Over Hospital Agency's Budget," *New York Times*, Dec. 15, 1974

Hospital on Roosevelt Island, Sydenham in Harlem, and Morrisania in the Bronx. The struggle to close Sydenham would stretch on for years, and into the next administration, as Mayor Koch finally forced the closure of the popular community based hospital after it was occupied by the Black Panthers and Young Lords for week in the summer of 1980.¹⁴⁸

Defiance was becoming a major problem for the mayor's office. In December, when as many as one thousand layoffs were slated to have taken effect, only half that number, 436, had actually been let go. While departments directly under the control of the Mayor had made the cuts, Agencies of the city's "authority system" were delaying, including the Health and Hospitals Corporation, the Transit Authority, the Board of Education and the Board of Higher Education, and the Offtrack Betting Corporation.¹⁴⁹

By February only 1,724 of a scheduled 5,235 layoffs had taken effect. Here's how the *New York Times* portrayed the situation; even though the mayor was promising austerity, "the almost 12,000 layoffs the Mayor has ordered are not taking place on schedule. Agencies not under the Mayor's control, like the Health and Hospitals Corporation and the Board of Education, are resisting the cutbacks or offering substitute, and sometimes dubious, economies. Municipal unions have bartered for more time for laid-off civil-service employees and only last week made concessions to avert some of the firings. Agencies that have complied have resorted to bureaucratic tricks, such as filling out their cutback quotas with people who had already left the payroll or, in some cases, had died."¹⁵⁰

¹⁴⁸ David Bird, "Hospitals Agency To Shut Delafield," *New York Times*, May 9, 1975. HHC officials explained that Morrisania was already slated to close once the brand new North Bronx Hospital was up and running.

¹⁴⁹ Fred Ferretti, "436 Discharged by City," *New York Times*, Dec. 21, 1974; Fred Ferretti, "Mayor's Order on Layoffs Resisted by City Officials," *New York Times*, Dec. 24, 1974.

¹⁵⁰ Fred Ferretti, "City Payroll Cut By 1,724, As Accords Ease Ousters," *New York Times*, Feb. 8, 1975; John Darnton, "Mr Beame Blames the Red Ink on Outside Forces," *New York Times*, Feb. 2, 1975

However, even with the pushback, Beame did not take no for an answer. When he learned that 42 layoffs had been “paper cuts,” people who had left their positions before the move to austerity, Beame became aggressive, calling each individual commissioner and department head, and with “considerable heat” telling them he wanted “those numbers matched. Now. Today. I want the people!” Indeed the budget crisis, in the words of the *Times*, “created a new political arena” one in which Beame held “virtually all the high cards.” Even still there was resistance. Agency heads refused to go along, they sought delay and alternative cost saving measures over layoffs.¹⁵¹

With Beame holding all the cards, labor became a major target of the cuts. In addition to the job losses, to cut labor costs, the Mayor and four major city unions, including the Sanitationmen, DC37, Teamsters local 237, and the Correction Officers, agreed to the creation of a “Productivity Council” that “aimed at getting better service without spending more of the city’s money.” District Council Associate Director Stan Hill explained that joint productivity management was working, “We’ve worked very closely with the city by way of a structure called the Productivity Council. . . We’re in eight different agencies right now and so far the effect has been positive. There is cooperation with the city and this union. Victor Gotbaum heads the labor part of this productivity council, with Mayor Koch is the on the managerial part.” Hill was trying to point to productivity as an alternative to straight job losses, but even still, the productivity council was an erosion of union work standards and a major imposition on the city’s workforce – another way workers were meant to pay the costs of the turn to austerity.¹⁵²

¹⁵¹ Fred Ferretti, “A Tough New Beame,” *New York Times*, Jan. 27, 1975

¹⁵² David Bird, “City and 4 Union to Raise Productivity,” *New York Times*, Oct. 17, 1974; Stan Hill, 1982 Interview, Robert F Wagner Labor Archive

Why were labor cuts the solution the mayor turned to? An internal Chase Bank report produced in December of 1974 explained that of the \$12 billion city budget, only \$3.9 billion were “controllable,” discretionary funding that the city wasn’t mandated to provide. Of that figure, 70% was payroll expenses, and so for the budget, “it has come to a question, not just of programs, but of manpower policy.” Therefore, the report went straight to limiting labor gains, not just through layoffs, but a wage freeze as well. As “a final alternative” the city should consider “holding back wage increases,” already promised from 1974 contracts, and estimated to be a \$300 million increase on the year. While some efforts were already made to limit wages for “higher administration levels,” the Chase report found that “it is far more politically and legally complex to deal with civil service compensation.” For that, they would need extraordinary state powers. Chase’s report was produced in the December of 1974, by the spring the wage freeze proposal was the major political object of city fiscal restructuring.¹⁵³

Documents like the Chase reported reflected the new social priorities of the financial sector. The Chase report went on to say that three aspects of budgeting were at the heart of the city’s fiscal problems: 1) wages and benefits, 2) higher productivity and 3) the viability of “innovative public services,” or the social wage. For wages, Chase found “it is difficult to speak of restraint at a time of inflation when labor is obtaining annual settlements of 10-12%, but past largesse of the city has resulted in a situation where municipal employees receive salaries at least as high as and benefits considerably more favorable than for comparable private employees. A continuation of this policy without offsets in higher productivity or a reduction in jobs seems untenable.” For productivity, Chase found that in government service work, mechanization was not possible. Instead, “far more important are management structure, work practices and

¹⁵³ Karen Gerard, “The City’s Fiscal Situation: The Budget Gap Is Real,” Paper Prepared For The Economic Group, Chase Manhattan Bank, Dec 1974,

employee attitudes. This means developing a continuing cooperative relationship with labor (why do city employees leave at 4:00 p.m. in the summer even though almost all buildings are air conditioned; are pupil-teacher ratios inviolate).” And this is indeed what developed through the Productivity Council, with organized labor supporting the move.¹⁵⁴

For the social wage, the report found that “given the slow growth in the city’s economic base, the large and continuing losses in employment, and the high proportion of the poor living in New York, hard decisions must be made about what services the city can perform and who will be responsible for paying them.” Note that just a few years prior, this analysis of city fiscal needs would have come with a commitment to social services. By 1974, the banks and New York were in a new political universe. For example, the Chase report argued that “New York has long been a leader of innovative public services – from public housing to open admissions in the City University – but how far it can continue to spread itself into new areas while maintaining the old must seriously be questioned. True, the issues have all been raised before – welfare reform, state assumption of the courts, metropolitan-wide method for taxation – as a means of spreading the costs. However, the city’s role and responsibility in providing services has not been resolved. Despite vast increases in state and federal aid . . . and higher and new city taxes, the fiscal problems of a decade ago remain today.” This new framework sought to address longstanding issues – but they weren’t fiscal. The issues were New York’s status as a “leader of innovative public services.”¹⁵⁵

To see how the attitudes had changed regarding social spending and indebtedness, the Chase report illustrates the new primacy of fiscal solvency. It argued that “by turning to the credit markets increasingly in recent years as a way to bridge the problem, the city has not found

¹⁵⁴ Ibid

¹⁵⁵ Gerard, “The City’s Fiscal Situation”

a permanent solution, but has created a new set of problems,” and that “the practice carries with it the seeds of its own destruction.” What was needed now was “determining what services we can afford to provide and at what price.” This was a radical reformulation from a decade before, when city planners and the financial sector recognized debt as an imperfect and temporary, but nonetheless necessary part of successful city management and finance.¹⁵⁶

In addition to the banks, the media started calling for much harsher austerities. In November of 1974 the *Times* editorialized that Beame’s budget proposal’s, then fixed on layoffs to cut \$100 million and increased state and federal aid to cover the remaining \$220 million budget shortfall, was “nibbling the bullet,” rather than taking assertive, and drastic cuts. Instead, the *Times* argued, the Mayor should target workers through a “reduction in a bureaucracy that is notoriously overstaffed and underworked in almost every department,” although the cuts would be “certainly painful for the individuals involved.” Calling the situation a “fiscal hemorrhage” the *Times* wanted Beame to “move beyond the token personnel cuts” to “more drastic reductions.”¹⁵⁷

Another example, the *Times* editorial on the elimination of eight fire companies. Although there was a significant risk to “life as well as property” at a time of epidemic arsons and extremely overworked fire companies, with a “sharp long-term rise in alarms and fires,” the cuts were a “painful but inescapable step in the tough, across-the-board austerity effort that must be mounted to balance the city’s deficit-heavy budget.” The firefighters union was singled out for their opposition to the cuts – it was the firefighters, not the Mayor, the *Times* argued, that “recklessly risked life and property in an unauthorized and illegal strike last year.” For their protestations about the cuts, “wild alarms” as the *Times* called them, there was “no justification”

¹⁵⁶Gerard, “The City’s Fiscal Situation”

¹⁵⁷ “Nibbling the Bullet,” *New York Times*, Nov. 26, 1974; “Fiscal Hemorrhage,” *New York Times*, Nov. 28, 1974

when the city could save potentially as much as \$8.5 million through the cuts, and similar reductions were needed at other city agencies.¹⁵⁸

So even though the *Times* recognized that a strengthening of the market was “eminently justified by the fact that there never has been any danger of default by the city, despite its huge burden of debt,” and that “the unreasonably high interest rates New York has been obliged to pay in recent months have put a harsh tax on every citizen.” Even with that understanding the *Times* still believed that city faced “drastic and inescapable economies,” that necessitated “the discipline enforced by the money market” to “operate as a constraint” on the tendency of city officials to “keep extending the city’s enormous debt.”¹⁵⁹

The Chase report, the *New York Times*, reflected the new world in which Beame operated. When in Albany for a new round of budget negotiations in April of 1975, Beame was pressed for more cuts. “Cut the budget more,” he asked “when you see the murderous things we’ve done already – layoffs, closing schools, hospitals . . .” But still, more cuts came. The City announced planned layoffs of one thousand workers over the course of May of 1975. At that point the city had slashed just shy of two thousand city employees, of planned 12,000 it had promised to cut, claiming that other economies had been found. In May, when it was learned that federal and state aid was not to be forthcoming, that increase taxes looked doubtful, and the mayor had “no place to turn,” the city appeared to be making the hard cuts it had promised. With the thousand cuts, two-thousand more were planned for the following month, and

¹⁵⁸ “False Alarm,” *New York Times*, Nov. 29, 1974

¹⁵⁹ “Limited Resources,” *New York Times*, Dec. 18, 1974

thousands more agency jobs through the withholding of funds in the new fiscal year starting July 1st.¹⁶⁰

With no aid in sight, and with banks promising to boycott any future note issue, by May and June of 1975 the mayor began to plan for very severe cuts to the city finances. At the end of May he announced his budget proposals, divided into two possible scenarios, an “austerity” budget, with 20,000 jobs cut, and a “crisis” budget. For his crisis budget, Beame had an additional 37,315 planned layoffs, the first stage of which in July of 1975 was to include 16,590 cuts. He called these cuts a “horror list,” with a 25% reduction in police street patrols, closing 66 fire companies, eliminating 4 city hospitals, a one-third reduction in garbage collection for the city, and cutting 8,689 jobs in the city’s schools. While these cuts were not implemented in 1975, they were over the next four years, as a continuing cascade of fiscal crises weakened the city, and the ability to resist the austerity agenda.¹⁶¹

In sum, Beame implemented austerity from the moment he took office, well before the bank froze the city out of the capital markets. The city had been making layoffs and cuts for a year and a half at that point, as Beame told congressional hearings on the city’s fiscal crisis, “I did this,” made cuts “long before the banks turned off the valve. They turned the valve off in March 1975; I was doing the cutting in 1974.” His basic equation, “we were cutting back as much as we could in order to get access to the markets again.” But still, it was not enough. The political agenda of the austerity regime went far beyond fiscal austerity, it extended into a political program to rollback the victories of popular movements of the twentieth century, labor, New Deal and Great Society programs, the civil rights and social movements of the 1960s and

¹⁶⁰ “Fiscal Summitry At Hand As Beame Arrives In Albany,” *New York Times*, Apr. 30, 1975; Steven Weisman, “City Is Planning To Layoff 1,000 Workers Tomorrow,” *New York Times*, May 14, 1975; “City Starts Dismissing 3,067 of Its Employees,” *New York Times*, May 16, 1975

¹⁶¹ “Chronology of Crisis” May 16, 1975

1970s. By midway through 1975, Beame had implemented a massive austerity program, cutting city programs so severely that “there wasn’t any fat” left. But the city’s budget picture would deteriorate further. In the spring of 1975 the financial sector would stop lending to the city *en toto*, and federal aid and state aid was not forthcoming. This was when the crisis really hit. All of Beame’s austerity came before the major cuts of the EFCB.¹⁶²

* * *

3.6 Conclusion

In 1974 and 1975 New York City was so closely tied to the financial sector that when crisis struck it could not pull away. The origin of the crisis came from the markets, not the state, but the two were so closely drawn it is difficult to tell the difference. That closeness, and the centrality of finance to city operations, meant that Wall Street had a significant advantage over other state institutions when it came to setting municipal priorities. As Beame was fond of saying, “the budget is everything,” it touched every part of governance, and therefore municipal finance was the central institution of city government. When Beame started austerity programs within a Keynesian framework, the banks were able to push for more, part of their changed orientation in the wake of the social movements of the 1960s. One of their preferences was for so-called market solutions to the city’s problems, and they were able to push for the creation of the MAC. But this market based solution, in a failing market, failed. MAC was insufficient for

¹⁶² Testimony of Mayor Abraham Beame, in United States Congress House Committee on Banking Stabilization Currency and Housing Subcommittee on Economic, *Debt Financing Problems of State and Local Government: The New York City Case : Hearings Before the Subcommittee on Economic Stabilization of the Committee on Banking, Currency and Housing, House of Representatives, Ninety-Fourth Congress, First Session* (U.S. Government Printing Office, 1975); and in United States Congress Senate Committee on Banking Affairs Housing, and Urban, *New York City Financial Crisis: Hearings before the Committee on Banking, Housing and Urban Affairs, United States Senate, Ninety-Fourth Congress, First Session* (U.S. Govt. Print. Off., 1975) pg 500

its historic task. The failure went beyond market failure, and extended to the exercise of state power to roll back the social welfare institutions of the city. MAC never had this power, and when the city and the MAC tried to impose cuts outside of direct agencies, it found itself impotent against both the city bureaucracy and the social forces that supported them. More drastic measures were needed.

There were, of course, other possibilities. During the same month that Mayor Beame and Governor Carey publically proposed the plan that would become the EFCB, Percy Sutton, Manhattan borough president, had other ideas. He and Bronx borough president Robert Abrams and Paul O'Dwyer, city council president, proposed a New York State Municipal Bond Investment Fund, using the state's police powers, that would "require banks and insurance companies . . . [and] employee pension funds" to invest in municipal bonds. Their letter to Governor Hugh Carey urged the state to take action, to "act on our own," and "act like a government, not a beggar in search of funds," because it was clear to the authors that the banks and the federal government would fail the people of New York. The *Wall Street Journal* called this an attempt to "hold Citibank, Metropolitan Life and the Bowery Savings Bank for ransom," and "the Caligula school of public administration," to which the initiative's proposers should "bear in mind how their predecessor ended up." But there was a fatal flaw to this approach; as much as the city, the state government was just as reliant on private credit markets for access to funds, and it was here that the spigot was shut. Only the federal government could act as bond purchaser of last resort, without impediments imposed from the market. But Sutton and Abrams and O'Dwyer didn't ask the Feds. The proposal went nowhere.¹⁶³

¹⁶³ "Latest New York City Rescue Plan Draws Negative Response From Bankers, Others," *Wall Street Journal*, Aug. 28, 1975; Percy Sutton, Paul O'Dwyer, Robert Abrams to Governor Hugh Carey, Stanley Steingut, and Warren Anderson, August 19th, 1975, Bigel Collection; "Protection Money," *Wall Street Journal*, Aug. 25, 1975

Another method of seeking new funds could have been to tax the one industry that remained in the city, and was doing comparatively well – finance. The city asked the state legislature for the power to tax bonds of one-third of one percent of the value of the bond, in addition to others like an increase in the non-resident stock transfer tax rate from fifty to seventy-five percent of the resident rate, and a brand new stock options tax. The industry threw a tantrum, with H. Virgil Sherrill, the chairman of the Securities Industry Association telling the *Times* that that the entire board was ready such that “if these taxes are adopted, the New York Stock Exchange and the American Stock Exchange should give serious consideration to moving out of the New York State.” James Needham, President of the New York Exchange explained that “we would be at a competitive disadvantage if the taxes go through.” Indeed, at the height of the crisis, Citibank chair Walter Wriston sent personal notes to Mayor Beame forwarding bank feasibility reports on relocation.¹⁶⁴

Despite their failures, these could have been viable alternative solutions, had not the political and cultural climate foreclosed these possibilities. At the heart of all of this, was the market failure of muni bonds, and significant proof that the fiscal crisis was market, rather than state driven comes from the crisis resolution. New York reentered the market only in 1982, a full seven years after the onset of their catastrophe, and only once the market had recovered from the inflation driven crises of the 1970s. For example, the city tried to reenter in 1978 but again was looking at yield rates in the 9% and 10% territory, the same as the height of the crisis. Because of the high rates, Philp Toia, the city’s Deputy Mayor for Finance at the time said they would “postpone the sale because of market conditions,” according to the *Wall Street Journal*. Note that at this point, city budgets had been devastated, budgets were in the black, balanced,

¹⁶⁴ Robert Cole, “Brokers Confront the City Over Proposed Tax Rises,” *New York Times*, May 10, 1975

and deficit spending had been eliminated. Jac Friedgut, Citibank's austerite hawk told the *Journal*, "The city deserves to be back, at least into the note market." But the second OPEC crisis and the Volker shock combined to push inflation and uncertainty through into the early 1980s.¹⁶⁵

To fix the market failures, the city again turned to the federal government. In 1978 it was again asking seasonal loans to carry it through cash flow problems because of its inability to access the market. This time however, to fix that market failure and gain reentry, it was also asking for federal guarantees to make city notes more attractive to purchasers. While the Federal Government agreed to more loans, the banks did not. One anonymous banker summed up the power relationship to the *New York Times*, "the city," he said, "can't get a lot of leverage on the banks," because while banks don't want to give up business, "the business with the city is not a wild moneymaker like it used to be." Although unknown at the time, their market was over.¹⁶⁶

That climate of uncertainty and market failure continued into the 1980s. In March of 1980 Felix Rohatyn wrote the MAC board that he was cancelling a planned public sale of \$125 million of MAC notes because "current general market conditions unrelated to MAC's strong financial condition would make it prohibitive and the City's cash surplus will enable it to adjust to the cancellation." Fortunately, MAC had private sales guaranteed from union pensions and financial institutions to cover some of the gap. And Rohatyn linked the grim prospects for market access in 1980 and 1981 to circumstances similar to those of 1975, writing that "the escalating levels of inflation at home, combined with escalating balance-of-payments deficits

¹⁶⁵ Daniel Hertzberg, "Rising Interest Rates Clouding Outlook For New York's Sale of Short-Term Notes.," *Wall Street Journal*. Nov. 16, 1978

¹⁶⁶ United States Congress Senate Committee on Banking Affairs Housing, and Urban, *New York City Financial Aid: Hearings before the Committee on Banking, Housing, and Urban Affairs, United States Senate, Ninety-Fifth Congress, Second Session, on S. 2892 ... and H.R. 12426 ...* (U.S. Govt. Print. Off., 1978); Steve R. Wiesmann, "City's Leverage on Banks is Reduced," *New York Times*, May 22, 1975

from abroad are causing a gradual degradation of the national credit markets.” Rohatyn wrote that was just as in the case of 1975, closing the market to the city, only he said the loss of market access in 1975 was also the result of “continued budgetary problems of the City.” But in this respect was he wrong, market failures blocked city access in the early 1980s, much as in 1975. Rohatyn’s attempts at market based solutions failed, failed, and failed with each new iteration. Yet the programs of the banks continued to win because of their structural position at the heart of the state.¹⁶⁷

¹⁶⁷ Felix Rohatyn to the Board of Directors, Municipal Assistance Corporation for the City of New York, March 10, 1980, Bigel Collection

Chapter 4: Austerity

* * *

4.1 Introduction

4.2 “Jaws:” Creating The EFCB

4.3 Unions

4.4 The CUNY Problem

4.5 “War In Our Hospitals”

4.6 “Double Barreled:” Remaking New York’s Racial Capitalism

4.7 Conclusion

* * *

4.1 Introduction: “The Falsest Kind of Economy”¹

Chapter Three asked the cause of the city’s fiscal crisis, and it found answers in the failure of the bond market, and the close relational synthesis between state and market. This chapter asks a different question; if the cause of the fiscal crisis was a market failure, why was the solution found in social austerity? It argues that the strands we’ve introduced in previous chapters, particularly the response to civil rights and social movements of the 1960s, and the use of emergency powers as part of a class war from the top, are the defining characteristics of the austerity regime, with fiscal management a secondary concern. It attempts to synthesize the race, gender and class aspects of the disruptive political agenda from the top as an assault on unions and workers first, and the working class in general, but also women, mothers, children,

¹ R Arnold Handler to Mayor Abraham Beame, March 6, 1977. In a letter to the mayor to prevent cuts to city libraries, Handler writes “Any cuts made in the library budget represent the falsest kind of economy.” Municipal Archives

the elderly, people of color, students, the sick and the infirm, and others. It was a wholesale assault on the very fabric of New York society, something this chapter makes clear with a detailed look at the battles within the social welfare institutions of the state. These were quite literally battles, at times violent, with both sides attempting or considering to detain, imprison or kidnap leading members of their opposition. This chapter again moves chronologically from September of 1975 to the opening months of 1977: from the creation of the EFCB and historic and legal lineage it drew from, to the imposition of austerity in three major sectors of New York society, the unions, CUNY and the municipal hospital system, to a critical evaluation of how these cuts remade New York's racial order.

As the crisis unfolded, Mayor Beame moved to implement cuts right away. He gave the city a choice between a typical "austerity" budget, with harsh cuts plus aid and rollovers from banks and the state to mitigate the social impacts of cuts, or a devastating "crisis budget" if the aid was not forthcoming. For the entirety 1975 very little aid came. The result was the implementation of very harsh austerity through the special mechanism of the Emergency Financial Control Board. The Board was a body designed to gain the city reentry to the bond markets after the capital strike froze them out. To do so the city would have to acquiesce to the changed cultural priorities of "the market" - bankers, academics state planners and other elites. Therefore the priorities of the EFCB were two-fold: to increase productivity of city workers and roll back the social power of their unions, and to discipline the city agencies, in particular the Health and Hospital Corporation and the Board of Higher Education, into implementing cuts. These cuts were major limitations to the gains of social movements from previous decades. The move to austerity was not a "market solution" to the problems of governance, but a radical imposition of state violence against civil society.

A few things emerged from the new austerity regime. The first was a relentless, meticulous focus on labor discipline. The Emergency Financial Control Board spent the majority of its time micro-managing labor contract negotiations to freeze wages, cut benefits, and enforce productivity standards. This combination, frozen wages and increasing productivity, was the beginning of a decades long process of class war – eroding working-class standards of living and increasing corporate profitability. Perhaps its most significant achievement, in the eyes of planners like Rohatyan, was that it successfully disciplined the aspirations and desires of labor leadership downward, bringing an end to the successful expansion of public sector union density, pay and benefits.

This undoing reshaped American racial capitalism as well. The legacies of the two major US social movements of the twentieth century, the labor movement and the civil rights movement, was by the early 1970s starting to make some headway in undoing the gross racial and economic inequality embedded in the fabric of American society. Where labor in the 1930s fought for institutionalization and placing American workers at the center of the American economy as consumers, the civil rights movement of the 1960s fought for equal access to those institutions and a broader role in consumption for black Americans. Those two trajectories were institutionalized in organizations like public sector unions, and great society redistributive programs. Here they saw their greatest success improving black America's standard of living between 1968 and 1975. The EFCB and the austerity regime was part of a process of reversing that. First in New York, and then nationally, as public sector unions, welfare and social benefits were all chopped, hacked, attacked and undermined. Indeed, worker unions and the “social wage” were the dual foci of the EFCB.

Furthermore, the specific cuts were targeted not just at unions and workers, but at women and people of color. According to 1976 NYC Human Rights Commission Report prepared by Eleanor Holmes Norton, layoffs disproportionately impacted working people of color and the city's women workers. So too with the cuts to social welfare on the city's population. These two mechanisms, public sector unions and social welfare policies were the primary means, still in process, for undoing America's legacy of racial inequality, and they were having an impact. Their undoing meant a serious setback for racial and gender equality. The cuts to the health and wellness services of the city, in particular to the Health and Hospitals Corporation and the Department of Health, meant tangible health consequences for the most vulnerable populations.

* * *

4.2 "Jaws" Big MAC with Teeth: The EFCB²

The Big MAC was a market solution, an attempt to sell the city bonds under a different name, with a direct feed on city revenue streams. But it failed. It offered New York bonds to the same market that had been failing for more than a year. When the second MAC offering began to fail too, it was clear that something more was needed. The Emergency Financial Act for the City of New York was that something more; it was a Big MAC with teeth. It was an aggressive move of government intervention to solve the failures of the market and restore New York's solvency. To do that the city had to meet the standards of the market, the financial sector, and they were demanding a very large roll-back of the social wage, much of which had nothing to do

² In testimony before Congress Governor Carey referred to the EFCB as "jaws" – "Well, the control board has been referred to in the vernacular as "jaws." Testimony of Governor Hugh Carey, in United States Congress House Committee on Banking Stabilization Currency and Housing Subcommittee on Economic, *Debt Financing Problems of State and Local Government: The New York City Case : Hearings Before the Subcommittee on Economic Stabilization of the Committee on Banking, Currency and Housing, House of Representatives, Ninety-Fourth Congress, First Session* (U.S. Government Printing Office, 1975). Pg 1009

with the city's fiscal solvency. The EFA created a state oversight board, the Emergency Financial Control Board, "a governmental agency and instrumentality of the state," with the power to direct New York budgets, and criminally prosecute those who opposed or refused Board directives. When one of the Boards first actions was to reject a contract with city teachers, Walter Wriston remarked to Congress that the board "have in fact put tremendous teeth into the financial discipline process." Simon Rifkind, lawyer and the key author of the EFA told Congress the act, "has teeth in it." The emergency power statues used to create the EFCB were based on those that created the New Deal Keynesian state – same structure, but with different purpose. This is the essence of state power, and the EFCB a statist intervention, of a neoliberal type, in a larger market failure.³

* * *

In the summer of 1975 state planners needed to address the failures of the MAC. After the failed August second note issue, it was clear that the MAC could not solve the city's crisis, and that greater measures were necessary. The MAC faced a twofold problem. The tax-exempt municipal bond market continued to fail throughout 1975, preventing even the MAC from accessing credit for the city. And the MAC lacked the authority to directly make cuts to city governance against the opposition of city institutions and social groups. The Emergency

³ New York State Law, SS 868.75, New York State Financial Emergency Act for New York City, section 2 part 5 (Henceforth EFA); Walter Wriston, in United States Congress Senate Committee on Banking Affairs Housing, and Urban, *New York City Financial Crisis: Hearings before the Committee on Banking, Housing and Urban Affairs, United States Senate, Ninety-Fourth Congress, First Session* (U.S. Govt. Print. Off., 1975) pg 703. Referring to questioning by Senate Banking chairman William Proxmire that "there has to be some cruel, painful, extensive reduction in services, reduction in spending, that may be socially very bad, but it is going to be achieved," Wriston responded that "it is going to take a long time, but I personally believe that the mechanism is in place that can in fact achieve what you are suggesting, probably better than by going through default." Adding that "there may have been this kind of discipline before in the United States, but I have never heard about it." In same. Testimony of Simon Rifkind, in United States Congress Senate Committee on Banking Affairs Housing, and Urban, *New York City Financial Crisis: Hearings before the Committee on Banking, Housing and Urban Affairs, United States Senate, Ninety-Fourth Congress, First Session* (U.S. Govt. Print. Off., 1975). Pg 763

Financial Control Board was the solution to at least one of these problems. To begin, the legality of the EFCB was based on the extraordinary powers of the state, those allowed under a state of emergency. The bill argued that the city's financial situation "is a disaster and creates a state of emergency. To end this disaster, to bring the emergency under control and to respond to the overriding state concern described above, the state must undertake an extraordinary exercise of its police and emergency powers under the state constitution, and exercise controls and supervision over the financial affairs of the city of New York, but in a manner intended to preserve the ability of city officials to determine programs and expenditure priorities within available financial resources." The Act prevented the board from considering matters of policy for the city, but enabled it with the martial powers of the state to control the budget.⁴

The act created a special deputy comptroller to review city finances and a state board "to review, control and supervise the financial management of the city." The EFCB was empowered to approve a financial plan to get the city through the crisis, a three-year plan introduced in October 1975, which it used as a blueprint for implementing the cuts. Part of the statutory requirements prioritized "debt service requirements" as a "first priority" and gave the board the power "over the disbursement of city funds," including approving all city contracts. This came with remarkable power, including criminal prosecution, over officials of the city and covered agencies: "the board shall issue, to the appropriate officials of the city and the covered organizations, such orders as it deems necessary to accomplish the purposes of this act. Any order so issued shall be binding upon the official to whom it was issued and failure to comply with such order shall subject the official to the penalties described in section eleven of this act." In section 11, the EFA orders that "no officer or employee of the city or any of the covered

⁴ EFA preamble

organizations shall take any action in violation of any valid order of the board or shall fail or refuse to take any action required by any such order.” Anyone who violated an order from the board could be subject to “administrative discipline, including” suspension or “removal from office.” Even worse, a “willful violation” of the EFA was criminalized, and would subject an official to criminal prosecution. This is an indeed an extraordinary exertion of power. Those who refused austerity were now criminals.⁵

The text of the law required that the financial plan devised by the board balance the city budget by 1978, and that should the city “fail to adopt” the plan as developed by the Board, then the Board may “formulate and adopt” a plan for the city. That all wage increases planned through collective bargaining “are hereby suspended,” implementing an effective wage freeze invalidating city contracts. This was a crucial part of the law. Violating the labor contracts from 1974 would have been extremely difficult without emergency powers.⁶

States of national emergency were an important topic in the mid-seventies. Amid concerns about executive overreach, the U.S. Senate investigated the legal standing of national states of emergency. Their report, published in November of 1973, found that no fewer than 470 existing statutes related to presidential authority to call a state of emergency. Moreover, they found that there were in fact four outstanding states of emergency dating back forty years, to President Roosevelt’s declarations during the Great Depression, Truman’s during the Korean War, and Nixon’s to meet the national postal strike, and suspend gold payments. One committee report found that “since 1950, the Nation has been in a state of general national emergency.”⁷

⁵ EFA section 2 part 7, section 11

⁶ Efa section 9 and 10

⁷ Relyea, Harold. *Brief History of Emergency Powers in the US*. US Government Printing Office, 1974. pg. 117

The widespread use of the government of “states of emergency” applied to economic crisis, and there is in fact a long history of emergency powers used for similar economic or class reasons. In fact, emergency powers theory of the state has always been associated with the more authoritarian elements of US jurisprudence. Basing undefined emergency powers on a doctrine of necessity, Alexander Hamilton argued that the definition of emergency implied undefined powers, writing that “no constitutional shackles can wisely be imposed on the power to which the care of it is not committed.” Such a sentiment dug deep into the tradition of Anglo jurisprudence, most of which developed out of a state’s martial powers, “nonstatutory, extraordinary powers,” at the “prerogative of his Majesty,” for use against “open enemies or traitors.”⁸

Indeed, emergency powers in theory and practice were developed through crises of social control. In Great Britain, control of colonial holdings first in Ireland and then India, in particular in response to revolts or riots against the colonial government, sparked early uses of martial power, as did labor revolts much later. In the US context, the development of emergency powers came through war, and labor conflict. The most expansive period of emergency power came in the exigencies of the Civil War. President Lincoln’s use of unilateral wartime powers in the period immediately following Ft. Sumter was, in the words of one legal scholar, “perhaps the most awesome display of executive power in American history.” Those powers were expanded in WWI. The Adamson Act, a provision which sought to protect wartime production through granting concessions to railroad unions, and the labor movement, then at the height of its power, was upheld in the Supreme Court decision *Wilson v. New*. That decision held that emergencies related to commerce, while they cannot create new constitutional powers, “may afford a reason

⁸ Oren Gross and Fionnuala Ni Aolain, *Law in Times of Crisis: Emergency Powers in Theory and Practice*, New York: Cambridge University Press, 2006, pg. 6; 31; 34

for the exertion of a living power already enjoyed.” This tradition of wartime expansion of executive authority continued in both WWII and the Korean War.⁹

States, like New York, enjoyed this power too, even without the desideratum of external war. Their power was worked out through the labor revolts of late nineteenth and early twentieth centuries during which, according to one scholar, “‘martial law’ has been proclaimed on so many occasion as to have become a household word.” The 1877 Great Railroad strike was a turning point. Nine governors called on the President to intervene and restore order. After, the imposition of emergency law became routinized in states with regular labor revolts: in the Coeur D’Alene miner strikes of 1892 and 1899, in Colorado with the Western Federation of Miners strikes in 1903 and 1904, in Ludlow a decade later, and Butte Montana, Cabin Creek West Virginia in 1912 and 1914, during the coal strike in Mingo county West Virginia in 1920, during the 1919 steel strike, the 1920 Galveston Texas longshore strike, the 1922 Nebraska City packers strike, and the 1927 IWW led Colorado miners’ strike – all employed declarations of emergency power at the state level to control particular cities or counties, and occasionally brought in federal troops. The process became a regular response to labor unrest; by 1934 twenty-seven states mobilized the National Guard, and by 1935 that number increased to thirty-two.¹⁰

A legal precedent was established in 1899, with the Western Federation of Miners actions in Idaho mines. The actions, including of the dynamiting of the quarter of a million dollar Bunker Hill mine at Wardner, Idaho with a train packed with 3500 lbs. of dynamite, saw the state governor declare a “state of insurrection and rebellion” and impose martial law in Shoshone County, just east of Coeur D’Alene. Federal troops were used to corral a thousand workers into bull pens to break the union, and held them for as long as a year. The process was radicalizing

⁹ Gross and Aolain, pg. 47; Opinion in *Wilson v New*

¹⁰ Charles Fairman, *The Law of Martial Rule*, Chicago; Callaghan and Company, 1943, pg. 81, 91

for many, including the Treasurer of the WFM, Bill Haywood, who witnessed the lengths of extra-legality the owners and the state would go to persecute what he called a “class war.” In some instances, the companies paid the legal costs of prosecuting attorneys, or later in Colorado, the cost of garrisoning troops.¹¹

One detainee of the bull pens, William Boyle, sued the state on grounds of habeas corpus, arguing that “the governor has no authority to proclaim martial law.” *In Re Boyle*, the Idaho Supreme Court sided with the governor, arguing that the governor’s actions were “in harmony” with the constitution because they were “necessary for the preservation of government.” “In such case,” the court argued, “the government may, like an individual acting in self-defense, take those steps necessary to preserve its existence.” Remarkably, this ruling upended a long tradition of U.S. jurisprudence that favored judicial neutrality in questions of political legitimacy.¹²

Not heard by the US Supreme Court, the precedent left to stand in *Boyle* was used repeatedly in subsequent instances of state violence. The next significant case, *Moyer v. Peabody*, however, did make it to the US Supreme Court. In a contrived effort to break the WFM in San Miguel County, Colorado, and citing *Boyle* as “an excellent precedent,” the governor of Colorado, James Peabody, began a system of mass arrests. One of those arrested and detained was Charles Moyer, president of the miners’ federation in Colorado during the 1904 strike. Moyer sued for habeas corpus on the grounds that the governor “has no power,” to suspend habeas corpus and impose martial law. Citing *Boyle*, the state Supreme Court sided with

¹¹ *In Re William Boyle*, Supreme Court of Idaho, 6 Idaho 609; 57 P. 706; 1899 Ida.

¹² *In Re Boyle*; The 1849 *Luther v. Borden* case established the political question doctrine, in which an actual rebellion in Rhode Island, claiming legitimacy to govern, was ruled outside the court’s bounds for judgement as it was a political rather than legal question. See *Luther v. Borden*, 48 US 1 - Supreme Court 1849. Or for example, *Ex Parte Merryman*, in which the court ruled that presidential suspension of Habeas Corpus, even during war time, was unconstitutional; although the ruling was ignored by the Lincoln administration. See *ex parte Merryman*, 17 F. Cas. 144 (1861).

the governor, arguing “the governor is the commander-in-chief of the military forces of the state, except when they are called into actual service of the United States, and he is thereby empowered to call out the militia to suppress insurrection.”¹³

There were in fact numerous irregularities in the Moyer case. For one, Moyer was initially arrested in a neighboring county, Ouray, before being transferred to San Miguel, released, and re-arrested there. Furthermore, there appears to have been no riotous or insurrectionary event in Colorado. Miners were on strike, and exercising their ability to strike legally. According to a lengthy dissent by Justice Steele in the Idaho case, “the petitioner is not guilty of any offense, has violated no law, and that no indictment, information or complaint has been filed against him except the complaint mentioned under which he was admitted to bail; that the charge in the said complaint is without foundation, and that the said respondents have refused to file complaint against the petitioner, and have refused to inform him of the charge against him.” The basis of Justice Steele’s dissent was that in fact Moyer was not a riotous insurrectionist, but was not even in the county where the alleged insurrection was taking place, and hence the Governor’s action was an illegitimate use of state power. His dissent was much more in line with U.S. judicial practice since the “Ex Parte Milligan” ruling of the Civil War, or *Luther v. Borden*. But no matter, the Colorado courts upheld the power of the executive in times of “emergency” to exercise the martial powers of the state.¹⁴

¹³ Fairman, pg. 83; *In re Moyer*, 35 Colorado, 154. “Contrived” because apparently, unlike the Idaho case, where there was significant property destruction, there appears to have been no riotous or insurrectionary mob. Leading to an odd statement of “fact” in the Colorado Supreme Court ruling: “that a state of insurrection existed in the county of San [***8] Miguel cannot be controverted. Otherwise the legality of the orders of the executive would not depend upon his judgment, but the judgment of another co-ordinate branch of the state government.” In fact a later U.S. Supreme Court ruling, in a case arising from Louisiana, in which Governor Hugh Long used a fictitious state of emergency for political gain, was declared unlawful. Not so in the case of labor.

¹⁴ *In re Moyer*, 35 Colorado, 154 – he continues - “this petitioner has neither been at any time, nor does he now, nor would he continue to be, an active participant either in fomenting or keeping alive any condition of insurrection or rebellion, and that he has at all times conducted himself in strict conformity to the laws of the land, and has advised, in his capacity as president of the Western Federation of Miners, that no act of lawlessness

Moyer and his attorney's then sued Governor Peabody over the terms of his detention, a case that went to the U.S. Supreme Court. In *Moyer v. Peabody*, Moyer argued that the detention violated the due process clause of the 14th amendment. The Court under Justice Holmes made no decision on the Habeas ruling from the Colorado courts, nor the factual basis for declaring a state of emergency in Colorado, in effect letting the earlier ruling stand. "We shall not consider all of the questions that the facts suggest," wrote Justice Holmes, only that it was "admitted by the plaintiff that he was president of the Western Federation of Miners, and that, whoever was to blame, trouble was apprehended with the members of that organization." Instead, the Court's short seven paragraph unanimous decision focused on the court's jurisdiction to rule, and found that, in a famous summation of state power during an emergency, "it is familiar that what is due process of law depends on circumstances. It varies with the subject-matter and the necessities of the situation." In the case of emergencies, comparing the Governor to the "captain of a ship," the Court found, "when it comes to a decision by the head of the State upon a matter involving its life, the ordinary rights of individuals must yield to what he deems the necessities of the moment." Even if the conditions for declaring a state of emergency are fictitious, when the "facts suggest" otherwise, if the executive acts "in good faith and in the honest belief that they are needed" the actions are lawful.¹⁵

It was in these and other labor cases, in which "emergency power could be clearly delineated from war power." That power was expanded to included economic crises during the Great Depression. In the words of one scholar, the Great Depression "created an emergency which unlike exigencies of the past, dealt a kind of violence to the public that neither armed

should occur upon the part of any member of said federation to the end that no reflection might be cast upon said organization.

¹⁵ *Moyer v. Peabody*, 212 US 78 - Supreme Court 1909,

forces nor military weaponry could repel. It was a new type of crisis leading to a broad extension of Executive power.” Roosevelt himself, in his inaugural address, asked for “broad Executive power to wage a war against the emergency, as great as the power that would be given to me if we were in fact invaded by a foreign foe.”¹⁶

Specifically, Roosevelt was referring to his very first executive action, the Emergency Banking Act, which suspended national bank activities and provided federal fiscal backing for deposits. But most of the New Deal programs were implemented under emergency powers, including the Federal Emergency Relief Administration, emergency railroad legislation, the Emergency Farm Mortgage Act, the NIRA which declared a national emergency in unemployment and industrial disorganization, and even the AAA, which a section of law declared an emergency and “created a *permanent agency designed to eradicate an emergency condition in the sphere of agriculture*.” Additionally, Roosevelt implemented numerous executive orders designed to meet the economic national emergency.¹⁷

In a 1934 autobiography, Roosevelt explained to readers the expansive understanding of emergency economic powers. “The full meaning of that word ‘emergency,’” he wrote, “related to far more than banks: it covered the whole economic and therefore the whole social structure of the country . . . it could be cured only by a complete reorganization and a measure control of the economic structure.”¹⁸

Roosevelt’s expansion of emergency power into the realm of purely economic activity was upheld by the courts. In *Home Building & Loan Assn. v. Blaisdell* the Supreme Court found that presidential use of executive powers in economic restructuring was legit. This piece of court

¹⁶ Relyea, *Brief History*, pg. 40, 53, 56

¹⁷ Relyea, *Brief History*, pg. 59 emphasis in original

¹⁸ Franklin D. Roosevelt, *On Our Way*, New York: The John Day Company, 1934, pg. 35.

precedent, which contemporary libertarians rail against as an unconstitutional expansion of state powers into the economic realm, and major legal justification for the New Deal state apparatus, is also the major legal foundation for the imposition of austerity under emergency conditions in the 1970s.

* * *

The New York intervention with the Emergency Financial Control Board perfectly fits this executive and judicial precedent. While no one was bullpened for tanking the municipal bond market, the emergency powers allowed the state to override constitutional home-rule provisions of the New York state constitution, remove democratic fiscal decision making, and disrupt opposition to the austerity regime through criminal prosecution. The legally sanctioned ability to detain those in opposition gave the measure teeth. And, like historical precedent, unions and working people bore the brunt of the state's intervention. The emergency powers of the EFCB fit a long tradition of state emergency powers for political purposes, namely, to quell labor. Felix Rohatyn, the main architect, later told the French-American Chamber of Commerce that "New York City found itself at war and put in motion the equivalent of a wartime austerity program."¹⁹

At the extraordinary session of the New York Senate to consider the EFA, the debate revolved around the loss of home rule, and the necessity of the emergency powers. Speaking in favor of the bill, Senator John Marchi from Staten Island remarked that passing the bill is "a step that we take with the greatest reluctance, I am sure, because it would otherwise be an act of violence if we were to engage in a massive intervention in the exercise of the powers of home rule and home discretion in the absence of the extraordinary circumstances." What Marchi meant

¹⁹ Felix Rohatyn, Speech to the French-American Chamber of Commerce, Dec. 1, 1978, Bigel Collection.

by “otherwise” is not clear. The EFA was in fact those things, a “massive intervention” and “act of violence.”²⁰

State legislators debating the bill linked a fiscal emergency to an expansion of state powers and fears of a labor revolt. Senator Jerimiah Bloom agreed, arguing that no one “can question the fact that a state of emergency exists,” in particular, what he called a “financial emergency,” that therefore justified the most extreme type of state powers, such that there could be no “limit in any way the power of the state to deal with emergencies arising from any cause.” Richard Schermerhorn, a Republican senator from Orange County invoked a potential labor crisis in speaking in favor of the legislation. He remarked that in the case of a default, the city would not have basic and necessary functions as city workers would not be obligated to work, if receiving no pay. The result, he argued, would be akin to a public sector strike, illegal under the Taylor law. He favored the passage of the Act.²¹

Few seemed to grasp the structural imperatives of the situation they were dealing with. One who did was Senator Abraham Bernstein of the Bronx. Clearly feeling trapped, he lamented the relationship between the responsibilities of public stewardship, and private capital. “There seems to me to be built into our society,” he wrote, “that we finance our public purposes through private money and that private money is given to us at a premium, a premium that accrues to the people who own that private money for the most part and who are interested in making more money from that money, and they are interested in making more money from that money to the exclusion necessarily of making sure that that money serves general social purposes.” Here Bernstein hit on the central tension this project attempts to highlight, that between private

²⁰ State of New York, From the Record in Senate Unrevised, Extraordinary Session, Albany, September 8, 1975, pg. 33. (Henceforth, Extraordinary Session)

²¹ Extraordinary session, 52, 81

finance and public governance in a democratic system. Bernstein understood that private finance for “public purposes,” when driven by the profit motive, grants a tremendous power to the owners of capital. Bernstein continued with his structural critique, “there is something indecent about our system, there is something indecent about the distribution of wealth in our system, there is something terribly disturbing about the fact that . . . the City of New York . . . should be at such peril at this moment.” Bernstein was on the fence about the Act because of its potential impacts. Importantly, he saw that the city, and the state legislators were stuck. When public governance is based on private finance there was a “premium” to be paid. New York was learning the lesson for the rest of us.²²

After a short debate, the bill was passed and signed into law by Governor Carey. The state legislation creating the EFCB also extended the state’s credit line to the maximum to support the city, granted a \$750 million loan to purchase MAC bonds, \$150 million in early paid City property taxes, and required over \$1 billion in MAC purchases from union pensions as well as \$250 million in purchases from banks and an additional \$156 million in rollovers. Standard and Poor’s estimated that “any additional efforts most certainly will strain the State’s resources, have a compromising effect on its fiscal integrity and jeopardize its double – A high grade credit rating.”²³

Interventionist and coercive state powers were needed to impose austerity for three principal reasons. The first was to correct the market failures of bond financing. As is almost universally the case, market failures necessitate state action, and in this instance emergency state power, akin to wartime measures, were needed to correct the market. However, instead of a

²² Extraordinary session, 111

²³ Presentation to President Gerald Ford on New York’s Financial Crisis, Sept 24, 1975, James Cannon Files, Ford Presidential Library

direct hand to compel bond purchases and restore market solvency, the state took an indirect role to impose the political and ideological agenda of the market on the city. This meant that extensions of state power were needed for two additional purposes, both within the scope of the historic use of such powers. The first was to discipline and disrupt the city's unions. Most important here was to tame and discipline unions to agreeing to a new political consensus, the neoliberal order, reduced gains and increased productivity for workers, that broke decisively with the Keynesian balance of power. The second was to break the power of social movements, to impose long desired cuts to the city's social wage. In the failing economy and bond market, these indirect methods of state intervention would fail. New York was indeed locked out of the market until 1982, when the economic picture finally began to turn around. In the meantime, emergency powers were useful in taming labor and social movements in ways that had not been possible before

For example, cuts to the city's welfare were attempted before. In 1971 attempts by then Governor Nelson Rockefeller to cut welfare by 10% sparked riots in the Brownsville section of Brooklyn. The riot was serious enough to see a spate of arsons in buildings and in abandoned cars used as impromptu street barricades, and prolonged clashes with the police. Eventually the state backed down, the cuts were not imposed, the power of social movements on the streets was still too powerful. The imposition of the EFCB was able to change all that. With coercive state power in their hands, backers of social austerity had a powerful tool against social resistance. I think though probably more powerful, was the rhetorical use of austerity. Numbers in black and white have a definitiveness to them that could undermine the will to resist. Extraordinary coercive power certainly helps as well.²⁴

²⁴ Lester Sobel, *New York and the Urban Dilemma*, New York: Facts on File, 1976, pg. 30

The issues that troubled the MAC, power and authority to impose a restructuring, continued to plague the EFCB. With emergency powers the EFCB could impose a wage freeze, but it would also have break the networks of civil society built on the Keynesian compromise, including labor, social movements and institutions tied to the public sector. In this contest the EFCB met with substantial resistance and had to accept a proposal that linked productivity and COLA increases over a strict wage freeze as a compromise measure. Because of this, the EFCB was furiously dedicated to monitoring and enforcing worker productivity. They were also concerned with the social wage, cutting and micro-managing the implementation of their cuts, refusing alternative cost saving measures if they did not meet their political agenda, while denying that their attention to fiscal austerity was political.

Two days after the EFA passed, the Control Board met for the first time on September 11, 1975. The Board consisted of Governor Carey and Mayor Beame, the State and City Comptrollers Harrison Goldin Martin Lefkowitz, and three “non-political” appointments by the Governor, William Ellinghaus of AT&T in New York, bumping him from the chair of the MAC, Albert Casey president of American Airlines, and David Margolis president of Colt, the weapons maker. Note – no bankers; the four elected officials and three corporate executives composed the board. This is significant because the mechanisms that favored the revised priorities coming from Wall Street were structural.

The first task of the Board as mandated by the law was to develop a three year plan for a balanced budget. It was based on the October budget of Mayor Beame which called for drastic cuts. To the October 7th Board meeting, Beame laid out his budget proposal. Beame estimated an \$800 million deficit for 1978, which he sought to eliminate through cut backs, reductions and layoffs. “All city operations,” he said, “schools and colleges hospitals, transit, social services,

cultural and recreational institutions, police, fire, and sanitation – will feel the impact of his plan. Reductions in services are required and inevitable.” He told the EFCB that he will cut \$200 million from that year’s budget, extend the wage freeze of city workers and force an additional 20,000 job cuts extended over a three year balanced budget plan. The Mayor’s plan was harsh, calling for between \$340 and \$380 million cuts per year of the three year plan.²⁵

Later in October of 1975 the Board released their Three Year Financial Plan for the City of New York based on the Mayor’s outline. The document, which very quickly became a four year plan, was the central document of the austerity regime. It prioritized cuts on labor and the social wage. It laid out three general guidelines for priorities in reducing city budgets, that “no wages will be paid above the 1975-6 levels,” violating contract obligations, that Cost-Of-Living-Adjustments were acceptable for the first year of the fiscal plan, but thereafter “no increments or additional cost-of-living adjustments will be provided of the remaining fiscal years,” and that funding for remaining federal and state mandated programs, “will remain relatively constant.” Wages, and social wages, were to be frozen.²⁶

In addition to laying out its general wage freeze policies, the city’s financial plan from the EFCB made clear their emphasis on productivity and labor discipline from the outset. It asserted that “it is in the interests of both labor and the City to eliminate contract abuses and to cooperate in achieving greater productivity and efficiency,” even though the plan “imposes demands upon labor and calls upon workers to make painful sacrifices.” The Board hoped to “work together with the unions to eliminate non-productive practices.” A hope which came to

²⁵ EFCB meeting minutes, Oct. 7, 1975

²⁶ Financial Plan for the City of New York and Covered Organizations, in United States Congress House Committee on Banking Stabilization Currency and Housing Subcommittee on Economic, *Debt Financing Problems of State and Local Government: The New York City Case : Hearings Before the Subcommittee on Economic Stabilization of the Committee on Banking, Currency and Housing, House of Representatives, Ninety-Fourth Congress, First Session* (U.S. Government Printing Office, 1975). Henceforth Financial Plan

fruition. “In addition,” they wrote, “we are already examining the level of some fringe benefits, such as the pensions study of the Mayor’s Management Advisory Board, to determine whether they should be similarly adjusted.” The answer, as it would turn out, was yes.²⁷

The pension Advisory Board became a separate commission headed by the MetLife executive Richard Shinn which quickly tasked itself with rolling back worker benefits in the employee pension system. By 1976 city workers were required to pay an additional 2% to 2.25% out of pocket into their pensions, reducing city expenditures by roughly \$49 million in 1978 and close to \$100 million in 1979. A clear wealth transfer of over \$100 million in a few short years. On top of wage freezes and COLA payments below inflation rates, these costs meant a serious erosion of worker purchasing power and standard of living in New York. Part of the board assault on workers to come out of the crisis.²⁸

Meanwhile the Three Year Financial Plan for the City of New York, ostensibly a budget document, spells out its political agenda as well. The document calls the Great Society programs of the 1960s “a social services revolution” that New York sought to support and expand despite a lack of fully funded federal programs. New York “can no longer afford to do this,” it wrote, and that the planned “reduction in the level of City contributions will mean closing some day-care and senior citizen centers and cutbacks in family planning, neighborhood action, manpower training, and addiction treatment service and the anti-poverty program.” The revolution in services must be undone; so too with the social movements and civil society networks that

²⁷ Financial Plan

²⁸ Prepared Statement of Mayor Ed Koch, United States Congress Senate Committee on Banking Affairs Housing, and Urban, *New York City Financial Aid: Hearings before the Committee on Banking, Housing, and Urban Affairs, United States Senate, Ninety-Fifth Congress, Second Session, on S. 2892 ... and H.R. 12426 ...* (U.S. Govt. Print. Off., 1978) pg 56

helped make them possible. That this was a political revolution from the top, using fiscal means to achieve desired political results there can be little doubt.²⁹

This is striking because the EFCB three-year-plan recognized that the cause of budget shortfalls were beyond the scope of city activities. It found that “just as much of the budget is beyond our immediate control, the deficit too, resulted in large measure from the national migration patterns and economic forces and policies beyond the City’s control.” In shared this framework with stateplanners from 1966. The source of the city’s problems were largely outside city control. Despite the shared framework, the conclusions in 1975 were very different – cut, not uniformly, but with surgical precision to do most damage to labor, social movements, and social benefits, again in line with historic exercise of emergency powers.³⁰

After the three year plan was developed, a November 1975 report monitoring the city’s reduction plans prepared by the Office of the State Comptroller found that the city “had not kept pace with its planned expenditure reductions,” and that there was “substantial slippage” from planned goals. It recommended that “close supervision will be required on the part of the City management to insure that the cost reductions take place.”³¹

Based in part on this “slippage” report, in December of 1975 the Emergency Financial Control Board released a report in which the calls for cuts were staggering. The December report listed well over a dozen places to make reductions, all of them targeted and the poorest and most vulnerable. A partial list includes “Reduce Ambulatory Care Subsidy, Reduce CDA (Community Development Agency) Contribution, Reduce Social Services Expenditures, Freeze Child care centers, reduce Medicaid Rates, Reduce City Subsidy (Libraries and Cultural

²⁹ Financial Plan

³⁰ Financial Plan

³¹ Office of the State Comptroller, “Report on Monitoring New York City’s Expenditure Reduction Program: Summary For the Emergency Financial Control Board,” Nov 30, 1975, EFCB Archives

Institutions), Reduce Emergency PA Grants, eliminate Firearms Control Board, eliminate Staff for Urban Design Council, and Reduce Lighting Program,” among others. What is truly remarkable is that all these cuts, and others not mentioned, totaled in \$52.19 million in savings. As the city faced a budget crisis in the billions of dollars, these cuts would do irreparable human harm, with hardly any impact on the City’s overall financial wellbeing. The cost reduction monitoring system was a key part of the legislation that established the EFCB, and officials at the City and State Comptrollers offices took their job seriously.³²

Specifically the December report called for an end to the 50 percent matching fund to subsidize out patient ambulatory care through the Ghetto Medicine Program. It called for cuts to the Community Development Agency, especially to the Council Against Poverty. The monitoring program made sure that 28 city child care facilities and 3 senior centers were closed. It wanted to “freeze rates paid to voluntary foster and maternal care agencies at the 1974-1975 level.” It sought to reduce the Youth Services agency between 10 and 30 percent. Medicaid reductions, including “laboratory services, mental health services, nursing homes, hospital services, private clinics and ancillary services” all had to be made. The report noted that Health laboratories had not yet made the required cuts and that “affected personnel should be terminated immediately” It wanted to close 19 branch libraries and layoff two hundred and nineteen employees in the city’s libraries (but at the time of the report only the Queensborough branch had laid off 38 people.) It wanted to cut seventy-three employees from cultural studies, but only 29 layoffs, 8 retirements and one resignation had happened up until that point. It wanted ninety seven layoffs at the “super agencies” like Health Services, Administration, Parks Recreation and

³² Emergency Financial Control Board Report, State and City Comptroller’s Report on Monitoring New York City’s expenditure Reduction Program, prepared by the Office of the Special deputy of the Comptroller of New York City, December 31, 1975, pg. 12, table C, Status Reports on Cost Reduction Areas. Henceforth Comptrollers December Report

Cultural Affairs Administration, and Finance Administration. It wanted to eliminate the Environmental Protection Administration and reshuffle into the sanitation department. Not even lighting was safe; the report called for a “reduction by the Municipal Service Administration of energy consumed in lighting monuments, bridges, parks and schools by shortening hours of illumination, lighting on limited access highways is to be provided only at exits.”³³

The cuts were based on the EFCB’s three year financial plan which was adopted from the Mayor’ proposal of October. The major impacts were to go to welfare, cut by \$76 million the first year and frozen thereafter, education and higher education which was to be cut by nearly \$50 million the first year, and nearly \$80 million in the subsequent years. Also on the block was the city’s Health and Hospital Corporation, which faced \$170 million in cuts over the three year plan, equivalent to the cuts that uniformed workers faced (police, fire and sanitation). A more detailed breakdown of the cuts by city department, showed city Social Services, which included welfare, but also other services like those mentioned above, faced the majority of the cuts. In the first year, SS was to be cut \$128 million, which was leaps and bound above other departments. The next two closest, for example, Education and HHC, were both just shy of \$40 million for the first year. That disparity was evened in the next years’ plans, as all three faced cuts in the realm of \$65 million per annum. However, those three, education, hospitals, and welfare, would face the largest cuts. Here, like in wages and productivity, the Board saw its role as fiscal disciplinarian, and to ensure that the city enforced the harshest austerity possible.³⁴

All this had to be put on hold as the board’s work quickly moved to saving the city from default through a series of eleventh hour crises from October 1975 to March of 1976. The sources of this continued crisis atmosphere, despite the creation of the EFCB, was the continued

³³ Comptrollers December Report, 12, 18, 31, 52

³⁴ City of New York, Three Year Financial Plan / Cash Flow Statement 1975-1976 through 1977-1978, EFCB Archives

failure of the municipal bond market and deterioration of New York City's economy. For example, one month after opening the EFCB was in crisis, again dealing with a precipitous default. At the same meeting Beame unveiled his October budget, Rohatyn told the Board that "MAC does not have sufficient commitments," to meet the city's October debt service payments. A provision of the EFA required state employee pensions to purchase \$225 million of city debt. In a ruling on September 29, a lawsuit brought to the State Supreme Court found the compulsory mechanism for city reinvestment unconstitutional, and two union pensions, the state employee and the teachers both withdrew their funds. After the news, Moody's downgraded both State and City notes. MAC was barely hanging on as it was, and this marked a major setback. The MAC and EFCB scrambled to put together a new funding package with little to no backing from market or state actors. Furthermore Rohatyn found another main reason for the shortfall was that the city hadn't sufficiently implemented the wage freeze, "a key element of the city's financial reforms," further eroding market support.³⁵

In this crisis environment, the following week the Board entered continuous session as it scrambled to fund the city's debt, remaining open roughly from October 15 to October 20. While the governor talked to Albert Shanker to convince the teacher's pension to reinvest in the city voluntarily, he recommended that board members make no public statements. Board executive director Herbert Elish was also meeting with union heads. The central figure in this drama was Shanker, president of the city's teachers union. Shanker and the teachers withdrew their offer to purchase city bonds, at a time when New York had quite literally run out of options, save default. This gave Shanker and the teachers tremendous leverage as the sole source of capital for the city. On October 16th, the Governors chief advisor, Richard Ravitch, met

³⁵ EFCB meeting minutes, Oct. 7, 1975

throughout the night with Shanker to convince him to have the pension purchase the bonds. Ravitch insists the Shanker was not holding out for a quid-pro-quo on the upcoming teachers contract, and that Shanker was genuinely torn about investing teacher retirement funds in the city which might default at any moment. Midnight calls were made to the White House to let the President Ford know that default was imminent and Mayor Beame drew up bankruptcy documents for the city as Ravitch emerged at 5am empty handed. Default appeared imminent. However, Carey's negotiation with the teachers eventually worked; at noontime negotiations on the payment date, Shanker agreed to purchase \$150 million of MAC notes to avoid a default. The banks had to extend their hours to get their payment on time. That close shave roiled markets and spooked investors worldwide. But with the immediate crisis narrowly averted, the city had some breathing room, the next payment, roughly \$650 million, wasn't due until December.³⁶

The October showdown with Shanker demonstrated a number of important developments. The first was that President Ford was ready to have the city default. Ford declined to take the 1am call from Rohatyn about the default, passing the responsibility to aids. The next day, Beame and Carey were in Washington making their case for federal funds. Making himself clear, a week later Ford delivered a public statement on New York in which he promised to veto any legislative spending meant to help the city, confirming statements made by Treasury Secretary William Simon in May. Reproaching the city for its wages, salaries and benefits, Ford told the National Press Club that "I can tell you . . . that I am prepared to veto any bill that has as its purpose a Federal bailout of New York City to prevent a default." Furthermore, Ford said that there was "no doubt where the real responsibility lies," with New York City officials who "will not face up to the city's massive network of pressure groups as

³⁶ EFCB meeting minutes, continuous session, Oct 19, 1975; "Chronology of a Crisis"; and Richard Ravitch, *So Much to Do: A Full Life of Business, Politics, and Confronting Fiscal Crises* (New York: PublicAffairs, 2014) pg 91

long as any other alternative is available.” The following day, Ford was hammered in the press, the New York Daily News running its famous headline, “Ford to City: Drop Dead,” a near paraphrase of internal White House conversations as it would turn out.³⁷

The other salient revealed by the Shanker showdown was that the unions were not playing hardball. On October 16th Shanker and the unions prepared to purchase bonds had the exact same leverage as the banks – they were the only source of desperately needed capital for the city. It’s never been entirely clear what Shanker’s calculus was, and his position may have been undermined by the context. For one, it is possible that if Shanker refused to buy, other union pension funds would have stepped forward to pick up the tab. Indeed they did exactly this, over the course of the crisis purchasing roughly \$2.9 billion in city notes in 1976 and 1977. Perhaps more important, a municipal bankruptcy could have decimated his union, and Shanker likely knew this. A bankruptcy court likely would have voided city collective bargaining agreements and obligations to bond holders. In bankruptcy, “essential services” would have had funding priority, and it was unknown where public schools and teacher pay would fall in the hierarchy of “essentials.” A buyout would at least prevent the worst of the worst from befalling the teachers. But banks nor the city wanted this either, and this was exactly the kind of brinkmanship the financial sector used to leverage the city to force it to share the new financial perspective.

In any case, the Monday following Shanker’s eleventh hour rescue, October 19th, during the EFCB continuous session Board members heard from city officials that unions wanted the job layoffs to come through attrition. They estimated roughly 70,000 city workers could retire through an advanced attrition program to replace outright job cuts, and that Board Director

³⁷ Ford, Statement to National Press Club, Oct 29, 1975

Herbert Elish recommended this method. Meanwhile, despite the troubling signs from Washington, Rohatyn was banking on federal funds to save the city. He argued that once a federal guarantee was given, assuming they got one, the EFCB and MAC should seek to renegotiate its interest rates. Remember, some MAC bonds were issued at a crippling 10% rate. Rohatyn wanted the renegotiation “because the interest rates reflected not the credit of the state but the crisis atmosphere” of the market, and that “any corporation would be insolvent if all at once its obligations became due,” as was happening to the city. He estimated a renegotiation would impact 80% of MAC issues and would have “a significant impact on MAC takeout and the City’s budgetary problems over the next few years.”³⁸

Nonetheless, the teachers’ buyout provided a small window of breathing room for the Board, and they quickly moved to approve a three year plan on fiscal solvency for the city. Not surprisingly, the Board’s plan went beyond Beame’s already tough stance. And Beame pushed back. At the October 20th Board meeting, he argued that in the Board’s plan “additional cuts in the capital budget was made without adequate foundation . . . the proposed projects to be cut . . . were important projects and that some of these additional capital budget cuts affected vital public facilities, some affected the economic growth of the city, and some might affect the public safety,” and that he was therefore opposed to the additional cuts.³⁹

Margolis responded to the mayor saying that he was not familiar with the specific cuts Beame had brought up, but that the Board was not recommending specific programs be cut, but that cuts were to be made in “aggregate amounts.” He met with widespread agreement on the Board. Governor Carey argued that “the Board “must go forward with numbers on a financial plan today,” and that “if it were later shown that the final amount agreed upon in any way

³⁸ EFCB meeting minutes, continuous session, Oct 19, 1975

³⁹ EFCB meeting minutes, continuous session, Oct 20, 1975

seriously affect public health or safety, the Board would consider modification of that figure.” State Budget Director Peter Goldmark concurred, saying that “the plan did not specify where the City would make cuts.” A bigger problem, still looming on the horizon for the Board was that Carey noted that “the Board had not received the cooperation it would have like [sic] form the covered organizations.” While they could approve “aggregate amounts” it was not clear if their cuts would be implemented.⁴⁰

Even with the eleventh hour save from the teachers union, by November it was not clear where the funds for the next debt service would come from, then due in December. The EFCB started frank discussions about default and went so far to draw up plans about how to navigate default. Victor Marrero, the First Assistant Counsel to Governor Carey explained the process; that the city would petition the court explaining they were unable to pay and were seeking a repayment plan; filing with the court triggered an automate 90 day stay for city payments, during which time it would be the Board’s jobs to “determine the order for payment of services during the stay period.” The board then passed a resolution requiring “the City; OR By the Board” to structure the payment schedule in a default scenario such that it “provides for the eventual satisfaction of all debts and obligations” of the city. Remaining funds would go to “essential services,” and the major question the Board had to address, indeed one that persisted throughout the austerity crisis, was how to determine “essential services?” A question they routinely asked themselves as various default crises approached, and one that must have truly emphasized the social construction of material need.⁴¹

In November the Federal government emerged as the only entity that could possibility save the city. At the beginning of the month, Governor Carey asked the Feds for a 90 day loan to

⁴⁰ EFCB meeting minutes, continuous session, Oct 20, 1975

⁴¹ EFCB meeting minutes, Nov. 4, 1975

avert “immanent default.” On November 8th Ford again promised to veto any loan guarantee to the city. Meanwhile state funding packages were blocked by state legislative intransigence. Part of the problem was the role of the banks, at the state level, when funding deals for city were close, the banks would require the state too to “submit a balanced budget proposal in order for the banks to keep up their end of the city’s funding package.” No funds were coming from State or Feds and by the end of the month, Beame detailed a new plan to cut an additional 8,000 city workers and “further budget cuts that will cost the jobs of thousands more.”⁴²

Meanwhile, for the EFCB, all eyes were on Washington. Rohatyn told the Board the Ford Administration was “cutting it awfully fine,” by not guaranteeing a loan. Rohatyn explained to the Board that key Ford advisors, including William Siedman and Fed Chair Arthur Burns expressed reservations about funding the city without changes to the city’s pension system. Their concern was around employee padding hours and overtime in their final years of employment. Concerns from other unnamed officials about the pensions revolved around employee underpayment, as well as inflating estimates for future government allocations. This was coming from the White House, meanwhile for the EFCB all were waiting for what the president might do.⁴³

Washington was watching back. Soon after the creation of the EFCB, Greenspan and the council of economic Advisers wrote the president the cuts planned through the EFCB seemed unlikely to be realized. The sticking point, from the perspective of the White House, was that “these cuts will be objected to by the municipal unions and local community interest groups concerned” with maintaining services. The task for the city then, “is whether EFCB or succeeding agencies will be able to make these reductions and follow through in the face of

⁴² Chronology of Crisis

⁴³ EFCB meeting minutes, Nov. 17, 1975

strong union and local community pressure.” Cutting like this, “had no previous success,” and because “interest groups still have considerable power” their future, even with the EFCB, was uncertain. Whatever the outcome, for Greenspan and White House planners, this, the power of unions and social movements, was the central problem of New York, and they were waiting for further action from Mayor Beame and the Board.⁴⁴

But Carey and Rohatyn were maneuvering to force the Administration’s hand. By November 14th the city, the banks, and unions had agreed to general fiscal plan for the city, the terms of the Three Year Plan announced in October. This was largely the work of Governor Hugh Carey and Felix Rohatyn. Sensing weakness in the administration position after the Daily News “drop dead” headline, Cary and Rohatyn assembled voluntary agreements from unions and banks to provide loans, debt rollovers, agree to wage cut backs and welfare reductions, all contingent on forthcoming aid from the federal government. The governor and state legislators also agreed to an aid program that was contingent on a federal role. William Simon wrote to President Ford as early as November 3, 1975 that “preliminary, but serious, conversations have taken place between union leaders and bankers to determine the concessions which might be effective.” By November 14th outlines of the plan were available and Carey and Rohatyn were writing to pressure Secretary Simon. It asked the White House to provide \$1.3 billion in temporary, “seasonal” loans, to help the city through its cashflow crisis – what New York officials had been asking from the beginning. That agreement, assembled by Carey and Rohatyn, but pressure on the White House to act. All major players in the drama had stepped forward, and

⁴⁴ Memorandum For The President, “An Economic Analysis of the New York City Financial Crisis,” Alan Greenspan, Council of Economic Advisers, October 27, 1975, Ford Records, Bigel Collection

all were waiting on the Feds to play a similar role. The political effort from New York, combined with the climate in the press, was enough to force a full reversal in the White House.⁴⁵

Finally, after the pressure from the press, national and international banks, and the Rohatyn deal, the federal government in December agreed to provide \$2.3 billion in “seasonal loans” to help the city with its cash flow problem and move it into the New Year. While the cuts and the efforts to tame labor and social movements continued through the EFCB, the Federal aid marks the end of the year of crisis for the city. No longer was the immediate need to find funds to meet the city’s debt service schedule, but instead to restructure the city to reenter the market. This was a major turning point; after federal funds were forthcoming, eleventh hour default near-misses like the Shanker incident in October were a thing of the past. Treasury Department officials were now sitting in on Control Board meetings as part of the monitoring oversight requirements of the Federal loan process. Robert Gerard the Assistant Secretary of the Treasury told the Board that “returning the City to the market,” was a shared goal of the Board and the Treasury.

But even this did not stop the cascade of cuts that the city made in 1975, and were forced to increase in 1976 and 1977 as their economic situation worsened. At the January 30 meeting of the EFCB Governor Carey emphasized the importance of Board oversight of city activity “on a day-to-day basis.” If there are savings from layoffs or attrition, for example, the Board should “know where the savings are being applied, and who the City’s cash flow is being affected by the savings.” There were three areas the Board paid particular attention to – unions and workers, CUNY, and the city’s health care system. Beyond these targeted cuts, the austerity regime also

⁴⁵ William Simon to Gerald Ford, Memorandum for the President, Nov 3, 1975, Presidential Handwriting File, Ford Presidential Library; Stephen Gardner to Max Friedersdorf, “New York Plan,” Nov. 14, 1975, William Seidman Files, Ford Presidential Library; Hugh Carey to William Simon, Nov. 14, 1975 and Felix Rohatyn to William Simon Nov 13, 1975, William Seidman Files, Ford Presidential Library

went after the “social wage” much more broadly, everything from public schools and day care, the elder care, drug treatment and mental health. Ongoing questions of politics and power plagued the Control Board in each of these arenas.

In February of 1976, although 32,000 cuts to city employees had happened between June and December of 1975, the Board knew that more were necessary. The city’s economy was crumbling. The continued threats of default and crisis throughout 1975 left a pallor on New York. City employment job cuts, at a time of widespread municipal depression, further depressed the city’s economy. New York’s life blood was draining as thousands were leaving in a literal escape from New York. Governor Carey explained that because of deteriorating economic conditions, leading to an aggrieved public, the Control Board needed a revised financial plan, which he summed up as the need for “there must be an intensified effort to restore an atmosphere of confidence.” Rohatyn, although he agreed that more cuts were needed, also knew that they would impact city services. Governor Carey told the assembled Board of directors that for “the city, in making its cuts will reach levels irreducible in terms of the functioning of government.” In March Beame announced a new budget for the upcoming fiscal year, and it called for even more severe cuts. In first 18 months of the crisis, between January 1, 1975 and June of 1976, 45,000 city employees were cut. Beame was now promising more. He said the new round “cut very deeply into the services of the city,” and that they were “painstaking and difficult.”⁴⁶

Against this background of the overall budget picture deteriorating, Board members doubted their chance of success. Even with the Federal bailout, state funds and tax revenues were still declining. Margolis thought that with poor budget picture, and the intransigence from the covered agencies, “the task may be too large.” Deputy Mayor John Zuccotti said that given

⁴⁶ EFCB minutes, Mar. 12, 1976; Feb 13, 1976, and Mar 26, 1976.

the possible magnitude of state and federal cuts “if the city is going to be able to make the necessary reductions, it will be necessary to raise the basic political question as to the extent and nature of the City’s responsibility” for basic social services and things like higher education. Rohatyn thought that the Board needed “a reassessment of the respective functions of City and State government in some areas,” what he went on to call a complete “possible restructuring” of governance.⁴⁷

Here austerity planners knew that macro-economic factors were harming the city’s fiscal portrait because the downslide into depression in 1975 and 1976 made their plans for fiscal recovery all the more difficult. For example, Governor Carey told the members of the Emergency Financial Control Board in January of 1976 that New York City was undergoing a “severe economic decline,” and that “the City is being impacted by economic factors which affect adversely the financial plan.” Ellinghaus, an austerity hawk, agreed with the Governor that even by 1976 “the signs of economic recovery had not appeared in New York.” The next month, as revenues for the city were following because of the depression, Deputy Mayor of Finance, Kenneth Axelson, reported to the EFCB that downward revisions to their financial plan was largely attributable to “the lagging economy and continued inflation, the increase in debt service expenses . . . and the loss of pension interests surplus,” all impacts of the sagging NYC economy or the added costs from the crisis.⁴⁸

This is where the Emergency Financial Control Board stood in the winter of 1975/1976. Their emergency powers were no match for the failing market and economic disintegration of the city, and so they had to make further cuts, well into 1976, 1977, and beyond. That is because the emergency powers of the Board were pointed in the wrong direction – down – down toward city

⁴⁷ EFCB meeting minutes, Jan 30, 1975

⁴⁸ EFCB meeting minutes, Jan 30, 1976; Feb 13, 1976

workers, welfare recipients, students, the elderly, and others. As the Board emerged from the period of brinkmanship, the height of the crisis, it began to focus on its accelerating schedule of cuts and the power necessary to make them happen. This was targeted in three general areas: the city's workers and unions, CUNY and higher education, and the city's hospital system. In addition, the Board went after all other city social services like drug treatment, elder care and the libraries, but it was from the unions and the leaders of the authority system at CUNY and HHC where they encountered the most resistance. These conflicts would lead to very explicit discussions and use of the extent of state power. Even with all this, the Board was unable to restore the market to the city, which continued to fail throughout the remainder of the 1970s.

* * *

4.3 Unions: "\$700 Million in Human Tragedy"

Like the historical precedent for emergency powers in Idaho and Colorado, an early target for state intervention in the EFCB was the city's labor unions. Besides restructuring governance through the coercive powers of the Board, the members of the EFCB also went after labor. They opened up existing contracts, implemented a unilateral wage freeze, cut benefits and pay and resorted to massive layoffs, roughly 65,000, over a fifth of the city's workforce in the course of 19 months. When those measures weren't enough, they implemented productivity requirements to get more out of city workers. In exchange, workers were given cost-of-living-adjustments, COLAs, that were capped at 6% and which had to be paid through proven cost-savings in productivity. A COLA of 6%, not tied to inflation which was never below 7% for the latter half of the 1970s, and coming directly out of increased worker efficiency meant that

worker were losing big time in New York City. And because the COLA payments tied to productivity, workers were doubly hit – they were working harder to lose ground.

Unions were a target because public sector workers through their unions won gains the post war period that other segments of the labor movement could not match. While industrial sectors were displaced, outsourced, off-shored, or simply moved to non-union states or rural areas, public sector unions grew exponentially in the 1960s. Between 1960 and 1970 while full time city employment grew by 43%, membership in public sectors unions in NYC increased three-fold, by 300%. In the early 1970s fully three-quarters of all city workers were union members and 90% were covered by collective bargaining. Based on pay scales in New York City, public sector workers in the twenty years from 1954 to 1974 increased their wages by as much as 220-230% in some highly unionized sectors like sanitation workers, teachers and police. The only private sector job category to do comparably well was the building trades which saw pay increase by 211%. Other private sector jobs, like manufacturing, retail, service work in banking, or wholesale work saw much more modest gains, from 117-153 percent, in some cases barely keeping up with inflation for the period. Because of this, in a 1975 report presented at Congressional hearings on the fiscal crisis, the Economic Development Council of New York City advocated cuts to city workers, noting that “it is clear . . . that wages and non-wage benefits of employees of the City of New York are superior to wages and non-salary benefits of employees performing comparable jobs in the private sector.”⁴⁹

⁴⁹ Testimony of Ed Koch, United States Congress Senate Committee on Banking Affairs Housing, and Urban, *New York City Financial Aid: Hearings before the Committee on Banking, Housing, and Urban Affairs, United States Senate, Ninety-Fifth Congress, Second Session, on S. 2892 ... and H.R. 12426 ...* (U.S. Govt. Print. Off., 1978) pg. 37; Economic Development Council of New York City, *Looking Ahead in New York City: Reducing the 1975-1976 Budget Gap In New York City*, April 2, 1975 in *Intergovernmental Anti-Recession Assistance Act of 1975, Hearings before the subcommittee on Intergovernmental Relations of the Committee on Government Operations, United States Senate, May 6, 7, 8 and June 3, 1975*

Hence, timing public sector unions had been a growing business agenda for a while. According to the Development Council report, city employees and their unions were pushing forward a much more humane work regime. These changes to work standards and compensation for extraordinary work, called fringe benefits, were also a target. In general, this was a problem of “collective bargaining with [city] employees which has resulted in substantial increases in remuneration.” Especially vexing were those items off traditional pay calculators, things like “union welfare funds, full payment of health and hospital insurance, special night differentials, union annuity funds, additional vacation, personal leave and other time off and special devices to expand the potential for overtime pay.” And so too with pensions, “the cost of which . . . has tripled as benefits and pay were increased.” Furthermore, “the fastest growing area of employment in the post-war years has been local government. This generalization applies to New York City just as much as it does to the nation as a whole.” To trim the leading sector of the labor movement, was no small task. It took a shift in how governance was conceptualized and implemented and the practice EFCB was a big part of that shift.⁵⁰

So when the EFCB met in September of 1975, cuts to labor was a high priority. In the broadest outlines the Control Board found the basic areas of revenue control, besides collections, were in employee pay, productivity and benefits. Because of this, the Board noted “that there appears to be an urgent need to negotiate more flexible provisions in the City’s labor contract relative to manning requirements and personnel use. This is especially important during a period of fiscal emergency where there are insufficient funds to continue employment practices of prior

⁵⁰ Looking Ahead in New York City

years, and economies are needed urgently to minimize service reductions.” Workers and their unions were to be the central focus of the EFCB.⁵¹

And so at the first meeting of the board of the EFCB on September 11, 1975, the Board picked up the agenda of the MAC. First order of business was to review the city’s collective bargaining agreements and to get the voluntary wage deferral agreements reduced to writing and submitted to the Board. Reviewing a MAC budget estimate from August 29, they found that the city finances out of whack by roughly \$2.5 billion. To fix an estimated budget gap of \$574 billion in fiscal year 1975 – 1976, the EFCB supported the MAC internal documents call for a reduction of the city workforce by 46,000 employees by ’77-’78, plus an additional \$200 million in other cuts, and \$481 million to be covered through additional debt issues through the MAC. As part of a three year plan to be announced in December, the EFCB wanted the \$574 million deficit reduced to \$275 million the subsequent fiscal year, and completely gone by fiscal year 1978.⁵²

But digging into city labor contracts was a difficult and complicated matter, and already unions had agreed to give-backs, making further cuts difficult to imagine. Overall there were 45 wage deferral agreements and 74 other wage agreements in the city. The mayor’s executive action of earlier in the summer froze wages retroactive to July 1, 1975 standards, this despite city-wide agreements from previous contracts for a 8% salary increase in the first year, and 6% in the second, plus a provision for yearly COLA increases. Instead, the Board wanted to defer the payments for one year more, to 1978, and pay only if the city had a balanced budget. They also wanted to see a “curbing of overtime abuses by employees for pension purposes.”

⁵¹ Office of the Special Deputy Comptroller for New York City, Areas of Potential Cost Reductions, Board submission to city on cuts, Aug. 12, 1976, pg. 4, Municipal Archives

⁵² EFCB meeting minutes, Sept. 11, 1975

Furthermore, a memorandum from MAC corporate counsel to the Deputy Mayor of Finance Kenneth Axelson found that the city should pay no interest on the deferred salaries. At the second EFCB meeting, on the question of labor contracts and the wage freeze, Beame asked if the law applies retroactively, to those signed in 1974. Ellinghaus, others said yes, that those contracts will be opened up and workers made to take the wage freeze.^{53 54}

The EFCB closely followed not only the cost of labor contracts, but the policies and working conditions to achieve cost reductions, and was not limited to teachers and transit workers. For example, in an internal EFCB memo called “Possible Areas for Cost Reductions,” Sidney Schwartz, the Special Deputy Comptroller for the state, found a possible \$5 million in savings if the NYPD reduced patrol vehicles to one officer, from two, “at many sections of the city, at many times of day.” The reason this had not yet been implemented, he argued, was “primarily because the police union has objected.” In a January letter, he found that uniform allowance for officers, \$225 a year, was too generous. And that “in future collective bargaining negotiations,” measures should be taken to provide uniforms only when needed. Other places for cost reductions from police workers, for example, in their labor document to the city the Board wrote, that “police officers made 6,391 blood donations in 1975 and received full pay for approximately 12,500 days off, for a cost of \$1.3 million. If these 12,500 police officer days-per-year can be sacrificed with adequate service maintained, then it appears that some sixty officers are dispensable.” A harsh conclusion indeed.⁵⁵

Still more provisions from the police department contracts troubled the Board. “Chart days,” in which officers are paid for training days, if eliminated would have saved the city \$26

⁵³ EFCB meeting minutes, Sept. 23, 1975; Sept. 18, 1975

⁵⁴ EFCB meeting minutes,

⁵⁵ Sidney Schwartz to EFCB, December 8, 1975; “Areas for Potential Cost Reduction;” Sidney Schwartz to EFCB, January 21, 1976, EFCB Archives

million. Increasing police productivity by reducing dispatch re-contact times from 30, down to 20 or even 18 minutes, “if adopted, this could increase by 30 percent the availability of cars for additional calls to service.” Ending police traffic enforcement and giving that work to civilian parking enforcement workers would be “more productive than police officers and less than half as costly.” Similar for sanitation workers, where the board also targeted sanitation work standards. They wrote that “three-man crews used on all sanitation trucks in New York City are not necessary; two or even one-man crews might suffice . . . the City’s contract with the Uniformed Sanitation Union does not specify the size of crews on collection trucks, and there appears to be no reason why determination of size should not be exercised as a management prerogative.” And on and on, not just related to police and sanitation, but to nearly every type of city employee.⁵⁶

While the EFA and the Board targeted unions and city workers for the tremendous cost savings to be found in labor, the actions of the Board went far beyond measures of fiscal necessity. The bill invalidated existing labor contracts for city unions. A wage freeze was imposed and all pay increases from contract negotiations, including those that related to pension setting earnings were frozen by order of the law. Unions could avoid forcibly having their contracts violated by agreeing to a deferment, without interest. The wage issue was of such importance to Governor Carey it was included in the early provisions of the law; an internal memo from counsel to the Governor called the wage freeze provisions “an acceptable and appropriate contribution toward alleviating the fiscal crisis of the City.” By March of 1976 the Board was extending the wage freeze for the full term of the emergency legislation, through 1978. Measures such as these were not only fiscal, but political as well, the curtailed the ability

⁵⁶ Areas of Potential Cost Reductions

of unions to participate in collective bargaining in any meaningful way. They also hamstrung the ability of unions to fight the proposed roll backs.⁵⁷

In December, the City's Board of Estimate, the city's highest governing body except for the mayor, was asking the EFCB about who had final approval over union contracts. They wanted to know whether the EFCB or the city's Board would get the final say. The Board of Estimate wanted that power, arguing, in the words of Kenneth Axelson, the City's Deputy Mayor of Finances that "they as elected officials should have final approval of contracts after the EFCB had approved them." Austerity hawk Margolis explained that "there was certainly not any intention on the part of the members of the Control Board to interfere with the democratic process." The problem was resolved through a legal memo from state Attorney General Louis Lefkowitz to Hugh Carey on Dec. 9, saying that the EFCB had final say, that the Board of Estimate must submit contracts to the Control Board. He finds that the EFCB had the sole right "to review, control and supervise the formal management of the city."⁵⁸

The Board made good use of these broad oversight powers. The internal guidelines that the EFCB drew up for general wage contract approval submitted all city contracts to a detailed cost analysis and final approval by the Board. The EFCB had all contracts, "before final settlement, negotiating organization perform cost analysis . . . to determine if proposed contract is within the guidelines set by the Emergency Financial Control Board," and in which the contract unit must certify to the EFCB that the terms meet the Board's rules. While the board had no policy powers, this broad oversight gave the EFCB the ability to reject any project for fiscal

⁵⁷ Financial Emergency Act; Judah Gribetz to The Governor, "Collective Bargaining Agreements Under the Financial Emergency Act," Sept. 18, 1975. EFCB archives. In a period of high inflation, a wage deferment was akin to a pay cut. EFCB minutes, March 26, 1976

⁵⁸ EFCB meeting minutes, Dec. 8, 1975; Lefkowitz to Cary, Memo, Dec. 9, 1975, EFCB records

reasons. As we will see however, the line between policy, politics and finance was not always so clear. Nonetheless, contract oversight became one of the Boards central powers.⁵⁹

The Control Board got to cut its teeth on the teachers union, testing its new powers of contract oversight in October of 1975. As the State legislature was debating and passing the Emergency Financial Act, the city's teachers were out on strike. Teachers had returned to school in early September of 1975 to find that the cuts and job losses over the summer were impacting their schools. Some teachers faced classrooms with upwards of 60 students, and school admin was understaffed and chaotic. According to Shanker biographer Richard Kahlenberg, the UFT president was facing pressure from the grassroots to do something about it. At a union delegate assembly meeting on September 8 the leadership was bombarded with anger and frustration at what was happening in the schools. Shanker tried to prevent the meeting from approving a strike, but was overwhelmed – the membership vote later that day was 22,870 to 900 in favor of striking to redress working conditions. With the creation of the EFCB, Shanker wanted a quick settlement. Days after the first meeting of the EFCB, the United Federation of Teachers and the Board of Education came to a contractual agreement. On September 16 UFT leadership negotiated a contract full of give backs that was met with boos at membership meetings, teachers calling Shanker a sellout. The agreement laid out that there was to be no reprisals for strikers, that the teachers waved preparation periods, and that the remaining prep periods given in shortened class day, “excess teachers” were to be let go with employees receiving 90 days of health and welfare benefits payments, and finally that the teachers were to receive a \$300 COLA for the year. The vote to approve was divided, 10,651 to 6,695 to return to work. Shanker

⁵⁹ Kenneth E Axelson to EFCB, December 1975, “Standards and Criteria for Certification of labor Contracts to the Emergency Financial Control Boards” EFCB archive

explained to his member that “a strike is a weapon you use against a boss that has money. This boss has no money.”⁶⁰

Yet the EFCB moved quickly to void the teacher contract. At the September 29th Board meeting, Daniel Collins and Robert McKay, both from the NYU school of law hired to review the teacher agreement found that the UFT and Board of Ed contract might have hidden costs. They wrote that the contract would not be “free of costs to the City” as advertised, because of unclear language. In a memo of October 6 McKay, the Dean of the law school, and another researcher, Halperin, specified their cost concerns, which included that the contract allowed “for reopening the salary provisions in 1976,” and that “bi-lingual teachers will have a full duty-free lunch period on the same basis as classroom teachers.” They explained that “this will probably have some cost.” Conservatively they estimated an additional \$140 million to the city and urged that the Board act through the city to liaison with unions in an effort to trim costs and renegotiate the agreement. EFC Board members at the meeting argued that this would be direct involvement in city affairs and that “the Board not function as an additional tier in collective bargaining.” But this is precisely what happened. At the October 6th meeting the Board rejected the UFT contract, and would continue to do so through the rest of 1975 and 1976, agreeing to a final version only seventeen months later, in February of 1977.⁶¹

While the Board blocked settlement with the teachers, they also turned their attention to the city’s transit workers. The Transit Workers Union was one of the most successful and pugnacious in the city (and in the high running nationally too); they were “unusually combative,” in the words of historian Joshua Freedman. Since the 1930s the union had grown and won

⁶⁰ EFCB meeting minutes, Sept. 23, 1975; Richard D. Kahlenberg, *Tough Liberal: Albert Shanker and the Battles Over Schools, Unions, Race, and Democracy* (Columbia University Press, 2009). Pg 183

⁶¹ EFCB meeting minutes, Sept. 29, 1975; Kahlenberg, *Tough Liberal*, 186

significant benefits for their workers, with gains coming after a particularly difficult strike in 1966, which they won, but that ultimately killed local 100's president, Michael Quill, who died of a heart attack at the conclusion of the strike. In the years between 1966 and 1975, the union won more gains, including half-pay retirement and health benefits after twenty years employment. Between 1968 and 1972 wages rose 36 percent, and in their 1970 contract, transit workers won full employer payment of their pensions, a first for city public workers. In another first, in 1974 they won automatic COLA payments to keep up with inflation. In the biannual contract cycle, the TWU often negotiated first, setting the standards for future contracts.⁶²

In October, when the EFCB rejected the teachers contract, they had their eyes on the transit workers. At the November 17, 1975 meeting of the Board, MAC member Donna Shalala was again asking about the teachers' contract while it was being reviewed by all parties. Executive director Herbert Elish explained that while the teachers' contract was important, that transit workers contracts were soon to be open for negotiations, the first of the major municipal unions. Elish told the Board that the terms of their settlement would set the standard for the more than 180 union contracts the city held for the next years; "a precedent-setting contract for the municipal unions," he said. Echoing his concerns, Shalala, then worried about the terms of the Board of Education and UFT contract negotiations too. This broad concern with union contracts, from both the EFCB and MAC reflected the concerns of market gatekeepers and the pre-conditions for market reentry for the city.⁶³

By April, the transit worker contract was complete and ready for EFCB review. Reflecting the crisis, the agreement had no pay increases, but included a COLA for workers. The

⁶² Joshua Freeman, *In Transit: Transport Workers Union In Nyc 1933-66* (Philadelphia: Temple University Press, 2001), pg. 337-338

⁶³ EFCB meeting minutes, Nov. 17, 1975

Board faced two questions, “whether the agreement has a negative impact on the financial plan, and two; whether the COLA provisions is prohibited by the financial Emergency Act.” State Attorney General Lefkowitz found that the COLA provisions fell under the wage freeze and should not be implemented, more important, according to Mayor Beame speaking at a late April Board meeting that “city unions had indicated they would look to the transit contract as a precedent for their bargaining with the City.” The Board unanimously rejected the contract, trying to draw a hard line on COLA increases.⁶⁴

The proposal to reject the TWU contract, introduced by Deputy Mayor of Finance, Kenneth Axelson, was justified through political, rather than fiscal reasons. Axelson argued that “it was important that the Board extend the freeze so that all parties involved might understand the extent of the constraints imposed by the City’s fiscal crisis.” An observing member, Jack Bigel, representing labor asked that exceptions be made for productivity increases. Board members, including Hugh Carey, agreed that productivity was important, but that the Board had the powers to lift wages freezes at its discretion, should productivity quotas be met, for example. Here the Board took a hard stance on defending the wage freeze, including COLAs. The measure was unanimously accepted.⁶⁵

Washington too had been watching this contract closely. In a memo between the Secretary of the Treasury William Simon and President Ford, Simon called the transit negotiations a “bellweather” in the “front” of reducing city worker benefits. Simon wrote that “if a cut in overall costs, either through a pay cut or a reduction in fringe benefits, is achieved, it will be a highly favorable sign.” At that point, the outcome was uncertain and “if, on the other hand,

⁶⁴ EFCB meeting minutes, Apr 19, 1976; Apr 30, 1976

⁶⁵ EFCB meeting minutes, Mar 26, 1976

the new contract provides for higher compensation, it would be a cause for serious concern.” This is a top level administration planning document, mind you.⁶⁶

The problem was the union. The TWU was in a period of transition, and its mood was militant. In the decade since Quill’s death, three major rank and file caucus groups had formed and were pressuring leadership for the further gains. While the union had significant contract victories in the early 1970s, this was against the backdrop of unprecedented inflation. By the time the TWU won a COLA agreement in 1974, inflation had taken a bite out of earnings. Now even that was being threatened. Like the teachers, the militancy was coming from the rank and file. Transit workers had already picketed their own union headquarters to protest the contracts of the early 1970s, and staged wildcat actions like sick outs against the leadership to win the COLA in 1974.⁶⁷

Dissatisfied with the TWU’s April agreement, the EFCB intervened. Stephen Berger, the new director of the EFCB, and John Zuccotti, the new Deputy Mayor of Finance, were sitting in NYCTA and union negotiations and they found a work around. By March of 1976 a slate of deficit hawks had been appointed to the major staff positions of the Control Board. The new executive director, Stephen Berger pushed aggressively for the enforcement of austerity as laid out in the Boards early documents. Berger’s austerity vision was so aggressive he told the New York Times in 1976 for example that he wanted to see the city’s Board of Education abolished. In its place, Berger wanted “an acceptance of the reality of decentralization, where districts negotiate separately make individual pleas to the State Education Department.” When asked why, he explained the School Board should be abolished because “the central board doesn’t

⁶⁶ William Simon, Memorandum for the President, “Update on New York City,” February 24, 1976, Ford Records, Bigel Collection

⁶⁷ Freeman, *In Transit*, 339

know how to run schools.” Meanwhile John Zuccotti previously oversaw the city’s capital budget, and had made fierce and swift cuts as the crisis unfolded.⁶⁸

Berger and Zuccotti sought to solve the TWU contract crisis. If the agreement included productivity increases, with strict monitoring, that could offset the costs of the COLA and be cost neutral. It would also introduce a labor disciplinary mechanism into union contracts with strict enforcement clauses. Coming back to the Board, Zuccotti and Berger argued that “the implementations of the productivity provisions of the contract would generate the savings required for payments pursuant to the terms of the contract, and they where [sic] therefore not willing to engage in new negotiations.” The Board then voted to approve the contract on several conditions, that TWU COLA increase will not be included in person calculations, that there be a 6% limit on COLA for FY 1976/1977, that payment may only come from saving form “actual accrued productivity savings exclusive of reductions in service,” that savings must be certified by the Board, and that “the Board reserves to itself the right to make the final determination as to whether or not the savings pursuant to the productivity provisions of the contracts are adequate to warrant COLA payments.” Additionally, the Board took the power to “at any time, suspend all or part of the payment of the COLA if it has reason to believe that the productivity savings cannot sustain the payments.”⁶⁹

Significant here, first, that the board dramatically intervened in ongoing negotiations to set policy recommendations. But more important still, the relationship between COLA and

⁶⁸ FRED PERRETTI, “Financial Crisis Crippling New York’s Public Schools,” *New York Times*, December 12, 1976; EFCB minutes, Mar. 12, 1976. Berger replaced Herbert Elish, who didn’t quite understand what his job was to be for the EFCB. For example, he told the November 7th 1975 EFCB meeting that in regards to the city’s just released plan for budget reductions “the submissions from the departments were surprisingly good, but the cuts required if agency submissions were followed would be terribly unfortunate in some cases, and the problem was to achieve the cuts while maintaining as many of the city’s services as possible to preserve the social fabric. He said the time needed to review the alternatives is critical time for assuring that the city gets through the crisis in as reasonable a way as possible, particularly as it impacts the poor.”

⁶⁹ EFCB meeting minutes, May 18, 1976

productivity. A six percent COLA would not keep up with record inflation, so the city was already saving money there, but even still, those increased costs were actually to be carried by the workers themselves, who would have to work harder if they wanted to not lose as much as the Board wanted. Also significant, the Board had tremendous oversight powers to monitor worker productivity and ensure cost savings to the city. They could delay or defer the COLA payments at any time, as indeed they did for the term of the crisis.

But the COLA/productivity agreement was also a loss for the Board. Their hard line of zero pay increases was broken. Essentially, this was a tremendous turn around for the Board, they had to admit that their wage freeze policy had failed, and moved that “the suspension of salary or wage increases and other payments imposed by Section 10 of the financial emergency Act . . . is hereby terminated.” Berger in particular must have taken this hard. At the subsequent meeting Stephen Berger, the man who replaced Elish as Board Executive Director and austerity hawk, introduced a standing wage policy including no increases. But it caused an uproar. Levitt objected on the grounds that Board standards should be financial and not political, that is the Board could reject a contract for cost purposes, but shouldn’t intervene to set terms of negotiations. Bigel agreed, saying that “adoption of the policies would jeopardize harmonious labor management relations,” apparently his paramount concern. But the writing was on the wall. The union and the transit authority caved, the Board’s terms were met, and they approved the contract.⁷⁰

The terms of the transit agreement set on May 18, 1976 became the basis for a citywide agreement with all public sector unions formalized as a memo of understanding signed on June 30. The city and all the public sector unions except for police and fire agreed that “there shall be

⁷⁰ EFCB meeting minutes, May 18, 1976; May 19, 1975

no general wage or salary increases or increases in fringe benefits; that there shall be no cost of living adjustments unless funded by productivity savings, reductions in fringe benefits, or new revenues; and each agreement shall provide for a mechanism to permit savings in pension cost or other fringe benefits during the term of the agreement.” The MOU traded COLA’s for increased productivity: “the cost-of-living adjustments contemplated by the Memorandum must be funded by savings resulting from productivity increases, increased revenues, or cuts in fringe benefits or employee salaries.” This settlement, in which the Board moved back from its hardline, was a tremendous loss for city workers. But it was “an important and significant achievement,” according to Rohatyn, and part of a long decline of union standards and working conditions city workers, indeed, workers nationally and internationally. In August of 1976 they again passed a resolution extending the wage freeze for the duration of the Board, then expected to run into 1979 and implemented general wage and salary policies that included the a freeze on any outright increases, and the exchange of COLA payments for increases in productivity or achieved through other savings.⁷¹

And the Board was serious about following through with monitoring productivity increases. It was important for the Board that the savings for the COLA come through disciplining labor, and not other cost savings. For example in October of 1976 the Stephen Schwartz representing the Board found that a major portion of the TA’s productivity savings was actually achieved through “a service reduction, and therefore could not be counted towards payment of COLA.” Schwartz indicated he could not confirm the savings and would have to suspend the payments.⁷²

⁷¹ Mayor Abraham Beame, Report Pursuant To Credit Agreement, Aug 2, 1976; Memorandum of Understanding, June 30, 1976 pg. 2 City Archives; EFCB meeting minutes, Aug 30, 1976

⁷² EFCB meeting minutes, Oct 15, 1976

After the Schwartz report, Berger wrote John de Roos, head of the city's Transit Authority reminding him of the EFCB resolutions concerning COLAs. Quoting from the resolution, Berger told de Roos that "payments of COLA during any period specified . . . may be made only from fund available from actual accrued productivity savings, exclusive of reductions in service." Berger called these steps "a new area of endeavor" and reminded de Roos that his agency needed to "identify and monitor, on a continuous basis, the savings specifically attributable to proposed productivity programs." He went on to say that "it will be necessary to isolate and quantify the baseline criteria to be used for measuring the projected savings. Further, the administrative steps necessary to implementation of the program must be identified and scheduled and there must be appropriate confirmation that these steps have been effected." Berger, in typical fashion, concluded by noting "frankly, it is disturbing to me that this letter is required at all."⁷³

Later that month, Berger and Schwartz met with TA executives to urge harsher actions. At that meeting austerity hawk Stephen Berger warned the TA ominously, and somewhat superciliously that the "clock is ticking [on cost savings]. . . and it's a very serious clock." In November of 1976 the Board encouraged the Transit Authority to look into "a program of cost reductions without a general fare increase or major reduction in service," so essentially through labor, either firings or increased productivity. By December, the Board was requiring the Transit Authority to submit COLA productivity certification or "the Control Board will require postponement of the COLA payments."⁷⁴

The White House was monitoring this situation closely too. Internal planning documents show that the Ford Administration was concerned that there might be slippage on the

⁷³ Stephen Berger to John de Roos, September 22, 1976, Bigel Collection

⁷⁴ EFCB meeting minutes, Nov 5, 1976; Dec 3, 1976

productivity savings. They, however, put faith in the EFCB that it had demonstrated it was “going to be tough in its demands” even if this led to “important relationship problems with employee unions.”⁷⁵

In February, the Board had a report on the responsiveness of Transit Authority workers. The Board found that the TA had a \$1million shortfall in its ability to fund COLAs. They found that productivity increases for TA workers had only achieved “two-thirds of the productivity savings necessary” and they moved to reduce the TA’s COLA payments from the period of March through June of 1977.⁷⁶

However, a year after the first TWU agreement, in March of 1977, the TA union was fighting back. It was Berger himself who introduced an “exceptional” resolution granting the Transit Authority a COLA contract not based on productivity but on “other revenue.” Once approved, Zuccotti drew up a plan to share COLA costs 50-50 between productivity and city spending. The justification spelled out later by Berger, came from the notion that some departments, like fire, were already efficient from a labor productivity perspective. Therefore if they too were to receive COLA’s it shouldn’t have to come from increasing efficiency standards. In reality, the Board and the austerity hawks, largely victorious in their goals, were checked in this way by the TA and the transit workers union. However, Berger and Rohatyn in negotiating the Memorandum on Interterm Understanding signed between the city and the public sector unions reiterated the perspective of the Board that “the primary source of increased pay for municipal employees had to be productivity.” Berger emphasized that “fundamentally, the COLA program was to be a productivity improvement program.” But at that point, the damage had been done. With inflation factored in, city workers were losing ground. Their COLAs

⁷⁵ Vice President, Agenda for the Meeting with the President, Wednesday, November 17, 1976, Bigel Archives

⁷⁶ EFCB meeting minutes, Feb 7, 1977

didn't even cover inflation, and so the city was saving money, and getting workers to work harder. This was the beginning of a long term trend in US politics, declining wages, increased productivity, and workers loosing at every turn of the wheel.⁷⁷

Although the Control Board promised to “not function as an additional tier in collective bargaining” negotiations between the city and its unions, that is exactly what happened, not only with transit, but for the teachers union too. Throughout 1975 and 1976 the teacher were unable to secure a contract after the Board rejected their first effort in October. During the ongoing negotiations between the Board of Education and the city's teachers union in 1976, the United Federation of Teachers, Berger unilaterally sent a letter to the negotiating parties indicating that the direction of the negotiations, to eliminate some teachers, increase class sizes, and shorten the length of the school day, may not be “an acceptable and appropriate contribution toward alleviating the fiscal crisis of the City,” according to the Board. Berger argued that “the wage freeze provisions of the Financial Emergency Act and the general wage and salary polices promulgated by the Control Board prohibit general wage or salary increases. However, exceptions are made for certain salary adjustments, such as COLA, provided such adjustments are funded by independently measured savings realized, without reduction in services, from productivity increases, reductions in fringe benefits or other forms of savings approved by the Board. Accordingly, it will be necessary for you to address the question of whether wage and salary arrangements result in reduced education services to pupils, such as increases in class size and decreases in the length of the school day.” Berger closed by offering to “confer with the parties to the negotiations and to provide . . . advice and guidance on the application of the

⁷⁷ EFCB meeting minutes, May 2, 1977; Stephen Berger to Members of the Emergency Financial Control Board, “Issues Regarding the Payment of Cost of Living Adjustments Open to Municipal Employees Under the Productivity Program,” Mar 22, 1977

Financial Emergency Act and the general wage and salary policies.” This was clearly an intervention in ongoing negotiations.⁷⁸

Mr. Bigel and Mr. Scott, two observing members on the Board representing labor were outraged. At the subsequent EFCB meeting they said that “the substance of the letter was anti-union, and there had been no need for such incitement of union members.” Jack Bigel was a left organizer in New York instrumental in the foundational organizing of public sector unions in the city in the 1940s. He became the district president for New York of the left-influenced United Public Workers after serving as an investigator for the city’s Welfare Department. In 1951 Public Workers of America was expelled from the CIO for being communist, its alleged support of Soviet Foreign policy. In the late 1950s Bigel founded a union consulting firm, Program Planners Inc., which advised and provided research for the city’s unions, mostly nonuniformed. Bigel and his firm worked very closely with the Municipal Labor Committee, their principal client, a confederation of the city’s labor organization that would go to play a key role in the 1975 fiscal crisis. At this point Bigel described himself a “mere technician,” and dropped any outward expression of left politics. He objected to the Boards anti-union policies, but could do little to change them. And Berger’s position, if not his aggressive approach, was the policy of the Board.⁷⁹

With these agreements in place, monitoring productivity became the work of the Board, and it was monitored by both unions and the city. Noticeable over time, too, was the dramatic shift in attitude of once militant workers. A “Joint Labor Management Productivity Committee” was established and co-chaired by Victor Gotbaum of D.C.³⁷ and Deputy Mayor John Zuccotti

⁷⁸ EFCB minutes, Sept 29, 1975; Stephen Berger to Robert J. Christen, Aug. 26, 1976. EFCB archives emphasis in the original.

⁷⁹ EFCB minutes, Aug. 30, 1976; No author, no title, no date, Bernard Bellush Papers, Robert F Wagner Labor Archives

to monitor and ensure productivity goals were being met. In June of 1977 they were reporting back to the EFCB that basic formula of the program, “of employee agreement to absorb increased workloads and duties and to forego previously inevitable opposition to changes in practice or method” was working satisfactorily. Most beneficial was “the precedent value and shift in attitude,” which was “noticeable,” and was “attributed to the increasing maturity of labor / management relations as their joint responsibility and obligation for improvement.” The types of productivity changes the city saw across the board included “employee agreements to give up or reduce traditional practices which take them away from their work; by giving the City the benefit of certain time and leave determinations; by agreeing to perform additional duties and in some cases performing work which would otherwise have been purchased from private vendors.”⁸⁰

For example, engineers and designers in the Environmental Protection Administration accepted “substantially larger work loads and tasks of greater complexity.” In hydrant replacement, some crews gained, and some lost additional workmen. The department was now averaging 29 replaced hydrants in ten crew days, versus one to one before the labor changes took effect. In parks, seasonal employees gave up their “compensatory day,” and their union, D.C.37, gave up their opposition to take back. The result was a \$600,000 savings. In other departments, like Finance, more work was simply done with fewer people. For tax assessors and auditors, cut backs meant “over three times the targeted number of assessments per auditor with fifty less auditors than planned.” Sanitation workers were reduced from three, to two person work teams.

⁸⁰ Victor Gotbaum and John Zuccotti, Joint Labor Management Productivity Committee Program to Fund the Cost of Living Adjustments for the Period April 1, 1977 to June 30, 1977, Bigel Collection

And the report goes on like this, creating much the same pressure on workers in virtually every agency, department and employment category.⁸¹

The impact of increased productivity requirements hurt workers. In a 1977 interview, DC37 president Victor Gotbaum said that workers were having to work harder for less. He gave the example of Motor Vehicle Operators, tow truck drivers that do the city's towing, "they agreed increase the number of cars they pick up daily to make their cost of living increase." But they were not happy about it: "They'll work harder to get a cost-of-living increase after deferring salary increases one year and signing a new contract with a wage freeze. Their participation in this process so far has been to trade harder work for a chance to slow down the rate by which they continue to fall behind the cost-of-living." True for all city workers, mostly shepherded through by union leadership, and something rank and file members were not happy about.⁸²

Not opposed to productivity increase, Gotbaum explained that the EFCB approach to productivity was more about discipline, than efficiency. "Their approach," he said, "is basically to be as punitive as possible. They start not with the goal of how to improve productivity but how to screw the worker and the unions as much as they can. They're dealing in politics first and productivity as a political issue – so we have a sterile type of productivity."⁸³

Productivity and close monitoring of worker performance was not the only upward redistributive mechanism sought by the austerity regime. The city and the EFCB successfully won \$100 million in give backs over worker pensions. This again was a paramount concern from the beginning. In the summer of 1975 Mayor Beame created the Mayor's Management Advisory Board whose purpose was in part to "review and revamp the City's complex pension

⁸¹ Ibid

⁸² Productivity: A Conversation with Victor Gotbaum, District Council 37, AFSCME, AFL-CIO, Bernard Bellush papers, Robert F Wagner Labor Archives

⁸³ Ibid

machinery.” The resulting committee, known as the Shinn Commission, for Chairman Richard Shinn, president of the Metropolitan Life Insurance Company, gutted the city’s pension system, resulting in over \$100 million in savings for the city.

Furthermore, those pensions substantially bailed out the city at the height of the crisis. City pensions between 1975 and 1978 pledged and purchased \$2.5 billion in city notes, and another \$1.2 billion was rolled over. Many of these pledges came in July to November of 1975, “when 40,000 jobs were being eliminated in the city budget.” Between 1974 and 1978 city union pension funds increased their holdings of city paper from 5 to 30 percent. Jack Bigel characterized this as an “inequality of input” saying to a Senate panel seeking to enforce federal loan guidelines that “you are treating the workforce as an object to beat upon . . . and, then you turn around, and you say, now give me your retirement money and hand it back to me so I can continue [sic] to beat on you.”⁸⁴

The attacks on labor hurt in a very personal sense, as people lost jobs, in some cases their sense of self was also lost. Victor Gotbaum emphasized “the human side of those statistics” in which “we in the labor movement have to deal with the day-in and day-out personal tragedy” of the cuts. Gotbaum told Congress that when a nurse or hospital worker loses their job “their whole world is smashed.” “Not only have they lost their jobs,” he said, “it’s a faceless future in a destroyed job market. They literally have no place to go. Not only have their careers been smashed, their hopes are smashed. They are waiting outside our offices, they come in by the tens and hundreds to see us.” Gotbaum saw no hope, “there is nothing you can tell them. There is nothing you can say to them.” Speaking personally Gotbaum told the assembled senators that “I

⁸⁴ Testimony of Jack Bigel, United States Congress Senate Committee on Banking Affairs Housing, and Urban, *New York City Financial Aid: Hearings before the Committee on Banking, Housing, and Urban Affairs, United States Senate, Ninety-Fifth Congress, Second Session, on S. 2892 ... and H.R. 12426 ...* (U.S. Govt. Print. Off., 1978) pg. 368 and 382.

am speaking and testifying with a sense of futility and almost a lack of comprehension in terms of the forces swirling about us in New York.” Gotbaum called the cuts “giving up \$700 million through human tragedies.”⁸⁵

Over the course of the crisis unions like the United Federation of Teachers lost big. Between teachers and paraprofessionals 15,000 school workers were fired, dropping UFT membership by twenty percent and the American Federation of Teachers, the UFT national body of which Albert Shanker was also president by ten percent. Teachers who remained had a nineteen percent equivalent pay cut from pre-crisis teachers, and their classrooms were overcrowded, with diminished resources, staff, and support.⁸⁶

All told, by the end of 1975, Jack Bigel estimated that worker give backs on fringe benefits totaled \$640 million in wealth redistribution. Bigel identified the changes: “health fund contributions waived; there were changes of work rules; there was a reduction in overtime; the elimination of summer hour schedules; there was the deferral of a 6-perceten wage increase . . .” On the decade, city workers lost big, and 1975 was the turning point. Before that year, municipal employees won earnings packages at a rate of 39 percent above inflation. After 1975 price index inflation was a much as two to one on city wage gains. This trajectory for labor, in New York and the country, would continue.⁸⁷

⁸⁵ Testimony of Victory Gotbaum, in “Impact of New York City’s Economic Crisis on the National Economy (771) pg 110,

⁸⁶ Kahlenberg, *Tough Liberal*, 186

⁸⁷ Testimony of Jack Bigel, United States Congress Senate Committee on Banking Affairs Housing, and Urban, *New York City Financial Aid: Hearings before the Committee on Banking, Housing, and Urban Affairs, United States Senate, Ninety-Fifth Congress, Second Session, on S. 2892 ... and H.R. 12426 ...* (U.S. Govt. Print. Off., 1978) pg. 365; United States., BLS, *Wages and Benefits of New York City Municipal Government Workers, May 1981*. ([New York], 1976).

* * *

4.4 “The CUNY Problem”

Besides intervention in union activities, by January of 1976 the question of control had become a major issue for the Board. A key concern was the so-called “covered organizations” of the Financial Emergency Act; agencies like the Board of Education, the Board of Higher Education that governed the City University, the Health and Hospitals Corporation, and other ostensibly independent city authorities, but in which ultimate budgetary oversight fell to the city. At the September 18th, 1975 meeting of the EFCB, Sidney Schwartz, Special Deputy Comptroller for the city argued that the Board should act under “the broadest possible application the statute,” to enforce Board powers over the covered agencies “that would extend to every governmental agency that receives or may receive funds from the City, and that the listing in the Act of certain agencies is not a limitation on other agencies.” This was the assumption the Board worked under for its’ first several months.⁸⁸

As it would turn out, the Control Board desperately needed these powers as, in the words of Governor Carey, in its first months of action, “the Board had not received the cooperation it would have like [sic] from the covered organizations.” Numerous city agencies and authorities were not implementing cuts in the way the Control Board desired. John Zuccotti, then the Deputy Mayor of Finance under Beame, explained to the Board that CUNY and the Health and Hospitals Corporation were providing the biggest problem regarding compliance. The problem with the authority system, from the Board’s perspective, was that they were autonomous agencies who could direct the impact of the cuts as they saw fit. So while the Board could reject their budget proposals, and tell them to cut, they couldn’t direct exactly how.⁸⁹

⁸⁸ EFCB minutes, Sept. 18, 1975

⁸⁹ EFCB minutes, Oct. 20, 1975; Nov. 17, 1975

A particular problem was the City University, which was not making cuts to the satisfaction of the Board, and it was possible that CUNY could run out of money in the spring of 1976. In December of 1975, Rohatyn met with President Wexler of Hunter College, and reported to the Board that he was astonished that the college had no plans for the cuts. In short, they were spending as if there would be extra funds from a budget angel by the end of the year. Rohatyn found that “the requirements of the plan were so secure that if there were not month to month monitoring, the City would be forced to make major cuts late in the year,” and that for President Wexler “the consequences of making the cuts seemed potentially cataclysmic.” Rohatyn meant that in order for the Board’s three-year plan to work, cuts would have to be made continuously, to avoid huge drops at the end of the fiscal year. CUNY’s Wexler, apparently, was prepared for none of this. John Zuccotti pointed out that CUNY had no serious plan for implementing the cuts, and that they wanted to furlough staff for four weeks in the summer. “This was unacceptable,” Zuccotti told the Board. Margolis remarked that the Board could say no to CUNY’s furlough plan, but that “it was not in a position to develop a politically sensitive plan,” as the gradual cuts were designed to do. Here was the crux of the issue, the Board could say no, but they couldn’t impose a plan that was more to their liking.⁹⁰

Remarkably, the problem was not that the CUNY system was not meeting the Control Board’s fiscal requirements, but that were not following Board policy directives in the exact manner the Board desired. The Board of Higher Education wanted to achieve the cost reductions through payless work furloughs in the summer, a process that would minimally disrupt academic year instruction. In the words of Jack Bigel, labor observer allowed onto the Control Board after public pressure, the City University was “trying to hold onto services, trying to determine how to

⁹⁰ EFCB meeting minutes, Dec. 8, 1975

achieve their service goals and maintain programs.” This was playbook old austerity, and unfortunately for CUNY and its students, times had changed.⁹¹

The Board wanted tuition. For CUNY, the city “found the plan unacceptable,” in part because “the Board of Higher Education was moving ahead with its own plan” – one that did not include imposing tuition, which would be a first in the 130 year history of the school. Kenneth Axelson, the Deputy Mayor for Finance, and JC Penny corporate executive, called CUNY’s approach an “inappropriate solution to the requirements of the fiscal emergency.” Board member William Ellinghaus said that “although the City had rejected the CUNY plan, CUNY was proceeding with implementation.” Calling CUNY’s plan a “failure to plan,” and a “dereliction,” Comptroller Goldin said “it was irresponsible to fail to determine how the required reductions could be made rationally and equitably, and the result was a proposal for cuts which would be made in a disorderly fashion, and would not fall rationally and equitably.” Ellinghaus added that “the Board should be able to expect the responsible people in these agencies to respond in a timely and rational manner.” Note here is a dramatic application of the new concept of responsibility.⁹²

Closely tied to the notion of responsibility and austerity, was to what extent the Control Board should get involved in policy questions. Comptroller Goldin, for example, favored a strict numbers analysis, with the Board avoiding “questions of public policy.” Margolis agreed, saying “the Board was in no position to resolve political questions.” But in a framework in which “the budget is everything” and from which services cuts were made to an “irreducible” level, how could one distinguish between fiscal and policy matters, between decisions and impacts? Jack Bigel, the labor observer, took this line. He rejoined that fiscal and policy choices were

⁹¹ EFCB minutes, Dec. 8, 1975

⁹² EFCB meeting minutes, Dec. 8, 1975

inseparable, that in fact “there were actually two plans – a fiscal plan, and a social plan.” He argued that CUNY was “trying to hold on to services, trying to determine how to achieve their service goals and maintain programs.” If the Board was refusing to decide on how the cuts would be implemented, “then somebody must,” he argued. If they took no position, “this Board would more and more find itself being asked for answers,” regarding the specific impacts of the cuts and that “some day this Board would be held responsible.”⁹³

Others on the Board or in MAC were sympathetic to Bigel’s view – but those sympathies had consequences. For example, the initial executive director of MAC, Herbert Elish, had previously expressed sympathy with the covered organizations. Elish told the November 7th, 1975 meeting of the EFCB that the proposed budget cut submissions from departments and authorities “were surprisingly good, but the cuts required of agency submissions were followed would be terribly unfortunate in some cases, and the problem was to achieve the cuts while maintaining as many of the city’s services as possible to preserve the social fabric.” Elish told the Board that “the time needed to review the alternatives is critical time for assuring that the city gets through the crisis in as reasonable a way as possible, particularly as it impacts the poor.” This attitude was anathema to the purpose of the Board, and Elish lost the debate on CUNY. Soon after he was removed as E.D. of the MAC too.⁹⁴

However, this question, the close link of policy and fiscal decisions would plague the agency in its first years of operation, and indeed these questions were revisited at the next EFCB meeting just before Christmas, 1975. Zuccotti articulated what was becoming the technocratic position on the EFCB, that the “Board’s review should be limited to whether the contract was consonant with the financial plan and should not extend to the substance of the contract.” But

⁹³ EFCB meeting minutes, Dec. 8, 1975

⁹⁴ EFCB meeting minutes, Nov. 7, 1975

now, other and more prominent voices were pushing back. Arthur Levitt disagreed for example, saying that “the responsibility of the Board was not strictly financial, but also went to the providence of the contract – the question of whether or not the contract is in the public interest.” At the same meeting others objected to the notion that the Board should consider the public interest at all. Mr. Keilin, Counsel to the Deputy Mayor said he thought while they could control “aggregate spending” of city agencies, they “did not have management controls over the covered organizations.” This raised tremendous questions about where and what the Board should consider in its decision making, and if things like impacts or other factors, “public interest” or the “providence” of a contract, were to be included.⁹⁵

These questions of policy were tied to broader questions of power. The basic question they faced, as formulated by Zuccotti, was “whether the Board had sufficient power over the covered agencies to compel their adherence to a financial plan.” At the January 30th EFCB meeting, Felix Rohatyn wondered if the city could “take preventive action if it saw that a covered organization was departing from the financial plan.” Rohatyn thought that the EFCB “should have the power to take or require to be taken the necessary” cuts. Comptroller Goldin argued that “there comes a point at which the power and responsibility of the Board must be interjected in the sequence of events.” And he reminded the Board that they did indeed have the power to “to impose a financial plan on the covered organization, and to delegate an agent to implement the plan.” To execute these powers was precisely why the EFCB was formed in the first place, the failure of the MAC coming from their inability to impose austerity to the liking of the market, in addition to their failure to market notes through existing mechanisms.⁹⁶

⁹⁵ EFCB meeting minutes, Dec. 19, 1975

⁹⁶EFCB meeting minutes, Dec. 19, 1975 and EFCB minutes, Jan. 30, 1976. EFCB archives

Into December and January these problems plagued the Board. The tensions with the authorities, and the widespread resistance to austerity the Board began to refer to this as “the CUNY problem.” The problem was generalized to all the EFCB work, and was persistent, as each budget rejection came to focus on the content of the contracts and cuts. Board members worried that should city revenue continue to fall, more downward pressure would be needed to bring city departments and covered agencies into line with the lower projections. More coercive power would be needed. The problem with this, according to Margolis and others, was that the Control Board would have to “develop a politically sensitive plan” to extend its already substantial authority. And this was true in the area of labor contracts as well, as the Board had already discovered. Comptroller Levitt argued that the responsibility of the Board was “not strictly financial, but also went to the prudence of the contract – the question of whether or not the contract is in the public interest.” So here, the “CUNY problem” encapsulated a number of tensions and unknowns on the Board. One was whether the EFCB had the authority to review specific policy as it related to budgetary choices and could make decisions on that criteria. Another was whether the Board had direct management control of the agencies to compel satisfactory budget action. And a third question was how the Board could develop “politically sensitive” austerity plans that would limit the types of opposition they were facing.⁹⁷

To figure this out, Governor Carey had the Governor’s and MAC counsel, as well as the State Attorney General Lefkowitz find the legal extent of Board powers. On December 29th Lefkowitz responded in the negative, saying that “it would be entirely inconsistent with the specific delegation of power to the EFCB, as well as with the reservation of powers to the City, to allow the Board to determine whether a contract “is or is not in the public interest.”

⁹⁷ EFCB minutes, Dec. 8, 1975; Dec. 19, 1975; Jan. 30, 1976. EFCB archives

Furthermore Lefkowitz argued that the EFCB review power is “confined to reports and recommendations and that section (7eS) does not give the Board the power to disapprove contracts upon such review and recommendations.” Months later Lefkowitz got confirmation with an internal memo from Paul, Weiss, Rifkind Wharton and Garrison, counsel to MAC that the EFCB did not have these powers. The law firm wrote that “the Board does not have the authority to request an expense –cutting proposals by the city of a covered organization . . . because the Board finds the proposal objectionable as a matter of public policy.” Budgetary oversight was not direct management. But there were work-arounds to this problem.⁹⁸

In the same legal review performed by Paul, Weiss, Rifkind, Wharton and Garrison, the Board learned that indeed the Control Board did have substantial powers over covered agencies to address these direct management problems they faced. While the Board could not reject budgets for preferred policy reasons, they could do so for financial reasons even for covered agencies. For example, they found that while the EFCB could not make policy considerations, they could decide based on whether the cuts met alternative fiscal goals, like meeting with the Boards three-year plan, rather than just the fiscal needs of the moment. In the case of the CUNY problem, the firm explained, “the proposal could be disapproved by the Board,” on these grounds. Further, the Board had “negative enforcement powers,” to withhold money, and positive power to issue “orders to officials of the City and of the covered organizations as it deems necessary to accomplish the purposes of [the Act] including but not limited to timely and satisfactorily implementation of an approved fiscal plan.” If faced with obstruction, the Board could have the Governor or the Mayor take action against intransigent officials by having them

⁹⁸ Lefkowitz to Carey, Re: Request for opinion on city contracts, Dec. 29, 1975; Paul, Weiss, Rifkind, Wharton, and Garrison to EFCB, Feb. 10, 1976

“suspended or removed from office or otherwise disciplined, and even by recommending criminal prosecution for willful violations.”⁹⁹

On this footing the Board moved forward on the “CUNY problem.” Their solution was to develop a monthly payment schedule for CUNY that would force the university to make the cuts that the Board desired. On a monthly budget allotment, according to Kummerfeld at an EFCB meeting in March of 1976, “once CUNY had expended the allocation for any given month, there would be no more cash forthcoming from the City for that month.” In these circumstances, CUNY would be forced to meet budget restrictions not as they chose, through end of year furloughs, but through some other means to meet their monthly shortfall, in particular, the Board hoped, the imposition of tuition for the first time in the University’s history. With a monthly payment schedule that didn’t cover all of CUNY’s operating needs, they would be forced to make cuts immediately, and abandon their furlough plans. This is what the Board eventually implemented. It wasn’t based on policy analysis, but it was hoped that it would get the desired results, the historic imposition of tuition.¹⁰⁰

This resulted in an intricate game with the Board of Higher Education. The Control Board put the school on a strict monthly allowance program, forcing them to move toward policy directives that the board favored, tuition. In letters to CUNY chancellor Robert Kibbee in April of 1976, Comptroller Goldin explained the new arrangement: “I have been directed by the Emergency Financial Control Board to limit the payment of CUNY vouchers each month,” he wrote. Importantly, Goldin said the University must “stop incurring obligations, and stop resorting to financial gimmickry” which “irresponsibly runs the risk of jeopardizing the

⁹⁹ Paul, Weiss, Rifkind, Wharton, and Garrison to EFCB, February 10, 1976; Lefkowitz to Carey, Re: Request for opinion on city contracts, Dec. 29, 1975; Paul, Weiss, Rifkind, Wharton, and Garrison to EFCB, Feb. 10, 1976

¹⁰⁰ EFCB minutes, March 26, 1976

education of thousands of students.” Again, new uses of responsibility, Goldin emphasizing the morality of these claims with a condemnation, “I will not be a party to it,” he wrote. If the monthly reductions were not made, he warned, it could lead to ballooning debt. Instead, he wrote, “it is therefore imperative that CUNY develop a plan which will assure that its expenditures are within the monthly allotment plan ordered by the EFCB.” He didn’t specify what that plan might be. But it didn’t matter, Kibbee and CUNY were resistant and tried to avoid these cuts once more.¹⁰¹

Taking a wait and see attitude, Kibbee was hoping that more funds would arrive before drastic cuts were necessary. His response to Goldin was that “uncertainties surrounding the funding of the University,” would have to play themselves out before he took action. Indeed, Kibbee told the New York City Board of Higher Education in meeting in April, he had produced a plan, the furloughs, which “could be used as a basis for negotiation with the state for funding,” and included \$32 million in cost savings. Goldin then went back the Board and reported that he was “concerned that the monthly allocation procedure may not effectively force CUNY to develop an expenditure plan within the limits ordered by the EFCB.” At that Board meeting Ellinghaus, one of the hawks, pointed out that under the EFA, “persons who fail to follow orders issued by the Board may be subject to criminal prosecution.”¹⁰²

The CUNY problem continued into May. Zuccotti and Kummerfeld had been working on CUNY, they found the university would not meet payroll at the end of May, and that professional staff offered to defer the wages for this period to make it work. Zuccotti and Kummerfeld however, speaking for the Board, found this solution unsatisfactory, “it was

¹⁰¹ Donald Kummerfeld to Alfred A. Giardino, March 7, 1976; Goldin to Robert J. Kibbee, April 13, 76; Goldin to Kibbee, April 4, 1976; Goldin to Kibbee, April 5, 1976; EFCB archives

¹⁰² JUDITH CuMMINGS, “KIBBEE IS WARNED ABOUT FISCAL PLAN,” *New York Times*, 1976; EFCB meeting minutes, Apr 19, 1976; Jun 4, 1976; Kibbee to Goldin, April 8, 1976; Goldin to Kibbee, April 13, 1976

therefore unreasonable,” they said, “to take action which would only impose hardship on employee and students as a result of the University’s failure to deal with its financial situation.” Meaning, these solutions were not satisfactory, and that tuition would have to be imposed. CUNY was stalling – and the Board wanted to impose dramatic powers to compel them.¹⁰³

This game of chicken came to a head at the end of May, when the monthly allotment plan worked, and University funds ran out. Chancellor Kibbee was forced to close all campuses before the end of the school year and skip instructor pay for want of funds. In March and April the Control Board had restricted CUNY funds, but came forward with last minute advances of future allocations. In May, they refused the advance, reasoning that the end of year funds would have to come from next year’s budget. With crucial payments from the city stopped, the members of the Professional Staff Congress, the faculty union, called on workers to not work if they were to not receive paychecks and threatened lawsuit. In response, Kibbee closed all campuses in the lead up to finals and commencement. The EFCB hoped all this would force the schools hand.¹⁰⁴

This level of brinkmanship came out badly for the school. Hoping that closed schools would force the state legislature to act, Kibbee held out for more funds. But the state took no action, the Governor telling the Board and Kibbee that further state aid was contingent on the Board approving tuition. Hearing this, five crucial members on the Board of Higher Education, including chair Alfred Giardino, a staunch anti-tuition advocate, resigned. Giardino said on resignation that the imposition of tuition “would abandon our policy of open access, but at the same time would leave a monstrous funding gap for the immediate future and continue instability and uncertainty.” Giardino was himself a graduate of Brooklyn College, his resignation letter

¹⁰³ EFCB meeting minutes, May 18, 1976

¹⁰⁴ Francis Clines, “City U. Is Closed By Kibbee Pending A Fiscal Solution,” *New York Times*, May 29, 1976

saying he would not “be the instrument” of tuition, which would “deprive others of a low-cost college education, which the city gave me years ago and which I have sought to repay.” The next week the remaining five members of the ten member Board of HE at a three hour closed door meeting voted to impose tuition, issuing a statement that it “accepts the necessity of establishing tuition charges.” In what it called “a major step toward accomplishment of a principal fiscal objective in the financial plan,” the Board of Higher Education on June 1 “authorized tuition for the first time in the history of the City University,” and later that month the state absorbed some of the costs of the CUNY system, the state of New York immediately produced a further \$24 million in funds for the university system to pay its workers and finish out the year. Tuition was imposed, and the 125 year history of the school started as the “Free Academy” came to a close.¹⁰⁵

So in June of 1976 the Control Board emerged victorious, but this again led to debate on the Board – how much power was reasonable? Should they have taken more dramatic action to avoid the standoff? Were these fiscal decisions policy matters after all? Carey said that “the function of the Board is fiscal control, not governance of the City.” But Rohatyn, then still working for Big MAC countered that MAC and EFCB “responsibilities to its bondholders require that it examine the overall fabric of the city.” Therefore, he argued, that the Board think of their task as qualitative budget cuts or quantitate management and he thought the Board should make “suggestions” about how to implement cuts. Other members of the Board agreed, including Beame, that they had coercive powers. Carey reminded members that Section II of the

¹⁰⁵ Clines, “City U. Is Closed By Kibbee;” Judith Cummings, “Giardino, 3 Others Quit City U. Board Over Carey’s Plan,” *New York Times*, May 26, 1976; Edward Fiske, “Tuition Imposed At City U., Ending A 129-Year Policy,” *New York Times*, Jun 2, 1976; Mayor Abraham Beame, Report Pursuant To Credit Agreement, Aug 2, 1976; EFCB meeting minutes, Mar 12, 1976; and “25 Years of Progress: Professional Staff Congress/CUNY · CUNY Digital History Archive,” accessed December 3, 2016, <http://cdha.cuny.edu/items/show/2812>.

EFA held that “both the City and the Board had enforcement powers, include the power to remove the members of boards of covered organizations.” While they recognized they could take coercive action some, Margolis among them, worried that such action may cause outrage. He told the Board that “there must also be politically-sensitive management control of the independent agencies.”¹⁰⁶

There is no doubt that the effort to move CUNY to monthly pay schedules was an effort to impose tuition and win market confidence. As Mayor Beame explained during Congressional hearings on the New York crisis, he and the EFCB “cut their budget the equivalent of what tuition would be.” With the cuts, they turned to the Board of Higher Education and said “now, look, you either charge tuition or you have got to find it somewhere else. We do not have the power to institution a tuition policy in the board of higher education, that is done by an independent board. But dollarwise, they have gotten less on an appropriation because of that.” Mayor Beame explained that this “was something which was very hard for me to do,” in part because “I am a product of free tuition. I never could have been mayor of New York City without getting that free tuition. We could not afford it.” Nonetheless he was making cuts.¹⁰⁷

A historic reversal, the imposition of tuition at CUNY worked at a political, discursive, and cultural level. This attack on CUNY was an attack on the working class with a disproportionate impact on students of color. Of the 187,000 CUNY students a majority were there for job training for “technical, service and professional careers” and a majority, 57%, held down other employment while enrolled. About 40% came from families who made less than

¹⁰⁶ EFCB meeting minutes, Jun 11, 1976; June 4, 1976

¹⁰⁷ Testimony of Mayor Abraham Beame, in United States Congress House Committee on Banking Stabilization Currency and Housing Subcommittee on Economic, *Debt Financing Problems of State and Local Government: The New York City Case : Hearings Before the Subcommittee on Economic Stabilization of the Committee on Banking, Currency and Housing, House of Representatives, Ninety-Fourth Congress, First Session* (U.S. Government Printing Office, 1975).

\$10,000 a year and more than half of the students in the community college portion of the system were black or Hispanic (that number decreasing to 30% in the senior colleges.) Between 1976 and 1978 the system's budget was cut \$73.5 million with a resulting reduction of 6,300 faculty and staff members, and enrollments down by 62,000. The roll backs undermined the notion of social wage public goods; it shifted the onus of responsibility from ones that emphasized collective wellbeing, to individual and fiscal responsibility.¹⁰⁸

While no one was arrested or forced from office during the CUNY crisis, it was close, even at the highest levels of city government. Donna Shalala, a member of the board of the MAC revealed in an October 1975, public address in San Francisco that in fact high level discussions with the Governor and MAC officers “included the possible removal of the Mayor and/or his replacement by a professional manager.” Ultimately, they decided in favor of the “democratic process, home rule” and not arresting Mayor Beame, but it was a near use of emergency prerogatives, and a justification for the creation of the EFCB. Shalala added however that “what was taken from the City was in itself unprecedented – the City's power to manage its own finances.”¹⁰⁹

What is perhaps most remarkable about Shalala's comments is that she framed the dramatic action of removing the mayor in response to market conditions. Shalala told her audience in San Francisco that by September of 1975, “the market seemed permanently damaged and even the Mayor's announced wage freeze and other cuts were not dramatic enough to turn

¹⁰⁸ Prepared Statement of Albert Shanker in Task Force on the New York City Crisis, June 1, 1978 in United States Congress Senate Committee on Banking Affairs Housing, and Urban, *New York City Financial Aid: Hearings before the Committee on Banking, Housing, and Urban Affairs, United States Senate, Ninety-Fifth Congress, Second Session, on S. 2892 ... and H.R. 12426 ...* (U.S. Govt. Print. Off., 1978) pg. 360

¹⁰⁹ Donna Shalala, A Great City is an Opportunity, Remarks by Donna E. Shalala Before the 77th Annual Meeting League of California Cities, San Francisco Hilton Hotel, San Francisco California, October 22, 1975, Baruch College, Special Collections, Bigel Collection.

investor heads. We reported this failure to the Governor and he asked us to explore every option that State government should considered. We took this charge seriously and our discussion include the possible removal of the Mayor and/or his replacement by a permanent manager.” The problem was, the MAC did not have such authority. These conversations were before the creation on the austerity board. Although it never used these powers, it had them, and its intervention was substantive in others ways. The EFCB solved the issue of enforcement and state intervention.¹¹⁰

It wasn’t just CUNY and labor contracts, every aspect of city governance faced this kind of scrutiny and statist intervention. Particularly, the Board was learning to use fiscal means for political objectives. The long and detailed discussions of the cuts at Health and Hospitals Corporations and the impacts they have on service and working conditions as revealed in the City Archives notes is much like CUNY and the unions. In October of 1976 the Control Board was again discussing their “repository of power for removing the members of the board,” this time of the HCC.¹¹¹

* * *

4.5 “War in our hospitals”

Let’s take another example of an extension of state power to undermine the working class social gains - the city’s health care services. In addition to the CUNY problem, at the November 24th 1975 meeting Deputy Mayor John Zuccotti reported that the Health and Hospitals Corporation was causing the largest problems. The HHC was the semi-autonomous city agency tasked with managing the city’s 18 unit municipal hospital system. It was created in 1970, itself a

¹¹⁰ Shalala, A Great City is an Opportunity

¹¹¹ EFCB minutes, Oct. 15, 1976

victory of social movements that had pushed to end the corrupt patronage system that had dominated the city's health delivery as a direct department. With that came other gains, the creation of health services, clinics and even hospitals in neighborhoods with poor and woefully underserved residents. For the EFCB, the cuts to health services were to be severe, but the Board encountered much greater resistance in the hospitals than with CUNY. For the HHC, nearly every level of the institution tried to block and obstruct the Board as much as possible, from the president, Dr. John Holloman, members the hospital board, system administrators, doctors, unions, rank and file workers, and patients and outside community and left groups. This made the fight to impose austerity on the hospitals all the more difficult, and propelled the struggle to protect New York City health care into the 1980s. Even the next mayoral administration, that of Ed Koch, was only partially successful at getting the desired rollbacks from the perspective of the austerity hawks. As DC37 official Lillian Roberts framed it, the "war inside the hospitals" was protracted and violent.¹¹²

Again, the story of the EFCB is the imposition of super austerity, as cuts had been imposed on hospitals throughout 1975. And these cuts were having impacts. To take just one hospital, Bellevue in Kips Bay, Manhattan, lost 994 jobs out of a total of roughly 6,500 in the six month period between June and December 1975, the first wave of cuts. And instantly, hospital workers and community groups showed they were willing to fight for the city hospitals in a dramatic way, even before the creation of the EFCB. For example, on July 22nd, 1975 over 9,000 doctors in city hospitals threatened a job action unless cuts are restored at the Health and Hospitals Corporation. Two days later 4,000 protestors tied up the Brooklyn Bridge for 40 minutes to protest cuts to Hospitals. In the summer of 1975, the city was not able to impose the

¹¹² EFCB meeting minutes November 17, 1975 pg 11

cuts it would have liked on the HHC. This included layoffs of thousands of hospital staff, and closing many of the city's hospitals, including Sydenham in Harlem, Gouverneur on the Lower East Side, and Fordham and Morissania both in the Bronx. In fact, in August, the city and the Health and Hospitals Corporation was pushing hard for further cuts, announcing that it would be closing large sections of two major hospitals and lay off nearly 1600 employees in order to comply with the city's dictates. However by that point, they had only been able to close one hospital, Delafield Hospital in Washington Heights, a hospital jointly run with Columbia University. Before the EFCB, protest and resistance was preventing major cuts to city health services.¹¹³

By the January 23rd, 1976 meeting of the EFCB, the Board was furiously trying to enact cuts on the hospital system, and had tasked itself with negotiating directly with HHC Board. There was in fact, now a plan in place that the Board was coming to agree to. The plan had been negotiated by Matthew Nimetz, a special representative of Governor Carey in negotiations with the HHC. He told the Board that "there were clearly too many hospitals in the City, all supported mainly by governments, either City, State or Federal, and rational planning for the delivery of health care services in the City would require further closings." Supporting the cuts, Goldin chimed in that "superior service was consistent with retrenchment." Nimetz agreed, but he was worried that the plan for cuts and the agreement with HHC would not go through "without significant managerial reform at H.H.C.," and that he would recommend the Board adopt the plan "only on the condition that implementation of the budget reductions be closely

¹¹³ Bellevue Annual Report, Beame Administration Records, City Hall Archive; Chronology of Crisis, July 22, 1975 and Aug 7, 1975

monitored by the State.” The EFCB wanted retrenchment, but was concerned about the level of support they would get from the hospital board.¹¹⁴

Indeed, the Control Board developed detailed plans for cuts in the hospitals. A January 1976 report from Sydney Schwartz to the EFC Board indicated there were cost problems with acute care hospitalization at the Bronx Municipal Hospital. Schwartz was the state special deputy comptroller for New York City, a position created by the EFA to monitor city finances, and he spent a significant amount of time working on the hospitals. His report noted that perhaps as much as 10% of the inpatients were “disposition” patients, did not have to be in acute care, leading to a cost of \$2.8 million for the hospital, of which, and I’m not kidding, \$2.5 million was reimbursed by Medicaid or Medicare. Most of the patients were “elderly awaiting admission to nursing homes or young children . . . requiring nursing care for extended periods.” These patients, especially those looking for permanent nursing care, had a “high incidence of welfare recipients,” and couldn’t find more suitable hospitalization circumstances. This was because, according to the report, of “a shortage of nursing home beds, restrictive admission policies to chronic care facilities and inadequate placements services.” All of which was also being cut. The reported wanted new standards “limiting admission to acute care” and the “referral of all others to other facilities.” This was important because, “although the discharge of such patients would result in reduced Medicaid claims, reduced occupancy and increased per diem costs per patient, long term economies would derive from reduced fixed costs.” The EFCB was positioning to have a highly interventionist role in hospital management, and like CUNY, one with careful attention to both fiscal and policy matters.¹¹⁵

¹¹⁴ EFCB meeting minutes, Jan 23, 1976

¹¹⁵ Sidney Schwartz to Emergency Financial Control Board, Jan 21, 1976, EFCB Archives

In addition to cuts to acute care, in another report, Comptroller Goldin called to reduce the city's ambulatory medical care. Goldin wrote that "to a substantial extent there is excessive and inappropriate utilization of ambulatory care by patients covered by Medicaid in New York City." He called the "excessive" costs the "result from inappropriate provisions of ambulatory care by hospitals and physicians, as well as lack of controls on the utilization of ambulatory care by Medicaid enrollees." He expected cuts for ambulatory care of 10% to save the city \$37 million. He found that cost was a result of attitudes stemming from the Medicaid system. Because Medicaid enrollees "are free to obtain medical care from whomever, where and with whatever frequency they wish," they are more prone to use services. Laying out a striking market mentality applied to human health, Goldin argued that "the price of services, ordinarily an effective control on demand for services by those who must pay their costs, is largely irrelevant since the entire price is paid by a third party." Hence, this failure of the price cost mechanism was the failure of system and leading to city expenses.¹¹⁶

To fix the problem, Goldin wanted a reduction of care; as he was explicit about, that would mean a reduction of the freedom provide by the public sector. "Health and Hospitals Corporation," he wrote, "should establish as a long-term goal that care should not ordinarily be provided for person seeking non-emergency hospital out-patient services." Meanwhile, "in the interim, a central intake screening system should be established at all municipal hospitals to identify for every patient the threshold nature of indicated care in each case." The purpose was that for those "not requiring any hospital care," they system could "refer patients elsewhere."

¹¹⁶ Harrison Goldin, *Proposals for Reducing the Cost of Ambulatory Medical Care*, Dec 20, 1976, Beame Administration Records, City Hall Archive, Sally Leonard Subject File. Stephen Berger in a 1977 article in an academic journal would lay out this logic in much greater detail. His goal, according to the article, was to bring market discipline to public services that were insulated from supply and demand constraints. Stephen Berger, "The Interplay of State and Local Government in Health Care," *Proceedings of the Academy of Political Science* 32, no. 3 (1977): 63–67, doi:10.2307/1173421.

Indeed, one could see the structuring of American health care underway, as Goldin writes that “Medicaid policy which assures enrollees complete freedom of choice should be modified to require enrollees to select a personal physician from a panel of primary care physicians,” which “should eventually exclude hospital emergency rooms and out patient clinics.” Sensitive to arguments about personal freedom, Goldin wrote that his proposal would only modify, and not eliminate freedom of choice, “it would limit the frequency with which patients may exercise freedom of choice.” Here, a clear argument for the diminution of so called consumer freedom, an odd framework for a political program influenced by libertarian notions of governance, a direct assault on “freedom.”¹¹⁷

Board reports, articles and documents like these laid out the broad agenda and ideology of the Control Board; it expressed their optimal desires in relation to the city hospitals, yet they were not able to achieve all they wanted. By February of 1976 cuts had turned to renewed calls for full hospital closures. Several hospitals remained open due to community resistance. Dr. John Holloman, the President of the Health and Hospitals Corporation explained to the State Health Commissioner Robert Whalen, “The Board of Directors of the New York City Health and Hospitals Corporation on February 5, 1976 was compelled to order the closure of Sydenham Hospital and Gouverneur Inpatient and Emergency Services, both in New York County, “G” Building in Sea View Hospital and Home, Staten Island County, Segundo Ruiz Belvis Neighborhood Family Care Center” in the Bronx and Fordham and Morisannia hospitals, also in the Bronx. Many of these hospitals were created in the recent or more distant past through community organizing and pressure to provide more care to underserved communities. Sydenham was the historically black hospital; the Belvis center opened in 1974 from community

¹¹⁷ Goldin, *Proposals for Reducing the Cost of Ambulatory Medical Care*

pressure from Puerto Rican social movements, and so too with Gouverneur on the LES which opened in 1972.¹¹⁸

Corporation President, Dr. Holloman was a practicing doctor and civil rights activist who insisted that he was advocating cuts against his will, that he was “compelled,” by the dictates of the Board. Holloman had marched in Selma, Alabama with Dr. King and John Lewis (he met his wife on the march), and believed unquestionably that “health care is a right,” and thought of himself and was widely regarded as a “defender of health care for the poor.” Following his civil rights experience, Holloman went on to organize health-care centers in the South through his organization, the Medical Committee for Human Rights. Even with these credentials, Holloman recommended to the HHC Board that four hospitals of the city’s eighteen be closed because of the crisis. Although he wrote that “it was with great personal regret and sorrow that we are constrained to submit such a proposal,” in early 1976 he was still pursuing cuts.¹¹⁹

However, Holloman was not getting the support of the HHC Board – they had received tremendous “pressures for the communities that would be affected” by the cuts, including calls, letters, demonstrations, marches, and sit-ins. They were reluctant to close more than just one, Delafield in Washington Heights, the city’s smallest. When the HHC Board finally met to discuss Holloman’s proposal to close more hospitals, protestors literally kicked a hole in the door of the conference room and burst past police to disrupt the meeting. As the *New York Times* reported, fifty people, “as many as could fit in the narrow room,” of “angry, shouting” protestors threatened and detained board members. Besides jumping on the conference table, and knocking over chairs and papers, protestors promised not to let the board leave unless they made “a decision that is suitable to the people.” After police forced the protestors from the room, the

¹¹⁸ John Holloman to Robert Whalen, Feb 24, 1976, Beame Administration Records, Municipal Archive

¹¹⁹ “Defender of Health Care For Poor,” *New York Times*, Oct 21, 1976

board moved to approve Holloman's proposal. They seemed to so reluctantly, Board Chair Lowell Bellin, referring to the EFCB, said that "if we don't have a plan, they will have a plan," and that "their plan will be worse."¹²⁰

This vote started a wave of protest that paralyzed the city's hospital system and led to a crisis. First, there was a spate of high level resignations from the HHC and its hospitals. On news of the vote, the entire medical board of the Kings County Hospital resigned in protest, pointing to already inadequate funding at their hospital. The next month, HHC vice president Charles Windsor also resigned, citing the "destructive force of financial mandates from nonelected officials." Windsor said that the EFCB and others of "demonstrating a lack of concern for the economically deprived citizen" and that they had failed "to make health care a priority." Windsor's resignation came as the HHC lost two other vice presidents in charge of ambulatory care and professional services. In six months, five more HHC executives would resign, including Board Chair Bellin.¹²¹

Sometimes the resignations lead directly to street demonstrations. Diane Lacey was a staff member at HHC who resigned to protest the cuts, and in March of 1976, along with State Senator Carl McCall and Councilman Frederick Samuels, they organized a march of 5,000 in Harlem along 125th St. to Sydenham hospital to protest its closing, slated for that June. Protestors at the march said the actions were to prevent "injustice" and in the furtherance of "the long fight for black liberation." Sydenham faced particular support because, as the first hospital in New York to allow black doctors admitting privileges, it shared part of the long history of movement against white supremacy. Further, the next closest hospital, Harlem Hospital, was

¹²⁰ David Bird, "Cuts in Hospitals Called For Here," *New York Times*, Jan 21, 1976; David Bird, "Meeting On Hospital Cuts Is Disrupted," *New York Times*, Jan 23, 1976

¹²¹ David Bird, "Kings Hospital Unit Quits in a Dispute With City Agency," *New York Times*, Jan 24, 1976; John McQuiston, "Executive Quits Hospital Agency," *New York Times*, Feb 24, 1976

running at 90 to 100 percent capacity, was also facing cuts, and couldn't support the new patients. Sydenham also provided 900 jobs in Harlem, a community that had a 20 percent unemployment rate. Sydenham had both symbolic and material meaning. And the march was organized by a coalition of church groups, labor unions, and politicians.¹²²

A similar account of meaning and protest played out across the Harlem River in the Bronx at the end of March. Hundreds of residents and community leaders came out to protest the closing of the South Bronx only maternal care center, the Segundo Ruiz Belvis Neighborhood Family Care Center. The Center was the product of years of social movement organizing by New York's Puerto Rican community to provide maternal health services to some of the city's poorest residents. It was open in 1974, but had been grossly underfunded since. City Councilman Ramon Velez told the crowd that "from the very beginning there was an attempt by the city to prevent this center from opening with Puerto Rican leadership," but that despite the inadequate funds, the center was having an impact on mothers and infant care. Demonstrators fought to keep the clinic open, and showed the resistance to the planned hospital and health care cuts was spreading throughout the city.¹²³

In April, the tactics of resistance including hospital and office occupations and lawsuits, and brought in doctors and community activists. At Fordham hospital in the Bronx, taking caution not to interrupt care, 200 people occupied the hospital administrative offices and pledged to stay until the facility was saved from cuts. The sit-in was accompanied by a sick-out on the part of the nurses, apparently a wildcat, concerned about the closure. At Morrisania hospital, also in the Bronx, resident doctors filed lawsuit against their planned closing on the grounds that the closure would impinge the constitutional rights of "the largely poor minority population" served

¹²² Charlayne Hunter, "5,000 March in Harlem Against Hospital Closing," *New York Times*, Mar 26, 1976

¹²³ "Closing Protested At Health Health Center," *New York Times*, Mar 27, 1976

by the hospital. So in the spring of the 1976, resistance to hospital closures included doctors, nurses, community members and patients, but also job actions, lawsuits, and demonstrations.¹²⁴

In May these tactics escalated to hostage taking. One hundred members of a group calling itself the Coalition to Save Gouverneur, seized the entire six-floor of the Lower-East Side hospital, and locked up seven hospital personnel including four members from the HHC and the executive director of the hospital, Gustavo De Velasco, who expressed sympathy their aims. Statements from the Lower East Side Patients Association said they would occupy the offices “as long as it takes” to protect the hospital. The same evening of the hostage taking, a public hearing on the hospital closings was cancelled because of fight between policemen and protestors at the HHC offices. And the kidnapping was copycatted- and at hospitals not facing closure, but cuts, like Metropolitan Hospital on the Upper East Side. Its executive director, Anthony Constantine, was attending a noontime street demonstration against cuts to the hospital system when he was “whisked away” by “community groups” and held in his office for the rest of the day. He too supported the aims of the hostage takers.¹²⁵

While tactics of resistance were escalating and turning violent, May also faced dueling reports from the HCC and State Comptroller Arthur Levitt. The HHC report found that given the political climate around hospital cuts, that cost reductions could be found by other means, like productivity increases, and that the four facilities slated for closure should remain open. This, no doubt, did not go down well with the EFCB, who issued their own report through Levitt that in fact, the hospitals were losing \$200 million a year in non-payment, and that these rates of loss were not sustainable. Corporation figures rebutted that paying for the medically indigent “are a

¹²⁴ David Bird, “A Sit-In Protests Hospital Closing,” *New York Times*, Apr 14, 1976; and “Sick-Out By Nurses and Sit-In Continue at Fordham Hospital,” *New York Times*, Apr 17, 1976

¹²⁵ “Demonstrators Detain 7 at Gouverneur,” *New York Times*, May 7, 1976; Lee Dembart, “Planned Hospital Layoffs Are Put Off Until Monday,” *New York Times*, May 22, 1976

horrible fact of life of a public hospital system which has to treat millions of patients each year who cannot afford to pay and who do not have third-party insurers to pay for them.” Levitt’s report meanwhile was supplemented by another for State Special Deputy Comptroller Sidney Schwartz, who found that without the hospital closures, the HHC would be as much as \$75 million outside its three-year plan target. Significantly, the HHC report indicated that bolstered by the movements of resistance the Corporation now too was pushing against the cuts.¹²⁶

Meanwhile, the process of closing was becoming ad hoc; Hospital closings were done unilaterally and without regard to the normal democratic process. For example, when the City Council planned public hearing on the closure of Gouverneur Hospital, the mayor advanced its closure date to before the hearings. Council Member Miriam Friedlander wrote a scathing letter to the HHC calling the move “absolutely unconscionable” and pointed out that the move violated the city charter requiring public hearings “prior to the sale, closing, abandonment of a city hospital.” She said this process “makes a mockery of the democratic process.” She closed the letter by urging the HHC to “abide by the letter and spirit of the law and stop all procedures for hospital closing prior to public concertation of this matter.”¹²⁷

However, the real crisis in May came when hospital workers threatened strike. As the city’s budget picture deteriorated, the mayor announced that further cuts were necessary in the next year’s budget to start June 30, and that as many as 3,300 more jobs from the HHC would have to be cut. On news of the further reductions, workers at the Hospital Workers Union, Local 420 of DC37, voted in favor of a strike before the termination of their contract. As May drew to

¹²⁶ Hospitals Corporation Held Losing Millions,” *New York Times*, May 17, 1976; and David Bird, “A Report to the Hospitals Corporation Call for Keeping City Institutions Open,” *New York Times*, May 14, 1976; David Bird, “State Monitor Questions Municipal Hospital Cuts,” *New York Times*, Jun 9, 1976

¹²⁷ Miriam Friedlander to Lowell Bellin, Mar 11, 1976, Beame Administration Records, City Hall Archive, Sally Leonard Subject File

a close, the strike looked increasingly likely, and the city began turning away all but emergency patients from its hospitals. Given the climate, the HHC delayed their meeting to approve further cuts coming from the city.¹²⁸

However, in June, with no other options, the HHC announced the planned layoffs, and Local 420 announced the strike. The Corporation insisted that the cuts were not of its choosing. In June of 1976 an HHC produced a report on the cuts. It found that “as a result of sustained pressure to effect budget cuts,” the Corporation was implementing a three year budget plan in which the majority of cost savings derived from layoffs. In the labor dispute, the Corporation argued “it has no choice but to plan for the proposed 3,150 layoffs of municipal hospital employees at the four units here involved and at its other facilities in order to accomplish the budget cuts being imposed and monitored by the City’s Budget Director, the State’s Special Deputy Comptroller for New York City and the Emergency Financial Control Board.” But both the cuts and the strike were averted at the last minute when HHC and the union agreed to a three judge panel to review the crisis. That put the strike on hold, for a while.¹²⁹

By the middle of June, the hospitals and union negotiation was falling apart. The three judge panel appointed by Mayor Beame earlier in the month came back with recommendations to the liking of neither the union nor the city. The panel found that from June 1975 to April 1976 the system laid off 5,000 employees, reducing the total from 43,128 to 38,364, already 19% of the workforce, at which point the City and the Board were imposing an additional 3,100 positions cut and that these cuts were detrimental to quality of care in the hospitals. It argued against further drastic reductions, that some personnel reductions may be necessary, maybe half of what

¹²⁸ Francis Clines, “Municipal Hospitals Brace For a Strike Over Layoffs,” *New York Times*, May 21, 1976

¹²⁹ Report and Recommendations of the Ad Hoc Panel on the Threatened Strike over Proposed Layoffs at Four Municipal Hospitals, Jun 17, 1976 Beame Administration Records, City Hall Archive; “Strike of Hospitals Averted As 2 Sides Agree on Panel,” *New York Times*, June 4, 1976

the city wanted, and that major part of both Sydenham and Gouverneur should remain open. Both the hospital and union said these proposals had already been considered, and rejected. However, eventually both sides agreed to the reduced layoff proposal, even though it would leave the HHC with a nearly \$6 million deficit. To counter, the city developed and issued another report, this one with greater layoffs, and that the union now rejected. There the union and the HHC stood throughout the summer of 1976.¹³⁰

Meanwhile, some hospitals were being closed. In June, Morisannia in the Bronx was shuttered. And in July Fordham, also in the Bronx was closed. These closings were accomplished on the promise of the imminent opening of the North Central Bronx Hospital which would provide coverage for those communities. But for the EFCB, it was not enough. To meet the new budget projections the EFCB wanted more cuts, some 1000 medical workers like nurses' aids, housekeepers, and dietary workers in July and August. This new wave cuts prompted a further threats of strikes from the union, perhaps bolstered by the successful strike of healthcare workers of 1199 at the private hospitals earlier that month. The wave of reduction after reduction had prompted outrage by Local 420 members. Associate Director of DC 37 told the *New York Times* that her "members insisted on a general strike" and that there had been "no holding them back." She added that "there's war in our hospitals and we're not going to be peaceful picketers."¹³¹

In August Local 420 went out, and after a four day strike the union and the HHC fought to a draw. The union agreed to give up \$10 million in its COLA payments in order to keep the layoffs of thousands of co-workers from going forward. A generous move, but one that was not

¹³⁰ Ad Hoc Panel Report; and David Bird, "Fact Finding Panel Calls for Fewer Layoffs," *New York Times*, Jun 19, 1976

¹³¹ David Bird, "City Hospitals Ready for Strike," *New York Times*, Aug 3, 1976

satisfactory to the EFCB. Both the State and City also had to come up with an additional \$5 million each, meaning the negotiated plan would not be cost neutral.

By September, it was clear to the EFCB that HHC was not to toe the line of austerity. Only two of four hospitals slated for closure in June had actually been closed, Fordham and Morissania in the Bronx, unions had successfully fought back layoffs, and the HHC was still running a \$88 million deficit. Further, the HHC had not developed a financial plan to the satisfaction of the EFCB, and in September City Budget Director Donald Kummerfeld was pushing the Corporation for more specific plans and greater cuts. Again, the Control Board faced another “CUNY problem,” this one with the HHC, in which hoping to avoid cuts, the Health Corporation was attempting to devise revenue generating measures to meet their projected budget shortfalls. But for the EFCB, this was not sufficient, they wanted plans for cuts, not new revenue. Beame rejected these plans and forced the HHC to come back with new plans. Stephen Berger blamed the delay on what he called a “created mental density” on the part of system administrators.¹³²

When it finally came, Holloman’s new plan and communication to the Board was not to their liking. Most problematic from the EFCB perspective, the HHC continued to operate at deficit, estimated to be \$35 million in 1976 and \$77 million in the next fiscal year. These figures represented .035 and .075 percent of the Corporations \$1 billion yearly budgets; but no matter, the Board was insisting on a hard line against HHC deficits. Much of this deficit, Holloman was to argue, came from state changes in Medicaid disbursement rates in mid-1976. These changes dropped hospital reimbursement rates from \$215 a patient day, to \$197 for FY 1977. This unexpected drop, coming at the height of the HHC crisis, and when hospitals were facing rising

¹³² Steven Weisman, “Hospital and Transit Budgets Sent Back,” *New York Times*, Sep 10, 1976; Steven Weisman, “2 Agencies Are Late On Budget Deadline,” *New York Times*, Sep 16, 1976

costs, Holloman argued was both politically motivated, and forced the hospital system into deficit spending for the next year. Holloman and HHC were suing the state over the change. Also released to the press, Holloman said that without further aid, the HHC would be forced to close more hospitals, and that, the EFCB “must accept the full responsibility for any further cutbacks in health services.” Further, Holloman insisted the HHC no longer had the authority to close the hospitals because of the recent agreement with Local 420, which contractually bound him to not cut staff further. Holloman was using the union in the fight to keep hospital doors open. Holloman was pushing back against the cuts, and the Control Board didn’t like it. They began attempts to have him removed from his position, and eventually were successful.¹³³

In October of 1976 the Board received a new HHC financial plan and it caused great concern. HHC’s new plan, featured a balanced budget achieved through improved bill collection, reductions in care, and unspecified layoffs. Although their plan showed a balance, everyone on the Control Board expected a deficit because the planned cuts were not specific and increased revenue collections seemed doubtful. Because of this the Board discussed a monthly allotment schedule, the same mechanism the EFCB had used to discipline the university system. Margolis urged the Board to “take the same course of action it had taken earlier in the year with the City University,” because an end of year budget shortfall in hospitals “could result in an even more serious disaster, and there would be no emergency funds available which would be sufficient to handle the situation.” Stephen Berger called the HHC “the single biggest financial disaster in New York City right now,” and also contemplated a CUNY type solution to the Hospital crisis, monthly allotments and perhaps a forced shutdown. However, unlike the university, if the Board forced a shutdown of city hospitals it could have very dramatic consequences. Obviously,

¹³³ “Hospital Agency to Sue the State Over Medicaid,” *New York Times*, Oct. 18, 1976; John McQuiston, “At Least Two New York Municipals Face Closing,” *New York Times*, Sep 23, 1976

there could be immediate health concerns as a city wide hospital shutdown was likely a question of life or death for patients. Probably of greater concern to the Board was the political context. Holloman was the highest appointed black city official, he had tremendous support from the groups staging the protests and resistance on the streets of New York. A confrontational shutdown might exacerbate their problems. Eventually, the Board decided to hold off on monthly allotments until they had more information.¹³⁴

More concerning perhaps from the Board's perspective was "that there could be no resolution of the financial problems of the HHC without resolution of its management problems and that the HHC board of directors would be put on notice immediately of the need to reorganize its management to adequately deal with the fiscal crisis." Mayoral candidate and NY Congressional representative, (likely Ed Koch although unnamed in the EFCB minutes) reported that he had visited New Lincoln Hospital in the Bronx to discuss the budget situation and share the Board report. He found that "the management of HHC was incompetent." Carey agreed, adding that there "were 6,000 surplus hospital beds in the New York City area" he added that "it was abundantly clear that both the HHC and the voluntary sector would have to economize." Rohatyn said the HHC "was generally recognized as inept," and that it therefore might not be productive to put the Hospitals on monthly allocation. Furthermore, he said, the HHC problem was a "special concern because of the important and difficult social function of the hospital system." He wanted the city to mandate how to run the hospitals. For the new financial plan proposal the Board asked the HHC also submit "a plan for restructuring the management of HHC."¹³⁵

¹³⁴ EFCB meeting minutes, Oct 15, 1976; Steven Weisman, "Hospitals and Fiscal Realities," *New York Times*, Oct 7, 1976,

¹³⁵ EFCB meeting minutes, Oct 15, 1976

The EFCB then discussed removing the HHC Board members, only obliquely covered in the EFCB meeting minutes: “There ensued a discussion concerning the legal structure of the HHC as a governmental entity, the make of the board of the Corporation, and the repository of power for removing the members of the board.” This was the most acrimonious discussion on the EFCB. While the meeting minutes are scant, the *New York Times* reported that Control Board members were universally furious with Mayor Beame for not having done more to control the situation. Board members wanted Beame to use his influence over the HHC Board to oust Holloman, and create further cuts. Meanwhile, anonymous members of the Board were telling the press that “a consensus was reached that Holloman is a disaster,” and that there was “no way costs can remotely be controlled if he and others continue to run the corporation.” Adding that the current management was an “invitation to chaos.” Following this, the Mayor and Zuccotti met with the HHC Board to urge harsher action, including the HHC establishing a special committee to take action along the lines of the EFCB orders.¹³⁶

Immediately after this meeting, Mayor Beame began a public search to replace Holloman. But Beame only got rejections from his offers. Holloman, told by the press of the search, said “I’m not resigning . . . I am going to stay here and fight this out.” Without finding a replacement, in November of 1976 Beame took over hospital administration directly, getting the 16 member HHC Board to approve a new special committee to oversee restructuring the management at HHC. The creation of the new committee, an HHC board member called a “bloodless coup.” The *New York Times* editorial board picked up on this language; they said the take over should be “only the opening shot in what must become a comprehensive – and not so bloodless – revolution in health care delivery for this city.” In particular, they wanted further

¹³⁶ EFCB meeting minutes, Oct 15, 1976; EFCB meeting minutes, Nov 5, 1976 and Steven Weisman, “Control Board Spurns Proposal for Hospital and Transit Budget,” *New York Times*, Oct 16, 1976.

“drastic measures” that included closing more hospitals, enacting further layoffs, and ousting Holloman from leadership – what they called “shaking up the municipal hospital system.” Berger told the press he was “delighted.”¹³⁷

The White House also looked favorably on this development. They viewed Beame’s actions in November of 1976, as a “take over” by the Mayor of budget work from the HHC by appointing the city committee, headed by City Budget Director Donald Kummerfeld to cut HHC in the next two years. Their first order of business, to higher outside consulting firm to review HHC finances. Holloman and his supporters days were numbered. The Ford White House called it “one of the first definitive steps” of the Mayor to regain control of the covered agencies and hoped that similar action would be taken with the Transit Authority and the Board of Higher Education.¹³⁸

Over the course of December and January the Mayor pulled strings to get Holloman removed from management of the HHC. As president, Holloman was appointed by the 16 member semi-autonomous HHC Board. The mayor only directly appointed five of those members, another five were ex-officio city health officials, and the remaining five were appointed by the city council. The final, 16th, member was the chairman appointed by the board itself. In that tangle, the mayor had neither the direct authority nor the political clout to get a victorious vote of no confidence. Beame and EFCB members therefore leaned hard Holloman to resign; they had city agencies produce scathing reports, called openly for his ouster, and resorted to name calling in the press. But through it all Holloman refused. Beame caught a lucky break when Lowell Bellin, the chair of the Board, resigned for what he called personal financial

¹³⁷ Steven Weisman, “Beame Reported to Seek Removal of Dr. Holloman,” *New York Times*, Oct 19, 1976; “Hospital ‘Coups,’” *New York Times*, Nov 8, 1976; Ronald Sullivan, “Beame Takes Over Fiscal Control Of Hospitals,” *New York Times*, Nov 4, 1976

¹³⁸ Vice President, Agenda for the Meeting with the President, Wednesday, November 17, 1976, Bigel Archives

reasons. The new appointment, Pascal Imperato, was known as the “ax man” at the City’s Health Department because he ruthlessly cut their department by nearly twenty percent as the crisis unfolded, cutting staff by 25 percent. Imperato quickly moved to line up the votes on the board to oust Holloman. An apparent sticking point was the racial politics of the appointments; Beame and Imperato needed at least one of the five black members of the board to support the no confidence vote, and for months, many refused, including Dr. June Christmas, the city Commissioner for Mental Health whom Beame personally confronted to the “point of tears,” although she refused throughout.¹³⁹

The EFCB waged a public full scale campaign to remove Holloman. However, the HHC president received tremendous support from agents throughout the hospital system. A January 1977 letter from the president of Kings County Hospital Center, Bernard Weinstein, to Holloman expressed support. It called Holloman “universally recognized as the most eloquent and effective spokesman for quality health care for the poor and for a rational and efficient delivery system for all citizens.” “The Council of Executive Directors wishes to take this opportunity to publically state its unanimous support of your efforts,” he wrote, “more specifically, the Council wishes to state its fundamental objection and disagreement with efforts to inflict further instability and uncertainty upon Municipal Hospitals by those who seek your removal from office.” Holloman garnered support from other corners as well. An organization “Community Members of Queens Supporting Dr. John Holloman,” formed to help Holloman keep his job. But his main line of defense, Holloman hoped, was through Manhattan Borough President Percy

¹³⁹ Ronald Sullivan, “Hospitals Corporation Votes 9 to 7 to Remove Holloman as President,” *New York Times*, Jan 27, 1977

Sutton, who Holloman lobbied to issue public statements of support, something Sutton declined to do, despite having served in the same all black unit together in WWII.¹⁴⁰

Finally, in the last week of January, 1977, Beame and Imperato had the votes. Board member Dr. Frank Folk agreed to vote with the mayor. At the meeting for the vote, Holloman and his wife openly wept as the board voted 9 to 7, the barest majority, in favor of no confidence in Holloman. Moments later, Folk was physically attacked by public supporters of Holloman, resulting in a melee between Folk, the assailants and police officers in the offices of the HHC. One man shouted at Folk, “you Uncle Tom. We’ll get you when you get back to Brooklyn.” The affirmative vote only made possible by Folk, and Imperato who at that moment held two seats on the board. The very next day, Imperato was telling the press he thought the HHC should be abolished and the city’s municipal hospitals merged with the voluntaries. Echoing the values of Wall Street, Imperato said of community protests designed to stop the cuts that “what the community perceives as needs often are simply wants.”¹⁴¹

Despite his ouster, Holloman continued to serve as HHC president through April 1977, and used that time to try to push against the cuts. A February 1977 letter from HHC president John Holloman to Sidney Schwartz made a reasoned case the HHC’s budget proposals for the upcoming year. He highlighted that HHC had met their financial plan goals for 1976, implementing drastic cuts. While the emerging budget picture for 1977 involved what planners called “slippage” from meeting financial goals, for the HHC that amounted to a deficit of roughly \$27 million, Holloman reminded Schwartz and the Board that the cuts were double

¹⁴⁰ Bernard Weinstein to John Holloman, Jan 17, 1977, Beame Administration Records, Municipal Archive; Community Members of Queens Supporting Dr. John Holloman to Mayor Abraham Beame, Jan 24, 1977, Beame Administration Records, Municipal Archive

¹⁴¹ Ronald Sullivan, “Hospitals Corporation Votes 9 to 7 to Remove Holloman as President,” *New York Times*, Jan 27, 1977; Ronald Sullivan, “New Chairman of Hospital Agency Calls for Abolition of Corporation,” *New York Times*, Jan 26, 1977

edged, “the Corporation has the difficult task of making reductions while simultaneously minimizing the impact of those reductions on its revenue.” Very reasonably, Holloman made the case that HHC was making cuts, was lobbying for additional state funds to make up their short fall, had planned increases to the Medicaid rate, and would make “other required savings,” to mitigate the slippage. In regards to future sources of revenue, Holloman argued “it is too early to conclude that these items are not attainable; and consequently, the Corporation proposes continued pursuit of this revenue and does not feel that substitutions are required at this time.”¹⁴²

What is perhaps most remarkable, was that after all this, the outside auditors whom Beame’s handpicked commission hired to review HHC finances, in the end agreed with Holloman and the Corporations budget estimates. Its basic findings, as reported in the *New York Times*, found that HHC “can cut its financial deficit without imposing the wholesale job layoffs that were threatened last year.” Instead economies were to be found in attrition, trimming services and greater workplace efficiencies, as well as increasing their Medicaid reimbursement costs. Notably, the report still called for closing small city hospitals, like Sydenham, as a way to improve those economies. With respect to the budget, this is, remarkably, what Holloman and the social formations that had galvanized to support him were saying all along. And it was what was eventually approved by Kummerfeld and the mayor’s task force, and the HHC board. But by then many of the political forces that supported public health care were disrupted or spent.¹⁴³

In any case, early 1977 the Health and Hospitals’ crisis was mostly solved and the EFCB was feeling ebullient. The HHC had done well by the Board, it had “improved financial management, particularly a reduction in the backlog of collections, personnel reductions,

¹⁴² Holloman to Schwartz, Feb 23, 1977

¹⁴³ Ronald Sullivan, “New Hospital Plan Would Curb Layoffs,” *New York Times*, Jan 11, 1977; and “Consultants are Hopeful on Ways To Cut Health and Hospital Budgets,” Dec 26, 1976; and “Hospital Agency Approves Plan to Pare Budget,” *New York Times*, Jan 13, 1977

primarily through attrition, improved hospital utilization and revenue enhancement plans; and hospital consolidations and administrative mergers,” according a March report. Meanwhile, board members were telling the press that they were optimistic for 1977. The Board still faced a roughly equal measure of cuts from upcoming budgets, but most of the political opposition was being cleared away. Budget director Kummerfeld told the press “we are not smug, self-satisfied or even highly optimistic. But I am hopeful we can do it,” achieve the fiscal goals of the three-year plan on schedule. The path ahead for the austerity regime was looking rosy.¹⁴⁴

What this tells us is that like the CUNY system, the specific emphasis of cuts was more about politics and ideology, than the fiscal necessity of the measures. The focus of the EFCB was not solely on cuts, but ousting, replacing and undoing the networks of social movement victories that had partially implanted in New York City governance. Holloman and HHC, CUNY, and the assault on the city’s unions all were a testament to this. But these struggles were just the tip of the iceberg of the planned rollback of city social wage policies. They garnered the most attention from the Board because it was here that austerity planners met the most resistance. Other departments and programs were simply cut, with widespread impacts on the people of New York.

* * *

4.6 “Double Barreled:” Remaking New York’s Racial Capitalism

For the city agencies and authorities that couldn’t or wouldn’t put forward kind of resistance mustered by the HHC, the cuts were much swifter and steeper. Indeed, the austerity regime did not limit its prevue to the city’s unions, universities and hospitals. The whole fabric

¹⁴⁴ EFCB meeting minutes, Mar 25, 1977; Steven Weisman, “New York City’s Fiscal Experts Tempering Optimism with Caution,” *New York Times*, Dec 13, 1976

of New York City public infrastructure was under attack. Welfare, other health and social services, and the city's tax structure, were all open for readjustment through the EFCB. These changes did more than roll back New Deal programs, or Civil Rights victories; they remade the order of New York's regime of racial capitalism. The austerity program was "double barreled," in the words of Eleanor Holmes Norton, city Commissioner of Human Rights; they impacted jobs and city services, race and class, material prospects and cultural attitudes, physical health and constructions of gender. With the combined impacts of Keynesian policies and civil rights social movement organizing, the conditions of African Americans and other racial minorities was improving, pointing in directions that were promising for moving toward a more just and equitable New York. However, just at the moment when African Americans and people of color were able to make use of the Keynesian state that had been largely the purview of white ethics, their gains were all undone by austerity, in an historic turn from which the city and nation has continued to suffer.

Throughout 1976, 1977, and 1978, neither the city's economic picture nor the bond market improved. The result was deteriorating budget pictures and further and deeper cuts. By the spring of 1976 a declining economic picture in New York City meant that city revenue streams were starkly lower than anticipated, and EFCB members feared that despite all their efforts, the last minute saves, the bailouts, the funding packages, the increased aid, and the cuts, their efforts to balance the city's budget by 1978 would fail. Job cuts were exacerbating the problem. After a year of austerity, from the middle of 1975 to the middle of 1976, the Bureau of Labor Statistics was reporting that New York City in that period had lost roughly 112,000 jobs, well more than just those let go by the city, and no doubt compounding the economic crisis that created the fiscal shortfalls. Indeed, a full year into the austerity program, the city's ability to

deal with its fundamental economic problems were negatively impacted. According to a White House report, city efforts to turn around its dismal economic picture “remains largely dormant,” and that “to date, most of those primarily responsible seem too busy with other things or are completely “stumped” because of the difficulty of the task.” A scenario that would set back the city by years.¹⁴⁵

Their response, was to cut more, more deeply, into 1977 and 1978. Mayor Beame’s budget presented in March of 1976 called for an addition \$680 million in reductions for FY ’77-’78, on top of \$325 million in reductions the previous year. This included further cuts to welfare “not mandated by statute” of both public assistance and medical assistance to the tune of \$30 million in 1977 and \$60 million in 1978, also reductions in employee benefits by \$24 million per year each year, and to “phase out city support for CUNY senior colleges” by \$113 million in FY 1978. City police faced a \$23 million cut to crime prevention, the fire department was to lose 127 employees and close 12 companies, the sanitation department was to reduce its collection frequency from five, to three times a week, inpatient and emergency services were to close at three hospitals, the health department was forced to eliminate their entire ambulatory care program, and “close 4 district health centers, 1 tropical disease clinic, 8 chest clinics, 12 child health stations and the Fort Green hypertension service.” And the cuts kept coming, ending free vaccinations for doctors, reducing laboratory services, “reduce[d] dental services to children,” reduce methadone treatment, reducing the “drug free program” designed to help kick addiction, reduced weekend and rush hour ferry service, reduced performing arts groups, reduced parks weekend work, reduced swimming pool program, reduction by 10% of library support “resulting in closing and/or reduced hours of service” and 297 staff layoffs. For public schools the budget

¹⁴⁵ September 9th Weekly Report on New York City, Sept 9, 1976, Presidential Handwriting File, Ford Presidential Library

called for a \$30 million cut to be made in “increased class size and teacher layoffs.” The budget closed 25% of the city’s day care centers impacting 9,000 kids. In August of 1976, as the budget picture deteriorated, the Mayor added an additional \$50 million “expenditure reduction program,” with at \$85 million “standby” plan in cases the situation got still worse.¹⁴⁶

Looking at city job loss, the impacts of austerity were dramatic. New York City’s unemployment rate increased from January 1975 to January 1976 from 10.2 to 11.4 percent, at a period when nationally that rate was falling. In 30 months the City’s index of business activity fell 10 points, from an index rate of 103 in January 1974 to 91 in May of 1976 on a base 100 from 1967. The attention the EFCB gave to increasing city worker productivity, the wage freeze, the cap on benefits and hiring, the high level of detail the Board gave to labor contracts indicate the structural purpose and function of the EFCB had much more to do with a top sided class war, that with fiscal responsibility. The necessary emergency powers to impose this political agenda fits a historic pattern of using domestic emergency powers to disrupt labor unions and workers’ organizations. But the cuts and the austerity agenda was about more than just checking the power of unions and disciplining workers. All the cuts, and especially the layoffs, had a disproportionate impact on women and people of color. As such, to characterize the austerity regime as a “class war” misses the dynamic nature of the cuts. Yes, it was a class war, but its impacts were much broader.¹⁴⁷

An April, 1976 New York City Commission on Human Rights report on the city’s layoffs, for example, shows that the cuts and layoffs had a disproportionate impact on women and people of color. Written by Eleanor Holmes Norton, the report found that “minorities

¹⁴⁶ New York City Financial Plan Program To Close Budget Gap Fiscal Year 1977 and Fiscal Year 1978, Mar 25, 1975, EFCB Archives. Stephen Berger, ED of the EFCB and austerity hawk urged the Board to reject Beame’s plan on the grounds that the cuts were not sufficient. New York City Financial Plan Fiscal Year 1977, Aug 2, 1976, EFCB Archives

¹⁴⁷ Mayor Abraham Beame, Report Pursuant to Credit Agreement, Aug 2, 1976, EFCB Archives

suffered far greater percentage losses,” of city job cuts. Between July 1st, 1974 when the city started cuts, and November of 1975 when the report was compiled, 46,435 city workers lost their jobs, or 28.2% of the city workforce. According to the report, “Hispanics were hardest hit, with more than half (51.2%) of Hispanic workers separated from their jobs. Black employees lost more than a third (35%) of their positions, with black males alone suffering a 40% loss. Other minorities, a category which includes Asian Americans and American Indians were reduce by 30%.” Through the cuts the percentage of whites working for the city “actually increased from 66.6% to 72.2%” According to the Holmes Norton report, women were also disproportionately impacted. Where the city workforce was 71% male and 28% female, women were 33% of the cuts. This the report found because “many traditional, stereotypic female jobs tend to be in the non-mayoral agencies such as the Board of Education and Health and Hospitals.”¹⁴⁸

Like women, cuts impacted minority held jobs in greater numbers because they targeted job categories disproportionately held by people of color. According to the Report, “Minorities and women fared poorly not only, as expected, in categories were they had begun to make breakthroughs but also in categories in which they had long been employed. In significant numbers. They were affected in two basic ways: categories in which they were heavily represented (mostly low skill, low paying jobs) suffered a disproportionate number of layoffs, thereby taking a heavy numerical toll in minority and female jobs. In other categories, where minorities and women were represented in less significant numbers because of traditional exclusionary patterns, layoffs tended to drastically curtail whatever meagre representation had be achieved by effecting huge percentage cuts in minority and female employment.”¹⁴⁹

¹⁴⁸ “City Layoffs: The Effect On Minorities And Women,” The New York City Commission on Human Rights, April 1976, City Archive, Mayor Abraham Beame File

¹⁴⁹ “City Layoffs: The Effect On Minorities And Women”

The report found that job categories most heavily populated by women and minorities, composed “nearly three-quarters (73%) of the separations.” The job category “paraprofessional” which was overwhelmingly people of color and women, (78% and 58% respectively) was almost literally “decimated by cuts, with 85% of its jobs lost.” Another similar category was city clerical workers. Of the 10,000 lost positions in this category 8,400 were jobs held by “women and minority workers.” Even in categories that were largely white, like “service/maintenance” which includes the mostly white sanitation workers, most of the cuts came to job positions held by people of color, jobs like “laborer, attendant, park helper and custodial assistant.” True too for police and protective services, where whites occupied 86% of all positions, but suffered only 14% of cuts. Where as Asian American males in this category suffered 35% of the cuts, while “Hispanics” were cuts 28% and black officers at 20%.¹⁵⁰

The report called the effects of the cuts “double-barreled” because of their impacts both on laidoff workers, and city services. The job losses left “individuals whose low skills and education severely limit their future employment options, deprived them of the training and promotional opportunities traditionally provided by paraprofessional work and in some cases returned to welfare.” This was because the report a number of those laidoff were WERP workers, from the Work Relief Employment Program, an effort to provide employment to those on the rolls. The second barrel, was the impacts on city services because “paraprofessional jobs are usually those which provide direct community services.” For example this included “rodent control aids, intuitionial aides, school crossing guards,” and school and health aides.¹⁵¹

In testimony before Congress, Holmes Norton told legislators that the impact of continued cuts “is going to be largely racial. Those who have options are going to get out of New

¹⁵⁰ “City Layoffs: The Effect On Minorities And Women”

¹⁵¹ “City Layoffs: The Effect On Minorities And Women”

York. Those who have options mostly are white. Those who do not have options most often are black and brown.” Calling for a full employment bill, Holmes Norton said, “The Federal Government has failed to develop any new remedies for unemployment since the New Deal. We are living on remedies of the last generation.” Of course, she was right, and now those too were being dismantled.¹⁵²

Giving credence to the Holmes Norton report, Albert Shanker testified that many of the school programs cut eliminated paraprofessional workers, programs specifically designed to assist minority workers. Of the “programs which were designed to end unemployment or dependence on welfare,” a number were cut. According to Shanker, one of them was “probably the outstanding affirmative action program in the country, and that was the employment in 1967 of 10,000 paraprofessionals in the school system of the City of New York, mainly black and Puerto Rican, mainly people who had been high school dropouts and who were on welfare.” This program not only provided jobs, but also had high school equivalency and CUNY placement dimensions, allowing 6000 people to attend college. The doubled-barrelled aspects of the cuts that reshaped New York’s racial capitalism can be seen here. This program both provided jobs for works of color and provided educational advancement for students of color. This program was cut.¹⁵³

Not only did cut positions in the schools disproportionately impact workers of color, but the cut programs disproportionately impacted students of color as well. For example, roughly 80,000 Puerto Rican children in the city’s schools had limited English language skills, with cuts to bilingual educators, including targeting their break and prep time as mentioned earlier in

¹⁵² Testimony of Eleanor Holmes Norton, in “Impact of New York City’s Economic Crisis on the National Economy (771) pg 76

¹⁵³ Testimony of Albert Shanker, in “Impact of New York City’s Economic Crisis on the National Economy (771) pg 69

internal EFCB reports, many students “are lost, and drop out.” This impacts higher levels of education, for example at CUNY where 16,000 Puerto Rican students relied on “city university of New York’s tuition-free college system.” Their participation, from immigrant families, “offer a slender ray of hope for the future.” Yet their prospects were dashed with the imposition of tuition, as “the concept of a tuition free university is being questioned.” Again, tuition and cuts had a double barreled impact.¹⁵⁴

All told, by the end of 1975 school budgets were cut \$300 million, 20% of their overall budget, and twice the amount the city received in federal Title I aid. Again, this was mostly taken out on workers, the teachers, 14,000 of whom were laid off by November. Those numbers increased by 1978 at which point 20,430 staff, about 22% of the workforce had been laid off, and fully 40 schools had closed. For those that remained open “the instructional day was shortened; class sizes have increased; special education for the handicapped falls far short of Federal requirements; bi-lingual education is inadequate; guidance counsellors have been eliminated; high schools no longer have elective courses.” Additionally, as union president Albert Shanker told Congress, “practically every special services, remedial service, every kind of help a child needs when he is in trouble, has been removed, is no longer there.” In some schools, class size increased to 40, 45 or 50 students and “there were schools without functioning libraries, science classes which could give their students no lab work.” NYC drop out rates increased city wide from 9.8% in 1975 to 12.4% in 1981, with the Bronx, Brooklyn and Manhattan all having substantially higher rates, at 14.9%, 13.6% and 14.4%, respectively. Violence was also up by 19% just in 1978 alone, the largest part of the increase coming from elementary and junior high schools due largely to “the insufficiency of adult personnel in the schools to exert a stabilizing

¹⁵⁴ Testimony of Rafael Torregrosa, in “Impact of New York City’s Economic Crisis on the National Economy (771) pg 133

influence.” And school, in the words of Shanker, for many children “these days [is] an unsafe place.”¹⁵⁵

Reporting in the *New York Times* corroborated this. Schools in Brooklyn’s Bed-Stuy, or the South Bronx lost 37 of 68 teachers, or 23 of 34 respectively. Class size was up from teacher-pupil ratios of 1 to 20, up to 1 to 40 or 50 in some schools. Teacher turnover was up to fifty percent, with many innovative programs implemented by young staff without seniority, like open classrooms and team teaching being eliminated. Elective courses in math, history and social sciences and foreign language “have been eliminated throughout the city high schools,” according to the *New York Times*. Additional programs like interscholastic sports, after school or recreational programs, adult education, summer programs and trade programs were all cut. Some schools entirely lacked monitors, hallway aids, lunchroom aids, security guards, and counselors. BOE member Frank Arricale told the *Times* that services outside the classroom like special reading programs, music, art and guidance programs “have gotten murdered.” According to Queens superintendent Marvin Weingart, “the fiscal thing has so stripped us that I’m not certain we’re offering education any longer.”¹⁵⁶

A September 1976 Board of Education report on the state of education in New York was extremely critical of the impacts of cuts. Regarding public education in the city, the Board found themselves “unwilling participant observers of its dismemberment.” They were concerned with their role “authorizing (and sometimes ordering) drastic cuts in programs and staff,” and that

¹⁵⁵ 1983-84 *New York State Statistical Yearbook*, 10 edition (S.I.: Nelson a Rockefeller Inst, 1984). Testimony of Albert Shanker in “Impact of New York City’s Economic Crisis on the National Economy (771) pg 68 and Nick Bollman to Peter Avalon, Task Force on the New York City Crisis, June 1, 1978 in United States Congress Senate Committee on Banking Affairs Housing, and Urban, *New York City Financial Aid: Hearings before the Committee on Banking, Housing, and Urban Affairs, United States Senate, Ninety-Fifth Congress, Second Session, on S. 2892 ... and H.R. 12426 ...* (U.S. Govt. Print. Off., 1978) pg. 305 and Prepared Statement by Albert Shanker in same pg 355

¹⁵⁶ FRED PERRETTI, “Financial Crisis Crippling New York’s Public Schools,” *New York Times*, December 12, 1976.

they were doing it “in spite of the growing unfulfilled educational needs of our student population.”¹⁵⁷

Moving from education to welfare, the cuts were just as harmful to human wellbeing. And welfare is perhaps the best example of the political nature of the cuts, as a strong welfare rights movement in New York was pushing benefits and enrollments higher, and banks and fiscal conservatives in the wake of '68 highlighted welfare as a problem program. Therefore, the EFCB gave welfare special attention. In the addendum to the November 17, 1975 EFCB minutes it was claimed that fraud was rampant in the City's welfare administration programs. The biggest problem they saw was that recipients were cashing double on the same check or that check that had been lost or stolen needed to be reissued. The Board estimated that City cashed eleven thousand fraudulent checks worth about nine point seven million dollars.¹⁵⁸

The next month, a memo from the city's Special Deputy Comptroller to the EFCB reiterated these problems. It found that for 1973, lack of robust fraud detection on the part of the city's welfare services cost “the city, state and Federal governments some \$12.9 million” total. Meanwhile, as welfare was getting frozen across the city the memo found that the total dollar value of welfare fraud through duplicate, lost or stolen checks, was \$9.7 million, or roughly .00078 percent of the city's \$12.3 billion budget. Or, if using figures just of the city's \$1 billion welfare expenditures, the incidence of fraud represented .0097 percent. This at a time of major economic depression in city at scale not seen since the 1930s.¹⁵⁹

¹⁵⁷ Public Education In New York City: Reflections On The Immediate Past and some thoughts about the future – a budgetary perspective, Sept 1976, Board of Education, City of New York, Beame Admin Records, Sally Leonard Subject Files, New York City Municipal Archive

¹⁵⁸ EFCB meeting minutes November 17, 1975 addendum

¹⁵⁹ EFCB minutes, Nov. 17, 1975; Schwartz, “Possible Areas for Cost Reductions,” Dec 8, 1975, EFCB Archives

Nonetheless, for fiscal year 1977 the Mayor's budget proposal called for a 10% reduction to welfare rolls. There was a predicted 5% decrease, 40,000 recipients, based on out migration, reduction in ineligibility levels, or those leaving welfare. However, the fiscal plan "requires the equivalent of an additional 5% decline." The report verified that AFDC recipients dropped from 840,000 in July of 1975 to 825,000 in April of 1976. A healthy drop from the perspective of the Board, but more was needed. To meet their goals a "AFDC cost reduction program" was implemented that "among other things, includes changing rent security deposit procedures, increasing face-to-face recertifications of eligibility, expanding computer matches to detect outside income and reclassifying HR clients for AFDC eligibility."¹⁶⁰

The new surveillance and enforcement mechanisms on welfare were onerous, to say the least. Applicants had an eleven page, four week long, initial screening process with "required supporting evidence; confirmation of information using checks with landlords, employers, the telephone company, Post Office, Motor Vehicles Bureau, etc." Once accepted, applicants faced a "back up audit," to confirm the initial decisions, and then regular monitoring and confirmations and reconfirmations of status including thrice yearly face to face interviews and twice a year "mail questionnaire recertification." Additionally, the HRA, Human Resources Administration ran computer matches with other area social services and checked school, employment and marriage records to screen for so-called fraud.¹⁶¹

Remember, welfare recipients were predominantly migrants, black and Puerto Rican residents of the city. A 1973 report the city used to base reductions, found that 72.9 percent of AFDC recipients in the city were migrants from out of state, and a majority of those over 63

¹⁶⁰ Mayor Abraham Beame, Report Pursuant To Credit Agreement, Aug 2, 1976

¹⁶¹ "Approaches to Reducing the City's Costs Resulting from Welfare and Medicaid Ineligibility," Municipal Unions / Financial Leadership Group report, February 1978, Bernard Bellush Papers, Robert F Wagner Labor Archives

percent “migrated to New York from Southern States and Puerto Rico,” Including Alabama, Georgia, the Carolinas and Virginia. Puerto Rican immigrants were singled out for special alarm, representing the largest share, a whopping 36 percent of the total case load.¹⁶²

By the end of the decade welfare had been dramatically reduced. The city’s “Public Assistance Cost Control Program” worked to “reduce acceptance of ineligible clients, to detect fraud, to eliminate special payments and to improve management,” both produced a cost savings to the city of \$266 million for fiscal years 1977 and 1978, and reduce welfare recipient numbers “to the lost level since 1970.” However, the emphasis on roll enforcement led to mistakes. A 1978 Department of Social Services report found that “over half the sample of applicants reviewed were denied through Departmental error.” By 1978, according to one report, the ineligible rate for city welfare and Medicaid use dropped from 18.3 percent in 1973 to 8.4 in the beginning of 1977, these rates were on par with other major cities. Furthermore the largest cause of indelibility was “concealing the fact that the purportedly absent father is residing in the household,” not reporting additional income or resources, like a car.¹⁶³

Overall, city welfare program payouts were frozen for 10 years. In 1978 welfare rates were locked at the 1974 standard of need, and those allotments were based on 1969 figures. A single mother with three children received \$8.51 a day for “food, utilities, clothing, transportation, recreation, and so on.” And by 1980, a state imposed freeze on public assistance

¹⁶² Summary of Geographical Origin of Welfare Recipients, in United States Congress House Committee on Banking Stabilization Currency and Housing Subcommittee on Economic, *Debt Financing Problems of State and Local Government: The New York City Case : Hearings Before the Subcommittee on Economic Stabilization of the Committee on Banking, Currency and Housing, House of Representatives, Ninety-Fourth Congress, First Session* (U.S. Government Printing Office, 1975). Pg 906, 907

¹⁶³ Prepared Statement by Mayor Ed Koch, United States Congress Senate Committee on Banking Affairs Housing, and Urban, *New York City Financial Aid: Hearings before the Committee on Banking, Housing, and Urban Affairs, United States Senate, Ninety-Fifth Congress, Second Session, on S. 2892 ... and H.R. 12426 ...* (U.S. Govt. Print. Off., 1978) pg 56; Nick Bollman to Peter Avalon, Task Force on the New York City Crisis, June 1, 1978 in *ibid*, 304; “Approaches to Reducing the City’s Costs Resulting from Welfare and Medicaid Ineligibility,” Municipal Unions / Financial Leadership Group report, February 1978, Bernard Bellush Papers, Robert F Wagner Labor Archives

from 1975 reduced the average welfare grant, adjusted for inflation, by 50%. This at time when city poverty was increasing, between 1970 and 1980 the poor population increased by 20%, totaling nearly 1 million people, while overall the city population declined by 10%. State wide, the monthly average for welfare recipients of all types declined from 1972 to 1982. In that ten year period enrollees fell from 1.8 million to just under 1.3 million, a decline of just under 30%. New York City made up roughly 865,000 of those recipients. Remember, this at a time of increasing costs, record inflation, and severe economic privation in NYC.¹⁶⁴

In the spring of 1974 before any of the cuts were implemented, the New York Times was arguing that the City's Welfare services were insufficient to meet even the most basic needs. For example, *The Times* reported that the City's Office of Consumer Affairs estimated that a family of four required \$61.25 for food alone. Meanwhile, bimonthly A.D.C. payments for a mother and three children were just \$115.50, or \$57.75 a week. Furthermore, because of vacancy decontrol policies, rents had increased 14.3% since 1972, and cut into the family's welfare budget. And, as the program was designed, "most of the clients . . . are children." Of the 843,397 people receiving welfare in the city in 1974 roughly 640,000 were children, 80 % of whom were under 14 years old. By 1978, toward the end of the crisis period by which point austerity was being normalized, the city's welfare rolls were reduced "to the lowest point since 1970," in the words of Mayor Koch. And this during the worst depression the city faced since before the war.¹⁶⁵

¹⁶⁴ Nicholas Freudenberg et al., "The Impact of New York City's 1975 Fiscal Crisis on the Tuberculosis, HIV, and Homicide Syndemic," *American Journal of Public Health* 96, no. 3 (March 2006): pg. 426; and *1983-84 New York State Statistical Yearbook*, 10 edition (S.I.: Nelson a Rockefeller Inst, 1984). Bollman to Avalon, Task Force on the New York City Crisis

¹⁶⁵ Jared Lebow, "Making It On Welfare Is a Lesson in Survival," *New York Times*, Apr 14, 1974; Testimony of Ed Koch, United States Congress Senate Committee on Banking Affairs Housing, and Urban, *New York City Financial Aid: Hearings before the Committee on Banking, Housing, and Urban Affairs, United States Senate, Ninety-Fifth Congress, Second Session, on S. 2892 ... and H.R. 12426 ...* (U.S. Govt. Print. Off., 1978) pg 30

Lonnie Cacchione, a case worker in the SSEU until 1972 found that in the 1960s, even at the height of social wage benefits, they were still inadequate for human need. “Even the system at its best,” she said in a 1981 interview, “even in the early 1960s, the grants were always too low. The kinds of services you could make available for poor people were very limited and very inadequate. Sure, you could send them to the local clinic, and they’d wait on line for five or six hours, an indignity, an inconvenience, and sometimes a life-saving practice, or a life-losing practice, I should say, that nobody should suffer.”¹⁶⁶

In addition to welfare, the city’s social services provided a number of other social services, many of which were cut to the bone or completely eliminated. The city’s day care program was cut by 49 centers in July of 1976, closed even though the city continued to pay \$2.3 million in leases for “centers now closed.” Overall, 77 centers were defunded, one-third of foster care beds were eliminated, preventative services for youth meant to prevent the need for foster care budgets were frozen at 1975 levels, family planning services were cut in half, and “home attendant services are now budgeted at only two-thirds of the cost of actual caseload projections” in 1978. One mechanism for cutting costs was to monitor attendance, and reimburse centers based on this rather than self-reporting. The monitoring system however was expected to cost the city \$3 million in 1977. A cost approved by the EFCB.¹⁶⁷

This led to hardship and heartbreak for countless New Yorkers. In November of 1975 the Shalom Senior Center in Crown Heights Brooklyn learned through newspaper reports that it was to be closed by the end of the year. The center housed, fed and provided activities for 150 people with a yearly budget in total of \$110,000. Sydney Horowitz, a 76 year old retired

¹⁶⁶ Lonnie Cacchione, 1981 Interview, Tamiment Wagner Labor Archives, pg 9

¹⁶⁷ Mayor Abraham Beame, Report Pursuant To Credit Agreement, Aug 2, 1976 and Bollman to Avalon, Task Force on the New York City Crisis, 304

window cleaner asked “what would I do if it closed?” before responding, “then I would close too, I would fall down.” At the Rockaway Senior Citizen’s Center in Far Rockaway Queens, Selma Heyman told the Times through tears that “When I came here I was in a state of collapse . . . I had lost my family. I feel this place save me from an institution. I don’t know here to go, or what to do, they’re so kind me here.” At another center, staff member Lucille Love told the Times “we need the center.” But her “need” was more likely just a “want,” and all city centers were closed by 1978.¹⁶⁸

Besides redistributing wealth through cuts to the poorest, tax based redistributive measures were also used, and so another paramount concern for the EFCB was taxes. Carey explained explicitly early on that “some tax measures may be counter productive.” This had a new logic. If the primary objective of the city was market reentry, on the new terms demand by Wall Street, then revenue producing taxes on the rich would be counterproductive. On Carey’s prompt, the Control Board then immediately passed a resolution opposed to tax increases to mitigate the budget crisis. It found that raising taxes was “both contrary to the Board’s mission of returning the city to financial stability within existing revenues through austerity and sound management, and indeed may be counter-productive to the economy of the city through further erosion of its tax base.” Carey and Beame were both Democrats, mind you. Overall, the shift in the political agenda from the general consensus of the 1966 budget crisis era can be seen in this EFCB resolution.¹⁶⁹

It wasn’t that the Board was opposed to all taxes. As Mayor Beame told Congress at the close of 1975, the city had already increase taxes “by a total of \$330 million at the beginning of this fiscal year. In addition, on September 1, we raised the bus and subway fare 43 percent –

¹⁶⁸ ELEANOR BLAU, “Planned Closing of 3 Centers Dismays the Elderly,” *New York Times*, November 13, 1975.

¹⁶⁹ EFCB meeting minutes, Sept. 26, 1975

from 35 cents to 50 cents. Fees for everything from marriage licenses to concession permits have been increased sharply.” All regressive. Taxes, should not only be regressive, but their used should no longer be put toward paying for services. In November of 1975 as the Republican State legislature was preparing a rescue package that included tax increases, State Comptroller Arthur Levitt in a statement to the Board wanted to make sure that the tax increases were used for debt service, and not to mitigate the impacts of the cuts. He said that he approved of the state measure, but objected to “the heavy tax burden.” Arguing that “we must face realities as they are,” he said “this Board must make certain that the new revenues are used to reduce the City’s deficit and borrowing needs. The new taxes should not be used to avoid necessary reductions in the City’s level of expenditures.” Crucially, what new monies the city was able to obtain, for example in new state funds, should now go to the financial sector, over other city needs.¹⁷⁰

These kinds of tax reductions and changes even negatively impacted the work of the EFCB to balance the city budget. The February 13, 1976 EFCB meeting discussed “Federal legislations exempting certain transactions from the stock transfer tax became effective December 1, 1975. As a result, collections are projected to reduce by \$15 million in 1975-1976, \$36 million in 1976-1977, and \$45 million in 1977-1978.” That is a highly focused tax on the financial community, a stock and bond transfer or sales tax, was removed at the height of the fiscal crisis. A 1976 report from the Mayor on economic recovery for example found that the City had already worked to repeal the bond transfer and stock transfer tax. This was after federal legislation in 1975 mitigated the city’s ability to collect the tax by granting financial institutions credits against their NYC taxes and exempting certain transactions from the city tax. And in

¹⁷⁰ Testimony of Mayor Abraham Beame, United States Congress Senate Committee on Banking Affairs Housing, and Urban, *New York City Financial Crisis: Hearings before the Committee on Banking, Housing and Urban Affairs, United States Senate, Ninety-Fourth Congress, First Session* (U.S. Govt. Print. Off., 1975). Pg 441; EFCB meeting minutes, Nov. 25, 1975

March of 1976 when the state legislature repealed the bond transfer tax. The two losses of these taxes were estimated to cost the city \$20 and \$27 million each tax per year. But the tax crisis only deepened for the city. In 1977 the state legislature repealed the estate tax, costing the city \$17 million in annual revenue for the general fund.¹⁷¹

Overall, by 1978, with the exception of the sales tax, and other increases on a fee base to social services, taxes had declined for the wealthy. At the state level, personal income taxes and business taxes were reduced, specific manufacturing taxes were eliminated, and for the financial sector had begun to eliminate the stock transfer tax and to provide tax credits for investment. At the end of Governor Carey's first term, state taxes had been cut by roughly \$1 billion, largely benefiting the wealthy, subsequent reductions in the Carey administration resulted in \$1.7 billion per year. New York City meanwhile reduced and created a cap for real estate taxes, reduced its corporation tax, completely dropped some manufacturing taxes, like sales taxes on machinery, had begun the process of eliminating the commercial rent tax, and expanded tax abatements and credits.¹⁷²

However, of all the cuts and redistributions, none was more potent than cuts to health. In addition to the HHC cuts, the city's Department of Health was cut by 20% between 1974 and 1977 and lost 1700 employees, 28% of its 1974 high. The cuts were felt throughout the city as "the department closed 7 of 20 district health centers, cut \$1 million from its methadone program, terminated the employment of 14 of 19 health educators, and closed 20 of 75 child health

¹⁷¹ EFCB meeting minutes, Feb 13, 1976, "notes to revisions" pg. 3; Economic Recovery: New York City's Program for 1977 – 1981, pg. 18 December, 1976, Office of the Mayor, Beame Administration Records, City Hall Archive, Sally Leonard Subject File; Mayor Abraham Beame, Report Pursuant to Credit Agreement, Aug 2, 1976, EFCB Archives; Felix Rohatyn and Herbert Elish to Mayor Abraham Beame, June 1, 1976, Bigel Collection

¹⁷² New York (State). and Hugh L. Carey, *Public Papers of Hugh L. Carey, Fifty-First Governor of the State of New York*. (Albany: State of New York, 1982), pg. xv; MUFLG White Paper, Sep 18, 1978, Municipal Unions / Financial Leadership Group report, Bernard Bellush Papers, Robert F Wagner Labor Archives

stations and 6 of 14 chest clinics.” In the first round of cuts the Department had to cut \$1.5 million, 67 full time positions, and to develop a plan for cuts within 24 hours. Six months later, in May of 1975 an additional 255 Department positions had to be cut, and senior staff decided to focus on four programs, Ghetto Medicine, Methadone Maintenance, the Health Research Council, and the Neighborhood Maternity Center in the Bronx. The last two programs were completely eliminated. Five months later, a further \$3 million budget reduction was demanded, and the Department “completely [cut] all Ghetto Medicine Program monies.” Then again in July of 1976, another major reduction, this one totaling \$4.4 million, and led to the closure of district health centers, chest clinics, and child health centers. According one senior staff member “the fiscal crisis demoralized the department. A hiring freeze was imposed in early 1975, no new programs were begun and existing ones were cut.”¹⁷³

Health care cuts had a big impact. For example, the Lincoln Community Mental Health Center in the South Bronx “with little warning, and without opportunity to plan” had to cut \$750,000 of its \$4 million budget in one month, during June of 1975, and again faced a \$500,000 cut in June of 1976. The Center also received guidelines to preserve direct patient care as “collectable” revenue streams from payment sources like insurance companies and Medicaid and Medicare. The cuts and the directives lead to “the reduction and elimination of essential services geared toward primary prevention,” like the closure of their “active consultation-education department.” Much of the savings were achieved through layoffs. Like the Holmes-Norton report indicated these were once again majority people of color held positions, roughly 90%, and also comprised “nonprofessional indigenous workers,” residents of the South Bronx,

¹⁷³ Freudenberg et al., “The Impact of New York City’s 1975 Fiscal Crisis on the Tuberculosis,” 425; P. J. Imperato, “The Effect of New York City’s Fiscal Crisis on the Department of Health,” *Bulletin of the New York Academy of Medicine* 54, no. 3 (1978): pg 283

predominantly black and Puerto Rican. Pedro Ruiz, a doctor at the facility argued that short term cost savings by eliminating preventative mental health care would lead to long term increased costs as untreated patients would later seek acute care and hospitalization. For Ruiz, “financial saving for the city will thus bring damage to the patients, their families, and their hopes for reintegration into society.” There of course, could also be unquantifiable social costs, as those not hospitalized faced homeless, drugs, and violence.¹⁷⁴

By 1980 the total number of beds in HHC facilities had fallen by 16%, and the city hospitals reduced their overall days of care by 23%. All 50 of the city’s community based clinics were closed as were 5 hospitals and staff reduced by 17%. City public health in 1978 had reduced their staff by 32.8%. In addition, by 1978, 20 child health stations, 7 district health centers, 59 dental clinics, 6 chest clinics and 14 eye clinics, were all closed. The result was bed shortage in the city. According to testimony by David Pomrinse, president of the Greater New York Hospital Association, with occupancy rates for city hospitals between 90% and over 100%, “the shortage of inpatient beds is causing a backup in the emergency rooms, because if a hospital has no bed for the ER patient who needs to be admitted, the patients back up in the emergency room, causing havoc and delay.” Mental health was also cut, by 1978, “all but the most essential mental health services (for the acutely ill) have been eliminated,” the result being that “for the first time in 10 years State psychiatric hospitals in New York City are beginning to fill up again, in large part due to the lack of services in the community.” Meanwhile, budget growth for the Health and Hospitals Corporation was held well below inflation for the rest of the decade. In

¹⁷⁴ Pedro Ruiz, “The Fiscal Crisis in New York City: Effects on the Mental Health Care of Minority Populations,” *American Journal of Psychiatry* 136, no. 1 (January 1, 1979): 93–96,

1978 and 1979 HHC costs rose a paltry 3.4% and in 1979 and 1980 8.5%, both figures well below inflation for those years.¹⁷⁵

By 1980, Northern Manhattan lost four hospitals; two municipals, Delafield and Morrisania, and two voluntaries, Wadsworth and Logan. Soon after, Sydenham hospital closed. Started in 1892, it was the first racially integrated hospital in the nation, and from the early part of the 20th century served a predominantly African American population in Harlem. In 1949 it became a municipal hospital and it was the first hospital in New York to hire black doctors, and the first to employ an African American woman as the head of a teaching hospital. Florence Gaynor, hired in 1971 served as Executive Director throughout the fiscal crisis, having the tenacity to develop a family care center and a sickle cell clinic. After Koch took office, its budgets were reduced a further 10%, and major protests erupted to keep it alive. Residents and interns staged a one day strike, while a “coalition to save Sydenham” lobbied and protested to keep it alive. They highlighted federal reports that called Harlem “medically underserved” and comments from Joseph Califano, the Secretary of Health, Education and Welfare saying Harlem was a “medical disaster area.” Nonetheless, under Koch Sydenham was forced to close, but this was not before hundreds of demonstrators led by the Panthers and the Young Lords seized and occupied the hospital for ten days, setting up a “people’s administration.” Before the occupation Representative Weiss told a congressional hearing on national health care that with Sydenham, “the community is reacting out of desperation now,” in its efforts to save health services. According to testimony from Ed Sullivan, state assembly representative from Harlem, because

¹⁷⁵ Bollman to Avalon, Task Force on the New York City Crisis, 305; Testimony of Joseph Hoffman, in United States Congress House Committee on Ways and Means Subcommittee on Health, *Problems Facing Financially Troubled Hospitals: Field Hearings Before the Subcommittee on Health of the Committee on Ways and Means, House of Representatives, Ninety-Sixth Congress, Second Session, March 14, 1980, New York City, April 18, 1980, Memphis, Tenn., May 27, 1980, Chicago, Ill* (U.S. Government Printing Office, 1980) pg. 19 Testimony of David Pomrinse in *ibid*, 96

many of the indigent patients of Sydenham hospital were geographically bound, the closing of Sydenham hospital sent the message to the community “you are not going to have hospital care. We do not care about you. You are going to simply get sick, take a little whiskey kill the pain or eventually die.”¹⁷⁶

That desperation came from the chronic health care crisis in the area around Sydenham. Harlem had the highest instances of “tuberculosis, hypertension, lead poisoning and diabetic deaths” in the city, the last of which was three times higher than the city average. Harlem also had the highest morbidity and infant mortality rates in the entire state. Part of this was caused by a physician to population ratio that was akin to third world countries. While the city as a whole had a ratio of roughly 1 to 600, in Harlem in 1979, before the closure of Sydenham, that ratio was 1 to 7,179. According to Sydenham President, James McIntosh, that was comparable to a 1 to 8,000 for blacks in South African apartheid. Brooklyn had the highest ratio of patients to physicians in the city where, according HHC President Hoffman, “we have been witnessing the services that should be provided and have historically, traditionally provided by a private physician, meaning preventive type medicine, primary care medicine, we have been delivering that from the emergency rooms and from the outpatient department,” adding, “and very inadequately.” McIntosh concluded his remarks that “the drafters of this plan to close Sydenham Hospital will be responsible for any tragic consequences that will occur. Every effort must be made to guard against any diminution in the level of emergency and acute care services currently available to this already disadvantaged population.”¹⁷⁷

¹⁷⁶ New York Times and Testimony of Hon. Ted Weiss, in *Problems Facing Financially Troubled Hospitals*, 14; and Testimony of Ed Sullivan in same, pg. 44

¹⁷⁷ Testimony of Herman Farrell, *Problems Facing Financially Troubled Hospitals*, 15; and Testimony of Joseph Hoffman, in same, 21; and Testimony of James McIntosh in same, 84

The closing of Harlem hospitals had trickle down effects. As indigent and patients unable to pay went to surrounding hospitals, those too faced fiscal crisis. Nearby hospitals like Jewish Memorial and Presbyterian 36% and 40%, respectively, of patients “are not covered by insurance and are unable to pay the hospital costs.” Jewish Memorial Hospital on 196th st. faced bankruptcy proceedings as early as 1977 before finally being forced to close in 1983. In that year federal Medicare funds, which were stopped for new patients, were eliminated in the hospital even for patient care performed already. According to the hospital administrator, Charles Gelmann, the federal cuts were “the kiss of death,” adding “they simply starved us out.” By that point, Jewish Memorial became the 31st hospital to close in the city since 1976.¹⁷⁸

According an internal report prepared by the Bronx-Lebanon Hospital in 1980, the cuts had disproportionate impacts on people of color. “The relationship between socio-economic indicators and health status is well documented. The poor, racial and ethnic minorities have a higher incidence of disease, experience higher mortality and have a greater number of restricted activity days than do the non-poor and white populations.” The Bronx in 1980 was 83.9% people of color, mostly African American and Puerto Rican, it was in neighborhoods like this, like Harlem, like Greenpoint Hospital in North Brooklyn where the cuts were targeted.¹⁷⁹

These problems were compounded by national failures in health care. By 1980, after a decade of unprecedented inflation, Medicaid eligibility ceilings remained frozen at 1970 levels, roughly \$5,000 yearly income for a family of four. In New York, there were an estimated 2 million people who did not qualify for Medicaid, but for whom employers either through direct benefits or adequate compensation provided enough for their workers to be insured. Such people

¹⁷⁸ Ronald Sullivan, “Jewish Memorial Hospital Shuts After 6 Shaky Years,” *New York Times*, Aug 18, 1983 and Testimony of Herman Farrell, in *Problems Facing Financially Troubled Hospitals*, 15

¹⁷⁹ “Bronx-Lebanon Hospital Center – A Microcosm of the Private Voluntary Hospital in Medically Underserved, High Welfare and Medicaid Intensive Areas,” in *Problems Facing Financially Troubled Hospitals*, 61

“turn up at the emergency room or outpatient clinic, they are treated and the hospital simply doesn’t get paid.” The cost to New York hospitals was astronomical, three-quarters of the voluntary systems cost overruns came from unpaid outpatient and ER visits, a figure totally \$93 million. For the municipals total costs overruns were \$181 million, much of which came from unreimbursed care.¹⁸⁰

Closed hospitals and cuts to staff meant diminished capacity, failing health results, and increased mortality. According to reporting done by the New York Times on Lincoln Hospital in the South Bronx a number of patients died as a direct result of increased patient load from nearby closed hospitals and decreased nursing staff from the cuts. The Times reported long wait times and poor treatment. They found patients, majority “black or Hispanic and poor” had to wait for days for emergency room care. In particular, they reported on an elderly women brought in for shock who died because of lack of bed space in the hospital. In another, a man suffering from seizures died when “left unattended in an examining room.” Another man suffering from a drug overdose died when not evaluated for several hours. Doctors and staff cited a severe nursing staff shortage as the primary problem. Doctors said that they played “musical chairs” with patients waiting for rooms and nurses. During peak night hours in the emergency room when patient loads averaged 80 persons, the hospital had four nurses for both the adult surgery and their medical units. In non-peak hours, staffing was even less, “four days a week we have one [nurse] in there and three days a week we have two,” said one staff member. Lincoln hospital was opened early, ahead of schedule, to help compensate for Morisania and Fordham hospitals, recently closed by the EFCB. Where Lincoln expected increased patient visits in the order of 100 to 200 per week, they received over 1,000. According to deputy executive director of the

¹⁸⁰ Prepared statement of David Pomrinse, in *Problems Facing Financially Troubled Hospitals*, 96

hospital, Michael Cantatore, Lincoln was scheduled to receive an additional 60 nurses, but needed a further 130 to meet patient needs. Joseph Finster, head of Lincoln's department of medicine told the *Times* the hospital faced "increased morbidity and recovery times." Staff at Lincoln characterized conditions as "verging on the catastrophic."¹⁸¹

According to James Couch of the Black Health Advocates Network, "simply stated, most hospitals in urban areas of New York City are closing because of the politics of race and economics." Couch framed this as part of a historic reversal, "health services and health personnel have simply not been at the disposal of the under class of our nation. Just as a major segment of the population begins to catch-up in medical care, attempts are being made to curtail those programs which for the first time, met some of the needs of the poor."¹⁸²

Public health specialists Nicholas Freudenberg, Marianne Fahs, Sandro Galea, and Andrew Greenberg, agreed; the cuts from the fiscal crisis lead to a public health crisis. They called the cumulative impact a syndemic as the cuts helped "create an excess disease burden on the population." They write, "cuts in services; the dismantling of health, public safety, and social service infrastructure; and the deterioration of living conditions for vulnerable populations contributed to the amplification of these health conditions over 2 decades." In particular they highlight the increase of Tuberculosis, human immunodeficiency virus and homicide as a trifecta that eroded health standards across the board and contributed to the post fiscal crisis syndemic. To take one example, TB, rates began to rise in 1978 and continued their upward trend until 1993, perhaps leading to 52,000 excess cases. As patients started treatment, and subsequently

¹⁸¹ Charlayne Hunter, "Care at New Lincoln Hospital Scored," Jul 30, 1976, *New York Times*

¹⁸² Testimony of James Couch in *Problems Facing Financially Troubled Hospitals*, 173

“were lost to follow-up” New York experienced a subepidemic of drug resistant TB that constituted nearly a quarter of all TB cases in New York City in 1993.¹⁸³

Most strikingly, the Freudenberg study links the fiscal crisis to the emergence of HIV. The viral infection “first appeared in New York during the 1970s and spread rapidly among men who had sex with men and injection drug users.” Ten years later, by the late 1980s an estimated 200,000 New Yorkers were infected. Another factor, the fact that the city had laid off most of its health education staff meant that public health officials had trouble directly communicating with impacted communities. In New York, an estimated 41% of AIDS cases were related to drug use, much higher than the rest of the country. The fiscal crisis eliminated the city’s drug treatment and prevention program, closing all methadone clinics and transitioning to a criminalization process for drug users. This had ongoing and complicated impacts, for example, “when the crack epidemic arose in the mid-1980s . . . the city was ill-equipped to respond” except through policing.¹⁸⁴

While falling for the rest of the nation, and state, infant mortality rates actually rose in certain parts of New York City. In the Bronx, where the department of health closed the neighborhood maternal care clinic, infant mortality rates rose from a rate of 18.1 per thousand live births in 1975 to 19.2 in 1979, while declining in the other boroughs. It was just cuts to health services that threatened lives, cuts to emergency services like fire literally threaten people’s safety as well. By 1979, 24 fire stations had been closed, 16 in places like the South

¹⁸³ Freudenberg et al., “The Impact of New York City’s 1975 Fiscal Crisis on the Tuberculosis,” 425

¹⁸⁴ Freudenberg et al., “The Impact of New York City’s 1975 Fiscal Crisis on the Tuberculosis,” 425

Bronx that had been designated high arson areas. The city's fire fighters association claimed an additional 500 deaths as a result of the cuts.¹⁸⁵

The cumulative impacts of the cuts were a kind of psychic disorientation. Accord to case worker Lonnie Cacchione, for the people cut, the “kids on drugs, men without jobs, people without proper health care,” the impacts were very real, and the result, “there’s a lot more anxiety on the part of the client,” of city services. The affective impact – “so there’s a lot of tension, a lot of anxiety, and a lot of anguish as a result.”¹⁸⁶

Those impacts were driven home when the EFCB was made permanent in 1978. In exchange for a funding package in 1977 the banks expressed their collective desires in a March 1977 letter from Alfred Brittain III of Bankers Trust Company, “on behalf of major New York City banks,” and speaking in their best estimation of the market. The letter spelled out that in exchange for a funding package that included bond sales, rollovers, and extensions, the “City will be required to adopt prior to the beginning of each fiscal year a balance budget for current revenues and expenditures.” The budget will have to be approved by the “Review Board,” which became the EFCB once it was made permanent, in which the Board “will not include any determinations as to the political policy or social wisdom of the purposes of expenditures or the sources of revenues.” But this extension was extremely controversial. Mayor Beame had long been opposed, but the new mayor, Ed Koch, who ran on an austerity platform, was in favor, in fact ran on a promise to extend the EFCB. Unions based their opposition on having a “politicized” Board, and so when the new proposal in 1978 to have technocratic appointments, rather than the Governor and the Mayor direct participants, they lost a rhetoric from which to

¹⁸⁵ *1983-84 New York State Statistical Yearbook*, 10 edition (S.I.: Nelson a Rockefeller Inst, 1984); James Gaffney, Martin Lucas, and Jonathan Miller, *Tighten Your Belts, Bite the Bullet* (Icarus Films, 1980), http://icarusfilms.com/cat97/t-z/tighten_.html.

¹⁸⁶ Lonnie Cacchione, 1981 Interview, Tamiment Wagner Labor Archives, pg 18 and 29

oppose its extension. Importantly for the unions, the extension perpetuated the wage freeze, continued the austere fiscal oversight, gave the Board essential veto power over city labor and other contracts. And so in 1978, the year of the sunset for the Control Board, the emergency was removed from the title, but legally extended to 1997, at which point it was again extended on a permanent basis. Emergency powers targeted at labor had become the new normal.¹⁸⁷

It is fair to call the cuts a class war or a social war with violent consequences. In this sense, Holmes Norton's violent metaphor that the austerity regime's programs were "double-barreled" was more than a metaphor, these cuts had material impacts on people's lives, the health impacts often cost lives. This was an assault on the entire working class of New York. It hurt white workers and black workers alike. But the impacts seemed targeted at reshaping New York's regime of racial capitalism, undoing the gains of labor, civil rights, and Keynesian movements from decades before.

* * *

4.7 Conclusion

The attacks on the unions and the social wage was simultaneously a race war, a class war and a gender war waged from the top. Unions for example, were the prime institution of both race and class uplift in 1960s America. In the late 1960s and early 1970s unions were the "core equalizing institution" in American society, once black workers had access through civil rights struggles, unions became an equalizing force for racial inequality too. According to historian Jake Rosenfeld, "by the 1970s African Americans had the highest unionization rates of any racial

¹⁸⁷ Alfred Brittain, III to Mayor Abraham Beame, March 4, 1977; "Provisions of NYC Proposed Legislation For A Control Mechanism, ie Extension of EFCB," Program Planners Inc, White Paper, no date, Bernard Bellush Papers, Robert F Wagner Labor Archives

or ethnic group.” The biggest gains for black workers came from public sector unions, and had real economic benefit. For black women for example, they achieved rough income parity with white women in the public sector by the middle of the 1970s – a trend soon to be reversed. Furthermore, the success of public sector unions was driving up municipal costs, a fact not unnoticed by major city banks.¹⁸⁸

Lillian Roberts, the second in command at DC 37 during the fiscal crisis, saw unions as her civil right movement. Roberts, a black Chicagoan, grew up entirely on welfare as a child, and became a militant unionist while a hospital worker, winning election to shop steward and then all the way to the leadership of DC 37. Roberts recalled that “the labor movement has [been] my civil rights movement.” Roberts had a complicated view. She found that labor acted like a civil rights organization because it brought “people together, centered around their labor, rather than around their pigmentation,” an important mechanism to undoing systematic racism. At the same time, black workers had to fight for empowerment in their unions. Black workers first role, according to Roberts, was “to demand responsible leadership that reflects their needs’ cause it’s very easy for labor leaders to become fat and forget.” So the structure of unions had the possibility of fighting around race, but only if made to do so by black membership. Stan Hill, DC37 Associate Director, thought of the union as a civil rights organization, noting that union membership was 50 percent people of color, 60 percent women, and allied and donated to city civil rights organizations.¹⁸⁹

It was undo this structural and institutional role that the EFCB was created, as fits the historic and legal precedent of emergency state powers. Market access was the city’s primary

¹⁸⁸ Rosenfeld, *What Unions No Longer Do*, pg 4, 105, 118, 128, 130.

¹⁸⁹ Interview with Lillian Roberts, no date, Bernard Bellush Papers, Robert F Wagner Labor Archives; Stan Hill, 1982 Interview, Robert F Wagner Labor Archive

goal, but it could not be achieved without meeting the new social priorities of market gatekeepers, the Wall Street banks. This included undoing the very framework that Roberts and Hill shared above, the combined nature of Keynesian and social justice movements that were having a progressive impact on US society. The use of the EFCB extraordinary powers was therefore pointed down – down towards unions and working people, students and the university system, people of color and the city’s hospitals. One by one, the EFCB tore through the longstanding institutional networks of support for some the key social wage benefits of New York City. And each one of these institutional networks had “double barreled” qualities; race and class, material and cultural, fiscal and political. Indeed, the EFCB had tasked itself with structural adjustments to the city’s order of racial capitalism. Although not completely victorious, austerity planners had dreams of undoing public education, the hospital system and other social services. They were blocked or delayed in some important ways, but on the whole their dreams were largely fulfilled.

Chapter 5 – Politics

* * *

5.1 Introduction

5.2. Politicians

5.3 Labor

5.4 Social Movements

5.5 Popular Attitudes

5.6 Conclusion

* * *

5.1 Introduction

The making of the austerity regime fundamentally changed US politics and culture. From the White House, the labor movement, and radicals in the streets, New York began and was part of a process of remaking political economy, both in policy and in attitude. In Washington, the Ford administration was successful in pushing forward a highly ideological program to roll back the welfare state. Its biggest victory was that the policies were carried on by Ford's successor, Democrat Jimmy Carter. In New York, a similar change took place. While Beame was compelled to implement austerity, his successor, Ed Koch, also a Democrat, seemed to relish the role of fiscal disciplinarian; his mayoralty accomplished some longstanding goals of the austerity regime, closing Sydenham hospital, for example. For labor, the impetus to resist the change to austerity came largely from the rank and file in the unions, the leadership preferring a strategy of accommodation and adjustment. That strategy was reinforced in the wake of the crisis through joint labor-management and cross class political organizations like the

productivity council and the Municipal Unions Financial Leadership Group, helping to institutionalize the policies and ideology of austerity. Left groups and social movement forces were exhausted and dispirited as they came to terms with a historic defeat, the prospect of winning gains through the state greatly diminished. And finally, as the impacts of cuts were felt across generations, new attitudes emerged from black New York. These attitudes are best captured by the success of Brooklyn born rapper Notorious B.I.G. His music, particular his 1994 masterwork, “Ready To Die,” show the spirit of immiseration and hopelessness of those who spent their entire lives under the guns of austerity. This chapter is about the changing political cultural landscape through and after the crisis. It chronicles the effects on the mainstream political climate, the labor movement, social movements and civil society, and popular attitudes.

* * *

5.2 Politicians

Following the fiscal crisis, politics in New York City turned hard to the right, changes that were evident before. In the mayoral contest of 1973, for example, the real race was the democratic primary runoff between Herman Badillo and Abe Beame. The fact that there was a runoff, demonstrates the failure of the clubhouse system by 1973. Run in the shadow of the Watergate scandal, and amidst widespread voter rejection of the political system, the Beame campaign was lackluster, “the Brooklyn machine was hitting on all one cylinder,” according to the press. The party machine did have some benefits, as when Steingut and 75 state legislators endorsed Beame during the primary runoff with Badillo. Even still, Beame’s initial primary vote of 40% that forced the runoff showed that the party was not able launch the party favorite

without some difficulty. Surprisingly, Beame trounced Badillo by a factor of three to two in the runoff, with over 900,000 voters turning out, a sign that the machine could still mobilize voters.¹

The Democratic primary runoff vote was a campaign heavy with racial politics, and prefaced the race baiting campaigns Koch in the near future. Although Beame ran a fairly clean campaign, the *New York Times* reported that “anti-Puerto Rican reaction” against Badillo may have played a role in the election. Beame won every borough except Manhattan, where he won “most white middle-class voters closed ranks behind Controller Beame.” Meanwhile, “the bulk of the Badillo vote concentrated in the black and Puerto Rican slum districts” a development the *Times* called a “disturbing . . . polarization” of the vote.²

The 1977 mayoral election was a whole new ball game. Koch, a Democrat who heavily involved himself in the work of the EFCB before the election, swung hard to the right, playing on racial stereotypes and fears of crime. He was a new type of city Democratic, projecting an “anti-union image,” coming from Manhattan, and using racist dogwhistles from the right. During the campaign he emerged as the austerity candidate, calling for further layoffs and the closing of hospitals. In the 1973 mayoral election, issues had already “moved to the right” according to the *New York Times*. By 1973 the political foci of the 1960s, “housing, poverty and minorities” were “shoved into the background” as “the most liberal of Democratic candidates has shifted perceptibly to the right to match what they all perceive as the conservative mood of a city once consider the nation’s bastion of liberalism.” The issue for 1973, declared the *New York Times*, was “law and order.” This was all the more true in 1977 in which the Koch campaign represents

¹ Frank Lynn, “Party Glory Fades in Brooklyn,” *New York Times*, Jun. 11, 1973. As early as mid-September, well before the final election, the *New York Times* reported that Beame was “seen as Mayor-Elect,” see Murray Schumach, “City Politicians Defer To Beame,” *New York Times*, Sep. 16, 1973; Maurice Carroll, “Beame Backed by Party Regulars,” *New York Times*, Jun. 19, 1973; Frank Lynn, “Winning Edge 3-2,” *New York Times*, Jun. 27, 1973

² Frank Lynn, “Winning Edge 3-2,” *New York Times*, Jun. 27, 1973; “Clarity and Confusion,” *New York Times*, Jun 28, 1973; Frank Lynn, “Race Without Issues,” *New York Times*, Sep. 26, 1973

a major turn. Even for the Democrats, the Times wrote, “crime, community control, and . . . city services” were the paramount issues, and the “middle-class,” meaning not impoverished black or Puerto Rican New Yorkers, the primary demographic.³

Mayor-elect Koch exemplified this shift from the Keynesian New Deal political coalition that had backed Beame, to a new set of Democratic politics in NYC. In testimony before Congress Koch said, “I come to this office totally politically unencumbered. The normal special interests – I am not speaking in any pejorative way – that elect a mayor and have elect mayors in the past have no hold on me. They did not help me. I got here without them. I got here without the unions and without the banks and without the political organizations that normally have great input into the election of the mayors of any city, and so whatever has to be done to make certain that we live within our means and that we engage in only those activities that normal, rational people engage in who lead cities, that will be done.” Austerity, cutting kids from hospitals and children from welfare, was with Koch now both normal and rational. In regards to labor relations, Koch said he hoped “the city of New York will be run as though it were in the private sector.” These were code words, sent to the financial sector, who vigorously approved.⁴

Koch therefore presided over the extension of the Emergency Financial Control Board, dropping the “emergency” and making the Financial Control Board a permanent fixture of New York City governance. This normalization of austerity was imbedded in Koch’s political outlook. In 1977 and 1978 the city, banks, and others were debating extending the life of the board,

³ Frank Lynn, “Issues Have Moved to the Right for 7 Candidates for Mayor,” *New York Times*, Feb. 16, 1973; Frank Lynn, “The Issue Is Law and Order,” *New York Times*, June 3, 1973

⁴ Testimony of Ed Koch, in Finance Banking and Urban Affairs Subcommittee on Economic Stabilization, United States Congress House Committee on, *The New York City Seasonal Financing Act of 1975 Hearing before the Subcommittee on Economic Stabilization of the Committee on Banking, Finance, and ... Congress, First Session, December 16, 1977* (University of Michigan Library, 1978) pg 12; Testimony of Ed Koch, in United States Congress Senate Committee on Banking Affairs Housing, and Urban, *New York City Financial Aid: Hearings before the Committee on Banking, Housing, and Urban Affairs, United States Senate, Ninety-Fifth Congress, Second Session, on S. 2892 ... and H.R. 12426 ...* (U.S. Govt. Print. Off., 1978) pg. 26

Mayor Beame had been vocally opposed. Koch, in his typical style, warmly embraced both the continuance of the board, and its social mission, which he said was embedded in his administration. “Let me tell you about the EFCB. I said before I was elected and I said subsequently to my election that I have no problem in living with the Emergency Financial Control Board because every measure that they would insist upon I hope I would be there before them. I have the same sense of fiscal integrity as I know that they have and it is not a question that they are going to have to prod me. I’m going to do what has to be done before they ask that it be done, but if I fail, then they are there to make certain that those actions are taken. So when the reference was made about another mayor who said that he could not live with such a situation – of course, if we were not asking for this assistance we would not self-impose it – that extra layer, not of bureaucracy, but of control – but since we are asking for this assistance it is not something that I come to you and say that I take it willingly. I accept it. I accept that additional control because I will meet those limitations before those controls are required to be imposed.” A twisted bit of logic, but nonetheless the message was clear. The Koch agenda was to be the austerity agenda.⁵

Koch also continued the assault on city workers with a plan of “removal from the work force of employees who do not perform.” Koch targeted what he called “‘no-shows’ and incompetents” and encouraged management including city commissioners to make “use of the available procedures to eliminate these workers from the City’s payroll.” Note, again these public attacks worked on two levels. They obviously threatened jobs, and the material wellbeing of city workers, but they worked on a rhetorical and ideological level too. Workers were to be demonized and called names. Their failures were not systematic, but personal, individual, and

⁵ Ibid, 30

they deserved no mercy. This, remember, after the city unions largely saved the city, through facing the brunt of the cuts and by providing capital through their union pensions. Koch went on to tell the Senate panel, “this is a great opportunity, we are living in a new era, when changes can be made if you make it possible from the financial viewpoint” - our own era.⁶

As the racial climate in the city deteriorated under Koch as well, part of a response to the cuts and a series of police murders of African Americans, the mayor tried to explain that his cuts were not racist. The New York Times reported that by January of 1979 Koch was trying “to convince minority-group leaders that his budget cuts were not racially motivated.” Koch explained that the issue was structural, colorblind, and not part of a racist program. “When you reduce expenses,” he elaborated equating poor with black, “it impacts upon poor people because our budget is primarily devoted to poor people.” Koch went on to say that when black mayors, like Mayor Gibson in Newark, went to implement cuts, the process is the same, and clearly not racist. And in the Koch was right. This was not a racism of individual intent, but colorblind structural racism with disproportionate impacts.⁷

Perhaps the clearest example of the transformation of local politics can be seen in the career and ideas of Felix Rohatyn. According to the press at the time, Rohatyn “excels at uniting the city’s big banks, powerful municipal labor chiefs and City Hall politicians in large and complex financial deals . . .” in which he was “widely hailed as a key architect of New York’s shaky survival since 1975,” a period known as the “Rohatyn era.” According to the *Journal*, Rohatyn joined “along line of Wall Streeters who have parlayed financial knowledge into government power.”⁸

⁶ Prepared Statement by Mayor Ed Koch, Ibid, 61; Testimony of Mayor Ed Koch, Ibid, 99

⁷ LEE DEMBART, “Koch Says He’s Failed To Justify Fund Cuts To Minorities in City,” *New York Times*, Jan 11, 1979.

⁸ Daniel Hertzberg, “How Felix Rohatyn Survived,” *Wall Street Journal*, Sep. 22, 1978

Felix Rohatyn also represents this political transformation on an individual level. “Three years ago, when Gov. Carey asked me to take a few weeks off to try to keep New York out of bankruptcy, I was a liberal, Franklin Roosevelt my childhood hero, the New Deal an unparalleled intellectual achievement. I believed in government’s ability to manage, to right wrongs and make things work. I was also totally and completely ignorant of government and its functioning. Today, my municipal virginity torn to shreds I am neither liberal nor conservative but profoundly skeptical. Government, at any level, is neither efficient nor inspiring,” he said. Rohatyn could have been speaking for Wall Street in general, or the Democrat Party, but his personal shift was reflective of largescale changes in society.⁹

* * *

Political changes were felt well beyond Gracie Mansion and Wall Street; the White House played a huge role in the city’s fiscal crisis, and the New York City fiscal crisis reshaped national politics as well. One impact, was the entrenchment of the ideological framework of the Ford administration. Once the banks backed out of the market, Administration refusal to provide loans to the city throughout much of 1975 is what ultimately forced the extremely harsh austerity that we saw in the previous chapter. The Ford administration was highly ideologically motivated. Ford himself studied economics, and he appointed many unorthodox economists and businessmen to positions in his cabinet and staff. Many were closely associated with, or closely interested in so-called “monetarist” economics developing under the scholarship of Milton Friedman and others. Alan Greenspan was one, appointed to chair the White House Council of Economic Advisors. William Simon another, as Treasury Secretary. Donald Rumsfeld and Richard Cheney were also in the administration and sensitive to the new economic thinking,

⁹ Address given by Felix Rohatyn for the Harvard Business School Club International Dinner, April 5, 1978, Program Planners Library, Bigel Collection

Rumsfeld a personal friend of Friedman. Arthur Burns, the chair of the Fed, was Friedman's mentor in graduate school. In an interview in 1994, Ford Director of the Domestic Council James Cannon argued that the Ford presidency was not an historical placeholder, but that Ford was motivated with a personal mission. "Ford had a vision," Cannon said, "it was to shrink the size of government. It was to cut costs, it was to live within our income."¹⁰

This thinking was based on the new economic ideas of Robert Mundell and Arthur Laffer, two Chicago school economists who challenged Keynesian orthodoxy head on. Both Mundell and Laffer were invited to the Ford White House on separate occasions, and Rumsfeld and Greenspan in particular read their material, shared it with White House staff and were enthusiastic about the ideas. Mundell and Laffer targeted Keynesian notions that government stimulus would jump start faltering economies. Instead, they argued that Keynesianism produced the stagflation crisis of the 1970s, and that to counter stagflation, the federal government should cut taxes and tighten the money supply, in order to spur production and restore profitability, the exact opposite of orthodox approaches. With the onset of the national recession at the tail end of 1974, Ford attempted these so-called "supply-side" economic theories at the beginning of 1975. According to Jude Wanniski, the "turn in the Ford Administration's policy in January came as a direct result of Laffer's presentations in private meetings at the White House in late November last year, and Mundell presentations at the White House in late December."¹¹

But checking state and local spending was already a major administration goal as part of the war against inflation; this was a major policy orientation for the administration even as it

¹⁰ Interview with the Honorable James Cannon," Oct 19, 1994 ,Yanek Mieczkowski, Research Interviews, Ford Presidential Library

¹¹ Jude Wanniski, "The Mundell-Laffer World Economy," no date, Alan Greenspan Files, Ford Presidential Library

assumed office. In aftermath for the national conferences on inflation, in which the President declared inflation the nation's "public enemy #1," Ford wrote to Abraham Beame to urge action to cut spending to check inflation. This, in December of 1974, was well before the severity of the New York crisis was on the political radar. Ford urged Beame that "priority attention be given" to "fiscal and economic responsibility." Writing that the "development of national fiscal policy is not the job of the Federal Government alone," the President noted that local government spending accounted for 15% of GNP or roughly \$200 billion. Particular areas of concern for the President were local borrowing impacts on credit markets, local taxes that "may contribute directly to consumer price increases," and a regulatory regime onerous for business interests like "building code restrictions, occupational licensing laws, and price-fixing arrangements." The exact impact of these policies were not clear, but administration attention to local spending, was. As was their intention to limit federal spending, Ford and his economists wanted to cut federal outlays by \$5 billion and cap the federal budget at \$300 billion to contribute to their anti-inflation efforts.¹²

When the attention turned to "stagflation" and recession in early 1975, the Ford administration continued to pursue its policy of cuts. In March of 1975 the President and senior staff were again meeting to strategize how their "no new spending," agenda for 1975 and 1976 budgets could be passed through Congress. High on this list for Ford personally, according to hand written notes from the meeting, was "major welfare reform," and changes to the nations "health ins. pgm." ¹³

The Ford administration directly linked denying New York a loan program to their agenda of shrinking federal social spending expenditures. In planning documents drafted by the

¹² Gerald Ford to Abraham Beame, December 4, 1974, James Connor Files, Ford Presidential Library

¹³ Meeting on "No New Spending," Mar 14, 1975, Handwritten Notes, Ron Nessen Papers, Ford Presidential Library

Council of Economic Advisers, the administration argued that providing funds to New York, which they estimated may have been as high as \$4billion in the first year, would have been “inequitable in a period of Federal program reduction designed to obtain a more balanced Federal budget.” In May of 1975, as Governor Carey and Mayor Beame were requesting meetings with President Ford to request temporary funds to stem the crisis, the administration was articulating to itself the reasons for rejecting aid. The administration would go on to argue that Ford could not bailout New York without also providing aid to the numerous other American cities then floundering in the recession. Further, Ford officials argued that the city’s crisis was a result of years of problem financing, something that one-time federal gifts could not solve. Additionally, at this time, the Ford Administration put together a list of “possible expenditure changes,” to give to the city – at the top of the list “end free tuition at City University.” Item number two – “reduce work force. Say 10,000 employees.” The rest of the list read a similar ideological grab-bag of roll-backs, reductions and take-aways: from raising the subway fare, to imposing tolls on east river bridges, reducing city salaries, forcing 20% retirement contributions, a “reduction in primary and secondary education costs” (without further specification), to reduce the “levels of free hospital services,” and other similar attacks on workers and the social wage.¹⁴

In testimony before Congress, Treasury Secretary William Simon framed administration opposition to aid for New York primarily in terms of checking inflation. If federal guarantees to New York resulted in a capital shortage “the inflationary expectations” could “have an extraordinary impact insofar as interest rates and the long-term market are concerned,” he said.

¹⁴ James Cannon to Gerald Ford, “Memo: Meeting with Governor Hugh Carey and Mayor Abe Beame,” Tuesday, May 13th, 1975, James Connor Files, Ford Presidential Library and Council of Economic Advisors, Alan Greenspan Chair, Memorandum for the President, “An Economic Analysis of the New York City Financial Crisis,” Oct. 27, 1975, William Seidman Files, Ford Presidential Library

Simon, himself a former municipal bond officer for Merrill Lynch who sold hundreds of millions of notes before entering government, called for “fiscal restraint” at all levels of government, what he called a “comprehensive Federal re-examination of all Federal State and local relationships,” in order to “determine whether the priorities, practices and procedures of the past in all areas – welfare, housing, all assistance programs – are consistent with the needs of the last quarter of the 20th century.” If the federal government were to come to the rescue of New York, “there could be far more incentive for State and local governments to embark on more spending programs, irrespective of whether resources were available to finance them. The discipline built into the present system would be lost.” Discipline, responsibility, new watch words, new meanings.¹⁵

Administration officials consciously and publically articulated their role as fiscal disciplinarian; denying loans was intended to compel cuts. In his testimony before Congress, Simon framed Administration refusal on a loan program to the austerity “reform process” then underway in the city. The paramount question, Simon rightly highlighted, was “what actions would have reopened the market” to the city. Here, only strict austerity to the banks, “the markets” likely was sufficient, and Simon highlighted in October of 1975 with no aid forthcoming that “Federal financial involvement at any point along the way would have stopped the reform process dead in its tracks.” Instead, Simon gave a timeline of crisis and deadlines in which only the threat of default and the near-misses the city encounter forced further and more

¹⁵ Testimony of William Simon, in United States Congress House Committee on Banking Stabilization Currency and Housing Subcommittee on Economic, *Debt Financing Problems of State and Local Government: The New York City Case : Hearings Before the Subcommittee on Economic Stabilization of the Committee on Banking, Currency and Housing, House of Representatives, Ninety-Fourth Congress, First Session* (U.S. Government Printing Office, 1975) pg 1814-1815, 1818

drastic cuts at each step. “Would such actions have taken place if Federal assistance had been promised or provided,” Simon asked rhetorically. Probably not, everyone can agree.¹⁶

It wasn’t just Simon, often an administration spokesperson on these issues. Internal Federal Reserve documents shared this perspective, arguing that a direct Federal “bailout” had been “ruled out” because it “might actually reduce the pressure and possibilities for achieving the fiscal and economic changes with the City and State essential to any lasting solution with the context of Constitutional and political imperatives.”¹⁷

Another key figure, Alan Greenspan, then on the President’s Council of Economic Advisers was instrumental in shaping the president’s approach to New York. Greenspan’s thinking in September of 1975 was that a loan extension to New York should be avoided for three reasons. First, if for New York, then so too for every municipality in the country and even with temporary aid, given the overall economic climate, later funds would be necessary too. For Greenspan, “Federal guarantees would do no more than temporarily postpone the day when a fiscal problem must be confronted and a solution effected,” adding that “there is no short cut to fiscal responsibility.” Furthermore, if the federal government extended funds “the effects on inflation,” then of primary concern, would “be the same,” i.e. increase inflationary pressures. Instead, Greenspan argued that “there is no alternative for New York City except to rapidly put its affairs in order. Only that will reestablish its credit ratings which will enable it to again borrow in the capital markets.” In the short term, default seemed inevitable, and something Greenspan was willing to consider because “a default of the City can be contained without serious economic consequences for the rest of the country.”¹⁸

¹⁶ Ibid, 1819

¹⁷ Proposals For New York City Financing, Oct 1, 1975, Federal Reserve Board Subject File, Ford Presidential Library

¹⁸ Memorandum for Donald Rumsfeld, “the Financial Crisis of New York City,” Alan Greenspan to Donald Rumsfeld, September 12, 1975, Ford Presidential Library

For the Ford White House, it was clear in September of 1975 that the ball was in their court. At the September 17 Cabinet meeting Domestic Council Deputy Director Richard Dunham said that with the exhaustion of state giving, New York “has in effect handed the problem to the Federal system.” The question was should the administration take the step to avoid city default. Greenspan told the president that the major banks faced “no immediate impact” from a default, and that the market was taking into account the possibilities of an upcoming payment failure. Although smaller banks may need federal help, Greenspan’s answer to the question of will a New York City default negatively impact the national economy was no. Despite claims from several studies, Greenspan wrote, “we do not believe that the impact of a New York City default, should it occur, would have a significant impact on the developing economic recovery.” Instead, the bigger problem, according to the Chairman, was “the psychological reaction,” as there would likely be some market disruption but that such a disruption “can be handled within the confines of the institutions with no assistance from the Federal government.” At the September 17th cabinet meeting, James Cannon chimed in that the New York Congressional delegation had no unified plan and that was indicative that no action should be taken at that time.¹⁹

Federal action in 1975, both Congressional and executive, was contingent on what the financial sector wanted, and as late as September of 1975 there was no consensus opinion coming from the banks on what, or whether, the federal government should do anything at all. At a closed door informal meeting between members of Congress and the financial community “there was a great deal of ambiguity with respect to the role the Federal government could play,”

¹⁹ Minutes of the Cabinet Meeting, September 17, 1975, Ford Administration Records, Bigel Collection and “Impact of A New York City Default on the National Economy,” in William Seidman to Gerald Ford, Memorandum For the President, New York City, Nov 8, 1975, William Seidman Files, Ford Presidential Library

and the conclusion of the meeting left with “no clear indication from the participants and attending congressmen as to what action should be taken at this time,” according to White House documents. Some things discussed were extending the Fed’s discount window to banks, taking on New York City debt, or short term federal guarantees.²⁰

Vice President Rockefeller, on the other hand, urged action. He cautioned that the political impact of inaction, of refusing to pay fire and policemen, “is far more serious than anyone thinks,” and he urged “a quiet task force be put together to study the impact if the worst happens.” An easy solution, from Rockefeller’s perspective, was to forward city Medicaid payments to help it get through the year. The federal government provided \$3.4 billion a year to New York City, an accelerated payment schedule would cost nothing but allow the city the bridge funds necessary to get through the year. But he added, and others like Dunham agreed, that “this should be done only if they get their house in order.”²¹

Governor Carey and Mayor Beame were trying to pressure Ford into action. Earlier memos to President Ford indicated that Carey was trying to maneuver the Administration to a position of bailout. In an “eyes only” memo, Treasury Under Secretary Edwin Yeo wrote that Governor Carey’s men in the MAC “are maneuvering so that if the City defaults it will appear to be caused by either the Federal Government refusal to provide a guarantee or the Fed’s refusal to extend credit.” They suspected that MAC staff were dropping rumors to the press that “a guarantee was imminent” to pressure the White House. Instead, White House staff were

²⁰ Schwartz and Breneman to Board of Governors, Federal Reserve System, “Congressional Panel on New York City financial Difficulties,” September 8, 1975, Bigel Collection.

²¹ Minutes of the Cabinet Meeting, September 17, 1975, Ford Administration Records, Bigel Collection

exploring the options of default, including federal bankruptcy proceedings, spill over effects on the HFA and other banks, and to “review civil disturbance arrangements.”²²

By October, it was becoming clearer that some federal role was necessary. Even with the creation of the Emergency Financial Control Board, Allan Greenspan was writing President Ford that in all of the “various ‘plans’” before the city, none of them “contain the solution to the crisis without Federal legislation.” Greenspan went on to comment that in order for the budget to be balanced, “certain critical political decisions of the last decade have to be reversed. These decisions related to the City’s responses[sic] to demands for more and better services, and to the City’s methods of obtaining both tax revenues and borrowed funds.” This was their priority, the reorder of “certain political decisions,” not so much the fiscal realities of city government.²³

On the 24th of October Ford had a meeting with senior staff in the White House cabinet room, to discuss what the administration should do regarding New York. They were considering both finalizing their policy approach and a major statement addressing New York, something they were facing increasing pressure to do. According to Press Secretary Ron Nessen’s hand written notes, Ford began the meeting by asking if anyone thought “we should support any legis. to prevent default?,” which was met by “silence” in the room. Donald Rumsfeld then chimed up that the administration should say “Not just ‘No.’ But ‘Hell No,’” to the city. When Ford then summarized their position that the administration will move to have municipal bankruptcy legislation passed by the Congress to facilitate NY’s bankruptcy, and to give a national address explaining the president’s position by the end of the month.²⁴

²² Edwin Yeo to President Ford, “Report on New York City,” Memorandum For the President, August 18, 1975, Bigel Collection

²³ Memorandum For The President, “An Economic Analysis of the New York City Financial Crisis,” Alan Greenspan, Council of Economic Advisers, October 27, 1975, Ford Records, Bigel Collection

²⁴ NY City Meeting, Oct 24th 1975, Handwritten Notes, Ron Nessen Papers, Ford Presidential Library

On October 29th, Ford gave his now infamous speech to the National Press Club, promising to veto any legislation to “bailout” New York City. Exhibit A in his case for New York City excess were worker benefits, like “a sanitation worker” whose take home pay the President claimed was \$15,000 a year, in addition to generous benefits including pensions, where the city “picks up the entire burden.” On Welfare, the President claimed one in ten NYC recipients to be “legally ineligible.” Ford argued that a default by New York would only produce minor fluctuations in the markets because most investors “already made a substantial adjustment in anticipation of a possible default.” Furthermore, a federal bailout would make “a terrible precedent” in which all of the nation’s troubled cities would come to the “Federal rescue squad” for aid. But most importantly for Ford, with a federal guarantee, “the massive network of pressure groups” in NYC will not be forced to back down. Ford deemed New York’s approach a “politics as usual” in which “prescribing larger and larger doses of the same political stimulants” has been popular, but costly. “If we go on spending more than we have,” President Ford told the nation, “providing more benefits and services than we can pay for, then a day of reckoning will come to Washington and the whole country just as it has to New York.” For these and other reasons the President said defiantly “I can tell you now that I am prepared to veto any bill that has as its purpose a Federal bail-out of New York City to prevent a default.”²⁵

The speech was viewed as unnecessarily harsh in the major press. The next day the *New York Daily News* ran its “Drop Dead” headline. The headline must have given Rumsfeld and others a pause at how accurately the paper captured the tenor of the senior staff conversation on

²⁵ The White House, Remarks by the President to be Delivered at the National Press Club, Washington D.C., Oct 29, 1975 in United States Congress House Committee on Banking Stabilization Currency and Housing Subcommittee on Economic, *Debt Financing Problems of State and Local Government: The New York City Case : Hearings Before the Subcommittee on Economic Stabilization of the Committee on Banking, Currency and Housing, House of Representatives, Ninety-Fourth Congress, First Session* (U.S. Government Printing Office, 1975), pg. 1802-1810

the 24th, in which Rumsfeld recommended telling the city “hell no.” Less alarmist though perhaps with greater punch, the *Wall Street Journal* also ran an article on Ford’s speech the following day. The piece characterized the mood on the Street regarding New York. It argued that Ford’s position, equivalent “to slam the door on a congressional bailout” meant “almost certain default” for the city. The *Journal* reported the result of default was “unclear” and that “the President is gambling that the financial and economic fallout from default won’t ripple across the U.S. or across the world, as pro-bailout forces warn.” Particularly troublesome, was if the city defaulted, bondholders would be prevented from suing in court, and that it would “involve long delays in payment of city debts to banks and small investors alike.” The paper noted that while investor confidence was “calm” there was “a sharp sell-off in the tax-exempt” market on news of the President’s speech. Overall however, the paper said the likelihood of a general market failure based on New York were slim. Instead, the real “chances of chaos” came from the threat of “social unrest” in New York if services stopped and workers were thrown off the job. But still, this coverage was not great. Talk of chaos and social or market disorder, seemed callous indeed.²⁶

Immediately White House officials were concerned with the fallout from the speech. In a memo from Edward Weidenfeld, a DC attorney, to James Connor, Ford’s staff secretary, Weidenfeld worried that while the president’s position was correct, “I know we are right,” he wrote, he was worried that “the way the President’s program is being communicated” resulted in the “Drop Dead” headline. Weidenfeld reported to Connor that calls on the morning of the Daily News headline “mostly from media opinion makers, and lawyers, convince me the rhetoric must be softened.” Weidenfeld worried that unless Ford changed rhetorical tact, then “opinion

²⁶ “Ford’s Proposal Means Almost Certain Default for New York City,” *Wall Street Journal*, Oct 30, 1975

makers' and bankers in New York are going to characterize him as a stubborn conservative, devoid of vision or compassion and more concerned with punishment than people." Weidenfeld warned that "we should not permit this happen."²⁷

However, a few days later, pressures were starting to mount on the administration. Foreign central and commercial bankers were increasingly concerned at the prospect of a default on the international markets. Charls Walker, a former Treasury official, economist and well-connected private lobbyist, was in regular contact with President Ford on the climate from the business community. In late 1975 he began writing President Ford that he was "very, very worried" about what a New York City default would do in an unstable economy, writing that "the impact on confidence in an economy in which many, many things are still 'out of whack' could be very damaging." Walker reminded President Ford that if "NYC defaulted, and the roof fell in" it would be a horrible "beginning of a Presidential election year."²⁸

In October major commercial banks also began to pressure Washington for a federal bailout of New York. Speaking before Congressional hearings, JP Morgan's Ellmore Patterson told legislators that a New York default could create "the possibility of a markedly adverse psychological reaction" which may lead to "an enormous downpull on general economic activity." While noting that "unconditional judgement about the full scope and severity of the repercussions that might flow from default is simply impossible," the banker reiterated that a default could be "seriously troublesome to the national economy." Because of this, "in this instance, I have come to the conclusion that a Federal role is inescapable" to avoid default.

²⁷ Weidenfeld to Connor, Oct 30th, 2016, Connor Files, Ford Presidential Library

²⁸ Memo, John Reynolds to Chairman Burns, Board of Governors of the Federal Reserve System, November 10, 1975, Ford Records, Bigel Collection; Memorandum, Charls Walker to President Ford, October 7, 1975, Ford Records, Bigel Collection

Patterson claimed to be speaking from a consensus view from other heads of major banks, including Citibank's Walter Wriston and Chase's David Rockefeller.²⁹

The likelihood of widespread market disruption coming from a New York default was somewhat unknowable. For example, in October, Wallace Sellers on behalf of the Securities Industry Association told members of Congress that "a default by New York City would be a financial event of the first magnitude, surpassing anything of like character since the banking holiday of 1933." He said that the consequences would be "serious and far-reaching" and that the federal government should enact "machinery" to avoid default including a federal loan program. But other members of the financial community disagreed. Earlier in the month, Patterson, with Wriston and Rockefeller by his side, told Congress that "the critical part is the psychological impact. It is unknown. It is unknowable. It is hard to understand, what effect it will have on confidence, and the psychology that comes from a default like this, of this size, is hard to predict and hard to control. Already we have seen that it is not containable in the sense of the effect it has had on other [bonds] . . . my own view is, it is not containable." Bankers were increasingly thinking that a New York default would not be "containable," but they couldn't be certain.³⁰

²⁹ Testimony of Ellmore Patterson, in United States Congress House Committee on Banking Stabilization Currency and Housing Subcommittee on Economic, *Debt Financing Problems of State and Local Government: The New York City Case : Hearings Before the Subcommittee on Economic Stabilization of the Committee on Banking, Currency and Housing, House of Representatives, Ninety-Fourth Congress, First Session* (U.S. Government Printing Office, 1975). Pg 911 Patterson tempered his testimony in questions by saying that any disruption would likely be contained in by the banking sector.

³⁰ Public Finance Council Securities Industry Association, Summary Statement in in United States Congress House Committee on Banking Stabilization Currency and Housing Subcommittee on Economic, *Debt Financing Problems of State and Local Government: The New York City Case : Hearings Before the Subcommittee on Economic Stabilization of the Committee on Banking, Currency and Housing, House of Representatives, Ninety-Fourth Congress, First Session* (U.S. Government Printing Office, 1975). Pg 1057; Testimony of Ellmore Patterson, in United States Congress Senate Committee on Banking Affairs Housing, and Urban, *New York City Financial Crisis: Hearings before the Committee on Banking, Housing and Urban Affairs, United States Senate, Ninety-Fourth Congress, First Session* (U.S. Govt. Print. Off., 1975) pg 698

Indeed, through September, October and November, pressure was mounting on the Ford Administration from powerful sectors to do something for New York. In September the New York Times reported that hundreds of the nation's banks "would be in serious financial difficulty if New York City defaulted." That same month the National Conference of Mayors called the Administration's refusal a form of "extortion." By October, Fed Chair Arthur Burns was hinting publically that federal actions should be taken, and German Chancellor Helmut Schmidt made similar public statements for the sake of European markets. By October both Rockefeller brothers said publicly that some kind of aid was necessary and the Congressional Budget Office issued a report that the city couldn't make the necessary changes alone.³¹

And still, no movement. As late as November of 1975 the Ford Administration still would not agree to loans for the city. At a GOP meeting on November 4th Ford told his advisors "I have no inclination to change" and the bulk of the conversation focused on how best to get new bankruptcy laws through Congress, whether Banking or Rules would be most productive. And at a November 18, 1975 conference at the White House cabinet room Ford told the Republican New York congressional delegation that "as of the moment, my position has not changed," going on to explain that "they should cut, and then we will consider what to do, if anything. I'm making no commitment . . . I have made no decisions." This just seven days before his Thanksgiving speech promising aid to the city.³²

Just one day after Ford told Republican leaders he would not change course, Ron Nessen wrote a handwritten to President Ford explaining that a policy change would be bad for the administration but that pressure from the press was increasing. Nessen wrote that "everyday the reporters and politicians bombard the WHW with Q's = what are you going to do to help N.Y.?"

³¹ Lester Sobel, *New York and the Urban Dilemma*, New York: Facts on File, 1976, pg. 130-140

³² GOP Leadership Meeting, November 4, 1975, Ford Records, Bigel Collection

Nessen at, that time, advocated turning the press toward Carey and Beame. But it is clear the press pressure was having an impact.³³

Although saying he would not change Ford did say publicly that he would look into the cuts the city was making. James Shuman, associate director of communications wrote a memo to White House Press Secretary Ron Nessen explaining that if reversing course, it was important for the president “not to look weak, confused and unreliable.” Instead, the president should explain his decision to give aid as “a victory for President Ford,” and “not a cave in.” Shuman tried in vain to frame the reversal as New York coming to the president’s position, and not the other way around, and therefore a victory for “FISCAL RESPONSIBILITY.” The Ford Administration wanted to argue that New York was finally balancing their budgets, and hence aid would be forthcoming.³⁴

The Ford administration also reevaluated the political significance of its stance in October 1975. An internal document argued that the Administration may have made a “fatal miscalculation” by allowing New York to go bankrupt. That analysis was based on the possibility of major market disruptions if New York were to fail. The scenario of further market collapse seemed plausible as a New York City default would impact the ability of New York State, the largest issuers of tax exempts, to access funds, and completely paralyze all market activity. That possibility, could have spillover effects into the financial sector and create a national credit crisis, assurances of Alan Greenspan to the contrary notwithstanding. This could have, potentially, endangered the national recovery and moved the country’s recession to a depression. That impact, White House documents argued, would flip the general republican

³³ NYC, Nov 18, 1975, Handwritten Notes, Ron Nessen Papers, Ford Presidential Library

³⁴ Jim Shuman to Ron Nessen, “New York Posture,” Nov 17, 1975, Subject File: Local Government / New York City, Ford Presidential Library. Emphasis in original

support for Ford's "tough minded" approach to New York, to one that impacted their pocketbooks and economic prospects. Importantly for Ford, 1976 was an election year, and the "consequences" of a New York default "could provide the Democrats with their most telling political issue for 1976." The danger, the white paper warned, was that "the current appeal of appearing to discipline big-city liberal profligacy would prove short-lived as national pocketbook impacts replaced emotional response."³⁵

By November 14th the city, the banks, and unions had agreed to a general fiscal plan for the city. This was largely the work of Governor Hugh Carey and Felix Rohatyn. Sensing weakness in the administration position after the Daily News headline, Cary and Rohatyn assembled voluntary agreements from unions and banks to provide loans, debt rollovers, agree to wage cut backs and welfare reductions, all contingent on forthcoming aid from the federal government. The governor and state legislators also agreed to an aid program that was contingent on a federal role. William Simon wrote to President Ford as early as November 3, 1975 that "preliminary, but serious, conversations have taken place between union leaders and bakers to determine the concessions which might be effective." By November 14th outlines of the plan were available and Carey and Rohatyn were writing to pressure Secretary Simon. They asked the White House to provided \$1.3 billion in temporary, "seasonal" loans, to help the city through its cashflow crisis – what New York officials had been asking from the beginning. That agreement, assembled by Carey and Rohatyn, but pressure on the White House to act. All major players in the drama had stepped forward, and all were waiting on the Feds to play a similar role.

³⁵ "The New York City Default Issue: Political Significance," Oct 1975, William Seidman Files, Ford Presidential Library

The political effort from New York, combined with the climate in the press, was enough to force a full reversal.³⁶

Ford used that moment to reverse course. He was ready to support the seasonal loan legislation already passed in the House and Senate. In public statements delivered on the evening before the Thanksgiving holiday, less than one month after his “drop dead” speech, Ford told the nation that the city had made “substantial progress” in a very short time, including massive cuts and forcing city workers to contribute to their pensions. Because of this, Ford was providing short-term “seasonal financing” to help the city through its cash flow problems, but that funds are provided only on “stringent conditions.” Ford took the time to highlight a “fundamental issue” at stake, that “sound fiscal management is an imperative of self-government.” A nice phrase, tying fiscal neoliberalism to capitalist democracy in a way that it hadn’t been for last forty years. The distance from the Keynesian consensus can be seen toward the end of the fiscal crisis. Even as President Ford was extended federal loans to the city, he urged continued budgetary discipline, telling the press at the loan agreement signing ceremony that “no individual, no family, no business, no city, no State, and no Nation can go on indefinitely spending more money than it takes in.”³⁷

* * *

Federal funds put an end to the crisis period of New York’s restructuring. The Seasonal Financing Act gave the city bridge loans, at interest, to cover cash shortfalls so long as it was

³⁶ William Simon to Gerald Ford, Memorandum for the President, Nov 3, 1975, Presidential Handwriting File, Ford Presidential Library and Stephen Gardner to Max Friedersdorf, “New York Plan,” Nov. 14, 1975, William Seidman Files, Ford Presidential Library and Hugh Carey to William Simon, Nov. 14, 1975 and Felix Rohatyn to William Simon Nov 13, 1975, William Seidman Files, Ford Presidential Library

³⁷ Memorandum for the President, “New York City Speech,” William Seidman to President Ford, November 25, 1975, Ford Records; Statement by the President, The White House, November 26, 1975, Ford Records, Bigel Collection; Signing Statement on New York Seasonal Financing Act of 1975, President Ford, December 9, 1975, Bigel Collections

making progress toward balanced budgets. The Treasury had direct oversight and auditing of city budgets. But the repeated rush of crises as note dates came due was over. Even though the way the Ford administration handled the crisis was botched, and probably contributed to Ford's electoral loss the following year, the administration had many successes. It had forced drastic cuts on New York, pushed forward reductions for local government spending on a national level, and reshaped the political climate.

While Ford eventually caved on the issue of New York, the ten month administration battle to check federal spending to ailing cities was successful. Ford used what happened in New York to promote a similar national agenda. White House talking points developed in November of 1975 show the Ford Administration arguing that federal budget outlays "cannot continue if we wish to avoid the fate of New York City." And again, they framed their arguments in the aftermath of 1968, even though defense spending had declined since 1968, social spending was up. The problem was that "the rate of increase in nondefense budget outlays, in real terms, has been exceeding the real growth of the economy." Between 1965 and 1975, for example, social spending on "individuals" increased by 11 percent while all nondefense spending (like NASA and debt service for example), increase by 8 percent. This increase, White House called "one of the most important long-term economic problems confronting this country," for which there was only one option, "to sharply curb the growth of domestic programs."³⁸

For example in May and June of 1975 Congress was considering and passed the Intergovernmental Countercyclical Assistance Act of 1975. Had it not been vetoed by President Ford, it would have provided billions of dollars in emergency and supplemental funds the majority of which were dedicated for city budgets hit hard by the dual impacts of recession and

³⁸ White House Talking Points, Nov 3, 1975, Alan Greenspan Files, Ford Presidential Library

inflation. The bill was combined with a general House countercyclical stimulus bill before being passed on to the President's desk. New York became exhibit A in why the funds were unjustified, and Ford used New York profligacy as justification for his veto. So although New York ended up getting funds, a much larger block was placed on a national Keynesian approach to the urban crisis.³⁹

Another example shows an emboldened financial sector, as evidenced in the Securities Acts Amendments of 1975. The act "amended the Securities Act of 1933 and the Securities Exchange Act of 1934. The Securities Acts Amendments imposed an obligation on the Securities Exchange Commission to consider the impacts that any new regulation would have on competition. The law also empowered the Securities Exchange Commission (SEC) to establish a national market system and a system for nationwide clearing and settlement of securities transactions, enabling the SEC to enact Regulation NMS, and created the Municipal Securities Rulemaking Board (MSRB), a self-regulatory organization that writes investor protection rules and other rules regulating broker-dealers and banks in the United States municipal securities market." So even with market turbulence and failure in 1974 and 1975, Congress enacted legislation granting financial institutions greater leeway in municipal markets, writing in protections for bondholders but not stakeholders (like entire cities and their populations), and allowed only self-regulatory mechanisms to check all this behavior. It was the type of bill Ford was only too happy to sign.⁴⁰

Saying no to New York, for so long, benefited the administration's strategy to limit funds going to state and local governments from federal coffers. At a November 3rd, 1975 White

³⁹ Intergovernmental Anti-Recession Assistance Act of 1975, Hearings before the subcommittee on Intergovernmental Relations of the Committee on Government Operations, United States Senate, May 6, 7, 8 and June 3, 1975

⁴⁰ "Securities Acts Amendments (1975 - S. 249),"

House senior staff meeting, after the “Drop Dead” headline, Donald Rumsfeld remarked that “the discussion of NYC is going to have a good effect on other cities.” Other White House documents confirm this. Throughout 1975 the White House was under pressure to provide funds for cities caught in “the longest and most severe recession in our postwar history.” Cumulatively American cities lost \$20 billion in receipts in 1973-1975 leading to cuts and financial hardship. White House aides conceded that “the Federal Government could choose to aid State and local governments,” but only “if other Federal outlays can be reduce simultaneously.” Instead, the White House read the economic hardship politically, arguing that “the present difficulties of State and local governments are being used to prod us to adopt a more expansionary fiscal policy,” one which state planners found not “desirable.” According to this perspective a New York City default “will have some beneficial demonstration effects which will contribute to the health of our fiscal system in future years.” Especially important here was that “the sorry object lesson provided by our greatest city should lead to a tightening of the standards of accountability and civic responsibility in our fiscal system.”⁴¹

The White House estimated that through the use of the veto in the 94th Congressional session they prevented federal government spending by \$5.9 billion. These included things like the federal housing and farm bills, but also an emergency employment bill. Vetoes and cut spending, were major policy agendas of the Ford administration. In a later interview Administration figure James Cannon said that Ford “used the veto very successfully to say, “no, we’re not going to go into that big spending program’ . . . So again and again he vetoed a bill,

⁴¹ Senior Staff Meeting, Nov 3, 1975, Handwritten Notes, Ron Nessen Papers, Ford Presidential Library; George von Furstenberg to John Davis, Memorandum: “New York City Default,” Nov 3, 1975, Burton Malkiel Files, Ford Presidential Library

and Congress went back and passed something that was more manageable and more likely to be accepted.”⁴²

There were other federal policy benefits too. In November of 1975 Senator Humphrey hosted congressional hearings on the fate of New York. The hearings were part plea for federal assistance to the city, but also a way to tie New York’s predicament to larger economic forces, part of an effort by Humphrey to promote his paramount legislative agenda, passing federal full employment legislation. The hearings, hosting labor leaders like Gotbaum and DSA members like Michael Harrington, highlighted the importance of the federal role in pursuing employment and the economic impacts of high unemployment, New York was exhibit A. Yet against executive opposition, the most that this segment of democratic political forces would muster was the seasonal financing to help New York, and only New York. Federal countercyclical assistance was dashed, as we’ve seen. And so too would Humphrey’s full employment bill go down to the historical dustbin. By tying his efforts to New York, for which he was right, the tide of the historical counterrevolution from the top was just too great.⁴³

The biggest victory came in February of 1976 when the Ford administration vetoed a \$6.2 billion federal countercyclic spending package designed increase public works and aid to struggling cities. The bill included nearly \$140 million in direct aid to New York City but the Senate barely failed to override the veto. AFSCME president Jerry Wurf called the failure “a tragedy for all working people.”⁴⁴

⁴² “Saving on Cuts Proposed by the President,” Oct. 16, 1975, Ron Nessen Papers, Ford Presidential Library; Interview with the Honorable James Cannon,” Oct 19, 1994 ,Yanek Mieczkowski, Research Interviews, Ford Presidential Library

⁴³ “Impact of New York City’s Economic Crisis on the National Economy,” Hearing before the Joint Economic Committee Congress of the United States, Ninety-Fourth Congress, Nov 10, 1975 (771)

⁴⁴ Jewel Bellush and Bernard Bellush, “The Reponses of District Council 37 toe the Fiscal Crisis, 1975-1978,” Bernard Bellush Papers, Robert F Wagner Archives

Even after federal legislation passed in December of 1975 to help the city with “seasonal loans” the White House under Ford maintained diligent scrutiny of the austerity program. For example, in November of 1976, at which point Ford was a lame duck, internal planning documents expressed concern that the cuts might be mitigated. When the Citizens Budget Committee, a conservative budget watchdog group, expressed concern that further cuts were dangerous and could lead to “social and economic disruption,” the White House was more concerned these calls could lead to lifting the austerity cap on social services in the city. If budgetary “relief” was forth coming, it “might well serve to open a flood gate of demands from employee unions, school aid ‘demanders,’ welfare organizations and many others.” With the torrent of cuts in the last 18 months the White House found it was possible for the city to meet its balanced budget goals for 1978 but that “it will require tougher action than has been shown so far – and even then, with some genuine rash of citizen ‘revolt.’”⁴⁵

Even though the Ford Administration caved to public pressure and bailed out New York, a significant amount of ideological work had been accomplished. In public statements and private conversations, Ford was insistent on using a new conception of public finance, one in which responsibility meant fiscal restrictions, and public ledgers were metaphorically compared to family budgets. When signing the Seasonal Financing Act, Ford told his audience that even with federal aid, New York still needed “their own self-help program,” one needed at every level of governance as “all of us still have a greater responsibility to take the hard, tough steps that will actually bring public spending into line with public revenues.” Again, the idea that this is necessary is a fantasy, yet for Ford, and for the nation here after, “a fundamental lesson to be learned for New York’s experience is that sound fiscal management is an imperative of self-

⁴⁵ Vice President, Agenda for the Meeting with the President, Wednesday, November 17, 1976, Bigel Archives

government.” And here the metaphor of individual or family solvency was a useful political development that resonated broadly, “no individual, no family,” said Ford, “no business, no city, no State, and no Nation can go on indefinitely spending more money than it takes in.”⁴⁶

Consider how Ford lectured Beame in a May 1975 letter denying federal aid for the city. “Fiscal responsibility,” Ford wrote, “is essential for cities, states, and the Federal government. I know how hard it is to reduce or postpone worthy and desirable public programs. How every family makes up a budget has to make painful choices. As we make these choices at home, so must we also make them in public office too. We must stop promising more and more services without knowing how we will cover their costs.” Only, this conception of budget making a radical departure from the experiences of Beame and American political economy.⁴⁷

Ford was propagating notions that upended the Keynesian economic consensus of the previous four decades. In this he was not alone, prominent members of his administration were part of an ideological crusade to thwart government social spending, and budgets were the appropriate measure through which to achieve this. Take for example Ford’s internal deliberations to replace Associate Supreme Court Justice William O. Douglas in November of 1975. Alan Greenspan, a figure heavily involved in the administration’s position on New York, used the city’s financial crisis and “special interest” pressures as a factor to consider on the Supreme Court decision. In a letter to White House Chief of Staff, Greenspan warned of not finding “philosophical balance,” on the Supreme Court. Greenspan wrote that “during the 1960’s the Congress with the acquiescence of the Court stretched the interpretation of the Founding Fathers’ concept of limited government to its outer bounds.” And Greenspan was

⁴⁶ President Ford, Signing Statement on New York Season Financing Act of 1975, December 9, 1975, Ford Collection, Bigel Archive

⁴⁷ Memorandum for the President, “Letter to Mayor Beame,” Jim Cannon to President Ford, May 14, 1975, Ford Records, Bigel Collection

concerned for the future, “if we continue down this track for another several years we almost surely will find ourselves confronting the types of problems menacing the political and economic institutions of the UK and New York City. If as a nation we allow ourselves to move that far, we may find that we no longer have the political will to reverse the trend. There is a political point of no return – or at least a point in which a reversal implies near revolutionary upheavals in our political institutions. We must not allow this to happen.” Greenspan highlighted that the President was providing leadership on changing public attitudes, the Supreme Court could provide an important “buffer” against further erosion. Quite a remarkable document; the record of a class warrior, using New York, as an example of potential catastrophe that may befall the nation. And for Greenspan, it’s important to remember his earlier document spelling out the problems of New York to President Ford. The problem was not the market failure and subsequent capital strike, it was the social power of the special interests to democratize government spending and finance.⁴⁸

In this thinking Ford was backed up by the bankers. In testimony before Congress Wriston said, “we have asked more of our society than it is capable of delivering, and we have told everybody that the money is unlimited, the resources are unlimited, and we have promised more than we can deliver. At some point those two curves cross. In the city of New York, they have now crossed. I agree with you it is a serious fundamental problem. If you always spend more money than you earn, eventually your credit runs out. . I agree with you it is a serious national issue, getting up even on the Federal level and on the State level.”⁴⁹

⁴⁸ Memorandum for Dick Cheney, “The Supreme Court Nominee,” Alan Greenspan to Dick Cheney, November 25, 1975, Ford Records,

⁴⁹ Testimony of Walter Wriston, in United States Congress Senate Committee on Banking Affairs Housing, and Urban, *New York City Financial Crisis: Hearings before the Committee on Banking, Housing and Urban Affairs, United States Senate, Ninety-Fourth Congress, First Session* (U.S. Govt. Print. Off., 1975) pg 705

From the perspective of the Ford administration, to achieve cuts to the city's social wage required a diminution of political power of the city's social movement organizations. All their cost cutting plans, based on the new culture of economics were "doomed to failure unless there is a restructuring in the way the City responds to the pressures of interest groups." They specified that "cutting back programs deemed important by local community groups or municipal unions had no previous success," and lamented that "the interest groups still have considerable power." This was the central question of the crisis, how to achieve policy objectives based on the new economic culture when social movement and civil society represented a significant political power. Ford's success in New York represented a significant turn for the prospects of social movement victories at the local and national level.⁵⁰

* * *

As the crisis was unfolding in 1976, so was the presidential election campaign. In fact, the EFCB had to vote to approve the special funds necessary for the DNC to host their convention at Madison Square Garden. Clearly, the Democrats wanted to make the New York City fiscal crisis part of a national discussion. And their leading candidate, Georgia Governor Jimmy Carter sought to make hay out of Ford's New York debacle. He promised to back the city and put federal funds behind state issues "to help them and let the world know and let our country know that the federal government stands behind New York City." To drive it home, Carter told the *LA Times* while campaigning that he would "never tell the people of the greatest city on earth to drop dead." Beame was gunning for the election of a Democrat, and came to back Carter early and often. Internal Ford Administration documents claimed Beame was

⁵⁰ Council of Economic Advisors, Alan Greenspan Chair, Memorandum for the President, "An Economic Analysis of the New York City Financial Crisis," Oct. 27, 1975, William Seidman Files, Ford Presidential Library

“putting all his eggs in one basket,” with his hopes for Democratic White House under Carter. But as it was to turn out, Carter was a new type of Democrat.⁵¹

As candidate, Governor Carter called the nation’s cities, the so-called urban crisis, “America’s number one economic problem” and invoked FDR as he promised to take federal action. And he tried to make political hay out of Ford’s fumbled handling of New York. Calling the President’s policies divisive, indifferent and alienating, Carter said he sought to unite the country’s urban and rural areas, its local, state and federal governments. In typical election cycle platitudes, and speaking to the national conference of mayors, Carter laid out an ambitious jobs, reindustrialization, countercyclical spending, and increased fiscal revenue sharing from the federal government. The candidate emphasized that “we”, meaning the nation, “that what we confront is not just New York City’s fiscal crisis, but a national problem.” Ford was stung by his refusal to aid the city, and the with the exception of his pardoning of Nixon, this act was in all likelihood his most notable domestic achievement.⁵²

Despite the invocation of FDR, Carter put forward a remarkably advanced statement on welfare, one that mirrored the values of the austerity regime and the culture of poverty. He called for a “complete overhaul of our welfare system.” Carter called the welfare system a “failure deplored alike by those who pay for it, those who administer it, and those who supposedly benefit from it.” While the majority of welfare recipients are part of vulnerable populations that deserve “compassion and respect,” Carter argued that for a minority benefits should be contingent on taking job training and employment services and those that refused “should not

⁵¹ Jimmy Carter in the Cleveland Plain Dealer, Oct 10, 1976, and LA Times, July 11, 1976 President Ford Committee Records, Ford Presidential Library; Vice President, Agenda for the Meeting with the President, Wednesday, November 17, 1976, Bigel Archives

⁵² Jimmy Carter’s Address on Urban Policy to the United States Conference of Mayors in Milwaukee, June 29, 1976, Ford Records, Bigel Collection

receive further welfare benefits.” Calling for a simpler program, with uniform standards, Carter wanted a program with “strong work incentives built in,” and argued that “in no case should the level of benefits make loafing more attractive than working.” Pulling on the conceptual tropes then prevalent in elite circles, Carter said “welfare rules” should “strengthen families rather than divide families.”⁵³

Carter wasn’t the only candidate moving to the right on welfare. California Governor Ronald Reagan, trying to oust a seated incumbent from his same party tried to maneuver to the right as well. Reagan picked up on the shifting political culture around welfare. As early as 1974 the *Wall Street Journal* was railing against the nation’s welfare policies, characterizing the program as rife with fraud, its recipients as criminals. In a now famous editorial the *Journal* highlighted the case of Linda Taylor, a Chicago women on trial for assault, theft, insurance fraud and abduction. The editorial focused on Taylor’s abuse of welfare services, her reported use of “80 different names, 31 addresses, 27 ‘children,’ 25 telephone numbers, eight ‘deceased’ husbands and three Social Security numbers.” They claimed she “bilked social welfare agencies of millions of dollars,” and their overriding question about Taylor was “how she was able to acquire a fortune from a system designed to alleviate poverty.” The *Journal* to its credit, highlighted that the case was an isolated incident, although there were serious problems with the nation’s welfare programs, they argued.⁵⁴

Reagan eschewed the nuance of the *Journal* editorial. Using almost the exact language of the *WSJ* editorial, Reagan told crowds of a women who had “used 80 names, 30 addresses, 15 telephone numbers to collect food stamps, Social Security, veterans benefits, for four

⁵³ Jimmy Carter’s Address on Urban Policy to the United States Conference of Mayors in Milwaukee, June 29, 1976, Ford Records, Bigel Collection

⁵⁴ “Reforming The Welfare System,” *Wall Street Journal*, Dec. 31, 1974

nonexistent, deceased veteran husbands, as well as welfare. Her tax-free cash income alone has been running \$150,000 a year.” This was Reagan’s “welfare queen” in her “welfare Cadillac.” It mattered not that none of it was true, as was known at the time, more important was to tap into the social frustration of the economically and socially retrograde 1970s, and to blame racialized victims of those same processes.⁵⁵

Lesser known was that Reagan also highlighted New York welfare benefits, specifically housing, while praising how he cut California state rolls. For example, Reagan frequently told the press about Taino Towers, a New York housing project in East Harlem, “if you’re a slum dweller,” said Reagan, “you can get an apartment with 11-foot ceilings, with a 20-foot balcony, a swimming pool and gymnasium, laundry room and play room, and the rent begins at \$113.20 and that includes utilities.” Perhaps Reagan’s biggest boast was regarding his own cuts to welfare. In the aftermath of the New York crisis, as many of the cuts were still being wrought, Reagan repeatedly told the press that “we lopped 400,000 off the welfare rolls” in California. Nevermind too that none of this was true. Reagan’s acceptability came from the top. Clearly this was a candidate speaking the political language and agenda of the banks as it developed through the crisis, and translating it to national popular audiences.⁵⁶

Once Carter won the election and was in office, the impacts of the fiscal crisis are visible in the major policy accomplishments of Carter. For one, Carter delivered none of the promised urban aid packages to New York or other cities. President Carter’s political career was a

⁵⁵ “‘Welfare Queen’ Becomes Issue in Reagan Campaign,” *New York Times*, Feb. 15, 1976. Reporters for the *Washington Star* investigate these claims and found that according to James Piper, assistant state attorney prosecuting the charges against Taylor, she was charged with using 4 alias, not 80, and that the Taylor had defrauded \$8,000, not \$150,000.

⁵⁶ “‘Welfare Queen’ Becomes Issue in Reagan Campaign,” *New York Times*, Feb. 15, 1976. According to the same *Washington Star* reporting, the California Department of Benefit Payments reduced the state’s welfare caseload during the period of Reagan’s reforms from 2,292,945 to 2,060,875 recipients. Furthermore Taino Tower’s project coordinator Robert Nichol told the *Star* that “there is no way” that apartments in public housing project which was “primarily Puerto Rican” would rent for \$113.20.

harbinger of a new style of Democrat. Central to this position was his relationship with Burt Lance, a Georgia banking executive who introduced Carter to international finance and was forced to resign as Director of the OMB in scandal in 1978, the BCCI scandal. According to Ford White House aide William Seidman, the Carter administration was able to implement policies developed under Ford, but that were not possible post-Watergate. Seidman argued that “the deregulatory movement really started with the Ford Administration, and most of what Carter did in airlines and trucking and everything – all that was drawn up in the Ford Administration.” Seidman placed “deregulation, fiscal conservatism, improved productivity and a fair more efficient tax system” as Ford legacy agendas implemented under a new type of Democrat.⁵⁷

These were long lasting impacts. One indicator of how the crisis moved politics to the right comes from Dick Morris’s first book. Morris, who would go on to orchestrate Bill Clinton’s republican-lite middle of the road electoral strategy in the 1990s, wrote that the political lessons of the 1975 were clear for those who wanted to see. Morris who was a municipal government fiscal specialist in the 1970s arguing against austerity, found that post 1976 it was not only right-wingers, like William F Buckley, or Frank Rizzo pushing against liberal welfare state programs. Instead mainstream democrats also began to head the call. Morris’s prime example is the political career of Hugh Carey and John Dyson, Carey’s political advisor and the state’s commerce commissioner. By 1976 Dyson was advocating a state-wide austerity program that included, lowering the tax rate on the state’s highest earners, broad deregulation of business, stifling environmental impact reports, and other neoliberal reforms. Paraphrasing Dyson, Morris explained, “that it was possible for a liberal Democrat like Governor Carey to propose and get enacted a tax reduction for the rich just as a Republican like former

⁵⁷ Interview with William Seidman,” Oct 18, 1994 ,Yanek Mieczkowski, Research Interviews, Ford Presidential Library

President Richard M. Nixon was able to soften the nation's hard line Communist China." This was part of a dramatic turn to the right for Democrats like Carey, Morris and others.⁵⁸

Perhaps no one better shows this shift than Paul Volcker, future chair of the Federal Reserve and author of the Volcker shock. In the lead up to New York's possible default, Volcker was unsure the proper course concluding his remarks to congress that "I cannot foresee the full implications of default by New York City with any confidence." At issue were not "measurable financial magnitudes," but instead "the psychology of financial markets and the human reactions of workers and citizens to the prospect of a violent financial squeeze that would force immediate drastic curtailment of jobs and services." On the one hand, "uncertainty and fear can feed upon themselves," and overtake events. On the other hand, "fear and uncertainty can be quickly dissipated when it can be convincingly demonstrated that there is a general understanding of the nature and magnitude of the problem, that means are available to deal with it, and that there is a broad consensus on the need to act." Volcker was willing to entertain default even if it had broader implications in the national economy, "some potential drag" he called it, on homebuilding, factory investment and local government spending. For New York City, going into the crisis, the outcome was unclear. However, these lessons, on the other side of the NYC fiscal restructuring were evident for those with eyes to see: major shocks, throwing the economy of a major city, or the entire nation, into reverse, could be managed if done properly. It could restore "the primacy of capital" in the national political economy, which of course would mean that workers were again to be placed on the bottom. New York was a test case for shocks to come.⁵⁹

⁵⁸ Dick Morris, *Bum Rap on America's Cities: The Real Causes of Urban Decay* (Englewood Cliffs, N.J.: Prentice-Hall, 1978), 8-9

⁵⁹ Testimony of Paul Volcker, in in United States Congress House Committee on Banking Stabilization Currency and Housing Subcommittee on Economic, *Debt Financing Problems of State and Local Government: The New York City*

The New York fiscal crisis moved city and national politics to the right; it was a testing ground. In New York, the city has never looked back from its initial, ad hoc, move to austerity. With Koch embodying both the dedication to cuts and the racial politics that went with it, New York spent the next three decades in this new Republican ideological territory: from Koch, a brief one term stint for Dinkins, and then Giuliani, and Bloomberg. Current New York Mayor Bill de Blasio was seen as such a threat to the new consensus that the major campaign talking point against him was that his administration would return New York to the spendy-seventies. However, this has turned out not to be the case, the culture of austerity is so embedded in the fabric of American politics, including “left” Democrats like de Blasio, it’s hard to imagine an alternative. At the national level, Ford’s ideology of austerity was also implemented by his successor, Carter, a Democrat, who moved to deregulate industry and hold federal budget lines firm, his “crisis of confidence” speech echoing the themes of Carey’s “wine and roses” speech – make do with less. Of course Reagan greatly accelerated these process, and in a perverse way, but one that would be recognizable to those on the EFCB, increasing spending on implements of state violence of all types, and decreasing everything else. Like New York City, the impact of New York’s austerity politics can best be seen in the Presidency of Bill Clinton, who reformed welfare, deregulated the financial sector and increased state militarization through drug policies. Volker’s retelling is a crucial moment, a time when the New York austerity experiment became national consensus policy, and there was no looking back.

Case : Hearings Before the Subcommittee on Economic Stabilization of the Committee on Banking, Currency and Housing, House of Representatives, Ninety-Fourth Congress, First Session (U.S. Government Printing Office, 1975). Pg 1432. In further testimony on the Emergency Financial Control Board, Volcker told legislators that for the austerity agenda of the Board, “there is no question in my mind that they should have proceeded still faster. And if they had done this some months ago, maybe we would not be where we are today. But there is certainly no reason for hesitation now and not going forward with this kind of plan, whatever happens in the future. And the quicker they do it, and the more effectively they carry through in their current efforts, the better off we are going to be.” Pg 1462

* * *

5.3 Labor

In 1975, the unions were divided, focused on petty squabbles, accommodation with management, and not prepared for the onslaught to come through the imposition of austerity. Even before the crisis, the major labor organizations of the city were concerned with accommodationist strategies with management. And so when the crisis struck, the impetus for resistance largely came from the rank and file who often had to fight against their leadership to make even token resistance. Left groups within the unions were similarly fractured and disorganized, unable to develop much a strategy to fight the cuts. The experience of one local, SSEU local 371, a member of AFSCME's DC37 exemplifies all these tensions, with union infighting, militant and abrasive left groups, and conciliatory leadership. The result of their failure was that unions too slid further to the right, accepting much of the cuts, bailing out the city through their pensions, and institutionalizing these arrangements through the creation of the Municipal Unions Financial Leadership Group, a political advocacy group that brought unions closer to the position of banks. The result was diminution of the wages and standards of all workers in the city. By the end, union activists and leftists were defeated and dispirited, their unions in bed with the banks who caused the crisis.

Prior to the cuts, unions were arguing that they were understaffed and that the city was not meeting the standards of work share contracts. Social Service Employee Union local 371 which represented the city's social work caseworkers argued in mid-1973 that the city needed to hire more case workers to meet the growing need of residents. Workloads were increasing beyond the contractual limit of 26 cases and new "pending cases" were seeing an "alarming

increase” as well. Lack of workers “made it impossible for us to carry out State-mandated functions, much less increase the effective delivery of services.” Indeed, budget proposals from the Department of Social Services to the city for FY 1975-1976 called for a dramatic increase, \$722.1 million, over the previous year budget. Part of the increase was necessary, the Department argued, because cost overruns in 1974 were pinching 1975’s budget. The source of the increased costs, they argued were “the severe economic conditions . . . already having significant effects during the current fiscal year and are forcing the Department to exceed its 1974-75 budget levels.” Looking at caseload expectations for the coming year, the Department reported that “the unmistakable trend during recent months has been that the rate of the number of incoming applications for public assistance is significantly exceeding the number of cases closed and this difference is widening,” a pattern, they noted, “Consistent with the situations that occurred during serious recessions of the past.” Even before the crisis, as the city faced an economic depression, city workers were overworked, and understaffed, their budgets unable to keep up with the need of services.⁶⁰

When the cuts began to hit in a major way in 1975, divisions between city unions, many of which were preexisting, were exacerbated. Unions developed differences between strategic and tactical approaches to the cuts, needs of their job sectors, leadership styles and politics, which all made it very difficult for unions to come together. For example, in July of 1975 the *New York Times* reported that Victor Gotbaum and Ken McFeeley, head of the police union, were at odds over the approach to the crisis. Where Gotbaum was willing to conciliate, McFeeley took a more militant stance in opposition to any cuts to uniformed members. Note,

⁶⁰ “Hiring Now!” SSEU 371 Broadsheet, no date, Christopher Dykema Papers, Robert F Wagner Labor Archives; Department of Social Services, “Fiscal Year 1975-1976 Budget Request,” Christopher Dykema Papers, Robert F Wagner Labor Archives

McFeeley's militancy was focused on police officers only. Meanwhile, Albert Shanker's long standing animosity with Gotbaum prevented any unity of interest. Gotbaum and Shanker had gone to war over organizing school paraprofessionals, each union running a campaign to unionize them in 1969 and 1970. Shanker won, and the conflict led to lasting divisions that impacted the crisis. Meanwhile, "Mr. Labor," Harry Van Arsdale, the head of the city's AFL labor council "steered clear of the controversy," brought on by the crisis, while the labor movement began to divide into factional tactical responses to the city's restructuring. In Gotbaum's more temperate camp were John DeLury, head of the sanitation workers and Barry Feinstein of the City Employees Union, who represented 7,000 employees in the Housing Authority like custodians, plasterers, superintendents and others. All three were working closely with labor adviser Jack Bigel. This faction was opposed to strikes because they feared "it would enflame anti-New York sentiments in Albany and Washington," with Gotbaum's staff working "hard to keep the membership from bolting," not always successfully.⁶¹

The main political and organizational bodies of the labor movement in New York were either not interested or not able to bridge these divides. The AFL-CIO central body for New York unions, the Central Labor Council, took itself out of the running for the leadership of labor in response to austerity. Its president, Henry Van Arsdale, was not interested in coordinating a labor response to the crisis, and expressed hostility to the notion of a strike by city workers. In fact, the main institutional work of the Labor Council as the crisis was unfolding was to develop a "business / labor working group" which produced a series of reports on rebuilding the economic climate in the city. While an important topic to be sure, the efforts of the labor organization called for business friendly reforms to restore New York's competitiveness. In the

⁶¹ Lee Dembart, "City's Fiscal Ills Create Municipal-Union Split," *New York Times*, Jul. 21, 1975

executive summary of the fourteen part report, the first item of reform called for clearer, “public sector control and credibility,” by which they meant “the current efforts to improve municipal budgeting and management,” what could be read as a statement of endorsement for the austerity regime. Other measures called for improving “economic factors,” and better “cooperation between management and labor, and between the public and private sectors.” In what was the major crisis to face organized labor in New York in forty years, the main federated body of the labor movement came out in soft support of austerity, and largely removed itself from the struggle.⁶²

The generally accommodationist approach coming from the unions was evident early in the austerity crisis, and at both the local and state level of official uniondom. For example, in October of 1975 Beame said in an interview on the NBC program “Meet the Press” that he had gotten a “pledge” from the Executive Board of the State AFL-CIO “to indicate there will be no general strike” in response to cuts. He went on to praise city employees because of “the things we have done and which they have gone along with, and there has been no disorder in the city. We have cut – frozen their wages, and gotten wage agreement with them. We have fired thousands, tens of thousands of people, and we have taken things out of their contract which were in before, which we think were improper, and with all that there has not been the disturbance that one would normally expect.”⁶³

With that position coming from the AFL unions, leadership for labor’s response to the crisis fell to the Municipal Labor Committee, a confederated group of public sector unions headed by DC37 union president Victor Gotbaum. The MLC, along with their chief advisor,

⁶² Central Labor Council, Business / Labor Working Group, “Summary Report of the Business / Labor Working Group on Jobs and Economic Regeneration in New York City,” no date, Central Labor Council Records, Robert F Wagner Labor Archives, and Meeting Minutes, Executive Board – NYC Central Labor Council, Oct 16, 1975 in same.

⁶³ NBC’s Meet the Press, Transcript, Sunday, October 19, 1975, Bigel Collection

Jack Bigel, of Program Planners Inc., became the main negotiating arm of the unions facing the cuts, but was plagued by problems of disunity and different strategic approaches. Already, the MLC only represented non-uniformed city workers, the police and fire unions never joined. This basic division rode through union politics throughout the crisis, and crippled the ability of city workers to respond. The MLC was Gotbaum's territory, and as such his accommodationist approach would not face serious challenge from other union leaders.

Initially, when the cuts began in 1974, the unions attempted to use the Municipal Labor Committee to fight back. In the fall and winter of 1974-1975 MLC president Victor Gotbaum, was able to stave off 1,253 cut positions by agreeing to other concessions, notably shorter summer hours and the reduction of other so-called fringe benefits. The Committee's initial call, that "no civil servants will be fired," was made with simultaneous calls to find other economies for the city, and the acceptance of service cuts, so long as impacted workers were transferred and not fired. Knowing that further cuts were in the works, DC37's political plan of action, and presumably that of the Committee as well, was to find further economies, encouraging their members to report examples of "waste, duplication, unnecessary contracting out," in their units.⁶⁴

But while the leadership was willing to trade jobs for work standards, they would eventually cave even on that modest position. A wonderfully detailed account of this process is left to us from the records leftist and union activist Chris Dykema, whose papers from the crisis period show us the inner workings of union politics as the crisis unfolded. Dykema was a case worker in the Department of Social Services in the Bronx and member of the Social Services Employees Union local 371, a part of DC37 and active in the left New American Movement, a moderate Leninist split from SDS that eventually became part of the Democratic Socialists of

⁶⁴ "No DC 37 Civil Service Layoffs," DC 37 Broadsheet, Christopher Dykema Papers, Robert F Wagner Labor Archives

America. Dykema and other leftists attempted to provide a more robust fight back against the austerity regime. A proposed resolution for his local, 371, mandated union delegates and representatives to use DC37 to launch a public relations campaign against the logic of austerity. The resolution called for unemployment, not inflation, to be the city's economic priority. They highlighted that "layoffs of thousands of City employees would only contribute to a worsening of the economic situation by increasing the number of unemployed," and condemned the "role of the banks in blackmailing the City into laying off workers and robbing the City treasury." The resolution also called for the city to open their books to union audits and in a handwritten note, point, E, "Demo," called for DC37 to organize citywide demonstrations against the cuts. This call would eventually turn into calls for a citywide general strike. After furious debate it was passed by Local 371 in January of 1975, but DC37 took limited action, the deigned to pass the resolution, and only much later were forced to call a mobilization on the banks.⁶⁵

Dykema was not alone in his local, there were numerous left and progressive caucuses in 371, of which the New American Movement was just one. According to Dykema,

Several vangaurdist left political tendencies are present in the Union. There [are] two Trotskyite tendencies: the Spartacist League with its front the Militant Workers Committee, (now rumored to have been abandoned by the Spartacists and to have been taken over in default by splinter DeLeonites), and the Workers League with its front, the Committee for New Leadership. The Progressive Labor Party is present and vocal and the Communists are represented by their Rank and File Action Committee (formerly the Unity Caucus and no supposedly a larger and less party-bound group). In addition, there is a black caucus.⁶⁶

⁶⁵ Untitled document, Jan 1, 1975, and Minutes of 1/22/75 Delegates Assembly Meeting, SSEU 371, Christopher Dykema Papers, Robert F Wagner Labor Archives

⁶⁶ Report on SSEU Local 371, Chris Dykema, Presented to New American Movement, no date, Christopher Dykema Papers, Robert F Wagner Labor Archives

Indeed, the formation of Local 371 in 1968 came from various young and progressive new left workers, who quickly passed resolutions denouncing the Vietnam war, support for Angela Davis, and attempted to place local politics on a progressive, if not left, footing. Indeed in the early 1970s union leadership was composed by a “coalition of the Black Caucus and the Communists,” with the top spot, union president, going to a black worker, Stanley Hill. Despite their revolutionary cred however, in Dykema’s estimation, written some time in 1973 or 1974, the left leadership “have been similarly useless in developing analysis and policy to confront that other major threat, the fiscal crisis of the state the attendant threat of layoffs.” In 1973 leadership was taken over by the progressive, but more moderate Pat Knight who stewarded the union through the fiscal crisis.⁶⁷

As early as November of 1974, in response to all Correctional Counselor Services positions being eliminated by the city, Local 371, passed a resolution at a meeting of their delegates urging DC37 to call an emergency delegate council and “to consider a D.C. 37 city-wide strike.” Additionally, the resolution called for membership wide strike referendum in any DC37 member were to be laid off and that the union “make every effort to protect all provisionals.” Although the motion carried in Local 371, it came to naught in the larger AFSCME council body. Dykema at least also attempted direct pressure on Gotbaum and DC37 leadership, circulating a petition form Council members, not just Local 371, “demanding” the union president call a special meeting to consider a strike.⁶⁸

⁶⁷ Report on SSEU Local 371, Chris Dykema, Presented to New American Movement, no date, Christopher Dykema Papers, Robert F Wagner Labor Archives

⁶⁸ Minutes of 11/25/74 Delegates Assembly Meeting, SSEU Local 371, Christopher Dykema Papers, Robert F Wagner Labor Archives; Petition, “To Victor Gotbaum,” no date, Christopher Dykema Papers, Robert F Wagner Labor Archives

Militants in 371 went so far to form a caucus, the “371 Caucus” to attempt to force more substantial efforts from the leadership. In particular, the caucus called for Gotbaum to stop negotiating away jobs, pay and benefits, and to urge strike action. Other union militant caucuses called for the union leaders to “break off their sellout negotiations with the city,” and to stop “horse-trading with basic rights and conditions.” Instead, these left inspired militants wanted to see the fight “taken into every local to demand immediate preparations for a city-wide strike that will mobilize and unite hundreds of thousands in defense of jobs and rights.”⁶⁹

It wasn’t just minority militants and marginal left parties that called for dramatic action. The president of local 371, Patrick Knight, called a pan-local membership meeting with other local leaders to plan more dramatic action. Notably, David Beasley, president of Local 1930, the Librarian’s Guild and member of DC37, and the National Union of Hospital and Health Care Employees, District 1199, supported the meeting. Expected to attend were both locals and community groups pushing a more militant response to cuts. The SSEU promoted the meeting in their membership newsletter as an attempt to align “ourselves with those unions who consider the present DC 37 solution as being totally unacceptable.”⁷⁰

Gotbaum chastised and mocked the attempts of the militants, calling them weak. Demonstrating the racism and backward thinking of Gotbaum and allied leaders, he told the *Times*, “I once read an interview with Mao or Chou, and he said ‘before we had the bomb, we had to talk like we didn’t, but now that we have it, we don’t have to talk that way.’ When a union

⁶⁹ “Stand by . . . For What?” 371 Caucus circular, Feb 1975, Christopher Dykema Papers, Robert F Wagner Labor Archives; “Halt the Layoffs! Shut Down the City!” Jan 22, 1975, Christopher Dykema Papers, Robert F Wagner Labor Archives

⁷⁰ David Beasley and Pat Knight to Members, Jun 12, 1975, Christopher Dykema Papers, Robert F Wagner Labor Archives and SSEU Local 371 Organizational Newsletter, Jun 13, 1975, Volume 14, No. 23, Christopher Dykema Papers, Robert F Wagner Labor Archives

has power it doesn't have to be militant. In my union, it's the weakest locals, the librarians, the welfare case workers, who talk about striking.”⁷¹

Opposition to strike motions from union leadership came on pragmatic grounds. The president of the Professional Staff / Congress, the faculty union at CUNY, Belle Zeller, argued that a strike would disadvantage the union strategy of negotiation with the city. Her logic was that a strike would be seen as selfish by the public, and would compromise their bargaining position with the state for more funds. Further, as a small union, a strike by the PSC could open them up for further attacks, such as under the state's Taylor law which imposed harsh penalties for striking public sector unions. A strike Zeller argued, “would send the PSC to a graveyard filled with unions that have struck at the wrong time.”⁷²

By May of 1975 the sense of crisis was building, and unions, including DC 37, began to take more substantial action. Picking up on the calls coming from SSEU 371, Gotbaum and the leadership of DC37 called an emergency delegate, steward and e-board combined meeting to discuss a more robust response to the cuts. By that point DC37 and the MLC planned a large rally at the headquarters of First National City Bank on Wall Street for June 4th. The unions, called on members to withdraw accounts they had with the bank, blaming First National as a prime mover in the austerity crisis. While a dramatic increase from the generally conciliatory tone the unions developed at the outset, note that the tactics employed here called for a rally, and not a strike, they called for individuals withdraw funds from the bank, and not labor to materially disrupt operations. The action was the high point of union leadership fight back. At a later DC 37 delegate council meeting, delegates from 371 and 1930 lost their measure that called for a strike

⁷¹ Lee Dembart, “City's Fiscal Ills Create Municipal-Union Split,” *New York Times*, Jul. 21, 1975. This could be a reference to Zhou Enlai, the Chinese premier and Mao's right hand man.

⁷² “25 Years of Progress: Professional Staff Congress/CUNY · CUNY Digital History Archive,” accessed December 3, 2016, <http://cdha.cuny.edu/items/show/2812>.

in the event of layoffs. Instead, shepherded by Gotbaum, the union passed a resolution supporting concessions, that senior fired workers should instead be transferred and alternative funds should be made available. Gotbaum argued that “the budget problem would be solved in Albany.” Members were encouraged to call their representatives.⁷³

Soon after the June 4th action, Gotbaum met with an emergency session of the 371 delegates’ assembly. Notes from meeting show Gotbaum urging the local to back down from their general strike strategy. He argued, or perhaps threatened, that the local would be isolated from the rest of the labor movement, and said that it was his “considered judgement that [a strike] would be the most counter-productive thing to do.” In other forums from the very beginning Victor Gotbaum explained his response. He told the press that if cuts were necessary, he would prefer layoffs to a reduction of union standards. But he added that unions had already sacrificed enough, and that cuts to staffing had consequences. “If the city is going to cut six or seven hospitals,” he said, “some people are going to die.” Instead, Gotbaum favored increasing the stock transfer tax, or other taxes on banks, rising the city’s income tax, a commuter tax, increased state and federal aid, as well as other branches of the federal system picking up the city’s welfare and higher education costs. In order to win increased federal and state funding, Gotbaum thought he had to give concessions to the austerity regime.⁷⁴

In the summer of 1975 labor and the city were in crisis. As the situation deteriorated in the summer of 1975 White House staff monitored New York closely. By July, it was clear that huge reductions, perhaps on the scale of \$500 million were necessary for the current fiscal year,

⁷³ Victor Gotbaum to DC37, “Emergency Meeting,” May 28, 1975, Christopher Dykema Papers, Robert F Wagner Labor Archives and SSEU Local 371 Organizational Newsletter, Jun 20, 1975, Volume 14 No. 24, Christopher Dykema Papers, Robert F Wagner Labor Archives

⁷⁴ SSEU Local 371 Organizational Newsletter, Jun 13, 1975, Volume 14, No. 23, Christopher Dykema Papers, Robert F Wagner Labor Archives and Damon Stetson, “Gotbaum Says He Prefers Job Cuts to Erosion,” *New York Times*, May 23, 1975

and they only place to cut, was from labor. In the estimation of Bill Simon, Treasury Secretary, found the as yet unknown roll of the city unions to be the major obstacle to cuts. Simon wrote that “with respect to the unions, there is doubt that (i) individual leaders will make the necessary concessions, (ii) that the leaders can agree among themselves as to the concessions, and (iii) that the leaders, even if they do agree, can deliver the rank and file.” Simon’s picture of New York labor politics is accurate: the open questions were first, to what degree would the unions agree to concessions; and second, would the leadership be able to control their members.⁷⁵

The union leaderships “no layoffs” was quickly dropped as the both the scale of the fiscal crisis and the determination of the new political realities became clear. As layoffs began in earnest in June and July, the unity of the unions to prevent cuts to any civil servant quickly splintered as each local struggled to maintain their membership. In July, Beame laid off 19,000 workers, including 5,000 police, 1500 firefighters, and 3,000 sanitation workers with another promised 21,000 dismissals in the covered agencies. At this point, without the support of their union leadership, city workers wildcatted. Police officers marched in Manhattan before blockading the Brooklyn Bridge, sanitation workers blocked up the West Side Highway and bridge and toll operators threw up the bridges and walked off the job. The most publicized rank and file union tactic was the distribution by police officers of the “Fear City” pamphlet, a skull emblazoned flyer for tourists warning them to stay away from a city cutting its police force. Union presidents, including Gotbaum denounced the flyer.⁷⁶

Not only did rank and file split from leadership, but union leaders started fighting amongst themselves. For his part, PBA president McFeeley, was steadfast against labor unity.

⁷⁵ Memorandum, “New York City and other City Problems,” William Simon to James Cannon, July 14, 1975, Ford Records, Bigel Collection

⁷⁶ “History of the New York City Fiscal Crisis,” Program Planners Inc., Bigel Collection

“We are never going to have labor unity,” he said, “we are all unions, yes, but policemen and firemen are a little different. Because we are, we can’t have unity.” Fire stood with the police. Terry Dolan, who was assistant to union head Richard Vizzini said that “Although there is a Municipal Labor Committee the uniformed forces feel that on certain issues they have to go out by themselves,” noting that “we are an emergency service,” and therefore shouldn’t take cuts. This attitude was more widespread than just the uniformed services, as Shanker and others were struggling to protect their members benefits too, not engaged in any wider protective efforts.⁷⁷

Even if parochial, McFeeley was more militant. He supported the police officer Brooklyn Bridge action in which policemen blocked traffic at rush hour, and the police’s “Fear City” pamphlet campaign, in which officers distributed pamphlets in Manhattan discouraging tourism because with cuts to the police the city would not be safe. He said, “going in everybody would have given lip service to the idea that labor out to stand together. But when the situation became crunchy it became clear that everybody was going to have to fight for his life.” And this splintering is exactly what happened to the labor movement, with New York’s climate for labor politics remaining “crunchy” for years.⁷⁸

In the summer of 1975 the union leadership around the MLC came to solidify their position of accommodation. Concessions were codified with the labor agreement reached in July of 1975. The Hotel Americana agreement locked labor into wage reductions, lost jobs, and benefit rollbacks. Given the alternative, a unilaterally imposed wage freeze from the mayor, the agreement gave some concessions, notably, a tiered deferment on pay increases for the next year. Three major unions, the police, fire and teachers refused to sign. Gotbaum and DC37 endorsed and passed it on to the membership saying that he was “not thrilled with this package, but

⁷⁷ Lee Dembart, “City’s Fiscal Ills Create Municipal-Union Split,” *New York Times*, Jul. 21, 1975

⁷⁸ Lee Dembart, “City’s Fiscal Ills Create Municipal-Union Split,” *New York Times*, Jul. 21, 1975

alternatives are far more disastrous . . . with this package, we will, at least, continue to live.” In a message to members, Gotbaum stated that his priorities in negotiating with the city and Big MAC was to protect jobs as much as possible, and “yet also win the MAC endorsement necessary for the city to continue to get the money it needs.” With this, and union demonstration of good faith in trying circumstances, Gotbaum hoped the agreement would achieve “labor peace in the city.” He argued that “it will bring back every worker who was fired and will provide security for years to come.” But Gotbaum was wrong; even these terms of the Americana agreement favorable to the city as they were, would not last. Labor peace was not to be.⁷⁹

Militant locals like 371 lamented these developments and their delegates’ assembly by an extremely narrow majority voted to reject recommending the agreement for approval by members. In a membership circular, Local 371 argued that it was “unfortunate that District Council 37 consistently rejected our program for a City-wide strike to prevent layoffs in the event negotiations failed. Such a program would have maximized the unity and militancy of all City workers.” Instead, the 371 militants argued that the agreement and the strategic framework of the leadership “each Union or Local is forced to fend for itself, splintering away any feeling of solidarity.” The turn, and the terms of the new agreement, were splintering support for more militant opposition in local 371 too. The close vote to not recommend the agreement “reflects the divisive controversy set off in our Local by the MLC agreement.” Indeed, DC37’s Executive Committee voted 15-8 to recommend accepting the Americana Agreement, and the Delegate

⁷⁹ “History of the New York City Fiscal Crisis,” Program Planners Inc., Bigel Archive and “Memo to All DC 37 Members on Terms of the Agreement,” District Council 37, membership circular, no date, Christopher Dykema Papers, Robert F Wagner Labor Archives; and SSEU Local 371 Organizational Newsletter, Aug 01, 1975, Volume 14, No. 30, Christopher Dykema Papers, Robert F Wagner Labor Archives

Assembly voted 69-67 to reject, a margin of one vote. Ultimately, the membership approved the agreement.⁸⁰

At this point, membership agreement or no, union voluntary concessions to the austerity regime was moot. The EFCB was created on September 11th, a month before the ratification vote in SSEU Local 371 came in. As noted in the previous chapter, the EFCB, based on a nearly hundred year tradition, was the implementation of state power to break and discipline labor. While it eventually agreed to a labor agreement akin to the Americana, with stepped COLA increases equivalent to the deferred wage increases in the Americana, the EFCB imposed a wage freeze and could veto any city agreement between the unions. By now however, bottom-up resistance was greatly diminished. Only 34% of members in SSEU even bothered to vote on the Americana referendum. The fight back from militant caucuses had been defeated by the leadership. Now that the stakes involved loss of democratic self-government, the ability to fight within the unions had been squashed. The city and the new austerity order had the ability to unilaterally impose a wage freeze, pay and benefit reductions and widespread layoffs without check. Indeed, the one saving grace of the Americana, protecting jobs, was quickly thrown out too by the EFCB. Beame quickly announced further cuts.⁸¹

As the action moved to the EFCB, labor leadership tried to get access to the meetings. They lobbied Governor Carey and Mayor Beame, Gotbaum complaining about democracy and transparency issues with the Board. Eventually Carey agreed, and the unions were granted one

⁸⁰ "D.A. Turns Down Agreement," SSEU Local 371, membership circular, Sep 5, 1975 and "MLC Agreement: Referendum in Progress," SSEU Local 371, membership circular, Sep 23, 1975 Christopher Dykema Papers, Robert F Wagner Labor Archives. The issue was so fractious that a September delegate meeting to reconsider the reject vote was disrupted by members and the meeting had to adjourn without concluding business. SSEU Local 371 Membership Circular, Sep 19, 1975, Christopher Dykema Papers, Robert F Wagner Labor Archives

⁸¹ SSEU Local 371 Organizational Newsletter, Oct 10, 1975, Volume 14, No. 40, Christopher Dykema Papers, Robert F Wagner Labor Archives

observer seat on the Control Board. Labor representative on the EFCB, Jack Bigel, for his part, while working to get cuts and budget reductions achieved through attrition rather than through layoffs, also worked to discipline the city's unions. At the Aug 30, 1976 EFCB meeting, the Board was discussing the upcoming UFT contract and the direct level of involvement the Board should have in negotiations. When Board members worried that a lax teachers' contract would embolden other unions to reach for more, Bigel reassured the board that "the unions would police each other so that there would be no one-upmanship in the contracts negotiated." Bigel's main strategy seemed to be look for other cost efficiencies, through productivity or attrition, rather than cold cuts.⁸²

With a place on the Board, and an overall strategy to negotiate the rollbacks and lobby for more funds, unions became party to the austerity regime, and union capitulation came in other forms. In order to help the federal government into providing a loan program, Carey and Rohatyn leveraged major concessions out of the largest city unions. In a November 13th letter to Rohatyn, union presidents Victor Gotbaum, Albert Shanker, and John Delury, of DC37, the teachers union and sanitation workers, respectively, agreed to major give backs. Their two major concessions were to agree to use their influence to have their pension trustees to provide \$2.5 billion in city note purchases as part of a rescue package, and to have the city simultaneously reduce pension contributions 50%, which the estimated "will increase the employees' annual contributions by \$107 million." Their ask in return, that "the above commitments are subject to the completion of a financial package assuring funding of the City government through Fiscal Year 1977-1978, including the Federal guarantees of securities, or other Federal funding, required to complete the financial package." The deal was in part negotiated by Bigel, who

⁸² EFCB Meeting Minutes, Aug 30, 1976, EFCB Archive

initially offered \$4 billion in bond purchases, before being told by Rohatyn that the city would only need \$2.5. This was the deal that helped turn the Ford Administration, secured the federal Seasonal Financing Act, and brought the recurring crises of the austerity program to an end.⁸³

The press noticed this defensive and accommodationist posture of the unions too. In the estimation of the New York Times - “The union’s stance is to protest loudly while knowing they cannot stop layoffs should they be imposed.” According to their reporting, one anonymous city official said that “any union leader in this town would prefer layoffs to anything else in a crunch. Better to keep some guys happy than make everybody angry. Don’t forget, a union leader has to run for election, too and if somebody’s laid off he doesn’t have a vote.” But in fact, the unions were to lose on both fronts, as both members and benefits, pay and working conditions declined in this period. Nonetheless, according to the *Times*, “the position of the unions is essentially passive in face of city action. Under the budgetary exigencies, they can do little else.”⁸⁴

With their members, DC37’s main strategy came to be to manage and mitigate the cuts. By the fall union leadership were calling for cuts to come from provisional workers, and federally funded CETA workers, both non-unionized. They argued that those funds could then be used to save union jobs. Gotbaum and Associate Director Lillian Roberts also initiated a fund drive they called “take care of our own,” which sought donations of one or two dollars from remaining members for recently dislocated union workers. While no doubt a help to those who lost their jobs, this approach to cuts, mitigating the impacts, seeking individual redress, was

⁸³ Victor Gotbaum, Albert Shanker and John Delury to Felix Rohatyn, Nov 13, 1975, William Seidman Files, Ford Presidential Library

⁸⁴ Fred Ferrettii, “City’s Fiscal Crisis ‘Scenario,’” *New York Times*, May 22, 1975

myopic and defeatist, undoubtedly contributing to the union's failed strategy at this historic moment.⁸⁵

This approach can be seen years later in the attitude of Council Associate Director Stan Hill. He explained how the union approached the crisis and their relationship with their employer. "The way we tackle any kind of possible layoff is we have an excellent research team that reviews the whole city budget, and we have economists, research people go through the budget from A to Z. And we come up with our plan, and we show the city where you don't have to lay off people." Moving power away from workers, into specialized research and with an eye to accommodate in technocratic solutions, the unions were to lose on nearly every front. These comments were made by Hill in 1982, years after the historic turn, and without, seemingly, any critical reflection on how this had worked out for DC 37 and workers in the city.⁸⁶

Gotbaum laid out the logic of the concessions, By the close of 1975, "the union has negotiated away almost \$200 million in benefits . . . We did this on the principal that as long as you negotiate with us to save the livelihoods of our members, we were willing to make a sacrifice. We are not talking about some of the other areas. We were willing to sacrifice and willing to negotiate away as long as that democratic process of collective bargaining stays alive." Gotbaum was giving away in order to keep collective bargaining, quite a minimal standard when the terms of bargaining are set by the EFCB. Nonetheless Gotbaum was joined by other major unions in the strategy of concessions and negotiated reductions. UFT president Albert Shanker avoided strikes throughout the crisis. His reason, "a strike is a weapon you use against a boss that has money. This boss has no money." Significant here is that the logic of austerity, the

⁸⁵ Victor Gotbaum and Lillian Roberts to DC 37 Shop Stewards, Oct 27, 1975 Christopher Dykema Papers, Robert F Wagner Labor Archives

⁸⁶ Stan Hill, 1982 Interview, Robert F Wagner Labor Archive

resignation that deficits mandated cuts, a radically new thought from a few years previous, was doing work inside the unions, diminishing hopes and prospects, and helping the unions to self-discipline.⁸⁷

The next year, in contract negotiations for Local 371 in the spring of 1976 the union was again on the defensive. With the EFCB in full force, the basis of the negotiations were cuts and wage freeze equivalent, with any increases paid for through productivity increases or loss of other benefits. After months of negotiations with the city, the sticking point was job loss. The union was negotiating not to protect the positions, but to include a grievable transfer clause in the contract. This clause would have allowed dismissed workers to move to other city agencies. This was a non-starter for the city and the austerity regime. “After four sessions, we have nothing,” 371’s negotiator Stu Leibowitz told members. Local 371’s contract was eventually subsumed in the city-wide contract negotiated by DC37. This included COLA’s set below inflation rates, and paid for out of productivity increases.⁸⁸

Despite this footing, resistance continued in shop floor militancy. In April of 1976 the Bureau of Child Welfare faced a “crisis” as it attempted to impose increased workloads on remaining workers. At the Brooklyn office, Protective Services workers were all given an additional fifth pending case, attempting to break the union’s policy limit of four. Eighty-eight workers faced disciplinary charges of insubordination for refusing the increase, and more than two dozen picketed the Staten Island BCW office grand opening demanding more staff.⁸⁹

⁸⁷ Testimony of Victor Gotbaum, in “Impact of New York City’s Economic Crisis on the National Economy (771) pg 128; Lester Sobel, *New York and the Urban Dilemma*, New York: Facts on File, 1976, pg. 127

⁸⁸ SSEU Local 371 Organizational Newsletter, Jun 25, 1976, Volume 15, No. 25, Christopher Dykema Papers, Robert F Wagner Labor Archives

⁸⁹ SSEU Local 371 Organizational Newsletter, Apr 09, 1976, Volume 15, No. 14, Christopher Dykema Papers, Robert F Wagner Labor Archives

It also continued as locals broke away from the leadership and staged strikes on their own. While Local 371 failed to push a strike strategy on DC37 and failed to compose a strike in their local when cuts began in earnest in the summer and fall of 1975, by the following year other locals were willing to go it alone. Local 420 hospital workers forced a strike against cuts in 1976. By that point, it was clear that the tactics of resistance by the Health and Hospitals Corporation leadership including Dr. Holloman were failing. The city and the austerity regime had laid off roughly seven thousands hospital workers, and more cuts and now hospital closings were in the offing, particularly Sydenham and Gouverneur Hospitals.⁹⁰

Local 420 and 371 show that when the unions did threaten action to fight against the cuts, it usually came from below, against the leadership. For example, the summer of 1976 the city promised to lay-off 3,150 nonmedical employees in the Health and Hospital Corporation. The workers, “mostly black,” were able to threaten a strike of their 18,000 unit from the militant local 420 of District Council 37, and against Union President Victor Gotbaum, who according to White House documents wished “that he had an easy way out.” Union literature distributed to 420 members for example told members to “hold your fire” and continue to care for patients “BECAUSE YOUR UNION IS DOING SOMETHING ABOUT THIS PROBLEM.” DC37 leadership was trying to avert the threatened strike. And threatened is the right word, because in the words of White House planners, “in all probability, the strike will be averted.” Important to watch, from their perspective, was the “rivalry” between 1199 and 420 over the response to the cuts. In the estimation of the White House, 1199 “will resist any attempts to cut back affiliation payments,” while 420 was “pressing for such cutbacks.”⁹¹

⁹⁰ SSEU Local 371 Organizational Newsletter, Jun 04, 1976, Volume 15, No. 22, Christopher Dykema Papers, Robert F Wagner Labor Archives

⁹¹ “Union Acts to Halt Layoffs,” DC 37 Circular, no date, AFSCME DC 37 papers, Robert F Wagner Labor Archives; The Vice President, Agenda for the Meeting with the President, Tuesday August 3, 1976, Bigel Archives. Again, this

DC37 Associate Director Lillian Roberts was the “actual engineer” of the strike action according to White House documents, and it is likely she built on frustrations at the union’s inaction in the ranks. The White House reported that Roberts and the 420 local workers “might have proceeded . . . without Gotbaum’s complete support.” In a 1994 interview Lillian Roberts remembered that Gotbaum’s strategy on the 420 strike was to delay. Roberts recalled “that people were pushing me every time we had a meeting. I said [to Gotbaum]: you go down to them. If you can convince them, fine. When he went down, they screamed so loud he jumped behind me and he wanted to strike right away.” The problem, for Roberts, on the 420 strike and the struggle to save Sydenham hospital, was the radicals. Roberts recalled that “radicals” who had an “agenda” of “attacking the cops and things” were overwhelming the Sydenham struggle. “At one point,” Roberts said, “I had to just tell my people to pull out of that, and that’s after we met and decided that we would let that one go.” When Panthers and communists were occupying Lincoln hospital in an attempt to save it, Roberts recalled “we had to get them out,” that “they was going to take that over and we had to deal with that too.” Seems to place DC37 as part of the enforcement of tactics on the part of austerity.⁹²

Despite the efforts of a state appointed mediator, the workers struck for four days, in violation of the Taylor law, but could only fight to a draw. In a remarkable move for a union Victor Gotbaum’s D.C. 37 “agreed to have its members absorb savings equivalent to what would be yielded by layoffs.” Meaning, the union would accept cuts to pay and benefits in order to

shows the close attention the White House paid to local union matters. Affiliation payments refers to government and city funds that went to the private hospitals, “voluntaries,” for use of medical staff or services for city patients. By some measures, 90% of funds intended for the municipal system through the Ghetto Medicine Program, for example, were going to the voluntaries. Union workers in 420 argued these should go to the municipals.

⁹² June 9th Report on New York City, Jun 9, 1976, Presidential Handwriting File, Ford Presidential Library; August 10th Weekly Report on New York City, Aug 10, 1976, Presidential Handwriting File, Ford Presidential Library; Lillian Roberts, 1994 Interview, Robert F Wagner Labor Archive

protect jobs. In order to save 992 positions in the HHC the union gave “up by all D.C 37 workers in the Corporation [HHC] of the cost of the living adjustments due them this year.” They prevented the first wave of cuts and won 1,350 workers their jobs back. They also postponed the closure of Sydenham and other hospitals. In exchange, the union dropped a \$10 million cost of living increase, and agreement to work with management to find other cost saving mechanisms.⁹³

Even with this burst of fight-back, the union was losing ground, indeed, accepting concessions was DC 37’s main tact. In September of 1976 the city’s largest employee union agreed to accept cuts to both wages and benefits. The union traded lower pay and benefits for any new hires in exchange for COLA increases for remaining employees. At a total cost saving of \$15 million for the city, the union agreed to reduced vacations and premium pay rates, longer summer hours, and a 10% cut for “entrance-level salaries for new employees only,” according to White House documents. Further, in response to the 420 strike, HHC pursued the union and members for violating the Taylor law. Members of 371 who went out in solidarity also received notices of their violations.⁹⁴

The 420 strike was the high water mark of union resistance and the largest strike action that the city’s labor movement could muster. Through concessions, the joint productivity agreement, and limited mobilization of opposition, the new terms of the austerity era were shaping up. By June of 1977 Beame was praising labor leaders of New York for having “achieved an unparalleled working partnership,” with the city, one “based not on confrontation

⁹³ Mayor Abraham Beame to Honorable William Moorhead, August 25, 1976, Bigel Collection; August 10th Weekly Report on New York City, Aug 10, 1976, Presidential Handwriting File, Ford Presidential Library

⁹⁴ September 20th Weekly Report on New York City, Sept 20, 1976, Presidential Handwriting File, Ford Presidential Library; SSEU Local 371 Organizational Newsletter, Oct 29, 1976, Volume 15, No. 30, Christopher Dykema Papers, Robert F Wagner Labor Archives

and strife, but on a shared sense of mission and purpose.” And Carey agreed. Governor Carey early on characterized the role of the unions as one of “cooperation.” He indicated in testimony before Congress that the union leadership had “been among the foremost in suggesting that the city could be run better with management and productivity . . . they have been saying, get rid of the political hacks and we will show you how to pick up the garbage a lot better.” Particularly, he praised them for not orchestrating disruptive protests. In November of 1975 he told Congress, “we didn’t have civil disorders in our streets this summer. Those militant public employment unions who are looked upon as the villains that caused this crisis did what? They contributed their pension funds to keep the city alive. They accepted wage freezes, rollback of compensated benefits.” In that two and half year period since the outset of the crisis in January of 1975, the city workforce had been slashed by 65,000 workers, benefits and bargaining agreements were in shambles.⁹⁵

Left activists and rank and file members in the unions argued that their unions never really fought back. Chris Dykema wrote that “nobody knows whether the municipal unions might have stopped this assault. Nobody will ever know because they never really tried. A single demonstration here, a tough statement there, but no concerted effort to mobilize their members.” Case worker Lonnie Cacchione also thought that the unions could have done more. “The big mistake that labor made was that since they were essentially underwriting the city’s debt with the pension fund, or a good hunk of it, they should have rested more control on ‘Big

⁹⁵ Remarks by Mayor Abraham Beame at the Biennial Leadership Conference for the 61 Local Unions in D.C. 37, June 14, 1977, Bigel Collection; Testimony of Governor Hugh Carey, in United States Congress House Committee on Banking Stabilization Currency and Housing Subcommittee on Economic, *Debt Financing Problems of State and Local Government: The New York City Case : Hearings Before the Subcommittee on Economic Stabilization of the Committee on Banking, Currency and Housing, House of Representatives, Ninety-Fourth Congress, First Session* (U.S. Government Printing Office, 1975). Pg 1015; Testimony of Hugh Carey, in “Impact of New York City’s Economic Crisis on the National Economy (771)

MAC' on the panel, and they didn't." Indeed, unions had multiple points of leverage they deigned to utilize for fear of making things worse.⁹⁶

This loss set the terms for future agreements and the disciplining of the labor movement continued throughout the decade. It can be seen in the next major labor agreement, the 1978 accord signed between Mayor Koch and 50 city unions. The terms of the agreement were much like those imposed by the EFCB, diminished wages, increased productivity, workers steadily losing. There were pay increases, but at 4% a year, they fell well below inflation, which on an annualized basis for the two preceding years were 5.76% and 6.5%. As it would turn out, inflation again skyrocketed in 1978 and 1979, cresting above 7.5% and 11% in those years, for the final month of 1979 breeching 13.3%. This meant that workers were effectively losing between 3% and 7% in purchasing power a year. Speaking in 1978 Richard Vizzini, President of the Uniformed Firefighters Association noted that for his members purchasing power had decreased 9.5% on the decade, "despite our increased workload, despite our smaller workforce, despite the media ranting and raving about New York's rip-off labor unions." Instead, on the year, the inflation was expected to again crest above 10% meaning that firefighters needed "a 20-percent increase . . . just to stand still."⁹⁷

Furthermore, these gains for fiscal solvency were achieved without much union opposition. In the words of the New York Times, "the completion of the settlement made by a massive coalition of more than 50 unions and achieved without a strike threat three weeks before the expiration date of most contracts would normally be considered an enormous achievement in

⁹⁶ Chris Dykema, "New York and the Financial Crisis of Our Cities," no date, Christopher Dykema papers, Robert F Wagner Labor Archives; Lonnie Cacchione, 1981 Interview, Tamiment Wagner Labor Archives, pg 17

⁹⁷ New York Times article quoted in Testimony of Mayor Ed Koch, in United States Congress Senate Committee on Banking Affairs Housing, and Urban, *New York City Financial Aid: Hearings before the Committee on Banking, Housing, and Urban Affairs, United States Senate, Ninety-Fifth Congress, Second Session, on S. 2892 ... and H.R. 12426 ...* (U.S. Govt. Print. Off., 1978) pg 26 and 29; Testimony of Richard Vizzini in same, 364;

labor-management relations.” Further the agreement was “also likely to mean that the unions will be more cooperative in supporting the use of pension fund money to buy municipal assistance corporation notes.” But this contract loss was just part of the losses for unions that year, Koch planned an additional reduction of city workers by 20,000 over his four year term, on top of the 61,000 already cut under Beame.⁹⁸

Desperate for federal funds, Gotbaum presented this agreement as an accomplishment to senators on the Banking Committee in 1978 as the city sought a fresh batch of loans. Gotbaum told committee chair Senator Proxmire and others that “more than 220,000 workers have come to an agreement, that 220,000 workers came to an agreement without one of their leaders uttering the word strike, that these workers accepted an agreement that admittedly is 10 to 11 to 12 percent below the projected rise of the cost of living.” A point of pride for the new labor leadership, and dramatic reversal from the pugnacious unionism of the previous decade.⁹⁹

Why did the left active in the unions lose out to the more limited strategy of the leadership? If the observations of Chris Dykema can be trusted, left groups lacked an understanding of their moment, lacked organization and mobilization abilities, and drove supporters away with “rabid oratory.” In Dykema’s estimation, written well before the 1975 crisis:

All of the vanguardists have been similarly useless in developing analysis and policy to confront that other major threat, the fiscal crisis of the state and the attendant threats of layoffs. This crisis is also an aspect of a profound deterioration of the general political economy. It might be expected that activists who claim to command the analytical tools of historical materialism would use their skills to make some investigation of the cause of

⁹⁸ New York Times article quoted in Testimony of Mayor Ed Koch, in *New York City Financial Aid: Hearings* pg 26 and 29

⁹⁹ Testimony of Jack Bigel, United States Congress Senate Committee on Banking Affairs Housing, and Urban, *New York City Financial Aid: Hearings before the Committee on Banking, Housing, and Urban Affairs, United States Senate, Ninety-Fifth Congress, Second Session, on S. 2892 ... and H.R. 12426 ...* (U.S. Govt. Print. Off., 1978) pg. 369

a prime threat to their own job security. Unfortunately, the vanguard leftists in SSEU Local 371 are either unable or unwilling to do anything so sensible. The Communists pursued their single-minded campaign for Angela Davis while the Workers League made countless meetings unbearable with rabid oratory denouncing any and all Union leadership.

Dykema found that both the communists and Trotskyists “played a consistently disruptive role in the Union,” and were so viewed by the membership who found them “confused, manipulative and destructive.” Sounds familiar. Dykema generally viewed their defeat for leadership positions in the union as a victory for socialism.¹⁰⁰

And why did the unions lose, taking the defensive and conciliatory position that they did?

For one, the budget crisis took labor, leftists, even bankers off guard. Every year the city faced a budget shortfall, so what was new about this year? An analysis for Chase Manhattan wrote that “New Yorkers are so used to hearing the cry ‘budget crisis’ that there is understandable skepticism about how real this one is.” As it would turn out, this was the realest of the real.¹⁰¹

For unions, they faced an additional problem – the entire political landscape around them had shifted. The expectations of public sector unions and their members based on an expanding economy, and therefore an expanding public sector were undone in the mid-seventies. To some, it became clear that winning the kinds of gains through engagement, negotiation, joint governance

¹⁰⁰ Report on SSEU Local 371, Chris Dykema, Presented to New American Movement, no date, Christopher Dykema Papers, Robert F Wagner Labor Archives. Here’s Dykema’s portrayal of the Trotskyist Workers League group in 371 called the Committee for New Leadership: “The typical CNL motion makes confused but drastic demands and proposes an all-out work action at any pretext. Then it demands the establishment of a labor party. They seem to operate on the principle that if working people are exposed to defeat in action they will become radical and accept the leadership of the Workers League. Although they have never succeeded in getting a major resolution passed they have been able to make membership meetings sufficiently deadly that most members don’t have the patience to come to them. This has meant that vital business could not be transacted in many instances for lack of a quorum.” He sums up their role as “consistently operated in an adventurist manner.” Again, sounds familiar.

¹⁰¹ Karen Gerard, “The City’s Fiscal Situation: The Budget Gap Is Real,” Paper Prepared For The Economic Group, Chase Manhattan Bank, Dec 1974,

and political lobbying would no longer work in the new economic realities of the 1970s. An incremental, defensive and compromising posture that had served the unions well in the 1950s and 1960s failed in the dramatic turn that was the fiscal crisis. According to Dykema, “having grown to maturity during years of prosperity when the economy was fairly generous to them, they now find themselves unable to deal with the politics growing out of an economy whose stagnation is suddenly no longer latent.”¹⁰²

Another important reason, was that the cultural logic of austerity was easily internalized by unions and other progressive forces, and acted as self-disciplining measure. It’s hard to argue with the black and white of budget ledgers, and if the city can point to deficits and imbalances as reason for cuts, without challenging that fundamental logic, resistance is made more difficult. And this can be seen throughout the crisis, from union leaders, rank and file workers, those having services cut, and others. Even Dykema’s key strategy was to fund more funds, not that the city could live with deficits. In the words of Shanker, “you don’t strike against a boss with no money” – that logic was difficult to escape.

The spirit of political accommodation with austerity was institutionalized in the Municipal Unions Financial Leadership Group or MUFL (pronounced muffle). The group was intended to develop shared policy agendas for labor and finance in New York City and to debate, discuss, and share ideas between the city, union leaders and heads of banks on questions of productivity, for example. The board list read as a who’s-who of city finance and labor, and included co-chairs Walter Wriston of Citi and Jack Bigel, as well as Alfred Brittain III Chairman of Bankers Trust, the Chairman of Chase, Willard Butcher, Manufacturer Hanover Trust’s chairman, John McGillicuddy, David Rockefeller of Chase, Lewis Preston Chairman of Morgan,

¹⁰² Report on SSEU Local 371, Chris Dykema, Presented to New American Movement, no date, Christopher Dykema Papers, Robert F Wagner Labor Archives

Donald Platten the chairman of Chemical Bank, and of course, Felix Rohatyn of Lazard Freres. On the union side board members included Barry Feinseitn President of Teamster Local 237, Victor Gotbaum of DC37, John Law President of the Transport Workers Union Local 100, Albert Shanker of the United Federation of Teachers and Nicholas Marcuso of the Firefighters.¹⁰³

According to Bernard and Jewel Bellush, historians for DC37, MUFLG came out of frustrations with the Carter administration. An election pledge to assume New York's welfare costs never materialized, and Gotbaum and other labor leaders were searching for ways to improve city financial standing. Through the Municipal Labor Committee, union leaders had been meeting "at irregular intervals" with bankers and city officials throughout the crisis. As both sides wanted increased state and federal funds, although for different reasons, the idea of the MUFLG was intended to facility better political agreement and strategy on this point. The idea of creating a group to better facilitate conversation and understanding between the bankers and unionists was apparently the brainchild of Jack Bigel, "the wealthy consultant to labor unions" and Walter Wriston. But the achievements for labor through MUFLG was limited. Gotbaum and the unions quickly got a statement asking for a federal take-over of welfare costs from the group, but little else.¹⁰⁴

In 1977 MUFL took up a "limited agenda of achievable items," that were divided along long term and short term priorities. These included "welfare reform, tax burden issues, municipal employee compensation issues, and efficiency in City government." Longer term priorities included "the City's economic base" and "debt service structure of the City." In a series

¹⁰³ Meeting on Productivity, Municipal Union Financial Leaders, July 8, 1981, Bigel Collection

¹⁰⁴ Jewel Bellush and Bernard Bellush, "The Reponses of District Council 37 toe the Fiscal Crisis, 1975-1978," Bernard Bellush Papers, Robert F Wagner Archives

of documents planning for legislative priorities for federal urban policy, the MUFL, echoing the thinking from development of an “intractable” notion of the culture of poverty, wrote that traditional federal roles in Keynesian countercyclic policy would likely fail. “For example,” they wrote, “brining jobs to cities is likely to be of limited help for people who are ‘unemployable’ by virtue of lack of skills or incentives. Improvement of housing conditions for the disadvantaged will not bring long-term jobs to the cities. Providing fiscal relief to cities will not necessarily assist in redevelopment.” This was thinking antithetical to the Keynesian consensus, but ones that both unions and banks now endorsed.¹⁰⁵

MUFL members were explicit in their discussion of the “culture of poverty” as part of the attack on social programs as discussed in chapter 1. They found that “within the ‘poverty’ sphere of problems, it would be useful to distinguish between ‘economic’ poverty and a ‘culture’ of poverty. Providing command over resources such as housing, food, health care may not put an end to the ‘culture’ of poverty and may not provide the means by which persons can prepare themselves for a useful place in society. Family breakdowns and school truancy may be both symptoms of past, and causes of future unemployment and ‘poverty’ regardless of programs that provide material resources to the disadvantaged.” Here is a remarkable reformulation of attitudes about attacking poverty in America. In this framework, why bother, and part of the general ideological discipline of labor and social movements in the era of austerity. This was now attitude shared by banks and labor in 1978. This language made it into a policy recommendation document sent to the White House.¹⁰⁶

¹⁰⁵ George Roniger to Participants in the Municipal Union Financial Leaders Group Meetings, “Meeting of April 7, 1977,” no date, Bigel Collection; George Roniger, Memorandum to Municipal Union / Financial Leaders Group, Federal Urban Policy Options, October 18, 1977, Bigel Collection

¹⁰⁶ Roniger, Memorandum: Federal Urban Policy Options, October 18, 1977, Bigel Collection

That same MUFL document also called for a shift in emphasis from the poorest resident, to retaining the wealthy and middle class residents that could serve as a tax base for city revenue. The union and financial leaders argued that “in contrast with the strategies to attack ‘poverty’ problems, strategies for development of cities need to address the needs of middle and higher income persons in spheres such as education and housing.” The document goes on to argue that mechanisms to determine “the cost-effectiveness of past and existing development and poverty programs,” should be developed in order to “expand or phase out” certain programs. This right here is the end of the 1960s, the end of Keynesianism, the beginning of the neoliberal era, banks and unions calling for policies that focus on securing the satisfaction of the top of society.¹⁰⁷

By 1978 MUFLG was developing policy agendas for the city in key areas of concern like “government management,” “costly government laws and regulations,” “South Bronx,” “welfare,” “tax reductions and Economic development” and the like. Each action item given to bank staff to research and develop action items from Citibank, Morgan, Chase, Manufacturers Hanover, and the like. Union participation was not evident in the planning stages, yet union membership gave credence to MUFLG reports and policy recommendations.¹⁰⁸

Take for example the banks and unions main agenda in 1978 through the MUFLG was to target welfare and Medicaid payments through so-called “ineligibles” usage. A February 1978 report for the Group, “Approaches to Reducing the City’s Costs Resulting From Welfare and Medicaid Ineligibility,” argued that the city should target “erroneous overpayments” in the system through “increased prosecution of fraud cases, increased middle management staffing in HRA (Human Resources Administration which oversaw welfare and Medicaid eligibility determination), expanded computer matching of client files with outside data, and new systems

¹⁰⁷ Roniger, Memorandum: Federal Urban Policy Options, October 18, 1977, Bigel Collection

¹⁰⁸ George Roniger to Jack Bigel, March 27, 1978, Bigel Collection

in the Medicaid area.” Obviously, there were to be problems and costs in this area as well. One problem is that welfare recipients already faced extensive screening and audit procedures with a four week extensive, document verified initial screening process, computerized checks of neighboring social service records, and in person and mailer document verification audits and updates throughout the year. To increase prosecution of fraud was difficult because typically, “evidence of fraud is not readily available” for DA’s to act on in a legal sense, and because “judges are reluctant to convict since when a welfare mother is incarcerated, for example, hardships are created for the children and other social service agencies must be called in.” Instead, the unions and banks argued, to increase enforcement welfare services standards systems should “involve law enforcement officials more directly in the assembly of evidence.”¹⁰⁹

Here’s the kicker: MUFLG researchers estimated that welfare and Medicaid fraud cases cost the city \$60 million a year. The city budget for 1978, the year of the MUFLG report, was \$12 billion. Medicaid and welfare cost in the city cost \$1.9 and \$2.2 billion respectively, for a total of roughly \$4 billion in social spending costs. Fraud cases made up about .015 percent of the combined social wage spending costs. And the largest incidence of fraud, was a mother living with a man, forcing recipients to hide personal relationships or break up family structures. Additionally, city ineligible rates were akin to other cities, meaning further fraud detection might be out of reach. Because of all this, actual savings would be difficult to come by, and would probably “be less than \$60 million.” No matter, argues the MUFLG report, “nonetheless,” it concludes, “several opportunities for reducing these costs are available” and should be pursued. Through MUFLG, this was the work of the city unions in 1978.¹¹⁰

¹⁰⁹ “Approaches to Reducing the City’s Costs Resulting from Welfare and Medicaid Ineligibility,” Municipal Unions / Financial Leadership Group report, February 1978, Bernard Bellush Papers, Robert F Wagner Labor Archives

¹¹⁰ “Approaches to Reducing the City’s Costs Resulting from Welfare and Medicaid Ineligibility,” Municipal Unions / Financial Leadership Group report, February 1978, Bernard Bellush Papers, Robert F Wagner Labor Archives

In 1981 MUFLG produced a document assessing its accomplishments for the crisis years and discussing what further steps should be taken. One of its accomplishments was that it “maintained a continuing dialogue among unions, banks, MAC and public officials on City financial issues.” This included reaching a “consensus” and lobbying for the “need to shed financial burden of income maintenance programs,” and spreading awareness of the “disincentive effects of state/local tax rates in New York City.” It must be noted here, that this is a document coming from a joint organization, representing both labor and the financial sector. Indeed, this shared agenda, MUFLG saw as one of its greatest accomplishments, that the organization had “reduced tensions and increased coordination on these and related issues of interest to the City, municipal unions and the major financial intuitions.” ¹¹¹

Reflecting on the impacts of MUFL Felix Rohatyn found that the group’s impact on New York politics was transformative. In particular, a significant change came from labor leaders, whom he found “totally realistic, responsible and cooperative.” Both the “heads of the clearinghouse banks,” and “leaders of the unions” agreed and worked toward legislative agendas, particularly welfare reform and tax reductions for city businesses, two counts which met with legislative success. He called this a “business-government-labor partnership,” and thought the new position, coming from labor, “revolutionary.” Commenting to an audience in 1979 Rohatyn said, “If you don’t think that municipal labor supporting high-bracket tax reduction in Albany is revolutionary, think again.” Overall, MUFL changed the climate of politics, creating “mutual understanding,” between ostensibly antagonistic groups. As a result, “tensions, at times of crisis, between these critical financial and political power centers have been considerably reduced. Personal relationships of respect and understanding have been created where, previously,

¹¹¹ Discussion Paper for MUFLG Planning Meeting, January 19, 1981, Bigel Collection

suspicion and mistrust turned every problem into confrontation. The lowered decibels in the public area permitted political accommodation without loss of face, an impossibility a few years ago.” “It was no small moment,” Rohatyn said, “to see Victor Gotbaum and Walter Wriston, David Rockefeller and Al Shanker around the Board table of Citibank agreeing on common programs of welfare reform and tax reductions.” Rohatyn called MUFL, perhaps “the most important structure of all” to come from the post crisis political climate.¹¹²

MUFLG institutionalized attitudes friendly to business interests on the part of the unions and was part of the cultural turn of the fiscal crisis. But the cuts and roll backs had material impacts as well. Depressed city wages and work standards impacted organized labor outside of city employment too. The city’s wage cuts had a “trickle down” effect on unions and wages in the city. In August of 1976 the city’s construction workers took a 25% cut in wages and benefits working on residential rehabilitation projects. The reduction was agreed to by union leader Peter Brennan, former Secretary of Labor, in a bid to get access to city rehabilitation work, then estimated at nearly 100,000 buildings in the city. Construction workers had been hurting. With dramatic cuts to city capital projects, the construction industry in the city was suffering, and made increasingly desperate for work.¹¹³

These trickle down effects could be seen elsewhere. Over the decade, workers in New York State took it on the nose. Statewide unemployment increased. Between the first and second half of the decade unemployment increased 53.7%, from an average of 441,600 persons in the first five years of the 1970s to an average of 678,000 in the second. Overall the average rate

¹¹² Address by Felix Rohatyn before the Symposium on Government and Business, Lyndon Baines Johnson Library, University of Texas, March 1, 1979, Bigel Collection; and Address given by Felix Rohatyn for the Harvard Business School Club International Dinner, April 5, 1978, Program Planners Library, Bigel Collection

¹¹³ The Vice President, Agenda for the Meeting with the President, Tuesday August 3, 1976, Bigel Archives. This development was important enough to state planners at the highest level that Vice President Rockefeller and President Ford were being briefed on city union rates.

ticked up from 5.9% to 8.7%. For those on the dole, their unemployment payment when inflation is factored in dropped over the decade. While absolute dollar average of unemployment increased from \$7,803 in 1969 to \$14,547 in 1979, in inflation adjusted dollars it represented a 5.9% decrease in the purchasing power of New York workers. Overall, in job losses, give backs and shifted costs, city workers lost nearly \$1.5 billion in the first years after the crisis. Combined with union pension purchases of \$2.5 billion in city notes, unions, in the estimation of historian Bernard Bellush, unions “saved the city.” But this is a quizzical definition of saved; union helped to prevent default and ensured bondholders would continued to get paid, but the social infrastructure of the city was eroded and restructured.¹¹⁴

These material losses had psychological impacts. According to case worker Lonnie Cacchione, of Local 371, “many of the really skilled people have given up. Teachers – a lot of my friends are involved with the UFT. It’s sad to see them. Their classes get larger, their resources get smaller, and they give up.” Cacchione was talking about about giving up on social struggle, adjusting one’s hopes and prospects downward, a key victory of the austerity regime.¹¹⁵

Grace Weiner, a dental hygienist for the Department of Health and a member of Coalition of Labor Union Women remembered the crisis similarly. The cumulative impacts of cuts, in year after year of budget reductions both made her work more difficult, and reduced the drive to fight back in city workers. She remembers that

in 1975 we were hit with the first lay off, and it was rather a severe lay off. I think that it was about thirty three percent, and since we never had that many to being with – you know – it was . . . it was really a lot. It really decimated us. And there was very little prior notice, and people were just let go. And it was really quite hysterical at the time. It

¹¹⁴ Willis H Stephens, et al., A Summary and Comparison of the Changes in New York State’s Economy During the Seventies, September 1, 1985, Program Planners, Bigel Collection; Jewel Bellush and Bernard Bellush, “The Reponses of District Council 37 toe the Fiscal Crisis, 1975-1978,” Bernard Bellush Papers, Robert F Wagner Archives

¹¹⁵ Lonnie Cacchione, 1981 Interview, Tamiment Wagner Labor Archives, pg 39

was just awful. And then, at that point, they had to consolidate, and so a lot of people were running two clinics. Prior to that we were all running one. And the following year, we were hit with another lay off of about the same severity, and then it was really awful. It was terrible.

Weiner recalls people starting to retire at 62 or even 55 years old as they became dispirited. Further, city workers were blindsided by the first year of cuts; according to Weiner, “well in ’75 and ’76 I really didn’t have much of a chance to fight it because it was a fait accompli . . . before we turned around, it happened.” But by 1980, the workers who remained, were ready to fight. Weiner recalls that she sent a letter to Gotbaum in 1980, paraphrasing, that “you let them hit us in ’75 and in ’76,” and that it was time to fight back. She said that “DC37 played a very, very strong role in it. I have to say that I don’t know if they would have played as strong a role if I really, really hadn’t made them crazy – absolutely crazy – and I had all the hygienists call up Gotbaum’s office and Lillian Roberts Office, and I had everybody doing that. I feel that they let us down in ’75 and ’76.” At the end of it all, Weiner recalled, “I know for me personally, it took so much out of me physically and emotionally – I was so totally drained after that,” adding that “it was a battle,” for which she meant against both her city and her union.¹¹⁶

Addressing the rhetorical climate after the crisis, attacking workers and unions for bankrupting the city, Weiner recalled, that union “workers are not only workers but residents. We’re the citizens of this city. We don’t want the city to go down . . . we’re not here to bleed the City or to drain the city. Why would we want to do that? It doesn’t make any sense. I am a citizen.” Weiner claimed that her work group all bought city bonds. Fascinating here, is that neither the unions nor the austerity hawks understood this.¹¹⁷

¹¹⁶ Grace Weiner, Interview 1981, Robert F Wagner Labor Archive

¹¹⁷ Grace Weiner, Interview 1981, Robert F Wagner Labor Archive

Alternatives were possible. An offensive strategy, that sought increased state revenue and to discipline the desires of the wealthy and the banks, rather than the entire population, was possible, and considered by militants and thoughtful activists and organizers working at the bottom of society. Dykema was one. He wrote that in the new reality of crisis “a purely defensive political stance can only seem ineffectual and moralistic. The only viable policy for public workers’ union is to demand changes in the tax structure that reduce the bite on small taxpayers while increasing the corporate tax burden and generating sufficient revenues for necessary public services.” Such demands could overcome the fractured nature of the political moment and “emphasized the fundamental identity of interest of public employees and the working, tax-paying public.”¹¹⁸

By 1978, it was a new era for municipal unions in New York City. Attitudes of the leadership and the rank and file and been adjusted down. And the material impacts were devastating, city workers lost in nearly every category throughout the 1970s. Groups like MUFLG institutionalized these changes, and new cultural attitudes around debt made their logic seemingly inescapable.

* * *

5.4 Social Movements

This disciplining down was evident on the city’s social movements as well, where the imposition of tuition at CUNY had a similar impact on social movement organizers and activists. More so than any other measure, tuition imposition represents a direct check on the city’s social movements. As recently as September of 1970 massive student strikes at CUNY won open

¹¹⁸ Report on SSEU Local 371, Chris Dykema, Presented to New American Movement, no date, Christopher Dykema Papers, Robert F Wagner Labor Archives

enrollment on all city campuses. The effort to win this was considerable, and with the victory CUNY became a university with both free tuition and open enrollment, any high school grad in the city could achieve a college education, for free. The program, forced from the bottom, was “designed to increase college opportunity for poor and minority group students.” Indeed, both Abraham Beame, and Victor Gotbaum, were CUNY grads, attributing their personal success to the role of the public university. Cutting the school, fighting the university leadership on the cuts, was one of the bitterest elements of the crisis for Beame. Cuts from the austerity regime not only targeted women, workers, and people of color, it targeted the victories of the social movements. Austerity was political as much as it was fiscal.¹¹⁹

The struggle over CUNY best exemplifies what happened to the city’s social movements. For decades, efforts had been made to impose tuition at the university, the most notable, the efforts by Governor Nelson Rockefeller in 1960. The Governor’s Heald Commission, and others, wanted to impose tuition at CUNY, and subsume its organization into the state system. But Rockefeller’s chief political opponent was Mayor Wagner, who built a coalition of powerful New York City interests, including faculty and student groups to fight back the tuition initiatives. They won, and in effect the modern, centralized system of CUNY governance was born by legislative act in 1961, with a maintained commitment to tuition free higher education. In the sixties, the Keynesian consensus held, with the Mayor and other sectors of power maintaining commitment to free schooling.¹²⁰

The 1961 legislative victory keeping CUNY tuition free, came with a price, however. Removed from CUNY’s charter in the new law was its statutory mandated for tuition free services. Throughout the 1960s, this was the terrain of the political battle around CUNY; the

¹¹⁹ Lester Sobel, *New York and the Urban Dilemma*, New York: Facts on File, 1976, pg. 61

¹²⁰ The Newt Davidson Collective, “Crisis at CUNY” (Private Collection of the Trigg Family, 1974)

Governor and others trying to wedge “nominal tuition” charges into the university’s administration, and a coalition of city forces pushing it back. The struggle was intensified during the 1965-1966 city budget crisis, but opposition to tuition coalesced into the Ad Hoc Committee for CUNY composed of labor, community, student, and business groups.¹²¹

But the alignment of political and social forces around CUNY was blown open with the emergence of the student movements in 1968 and 1969. In the spring of 1969, a coalition of black and Puerto Rican students began an offensive campaign for open enrollment at the school. The efforts were part of a national explosion of student activism and radicalism that profoundly transformed American universities for the better, to this day. In addition to the open enrollment demand, students of color wanted to create ethnic studies requirements at CUNY schools, with a wealth of other demands. In 1969, 100 students sat-in at the administration offices in February, but the school resisted. By April of 1969, the student movement was growing exponentially, student walkouts and blockades at CUNY campuses prompted the University President Buell Gallagher to preemptively close the campuses. Students across the system exploded. By May, black and white students were sitting in in the hundreds in Queensborough, Brooklyn, Queens, and Manhattan Colleges, shutting down campuses across the system. Only Hunter in the system kept its doors open. Melees between students, and between students and security forces ensued, and some faculty walked out on strike in support of the student demands. By July, the situation was untenable and the Board of Higher Education, and other segments of the opposition, including Governor Rockefeller and Mayor Wagner, backed down. The Board approved open enrollment and other demands.¹²²

¹²¹ “Crisis at CUNY”

¹²² “Crisis at CUNY”

After winning open enrolment, student movements on campus were emboldened, but with austerity all that was turned around. In the years following 1971 student and faculty worker groups were able to fight back layoffs, mass adjunct firings, attempts to close programs like the Department of Educational Services, and other victories. They were largely on an offensive footing, as for example, creating the new ethnic studies programs, and fighting to populate them with sympathetic faculty and staff, as with fighting for Prof. Maria Sanchez to the head of the Puerto Rican Studies Department at Brooklyn College, against College President John Kneller's opposition.¹²³

This offensive posture on the part of social movements at CUNY was largely turned around with the imposition of austerity. When the cuts began the groups who had organized and mobilized to win such striking gains were now fighting to save their program, their staff, or their own position. The fight to impose tuition, for example, was correctly seen by campus groups as an attempt at "the elimination of true open admissions in City University." College acceptance is not meaningful if one cannot afford it. Movement newspapers began to take account of the situation, both in terms of the rollback of social movement gains, and the impact the losses were having on popular attitudes and the ability to win future victories. On CUNY, David Michaels and Howard Swerdloff wrote that the "cuts and changes," in particular the imposition of tuition, "reverse all the steps forward CUNY has made in the last six years," with tuition for the school's working class students becoming "at least a burden, and to many of us, a barrier." More than that, the cuts, "undermine the traditionally progressive, though limited, role of this university." These cuts and changes included, a cutback to the SEEK program, which "is being, in effect, phased out." Other cuts have meant "teachers fired, classes overloaded, tutoring and counseling

¹²³ "Crisis at CUNY"

eliminated, and the newly formed Women's Studies and various Ethnic Studies departments cutback." To push back against all this required dramatic mobilizations and action, a scale similar to that which initially won the reforms. It felt demoralizing. "Students at City," Michaels and Swerdloff wrote, "shocked and threatened daily with reports of imminent doom – recession, default, crises – are beginning to believe that the dismantling of CUNY is inevitable, 'merely a fact,' and are resigning themselves to the worst possibilities." Much like workers, the student social movement was slowly being disciplined to accept cuts.¹²⁴

As social movements were being fractured and demoralized, institutional backing for Keynesian social welfare also began to wither. This also had significant impacts on the civic networks and social movements of the city. For example, in 1976 a piece of state legislation sought to restore \$115 million to the city's Board of Education budgets. In the estimation of the White House, this would "effectively destroy the City's financial plan." Fortunately for the austerity planners, a coalition of 11 community organizations joined the city in a lawsuit opposing the law. This group included religious groups like Catholic Charities, the Federation of Protestant Welfare Agencies, and the Jewish Board of Guardians as well as major unions like District Council 37 and the American Federation of State, County and Municipal Employees. The White House expressed favor that "such widespread support of the Mayor is significant," and that Beame "must win this one, regardless of whatever series of appeals that may be necessary." So mainstream civil society organizations were brought along into the austerity regime much like the unions. Here, many of the same civil society groups that were bulwarks of Keynesian policies in the 1960s were now lining up with the mayor to support austerity.¹²⁵

¹²⁴ Emergency Committee for CUNY and CUNY United for Action, "What Do They Do With Our Money?," Broadsheet, no date, Private Collection of the Trigg Family; David Michaels and Howard Swerdloff, The Teach-In Committee, "On The Destruction of CUNY," no date, Private Collection of the Trigg Family

¹²⁵ The Vice President, Agenda for the Meeting with the President, Tuesday August 3, 1976, Bigel Archives

Similar processes were happening on the left, as some groups tried to establish a pole of resistance but ultimately failed. Dykema's group, the New American Movement, drafted a proposal for a nonsectarian, pan left, city-wide working group to embrace an "offensive" strategy against the cuts, including counter proposals to save the city's finances. In the drafting document the NAM argued that "the distinction between offensive and defensive action has broken down along with the related distinction between economic and political struggle." In addition, they called for "concrete" proposals to "offer workers, unions and community groups." The New American Movement was also part of a coalition, the "City Crisis Coalition" that included left and civil society activist groups like Fight Back, the New York Socialists, War Resisters League, Puerto Rican Socialist Party, Home Front and the city's Tenants' Union. They organized, held meetings, tried to build a pan-left pole to fight back. The group issued circulars, including the memorable "The Lower East Side Has Been Robbed!" that explained the class dynamics of the crisis. There were still other efforts, like the "Coalition to Fight the Budget Cuts," organized from medical workers concerned about cuts, and others. But all for naught.¹²⁶

There were other efforts too. A group calling itself the "Citywide Community Coalition," consisted of a wide variety of nearly three dozen city left and progressive groups, including the Association of Hispanic Civil Rights, Association of Gypsy Cab Drivers, the National Conference of Black Lawyers, the People's Budget Coalition, Socialist Workers Party, Harlem Fight Back, and the CUNY University Student Senate. With a bit of poetry, in a plea for New Yorkers to resist, they wrote that "when the budget gets cut, we bleed." They targeted the notion of austerity and efficiency, writing that the new austerity structures, "with efficient-

¹²⁶ "Proposal For A Working Group on the Fiscal Crisis in the State and City of New York," no date, and "Organize to Fight! Fight to Win!" Jun 18, 1975, in Christopher Dykema papers, Robert F Wagner Labor Archives; "The Lower East Side Has Been Robbed!" no date, The City Crisis Coalition, Christopher Dykema Papers, Robert F Wagner Labor Archives

sounding letters like M.A.C. and E.F.C.B.,” have a different meaning for people on the bottom, for whom “these letters have become code words for DISASTER.” The Coalition platform wanted “to dissolve the EFCB, restore the money lost by cuts, and develop a budget that will speak to the needs of workers and their families.” While left parties called for abolishing the city’s debt, and to divert military spending to domestic social needs, they were raised in the framework of political campaigns and left party opportunism. Peter Camejo, for example, running as presidential candidate for Socialist Workers made such claims in the a series of campaign speeches throughout the crisis.¹²⁷

Indeed, left critics may have been right, but they were ineffective and impotent to do anything about it. For example, the International Workers Party called for a cancelation of city debts and furiously critiqued the leadership from the unions. When Gotbaum and others staged the June 4th rally outside First National City Bank headquarters and targeted bank CEO Walter Wriston, the IWP said such tactics missed the point. It was not a “banker’s conspiracy,” the IWP argued that bankrupted the city and gutted social programs. In their words, austerity was not “a question of evil men plotting to wreak havoc on the people of New York.” Instead, the move to austerity they all were witnessing was “the lawful response of capitalists working to protect property titles.” True, a valuable structural and institutional critique, but for a political response, the left parties were lacking. Isolated and sectarian, calls to “abolish the city’s debt” without social movement power was empty. IWP calls for example, besides dropping city debt, was that “the working class must organize its own salvation under committed communist leadership.”

¹²⁷ “Citywide Community Coalition Mission Statement · CUNY Digital History Archive,” accessed December 4, 2016, <http://cdha.cuny.edu/items/show/4382>; “Where do we go from here?” June 4, 1975, Christopher Dykema Papers, Robert F Wagner Labor Archives

Similar calls across the left came for “unity” to build a “political front” or the “revolutionary leadership” needed to stop the cuts.¹²⁸

Compared to non-profits and unions, social movement groups were more disrupted by the crisis. According to Chris Dykema, “Community organizations came out even worse. Of course, they were newer and weaker to begin with. During the 1960’s, they had gotten services by demonstrating and making noise. But his tactic did not work when [the] city could reply that it had no money.” An example came with the November 1975 city wide demonstrations against cuts to the city’s anti-poverty programs. In Harlem, Bed-Stuy, East Brooklyn, the Lower East Side and all over the city, demonstrations and marchers took to the streets and tied up rush hour traffic on major bridges, tunnels, parkways and thoroughfares, chanting “they say cut back – we say fight back.” The protests came out of a new group, the Alliance of Community Sponsor Programs, which “includes most of the city-financed anti-poverty programs.” Calling their action “Operation Survival,” the height of the demonstration came when 250 people blockaded the Brooklyn-Battery tunnel for an hour during rush hour. Despite having taken similar action just a few months before, police arrested twenty-five people, and broke-up and prevented other demonstrations from taking similar actions. This was the high point of resistance from anti-poverty groups and reflects the fragmented, disjointed actions that typified the resistance. A one off action, not coordinated with other sectors like unions or social justice or civil rights groups such that despite widespread “sympathy for the marchers,” the cuts went through, the disruptive actions, isolated and without broader political organization, lost.¹²⁹

¹²⁸ “Cancel Debts to the Banks,” International Workers Party, Jun 4, 1975, Christopher Dykema Papers, Robert F Wagner Labor Archives

¹²⁹ Chris Dykema, “New York and the Financial Crisis of Our Cities,” no date, Christopher Dykema papers, Robert F Wagner Labor Archives; FRANK J. PRIAL, “Marchers Here Protest Antipoverty Project Cuts,” *New York Times*, Nov 19, 1975;

Some social movement resistance was successful. When the city tried to close fire station 212 in November of 1975, community groups occupied the abandoned station. Rechristened “the People’s Firehouse #1,” the new occupants were punchy, and inventive. Holding signs that read “planned shrinkage is planned genocide,” the groups attempting to save the firehouse staged a massive letter writing campaign to city officials, in addition to blockading the Queens Expressway for hours, and staging a requiem mass for the city’s fire victims for over 18 months. Ultimately, they were victorious, the city reopened the station. In this light, there were other victories too. City workers winning COLA increases against the desires of the EFCB was one. Another was the coalition of left, community, and union groups that kept Sydenham hospital open until 1980, when it was slated to close in 1976. But these were slim, temporary victories within a much larger context of loss.¹³⁰

Overall, these kinds of cuts were citywide, and represented a broad assault on the population of New York. One of the first programs attacked by the austerity regime was to completely eliminate, not trim, the prisoners counselor service, the project won through 1971 New York prison riots. Another biggie was the rising of the transit fare on New York subways 42 percent, from 35 to 50 cents. This was both a highly regressive tax on the working people and highly inflationary. But the low transit fare was also a main political priority for New York City unions for decades, an indication that before austerity unions were at least nominally interested in protecting the social wage and social movement unionism. Rolling it back was a measure of what could be accomplished in the new era. Still another was the closure of Sydenham hospital, the first racial integrated hospital in the city, serving a predominantly black population in Harlem and the first to be headed by a black women. More important than those

¹³⁰ James Gaffney, Martin Lucas, and Jonathan Miller, *Tighten Your Belts, Bite the Bullet* (Icarus Films, 1980), http://icarusfilms.com/cat97/t-z/tighten_.html.

symbolic victories, Sydenham had just begun to institutionalize demands coming from the black liberation movement, especially important at Sydenham were a new family care clinic, and sickle cell anemia, both prominent health care demands from groups like the Panthers and others.¹³¹

Unions and left groups came out poorly on the other side of the austerity crisis, but so too for social movements. The main mechanism for checking social movement gains in the NYC and retarding the growth of the movements was austerity. Austerity put a check on what was attainable for peoples' movements. If social movements had won victories in the 1960s and 1970s to provide more services and increase the standard of living for those on the very bottom, the argument in the 1970s was that those victories were no longer attainable because of cost.

¹³¹ Austerity was also a "social war" of the type described in "Towards the Queerest Insurrection" an anonymously published insurrectionary anarchist pamphlet "Printed clandestinely by the Mary Nardini gang, criminal queers from Milwaukee, Wisconsin" in 2014. The authors argue that class war and class struggle is too narrowly a defined concept to encompass their much more broadly liberatory project, one that hopes to liberate "a survivor of bashing . . . sex workers, . . . a homeless, teenage runaway." They ask "how can class analysis, alone as paradigm for a revolution, promise liberation to those of us who journey beyond our assigned genders and sexualities?" To transcend these limitations, the group writes, "when we speak of social war, we do so because purist class analysis is not enough for us." Instead, to achieve this broader liberation, they call for social war, a "struggle inhabiting every social relationship," and one that "is both the process and the condition of a conflict with this totality." In order to prevent the cooptation of gay liberation into gay civil rights, the collective authors argued it was necessary "to destroy the constructions of normalcy, and create instead a position based in our alienation from this normalcy, and one capable of dismantling it." They wanted to "challenge oppression in its entirety. This of course, means total negation of this world . . . We need to delve into and indulge in power . . . we must be in conflict with regimes of the normal. This means to be at war with everything." Remove the opposition to "oppression" and these remarks, and their provocative closing, are the ethos of the austerity hawks: "In short, this world has never been enough for us. We say to it, 'we want everything motherfucker, try to stop us!'" This is perspective of austerity. In "Toward the Queerest Insurrection.pdf," accessed August 7, 2016, <http://www.weldd.org/sites/default/files/Toward%20the%20Queerest%20Insurrection.pdf>. Jorell A. Meléndez Badillo and Nathan J. Jun, *Without Borders or Limits: An Interdisciplinary Approach to Anarchist Studies* (Cambridge Scholars Publishing, 2013).

* * *

5.5 Popular Culture

It wasn't just unions and social movements, the population of New York was disciplined, with particular impacts on people of color. Perhaps this is best shown in the popularity of Christopher Wallace, one of Brooklyn's most famous sons. Wallace, better known by his rap personas Biggie Smalls and Notorious B.I.G., grew up in the shadow of austerity. His world view, and prospects shaped by world made by the fiscal crisis; for those who had so much taken away, opportunities were bleak. Wallace's main avenues of institutional advancement as he entered young adulthood in the 1990s was music and drugs. And he pursued both, bouncing in and out prison for selling, and in and out of recording studios as he was able. His bleak vision of life, one of violence and hustling, left him "ready to die," according to his debut album, a lament of a life with little material prospects, or hope. The album was widely successful, a significant cultural achievement, launching Big's career before he was murdered just three years later in Los Angeles at the age of twenty-four. Perhaps the best measure of the changes wrought by the fiscal crisis is found in the popular attitudes of the generation brought up in its aftermath.

As the 1970s turned to the 1980s, New Yorkers couldn't help but notice that the city had taken a turn for the worse. The city was hard, a place people wanted to escape from, as depicted in the 1981 blockbuster, "Escape from New York," where Manhattan was an open air prison. Cultural representations like this were not far from how people saw their city. Felix Rohatyn characterized the impacts of the cuts, and national poverty, as one of the loss of hope. "You have the problems in the ghetto," Rohatyn told a television interviewer in 1979, "the Bedford-Stuyvesants and the Watts, and in the South Bronx – people who are living without hope today,

and who really –something has to be done to be able to give them an opportunity to work, and to give them some hope.” A nice sentiment from one responsible for constructing hopelessness. Jacob Freedman, a doctor and executive director of Prospect Hospital in the Bronx noted this psychic turn in 1980. “This last generation in the ghettos has been a lost generation,” he told a Congressional hearing on national health standards. In the South Bronx, “unless you provide the funds for alcoholism, for drug addiction, for the social problems of a sick mind and a sick body, things are going to get worse.” For him, “poor health leads to poor citizenship, poor motivation, poor education, abandonment of communities and cities, and demoralization.” By the 1980s, in people’s lived experiences and in cultural representations, New York was a place of hopelessness.¹³²

We can see these psychic impacts in the life of Christopher Wallace. By the time the Beames were in the Mayor’s office, their private home on Plaza St. at the Grand Army Plaza in Brooklyn was literally just a few blocks away from the rundown apartments of St. James Place in Clinton Hill. There, Voletta Wallace, a 19 year old Jamaican immigrant hopped her visa to remain in the US and raise her son, Christopher who was born in Crown Heights, Bedford Stuyvesant in 1973. Wallace abandoned by her lover, raised Chris on her own, working two jobs at once to pay the bills, and attending nursing school at night.¹³³

In the middle and late 1970s, the Clinton Hill area of Bed-Stuy, Brooklyn was up and coming, a target of Times Real Estate section features for the next wave of brownstone remodels and coop conversions after Brooklyn Heights and Park Slope. By the 1980s, the potential for

¹³² WABC-TV’s Eyewitness News Conference, October 14, 1979, Bigel Collection; Testimony of Jacob Freedman, in United States Congress House Committee on Ways and Means Subcommittee on Health, *Problems Facing Financially Troubled Hospitals: Field Hearings Before the Subcommittee on Health of the Committee on Ways and Means, House of Representatives, Ninety-Sixth Congress, Second Session, March 14, 1980, New York City, April 18, 1980, Memphis, Tenn., May 27, 1980, Chicago, Ill* (U.S. Government Printing Office, 1980) pg. 58-59

¹³³ Holly Lang, *The Notorious B.I.G.: A Biography* (Westport, Conn: Greenwood, 2007).

urban renewal and development in Clinton was in decline. Crime, drugs, and declining property values plagued the neighborhood, armed robbery and murder, including of nearby Pratt Institute of Art students, and police murders of black graffiti artists and black businessmen, dominated the news coverage of the area. According to ponderous New York Times features, the neighborhood was a place where middle class whites were recommended not “to walk to the subway around here,” because, in the words of one resident speaking to a friend, “you’re a target.” Unspoken was that it was just as dangerous for African American residents, just harder to escape.¹³⁴

The change in the neighborhood came from cuts. Take for example Brooklyn schools, where “virtually every young teacher” in Bed-Stuy’s district 16 was laid off, and in the neighborhood of Crown-Heights 37 of 68 teachers were fired in P.S. 92. A Manhattan superintendent Clinton Howze told the *Times* that “cutting teachers has meant less music, less remediation, less physical education,” and class sizes were up from 29 to 40. Violence was also up according to Howze, “we haven’t enough school security guards and aids. We have had many instances of people walking in off the streets, and we’ve had assaults and other incidents . . . fights occur and we can’t do anything about them until it’s too late.” As late as 1986, the time Chris was entering high school, the city’s dropout rate remained “astronomical,” with one in three high school students never finishing with a diploma. Wallace himself would drop out of Westinghouse Technical High School in 1989.¹³⁵

In another cut, this one also in neighboring Crown Heights, the Crown Heights Community corporation was drastically cut by city reductions to anti-poverty programs. The

¹³⁴ Gerald Eskenazi, “The Past Meets the Present on the A Train,” *New York Times*, March 31, 1985. However, by 1985, the gentrification and renewal narratives were picking up again for the area and neighboring Fort Greene. See SAM ROBERTS, “Death Stirs Police Brutality Charges,” *New York Times*, September 29, 1983,

¹³⁵ FRED PERRETTI, “Financial Crisis Crippling New York’s Public Schools,” *New York Times*, Dec 12, 1976; EDWARD B. FISKE, “High Schools Struggling to Train Students for a Changing City Job Market,” *New York Times*, Dec 4, 1986

corporation in 1974 had a million dollar budget and a yearly patronage of 100 jobs for local youth. Yet by 1976 the corporation was cut badly. Celeste Knight, deputy director of the corporation told the *Times* that during a 1976 protest that blockaded the Eastern Parkway during rushing hour traffic that 30 percent budget reductions would force a reduction of programs and staff by 67 percent, and that undoubtedly crime would increase as a result. “We are a buffer,” she explained, “between the criminal element and the respectable people of Crown Heights.” As the corporation was cut, there were fewer jobs, fewer anti-gang and anti-poverty programs, less resources for neighborhood youth to pull themselves out of poverty. Other anti-violence projects were cut in Christopher’s neighborhood and austerity progressed throughout the 1970s. In 1978, for example, the city cut the budget for a crime prevention program in Crown Heights, among other things, the program provided rides for the elderly.¹³⁶

Meanwhile, drug treatment and harm reduction centers were eliminated across the state through a 1975 plan implemented by Governor Carey. The Bushwick methadone clinic was closed, merged with the Downtown Brooklyn Center, but no doubt impacted drug use rates in neighboring areas like Bed-Stuy. By the early 1980s “we were experiencing a large upsurge in heroin activity in New York,” according to State Substance Abuse Services epidemiology chief Blanche Frank. By the middle of the 80’s with the AIDS epidemic exploding and drug prevention and treatment services cut, use was shifting to crack. The remaining methadone clinics could not treat users of the new drug, and many of the prevention and psychotherapy programs that could have helped were eliminated, like the city’s Addiction Services Agency shut down in the first wave of Beame’s cuts. Crack also came with new sets of problems, in

¹³⁶ Ray Kestenbaum, “Pressure of Urban Decay Forced Hassidim to Seek-Ethnic Allies,” *The New York Jewish Week* (1973-1985), *Manhattan Edition*, July 6, 1974 and FRANK J. PRIAL, “Marchers Here Protest Antipoverty Project Cuts: Brooklyn-Battery Tunnel Traffic Halted for Nearly an Hour 27 Arrested, 20 in Brooklyn Demonstrations,” *New York Times*, November 19, 1975, s

particular, it induced a maddeningly severe form of addiction, with increased feelings of paranoia and aggression, and increased incidents of other types of crime. In 1986 in areas of New York City where crack use was most pronounced, crime rates also rose; robberies and aggravated assaults were up by 12 percent, homicide by 23 percent.¹³⁷

These were the immediate social, political and cultural environments in which Christopher Wallace grew up. Voletta worked two jobs to send Chris to private school, where he excelled as a student, especially in English, earning A's. Yet working two jobs meant that Chris had significant unsupervised time. With no youth, job training, or art and culture programs available to him, Christopher used his time to explore the major black institutions left after the cuts, the underground drug economy, and music. As an adult, Biggie recalled that "when [Voletta] would go to work or to school, I'd be all over the place . . . smoking cigarettes and drinking Calvin Coolers. Just doing shit that I knew I wasn't supposed to do." And he remarked on the lack of institutional support for black youth in his work. As an established artist he wrote that "if I wasn't in the rap game / I'd probably have a key knee deep in the crack game / Because the streets is a short stop / Either you're slingin crack rock or you got a wicked jumpshot." Or in his case, a penchant for lyricism and music. As a teen Wallace transferred from his private high school to Westinghouse Tech, in Downtown Brooklyn, where he attended with future rap stars Trevor Smith (Busta Rhymes) and Shawn Carter (Jay-Z). But he dropped out to sell drugs, crack in particular, in 1989 at age 16.¹³⁸

Wallace's life as a drug dealer lead to numerous legal entanglements, another major remaining institution in black American life, this one imposed from the top. The year he

¹³⁷ "Levitt Audit Suggests Merging Underused Drug-Abuse Centers," *New York Times*, December 31, 1975. And PETER KERR, "Growth in Heroin Use Ending As City Users Turn to Crack: Growth in Heroin Use Ends as New York City Drug Users Turn to Crack," *New York Times*, September 13, 1986.

¹³⁸ Lang, *The Notorious B.I.G.*, 4

dropped out of high school he was picked up for weapons charges in NYC and given five years' probation. Two years later he was again arrested, this time in North Carolina where he had an established mid-size drug operation, selling outside check-cashing stores, and was pulling in as much as \$1,500 a day, as a nineteen year old. His North Carolina bust, for crack, led to a nine month term in prison.¹³⁹

Upon release, Wallace traveled between New York and North Carolina, developing his drug business and beginning to explore his interest and talent in rap. In drug culture he was known alternatively as "Big Chris" for his size, at 19 he was 6'3 and roughly 300 lbs, or "the Mayor of St James," his block in Clinton Hill where he sold. In rap, he called himself Biggie Smalls, after a hustler character from the 1975 film "Let's do It Again," later becoming Notorious B.I.G. as he started to release records. Video from when Biggie was 17 shows brilliant freestyle competition style in Bed-Stuy block parties, festive street parties, and demonstrates Big's technique of delivery he perfected when recording; he would compose his verse in near freestyle in the studio. In 1992 he produced a demo, one that was noticed by New York DJ and *The Source* writer Matty C in his "Unsigned Hype" column. The tape is raw and powerful, Biggie's rhymes he described as "ridiculous meticulous hardcore flows," on tracks like "Microphone Murderer" that hit the listener "like a derelict" hit "with AIDS." Already, Biggie was developing an extremely violent, hard, rap persona, a character that would kill to achieve material stability.¹⁴⁰

One listener was Sean Combs, an A&R agent from Uptown Records, a rap label based in Harlem founded from money from the successful rap duo Dr. Jekyll and Mr. Hyde and with distribution contracts through MCA. Combs tracked down Matty C to get a description of Big,

¹³⁹ Lang, *The Notorious B.I.G.*

¹⁴⁰ Lang, *The Notorious B.I.G.*; "Notorious BIG Biggie Smalls Demo Tape - YouTube,"

“dark-skinned, rather overweight man with a lazy eye,” and headed to Brooklyn to find the rapper. After a freestyle, Combs signed Biggie on the spot. Puffy quickly had Biggie on guest spots on Uptown stars records like Heavy D and Mary J Blige. It didn’t take long for Smalls to produce his first single, “Party and Bullshit.”¹⁴¹

Party and Bullshit is a major artistic achievement. Biggie’s rhymes explode with tremendous energy on the track, running through measure changes and rhythmic variations. His vocal delivery is just as explosive, pushing the song forward. The content of the song is a mix of drunken fantasy and autobiography, the central tension set up between festivities, gaffs, sex, a joyful and explosive celebration of street culture, and a hard undercurrent of misogyny, racism and ever present violence waiting just below the surface. The fantasy and autobiography begins in the opening line, where Big introduces himself as “a terror since the public school era,” discussing his maturation as one of violence, from carrying .32s and .22s to a “mac in my knapsack.” But the song content quickly moves to explorations of more innocent youthful transgressions, forging bathroom passes to cut classes, smoke blunts and “squeeze asses.” The elements of fun, sex (perhaps sexual assault) and socializing are in constant tension with anxiety around violence, from the first verse where Big extorts that “all we want to know is where the party at / and can I bring my gat?” The second verse brings us into the party where Biggie moves immediately from “getting hugs from the honeys” to his friend from the projects, Sei, explaining there was trouble and asking if Big was armed. Big’s response, “sure do, two twenty-twos in my shoes,” before returning quickly to women and drink. The climax of the song comes in the third verse when entire track is disrupted after “Niggaz start to loc out / a kid got choked out / blows was thrown and a fucking fight broke out,” where the music abruptly cuts out and over a

¹⁴¹ Lang, *The Notorious B.I.G.; Biggie Smalls - Party & Bullshit*, 2010, <https://www.youtube.com/watch?v=rEaPDNgUPLE>.

cacophony of voices Biggie can be heard urging calm. The return of the music finds Biggie asking “Can’t we all just get along / so I can put hickies on her chest like Little Sean / get her pissy drunk off of Dom Perignon.” This vision, cartoonish violence and misogyny, urges for simple calm, and the tensions around all of it came from Big’s experiences dealing, on the street in rap battles and block parties.¹⁴²

Part of the interest of the song come from this tension between celebration and anxiety, between the festivities of the party, sexual aggression, and the fear for one’s safety. Indeed, in parts of the narrative they become thoroughly mixed, the violence itself becoming part of or a form of the festivities, as when Biggie explains that “It don’t take nothing but fronting / for me to start something / bugging and bucking at niggaz like I was duck hunting.” Big will shoot people for nothing more than the offense of “fronting” as if it were a sport, or more likely, a video game. But his sport is undercut by fear, if unable to carry, Biggie, “I hope I don’t get shot / But I throw my vest on my chest / ‘Cause niggaz is a mess.” This is indeed a mess of a world, revelatory, celebratory, and violent and misogynist and fused with racism.¹⁴³

However, *Party and Bullshit* is more than just a dark escapist fantasy, a violence infused midsummers night dream for Brooklyn youth. In *Party and Bullshit* Biggie self consciously places himself in relation to the black radical tradition and black freedom music. The song’s refrain, “And Party / and Bullshit,” repeated in a loop is a sample from the Last Poets, a Harlem based pre-hip-hop spoken word group embedded in the black freedom struggle of the 1960s and 1970s. The sample, “and party / and bullshit” is the coda to their 1970 album track “When the Revolution Comes.” The track is rather earnest exploration of revolutionary struggle and politics in which, “when the revolution comes / guns and rifles will be taking the place of poems and

¹⁴² *Biggie Smalls - Party & Bullshit*, 2010, <https://www.youtube.com/watch?v=rEaPDNgUPLE>.

¹⁴³ *Biggie Smalls - Party & Bullshit*, 2010, <https://www.youtube.com/watch?v=rEaPDNgUPLE>.

essays.” Until that time, the Poets tell us, black people will “party and bullshit / and party and bullshit,” in the song’s coda and fade out, concluding that “some might even die / before the revolution comes.” For the Poets, this is a condemnation. The non-political, social and festive, maybe frivolous, aspects of black culture, the Last Poets tell us, are worthy of condemnation, even rhetorical death in their version of political and artistic liberation. This theme is repeated over and over again on their 1970 album, the only one they made, on songs like “Run Nigger,” “Niggers are scared of the Revolution,” and “Wake Up, Niggers.” Their very name highlighted this theme, “The Last Poets” a borrowed motif from South African poet Keorapetse William Kgosisile, based on the notion of living in a pre-revolutionary historical era when poets and poetry will give way to guns and violence.¹⁴⁴

But Biggie inverts the politics of the tradition, taking the qualities of black culture critiqued by the Last Poets, and celebrating it. For Big, the “party and bullshit” that provides a fade out for the Poets, is the center of his lyrical vision, placed in chorus of the song and returned to over and over. Indeed the tonal oscillation between “party” and “bullshit” from the sample highlights the thematic tension in Big’s lyrics between social festivities and pleasure, and Big’s concern with personal conflict, violence and physical safety. The two are fused in Biggie’s world-view, a part of being alive, and the center of the rappers universe. Where the Poets condemn the world of partying as bullshit, Biggie turns it into a celebration, if a not uncomplicated one. Through the sample, and the lyrical content of the song, the politics of political struggle and revolution are entirely gone. Biggie’s world view is one of violence, racism and misogyny, and an attempted to find joy and personal redemption in that context. Indeed, for Big it is both celebration and a critique, of the “mess” of the world, both the “party

¹⁴⁴ *The Last Poets - When The Revolution Comes*, 2008, https://www.youtube.com/watch?v=8M5W_3T2Ye4.

and bullshit,” festivities and violence all mixed in one. What’s clear is that any notion of revolutionary content, of political struggle or social movement, is gone. All that is left of the Last Poets is the coda, the qualities which they condemned.

Biggie’s celebration of these parts of black culture was a major element of the emergence of hip-hop in general. The music that began as party music in uptown Manhattan and the South Bronx right as the era of austerity broke open, celebrated these purely joyful, social and celebratory aspects of American black culture. Hip hop was developed in New York in the late seventies in the wake of the fiscal crisis. Lack of access to musical instruments and musical training found New Yorkers borrowing from the DJ tradition of Jamaican immigrants. In the American mythology around hip-hop, when early musical adventurers couldn’t afford the equipment, they used opportunities like the 1977 summer blackout to make themselves available of electronic equipment, especially turntables and mixers. The initial lyrical and political content of hip hop was party music and dance music, think Sugar Hill Gangs’ “Rapper’s Delight.” The musical tracks, break beats, were attempts to extend the danceable “breaks” of songs for as long as possible. The lyrics on top were extensions of the dance, adding polyrhythmic layers of complexity to heighten the rhythm and danceability. Indeed, early on, lyrical expressions in hip hop were jibberish, syllables placed together for complex rhythmic expression as in the opening lines of Rappers Delight:

I said a hip, hop,
Hippie to the hippie,
The hip, hip a hop, rockin’ you don’t stop, a rock it
To the bang bang boogie, say, up jump the boogie,
To the rhythm of the boog-ity beat.
Now, what you hear is not a test - I’m rappin’ to the beat,
And me, the groove, and my friends are gonna try to move your feet

The content is the rhythm. Indeed, “rapper’s delight” is the origin of the nonsense moniker of “hip hop” to describe this type of music. Biggie was returning to this celebratory, creative and fun element of hip-hop, but by the 1990s it is being expressed after twenty years of experience with neoliberal austerity. The result, the vision, is much darker, still playful and fun, but with a very hard edge.¹⁴⁵

There were precursors to Biggie’s style and sound of course, even early in the rap tradition. Songs like Grand Master Flash’s “The Message” is culturally and historically significant for these reasons, taking the dance and rhythms of hip-hop and giving them the lyrical content of social commentary and lament at the state of black New York in 1982. Flash’s vision, released after the first seven years of austerity, warns us, in a now famous refrain, of a city “like a jungle,” in which Flash wonders “how I keep from going under.” The song opens with a lament of the city, where trash, broken glass and the smell of piss dominate one’s senses. Desiring a job to sweep the streets, the speaker cannot escape, because of wrenching poverty, “the man repossessed my car.” The core lyrical content of the song comes in the final verse, a story of young child who grows up in such circumstances, in which “god is smiling,” but “he’s frowning too,” because of both the hope of the youth, “blind to the ways of mankind,” and because of the social circumstances which the youth will face, “because only God knows what you’ll go through.” The portrait of the youth, is of a young man surrounded by “ghetto living, second rate,” in which the youth’s world vision and voice are filled with “a song called deep hate.” His points of admiration, are the pimps, the hustlers and dealers making money, and the boy will “want to grow up to be just like them.” Indeed he does, dropping out of high school, facing unemployment, the youth gets pinched for armed robbery and sent up state for “an eight-year

¹⁴⁵ *The Sugar Hill Gang - Rapper’s Delight*, 2010, <https://www.youtube.com/watch?v=rKTUAEsacQM>.

bid.” Here the horror of the warning finds its fruition, the young man is raped, “being used and abused to serve like hell,” before hanging himself, in suicide “you was cold and your body swung back and forth.” While the most striking element of horror in the story is the sexual violence, and perhaps part of the horror reliant on homophobic attitudes, the suicide reveals the tragedy of a death before the suicide, a kind of social death in which “it was plain to see” from early on “that your life was lost.” This is the core content of the song, the warning to the listeners, the context which is forcing the speaker into a psychic crisis pushing him “close to the edge,” in which he may “lose my head.” The song is a warning back, its “message,” is to not “push me,” don’t let these conditions linger, to find alternatives to this social reality. The songs brilliance is that the musical elements highlight this lyrical content, the song’s core “message.” Released by the dance and party label, Sugar Hill Records, the song’s beat rate is retarded, slowed to make the song difficult to dance to. The emphasis is on the message, the warning, to that youth, and the audience.¹⁴⁶

Biggie was the youth from “The Message,” his circumstances and biography rather closely parallel the narrative from the song. Unlike Flash, however, there was no longer an edge to go over. That line was crossed long ago, and the psychic framework and outlook for understanding the world that Biggie experienced and constructed was far different from that of Flash. For Flash in “The Message,” a generation closer to the social movements of the 1960s, something else was imaginable, the song was a lament, a warning of the product of social conditions defined by austerity. For Biggie, there was no alternative. This was the world. The idea of imagining something else, that there was something lost to lament or to warn about in a particular “message,” was gone. Biggie’s world was one of violence and misogyny and racism

¹⁴⁶ *Grandmaster Flash The Message*, 2009, <https://www.youtube.com/watch?v=O4o8TeqKhgY>.

and hedonism. In his rhetorical world, these elements are often portrayed in exaggerated, cartoonish, playful caricature. One that has Big pulling guns from his shoes and where women are “bitches” that “look ridiculous.”

The truth of Biggie’s work, the reality of his artistry, and why he was so widely popular, comes from the psychic portrait displayed through the music. This portrait is no better expressed than in his masterwork, his debut album, “Ready to Die.” One of only two full length compositions, because of his murder at the age of 24 in 1997, “Ready to Die” is the statement of an artist who lived his entire life under New York austerity. Ready to Die develops many of the same themes in Party and Bullshit, and from the hip-hop tradition in general. The album begins with a birth, an infant given to a world of fighting parents, “superfly” and hip-hop albums, and petty crime and violence. The theme of birth and death is fused throughout the record in songs like “Respect,” “Everyday Struggle,” “Suicidal Thoughts,” and “Ready to Die,” the title track. In the fantastic semi-autobiographical “Respect” Biggie recounts his birth. The “worst date” of “nineteen seventy something,” May 21st, his birthday, when his mother’s water broke and at the hospital his mother needed help because, from Big’s perspective, “umbilical cord’s wrapped around my neck / I’m seeing my death and I aint’ even took my first step.” Life and death, music and violence, hope and despair, the album’s protagonist is born to a world overwhelmed with the confluence of these forces. The suffocating pressures continue throughout the album. There seems to be no respite, no break, and the album concludes with the rappers suicide: “I reach my peak, I can’t speak / Call my nigga Chic, tell him that my will is weak / I’m sick of niggas lying, I’m sick of bitches hawking / Matter of fact, I’m sick of talking.” Ready to Die chronicles the life and death of a youth born to austerity.¹⁴⁷

¹⁴⁷ Notorious BIG, *Ready to Die* (Arista Records, 1994)

Big's perspective on austerity is seen in his songs like "Juicy" the breakout single for his debut album, and "Everyday Struggle." Juicy is a fantasy rags to riches story loosely based on Big's experiences. The chronicle takes us from Big's youth, one of poverty and privation, to his success as a rap star. The song's protagonist moves us through public housing and dropping out of public school, where "We used to fuss when the landlord dissed us / No heat, wonder why Christmas missed us" and in which "birthdays was the worst days" but now with success "we sip Champagne when we thirsty." For Big, this accounting of his youth was fantasy. His mother worked two jobs in part so she could send him to private school, they never lived in the projects, it is unlikely that he missed heat or holidays. But the accounting rang true enough to a receptive audience who could indeed identify with scarcity. In the song Big's fantasy continued as a star, when he could afford video games, cell phone bills, and gifts for his mother, rapping, "super Nintendo, Sega Genesis / When I was dead broke, man I couldn't picture this." Another point of pride, in the rappers fantasy, he was able to buy a car, an Acura, for his mother. This is indeed a very modest vision of "making it," possessions that are commensurate with a comfortable middle class lifestyle, but only exist in the world of pure fantasy for Big and his listeners. Juicy was Biggie's breakthrough success, the song sold over 600,000 copies, one of the most successful in rap music history, and is widely regarded as one of the most significant hip-hop tracks ever produced.¹⁴⁸

This popular identification continued with Biggie's concept of "struggle," no longer signifying political struggle, or armed struggle, as it would have a few decades previous. Instead, Biggie uses "struggle" to justify drug dealing and hustling, a struggle for basic survival. This is reiterated in his song "Everyday Struggle," a detailed account of dealing, where Big raps

¹⁴⁸ *Ready to Die*

“I know how it feel to wake up fucked up / Pockets broke as hell, another rock to sell.” The life, the pressure, and stress, constant violence and burdens leads to despondency. In the chorus, the hook of the song, of “Everyday Struggle,” Big raps, “I don't wanna live no mo' / Sometimes I hear death knockin at my front do' / I'm livin everyday like a hustle, another drug to juggle; / another day, another struggle.” While maybe some personally identified with the pressure and violence of dealing drugs, the song is approachable because of its portrayal of the “struggle,” basic survival in a country defined by austerity for many Americans. This lyrical content is what made Big approachable, and launched his career and success.¹⁴⁹

Ultimately, things don't turn out well for Big's protagonist in “Ready to Die;” his suicide and death are the apotheosis of the values of the street. Those values, Biggie's moral universe, was structured by the moral economy of the fiscal crisis. In songs like “Gimme the Loot,” “Ready to Die” and “Everyday Struggle” show this moral economy. In Gimme the Loot, a song about armed robbery, Big raps about what can only be called cartoonish delight of violence in pursuit of money. The physicality of the song, of snatching money, jewelry, any and all material objects from people, also viewed as objects, possible targets of violence, predominates. Big and his fellow nameless stickup-artist, also played by Big, delight in robbing pregnant women, steeling their “#1 Mom pendants,” and revel in the expressions of agony from mothers who've lost loved ones to their violence. Indeed, the only expression of love on the entire album is when Big's sideman mocks the pain of grieving mothers in a grotesque rendition of John Lennon's “It's So Hard,” Big's response, addressing his man as “Love,” was to “love your fuckin' attitude.” This is the morality of austerity.¹⁵⁰

¹⁴⁹ Ready to Die

¹⁵⁰ Ready to Die

This moral university, one of despondency and violence, shows the disconnect from the social struggles of the past. In “Gimme the Loot” Big, in the character of his unnamed sideman, claims to have been “robbing motherfuckers since the slave ships / it’s the same shit.” Some twenty years after the fiscal crisis, Big and his generation lived their entire lives in the era of austerity, the victories of social movements and popular struggles, are vacant, long distant. There may be a critique in these lyrics as well; when Big raps of a continual history of robbery and violence “since the slave ships,” who is Big speaking as? What has such an uninterrupted history of violence and theft? In this image, it’s as if there is one continuous legacy, of violence and profits, in which black people struggle for their very survival, from the slave ships to the present. In taking from pregnant women and stealing everything not bolted down, one can only see the violence the austerity regime steeling from the people of New York, echoes of closing maternity centers, Sidney Schwart’s report calling for the removal of children and the elderly from the hospitals in order to achieve greater economies.¹⁵¹

Despite all this, there is a revelry, a playfulness in the work. The descriptions of violence and sex are grandiose, cartoonish. And the lyrical conceit is enchanting, laced with clever word play and ideas. In this sense, Big’s work fits into the broader themes of gangster rap and the changes to hip-hop culture. This was a development of themes already present in New York based rap culture. Earlier albums like EPMD’s 1988 “Strictly Business,” and Erik B and Rakim’s “Paid In Full” from 1989 present an uncomplicated celebration of gangsters, hookers, and street characters who dominate this world. Women are ridiculed and objectified as bitches, condemned for their interest in personal relationships, and their superficial interest in material gain. Men are cowards and criminals, almost universally racialized as “niggaz,” deserving of cartoonish

¹⁵¹ Ready to Die

violence. And the goal throughout is personal material gain, hedonist pursuits which are praised as the only significant accomplishment. But the focus on money to the exclusion of all else, and the glorification of violence, the resultant nihilism, was present in so much of hip hop from Biggie's era, whether Wu Tang's "C.R.E.A.M." or Nas's "Life's a bitch and then you die." These ideas were widely resonant with this generation. Biggie, a particularly gifted spokesman. This is the moral world of austerity; Biggie and his generation a reflection of the values of the fiscal crisis.

But Biggie's artistic achievement is greater than this. Biggie is enmeshed in this world, and the result is psychic misery. The album, *Ready to Die*, unquestionably a plea against this misery. And this is the realness of Biggie's gangster rap. The realness, the attraction, of Biggie's work was not the cartoonish violence or sex, but the realness of the feelings that undergird Biggie's experiences of immiseration, desperation and hopelessness. In *Everyday Struggle*, when Biggie raps, "I don't want to live no more / Sometimes I hear death knockin at my front door / I'm livin everyday like a hustle, another drug to juggle / another day, another struggle," he captured the despair of the austerity generation. This is what made gangster rap, or reality rap, real – an authentic expression of the psychic condition of living in neoliberal black America. In this sense, with all the cartoonish braggadocio and bombast, Biggie, the King of New York, was the realest of the real.

* * *

5.6 Conclusion

This is the world austerity made. The material and institutional changes coming out of the EFCB and new orientation of the state had profound cultural and social impacts. This can be seen in the reorientation of social priorities in politics, in the labor movement, in left and community groups, and in popular culture and ideas. Indeed, the moral values of austerity, a ruthless dedication to the dollar, are reflected in the work of someone like Notorious B.I.G., who grew up surrounded by material privation which engendered a certain ruthlessness, a hardness, and a despondency, that made Big's work so popular. Our point, is that the cultural and material changes went hand in hand, reinforcing the turn to the right in the aftermath of the fiscal crisis. And its impacts were felt far beyond New York. The city became the model for the era of austerity, its legacy impacting social formations to this day. In the words of Chris Dykema, "this is capitalism's program for New York. This is capitalism's program for the nation. New York is just a pilot project." From the viewpoint of austerity planners, with some setbacks, the project was a tremendous success.

* * *

Conclusion

* * *

When Governor Carey introduced his budget message in the winter of 1975 promising the dawn of the era of austerity, that the “days of wine and roses” were over, few could have known how prescient were his comments. But indeed they were prophetic; the success of the austerity experiment in New York brought dramatic changes to national and international political economy. After 1975 the New Deal regulatory and social wage state faced a series of roll backs, worker wage gains were divorced from productivity, and the shrinking wealth gap between black and white Americans was gradually to be undone. In Democratic politics, unions, the left, popular cultural, indeed the fabric of American society was reshaped for the worse. With the changes, the standard of living for the entire American working class would decline, no longer the center of macro-economic policy. In 2017, older, white segments of the American working-class experienced increased mortality rates, a scandal for industrialized nations. The New York City fiscal crisis was the hinge on which this history turned.

Two months after Governor Carey delivered his “wine and roses” address to the New York state legislature, economist Milton Friedman was on a flight to Santiago de Chile, where a military coup led by General Augusto Pinochet 18 months previous had ousted the democratically elected government of Salvador Allende and his policies building moderate Chilean social democracy. The new coup regime spent 1973 and 1974 engaged in vigorous human rights abuses, persecuting its political opponents on the left, then part a vibrant political and social culture, through a “caravan of death,” stadium executions, death squads, detentions, torture, and disappearances. It wasn’t until 1975 that the coup regime turned to the economy, implementing

a series of reforms, for which they are celebrated to this day, that in many ways mirrored the policies developed in an ad-hoc way in New York in 1975. This was the basis for Friedman's 1975 visit. For Chile, this included slashing the national budgets of health, housing and education by one-fifth, and privatizing much of Chile's industry. Wages dropped by 8 percent, over the decades Chilean standard of living for middle class families declined by nearly a third. Banks and private investment, who had pulled out of Chile during the Allende regime, withholding credit and blocking access to international money markets, came pouring back in. Friedman, then a year away from winning the Nobel Prize, was one of the many intellectual progenitors of austerity in both capital cities.¹

A world away from New York, what happened in Santiago differed only in degree, not in kind, from the imposition of austerity in the Yankee homeland. Both places saw the radical imposition of state power to curtail unions, the left and social movements. In both places, many of the same private actors, whether Citibank or ITT, on whose board sat MAC chairman Felix Rohatyn, were major players. And both Santiago and New York saw fiscal austerity, a new cultural logic, imposed as a mechanism to reform and redefine social discipline and responsibility. That logic was further solidified just a few years later, in the 1982 Mexican Debt Crisis, with similar dynamics, including market failure, but with new nomenclature for the suggested reforms, "structural adjustment," and promises by international lenders to provide credit only if certain "market" conditions were met. The cultural logic of austerity was first experimented with in the in the financial sector's home laboratory; New York was the

¹ Mark Ensalaco, *Chile Under Pinochet: Recovering the Truth* (University of Pennsylvania Press, 2000); James Petras and Steve Vieux, "The Chilean 'Economic Miracle': An Empirical Critique," *Critical Sociology* 17, no. 2 (July 1, 1990): 57–72; Peter Winn, ed., *Victims of the Chilean Miracle: Workers and Neoliberalism in the Pinochet Era, 1973–2002*, First Edition edition (Durham: Duke University Press Books, 2004); Ralph Miliband, "The Coup in Chile," *Jacobin Magazine*, September 2015, <http://jacobinmag.com/2016/09/chile-coup-santiago-allende-social-democracy-september-11/>.

international test case for structural adjustment. Labor radical Chris Dykema commented that "capitalism's program for New York," was also "capitalism's program for the nation. New York is just a pilot project." And we can see those impacts today, as Detroit files for bankruptcy, and Puerto Rico, after having a federal control board imposed, also falters. But Dykema should have added that New York was an international prototype as well, from Santiago and Mexico DF, to Hong Kong and Seoul in the 1990s, and now Athens and the so-called PIGS nations. With initial success in New York, the cultural logic of austerity now seems inescapable.

Part of the seeming inescapability stems from how the New York crisis reshaped domestic politics in the US. In the 1976 presidential election New York and the politics of welfare, urban renewal, and social spending played a large part defining the candidates. Jimmy Carter promised increased aid to US cities, and to have the Federal Government stand by cities like New York when in need. Despite giving much hope to Abe Beame and those who desired a return to the old ways, once elected, Carter's promised urban aid never materialized. The Carter Administration only brought the austerity regime into the Federal Government, cutting taxes on the richest, privatizing and deregulating industry, and failing to pass and enact federal full employment legislation in efforts to combat persistent inflation. Indeed, rhetorically, Carter echoed his fellow Democrat, Hugh Carey, in his famed "Crisis of Confidence" speech, saying that the nation was "at a turning point," and that material comfort would not solve America's crisis of the 1970s. "Too many of us now tend to worship self-indulgence and consumption," Carter said, "but we've discovered that owning things and consuming things does not satisfy our longing for meaning. We've learned that piling up material goods cannot fill the emptiness of lives which have no confidence or purpose." Carter's vision, of national spiritual redemption through privation, is itself a manifestation of the cultural logic of austerity. But material deprivation, that experienced

by Biggie and millions like him, could also contribute to the kind of spiritual crisis of which Carter warned. His encouragement of American consumers to turn away from materialism, now reads as a cruel joke as the standard of living for American workers has remained stagnant or declined under Presidents Reagan, Clinton, Obama, and now Trump.²

Indeed, the rise of the politics of the far right and President Donald Trump can also be elucidated through the lens of the fiscal crisis. For it was in the wake of the crisis that Trump made his professional and political career, teaming up with the administration of Ed Koch to provide hundreds of millions in tax abatements for Trump to redevelop the Commodore Hotel, his first move into Manhattan real estate. From here, Trump positioned his real estate development at the hip of government, relying on city gifts and tax breaks to expand his empire, while that money was taken out of the hands, schoolrooms, and hospital beds of the city's poor. In the decades that followed, these policies were imposed on America writ large, eroding the standard of living and sense of security of working class Americans. Trump's political success in the 2016 presidential election is a reflection of these political dynamics, the austerity regime creating bank friendly reforms that led to the immiseration of working people. As was clear, the policies of austerity not only kept African Americans and people of color out of the Keynesian state, it sought to undo the entire apparatus. After decades, white workers felt this pressure too. Their loss of status answered in the antiestablishment politics and virulent racism, the *cri de coeur*, of Trump.

If the New York City fiscal crisis helps explain our current political moment, as dismal as it is, it also shows us that there is indeed a way out from the cycle of crisis, debt, loss of standards and reactionary racism. The fiscal crisis shows us that with a different cultural

² Jimmy Carter, "Energy and National Goals: Address to the Nation," July 15, 1979, <https://www.jimmycarterlibrary.gov/documents/speeches/energy-crisis.phtml>.

orientation, the material impacts on lives of workers and regular people could be dramatically different. In fact, banks and capital had been disciplined before, and they can be again. This is not to say that the Keynesian New Deal order was a panacea. It too was riven by inequalities, defined by profit and exploitation, racially exclusive, and environmentally destructive. For workers in the city under the Keynesian way of life daily existence was still defined by hardship and struggle. But the spectrum of struggle was different. For myself and those who have grown after Reagan and the era of austerity, with failing job prospects and crumbling institutions of social advancement, the options available to someone like Stanley Aronowitz, his experiences, is hard to imagine. But nonetheless, the record is there. Banks were disciplined to accept a social order that valued working life in some way, and they internalized those values to believe that they were in their own self-interest.

What should give us pause, however, is the source and duration of the period of discipline. While banks and capital were brought to heel, it took an economic catastrophe unparalleled in modern history, and virtually the complete loss of the material and ideological justifications for capital and liberalism, let alone the reckless variety that brought about the Great Depression. In this lack of confidence amongst businesses and elite interests, enough of those who had promulgated the old liberalism were brought around to support Keynesian policies, or at least stand aside, as the earth moved under their feet. This change, and a vibrant and punchy workers movement pushing from below, with fresh ideas and energies, finally saw the creation of a social order which created some semblance of decency for workers, mostly envisioned as white. But even this transformation was short-lived. The Keynesian social order lasted roughly three-and-a-half decades. The New York crisis the beginning of the turn. And we find ourselves

here again, a second Gilded Age, this one with greater, planetary stakes, of ecological collapse and exploitation.

Indeed, if the legacy of the fiscal crisis and the cycles of American liberalism show us anything, it is that there is fundamental flaw in the systems of capitalism in the *longue durée*. We can read this flaw operating at two levels. For Keynesianism, the idea that Abba Lerner and others would promote, that “internal debts” would guarantee that the politics and priorities of capital were to be cemented to long-range public investment, turned out to be fundamentally flawed. In the cultural turn of the 1970s the idea that capital would consider itself part of domestic society proved to be a fatal theoretical failure in the social thought of Keynesian political economy. At another level, there is a fatal flaw in the logic of capitalist democracy itself – that our system of public governance is based on, indelibly intertwined with, private finance. This is a central tension not as easy to overcome as the Keynesians would like to imagine. Indeed, this was something very few recognized at the time of the fiscal crisis, even as the old order was coming apart right before their eyes.

One who did was New York State Senator Abraham Bernstein of the Bronx. In his address on the floor of the state senate chamber just nine months after Cary’s wine and roses address, Bernstein was clearly feeling trapped. As the senate debated whether to adopt the Emergency Financial Control Act as the Governor recommend, Bernstein lamented the relationship between the responsibilities of public stewardship, and private capital. “There seems to me to be built into our society,” he said, a significant flaw:

that we finance our public purposes through private money and that private money is given to us at a premium, a premium that accrues to the people who own that private money for the most part and who are interested in making more money from that money, and they are interested in making more money from that money to the exclusion necessarily of making sure that that money serves general social purposes.

More troubling still for Bernstein, was that in 1975, for New York, this structural trap was to produce such widespread human misery. This relation, he noted, of private prerogatives, public governance, and social hardship, was something akin to an obscenity. “There is something indecent about our system,” he continued, “there is something indecent about the distribution of wealth in our system, there is something terribly disturbing about the fact that . . . the City of New York . . . should be at such peril at this moment.” As simply put as Bernstein’s notions were, it apparently was difficult for many to see at the time. Perhaps these insights can be more fully realized through the process of historical study.³

The legacy of the New York fiscal crisis is that Bernstein’s “premium of capital,” and the “perils of New York,” are now too our premiums, and our perils. If we hope to avoid these traps in the future, it behooves to listen to the Bernsteins, the Biggies, the Dykemas, and the Cacchiones of our own era. We need to build back the culture of resistance and humane social priorities that predated the fiscal crisis, but also to learn from the lessons of the past, to rebuild, and undo; to undo the structural shortcomings at the heart of Keynesianism; to undo the racial exclusions built into the consumerist social order; perhaps most importantly, to undo the limits of capitalist democracy, those that favor capital at the expense of democracy, a premium routinely paid through human suffering, with increasingly predictable and deleterious political results. In short, our task is to make and re-make the parameters of the contemporary social order. Early on, Mayor Beame called his austerity actions changes “which constitute nothing less than a revolution in the social and political life of our city.”⁴ Although more accurate would be to call it

³ State of New York, From the Record in Senate Unrevised, Albany, Extraordinary Session, Monday, September 8, 1975, pg. 111, Bigel Collection, Newman Library, Baruch College

⁴ Testimony of Mayor Abraham Beame, United States Congress Senate Committee on Banking Affairs Housing, and Urban, *New York City Financial Crisis: Hearings before the Committee on Banking, Housing and Urban Affairs, United States Senate, Ninety-Fourth Congress, First Session* (U.S. Govt. Print. Off., 1975). Pg 441

a counterrevolution. Perhaps it is time to construct a revolution of our own; to reshape the contours of culture and structure to better underwrite the interests and the future of us all.

Bibliography

Business In New York State

Economic Week

Federal Reserve Bank of New York Annual Report, 1961-1975

Federal Reserve Bank of New York Monthly Review

New York Daily News

New York State Legislative Annual 1975

New York Times

25 Years of Progress: Professional Staff Congress/CUNY · CUNY Digital History Archive.” Accessed December 3, 2016. <http://cdha.cuny.edu/items/show/2812>.

1973 year-end report on employment, prices, and earnings in New York City, New York, U.S. Department of Labor Statistics, 1974

1983-84 New York State Statistical Yearbook. 10 edition. S.l.: Nelson a Rockefeller Inst, 1984.

“2010 New York Code :: FEA - NYS Financial Emergency Act for the City of NY 868/75.” Justia Law. Accessed May 17, 2017. <http://law.justia.com/codes/new-york/2010/fea>.

Adelman, Jeremy, Thomas Borstelmann, Matthew Connelly, Francis J. Gavin, Louis Hyman, Ayesha Jalal, Stephen Kotkin, et al. *The Shock of the Global: The 1970s in Perspective*. Edited by Niall Ferguson, Charles S. Maier, Erez Manela, and Daniel J. Sargent. Cambridge, Mass.: Belknap Press, 2011.

Affairs, United States Congress Senate Committee on Banking, Housing, and Urban. *New York City Financial Aid: Hearings before the Committee on Banking, Housing, and Urban Affairs, United States Senate, Ninety-Fifth Congress, Second Session, on S. 2892 ... and H.R. 12426 ... U.S. Govt. Print. Off., 1978.*

———. *New York City Financial Crisis: Hearings before the Committee on Banking, Housing and Urban Affairs, United States Senate, Ninety-Fourth Congress, First Session U.S. Govt. Print. Off., 1975.*

Althusser, Louis. *Lenin and Philosophy and Other Essays*. Translated by B. Brewster. New edition edition. London: New Left Books, 1977.

- American Enterprise Inst. for Public Policy Research, Washington, Dc., Phillip., and Cagan. A New Look at Inflation: Economic Policy in the Early 1970S. American Enterprise Institute for Public Policy Research, 1973.
- Aronczyk, Amanda, "The Revolutionaries Who Rescued a Hospital," *National Public Radio*, WNYC, June 2, 2014, <http://www.wnyc.org/story/lab-coat-afro-and-shades-taking-lincoln-hospital/>
- "At Daggers Drawn with the Existent, Its Defenders and Its False Critics." Libcom.org. Accessed July 12, 2016. <http://libcom.org/library/daggers-drawn-existent-its-defenders-its-false-critics>.
- Auletta, Ken. The Streets Were Paved with Gold. 1st edition. New York: Random House, 1979.
- Bailey, Robert W. The Crisis Regime: The M. A. C., the E. F. C. B., and the Political Impact of the New York City Financial Crisis. Albany: State University of New York Press, 1985.
- Banfield, Edward C. The Unheavenly City Revisited : A Revision of the Unheavenly City. Scott Foresman, 1974.
- . The Unheavenly City: The Nature and the Future of Our Urban Crisis. Little, Brown, 1970.
- Banking, Finance, and Urban Affairs Subcommittee on Economic Stabilization , United States Congress House Committee on. The New York City Seasonal Financing Act of 1975 Hearing before the Subcommittee on Economic Stabilization of the Committee on Banking, Finance, and ... Congress, First Session, December 16, 1977. University of Michigan Library, 1978.
- Bannister, Martin T. Department of the Treasury Blueprint for Actions. Nova Science Publishers Incorporated, 2009.
- "Barack Obama's Neoliberal Legacy: Rightward Drift and Donald Trump: Paul Street." Truthdig, January 3, 2017. http://www.truthdig.com/report/item/obamas_neoliberal_legacy_rightward_drift_and_donald_trump_20170103.
- BBC (Firm), Jacques, and Peretti. The Super-Rich and Us., 2017.
- Beckert, Sven. The Monied Metropolis: New York City and the Consolidation of the American Bourgeoisie, 1850-1896. Cambridge: Cambridge University Press, 2003.
- Belknap, Michael. "The New Deal and the Emergency Powers Doctrine." Texas Law Review, 1983.
- Berger, Stephen. "The Interplay of State and Local Government in Health Care." Proceedings of the Academy of Political Science 32, no. 3 (1977): 63–67. doi:10.2307/1173421.
- Berlatsky, Noah. Inflation. 1 edition. Detroit, MI: Greenhaven Press, 2012.
- BIG, Notorious. Ready to Die. Arista Records, 1994.

- Biondi, Martha. *The Black Revolution on Campus*. Reprint edition. Place of publication not identified: University of California Press, 2014.
- Bluestone, Barry, and Bennett Harrison. *The Deindustrialization of America*. 1st edition. New York: Basic Books, 1984.
- Blume, Marshall E., Jeremy J. Siegel, and Dan Rottenberg. *Revolution on Wall Street: The Rise and Decline of the New York Stock Exchange*. 1st edition. New York: W W Norton & Co Inc, 1993.
- Blyth, Mark. *Austerity: The History of a Dangerous Idea*. Reprint edition. Oxford ; New York: Oxford University Press, 2015.
- Bois, W. E. Burghardt Du, and David Levering Lewis. *Black Reconstruction in America, 1860-1880*. New York: Free Press, 1998.
- Borstelmann, Thomas. *The 1970s: A New Global History from Civil Rights to Economic Inequality*. Reprint edition. Princeton: Princeton University Press, 2013.
- Botein, Hilary. "New York State Housing Policy in Postwar New York City: The Enduring Rockefeller Legacy." *Journal of Urban History*, July 1, 2009. doi:10.1177/0096144209339558.
- Bourdieu, Pierre. *The Social Structures of the Economy*. 1 edition. Cambridge, UK ; Malden, MA: Polity, 2005.
- Bowles, Samuel, David M. Gordon, and Thomas E. Weisskopf. *Beyond the Waste Land: A Democratic Alternative to Economic Decline*. Underlining edition. Garden City, N.Y: Doubleday, 1984.
- Braeman, John. *Change and Continuity in Twentieth-Century America*,. New York,: Harper & Row, 1966.
- Brooks, John. *The Go-Go Years* by John Brooks. Weybright and Talley, 1777.
- Brown, Ellen Hodgson, and Reed Simpson. *Web of Debt: The Shocking Truth about Our Money System and How We Can Break Free*. 5th Revised ed. edition. Baton Rouge, La: Third Millennium Press, 2012.
- Budget, United States Congress House Committee on the. *Congressional Budget Office Oversight: Hearing Before the Committee on the Budget, House of Representatives, Ninety-Fourth Congress, First Session, December 17, 1975*. 1975. U.S. Government Printing Office, 1976.
- Budzeika, George. *Lending to Business by New York City Banks*. [New York]: New York University, Institute of Finance, 1971.
- Burke, Edmund. "Edmund Burke: Reflections on the Revolution in France," 1790.
http://www.constitution.org/eb/rev_fran.htm.
- Cagan, Phillip. *The Hydra-Headed Monster : The Problem of Inflation in the United States*. Washington : American Enterprise Institute for Public Policy Research, 1974.

- Calomiris, Charles W. *U.S. Bank Deregulation in Historical Perspective*. 1 edition. New York: Cambridge University Press, 2006.
- Cannato, Vincent. *The Ungovernable City: John Lindsay and His Struggle to Save New York*. New York, NY: Basic Books, 2001.
- Caro, Robert A. *The Power Broker: Robert Moses and the Fall of New York*. N Later printing edition. New York: Vintage, 1975.
- Carruthers, Bruce G. *City of Capital*. Princeton, N.J: Princeton University Press, 1996.
- Carter, Jimmy. "Energy and National Goals: Address to the Nation," July 15, 1979.
<https://www.jimmycarterlibrary.gov/documents/speeches/energy-crisis.phtml>.
- Centeno, Miguel Angel. *Democracy Within Reason: Technocratic Revolution in Mexico*. 2 Sub edition. University Park: Pennsylvania State Univ Pr, 1997.
- "Chaos in the Family, Chaos in the State: The White Working Class's Dysfunction." *National Review*. Accessed January 4, 2017. <http://www.nationalreview.com/article/432876/donald-trump-white-working-class-dysfunction-real-opportunity-needed-not-trump>.
- Chappell, Marisa. *The War on Welfare: Family, Poverty, and Politics in Modern America*. Philadelphia: University of Pennsylvania Press, 2011.
- Grandmaster Flash *The Message*, 2009. <https://www.youtube.com/watch?v=O4o8TeqKhgY>.
- "Chile and the United States: Declassified Documents Relating to the Military Coup, September 11, 1973." Accessed May 10, 2017. <http://nsarchive.gwu.edu/NSAEBB/NSAEBB8/nsaebb8i.htm>.
- Chinitz, Benjamin. *Freight and the Metropolis, New York Metropolitan Region Study*. Harvard Univ Press, 1960.
- Chomsky, Noam. *Profit Over People: Neoliberalism and the Global Order* by Noam Chomsky. 1st Edition edition. Seven Stories Press, U.S., 1998.
- . *The Culture of Terrorism*. Black Rose Books Ltd., 1988.
- Chomsky's Philosophy. Noam Chomsky - Legal vs Illegal, 2012.
https://www.youtube.com/watch?v=9w_mTXrGe-E.
- Citibank (New York, N.Y.). *The Financial Industry : Its Importance, Transformation and Outlook for the Future in New York State*. [New York, N.Y.] : Citibank, N.A., 1980.
- "Citywide Community Coalition Mission Statement · CUNY Digital History Archive." Accessed December 4, 2016. <http://cdha.cuny.edu/items/show/4382>.

- Clark, Kenneth Bancroft. *Dark Ghetto: Dilemmas of Social Power*. First Edition edition. Harper & Row, 1967.
- Cleveland, Harold van B., and Thomas F. Huertas. *Citibank, 1812-1970*. 1st US-1st Printing edition. Cambridge, Mass: Harvard University Press, 1985.
- Coakley, Jerry. *The City of Capital : London's Role as a Financial Centre*. Oxford, England : B. Blackwell, 1983.
- Cohan, William D. *Money and Power: How Goldman Sachs Came to Rule the World*. Reprint edition. New York, N. Y.: Anchor, 2012.
- Cohen, J. M., and J. Rogers. *On Democracy*. New York: Penguin Books, 1983.
- Commerce, New York (State) Dept of. *Business Fact Book*, 1985.
- Commission, The New York City Planning. *Plan for New York City 1969, A Proposal: Volume 1, Critical Issues* by The New York City Planning Commission. The MIT Press, 1970.
- Committee for Economic Development. *High Employment without Inflation: A Positive Program for Economic Stabilization*. [New York], 1972.
- Committee for Economic Development (New York, N.Y.). Research and Policy Committee. *Further Weapons against Inflation*. New York, 1971.
- Community Council of Greater New York. *Family Budget Standard, for the Use of Social and Health Agencies in New York City*. New York: Research Dept., Community Council of Greater New York, 1970. <https://catalog.hathitrust.org/Record/000954512>.
- Conference Board. "Business Outlook, 1947-1975." In *Business Outlook, 1947-1975*. New York : Conference Board., 1947.
- . "Business Outlook 1975 : A Discussion." In *Business Outlook 1975 : A Discussion*. New York : Conference Board, 1975.
- . "Containing Inflation in the Environment of the 1970's,." In *Containing Inflation in the Environment of the 1970's,.* [New York],: [The Conference Board], 1971.
- . "Inflation in the United States, Causes and Consequences : Proceedings." In *Inflation in the United States, Causes and Consequences : Proceedings*. [New York] : Conference Board, 1974.
- Congress of the U.S., Congressional Budget Office. *Troubled Local Economies and the Distribution of Federal Dollars*. Washington/D. C. : Gov. Print. Off., 1977.
- Coordination, New York (State) Division of the Budget Office of Statistical, New York (State) Division of the Budget Technical Services Unit, New York (State) Division of the Budget Budget Services

- Unit, and Nelson A. Rockefeller Institute of Government. New York State Statistical Yearbook. New York State Division of the Budget, Office of Statistical Coordination, 1977.
- Cowie, Jefferson. *Capital Moves: RCA's Seventy-Year Quest for Cheap Labor*. New York: The New Press, 2001.
- . *The Great Exception: The New Deal and the Limits of American Politics*. Reprint edition. Princeton University Press, 2017.
- Cowie, Jefferson R. *Stayin' Alive: The 1970s and the Last Days of the Working Class*. New York: The New Press, 2012.
- Cowie, Jefferson, and Nick Salvatore. "The Long Exception: Rethinking the Place of the New Deal in American History." *Articles and Chapters*, October 1, 2008. <http://digitalcommons.ilr.cornell.edu/articles/594>.
- Daly, Michael. "Blackout Terror 1977." *New York Magazine* 26, no. 16 (April 19, 1993).
- "Debt, Deficits, and Modern Monetary Theory | Harvard International Review." Accessed May 10, 2017. <http://hir.harvard.edu/article/?a=2853>.
- Deery, Phillip. *Red Apple: Communism and McCarthyism in Cold War New York*. 1 Reprint edition. Place of publication not identified: Fordham University Press, 2016.
- "Democracy Within Reason: Technocratic Revolution in Mexico: Miguel Angel Centeno: 9780271017013: Amazon.com: Books." Accessed April 17, 2017. https://www.amazon.com/Democracy-Within-Reason-Technocratic-Revolution/dp/0271017015/ref=sr_1_1?s=books&ie=UTF8&qid=1492447831&sr=1-1&keywords=democracy+within+reason.
- Derthick, Martha, and Paul J. Quirk. *The Politics of Deregulation*. Washington, D.C: Brookings Institution Press, 1985.
- Domhoff, G. Williams. *Who Rules America?* 1st edition. Prentice Hall, 1967.
- Duckenfield, Mark, Stefan Altorfer, and Benedikt Koehler. *The History of Financial Disasters, 1763-1995 Vol 1*. Routledge, 2006.
- Duerr, Michael G. *What Troubles the World's Business Leaders*. [New York]: [Conference Board], 1974.
- Duménil, Gérard, and Dominique Lévy. *The Crisis of Neoliberalism*. Reprint edition. Cambridge, Mass.: Harvard University Press, 2013.
- The Sugar Hill Gang - *Rapper's Delight* (HQ, Full Version), 2010. <https://www.youtube.com/watch?v=rKTUAESacQM>.
- Ensalaco, Mark. *Chile Under Pinochet: Recovering the Truth*. University of Pennsylvania Press, 2000.

- Epstein, Gerald A. *Financialization and the World Economy*. Cheltenham: Edward Elgar Publishing, 2006.
- Fairman, Charles. *The Law of Martial Rule*,. Chicago,: Callaghan and Company, 1943.
- Fedor, Walter S. *Economic Growth in the Seventies*. Stamford, Conn.,: Technomic Pub. Co., 1970.
- Fellner, William. *Economic Policy and Inflation in the Sixties*. Washington,: American Enterprise Institute for Public Policy Research, 1972.
- Ferguson, Thomas. *Golden Rule: The Investment Theory of Party Competition and the Logic of Money-Driven Political Systems*. 1 edition. Chicago: University Of Chicago Press, 1995.
- Ferguson, Thomas, and Joel Rogers. *Right Turn: The Decline of the Democrats and the Future of American Politics*. Edition Unstated edition. New York: Hill and Wang, 1987.
- Ferretti, Fred. *The Year the Big Apple Went Bust*. 1St Edition edition. New York: Putnam Pub Group, 1976.
- First National City Bank (New York, N.Y.). *Profile of a City*. New York,: McGraw Hill, 1972.
- First National City Bank of New York. *Poverty and Economic Development in New York City*. New York, N.Y. : The Bank, 1968.
- . *The Financial Position of the City of New York in Long-Term Perspective*. [New York], 1970.
- First National City Bank of New York., George., and Roniger. *Metro New York; an Economic Perspective*,. [New York],: [First National City Bank, Economics Dept.], 1974.
- Fitch, Robert. *The Assassination of New York*. London ; New York: Verso, 1993.
- Foltman, Felician F. and Peter D. McClelland, eds. "New York State Economic Crisis: Jobs, Incomes, and Economic Growth – Proceedings and Commentary from the Labor-Management Conference on the Business Climate and Jobs in New York State," Buffalo, New York: Nov. 6-8 1975, New York State School of Industrial and Labor Relations, Cornell University
- "Forbath, William E. *Law and the Shaping of the American Labor Movement*. Cambridge, Mass: Harvard University Press, 1991.
- Fraser, Steve. *Wall Street: America's Dream Palace*. 1st edition. New Haven: Yale University Press, 2008.
- Fraser, Steve, and Gary Gerstle, eds. *Ruling America: A History of Wealth and Power in a Democracy*. Cambridge, Mass: Harvard University Press, 2005.
- Freeman, Joshua. *In Transit: Transport Workers Union In Nyc 1933-66*. Philadelphia: Temple University Press, 2001.
- Freeman, Joshua B. *Working-Class New York: Life and Labor Since World War II*. New York, NY: New Press, The, 2001.

- Freudenberg, Nicholas, Marianne Fahs, Sandro Galea, and Andrew Greenberg. "The Impact of New York City's 1975 Fiscal Crisis on the Tuberculosis, HIV, and Homicide Syndemic." *American Journal of Public Health* 96, no. 3 (March 2006): 424–34. doi:10.2105/AJPH.2005.063511.
- Funeral Records. Biggie Smalls - Party & Bullshit, 2008.
<https://www.youtube.com/watch?v=rEaPDNgUPLE>.
- Gaffney, James, Martin Lucas, and Jonathan Miller,. *Tighten Your Belts, Bite the Bullet*. Icarus Films, 1980. http://icarusfilms.com/cat97/t-z/tighten_.html.
- "Gerald R. Ford: Remarks and a Question-and-Answer Session at the National Press Club on the Subject of Financial Assistance to New York City." Accessed March 16, 2017.
<http://www.presidency.ucsby.edu/ws/index.php?pid=5344>.
- Glazer, Nathan, and Daniel P. Moynihan. *Beyond the Melting Pot, Second Edition: The Negroes, Puerto Ricans, Jews, Italians, and Irish of New York City*. Second edition edition. Cambridge: The MIT Press, 1970.
- Gordon, Colin. *New Deals: Business, Labor, and Politics in America, 1920-1935*. 1st Edition edition. Cambridge England ; New York, NY, USA: Cambridge University Press, 1994.
- Gottelher, Barry. *New York City in Crisis. A Pocket Book Special*, 1965.
- Graeber, David. *Debt - Updated and Expanded: The First 5,000 Years*. Upd Exp edition. Brooklyn: Melville House, 2014.
- Griffin, John Ignatius, and Oscar I. Janowsky. *Industrial Location in the New York Area*. Literary Licensing, LLC, 2012.
- Gross, Oren. *Law in Times of Crisis : Emergency Powers in Theory and Practice*. Cambridge ; Cambridge University Press, 2006.
- Guerin, Daniel, ed. *No Gods No Masters: An Anthology of Anarchism*. Translated by Paul Sharkey. Edinburgh, Scotland ; Oakland, CA: AK Press, 2005.
- Haberler, Gottfried. *Incomes Policies and Inflation; an Analysis of Basic Principles. With a Prologue on the New Economic Policy of August 1971*. Washington,: American Enterprise Institute for Public Policy Research, 1971.
- Hager, Sandy Brian. *Public Debt, Inequality, and Power: The Making of a Modern Debt State*. Oakland, California: University of California Press, 2016.
- Hamilton, Nora. *The Limits of State Autonomy: Post-Revolutionary Mexico*. Princeton, N.J: Princeton University Press, 1982.
- Harvey, David. *A Brief History of Neoliberalism*. Oxford: Oxford University Press, 2007.

———. *A Companion to Marx's Capital*. Second Impression edition. London ; New York: Verso, 2010.

Hazlitt, Henry. *Man vs. the Welfare State*. New Rochelle, N.Y. : Arlington House, 1969.

Health, United States Congress House Committee on Ways and Means Subcommittee on. *Problems Facing Financially Troubled Hospitals: Field Hearings Before the Subcommittee on Health of the Committee on Ways and Means, House of Representatives, Ninety-Sixth Congress, Second Session, March 14, 1980, New York City, April 18, 1980, Memphis, Tenn., May 27, 1980, Chicago, Ill.* U.S. Government Printing Office, 1980.

Heebner, A. Gilbert. *Negotiable Certificates of Deposit; the Development of a Money Market Instrument*,. [New York]: New York University, Institute of Finance, 1969.

Hennessy, Rosemary, and Chrys Ingraham, eds. *Materialist Feminism: A Reader in Class, Difference, and Women's Lives*. 1st Ed. edition. New York: Routledge, 1997.

Henwood, Doug. *Wall Street: How It Works and for Whom*. N edition. London; New York: Verso, 1998.

"Historical Inflation Rates: 1914-2017." US Inflation Calculator, July 24, 2008.
<http://www.usinflationcalculator.com/inflation/historical-inflation-rates/>.

Honey, Michael Keith, and Michael Keith Honey. *Black Workers Remember: An Oral History of Segregation, Unionism, and the Freedom Struggle*. Berkeley, Calif.; London: University of California Press, 2002.

Hoover, Edgar. *Anatomy of a Metropolis the Changing Distribution of People and Jobs Within the New York Metropolitan Region*. First Edition edition. Harvard University Press, 1959.

Horton, Ray. *Setting Municipal Priorities 1980*. Montclair: Rowman & Littlefield Pub Inc, 1911.

Horton, Raymond D. *Municipal Labor Relations in New York City*. Praeger Publishers, 1973.

Humboldt, Wilhelm von. *Limits of State Action, The*. Revised edition. Indianapolis: Liberty Fund, 1993.

Huntington, Samuel P. "The Marasmus of the ICC: The Commission, the Railroads, and the Public Interest." *The Yale Law Journal* 61, no. 4 (1952): 467–509. doi:10.2307/793586.

Hyman, Louis. *Debtor Nation: The History of America in Red Ink*. Reprint edition. Princeton, NJ: Princeton University Press, 2012.

"'I Feel Forgotten': A Decade of Struggle in Rural Ohio." *The New Yorker*, October 27, 2016.
<http://www.newyorker.com/culture/photo-booth/i-feel-forgotten-a-decade-of-struggle-in-rural-ohio>.

"Impact of New York City's Economic Crisis on the National Economy (771).pdf." Accessed August 30, 2016.

- [http://www.jec.senate.gov/reports/94th%20Congress/Hearings/Impact%20of%20New%20York%20City's%20Economic%20Crisis%20on%20the%20National%20Economy%20\(771\).pdf](http://www.jec.senate.gov/reports/94th%20Congress/Hearings/Impact%20of%20New%20York%20City's%20Economic%20Crisis%20on%20the%20National%20Economy%20(771).pdf).
- Imperato, P. J. "The Effect of New York City's Fiscal Crisis on the Department of Health." *Bulletin of the New York Academy of Medicine* 54, no. 3 (1978): 276–89.
- "Invoking Fiscal Crisis: Moral Discourse and Politics in New York City - Pdf." Accessed October 8, 2016. <https://muse.jhu.edu/article/47176/pdf>.
- Jones, Gareth Stedman, and Professor Gregory Claeys, eds. *The Cambridge History of Nineteenth-Century Political Thought*. Reprint edition. Cambridge University Press, 2013.
- Kahlenberg, Richard D. *Tough Liberal: Albert Shanker and the Battles Over Schools, Unions, Race, and Democracy*. Columbia University Press, 2009.
- Kaufman, Henry, James McKeon, and Jeffery Cohn. "Prospects for the Credit Markets in 1971," n.d.
- Kelley, Robin D. G. "Cedric J. Robinson: The Making of a Black Radical Intellectual." www.counterpunch.org, June 17, 2016. <http://www.counterpunch.org/2016/06/17/cedric-j-robinson-the-making-of-a-black-radical-intellectual/>.
- Benjamin J Klebaner, ed., *New York City's Changing Economic Base*, New York: Pica Press, 1981,
- Kolko, Gabriel. *The Triumph of Conservatism: A Reinterpretation of American History, 1900-1916*. Unknown edition. New York: Free Press, 1977.
- Kotz, David M. *Bank Control of Large Corporations in the United States*. Berkeley: Univ. of California Pr., 1980.
- Kraft, Joseph. *The Mexican Rescue*. First Edition edition. Group of Thirty, New York, 1984.
- Krippner, Greta R. *Capitalizing on Crisis: The Political Origins of the Rise of Finance*. Gld edition. Cambridge, Mass.: Harvard University Press, 2012.
- Kynaston, David. *The City of London: Volume 1: A World of Its Own 1815-1890*. New Ed edition. London: Pimlico, 1995.
- Lachman, Seymour P., and Robert Polner. *The Man Who Saved New York: Hugh Carey and the Fiscal Crisis of 1975*. 1st edition. Albany: State University of New York Press, 2010.
- Labor-Management Conference on the Business Climate and Jobs in New York State Buffalo). *New York State's Economic Crisis : Jobs, Income, and Economic Growth : Proceedings and Commentary from the Labor-Management Conference on the Business Climate and Jobs in New York State, Buffalo, New York, November 6-8, 1975*. Ithaca: New York State School of Industrial and Labor Relations, Cornell University, 1977.
- Lang, Holly. *The Notorious B.I.G.: A Biography*. Westport, Conn: Greenwood, 2007.

- Levinson, Marc. "Container Shipping and the Decline of New York, 1955–1975." *Business History Review* 80, no. 1 (April 2006): 49–80. doi:10.1017/S0007680500080983.
- Lewis, Oscar. *LA Vida: A Puerto Rican Family in the Culture of Poverty--San Juan and New York*. New York: Random House, 1966.
- Lewis, Oscar, Margaret Mead, and O. LaFarge. *Five Families: Mexican Case Studies in the Culture of Poverty*. New York: Basic Books, 1975.
- Lichtenberg, Robert M. *One-Tenth of a Nation : National Forces in the Economic Growth of the New York Region*(Hardback) - 2014 Edition. HARVARD UNIVERSITY PRESS, 2014.
- Livingston, James. *Origins of the Federal Reserve System: Money, Class, and Corporate Capitalism, 1890–1913*. 1 edition. Ithaca (NY) etc.: Cornell University Press, 1989.
- Logan, John R., and Harvey L. Molotch. *Urban Fortunes: The Political Economy of Place*. 20th Anniversary edition. Berkeley, Calif.: University of California Press, 2007.
- MacKinnon, Catharine A. *Toward a Feminist Theory of the State*. Harvard University Press, 1989.
- Madrick, Jeff. *Age of Greed: The Triumph of Finance and the Decline of America, 1970 to the Present*. New York: Knopf, 2011.
- Markham, Jerry W. *A Financial History of the United States: From Enron-Era Scandals to the Subprime Crisis*. Armonk, N.Y: Routledge, 2011.
- Marx, Karl, and Friedrich Engels. *The Marx-Engels Reader*. Edited by Robert C. Tucker. 2nd Revised & Enlarged edition. New York: W. W. Norton & Company, 1978.
- Marx, Karl, and Ernest Mandel. *Capital: Volume 1: A Critique of Political Economy*. Translated by Ben Fowkes. Reprint edition. London ; New York, N.Y: Penguin Classics, 1992.
- McCartin, Joseph A. *Collision Course: Ronald Reagan, the Air Traffic Controllers, and the Strike That Changed America*. 1 edition. New York: Oxford University Press, 2011.
- Miliband, Ralph. "The Coup in Chile." *Jacobin Magazine*, September 2015.
<http://jacobinmag.com/2016/09/chile-coup-santiago-allende-social-democracy-september-11/>.
- Mirowski, Philip, and Dieter Plehwe, eds. *The Road from Mont Pèlerin: The Making of the Neoliberal Thought Collective, With a New Preface*. New edition. Cambridge, Massachusetts: Harvard University Press, 2015.
- "Monthly Review - FEDERAL RESERVE BANK of NEW YORK." Accessed May 14, 2017.
https://www.newyorkfed.org/research/monthly_review/1963.html.
- Moody, Kim. *From Welfare State to Real Estate: Regime Change in New York City, 1974 to the Present*. New York: New Press, The, 2007.

- Morgan Guaranty Trust Company of New York. *The Financing of Business with Euro-Dollars*. [New York], 1967.
- Morris, Charles. *Cost of Good Intentions: New York City and the Liberal Experiment*. 1st edition. New York: WW Norton & Co, 1981.
- Morris, Dick. *Bum Rap on America's Cities: The Real Causes of Urban Decay*. Englewood Cliffs, N.J.: Prentice-Hall, 1978.
- Moynihhan, Daniel P. *Coping: Essays on the Practice of Government*. 1st edition. New York: Random House, 1973.
- Moynihhan, Daniel Patrick. *Maximum Feasible Misunderstanding: Community Action in the War on Poverty*. Edited by P. J. Vitaccio. New York; London: Free Press, 1969.
- Murch, Donna Jean. *Living for the City: Migration, Education, and the Rise of the Black Panther Party in Oakland, California*. 1 edition. Chapel Hill: The University of North Carolina Press, 2010.
- New York Public Interest Research Group., Jay., and Hershenson. *A Citizen's Guide to the Emergency Financial Control Board*. Albany : New York Public Interest Research Group, 1977.
- New York (State)., and Hugh L. Carey. *Public Papers of Hugh L. Carey, Fifty-First Governor of the State of New York*. Albany: State of New York, 1982. <https://catalog.hathitrust.org/Record/100948098>.
- . *Public Papers of Hugh L. Carey, Fifty-First Governor of the State of New York*, 1980. Albany: The State, 1993. <https://catalog.hathitrust.org/Record/002714767>.
- New York (State)., Wade S., and Smith. *The Crisis in Public Finance*. [Albany] : Office for Local Government, 1969.
- Newfield, Jack, and Wayne Barrett. *City for Sale: Ed Koch and the Betrayal of New York*. 1st edition. New York: Harpercollins, 1988.
- Newfield, Jack, and Paul Du Brul. *The Abuse of Power*. First Edition edition. New York: Penguin Books, 1978.
- Nitzan, Jonathan, and Shimshon Bichler. *Capital as Power: A Study of Order and Creorder*. 1 edition. Milton Park, Abingdon, Oxon ; New York, NY: Routledge, 2009.
- Noam Chomsky Videos. Chomsky "Neo-Liberalism" is Neither New nor Liberal (2014), 2014. <https://www.youtube.com/watch?v=fGouSUMDKHI>.
- "Notorious BIG Biggie Smalls Demo Tape - YouTube." Accessed May 18, 2017. <https://www.youtube.com/>.
- O'Connor, James. *The Fiscal Crisis of the State*. New Brunswick, N.J: Transaction Publishers, 2001.

- Opdycke, Sandra. *No One Was Turned Away: The Role of Public Hospitals in New York City since 1900*. 1 edition. Westport, Conn: Oxford University Press, 1999.
- Osman, Suleiman. *The Invention of Brownstone Brooklyn: Gentrification and the Search for Authenticity in Postwar New York*. Reprint edition. New York; Oxford: Oxford University Press, 2012.
- Ostow, Miriam Dutka, Anna B. , ; United States. *Work and Welfare in New York City*. Johns Hopkins University Press, 1975.
- Parsons, Wayne. *The Power of the Financial Press: Journalism and Economic Opinion in Britain and America*. New Brunswick, N.J: Rutgers University Press, 1990.
- Petras, James, and Steve Vieux. "The Chilean 'Economic Miracle': An Empirical Critique." *Critical Sociology* 17, no. 2 (July 1, 1990): 57–72. doi:10.1177/089692059001700203.
- Phillips, Lisa. *A Renegade Union: Interracial Organizing and Labor Radicalism*. 1st Edition edition. Urbana, Chicago: University of Illinois Press, 2012.
- Phillips-Fein, Kim. *Fear City: New York's Fiscal Crisis and the Rise of Austerity Politics*. New York: Metropolitan Books, 2017.
- . *Invisible Hands: The Businessmen's Crusade Against the New Deal*. Reprint edition. W. W. Norton & Company, 2010.
- Piven, Frances Fox, and Richard Cloward. *Poor People's Movements: Why They Succeed, How They Fail*. Unknown edition. New York: Vintage, 1978.
- Polanyi, Karl. *The Great Transformation: The Political and Economic Origins of Our Time*. 2 edition. Boston, MA: Beacon Press, 2001.
- "Post-Anarchism and Social War: Post-Structuralism, and the Revival of an Anarchist Subterranean." Accessed July 12, 2016. <https://anarchafairy.files.wordpress.com/2008/01/sosc-489-final.pdf>.
- Poulantzas, Nicos. *The Poulantzas Reader: Marxism, Law and the State*. Edited by James Martin. London: Verso, 2008.
- Practising Law Institute. *Criminal Law and Urban Problems*. Stamford, Ct. : Condyne, 19 -.
- Preda, Alex. *Framing Finance : The Boundaries of Markets and Modern Capitalism*. Chicago : University of Chicago Press, 2009.
- "Quarterly Review - FEDERAL RESERVE BANK of NEW YORK." Accessed May 14, 2017. https://www.newyorkfed.org/research/quarterly_review/75th.html.
- "Queer Liberation Is Class Struggle | Unity and Struggle." Accessed January 12, 2017. <http://unityandstruggle.org/2010/01/08/queer-liberation-is-class-struggle/>.

- Ravitch, Richard. *So Much to Do: A Full Life of Business, Politics, and Confronting Fiscal Crises*. New York: PublicAffairs, 2014.
- Regan, Donald T. *A View from the Street*. 1st edition. New American Library [1972], 1972.
- Renner, Nausicaa. "Race Capitalism Justice." Text. *Boston Review*, January 13, 2017.
<http://bostonreview.net/race/race-capitalism-justice>.
- . "What Did Cedric Robinson Mean by Racial Capitalism?" Text. *Boston Review*, January 12, 2017.
<http://bostonreview.net/race/robin-d-g-kelley-what-did-cedric-robinson-mean-racial-capitalism>.
- Riesco, Manuel. "Is Pinochet Dead?" *New Left Review*, II, no. 47 (2007): 5–20.
- Robert Morris Associates., Gerald C., and Fischer. *Commercial Banking 1975 and 1980; a First Step in Long-Range Planning*. Philadelphia,: Robert Morris Associates, 1970.
- Roberts, Sam, ed. *America's Mayor: John V. Lindsay and the Reinvention of New York*. New York: Columbia University Press, 2010.
- Robinson, Cedric J., and Robin D. G. Kelley. *Black Marxism: The Making of the Black Radical Tradition*. Unknown edition. Chapel Hill, N.C: The University of North Carolina Press, 2000.
- Rochet, Jean-Charles. *Why Are There So Many Banking Crises?: The Politics and Policy of Bank Regulation*. Princeton University Press, 2008.
- Rocker, Rudolf. *Nationalism and Culture*. Facsimile Publisher, 2015.
- Rohatyn, Felix G. *Dealings: A Political and Financial Life*. First Edition edition. New York: Simon & Schuster, 2010.
- . "The Fiscal Crisis." *New York Magazine* 26, no. 16 (April 19, 1993).
- Ruiz, Pedro. "The Fiscal Crisis in New York City: Effects on the Mental Health Care of Minority Populations." *American Journal of Psychiatry* 136, no. 1 (January 1, 1979): 93–96.
doi:10.1176/ajp.136.1.93.
- Sandmo, Agnar. *Economics Evolving: A History of Economic Thought*. Princeton, N.J: Princeton University Press, 2011.
- Schelling, Corinne Saposs. *On Understanding Poverty: Perspectives from the Social Sciences*. Edited by Daniel P. Moynihan. New York, NY: Basic Books, 1969.
- Schwartz, Joel. *The New York Approach: Robert Moses, Urban Liberals, and Redevelopment of the Inner City*. First Edition edition. Columbus: Ohio State University, 1993.

“Securities Acts Amendments (1975 - S. 249).” GovTrack.us. Accessed September 2, 2016.
<https://www.govtrack.us/congress/bills/94/s249>.

Selgin, George. Bank Deregulation & Monetary Order. London ; New York: Routledge, 1996.

“Seth Luther: The Story of a Working-Class Rebel on JSTOR.” Accessed June 12, 2016.
http://www.jstor.org.offcampus.lib.washington.edu/stable/360191?Search=yes&resultItemClick=true&searchText=seth&searchText=luther&searchUri=%2Faction%2FdoBasicSearch%3FQuery%3Dseth%2Bluther%26amp%3Bacc%3Don%26amp%3Bwc%3Don%26amp%3Bfc%3Doff%26amp%3Bgroup%3Dnone&seq=1#page_scan_tab_contents.

Shefter, Martin. Political Crisis/Fiscal Crisis: The Collapse and Revival of New York City. Morningside Ed edition. New York: Columbia University Press, 1992.

Simon, William E. A Time for Truth. New York: Reader’s Digest Press, 1978.

Sinnreich, Masha. New York - World City: Report of the Twentieth Century Fund Task Force on the Future of New York City. First Edition edition. Cambridge, Mass: Oelgeschlager, Gunn & Hain Inc., U.S., 1980.

Sobel, Lester A., and Facts on File Inc. New York & the Urban Dilemma. Facts on File, 1976.

Soffer, Jonathan. Ed Koch and the Rebuilding of New York City. New York: Columbia University Press, 2012.

Stabilization, United States Congress House Committee on Banking, Currency and Housing Subcommittee on Economic. Debt Financing Problems of State and Local Government: The New York City Case : Hearings Before the Subcommittee on Economic Stabilization of the Committee on Banking, Currency and Housing, House of Representatives, Ninety-Fourth Congress, First Session. U.S. Government Printing Office, 1975.

States, United States United States ; United. The Report of the President’s Commission on Financial Structure and Regulation (December 1972) Including Recommendations of Department of the Treasury. Committee on Banking, Housing and Urban Affairs, United States Senate. U.S. Govt. Print. Off., 1973.

Stearns, Peter N. Encyclopedia of Social History. Garland Reference Library of Social Science. New York: Routledge, 1994.
<http://offcampus.lib.washington.edu/login?url=http://search.ebscohost.com/login.aspx?direct=true&db=nlebk&AN=38867&site=ehost-live>.

Stedman Jones, Gareth, and Gregory Claeys, eds. The Cambridge History of Nineteenth-Century Political Thought. Cambridge: Cambridge University Press, 2011.
<http://universitypublishingonline.org/ref/id/histories/CBO9780511973581>.

- Steger, Manfred B., and Ravi K. Roy. *Neoliberalism: A Very Short Introduction*. 1 edition. Oxford ; New York: Oxford University Press, 2010.
- Stein, Judith. *Pivotal Decade: How the United States Traded Factories for Finance in the Seventies*. 8/14/11 edition. New Haven: Yale University Press, 2011.
- Sternlieb, George and James W. Hughes, eds., *Post-Industrial American Metropolitan Decline and Inter-Regional Job Shifts*, Rutgers, State University of New Jersey Press, 1975,
- Stigler, George J. "The Theory of Economic Regulation." *The Bell Journal of Economics and Management Science* 2, no. 1 (1971): 3–21. doi:10.2307/3003160.
- Stone, Clarence N. "Reflections on Regime Politics: From Governing Coalition to Urban Political Order." *Urban Affairs Review* 51, no. 1 (January 1, 2015): 101–37. doi:10.1177/1078087414558948.
- . *Regime Politics: Governing Atlanta, 1946-1988*. 1st US-1st Printing edition. Lawrence, Kan: University Press of Kansas, 1989.
- Strange, Susan. *Casino Capitalism*. Manchester University Press, 1997.
- Tabb, William K. *The Long Default: New York City and the Urban Fiscal Crisis*. First Printing edition. New York u.a: Monthly Review Press, 1982.
- Taussig, Michael T. *The Devil and Commodity Fetishism in South America*. 2 edition. Chapel Hill N.C.: The University of North Carolina Press, 2010.
- Taylor, Clarence. *Reds at the Blackboard: Communism, Civil Rights, and the New York City Teachers Union*. Reprint edition. New York: Columbia University Press, 2013.
- Temporary Commission on City Finances, "Better Financing for New York City: Final Report of the Temporary Commission on City Finances, Including the First, Second and Third Reports and Additional Materials," New York: 1966
- "The Devastating Transformation Of Work In The US." *Reports from the Economic Front*, December 28, 2016. <https://economicfront.wordpress.com/2016/12/28/the-devastating-transformation-of-work-in-the-us/>.
- The Newt Davidson Collective. "Crisis at CUNY." Private Collection of the Twigg Family, 1974. <http://cdha.cuny.edu/items/show/16>.
- "The Night New York Saved Itself from Bankruptcy." *The New Yorker*, October 16, 2015. <http://www.newyorker.com/news/news-desk/the-night-new-york-saved-itself-from-bankruptcy>.
- The Revolutionaries Who Rescued a Hospital. Accessed May 6, 2017. http://www.wnyc.org/story/lab-coat-afro-and-shades-taking-lincoln-hospital/?utm_source=sharedUrl&utm_medium=metatag&utm_campaign=sharedUrl.

- "The Rock-Star Appeal of Modern Monetary Theory." The Nation. Accessed May 8, 2017.
<https://www.thenation.com/article/the-rock-star-appeal-of-modern-monetary-theory/>
- Thompson, E. P. P. Poverty of Theory. First Edition. New York: Monthly Review Press, 1978.
- "Tighten Your Belts, Bite the Bullet." Accessed April 17, 2017. http://icarusfilms.com/cat97/t-z/tighten_.html.
- "Toward the Queerest Insurrection.pdf." Accessed August 7, 2016.
<http://www.weldd.org/sites/default/files/Toward%20the%20Queerest%20Insurrection.pdf>.
- "Uft-50-Years-Book.pdf." Accessed March 2, 2017. <http://www.uft.org/files/attachments/uft-50-years-book.pdf>.
- United States. A Brief History of Emergency Powers in the United States: A Working Paper. Committee Print., 1974.
- . Action Program to Reduce Inflation and Restore Economic Growth., 1974.
- . State-Local Finances in Recession and Inflation : An Economic Analysis. Washington : Advisory Commission on Intergovernmental Relations, 1979.
- . The Negro Family : The Case for National Action. [Washington] : [For sale by the Supt. of Docs., U.S. Govt. Print. Off.], 1965.
- . Wages and Benefits of New York City Municipal Government Workers, May 1975. [New York], 1976.
- U.S. Department of Labor, Bureau of Labor Statistics, "Employment, Hours, and Earnings, States and Areas, 1939-82, Volume II: New Hampshire-Wyoming," Washington, D.C., 1984
- U.S. Department of Commerce, Bureau of the Census, *City Government Finances*
- "U.S. Life Expectancy Declines for the First Time since 1993." Washington Post. Accessed December 27, 2016. https://www.washingtonpost.com/national/health-science/us-life-expectancy-declines-for-the-first-time-since-1993/2016/12/07/7dc7b4-bc93-11e6-91ee-1addfe36cbe_story.html.
- Van Houtte, Raymond. Responsibilities of Bank Directors. St. Louis : Director Publications, 1974.
- "Victims of the Chilean Miracle." Duke University Press. Accessed May 14, 2017.
www.dukeupress.edu/victims-of-the-chilean-miracle.
- Viteritti, Joseph P., ed. Summer in the City. JHUP, 2014.
- Wertheimer, Barbara M., and Anne H. Nelson. Trade Union Women: A Study of Their Participation in New York City Locals. Edition Unstated edition. New York: Praeger Publishers Inc, 1975.

- White, Richard. *Railroaded: The Transcontinentals and the Making of Modern America*. 1 edition. New York: W. W. Norton & Company, 2012.
- “Who Put Trump in the White House? | Solidarity.” Accessed January 9, 2017. <http://www.solidarity-us.org/site/node/4859>.
- Wiebe, Robert H. *Businessmen and Reform: A Study of the Progressive Movement*. Chicago: Ivan R. Dee, 1988.
- Wilentz, Sean. *The Age of Reagan: A History, 1974-2008*. 1 Reprint edition. New York, NY: Harper Perennial, 2009.
- Williams, Charles E. *Runaway Inflation; the Onset*. Brooklyn, N.Y.: T. Gaus’ Sons, 1972.
- . *The Immorality of Inflation; a Study of the Moral, Political, and Economic Consequences of a National Inflationary Policy*. Brooklyn,: T. Gaus’ Sons, 1970.
- Wilson, Bee. “Counter-Revolutionary Thought.” In *The Cambridge History of Nineteenth-Century Political Thought*, edited by Gareth Stedman Jones and Gregory Claeys, 9–38. Cambridge: Cambridge University Press, 2011.
<http://universitypublishingonline.org/ref/id/histories/CBO9780511973581A010>.
- Winn, Peter, ed. *Victims of the Chilean Miracle: Workers and Neoliberalism in the Pinochet Era, 1973–2002*. First Edition edition. Durham: Duke University Press Books, 2004.
- Wolfe, Alan. *Limits of Legitimacy*. First Printing edition. Place of publication not identified: Free Pr, 1980.
- Woodsworth, Michael. *Battle for Bed-Stuy: The Long War on Poverty in New York City*. Cambridge, Massachusetts: Harvard University Press, 2016.
- Wriston, Walter B. *Liberty, Leadership and License*. Citibank, 1976.
- Yolton, John W. *The Locke Reader: Selections from the Works of John Locke with a General Introduction and Commentary*. 1 edition. Cambridge England; New York: Cambridge University Press, 1977.
- Zarndi. *The Last Poets - When The Revolution Comes*, 2008.
https://www.youtube.com/watch?v=8M5W_3T2Ye4.
- Zinn, Howard. *A People’s History of the United States*. Harper Perennial Modern Classics, 2005.
- Zipp, Samuel. *Manhattan Projects: The Rise and Fall of Urban Renewal in Cold War New York*. Reprint edition. Oxford ; New York: Oxford University Press, 2012.
- Zweig, Phillip L. *Wriston: Walter Wriston, Citibank, and the Rise and Fall of American Financial Supremacy*. 1st. ed edition. New York: Crown Business, 1996.