February 27, 2014

To the workshop,

Thanks for reading this work in progress. It is a draft of a chapter that will appear in an edited volume, and it is drawn from research for a narrative history I am writing of the fiscal crisis years and 1970s New York.

I should say that I don't entirely view myself as an economic historian—but a political historian who writes about business and about economic subjects and ideas. So I will be especially interested in the feedback of the workshop! I am actually especially interested in hearing your thoughts on the changing market for municipal bonds in the 1960s, and the changes in the nature of the activities of banks and pension funds through that time. I do not know that literature as well as I would like to, and any feedback or thoughts that participants in the workshop have would be most welcome.

Look forward to hearing your ideas, and thanks so much for having me present at the workshop.

Kim Phillips-Fein

The New York City Fiscal Crisis and Ideas of the State in the 1970s

By Kim Phillips-Fein

For Columbia Economic History Workshop

In April 1975, only a few weeks before the world would know that New York City was almost bankrupt, a woman named Lyn Smith wrote a letter to New York Senator Jacob Javits describing the housing conditions in the South Bronx, the neighborhood where she lived. "When a house burns down they don't destroy the frame, they leave it standing—you never know when it's going to fall. A little boy we know or knew named Ralphy lives in the South Bronx he was playing in one of the broken down houses and he fell through the floor he's dead now but if that building had been torn down he wouldn't be dead." Yet despite the terrible events that she described, the tone of Lyn Smith's letter was not angry, but resigned. "I don't know why I wrote this letter you'll probably never read."[1] Javits forwarded the letter to Abraham Beame, the mayor of New York City. His response would likely not have been too comforting to Lyn Smith or other residents of the South Bronx, which was becoming known nation-wide as a center of urban misery: "You are, of course, aware of the recent rash of fires in the South Bronx which have resulted in a large number of burned out buildings. The Department of Buildings has personnel in the area to inspect for unsafe buildings but the procedure is a time-consuming one." He assured the Senator that the City would continue to search for dilapidated buildings, and to tear them down, when need be.[2]

[1] Lyn Smith to Jacob Javits, 4/16/75. Roll 5, Abraham Beame Papers, Municipal Archives.
[2] Abraham Beame to Jacob Javits, 7/31/75. Roll 5, Abraham Beame Papers, Municipal Archives.

But in fact, even as Smith wrote her letter, New York City was on the edge of losing the very funds that it needed to be able to engage in such basic maintenance. Every month, New York went back to the banks that marketed its debt—which included First National City Bank, Chase Manhattan Bank, Morgan Stanley, Bankers Trust and Chemical Bank—to try to negotiate new offerings of short-term notes. The banks were charging the city ever-higher interest rates, which the mayor and comptroller denounced as exorbitant. In February 1975, a note offering was cancelled when the underwriting banks requested information on property tax collections that the city said it could not easily provide. In March 1975, bankers from First National City Bank met with officials from the Treasury Department and with Congressional representatives to warn that the city would soon be shut out of the credit markets. That May, Mayor Beame and Governor Hugh Carey traveled to Washington, D.C. to try to persuade the Ford administration to extend aid to New York. President Ford's Treasury Secretary, William Simon, was staunchly opposed to giving New York additional federal funds. Persuaded by Simon and other conservatives in his administration, Ford refused, and by the summer of 1975, New York had been plunged into a fiscal crisis. Throughout most of the rest of 1975, there seemed a real possibility that the city would go bankrupt. Only in the late fall, after New York appeared clearly committed to a new program of austerity, after the city had worked out agreements whereby its unions and the major banks would purchase large quantities of bonds, and after the state government had imposed a moratorium on the repayment of principal of the city's debt, did the federal government agreed to a program of "seasonal" loans.

The fiscal crisis had a profound impact on the scale and ambition of New York City's government, which had been the most extensive in the nation. New York City's government in the mid-twentieth-century engaged in a much broader range of activities than most cities—

running courts, libraries, a massive transit system, a network of public hospitals and a tuition-free public university system, in addition to the regular functions of city government. The city helped to underwrite a particular vision of social citizenship, distinctive to New York. Common understandings of the role of city government changed dramatically as a result of the crisis. The city reduced its payrolls by 63,000 people between 1975 and 1980, shrank its teaching force by one-quarter, imposed tuition at the City University of New York, made cutbacks in police and fire protection, slowed capital spending and abandoned ongoing construction projects, cut funding for the city's public hospitals, reduced sanitation services, closed day care centers, and hiked transit fares, among other reductions.[3] The impact of the crisis was accentuated by the

[3] See Joshua B. Freeman, *Working-Class New York: Life and Labor Since World War II* (New York: The New Press, 2001), 256-287 for the best short treatment of New York and the fiscal crisis. Also see Roger E. Alcaly and David Mermelstein, eds., *The Fiscal Crisis of American Cities: Essays on the Political Economy of Urban America With Special Reference to New York* (New York: Vintage, 1977; William Tabb, *The Long Default: New York City and the Urban Fiscal Crisis* (New York: Monthly Review Press, 1982) ; Eric Lichten, *Class, Power & Austerity: The New York City Fiscal Crisis* (South Hadley, MA: Bergin & Garvey Publishers, 1986); Kim Moody, *From Welfare State to Real Estate: Regime Change in New York City, 1974 to the Present* (New York: The New Press, 2007); Miriam Greenberg, *Branding New York: How a City in Crisis was Sold to the World* (New York and London: Routledge, 2008); Julian Brash, "Invoking Fiscal Crisis: Moral Discourse and Politics in New York City," *Social Text* 76, Vol. 21, No. 3, Fall 2003; Alice O'Connor, "The Privatized City: The Manhattan Institute, The Urban Crisis and the Conservative Counterrevolution in New York," *Journal of Urban History*, Vol. 34, No. 2, January 2008, 333-353; Jamie Peck, "Pushing Austerity: State Failure, Municipal Bankruptcy and the Crises of Fiscal Federalism in the USA," *Cambridge Journal of Regions, Economy and Society*, June 2013; and John Krinsky, "Neoliberal Times: Intersecting Temporalities and the Neoliberalization of New York City's Public Sector Labor Relations," *Social Science History Review*, Fall 2011, 381-422 . Suleiman Osman, *The Invention of Brownstone Brooklyn: Gentrification and the Search for Authenticity in Postwar New York* (New York: Oxford University Press, 2011) does not discuss the fiscal crisis, but provides an excellent interpretation of the transformation of New York's liberalism over the postwar years. Other important accounts of the fiscal crisis in New York City politics include Ester Fuchs, *Mayors and Money: Fiscal Policy in New York and Chicago* (Chicago: University of Chicago Press, 1992); Martin Shefter, *Political Crisis/Fiscal Crisis* (New York: Columbia University Press, 1992); Peter McClellan and Alan Magdowitz, *Crisis in the Making: The Political Economy of New York State Since 1945* (New York: Cambridge University Press, 1981); Seymour P. Lachman and Robert Polner, *The Man Who Saved New York: Hugh Carey and the Fiscal Crisis of 1975* (Albany: State University of New York Press, 2010). There are also a set of major journalistic accounts of the crisis mostly written in its immediate aftermath: Jack Newfield and Paul DuBrul, *The Abuse of Power: The Permanent Government and the Fall of New York* (New York: Penguin Books, 1978); Ken Auletta, *The Streets Were Paved With Gold* (New York: Vintage Books, 1980); Fred Ferretti, *The Year the Big Apple Went Bust* (New York: Putnam, 1976); Charles Morris, *The Cost of Good Intentions: New York City and the Liberal Experiment* (New York: W.W. Norton, 1981). One of the striking aspects of the literature on the fiscal crisis—which mirrors events at the time—is that different authors have very different takes on the extent to which the crisis was real or manufactured. While everyone agrees that the city had serious revenue difficulties, many of the scholarly accounts take for granted the reality of the fiscal crisis. This is in contrast to the journalistic or more left-leaning accounts, which, while seeing the crisis as reflective of serious economic difficulties, generally do not see austerity as the inevitable or only solution to the problems of the city.

broader transformations of American life in the 1970s. The fundamental presumptions that had shaped the life of the country during the postwar years—of steady economic growth, mass consumption, military dominance in the Cold War, the easy availability of energy, and the social norm of the two-parent nuclear family—were suddenly called into question, by military loss in Vietnam, the Watergate scandal, revelations about widespread government surveillance, prison uprisings such as Attica, the oil embargo, the strike wave (especially among public sector workers) and the slowdown of economic growth that began to become evident at this moment. New York City's fiscal crisis seemed a sign of the larger crisis of the postwar order. That New York—the capital of American finance—could experience such financial difficulties was widely seen as evidence of the weakness of the American economy and political system. As Christopher Lasch wrote in his 1979 *The Culture of Narcissism*, "Those who recently dreamed of world power now despair of governing the city of New York."[4] In this broader context, the fiscal crisis of New York City was widely understood and described as a turning point for the nation as a whole—it was evidence that the old order could not endure, that new economic realities were such that the expectations of the past simply could not govern the future.[5]

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[4] Christopher Lasch, *The Culture of Narcissism: American Life in an Age of Diminishing Expectations* (New York: W.W. Norton, 1979), xiii. For recent scholarship on the 1970s, see Jefferson Cowie, *Stayin' Alive: The 1970s and the Last Days of the Working Class* (New York: New Press, 2010); Judith Stein: *Pivotal Decade: How the United States Traded Factories for Finance* (New Haven: Yale University Press, 2010); Bethany Moreton, *To Serve God and Wal-Mart: The Making of Christian Free Enterprise* (Cambridge: Harvard University Press, 2009); Natasha Zaretsky, *No Direction Home: The American Family and the Fear of National Decline, 1968-1980* (Chapel Hill: University of North Carolina Press, 2007); Greta R. Krippner, *Capitalizing on Crisis: The Political Origins of the Rise of Finance* (Cambridge: Harvard University Press, 2011).

[5] The 1970s was widely felt as a time of crisis, but the idea was often employed by the left. The use of the idea of the fiscal crisis meant the claiming of the language of systemic failure by the right. For writing about crisis in the late 1960s and 1970s, see especially James O'Connor, *The Fiscal Crisis of the State* (New York: St. Martin's Press, 1973); Fred Block, "The Fiscal Crisis of the Capitalist State," *Annual Review of Sociology*, 7:1-27; Jurgen Habermas, *Legitimation Crisis* (Boston: Beacon Press, 1973); Sheldon Wolin, "Political Theory as a Vocation," *American Political Science Review*, Vol. 63, No. 4 (December 1969). For the implications of the crisis in New York, see David Harvey, *A Brief History of Neoliberalism* (New York: Oxford University Press, 2005), 44-45; Doug Henwood, *Wall Street: How It Works and For Whom* (New York: Verso, 1997), 295-297.

The fiscal crisis certainly changed much about the assumptions governing political life in New York. Yet this designation as a crisis, with its suggestion of a singular point of rupture between past experience and future possibility, so ubiquitous at the time, obscures the way in which the fiscal crisis was the latest in a long series of struggles within the city over the scope of the local welfare state, and the question of who would pay for it. The program of austerity that advanced during the fiscal crisis had been unfolding in the early 1970s, even before the crisis began to dominate headlines. The crisis itself was precipitated by the city government's turn to finance as opposed to taxation in the late 1960s and early 1970s, undertaken by local politicians as they became increasingly reluctant to tax the city's business class. In a sense, the crisis represented the culmination and emergence into public view of a set of conflicts—between city business leaders, bankers, advocates for the poor, unions, city politicians, and political leaders at the federal and state levels—that previously had been hidden out of sight. Those conflicts at heart had to do with the broader question of for whom the local state was supposed to function. Should local governments be actively and aggressively engaged in the provision of social services? Or should the local government primarily orient itself toward attracting and retaining business, which will then provide the necessary social supports? These questions, in turn, could not help but point toward the larger question of the role of government more broadly: what is the purpose of the state, which social groups does it serve, and to whom is it most responsible?

The fiscal crisis did not simply compel a new anti-state consensus, or bring about the easy ascendance of a neoliberal perspective. On the contrary, ideas about the appropriate role of government during the1970s and the relationship between business and the broader society remained far more contested.[6] The view of some of the market conservatives in the Ford

[6] For a broader discussion of this theme, see Judith Stein, *Pivotal Decade*, and Benjamin Waterhouse, *Lobbying America: The Politics of Business from Nixon to NAFTA* (Princeton: Princeton University Press, 2014).

administration that New York City should be permitted to go bankrupt met with substantial skepticism from national and international elites, as well as within the city itself. The vision of the legitimate scope of government was contested on the ground as well. Working-class New Yorkers greeted the cuts in social programs with resistance framed at times in terms of their rights as taxpayers, with the suggestion that as virtuous and upstanding citizens they should not face the loss of services, and at other times with a politics motivated by their sense that their very presence as a working-class population within the city was endangered by austerity. Thus while the crisis demonstrated the decline of elite support for the local government as a direct provider of services and the growing dependence of the city on the bond markets, it at the same time reflected the profound discomfort—both within the city and nationally—with the full implications of this position. Even as the fiscal crisis suggested the limits of a certain style of postwar liberalism, it also revealed how durable the assumptions of that moment were.

This essay will discuss three aspects of the fiscal crisis that suggest the ways that it was embedded in a much longer struggle over the scope of the welfare state and the appropriate role of government both in the city and nationally. First, I will explore the reasons for the increasing reliance of New York City's government on debt financing even as the market for municipal bonds was starting to contract, an increasing dependence which the fiscal crisis exposed in spectacular manner, and show the contest over the local welfare state which was being staged in the city during the late 1960s and early 1970s. Second, I will describe the ambivalence of national elites about the prospect of New York City's bankruptcy. Finally, I will discuss the anger that the cutbacks provoked within the city itself. Yet while the fiscal crisis revealed a set of changes that had been going on beneath the surface but not previously permitted to govern the life of the city, it did lead to the elevation of fiscal responsibility over ideas about social obligation as the final arbiter for thinking about social policy. The crisis was only one step in the transformation of the city's politics, but that it could happen at all demonstrated how much had truly changed.

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For much of American political history, a public debt has been a sign of strength rather than of weakness. Another way to think about this is to say that the American state has long relied on private finance to achieve its aims, and it has used private financing to bolster its own power and security. This has been true for both the federal and for local governments. The massive public borrowing campaigns of World War I and World War II, for example, had been necessary from a fiscal standpoint, but they also helped to develop popular support for the wars and to deepen the investment of citizens in the state itself. Cities in the early twentieth century sought to expand their capacity to borrow in order to invest in the infrastructure their businesses communities deemed essential. While these examples of the expansion of the public sector through private credit markets suggested the ways that governments sought to use the private sector to bolster its own capacity, the fiscal crisis in New York City highlighted that the opposite relationship was equally possible—that investors, banks and the bond market could come to be more powerful than the governments they supported, and could use that financial power to bring about changes in government policy.[7]

[7] William Novak, "The Myth of the 'Weak' American State," *American Historical Review*, June 2008, 752-779; Julia Ott, *When Main Street Met Wall Street: The Quest for an Investors' Democracy* (Cambridge: Harvard University Press, 2011); James Sparrow, *Warfare State: World War II Americans and the Age of Big Government* (New York: Oxford University Press, 2011) ; Gail Radford, "From Municipal Socialism to Public Authorities: Institutional Factors in the Shaping of American Public Enterprise," *Journal of American History*, Vol. 90, No. 3, December 2003, 863-890.

The basic causes of New York City's fiscal crisis lay in the changing economic base of the city, which had become quite evident by the early 1970s. In the postwar years, the city's economy had been powered by a diverse industrial economy quite different from those of cities such as Detroit. New York was populated by small factories in a wide range of industries—garment production, food production, printing and publishing, electronics. But throughout the 1960s and early 1970s, these companies were shutting down or leaving the city. While during the 1960s the city gained new service sector jobs, these generally were not as well paid as the manufacturing jobs it was losing. The city's economic difficulties became more severe in the early 1970s as it was caught in the national recession, as the flight of middle-class—and mostly white—New Yorkers to surrounding suburbs drained the city of resources and tax dollars.

This economic crisis had especially serious fiscal consequences in New York because of the city's unusually broad social welfare state and network of public institutions—its 22 public hospitals, free city university system, five zoos, extensive mass transit and public housing as well as day care, addiction services, neighborhood health clinics and other city services. These public institutions became the subject of political contest in the late 1960s and early 1970s, as the black freedom and Puerto Rican movements within the city called attention to the declining status of public hospitals, schools and the university system. As a result of protests, the city undertook a major expansion of the city university system through the adoption of an open admissions policy in 1970. The decline of manufacturing put a different kind of pressure on the city government. Public employment played a key role in the city's economic health. Throughout the 1960s, employment grew more rapidly in local government than in any other sector, offsetting some of the decline in industrial jobs. Finally, the structure of the relationship between federal, state and local spending placed a heavy burden on the city's finances. Because New York State law mandated that local governments pay 25 percent of their Medicaid costs, the city was responsible for an unusually high proportion of the health care expenses for poor people.[8]

This is not to say that all the local government expenses were rooted in social welfare—there were also high subsidies to certain kinds of businesses, for example the renovation of Yankee Stadium (which cost $100 million, and was one of the only capital projects that was continued throughout the fiscal crisis years).[9] But the extent and ambition of the city's public sector was unique in the country in the postwar years, and as a result, there were recurrent questions throughout the decade about who would pay to support this public sector. New York's political leaders did press the state for the right to expand taxes in the city over the 1960s, gaining the reluctant permission of Nelson Rockefeller's government to impose a city income tax, stock transfer taxes, and various new sales taxes on services. The city also received increased funds from the federal and state governments during the Great Society years, which helped to pay for the expanded spending—intergovernmental revenues rose by 172% between 1965 and 1969. But these taxes and revenues were not sufficient to counter the loss of jobs and population after the onset of recession in 1969—especially since intergovernmental aid did not rise at the same extremely rapid rate in the early 1970s.[10]

Although the gap between revenues and expenditures was well known prior to 1975, the longstanding fiscal difficulties of the city were finally transformed into the dramatic crisis of 1975 and 1976 by New York's increasing reliance on short-term debt to finance its affairs.[11] The expansion of short-term borrowing in New York is often dated to the final term of Mayor Robert

[8] Jonathan Soffer, *Ed Koch and the Rebuilding of New York City* (New York: Columbia University Press, 2010), 150-151.
[9] Ibid, 152.
[10] Ester Fuchs, *Mayors and Money*, 160-1, also 211.
[11] Robert Bailey, *The Crisis Regime: The MAC, the EFCB and the Political Impact of the New York City Financial Crisis* (Albany: State University of New York Press, 1984), 4.

F. Wagner, who turned to the credit markets in 1965 when facing a budget shortfall, promising that he would not permit the city's fiscal situation to "set the limits of its commitment to meet the essential needs of the people of the city."[12] There were relatively few regulations of municipal debt at this time, and the range of instruments available for borrowing expanded considerably over the 1960s. Instead of standard general obligation bond issues—which citizens had to approve with a vote—the city began to market a variety of kinds of short-term debt, in particular tax-anticipation notes, bond-anticipation notes, and revenue-anticipation notes, which were respectively backed by revenue anticipated but not yet collected from taxes, bonds and transfer payments from the state and federal governments. As the city's volume of short-term debt grew, so did the fiscal pressure, as the notes often carried high interest rates.[13]

In turning to debt financing, New York City was following the lead of Albany in the 1960s. Short-term debt had played a critical role in financing the expansion of the state university system, the building of new state government buildings in Albany, the construction of highways, Battery Park City and the United Nations, and the building of hospitals, nursing homes, and mental health facilities all throughout New York. Early in the decade, New York State voters had failed to vote in favor of bonds to fund housing projects. On the advice of bond lawyer John Mitchell—later Richard Nixon's Attorney General, best known for his role in Watergate, for which he served 19 months in prison—Nelson Rockefeller decided to create a new kind of bond. These were known as "moral obligation" or "moral makeup" bonds. They were bonds that were not guaranteed by the full faith and credit of the state, and were not backed by any particular revenue stream, so they did not need to be approved by voters. Instead, they

[12] Quoted in Nicholas P. Giuliano, Timothy J. Heine, and Tammy Elaine Tuller, "The Constitutional Debt Limit and New York City," *Fordham Urban Law Journal*, Vol. 8, Issue 1, 1979, 185.
[13] Peter D. McClelland and Alan L. Magdovitz, *Crisis in the Making: The Political Economy of New York State Since 1945* (New York: Cambridge University Press, 1981), 308-309.

could be issued by public corporations in the name of the state, even though there was no collateral for them but the promise that the state would redeem them when the time came due. By 1973, the state had $5.6 billion outstanding in debt issued in these ways—compared to $3.4 billion that had been issued with the approval of voters.[14] New York City's move to start relying on debt in a new way took place in the broader context of the expansion of debt throughout New York State.

The banks that underwrote and marketed this debt to the public were generally quite happy to do so throughout the late 1960s and early 1970s. The municipal bond market was booming, as banks and insurance companies sought these investments both for their supposed safety and stability and for their tax benefits (interest on municipal bonds being tax-exempt). But the era was also one when a range of new financial opportunities for banks were opening up. Since World War II, the financial sector had operated according to fairly routine rules and regulations—interest rates on deposits were capped, banks focused most of their business on the domestic United States, regulations governing who could access credit were tight. In the 1970s, however, these constraints were starting to give way, as policy-makers relaxed the regulations in response to the spreading economic slowdown.[15] At the same time, banks were beginning to experiment with ways around the regulations dating from the New Deal that limited the interest that commercial financial institutions could pay on deposits, and which had served throughout the postwar years as a mechanism to regulate the economy overall. Ceasing simply to hold deposits and make loans, they were becoming the purveyors of new financial products.[16] Although the stock market remained mired in a decade-long slump, banks were attracted by new financial instruments such as real estate investment trusts that promised higher returns than the

[14] "Debt-Like Commitments of the State of New York," State of New York Department of Audit and Control, 1973.
[15] Charles N. Stabler, "Developing Debt," *Wall Street Journal*, 9/28/76.
[16] Greta Krippner, *Capitalizing on Crisis*, esp. 75 for discussion of Citibank.

older and more predictable investments. At the same time, the recession of the 1970s was starting to make many financial institutions anxious about their investments. Especially after the collapse of the Franklin National Bank in 1974, the bankruptcy of the Penn Central Railroad in 1970, and most important for the city, the meltdown of another New York State agency (the Urban Development Corporation) in February 1975, the city's banks became much more wary about the loans they were making.

Alongside these larger transformations of the financial industry, the specific market for municipal and state bonds was changing as well. Throughout the 1960s, commercial banks had been the largest market for new bond issues. Municipal bonds were appealing to banks because the banks did not need to pay federal income tax (and in many cases, state and local income tax) on the interest income from the bonds. In a time of high corporate tax rates, the value of this tax-free income was significant. Drawn by the tax shelter promised by municipal and state bonds, banks had switched much of their holdings of U.S. Government bonds for those of the cities and states in the postwar era. But by the 1970s, the increased range of possibilities open to banks—and in particular, the expansion of income from international banking, which often fell outside the U.S. tax structure, with companies counting their foreign tax payments as credits against their income taxes—meant that commercial banks no longer wanted or needed to hold as many municipal bonds.[17] The appeal of municipal bonds was declining. Cities and states would need to look elsewhere for customers for their bonds: to pension funds, life insurance companies, and high-income individuals, for example. By becoming so dependent on the bond markets for the operation of its government, at the very moment when the banks and municipal markets were

[17] Memo to Mr. Thomas Huertas from Mary Saunders Turner, "Reduction in Citibank Income Tax Burden, 1956-1970." Citibank Archives, RG 12, Citibank Book, Mary S. Turner, Memoranda and Drafts, 1978.

undergoing a profound set of changes, New York City effectively opened itself up to the possibility of a financial crisis, as finally happened in 1975.[18]

The turn to finance itself reflected the increasing conflict over the scope of the city's public sector. Even before the crisis erupted in 1975, the nature of New York's welfare state had been the subject of great controversy and discontent—a political anxiety about who benefited from the city's government which was expressed in terms of the problem of who would pay for its programs. Business leaders feared that the costs of the city's services would fall increasingly on them, while politicians in the city and state alike grew anxious about the discontent of business.

For many in the city's business circles, the causes of the city's problems were only too obvious: the expansion of the services provided by the city, and the rising cost of a recently unionized public sector workforce. For more than a decade before the fiscal crisis, business groups in the city had been agitated about fiscal problems. In 1960, the New York Chamber of Commerce warned that the city's expense budget was growing too rapidly, and that "to continue the present trend for any length of time is to court financial disaster."[19] The Citizens Budget Commission warned of a fiscal crisis in 1964.[20] When Mayor John Lindsay imposed a stock-transfer tax on the financial markets, the leaders of the New York Stock Exchange seriously considered relocating and leaving the city. The president of the Stock Exchange was highly concerned about the city's future. "What troubles me as a New York-based businessman is the fact that New York's potential as a business center isn't being fully realized," he wrote to the president of the Economic Development Council, an organization founded in 1965 devoted to giving New York's businessmen more voice in the city. "We have the people, the capital

[18] Joshua Freeman, *Working-Class New York*, 257.
[19] Fred Feretti, *The Year the Big Apple Went Bust* (New York: G.P. Putnam, 1976), 30.
[20] Martin Shefter, *Political Crisis, Fiscal Crisis*, 241.

resources, the tradition of business service, the know-how and the proper geography. But one overriding problem—the deterioration of the climate for business, especially in the realm of taxes—undermines the effectiveness of these many favorable elements."[21] In another letter, he observed that in his opinion, the central problem the city faced was not one of inflexible revenues but of rising expenses. "Our economic development efforts will bear a short crop indeed, if we have nothing to show to any potential or existing employer, but a record of rising expenses that require more elastic taxes."[22] Trying to dissuade the Stock Exchange from departing, Lindsay established a a committee dubbed the Keep the New York Stock Exchange in New York City Committee. However, the participants from the NYSE were disheartened by their experience. In a final report, they wrote that there was no hope for repeal of the stock transfer tax. The "pressures from other quarters to keep taxes down on real estate, sales and incomes, to maintain the 20 cents subway fare and to provide welfare and other City services are so great" that the city had to "pursue a most expedient course and forsake no alternative revenue sources." Given this, the best course of action for the Board of Governors of the NYSE would be to proceed "with all deliberate speed" to explore relocating the NYSE outside of New York State.[23]

The acute awareness of the need to maintain a competitive environment for investment that the NYSE was trying to create was felt by the early 1970s at the level of the state government as well. Governor Nelson Rockefeller was growing deeply concerned about the flight of industry from New York State, and he decided to make a stand against major tax increases at the state level—to protect the "business climate" of New York. In his budget

[21] G. Keith Funsten to Clarence Francis, 5/23/66. G. Keith Funsten Papers, Box 3, Folder 3. NYSE Archives.
[22] G. Keith Funsten to Clarence Francis, 12/5/66. G. Keith Funsten Papers, Box 3, Folder 3. NYSE Archives.
[23] Henry Harris, George Leness and Henry Watts to Board of Governors, Subject: Final Report on the Mayor's Committee to Keep the New York Stock Exchange in New York City, 3/8/67. G. Keith Funston Papers, Box 6, Folder 6. NYSE Archives.

messages and addresses to the Legislature, he warned against a potential "exodus" of jobs and business from New York, one that would "destroy the very basis of our revenue structure and our ability to meet human needs."[24] He tracked the ways that other neighboring industrial states were solving their budget dilemmas, to make sure that the city would not adopt anything out of line with what they wanted to do.[25] His Commerce Commissioner argued that New York State should maintain a corporate franchise tax below 9%, so that the state could be "loudly" competitive with Massachusetts, Connecticut and Pennsylvania. Along with "substantial tax 'breaks'" for industries that were expanding their facilities in New York State, this tax (lower than in surrounding states) gave the Commissioner a "very effective 'sales pitch'" to use to attract new business.[26] For Rockefeller, New York City was a prime target. When Mayor Lindsay approached him in 1971 asking for the right to impose new taxes, the governor responded with hostility: "The citizens of our state already pay the highest taxes—state and local combined—in the Nation." He told Lindsay no one should forget that "people overburdened with taxes can easily move out of a state." The only appropriate solution was federal aid, which would not be forthcoming: "Tragically, the Congress has demonstrated no sense of urgency or even awareness of the profound human implications of this fiscal crisis." The result was that there was no choice but to cut services. All involved had to keep in mind the ultimate consequence of such fiscal irresponsibility: He warned that everyone should remember that it was quite possible for local governments—and even for states—to go bankrupt.[27]

Well before the fiscal crisis emerged into public view, then, the struggle over New York City's finances was already underway. Local business elites were resentful and hostile toward

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[24] Statement by Nelson A. Rockefeller, 3/15/71. NAR, RG 15, Series 10.3, Box 13, Folder 146.
[25] Robert Douglass to Governor Rockefeller, 3/11/71. Subject: Tax Problems and Actions in Neighboring States. NAR RG 15, Series 10.3, Box 13, Folder 196.
[26] Neal Moylan to Robert Douglass, DATE?. NAR RG 15, Series 10.3, Box 13, Folder 146.
[27] Special Message to the Legislature, 4/20/71. NAR, RG 15,Series 10.3, Box 18, Folder 172.

the city's programs. The state government viewed the city's propensity to tax as a threat to its "business climate." At the same time, the city was under intense pressure from a politicized population that wanted an expansion of services (for example, open admissions at CUNY) and that relied on local government employment as industrial jobs left the city. To cope with these conflicting imperatives, especially as federal funds ceased to be as readily available, the city government sought to evade open conflict by turning to the credit markets—even though the market for municipal bonds was contracting. These tensions came into open view during the fiscal crisis, but they had been building for years before: they suggested the weakness of the state in comparison to business and the private markets.

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Yet at the same time, the expectations that had been generated during the postwar boom and the Great Society did not immediately dissipate with the onset of fiscal crisis. Although the crisis provided a dramatic illustration of the limits of the city's government, local and national elites alike made the case for government action to save New York from bankruptcy. At the same time, within the city, New Yorkers responded to the crisis by trying to re-articulate the legitimacy of their claims on city services, despite all they were being told about the new fiscal limits. The fiscal crisis did not mean a collapse of government authority; on the contrary, it was met by a new insistence on the importance of finding ways to make demands on the local and national state.

The presidential administration of Gerald Ford monitored the situation in New York City closely throughout the year, gathering information about the city's adoption of budget cuts, local political developments and the likely impact of default on banks across the nation.[28] Although some of Ford's advisors (most notably James Cannon, the director of his Domestic Council) there were some people within the administration who believed that it might ultimately be necessary to find a way to provide loans to the city to keep it from default, the strongest voice became that of Treasury Secretary William Simon, a former municipal bond dealer himself (he had worked at Salomon Brothers). Simon's stance was also supported by Donald Rumsfeld (Ford's chief of staff until November 1975, when he became Secretary of Defense) and Alan Greenspan (the Chairman of the Council of Economic Advisers). Simon took a sharply ideological approach to the crisis. He was deeply committed to free market economic ideas, and he viewed the financial problems of the city as a harbinger of those confronting the entire country. In a speech to the Economic Club of New York in September 1975, he said little about New York's own crisis, but instead described the dangers he felt the country faced as a result of the "visceral negative reaction" that could be provoked in some quarters by "mention of corporate profits, capitalism and even free enterprise." The Federal government, he warned, "has been living beyond its means for far too long," and the result was runaway inflation.[29]

Not surprisingly, Simon was very reluctant to extend federal aid to New York. (Although it should be noted that when he first heard about the city's fiscal problems in March of 1975, he suggested that the federal government might want to advance the city welfare payments due later in the year to help tide it over, a proposal angrily rejected by Donald Rumsfeld, who viewed such

[28] For divisions within the Ford administration, see Charles J. Orlebeke, "Saving New York: The Ford Administration and the New York City Fiscal Crisis," in Bernard J. Firestone and Alexej Ugrinsky, eds., *Gerald R. Ford and the Politics of Post-Watergate America* (Westport, CT.: Greenwood Press, 1993), 359-386.

[29] Address by William Simon to the Economic Club of New York, 9/23/75. In William Simon Papers, Lafayette College.

a course of action as a "disaster.")[30] He believed that the default of the city would not have a serious impact on the rest of the country, that municipal markets had already registered New York's distress and that extending aid would ultimately be a political and economic mistake because it would legitimate the kinds of public spending that New York had previously undertaken. His position was bolstered by the mail he received from people around the country urging him to stick to a hard line in response to the city's difficulties. For example, one municipal underwriting firm in Pittsburgh suggested that a default on the part of New York City would have a "sobering effect on municipal financing," whereas a bailout for such a "spend-thrift local government" would establish a dangerous precedent.[31] This was the attitude reflected by President Gerald Ford's press secretary when compared the city to "a wayward daughter hooked on heroin. You don't give her $100 a day to support her habit. You make her go cold turkey."[32] After Simon left national office, he wrote a book (*A Time for Truth*) directed at rallying American business people to become politically active, which included a chapter on the fiscal crisis entitled "New York: Disaster in Microcosm."[33] For Simon, the problems of New York City were simply those facing the United States as a whole should it continue to expand the welfare state.

But there was no national or elite consensus around a denial of federal aid. Mayor Abraham Beame and New York State Governor Hugh Carey approached Washington in May 1975 for aid, making the case that the city's fate was a matter of national concern, that social unrest was imminent and that private entities had previously received bailouts. As Beame put it,

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[30] Memorandum for the President," from William Simon, 3/26/75. Presidential Handwriting File, Box 8, Folder: Federal Aid: Revenue Sharing. Gerald Ford Archives; Memo to the President from Donald Rumsfeld. 4/12/75, Presidential Handwriting File, Box 8, Folder: Federal Aid: Revenue Sharing. Gerald Ford Archives.
[31] Edwin F. Scheetz, Jr., of Moore, Leonard & Lynch, to William Simon, 10/2/75. William Simon Papers.
[32] Martin Tolchin, "Ford Again Denies Fiscal Aid to City," *New York Times*, October 18, 1975, 61.
[33] William Simon, *A Time for Truth* (New York and Chicago: McGraw-Hill, 1978).

"The Federal government has not hesitated to rush in and assist banks with cash flow problems, or to provide emergency funds to Lockheed or the Penn Central."[34] Early in the summer of 1975, New York State created the Municipal Assistance Corporation, which was empowered to market bonds (backed by sales taxes) to refinance the city's debt. The MAC was led by business leaders and financiers who promoted themselves as bringing technocratic expertise and rationality to city affairs, a neutral and depoliticizing force to counter the power of labor unions, radical groups pressing for services for poor African American and Puerto Rican New Yorkers, and the old working-class machine—all of which they blamed for the crisis. They suggested they had the independence and the force to simply do what was needed to regain the trust of investors and the marketplace. As William Ellinghaus, the chief executive of AT&T who served on MAC, argued, "To balance the budget, to restore the confidence of the financial community whose resources we need in order to survive, to guarantee the survival of New York City there is an urgent need to alter the traditional view of what city government can and should do. What is required is a fundamental rethinking of the level and quality of services this city provides its citizens." This should not only involve "drastic, immediate" cuts, but a new long-term plan for the city.[35] In one 1976 speech, Lazard, Freres banker Felix Rohatyn outlined what such a plan might be, describing the need to make New York "a tourist Mecca for the rest of the country, and also to appeal to European tourists "who view with alarm the leftward drift of their respective governments. This time around, New York City should look to Europe and say, 'Give me your rich!'"[36] More immediate to the crisis, at a meeting with Beame in July 1975 Rohatyn argued that the more dramatic the city's cuts the better—"overkill" might be necessary to have the

[34] Ronald Smothers, "Simon's Rejection of City's Aid Plea Scored by Beame," *New York Times*, May 12, 1975, 1.
[35] William Ellinghaus Statement on MAC Program, July 31,1975. Binder: MAC Material. Jack Bigel Papers, Baruch College Archives, CUNY.
[36] Felix Rohatyn Address to A Conference on A National Policy for Urban America, sponsored by CCNY, May 21, 1976. Binder: Felix Rohatyn. Jack Bigel Papers, Baruch College, CUNY.

proper “shock impact,” convincing banks and investors that New York City had changed its ways. He recommended raising the subway fare and ending free tuition at CUNY, measures as important for their symbolic impact as their fiscal effect. He noted that it was apparent from what the banking community had said that “the City’s way of life is disliked nationwide”—what mattered, then, was gaining the confidence of investors through public demonstrations that the city had changed its ways.[37]

Yet at the same time, this increased involvement of business in the city’s government and the press for retrenchment at the local level did not dissuade the business leaders from making the case for greater federal involvement and aid for New York. MAC had a great deal of difficulty selling its bonds in the summer of 1975, and its leaders quickly became convinced that federal aid would still be needed to avoid default. Rohatyn and others involved with MAC were in close touch with federal officials, and by mid-summer 1975 Simon and others in the Treasury Department were concerned that MAC had become too much a lobbying force requesting aid for the city. As one Treasury adviser put it, MAC had become “an impotent and divided group, the most vocal faction of which seems to be lobbying for a ‘federal involvement.’”[38] Rohatyn even made the case that the federal government should assume all of New York City’s welfare costs, as this would significantly reduce the fiscal burden on the city.[39]

Many other business leaders in and out of New York City argued that federal action was unavoidable, given the importance of New York for the country as a whole. The city simply could not be permitted to declare bankruptcy—this would have an irrevocably terrible effect on

[37] “Meeting with MAC,” Minutes, July 17, 1975. Box 070013 Folder 11, Abraham Beame Papers, LaGuardia and Wagner Archive, LaGuardia Community College Archives.
[38] Report on New York City: Memorandum for the President, Edwin H. Yeo, III. Presidential Handwriting Files, Box 28, Folder: “Local Government, NYC.” Gerald Ford Archives.
[39] Steven Weisman, “MAC Calls on US to Pay for Relief,” New York Times, 8/10/75.

bondholders, the municipal bond markets around the entire country, and the broader image of New York and of the United States in the rest of the world. Some framed their worries in terms of the potential for social crisis and racial violence: “If the city stops services and welfare payments, we will have riots in the streets,” one executive wrote to Simon. “Certainly the fact that high welfare payments have attracted so many people from Puerto Rico and the South should not be a cause for punishing New York City and its bondholders.”[40] The president of the Bank of America said told the Senate Committee on Banking, Housing and Urban Affairs, “The effects of a New York City default may well be grave and enduring, not only in terms of our economy and financial markets, but also of public confidence in government and loss of international prestige.” Default, he said, “most certainly must be averted in the national interest.”[41] 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,” wrote the Public Finance Committee of the Securities Industry Association.[42] In the fall of 1975, the chairman of Con Edison wrote to Ford to plead with him not to allow New York to go bankrupt, arguing that it would have wide-ranging and unpredictable financial effects and that “Governor Carey and Mayor Beame already have placed management of the City’s finances in the hands of some of the ablest business executives in the country.”[43] The Chancellor of West Germany, Helmut Schmidt, criticized the Ford administration publicly for failing to do more to aid New York,

[40] Jesse Werner, GAF Corporation, to William Simon, 10/13/75. The letter cites another friend who denounced Simon to Werner: “Just where did he make his fortune? And how did he do it? Selling bonds!” William Simon Papers.
[41] Statement of A.W. Clausen, President BankAmerica Corporation, San Francisco, California, before the Senate Committee on Banking, Housing and Urban Affairs, October 18, 1975. Hearings Before the Committee on Banking, Housing and Urban Affairs, United States Senate, 94th Congress, First Session on S. 1833, S. 1862, S. 2372, @. 2514, and S. 2523 (Government Printing Office: Washington, D.C., 1975), 666.
[42] Press Release, 10/9/1975. MAC Binder, Jack Bigel Papers, Baruch College, CUNY.
[43] Charles Luce to Gerald Ford, 11/4/75, telegram. Binder Title: Default & Bankruptcy (articles, notes and correspondence) May 1975-Dec 1976. Jack Bigel Papers, Baruch College, CUNY. Luce was, of course, also concerned about whether a bankrupt New York would still pay its electric bills.

saying that the city's default would have national and even international economic ramifications. Instead of allowing New York to default, the federal government should extend aid but do so on terms that mandated the restructuring of the city's government.[44]

The problems of New York and the question of appropriate government response were also being fiercely debated in the national press. Over the course of the summer, New York's crisis became an opportunity for a referendum on the problems of American cities and the nature of the welfare state. The city was compared to a bankrupt corporation. As the *St. Louis Post-Dispatch* put it, "New York City, the financial capital of the nation if not the world, is on the verge of bankruptcy. Unlike a company that goes broke and whose assets are sold off to pay creditors, New York presumably will not be put on the auction block. After all, who would buy it?"[45] The *Washington Post* mocked the "myth so deeply embedded in New York's politics that things are 'free' if government provides them." [46]The *Miami Herald* compared New York City to "a drunk in the family who loses most of his paycheck on the way home every Friday," citing the "million people" on welfare in the city and the city's insistence on clinging to free tuition at CUNY.[47] The *Chicago Tribune* attacked the city's public sector unions: "New York City is writhing in financial agony—some say it is dying—but the municipal unions that have been carving their pounds of flesh out of the city's emaciated body for years are unwilling to make the slightest sacrifice to help the city now." The paper went on to accuse public employee unions across the country of the same sins, citing strikes in San Francisco and elsewhere.[48] In another editorial, the *Tribune* argued that the problems of New York were those facing cities across the

[44] Memorandum of Conversation, 10/3/75. National Security Adviser's Memoranda of Conversation Collection. BOX NUMBER OR ONLINE CITE. GFA. Also see David Binder, "Schmidt Fears Effects of City Crisis," New York Times, 10/5/75.
[45]Editorial, *St. Louis Post-Dispatch*, 5/29/75.
[46] Editorial, *Washington Post*, 6/2/75.
[47] "NY's Big Mac is 'Cold Turkey'," *Miami Herald*, 6/11/75.
[48] "Contagious New Yorkitis," *Chicago Tribune* , 8/21/75.

country: "Any city can get into New York City's plight by acting as that city did—expanding "free" services and entering into union contracts beyond its ability to pay. The lesson is clear. In public finance there is no Santa Claus. There really is an end somewhere to a city's capacity to write checks."[49] The *Baltimore Sun* made the comparison to the federal government explicit: "The day may come when the federal government will face a crisis similar to the one New York faces now. And no government will be able to bail Uncle Sam out."[50]

At the same time, newspapers reflected the idea that the city should not simply be allowed to go bankrupt and that this could have dire consequences for the country as a whole. The *Boston Globe* suggested that there was nothing so distinctive about New York's situation: "New York's problems are not so very different from those of other big cities—it is just suffering them earlier and harder."[51] The *Washington Post* ultimately came to recommend some kind of bailout for the city, warning that unless the federal government was willing to act as a "lender of last resort" the entire municipal and state bond market might collapse.[52] Even the *Sun* wrote that "the consequences of a New York bankruptcy could be so harmful for other state and local governments which borrow to live, the federal government has some responsibility here."[53]

The pressures of the Cold War, too, came to bear on New York. The *Times* reported that even in the Communist bloc, there was acute awareness of New York's ills, and a sense of the historical irony of the fiscal collapse of the home of Wall Street. "It is obvious that an economically weak America must also be a politically and militarily weak America, and all such weaknesses are desirable to Moscow," one Eastern European economist told the paper "Just now, much of the world is up for grabs again." Citizens in the Soviet Union read about the unrest

[49] "Lessons from New York, Cont.," *Chicago Tribune*, 9/8/75.
[50] Editorial, *Baltimore Sun*, 7/24/75.
[51] "Mr. Ford on New York," *Boston Globe*, 8/6/75.
[52] "A Safety Net for New York," *Washington Post*, 9/15/75
[53] Editorial, *Baltimore Sun*, 7/24/75.

among New York's public workers in *Pravda*, and, as the *Times* put it, "Mayor Beame's name may not yet be quite a household word in the Soviet Union, but it seems to be turning up at least as often as that of President Ford."[54] In China, too, there were reports of the city's weakness; according to the *Times*, the New China News Agency reported that deficit financing had "created false prosperity," and delivered the control of the city to "monopoly capitalists."[55] George Ball, a Lehman Brothers partner who had been Under-Secretary of State during the Kennedy and Johnson presidencies, told the Senate Banking Committee that the city's collapse would strengthen hard-liners in Moscow; Communists the world over would see New York's default as a "significant symptom of the weakness of American capitalism"—especially if the Federal government did nothing to intervene.[56] At the end of August, John McCloy, a former president of the World Bank, reported that he had been talking to European bankers and officials, who were growing far more unsettled about the idea of default, while Paul Volcker, the head of the Federal Reserve Bank of New York, observed that it would be most unfortunate if the city should default while the IMF was meeting in Washington, D.C.[57] Anxiety about how the Soviet Union would perceive the bankruptcy of New York surfaced in unusual places. In October, the *New York Law Journal*—the city's leading publication for lawyers, judges and the legal community, published daily—took out a full-page ad in the *New York Times* to advertise a special issue of the journal devoted to the crisis, with the headline running across the top of the page: "New York City Defaults; Market Collapses; Bond Prices Plunge; Creditors Sue; Emergency Declared"—and

[54] Malcolm W. Browne, "Soviet Sees Gains in Woes of West," *New York Times*, July 13, 1975, 4.
[55] "China Notes City Crisis, Blames 'Capitalists,'" New York Times, 9/9/75.
[56] Thomas P. Ronan, "Ball Says Default by City Would Help Communism," New York Times, 10/28/75.
[57] L. William Seidman to Gerald Ford, Subject: New York City, 8/28/75. Presidential Handwriting Files, Box 28, Folder: Local Government, NYC (2). GFA.

then the rhetorical question: "How would Russia look if Moscow failed?" The default of the city would affect the state, the nation, and indeed, "the entire free world."[58]

Ford's friends and advisers also increased their warnings that New York's bankruptcy could endanger the president's chances for re-election. Early in October, Republican lobbyist and business consultant Charls Walker wrote Ford a personal note which opened: "I am getting very, very worried about the New York City financial problem." His concerns were partly economic: while Simon might be right that default would have minimal impact, Walker wrote that he believed there was "simply no way of knowing in advance just what the economic and financial fallout might be." He also feared that there could be "political dynamite." It seemed likely to Walker that Congress would put together a "bad bill" that could be on Ford's desk by Christmas. Ford would have to veto it. New York might then default, and if "the roof fell in—I don't like to think of all that happening at the start of an election year."[59] Better for the Ford Administration to get out in front and propose its own legislation. Walker outlined a proposal for a Municipal Reconstruction Finance Corporation—an agency headed by a "hard-nosed, take-charge financial type accustomed to driving hard bargains and making them stick." [60]

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Ford initially stuck to his original position. But in the end, these voices—along with those in the administration who had encouraged Ford to keep a loophole open to aid the city—prevailed over Simon, Rumsfeld and Greenspan. The city and state took various actions over the fall of 1975—creating an Emergency Financial Control Board, making arrangements with pension funds and banks to purchase city bonds, passing a moratorium (later found

[58] New York Times Advertisement, 10/15/75. The *New York Law Journal*, while a specialized publication, had a special power in the city's legal community, because its publication of court decisions and analysis of laws shaped the basic information possessed by judges and lawyers.
[59] Charls Walker to President Ford, 10/7/75, "Some thoughts on the NYC Problem." Presidential Handwriting Files, Box 28, Local Government, NYC, Folder 5. GFA.
[60] Charls Walker Newsletter. Presidential Handwriting Files, Box 28, Local Government, NYC, Folder 5. GFA.

unconstitutional) on the repayment of principal)—which persuaded Ford to approve seasonal loans to the city only a month after his famous speech at the National Press Club in which he warned that he would veto any bill to aid the city.[61] The pressures of the Cold War and the sense of anxiety about the economic and political image of the United States proved stronger than the purist anti-government position in the 1970s. Indeed, when Ford met with other international leaders for an Economic Summit in November 1975 in Rambouillet, France, he reassured them that he had adopted a tough line with New York City only in order to make sure that it would take the necessary steps, suggesting that he would never have let the city go under."The only way we have achieved results is to be difficult," he said. "This has been a sort of brinksmanship by the Administration forcing New York City and New York State to take responsible action."[62]

Just as there was no easy consensus in national politics about denying aid to New York, within the city, the sudden crisis of the city government did not simply lead to a rise in anti-government politics. Instead, it resulted in a range of competing groups intensifying their demands on the state. Almost every cutback in services, closure of a fire or police station, or reduction in city personnel was greeted with outrage and with calls to reinstate the benefits that were threatened or just had been taken away. Here, too, the fiscal crisis intensified ongoing trends. The city government had, for example, been closing or threatening to close fire stations in 1972 and again in 1974, before the crisis became public. These closings met with intense neighborhood protest. There had been cuts planned for the city university system as well in 1974,

[61] Charles J. Orlebeke, "Saving New York: The Ford Administration and the New York City Fiscal Crisis," in Bernard J. Firestone and Alexej Ugrinsky, eds., *Gerald R. Ford and the Politics of Post-Watergate America* (Westport, CT.: Greenwood Press, 1993), 359-386.
[62] All references from Memorandum of Conversation, 11/15/75 – 11/17/75, Rambouillet, France, "Economic Summit."

which also met with protest and resistance from students and faculty alike—who wanted to preserve the expansion of the system that had taken place only a few years earlier, again in response to social protest. The city in the late 1960s and early 1970s was extremely politicized, with a wide range of different organizations making claims on the city government.

The desire to defend and protect public resources became much more immediate with the onset of the crisis. When Beame announced the first serious cuts in the city workforce early in July, wildcat strikes raged throughout the city. Out of work police officers rampaged across the Brooklyn Bridge, blocking traffic, throwing beer bottles at their brethren in uniform, using flagpoles to puncture the tires of motorists stalled in traffic. Garbage began to pile up in the South Bronx and on the Upper East Side alike. The police printed a "survival guide" for tourists calling New York "Fear City" and threatened to hand it out at the airports, detailing the mayhem that would break out if the layoffs of police officers were allowed to stand.[63] When day care centers were closed in the spring of 1976, the Borough President of the Bronx wrote an angry letter to Beame: "We have just heard that mail-o-grams have been received by a number of day care centers with the opening words 'we regret to inform you' and telling them that they will be closed. Perhaps it is appropriate to echo the chilling telegrams sent to families of servicemen."[64] Plans to shutter Fordham Hospital in the Bronx elicited a similarly strong response from local politicians: "We are calling on you to give us hope. Where private industry will not tread government cannot be equally insensitive by turning its back on her poor and low income

[63] Fred Ferretti, "City's 10,000 Sanitationmen Strike; Police and Firemen Also Discuss Job Actions to Protest Layoffs," New York Times, 7/2/75; Selwyn Raab, "Ex-Policemen Block Brooklyn Bridge," New York Times, 7/2/75.
"Welcome to Fear City," Layoffs 1975, DC 37 Archives.
[64] Robert Abrams to Abraham Beame, 5/27/76. Roll 10, Abraham Beame Papers, Municipal Archives and LaGuardia and Wagner Archive, LaGuardia Community College.

people."[65] Some New Yorkers made donations to the city government in the hope of rescuing it.[66] They affirmed their need for public services: "Please do not close any libraries. I cannot afford to go out and buy any book I wish to read."[67] They wrote in defense of night English programs that were threatened with closure. There were several different neighborhood occupations of fire houses that were threatened with closure, by far the longest one being the sit-in and neighborhood mobilization at Engine Company 212 in Williamsburg, which ultimately rescued the fire station. At Hostos Community College in the Bronx, students organized an occupation of the campus buildings to protest plans to merge the newly-created bilingual college with the Bronx Community College. In some cases, the people who wrote to the mayor presented themselves as a beleaguered middle class, whose police, fire and sanitation services were being cut while people on welfare were still collecting benefits. As one woman wrote to Beame, "Our new slogan can be read as follows: Come to Bankrupt City, Crime and Filth are On the Rise."[68] Middle-class people feared that the withdrawal of public services would mean the decline of their neighborhoods. "We are petrified," wrote one Queens resident. "WE NEED THE 107th PRECINCT. The feeling in the area… is that the Middle Class is being driven out of New York."[69]

Yet there was no organized leadership for these protest movements. The city's politicians made some objections to retrenchment. For example, in August 1975 the president of the City Council and the borough presidents of the Bronx and Manhattan wrote a letter to the leadership

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[65] Stephen B. Kaufman to Abraham Beame, 5/6/76. Roll 10, Abraham Beame Papers, Municipal Archives and LaGuardia and Wagner Archive, LaGuardia Community College.
[66] W. Bernard Richland to Abraham Beame, 10/27/76: "Mrs. Sarah A. Wilson of 410 Westminster Road, Brooklyn, has offered the City a gift of $78, her entire Medicare refund, to help it in its fiscal difficulties." Roll 2, Abraham Beame Papers, Municipal Archives and LaGuardia and Wagner Archive, LaGuardia Community College.
[67] Chana Klajman to Abraham Beame, 5/9/76. Roll 12, Abraham Beame Papers, Municipal Archives and LaGuardia and Wagner Archive, LaGuardia Community College.
[68] Maureen Cullen to Abraham Beame, 6/9/75. Roll 12, Abraham Beame Papers, Municipal Archives and LaGuardia and Wagner Archive, LaGuardia Community College.
[69] Edith Kalur to Abraham Beame, 11/5/75. Roll 12, Abraham Beame Papers, Municipal Archives.

of the state, arguing that arguing that New York City needed to reject the bond market that had turned its back on the city. The "dependence of New York City government on 'out-of-town' capital places the very survival of New York City, as a viable unit of government, at the whim of distant investors in an already oversaturated municipal bond market," they wrote. "We must act like a government, not a beggar in search of funds." Rather than try to regain the confidence of these prickly, distant investors, the three politicians suggested that the city should *require* all pension funds, insurance companies and banks to purchase the city's bonds. This would give the city's credit "the ultimate security: the ability and willingness of government to tax to retain its solvency."[70] Needless to say, little came of such proposals.

At the same time, the vivid illustration of the city government's weakness led to a reinvigorated interest in finding alternatives to government to cope with various different social problems. A "Citizens Committee for New York," founded in November 1975 in a direct response to the fiscal crisis, sought to "tap the potential of individual citizens, community and civic groups, the media, institutions, businesses, churches" to organize volunteer efforts and "neighborhood self-help projects" on behalf of the city.[71] Army recruiters contacted the city, indicating that laid-off city workers should consider joining up with "the nation's largest employer."[72] The Manhattan Institute—the think tank founded in 1978 with support from British activist Antony Fisher that sought to advance free-market

[70] Percy Sutton, Paul O'Dwyer and Robert Abrams to Hugh Carey, Stanley Steingut and Warren Anderson, 8/19/75. In "Binder on Default and Bankruptcy," Jack Bigel Collection, Baruch College.
[71] Citizens Committee of New York City, Inc., to Abraham Beame, 5/2/77. Abraham Beame Papers Municipal Archives and LaGuardia and Wagner Archive, LaGuardia Community College.
[72] Lt. Colonel Williard M Bulerson, NY District Recruiting Command, Lt Colonel Calvin Hosner, III, Newburgh District Recruiting Commenad, Lt Colonel William King, Newark District Recruiting Command, to Abraham Beame, 3/28/76. Roll 7, Abraham Beame Papers, Municipal Archives and LaGuardia and Wagner Archive, LaGuardia Community College.

solutions to urban problems—became a key voice in city politics throughout these years.[73] Time and again, Beame answered the many letters that came to him by saying simply that the city had no money to restore programs and that the fiscal crisis necessitated cutbacks at all levels, across the board. Justice or social obligation was no longer the standard. Regardless of the claims that were made upon it, the city government would no longer be able to act as it had in the past.

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This essay has argued that the political dynamics of the New York City fiscal crisis revealed contradictory attitudes about the state during social crisis and economic flux in the mid-1970s. While there was much that is specific to New York's situation and more broadly to the condition of the United States in the 1970s, the simultaneous revelation of the weakness of the state and the insistence on its necessity may be themes present in other fiscal crises as well. On the one hand, moments of fiscal crisis such as that in New York City in 1975 are ones in which the very capacity of citizens to make demands on the state are called into question. They dramatically reveal the weakness of the state and its dependence on financial markets, and suggest the impossibility of using government to redress social grievances. These public demonstrations of the incapacity of the state are thus moments of austerity, both in terms of literal devolution and the cutback of the public sector and in terms of the mood and imagination that they engender. The city's crisis suggested the ultimate reliance of New York City's local state on debt rather than on its own taxing authority and the political commitments of its citizens,

[73] Alice O'Connor, "The Privatized City: The Manhattan Institute, The Urban Crisis and the Conservative Counterrevolution in New York," *Journal of Urban History*, 333.

and as such, suggested the limits of the city's ability to continue to provide the services it had previously guaranteed. Austerity was the logical response.

Yet at the same time, the consensus around the reduction of the state was neither straightforward nor universal. Rather than accept a shrunken version of their city, many New Yorkers engaged in a range of economic protests to resist the contraction of the public sphere. Nor did the anxiety about the city's finances translate into a broader anti-government position. Even the political and economic elite within the city ultimately focused on getting aid from the federal government, albeit in ways that would enforce the contraction of local services. National and even international elites also were shocked by the idea that the federal government would do so little to aid the city and by the willingness to embrace this image of public weakness—especially in the context of the Cold War. The city's elite sought to find a way to assert the authority of the state at a time when it seemed to be challenged at the deepest level, even as their ultimate goal was to transform and re-orient the priorities of the city to focus more explicitly on serving the needs of the business class rather than on providing services to working-class citizens—with the underlying assumption that this would then aid the city as a whole. The attempt of the city to withdraw services where they were expected led people to assert their claim to resources all the more vigorously, at least for a while.

The fiscal crisis, in all these ways, was less a turning point and more a moment when a set of contests and struggles over the question of the scope and purpose of the local government that had been taking shape all throughout the early 1970s came into public view. But the crisis also meant that the divide between the new reality of the city—both in terms of its economy and who held power—and the old expectations and assumptions about city life could no longer be sustained. The life of the city could not go back to what it had been. The expectations, the assumptions and the practices of the city had been shifted by the experience and the politics of the fiscal crisis.