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LICHTEN, ERIC ALLAN

CLASS STRUGGLE AND FISCAL CRISIS: NEW YORK CITY AND THE DEVELOPMENT OF AUSTERITY

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CLASS STRUGGLE AND FISCAL CRISIS: NEW YORK CITY AND THE DEVELOPMENT OF AUSTERITY

by

ERIC ALLAN LICHTEN

A dissertation submitted to the Graduate Faculty in Sociology in partial fulfillment of the requirements for the degree of Doctor of Philosophy, The City University of New York.

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Chairman of Examining Committee

6/24/81
date

Executive Officer

Professor Michael E. Brown

Professor George Fischer

Professor John M. Goering
Supervisory Committee

The City University of New York

Abstract

CLASS STRUGGLE AND FISCAL CRISIS: NEW YORK CITY AND THE DEVELOPMENT OF AUSTERITY

by

Eric Allan Lichten

Adviser: Professor Michael E. Brown

This is a study of the fiscal crisis of New York City. I analyze the fiscal crisis as both the product and process of class struggle. Specifically, I demonstrate how class struggle in New York City impacted upon the production and mediation of urban fiscal crisis.

Once accounting for the fiscal crisis, I analyze the use to which it is put by members of finance capital. I show how these members, specifically New York City's major bankers and financiers, were able to use the crisis to reorganize city politics and budgetary priorities. As a result of their power, austerity was instituted as public policy.

In the face of this power, the municipal labor unions are shown to lack the class unity and ideology, as well as the power, to oppose austerity. I show how the labor unions decide to cooperate with a public policy restricting labor's political influence, as well as rank and file wages and benefits. This research therefore demonstrates the power of factions of finance capital relative to the public sector labor movement.

## Acknowledgements

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To my friend Jay Goldstein: You've been there through it all so I had to put you in here. Thank you for keeping me laughing through this ordeal.

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I dedicate this work to four extraordinary people:

To Evelyn Berkowitz, my grandmother - Her wit, dedication to family, tenderness and giving spirit always made me feel special. Thank you for your love, with my love.

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To Morton Lichten, my father - You showed me what it meant to be humane. Thank you, with my love.

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## I. INTRODUCTION

This is a study of class struggle in contemporary capitalism. Throughout this dissertation I will be concerned with elaborating the conflict between capital and labor. Because this conflict is mediated, I will examine the mechanisms by which mediation takes place. To do this necessitated the study of class struggle during crisis. This is so, I maintain, because it is during such periods that new methods of mediation are developed to replace the old which now, in the context of crisis, seem inadequate. Once realizing this, I decided to study the historical process through which a crisis is produced and mediated.

By asserting that a crisis is produced, I maintain that it is a consequence of human action within, in this case, class society. My thesis argues that crisis originates from the concrete struggles between antagonistic class interests and forces. Therefore, crisis develops not from the blind, uncontrollable forces of history but, rather, from the actions of class beings.

I further maintain that crisis is mediated. I use mediation to mean that formal processes, organizations and/or institutions are developed which together comprise a control mechanism which uses and channels, that is, attempts to resolve, the crisis for the needs of a class. For example, according to this usage, governing bodies can be analyzed as forming a mediating unity.

This brought me to study the fiscal crisis of New York City; its historical development, the strategies adopted by the "representatives" of both capital and labor, as well as the crisis resolution through austerity budgeting. The fiscal crisis, then, will be analyzed as both product and process of class struggle.

Theoretical Problem

This is a study of the fiscal crisis of New York City and the class struggle from which it was produced. My research focused on the most crucial phase of that crisis; that period between November, 1974 and September, 1975. These dates are critical for they identify the period during which the mechanisms to mediate the fiscal crisis were developed and instituted. Indeed, during this period we can see the class process of power at work. Hence, this research is significant for understanding the sociological problem of the class process through which crisis is mediated.

Throughout this dissertation I will be concerned with analyzing the process by which class based power becomes the basis for the mediation of crisis. In New York City's case this process began prior to, and continued after, the closing of the municipal bond market to the city's securities and included the following: (a) the establishment of the Financial Community Liaison Group through which New York City's financial community exerted influence over city fiscal policy; (b) the creation and institutionalization of the Municipal Assistance Corporation and the Emergency Financial Control Board, the former providing the city financing, the latter responsible for controlling city expenditures; and, lastly, (c) the cooptation of the Municipal Labor Coalition and the city's unions in the mediation process which resulted in austerity.

Together, the above formed the organizational mechanisms for the mediation of the fiscal crisis. They mediated in the sense that together they formed a unity that was politically more significant than each could be if separate. Influence was exerted over the city's budgetary process and over the relationships between both capital and labor to city government. Indeed, the mediation process accomplished the realignment of class based power within city government.

The central concerns of this study therefore become: (1) the process through which these instruments were created, as in the case of the Financial Community Liaison Group (FCLG), the Municipal Assistance Corporation (MAC) and the Emergency Financial Control Board (EFCB), or modified, as in the case of the Municipal Labor Coalition (MLC); (2) their role in mediation and their influence upon the crisis; and (3) the process by which class based priorities became public policy.

This study, then, will address the process through which crisis is produced and mediated within a history of class struggle. By examining the history of class struggle which produced the fiscal crisis, as well as its mediation, I intend to reveal the class basis of power in New York City. In a very real sense, this study points to the power, or lack thereof, of conflicting class interests. Therefore, this study will analyze the class basis of public policy. Therein lies the theoretical problem of this study.

## Specific Concerns

The most specific concerns of this study are: Of what did the fiscal crisis of New York City consist? What caused it and what influenced the development of crisis organizations, which constituted the organs of its mediation? How was it decided that austerity was the only policy that could effectively alleviate the fiscal crisis? I am therefore most concerned with analyzing the development of austerity as the policy adopted to resolve the crisis. To do this I need to examine the following:

(1) The fiscal crisis itself - We cannot merely assume the existence of the crisis. I argue that it was produced by antagonistic class relations. I analyze it not as a consequence of misguided liberalism, as others have, but as a moment of class struggle.[1] I therefore focus on elaborating the history of the class relations from which the crisis developed.

(2) The development of the instruments to mediate the crisis - These have been identified as the Municipal Assistance Corporation and the Emergency Financial Control Board. Both were legislated by the New York State Legislature and were intended to superimpose austerity on the city. I am concerned with how these instruments were developed and how together they formed a unity which isolated public policy from the city's workers and unions.

(3) The actions of the "representatives" of the antagonistic class interests - I argue that this crisis engaged the city's major financial institutions and its unions in a struggle in which they constituted the organized representatives of the class needs of the city's major corporate and banking class, on the one hand, and its working class and poor, on the other. These class needs were represented, effectively or not, by the Financial Community Liaison Group and the Municipal Labor Coalition. I discuss each in terms of their participation in producing the fiscal crisis, as well as their role in planning and effecting the resolution of the crisis.

How, and in what ways, did the Financial Community Liaison Group and the Municipal Labor Coalition affect the development of austerity? What role did the financial community play in the closing of the municipal bond market to the city? How did the banks, through the Financial Community Liaison Group, use their influence over the credit market, and their capacity to withhold or advance investment, to shape and determine the resolution of the crisis? To what extent did the constraints of the municipal credit market itself determine the banks actions, and the crisis process itself?

In terms of the Municipal Labor Coalition: How did the coalition effect the crisis process? How were the unions' strategies chosen? What alternatives to cooperation with austerity were discussed among the unions and within the Municipal Labor Coalition? What determined the degree to which the unions' responses were militant, radical, or cooperative? In other words, how and in what ways did the mediation process inhibit more militant and radical action? How, for instance, did the Emergency Financial Control Board, or the threat of bankruptcy, influence and constrain the Coalition's options? How were the parameters for "responsible" action developed? What influence did the Coalition exert over the mediation of the crisis? To what extent do the unions have or lack power within a city government instituting a policy of austerity? Finally, what are the implications of austerity for reformist trade unions in general, and public employee unions in particular?

With these concerns in mind, I will now turn to a brief discussion of the literature analyzing the fiscal crisis of New York.

Current Analyses of Fiscal Crisis

The literature analyzing the fiscal crisis of New York City is, at present, empirically insufficient to provide a basis for understanding the crisis as a whole. In part, this may be attributed to the lack of completed and published empirical research; after all, the crisis is recent history. Nevertheless, it may also be the result of the methodological difficulty in studying the machinations of the powerful.

For the most part, the literature has been confined to establishing the causes of the fiscal crisis. According to these analyses and theories, the causes are seen as one, or a combination, of the following: (1) Powerful Unions - In this theory the municipal labor unions created the social conditions for the development of the fiscal crisis by forcing destructive and fiscally unsound wage and benefit settlements from past city administrations in return for labor peace. Edward Banfield provides an example of this way of thinking:

> I don't see what's to stop the unions from shaking the city down for whatever money it can accumulate. The laws have prohibited striking all along. If the people of New York will tolerate strikes by public employees, against the law, and not tolerate politicians who crack down on strikes, then I can't see that it will be possible to get New York to live within its budget. It would require a fundamental change by the unions.[2]

Indeed, empirical support for this thesis is provided by the Temporary Commission On City Finances (TCCF), a government appointed research commission whose function has been to study the city's budget and analyze its expenditures and revenues. According to the TCCF, labor costs constituted the largest single item of expenditure in the city's budget in the years immediately preceding the fiscal crisis. For example, in fiscal year 1975, according to the TCCF labor costs accounted for almost one-half of total budgetary expenditures.[3]

The powerful union theory is a popular one and can be seen almost daily in news articles on the fiscal crisis. Indeed, this interpretation is now taken by many as fact, and therefore has elicited studies commissioned by the Municipal Labor Coalition to counter such analysis.[4] The problem with this analysis is that it does not place the growth of union influence in New York City in the broader context of the growth of public employee unionism throughout the country. New York City, in that context, was not different from many of the major cities in the U.S. Therefore, this theory taken alone can not provide us with an adequate explanation of the fiscal crisis.

(2) Powerful Banks - This analysis lays the "blame" for the crisis at the doorsteps of the city's major banks. In this interpretation the bankers withheld their support for city securities in order to raise the interest rates and to transform the structure of city government. An example of this theory is provided by Jack Newfield, who writes that

> . . . it was the bankers that did the hoodwinking [about the security of New York City debt obligations] lying to the thousands of hapless investors, to the press, and even to the City Hall sharpies who were left holding the bag after a fullfledged market panic had commenced. The true story [is that] New York didn't jump: it was pushed [into fiscal crisis].[5]

The problem here is that the banks are analyzed as independent of class relations, the capital markets and the economy. Removed from the class relations of capitalist society, the bankers seem to be totally independent actors. This analysis "personalize(s) and, in so doing, seriously obscure(s) the larger social processes at work."[6]

(3) Management Crisis - A third explanation focuses on the lack of rationalization of city management. In this analysis, the organizational structure of politically influenced city agencies allows for corruption, inefficiency, waste, duplication of agency functions and low productivity by the city's employees. In this, a technocratical-efficiency perspective, the fiscal crisis is viewed as the result of a lack of managerial control. This allows for "gimmickry" in reporting city expenditures and revenues. The Congressional Budget Office, in its report on the fiscal crisis, pointed out that

> one cannot ignore the city's questionable accounting procedures and loose fiscal management in relation to the current fiscal crisis. These procedures masked the fact that New York officials were failing to make the difficult choices that were required if the city's expense budget was to be truly balanced as required by law. The fault does not rest with the city alone. Many of the "gimmicks" which allowed the budget to appear balanced were tolerated or even suggested by state officials and were certainly not secrets to the banking community. These gimmicks produced small deficits which were allowed to accumulate and grow, producing a problem of large and unmanageable proportions.[7]

This analysis suggests a rationality crisis in administering the processes of government. Furthermore, this analysis suggests a contradiction exists within the state system itself.

> In the administrative system, contradictions are expressed in irrational decisions and in the social consequences of administrative failure, that is, in disorganization of areas of life. Bankruptcy and unemployment mark unambiguously recognizable thresholds of risk for the non-fulfillment of functions.[8]

Accordingly, actions to rationalize management and administration become necessary for government to fulfill its task. The resolution of the fiscal crisis therefore necessitates the rationalization of city services.

(4) Welfare State - This explanation suggests that the fiscal crisis was caused by the expansion of expenditures for the clients of the welfare state. In this view, fiscal crisis results from responses made to urban poverty either by a city government humanely responsive to the needs of the poor, or one that was forced by pressures applied by the political mobilization of poor people.[9] Regardless of the theorist's emphasis, here the welfare state in general, and welfare programs in particular, are called into question as viable means to meet social needs.

There remain two analyses that deserve further attention because of their importance to theory. In one, provided by Demac and Mattera, the development of the fiscal crisis is explained as the result of the mobilization of the city's working class and poor. In their view, class struggle intensified as workers and the unemployed demanded higher standards of living. They argue that this increased militance, evidenced in poor people's movements, rank-and-file wildcat strikes, and worker slow downs resulting in lower productivity, constitutes a struggle for a social wage. This social wage, they assert, is an income independent of productivity. Basic to this argument is the assertion that advanced capitalism shifts class conflict to a struggle over the connection between wages and work. Hence, the struggle of poor people for higher welfare benefits, as well as the struggle by workers for higher wages with less work, constitutes nothing short of a struggle against work. For Demac and Mattera, the fiscal crisis and the policy of austerity constitute capital's counter-offensive designed to reestablish the relationship between wages and productivity.

> Something had to be done, and before long, capital's counter-offensive was launched. At its center were the imposition of a climate of austerity, the creation of scarcity, and the attempt to reimpose the discipline of work.[10]

This approach therefore attempts to establish class struggle as the basis of the fiscal crisis, and the solution - austerity.

In the final analysis that I will discuss, by James O'Connor, the fiscal crisis of the state takes place on both local and national levels and operates in governmental units regardless of appearances of fiscal health.[11] According to O'Connor the fiscal crisis results from an "overload" of fiscal demands made upon the state in its attempt to fulfill the twin but contradictory, demands of fueling capital accumulation while legitimizing the capitalist system. These demands develop as the costs of production, in particular the social costs, become an impediment to the accumulation of capital. Capital therefore requires that these costs of production be socialized, or paid by all taxpayers, while profits remain privately appropriated. At the same time, however, the state must legitimate both the economic system, which it supports with funds, and itself. In order to do this the state must disguise its class function as it attempts to balance these contradictory needs that translate to conflicting budgetary pressures.

O'Connor argues:

> Although the state has socialized more and more capital costs, the social surplus (including profits) continues to be appropriated privately. The socialization of costs and the

> private appropriation of profits creates a fiscal crisis, or "structural gap," between state expenditures and state revenues. The result is a tendency for state expenditures to increase more rapidly than the means of financing them.[12]

O'Connor argues that once the structural gap of the fiscal crisis has been established, the depth of the crisis is influenced by the actions of "special interests"; O'Connor's way of representing class conflict.

> We argue that the fiscal crisis is exacerbated by the private appropriation of state power for particularistic ends. A host of "special interests" - corporations, industries, regional and other business interests - make claims on the budget for various kinds of social investment. . . . /In addition/ organized labor and workers generally make various claims for different kinds of social consumption, and the unemployed and poor . . . stake their claim for expanded social expenses. Few if any claims are coordinated by the market. Most are processed by the political system and are won or lost as a result of political struggle.[13]

The socialization of the costs of production, along with the demands by various sectors of the capitalist, working and impoverished classes, create the fiscal crisis, as well as the politicization of class struggle. The intervention of the state, in turn, alters the discipline of the market, and influences the connection between profits, wages and productivity.[14]

The works by Demac and Mattera, and O'Connor attempt to establish a basis for the fiscal crisis within class struggle. Since they view this crisis as stemming from the class relations of capitalist society, they are able to make clear the connections among the preceding analyses. The influence of the city's workers and unions, the organized pressure from the city's poor, as well as the greed of its bankers and the city's administrative inefficiency make sense, once located within such a context. Fiscal crisis then becomes an inevitable feature of the history of capitalism; and the policy of austerity is understandable as part of the operation of the capitalist state.

Despite the strength of these analyses, however, there still exists a lack of research. We need to know how the crisis develops and how austerity becomes the basis for policy. In O'Connor's terms fiscal crisis may be inevitable, but was austerity the only possible public policy for New York City in 1975? The notion of inevitability denies the possibility of alternative histories, of human agency; therein lies the need for research.

In the following chapters I will argue that the fiscal crisis was the consequence of class struggle within a rapidly declining economic base. In turn, I will attempt to show that austerity is capital's reaction where labor has achieved significant power vis-a-vis capital in the operation of the state. Before doing so, I will first discuss the methods utilized in this research.

## Research Methodology

The study of urban fiscal crisis is a study of power. The location of the crisis in the public sector; the participation of and conflict between organizations representing fractions of different classes; and the attempts to deal with the crisis, all point to the power, or lack thereof, of conflicting class based social formations.

Due to the controversial nature of the subject matter, one might expect some difficulty in researching it; power may resist exposure. On the other hand, crisis itself, it might be held, reveals, rather than obscures, its basis. This is why the study of crisis is crucial for understanding the otherwise mystified aspects of capitalism.

This research used the following materials:

(1) Government Documentation - The federal government and its agencies, as well as those of New York State, have published a useful set of documents detailing the history of the fiscal crisis, including the role of the city government, the investment community and the municipal labor unions in causing the crisis. The most important documents include:

(a) The Securities and Exchange Commission Staff Report On Transactions In Securities Of The City Of New York, (August, 1977).

(b) Hearings Before The Committee On Banking, Housing And Urban Affairs of the United States Senate on "The New York City Fiscal Crisis," (October, 1975).

(c) Joint Economic Committee of the Congress of the United States. "New York City's Financial Crisis: An Evaluation of its Economic Impact And Of Proposed Policy Solutions," (November, 1975).

(d) The New York State Legislative Institute. "The Cost of Savings in New York City's Fiscal Crisis," (August, 1976).

(e) Reports by the Temporary Commission On City Finances.

(f) Reports by the Municipal Assistance Corporation.

(2) Memoranda and Miscellaneous Material - District Council 37 of the American Federation of State, County and Municipal Employees provided access to their extensive library on the fiscal crisis. This library includes relevant newspaper, journal and magazine articles; reports by the Citizen's Budget Commission, The Fiscal Observer and the City Almanac, all of which contain detailed analyses of the crisis. In addition, the library contains letters and memoranda passed among the city, unions and banks detailing positions and concerns over important issues, as well as reports issued by

Program Planner's, Inc., the research firm hired as consultant to the municipal labor unions.

(3) Minutes - Were reviewed for both the Municipal Assistance Corporation and the Emergency Financial Control Board. These provided clues to the process whereby major decisions were made.

(4) Interviews - The following key persons were interviewed concerning their knowledge and/or participation during the fiscal crisis.

(a) Dr. Donna Shalala, former Treasurer of the Municipal Assistance Corporation, now President of Hunter College of the City University of New York, and at the time of the interview, Assistant Secretary of the Department of Housing and Urban Development.

(b) Mr. Jac Friedgut, Vice President, Municipal Securities Division of Citibank, former staff member of the Financial Community Liaison Group.

(c) Mr. William Scott, Assistant to the Executive, the United Federation of Teachers, formerly the Assistant Deputy Comptroller of the City of New York in charge of municipal securities, former member of the New York City Contingency Committee On Bankruptcy and the Comptroller's representative negotiating the Federal Seasonal Loan Program.

(d) Mr. Al Viani, Director of Research and Negotiations, District Council 37 of the American Federation of State, County and Municipal Employees (AFSCME).

(e) Mr. Edward Handman, Director of Public Relations, District Coucil 37, AFSCME.

(f) Mr. Seymour Mann, Assistant to the Executive, AFSCME.

(g) Dr. Raymond Horton, Staff Director, Temporary Commission On City Finances.

These informants, along with others who have requested anonymity, were able to provide invaluable information about the fiscal crisis.

The following chapters will guide us through the conditions under which New York's economy, and city government, moved from problem to crisis. It is my intention to show the ebb-and-flow of class struggle in relation to fiscal crisis. To this end, the following chapter will argue that there is a history from which the crisis was produced; a history of class conflict. In this history lies the class process which produced the fiscal crisis of New York City.

Footnotes

1. See, for example, Ken Auletta, The Streets Were Paved With Gold (New York, 1979) and Charles R. Morris, The Cost Of Good Intentions (New York, 1980).

2. Israel Shenker, "Urban Experts Advise, Castigate and Console the City on Its Problems," New York Times, July 30, 1975 quoted in The Fiscal Crisis of American Cities, ed. Roger E. Alcaly and David Mermelstein (New York, 1977), p. 8. Also see, for example, Wyndham Robertson, "Going Broke the New York Way," Fortune Magazine, August 1975, pp. 144-214; relevant articles in Business Week, October 13, 20, November 10, 17, 1975.

3. "An Historical And Comparative Analysis of Expenditures in the City of New York," Section iii, "Expenditure by Object," Eighth Interim Report to the Mayor by the Temporary Commission On City Finances (New York, 1976), p. 22.

4. See, for example, "An Analysis of Public Employee Compensation Levels," Program Planner's, Inc. (New York, 1976); also see, "New York City Municipal Labor Coalition Presentation to Honorable William Proxmire," Program Planner's, Inc. (New York, 1977).

5. Jack Newfield and Paul DuBrul, The Abuse of Power: The Permanent Government and the Fall of New York (New York, 1977).

6. William K. Tabb, "The New York City Fiscal Crisis," in Marxism and the Metropolis, ed. William K. Tabb and Larry Sawers (New York, 1978), p. 241.

7. Congressional Budget Office, "New York City's Fiscal Crisis," in Alcaly and Mermelstein, op. cit., pp. 291, 294.

8. Jurgen Habermas, Legitimation Crisis (Boston, 1973), p. 63.

9. See, for example, Newfield and DuBrul; Frances Fox Piven and Richard A. Cloward, Regulating the Poor: The Functions of Public Welfare (New York, 1971); Piven and Cloward, The Politics of Turmoil: Poverty, Race and the Urban Crisis (New York, 1975); Piven and Cloward, "The Urban Crisis As An Arena for Class Mobilization," Radical America, Vol. 11, No. 1 (January-February 1977), pp. 3-8; Donna Demac and Philip Mattera, "Developing and Underdeveloping New York: The Fiscal Crisis and the Imposition of Austerity," Zerowork (Fall 1977), pp. 113-139.

10. Demac and Mattera, op. cit., p. 120.

11. James O'Connor, The Fiscal Crisis of the State (New York, 1973).

12. Ibid., p. 9.

13. Ibid.

14. Offe discusses the effect this has on the de-legitimation of market criteria for establishing wage and productivity rates in the welfare state. Refer to Claus Offe, "Advanced Capitalism and the Welfare State," Politics & Society, Vol. 2, No. 4 (Summer 1972); and Offe, "The Abolition of Market Control and the Problem of Legitimacy, KAPITALISTATE, Nos. I and II (1973).

## II. PRE-CRISIS CLASS STRUGGLE

During the latter part of 1974 the most powerful factions of the banking and financial sectors of New York City's corporate establishment became concerned with the already huge and growing debts accumulated by the city to cover past and present budget deficits. By this time these debts totalled more than ten billion dollars, half of which were issued in short-term notes and due to mature within a few months. Indeed, debt service for 1974 alone exceeded 1.25 billion dollars and represented nearly twenty percent of city operating funds (revenues minus categorical grants and transfers from capital funds) and twelve percent of total city revenue. Furthermore, the budget deficit for fiscal year 1974 was a huge 1.977 billion dollars portending increased borrowing by the city in fiscal year 1975.[1]

An October, 1974 report by Bankers Trust warned that the city would have to roll-over 1.2 billion dollars in debt before the year's end.[2] This represented nearly twenty-five percent of the total short-term debt and would further burden the city's budget for fiscal 1975 necessitating budgetary maneuvers to secure adequate funds. This is turn could only serve to decrease the marketability of the city's debt offerings. To Bankers Trust and the rest of the financial community this indicated that the city's finances were in deep trouble and might cause it to cease being an attractive investment. The spectre of New York City being unable to borrow operating funds from the municipal credit markets became realistically possible for the first time in the post-World War II era. Only in 1933 did the city face similar circumstances, only to be bailed out by the city's banks who ran the city for the next four years.[3]

This very huge debt was the result of city borrowing funds to cover the growing gap between rapidly increasing operating expenses and inadequate revenues from sales and real estate taxes. The practice of borrowing to supplement shortages of revenues began in 1971, though the city's short-term debt began to steadily rise as early as the 1965-66 fiscal year. A look at the following table shows that the short-term debt multiplied nearly five times during the years between 1965 and 1974.

Table I: New York City Short-Term Debt[4]

| Fiscal Year | Debt in Billions of Dollars |
|---|---|
| 1965-66 | $1.6 billion |
| 1966-67 | 2.0 |
| 1967-68 | 2.4 |
| 1968-69 | 3.2 |
| 1969-70 | 4.4 |
| 1970-71 | 6.5 |
| 1971-72 | 5.2 |
| 1972-73 | 4.0 |
| 1973-74 | 7.3 |

If we control for inflation, 1.6 billion dollars in 1965 is the equivalent of 4 billion dollars ten years later. We can therefore see that there was a significant increase in the city's short-term debt. Furthermore, since 1971 most of this debt was incurred solely to cover existing debt service. In other words, the city was borrowing to pay the maturing debt of the very recent past. The city had begun to borrow from creditors to pay its creditors.

This growing gap between expenses and revenues represents the "structural gap" that O'Connor defines as fiscal crisis.[5] city's case, it was the result of severe economic recessions, on the one hand, and the organized strength of its workers and the demands of its poor for an adequate standard of living, on the other. To make this claim is to suggest that the fiscal crisis is the result of class struggle and that it has a material base in the actions of both capital and labor. The financial community, suffering from heavy losses in real estate speculation as well as shaky investments in the third world, recognized that the fiscal crisis presented a rare opportunity to repress the growth and strength of the city's work force through the institutionalization of austerity. At the same time, the fiscal crisis posed a real and serious threat to the stability of the banking system and the solution to this crisis would be framed to save those with large investments in city paper, including and especially New York's major banks.

We have already stated that this fiscal crisis develops out of a prolonged transformation in the economic base of the city. This transformation has been discussed elsewhere.[6] Here we will be content to summarize the data demonstrating the underlying causes of fiscal collapse. Then we will be able to better understand the threat and opportunity that the fiscal crisis presented to a ruling class desperate to reimpose its discipline over an organized and militant work force.

The Collapse of the City's Economy

From 1950 to the present New York City has seen its manufacturing base eroded by both economic recession and the movement of manufacturing out of the central city. Between 1950 and 1975, for instance, the city lost nearly fifty percent of its manufacturing employment. The loss included 13,426 firms and 324,000 jobs between 1960 and 1974 alone.[7] Between 1969 and 1976, as the city began to increase its debt, more than 500,000 jobs were lost, nearly one-half of these in factory employment leaving more workers dependent upon public assistance for support. Indeed in the

> 1970-1975 period . . . the local economy experienced a severe contraction, losing 468,900 (12.5 percent) of its jobs . . . Between 1970 and 1975 every industrial sector declined, including service and finance, insurance, and real estate, and some declined precipitously: contract construction, 29.3 percent; tansportation and public utilities, 17 percent; wholesale and retail trade, 13.6 percent; and manufacturing, 31.1 percent. The losses in the services and finance, insurance, and real estate sectors were smaller than elsewhere - 1.9 percent and 8.1 percent, respectively - but contrasted sharply with the rapid growth each sector experienced in the 1950s and 1960s.[8]

Nor were the city's largest corporations immune from contributing to the city's economic decline. In 1965, for instance, the city was the headquarters for 128 of the top Fortune 500 corporations. But by 1975 the figure had dropped to 62 with 38 of these corporations relocating to the less costly suburbs or regions of the country.[9] The city was losing employment and revenue from both its manufacturing and corporate headquarter sectors. In the process the economic base of the city's economy was transformed.

With this overall and significant decline in the city's economy came an increased unemployment rate, a transformation to a service oriented economy, and a revenue base which could not maintain pace with expanding city expenses. The city found itself providing support and services to the unemployed and, for a lucky few, jobs to cushion the downturn in the local economy. As the city's unemployment rate climbed from 4.8 percent in 1970 to 10.6 percent in 1975 and "wage and salary employment dropped 13%, from 3,797,700 in 1969 to 3,287,800 in 1975, . . . municipal employment rose by 30,000."[10] These were indeed years in which municipal employment grew in leaps and bounds: the city increased its full-time employment by 43 percent between 1960 and 1970. This provided an organizing base for the city's municipal unions as they increased their membership by 300 percent, thereby increasing their potential influence within the city's power structure. At the same time, the city could not possibly employ all those left jobless with the resulting increase in the size of the welfare rolls.[11] In the decade between 1960 and 1970 the proportion of the city's population receiving public assistance increased from 324,200 or 4 percent of the population in 1960 to 1,094,700 or 14 percent in 1970.

As the city's welfare rolls increased poor people mobilized to agitate for better housing, higher welfare rates, better medical treatment, day-care centers, job training and direct participation in the city's public education system. The wageless poor were demanding a social wage; an adequate level of income to support a materially decent standard of living even without direct productivity to serve capital or the capitalist state.[12] And while some of the funding to support these services came from New York State and Federal grants, often requiring matching city funds, the city itself contributed a growing proportion of its own revenues. Table II, on the following page, demonstrates this growing dependence upon city, state and federal revenues to support the social wage and to pick up the pieces left by capital's recession and mobility.

Table II: Expenditure Pattern by City Function[13]

| | Total Expenditures | | % increase or (decrease) |
|---|---|---|---|
| Function | Fiscal Year 1961 | Fiscal Year 1976 | |
| Welfare | 12.3% | 22.6% | 10.3% |
| Hospitals | 8.2 | 9.7 | 1.5 |
| Higher Education | 1.9 | 4.5 | 2.6 |
| Subtotal | 22.4% | 36.8% | 14.4% |
| Police | 9.5 | 6.4 | (3.1) |
| Fire | 4.9 | 2.8 | (2.1) |
| Sanitation | 5.4 | 2.7 | (2.7) |
| Education | 25.6 | 18.4 | (7.2) |
| Subtotal | 45.5% | 30.3% | (15.1%) |
| | Total Tax Levy Expenditures | | % increase or (decrease) |
| Function | Fiscal Year 1961 | Fiscal Year 1976 | |
| Welfare | 5.6% | 11.6% | 6.0% |
| Hospitals | 8.8 | 5.4 | (3.4) |
| Higher Education | 1.2 | 2.1 | 0.9 |
| Subtotal | 15.6% | 19.1% | 3.5% |
| Police | 12.0 | 11.1 | (0.9) |
| Fire | 5.9 | 4.7 | (1.2) |
| Sanitation | 6.2 | 3.8 | (2.4) |
| Education | 21.0 | 14.9 | (6.1) |
| Subtotal | 45.1% | 34.5% | (10.6%) |

Source: adapted from tables provided by the Temporary Commission On City Finances

As the data demonstrate, expenditures for welfare assistance increased during the 1961-76 period. This was due to both an infusion of Federal and State monies, as evidenced by the rising proportion of total expenditures which include Federal and State aid, and an increase in the proportion of tax levy expenditures allocated from the city's collected tax revenues. And while this in itself does not adequately demonstrate a burden on the city's revenues, it nevertheless indicates a shift in the expenditure patterns as the city's economy moved into serious decline. Indeed, if we turn to Table III, on the following page, we can see this more clearly. While welfare expenditures constituted 12.3 percent of city revenues in fiscal year 1961, by fiscal year 1971 welfare expenditures had increased to 22.5 percent of total city resources. Compare this to the proportion of revenues allocated for police, fire and sanitation services, all of which decreased over this time. Nevertheless, a word of caution is advisable here. Much of this revenue was allocated from grants and programs mandated and funded by both the federal government and New York State. For example, the Temporary Commission on City Finances noted that

> State and Federal aid contributed significantly to the growth and reorientation of City expenditures during the 1961-1976 fiscal period. State and Federal aid increased from $565.2 million, or 23 percent of the fiscal year 1961 budget, to $5.7 billion, or 47 percent of the fiscal year 1976 budget.[14]

The Commission then cautions us that

> Welfare and Hospital costs, which include nearly $4.3 billion and represent the major functional expenditure problems faced by the City. Although 75 percent of welfare and medicaid benefits are paid for by State and Federal aid, combined welfare and hospital expenditures exceed combined police, fire, sanitation, and education expenditures.[15]

Nevertheless, according to the Temporary Commission's own data, the proportion of city taxes expended for welfare functions increased only 6.5 percent between fiscal years 1961 and 1971. And while much of the pressure to increase these funds came from the poor themselves, along with their allies in the welfare rights movement, much of this money went to support a growing maze of city agencies servicing the poor, and not necessarily to the poor themselves.[16]

Table III: Percentage of Resource Shares Allocated to Major Functions of the City of New York: Fiscal Years 1961, 1966, 1971 & 1976

| Function | FY '61 | FY '66 | FY '71 | FY '76 |
|---|---|---|---|---|
| Police: | | | | |
| Expenditures | 9.5% | 9.1% | 7.3% | 6.4% |
| Tax Levy | 12.0 | 11.5 | 12.9 | 11.1 |
| Employment | 12.8 | 12.5 | 12.3 | 12.0 |
| Fire: | | | | |
| Expenditures | 4.9 | 4.5 | 3.4 | 2.8 |
| Tax Levy | 5.9 | 5.7 | 5.8 | 4.7 |
| Employment | 6.2 | 5.6 | 5.4 | 4.8 |
| Sanitation: | | | | |
| Expenditures | 5.4 | 4.4 | 3.4 | 2.7 |
| Tax Levy | 6.2 | 5.7 | 5.2 | 3.8 |
| Employment | 6.8 | 5.8 | 5.4 | 4.7 |
| Education: | | | | |
| Expenditures | 25.6 | 24.7 | 20.6 | 18.4 |
| Tax Levy | 20.9 | 20.7 | 18.9 | 14.9 |
| Employment | Education data were not comparable during this period | | | |
| Welfare: | | | | |
| Expenditures | 12.3 | 14.1 | 22.5 | 22.6 |
| Tax Levy | 5.6 | 7.5 | 12.1 | 11.6 |
| Employment | 4.3 | 6.2 | 8.9 | 9.2 |
| Higher Education: | | | | |
| Expenditures | 1.9 | 2.3 | 4.0 | 4.5 |
| Tax Levy | 1.2 | 1.3 | 3.0 | 2.1 |
| Employment | 2.1 | 3.2 | 5.4 | 7.1 |
| Hospitals: | | | | |
| Expenditures | 8.2 | 8.6 | 9.4 | 9.7 |
| Tax Levy | 8.8 | 9.5 | 6.4 | 5.4 |
| Employment | 19.2 | 15.0 | 14.1 | 15.2 |
| Total Percentage of Expenditure | 67.8 | 67.7 | 70.6 | 67.1 |
| Total Percentage of Tax Levy | 60.6 | 61.9 | 64.3 | 53.6 |
| Total Percentage of Employment | 51.4 | 48.3 | 51.5 | 50.3 |

Despite this, we might still argue that the growth and redirection of the city's budget reflected the urban insurgency characteristic of the 1960's. The process of allocating city resources reflected the militance of the city's impoverished and working class population. There was rebellion in the city and a redirected budget was the price to be paid for some semblance of order.

A major beneficiary of this militant era were the city's labor unions. Throughout America's major cities, beginning with the mid-1950's, a new wave of labor organizing resulted in the unionization of more workers than in any period with the exception of the great depression of the 1930's.[18] In fact, the workers most likely to be harshly affected by the current austerity, that is, municipal and public employees, were the most successfully organized and experienced the most rapid expansion of unionization during this pre-austerity expansionary period. Public employees at all governmental levels, Federal, State and City, were organized to such a great extent that their numbers actually doubled between 1960 and 1968 alone. By 1968 union strength among public employees had grown to over two million members.[19] For example, membership in the American Federation of State, County, and Municipal Employees (AFSCME) swelled from 150,000 in 1950 to 400,000 in 1972. In New York City alone, District Council 37 of AFSCME grew to include more than 100,000 workers.[20] To further highlight the extent of the organizing effort among public sector workers we must recognize that this was a period in which the proportion of American workers belonging to unions actually decreased. Furthermore:

> By 1974 government employees at all levels accounted for 13.5% of all unionized employees, up from 10.7% in 1968. During the same years, the proportion of the unionized labor force in this country declined, from 23.0% in 1968 to 21.7% in 1974; this in itself is a dramatic decrease from the high point in union organization of 35.5% of the labor force in 1945. Therefore, the influence of public employees among unionized workers is even greater than would appear at first glance, and they are one of the few areas of the labor force where unionization is increasing.[21]

In cities across the nation public sector workers were organizing, lobbying, and, most importantly, striking, regardless of legal barriers forbidding many public workers to strike. Hence, the significance of the public employee unions cannot be underestimated: they effectively shut down important city services in the recent past, for however brief a time. In New York City, for instance, twenty-five percent of all union members are in the public sector. By 1969 these public unions had grown to such an extent as to have organized the public workers in eighty percent of cities with populations greater than 10,000; this from a low figure of thirty-three percent in 1938. This very rapid organizing experience caused analysts to declare that "the 1960's have already earned a place in labor relations history as the decade of the public employee."[22]

Along with this organizing experience public workers became among the most militant workers. They often confronted government with demands for higher wages, better health and retirement benefits, shorter hours with better working conditions, and an increase in the size of the public workforce. Across the nation the strike by public workers became commonplace whether they be legal or not, with or without the sanction of the union hierarchy or the support of the public. Indeed, in most cases these strikes were illegal and were met with forceful resistance from governments intent on keeping labor costs as low as possible. In any case, strikes by public workers involved more workers for longer periods of time, as public employee unionization picked up increasing numbers of members. "In 1953, there were only thirty strikes against state and local governments; in 1966 and 1967, there were 152 and 181 strikes, respectively."[23] Furthermore, 310,000 state and local government employees conducted 490 strikes in the year ending October, 1975, according to the Census Bureau. This was a 72 percent increase over the number of strikes in fiscal 1974, as governments began to crack down on public workers.[24] At the very least, these workers had demonstrated their resolve to increase their wage and benefit packages. The more progressive unions, on the other hand, formed alliances with clients to unite in a common effort against local, state and federal government. Social workers in New York City were an example of the effort to unite workers and clients in a common struggle. Regardless of union strategy, public workers had indicated their potential power in the administration of city services.

Furthermore, money which might be expended towards making business more profitable was now being allocated for increased wages and benefits to city workers. Local business often found itself with increased taxes while fewer local funds were allocated to meet their production requirements and investment needs. The result was a "consistent, though varying, level of pressure from business to keep expenses in the public sector low in order to free investment monies for the private sector, or at least to channel public monies through contracts with private enterprise."[25] As city expenses increased, local business began to apply pressure for a decrease in the costs of labor; in other words, decreased wage and benefit packages to the city's workers. The Citizen's Budget Commission, a private non-profit research advisory organization whose trustees are prominent members of New York's corporate sector, warned as early as 1969 about the possibility of fiscal crisis as expenses increased and revenues decreased. These warnings began even as the city's debt increased, yet they went unheeded. This was not because they were unfounded; rather, it was due to the politicization of the class struggle in that government administrations, dependent upon union support for reelection, could not merely dismiss worker demands. These demands by city employees could only be ignored at the expense of "public order" and essential city services. For the first time on such a large scale, public employees were showing their potential power.

It was within this context of the politicization of class struggle that public sector workers organized, mobilized and pressured the government for increases in the value of their labor power. Profit criteria are absent in the public sector and the value of a worker's labor power ceases to be measured by either the profitability of the business or the productivity of the labor power. As a result, wage and benefit packages seem to lose the inhibitions and limitations of the marketplace. Wages are set solely by the strength of contending classes, or rather by the conflict between, in this case, public workers and the government.

More importantly, public workers recognized this and expected higher wages as their right. Often they established a wage and benefit parity with the highest paid workers in the corporate sector. The mystification and ideology of wage levels being tied to productivity and profitability became transparently political and lost their influence over increasingly militant public workers. Consequently, workers demanded and often won unprecedented settlements thereby forcing government to redirect some revenues from capital's needs to the workers themselves. This threatened both the administrative functions of government - to provide the social stability necessary to maintain the legitimacy of capitalism - and its economic function of encouraging and assisting the accumulation of capital. Indeed, the cost of performing the former function and maintaining the "loyalty" of the working class threatened the latter as potentially "productive" and profitable expenditures were drawn away from the private sector.

This redirection of government funds away from capital posed a threat to the partnership between government and industry. Seen in this light, the fiscal crisis, the loss of manufacturing jobs, and the eventual withdrawal of credit and financing from the city all result from capital's response to this heightened and politicized mobilization of public sector workers, along with the "clients" of the welfare state. Capital needed to reassert its control over government policy so that its needs, and not the needs of workers and poor people, would be met. Control over the budgetary process of New York City became the strongest and most direct method to reimpose control.

Before we discuss the methods through which control was reimposed, let us first examine the class struggle in the public sector occurring prior to the fiscal crisis. We shall see that the militance of New York City's workers indeed constituted a threat to the disciplined administration of city government: the public sector was no longer isolated from the union movement.

Pre-Crisis Union Activism: Producing Crisis Through Class Struggle

Marxist and mainstream social scientists alike have referred to the power of the newly formed public employee unions.[26] We have already taken note of the effect of the past militance of public employees and their unions on New York City's growing expenditures and deficits. Worker militancy during the 1960's weakened capital's control over the processes shaping government operations. Social protest challenged administrative authority, thereby challenging the forms of accountability that had been established for budgetary procedures. Under the impact of worker activism, city management was forced to stray from the rationality that was presumed to characterize the corporate influence in city government: that is, "public" accountability, an accurate and non-deceptive means of calculating and disclosing revenues and expenses, clear jurisdiction over the use and deployment of city employees, the measurement and encouragement of productivity, and an overall emphasis on decreasing labor costs. Piven and Cloward, writing about the consequences of public employee activism, maintained that

> Under the impact of these pressures, municipal governments in the older manufacturing cities were forced to make concessions in the form of enlarged payrolls, higher salaries and fringe benefits, and new services. Most of these gains were won by the better organized municipal workers, who had the power to shut down the services and facilities on which the municipalities depended. However, the minority poor

> also made gains: they got enlarged welfare benefits, a larger share of municipal jobs, and some new services in the ghettoes.[27]

The pressure applied by organizations representing municipal employees and the poor forced an expansion of social services, thereby increasing city expenditures through a ripple effect: demands for increases in wages, benefits, and the size of the work force (consequently resulting in decreases in measured productivity) allowed and indeed, encouraged, the expansion of the total government social service network.[28] The consequence of this expansion extended to the whole organization of government and the establishment of governmental budgetary priorities, including a challenge to the rationalizing of city services through the reorganization of the labor process along standard capitalist corporate procedures. Managing cities became a precarious process of balancing community needs as represented by militant city workers, the poor, minorities, and community activists, with corporate demands.

> As Mayors struggled to appease the demands of a variety of insurgent urban groups with jobs, benefits, and services, municipal budgets rose precipitously. But so long as the cities were in turmoil, the political price exacted by the insurgents had to be paid in order to restore order. Accordingly, municipalities raised their tax rates despite their weakening economies, and state governments and the federal government increased grants-in-aid to municipalities. By these means, the cities stayed afloat fiscally, and they stayed afloat politically as well. Overall, the share of the American national product channeled into the public sector rose dramatically in the 1960's, and most of that rise was due to enlarging municipal and state budgets.[29]

The New York data, provided by the Temporary Commission On City Finances, support the above analysis. During the 1961-1976 fiscal period, New York's operating expenditures increased more than five-fold, from $2.4 billion to $12.8 billion. Furthermore, after allowing for inflation this increase was still substantial, representing a three-fold increase when the value of the dollar is held constant. Indeed, during the years most characterized by worker insurgency, 1966-1971, we see an "unusually rapid growth rate in [city] expenditures . . . During this period, expenditures successively increased 24.3 percent, 13.5 percent, 11.7 percent and 16.6 percent."[30]

The increase in expenditure was clearly the result of increased political influence due to the insurgency of the public work force. A partial enumeration of major job actions by New York City's workers during this period include:

(1) A twelve day job action by transit workers in 1966 resulting in a final labor settlement with a fifteen percent increase in wages over two years, free uniforms, a $500 per year pension bonus, as well as increased and more comprehensive health and welfare benefits. The panel chosen to mediate the strike settlement estimated the cost of the package to be between $60 million and $65 million. As important as the disruption in city life caused by the transit strike was the loss of business, estimated at $100 million per day during the duration of the strike.

(2) This strike was followed by new demands from police, firefighters, welfare workers and parks department employees. The firefighters, with a renewed militancy, demanded that management drop its productivity proposals which included "lower manning ratios, consolidation of stations, adjustment of shifts to comport with the frequency of fires."[31] In addition, firefighters rejected a wage and benefit package that police officers ratified, leading to prolonged

job actions, slowdowns and the picketing of city hall by the police. A settlement was agreed upon only after the firefighters had rejected three offers. It called for a wage increase of $900 and a benefit package totalling $642 per worker for the first year. At the same time, sanitation workers agreed to a contract calling for a more secure pension plan equalling that of the other uniformed services. This plan called for a twenty year retirement provision at fifty percent of pay.

(3) A strike by nurses, followed by a doctor's strike, crippled the delivery of health care services. The nurses struck and won against a wage scale "so low that sixty percent of the registered nurse positions in the municipal hospitals were vacant," while the doctors won a wage hike almost doubling their hourly compensation from $23.50 to $43.[32]

(4) A three week teacher strike in 1967 followed a recommendation by a fact-finding panel that teacher work load be increased.

(5) An unsuccessful strike by welfare caseworkers perhaps best illustrated the new and emerging activism. A strike was called, and ensued, despite active opposition from District Council 37 of AFSCME representing supervisory personnel. The strike called into question the organization of the welfare bureaucracy, its casework procedures, workloads and the meager allowances for welfare clients. These demands at once established the bond between worker and client in opposition to the city bureaucracy.

> Bart Cohen, a former leader of the caseworkers . . . admitted that the militant breed of workers who were being hired by the thousands, fresh from the campuses, reacted almost reflexively against the least exercise of management authority.[33]

In retrospect one writer, following this line of reasoning, argued that

> the disruptive tactics of the union leaders were often completely irresponsible, and at times literally disruptive. Work in which they had long taken pride was condemned as evil and prurient by all sides, even by their superiors. The radical new workers looked hairy and unkempt, seemed to take no pride in their work, and resisted discipline and normal supervision.[34]

This writer, perhaps, gave too much emphasis to hair style; still, one point was well taken: workers in the welfare agencies, as well as in other city departments, acted militantly and challenged those productivity work rules and requirements which gave management its strength. The effect of this anti-authority activism was to demonstrate a common class experience among the long-haired welfare workers and the short-cropped firefighters. This class experience, and not hair style, created the necessity for common though not necessarily mutually coordinated political action in regard to work.

The years which followed saw insurgent actions similar to those described here, with much the same effect: through the organized application of pressure, workers effected some reorganization of the labor process as a whole. Consequently, productivity declined as wages and benefits increased. This was indeed an intensive struggle against work itself, as

> real compensation for most City employees increased more rapidly in the 1970-1975 period than in the 1965-1970 period. The political power of organized workers . . . effectively insulated the labor process from the effects of resource scarcity.[35]

Though, we might add, not for long. The scarcity produced by the fiscal crisis would ultimately effect gains made by workers during previous bouts of militant action. In fact, the fiscal crisis represented for city workers the abrogation of wage, benefit and work process gains previously won during the preceding decade. The crisis was used to turn back the clock and reestablish managerial authority.

We have not yet explained the rise of militancy among public sector workers during this period. A brief overview of the recent past reveals that, contrary to public perception, New York City's unions were not very strong prior to the job actions begun in 1965-1966. Indeed, city management during Mayor Wagner's administrations was quite dominant despite a certain sympathy towards unionism. When I interviewed him in August 1978, Al Viani, Director of Research and Negotiations of District Council 37 of AFSCME, provided an explanation for the rise of public worker militancy by placing it within an historical context.

> To understand the role of unionism you got to understand what happened prior to 1965 and, I would say, after the Second World War until the end of 1964. Public employee unionism was never really strong, nor was there any formalized collective bargaining rights. Most of the salary schedules were determined by unilateral determination by management . . . even under Mayor Wagner's executive order which granted some form of negotiations to the union. [In 1954 by executive order Mayor Wagner recognized city workers' rights to organize and discuss working conditions. In 1958 Wagner issued Executive Order No. 49 which gave city workers collective bargaining rights.] The bargaining was so structured as to be within . . . the city's pay salary plan . . . so we couldn't ask, for example, for across the board increases. They were considered not negotiable, arbitration of grievances were not negotiable, the welfare fund benefit was not negotiable. So that the whole process of determining employee wages and how and what benefits employees got through, I would say, the end of 1964 the power was essentially in the hands of management; almost, I think, a unilateral power.

There is a consensus concerning this relative lack of power of public employee unions at that point in New York City's history. Charles R. Morris, one time budget director and now a vice-president at Chase Manhattan Bank, described Mayor Wagner's executive orders and their effect on public sector unions in the following manner:

> Unions are still a relatively new phenomenon in city government . . . [and] for the most part municipal unions did not come of age until late in Robert Wagner's tenure as Mayor. Unionism and public employment were not concepts that mixed easily. Wagner's police commissioner, Stephen Kennedy, viewed a police union as unthinkable; until well into the 1960's, many teachers considered unions incompatible with their status as professionals; and a top executive in the Department of Hospitals said in 1962 that unions had no place in any agency devoted to public service.
>
> Associations of civil servants and uniformed employees had existed for many years and had occasionally wielded respectable amounts of political power . . . but although associations were occasionally effective pressure groups, there were no organizations with the right to represent employees against the government until Wagner established the city's labor relations machinery during his first and second terms in office. . . By executive order in 1954, he granted employees the right to organize, established grievance procedures - in which employees could be assisted by a union representative - and created labor-management committees to discuss working conditions and to foster cooperation between management and workers. The city's Department of Labor was created to certify unions, approve representation units, and assist in resolving disputes. Employee titles were simplified and rationalized into broad classes that were roughly consistent across departments, and a Career and Salaries Appeals Board that included union members was created to hear disputes over pay and classifications. The city agreed to collect union dues through payroll deductions in 1957, putting union income on a reliable footing, and union representatives were allowed release time from their city jobs for union business. The final breakthrough came in 1958, when Wagner issued his Executive Order No. 49 . . . granting unions the right to bargain collectively for their members. Despite the sweep of Wagner's reforms, there was little immediate difference in the conduct of labor-management relations. The unions were still very weak and much more absorbed in organization and survival issues than bread-and-butter problems of pay and working conditions . . . Wagner did what he could to keep them that way.[36]

The Mayor's methods for keeping these newly formed unions powerless included establishing a certification process which fragmented them and prevented them from amassing large numbers of members, thereby limiting their potential economic and political influence. In addition, the unions were not permitted to participate in collective bargaining sessions until they represented a majority of workers in a job category - and these categories cut across city agencies. This made the task of organizing the workers both difficult and costly. Finally,

> the collective bargaining rules themselves were delayed two years before being issued, and when they were finally produced, they construed the executive order in the narrowest possible terms. The order had stipulated that unions had the right to bargain over "terms and conditions" to include only pay, fringe benefits, promotions, and time and leave rules. In fact, at first everything except salaries was effectively excluded from the table; even fringe benefits were seriously negotiated only in 1962.[37]

On balance, Mayor Wagner's labor relations strategy seems to have been designed to inhibit the development of a militant, active, politically influential and progressive union movement in New York City. Anthony Russo, a management official for the city during the last four mayoral administrations, stated that "there was no real bargaining at all . . . it was more of a joke."[38] Without an effective bargaining agent or power the city's workers were forced to accept substandard wage and benefit packages relative to the unionized private sector. In our interview, Al Viani discussed the impact this had on the city's employees.

> And over the period of time employee wages . . . kept falling further and further behind comparable kinds of employment in the private sector to the degree that it became very very severe. And I think that is the primary reason or primary cause of the tremendous growth of public employee unionism in the city. The city had in fact been solving its budgetary problems by denying employees equitable wage increases and equitable salary scales in comparison to the private sector.

By the time the first Lindsay administration had begun, the unions had already broken away from accepting this degree of powerlessness. In 1965, for instance, District Council 37 of AFSCME won a critical representation election among the workers in the Department of Hospitals. Soon afterward, the small, formerly fragmented unions were joining D.C. 37 as "the era of balkanized unions was ending."[39] When the welfare workers struck that year, the peaceful coexistence so comfortable for and favorable to management was ended, and a period of worker militancy, with its tremendously escalated frequency of strikes, slowdowns and sickouts had arrived.

> The welfare strike settlement signaled an irrevocable shift in the balance of labor relations power away from City Hall. Wagner had opened the door to the expansion of union influence among municipal employees; by skillful maneuvering throughout his last term, he had kept the opening to the width of a crack; but in his last year in office, he was shoved aside, and the unions came bursting through, brimming with the discontents and frustrations that had accumulated through the long years in the darkness.[40]

During the Lindsay administrations city management found itself confronted with unions that, according to Al Viani, "had gone through a period of development and begun to develop some muscle; political muscle as well as economic power." Workers engaged in job actions designed to increase their wages and benefits while decreasing the amount of work required of them. Mayor Lindsay, more often than not, found his adversary strong and persuasive and very willing to utilize all available strategies. The resulting wage, benefit and work rules packages increased the desireability of city employment. In our interview, Al Viani explained the rationale behind these labor settlements in this way:

> Lindsay basically responded to union arguments that said in fact that the wage scales were way, way behind the private sector and that there had to be a catch-up. Prior to the Lindsay administration the wage increases were very, very

minimal. They were in the range of 3, $3^1/2$, or even 2 percent. In some instances, they were nothing. Or they were dragged out over four years where there were maybe what they called one or two steps within the salary schedule. But the wage increases were very, very small. So that under the Lindsay administration the disparity had become so great that the union argued under the new collective bargaining law that there had to be a catch-up. And under the Lindsay administration the wage increases varied - some were 9 percent, some were 10 percent, and some were 11 percent. That went on for most of the Lindsay administration. The last increase that was negotiated under the Lindsay administration was an 8 percent increase. So that there was a catch-up factor as well as an attempt to keep up with the rising cost of living which, as you know, under the Nixon administration was running at one point at nine, ten and eleven percent a year. So just to keep in place one would have to get very substantial wage increases without having a cut in real wages. Under the Beame administration /just prior to the fiscal crisis/ we negotiated a 14 percent increase over two years that had a cost of living adjustment on top of that. That added another one or two percent to the total package. We felt that was reasonable in light of the inflationary factors that were happening in our economy.

Yet these contracts were not the result of a climate of opinion that favored a decent wage as a "human" or "moral" right. Rather, the settlements were gained through harsh and often protracted conflict, struggles against an authority that in any case could only be moved by power. Mr. Viani highlighted this when he referred to the ideological power of capital and administration. Fortune Magazine had written that the city's expenses had vastly increased in the decade prior to the fiscal crisis, due in part to the unlimited amount of credit that had been available to it. This "credit card" created a situation, according to the editors of Fortune, where

city politicians seldom had to bring themselves to say no to anybody - whether union leaders making extravagant demands at contract time or citizens seeking benefits for themselves or others. If the city government had been forced to match expenditures more closely with revenues, hard choices would have been unavoidable. But the borrowing power, coupled with enormous political pressures from a citizenry both

> accustomed to costly services and suffering from one of the highest taxes in the U.S., led city officials to ignore fiscal realities. As a result, New York got committed to do more things than it could afford.[41]

Among those commitments were "a slew of services for the indigent, the young and the aged."[42] It also included an increase in the city's overall labor costs. These increases were said not to reflect the health of the city's economy or adequate consideration of the need for a balanced and accountable budget. In a statement that recognized that wages, even for public sector workers, are the result of class politics, and not from "free" market forces, Fortune maintained that

> political considerations have had a lot to do with inflating the city's payrolls. Municipal workers number around 300,000 - no one is quite sure how many there are - and they are a significant political bloc. In the memory of budget officials, no mayor since Fiorello La Guardia, who left office in 1945, had ever laid off any civil-service workers until this year [1975]. The City's labor costs, which account for about half of the expense budget, have risen by an average of more than 9 percent annually over the last two decades. In mayoral election years, the average payroll rise had been closer to 14 percent.[43]

The magazine was calling for drastic cutbacks in labor costs, thereby necessitating a large number of layoffs and/or a reduction of wages and benefits, along with an increase in productivity; eventually this became the city's strategy to reduce expenses. Mr. Viani reacted strongly to this solution for fiscal restraint and against the suggestion that the demands of the city's unions had caused the fiscal crisis.

> Fortune is wrong when it says these 9 percent increases over twenty years [caused the fiscal crisis]. That is pure and simple bullshit. But that's the kind of myth that's been perpetuated by a press that is essentially dominated by corporate leaders. They are corporation presidents. All the presses - they're not owned by the workers. You know corporation presidents. And they're going to lie through

> their teeth about what is happening with the wage scale or the fringe benefits of public employees. They have lied consistently. The Temporary Commission On City Finances lied. Ray Horton [staff director of the Commission] admitted it; that his facts were wrong. He admitted it in a public forum. [Note: In an interview with me, Ray Horton denied making any such admission and reaffirmed his commitment to TCCF data and conclusions.] His research was shoddy and cheap and it was a cheap shot. But this is the kind of bullshit that the unions have to put up with. So that's what we deal with and fortunately public opinion has some bearings on the negotiations - but it doesn't ultimately decide or determine what happens. <u>What really determines what happens is power - pure, simple muscle and nothing else</u>. And so these guys scream and yell but when it comes down to the bargaining table it is going to be power and the relative power of the unions vis-a-vis the city and whether in our eyes justice is going to be done. This last settlement that we got [June 1978] is . . . in effect what one paper said: the unions negotiated a cut in their wages.

This statement puts the decade of labor militancy in its proper perspective. Both Mr. Viani and Fortune Magazine, though from different class perspectives, recognized that contracts were negotiated through the politics of class struggle. During the years preceding the fiscal crisis, the city's unions were successfully negotiating wage and benefit increases along with work rules provisions decreasing worker productivity. The city's workers were receiving more compensation for less work. This indicated the strength - the "muscle" - that the city's unions had built.

In 1978, well after the austerity institutions had been put into operation and the ideology of scarcity had taken its hold on New York City's communities, the municipal unions were accepting contracts that would reduce their wages and benefits, relative to inflation, and increase their measured productivity through changes in work rules reminiscent of the classical speed-up. Work rules were changed, wages and benefits reduced; all this pointed to the drastic and dramatic loss of power that the unions suffered.

It was the case that municipal workers in New York City were able to exact generous concessions from the city during Mayor Lindsay's administrations. The political and social climate during the Lindsay years was quite the opposite of the retractive economic, political and social policies of the middle to late 1970's. Union power was, at the same time, both real and illusory. It was real in the sense that the public employee union movement had broken away from the clubhouse labor-management politic of the Wagner years. The militant activism by the city's workers was matched and fueled by a more general popular militancy within the city. The "community" movement and the union movement seemed to feed upon each other. Through their militancy, and federal policies encouraging spending, the city's unions gained influence. A city administration besieged by minority and community activists could ill afford sustained conflicts with its workers.

On the other hand, there was a measure of illusion to this power. Increases in city expenditures were to a large extent the result of the federal government's response to urban insurgency. The city often gained revenues from the federal government in grants-in-aid to develop its social services. This expanded social service network necessitated increased numbers of city workers; and as the total number of city employees grew so too did the potential power of city workers and municipal unions.

Furthermore, corporate leaders were not exerting pressure to resist these expenditures. Indeed, the major commercial and investment bankers were implicated in the expansion of New York City's debt obligation, which was made necessary as expenditures exceeded revenues. So there was much to be gained by finance capital in the underwriting and purchasing of tax free notes and bonds with relatively rewarding interest rates. Through these devices, the city's major financiers actually encouraged the very debt cycle that they later blamed for the fiscal crisis. William Scott, former Deputy Comptroller of New York City and assistant to Albert Shanker of the United Federation of Teachers when I interviewed him in December 1978, described to me how the city's major institutional lenders encouraged the accumulation of debt.

> Mayor Beame [and previous Mayors] was led by a group of technical advisors mostly arising, all of them arising, from the banks and financial community who for many, many years had no objection to what the city did so long as the bonds were saleable. They never asked for full disclosure [of the city's financial condition]; they never forced issues; never had prospectives. They had a bond counsel that conveniently came up with reasons why the city should be able to sell its bonds and the types of bonds that they were selling. There were political pressures to do certain things with city money - to roll them over, notes, in the anticipation that the interest rates were going down, which was a bad guess; therefore, if you're able to roll them over you are able to sell them later on at a lower interest rate. There were poor decisions made based on poor information but based upon the only information that was available. You always had to look with some suspicion on the advice you received because in a city this size whom do you go to for financial advice about bonds - whether they're saleable and what rates should be paid - except to the same people who are going to buy and sell them. There is an inborn conflict of interest unless you're going to go to an amateur and let him give you the advice. So you always had to look with some suspicion on what was told to you.

With the workers demanding better contracts, and community residents demanding better and more social services with the encouragement of both the federal government and the city's financiers, it is understandable why the growth of expenditures outpaced its revenues. The role of the private sector and the federal government makes it difficult to assess the actual power of the city's unions during the Lindsay period. The most powerful elements of the private sector encouraged the increases in city expenditures because it served their class needs. New York City's economic base was changed as manufacturing declined and services became more predominant. Increased city services stilled a potentially troublesome population while keeping the city's workers cooperative through the dual policy of increased wage and benefit packages along with decreased productivity. Labor peace was essential to this transformation and a smooth one was more likely while the city spent its funds and borrowed more, rather than cutting back. Put simply, the expansion of city expenses and debts assisted corporate needs in ways that a retracting budget could not.

James O'Connor argues this point and substantiates it in great detail.[44] We have already examined his analysis. We can now see that the accumulation and legitimation functions of public expenditures served a major transformation in the political-economic structure of New York City. An expanding budget provided ancillary services to capital while performing the legitimation functions that capital required to mask its power. The expanding budget, with expanding deficits, signalled to both capital and labor that the city was to meet both of their class needs. At the same time, this policy provided increased benefits to the city's workers while giving them the illusion of power that could guarantee influence even under different circumstances. The fact was that their power was only available when these policies did not threaten the city's corporate and financial elite. When the economy was jolted by a severe and sustained crisis, the corporate and financial sectors could no longer permit workers to exercise influence over government, nor could they permit government to respond to citizens demands for increased services. A fundamental shift in the "balance" of power was necessary for capital to reassert its needs over city government. The moments when labor and capital could benefit from the same government policy had passed.

Capital demanded an austerity based economy to meet its own class needs. In time, capital withdrew its financial support of New York City and withheld it until it could itself assume the reigns of government. In an interview with Dr. Donna Shalala in October 1978, the former treasurer of the Municipal Assistance Corporation confirmed that point:

> Remember that was a bad period for the banks. They were going through some changes. They had taken tremendous losses in their real estate ventures. They no longer needed whatever tax breaks the municipals /notes and bonds/ would give them. They essentially had gotten themselves into such financial problems that they just didn't need all those other municipal obligations and tax exempt obligations. So they didn't need all those other kinds of fancy tax breaks. Their prestige, the New York banks' prestige, was deeply affected during this period.

The conditions that had been favorable to influential public employee unionism had been altered. The federal government, under President Nixon, withdrew its support for local governments' social service efforts; finance and corporate capital no longer needed to encourage the city's expanded debt; meanwhile, community activism was suppressed and ultimately dissipated. Having already left to its past the activism associated with the early organizing years, the municipal unions found their power to be more illusion than real. They were no longer able to threaten and cajole the city government into beneficial labor contracts. Faced with a contracting city budget and an economy in recession, the city's unions found themselves unable to sustain their former influence. As William Scott maintained in our interview of December 1978:

> If you go back in the history of public unions, and they exist for many, many years in this city, they always negotiated in an upgoing economy. Maybe you didn't get what you wanted, but you got more than what you went in with. And when the economy in the Northeast, particularly New York, started downgrading, this was a new experience for unions. They were not used to bargaining in this way.

Indeed, despite the contention that "of all workers, the public employees have been among the least willing to yield their gains," during the fiscal crisis, New York City's workers were unable to organize effective opposition to austerity.[45] They did not, we shall see, produce an anti-austerity movement of any real political consequence.

The next chapter of this dissertation will demonstrate how, in the context of this lack of worker militancy, New York's major banking and investment leaders were able to produce austerity.

Footnotes

1. Securities And Exchange Commission Staff Report, Committee On Banking, Finance And Urban Affairs, Report On Transactions In Securities Of The City Of New York (Washington, D.C., 1977), Chapter 1, p. 10.

2. Ibid., p. 12.

3. John Darnton, "Banks Rescued the City in a Similar Plight in '33," in Alcaly and Mermelstein, op. cit., pp. 225-227.

4. Newfield and DuBrul, op. cit., p. 163.

5. O'Connor, op. cit.

6. See, for example, Alcaly and Mermelstein, op. cit.; also see, Tabb and Sawers, op. cit.

7. "The Effects of Taxation on Manufacturing in New York City," Ninth Interim Report to the Mayor by the Temporary Commission On City Finances (New York, 1976), p. 4. There were 35,918 manufacturing firms in 1960 employing an average of 25.8 employees and only 22,492 in 1974 averaging 26.8 employees each; a total loss of 323,899 jobs in 15 years.

8. Ibid., pp. 4-5.

9. John Goering and Eric A. Lichten, "The Political Economy of Cities and the Urban Crisis," in Political Economy: A Critique Of American Society," ed. Scott G. McNall (New York, 1981).

10. The Fiscal Observer, Vol. ii, Nos. 12 and 13 (June 15, 1978), p. 1.

11. Piven and Cloward elaborate on the national causes for the expansion of welfare rolls throughout the country's cities. They argue strongly that welfare benefits expanded due to both economic factors, such as agricultural modernization, and to the militant organizing of the poor themselves.

12. Demac and Mattera, op. cit.

13. Adapted from Eighth Interim Report to the Mayor by the Temporary Commission On City Finances, op. cit., pp. 15, 17.

14. Ibid., p. 1.

15. Ibid.

16. Piven and Cloward, The Politics of Turmoil, op. cit.; see Part 1: "The Public Bureaucracies and the Poor."

17. Eighth Interim Report to the Mayor by the Temporary Commission On On City Finances, op. cit., p. 52.

18. Derek C. Bok and John T. Dunlop, Labor and the American Community (New York, 1970), pp. 312-342; Stanley Aronowitz, False Promises (New York, 1973); Nancy DiTomaso, "Public Employee Unions and the Urban Crisis," Essays on the Social Relations of Work and Labor: The Insurgent Sociologist, Vol. viii, Nos. 2 and 3 (Fall 1978), pp. 191-205; O'Connor, op. cit.

19. Bok and Dunlop, op. cit., p. 313.

20. O'Connor, op. cit., p. 237.

21. DiTomaso, op. cit., p. 192.

22. Bok and Dunlop, op. cit., p. 313.

23. O'Connor, op. cit., p. 238.

24. Seven Days, April 11, 1977.

25. DiTomaso, op. cit., p. 191.

26. See, for example, Paul Johnston, "The Promise of Public-Service Unionism," Monthly Review, Vol. 30, No. 4 (September 1978), pp. 1-17; Johnston, "Democracy, Public Work and Labor Strategy," KAPITALISTATE, No. 8 (1980), pp. 27-42; Margaret Levi, "The Political Economy of Public-Employee Unionism," Monthly Review, Vol. 32, No. 4 (September 1980), pp. 46-54. Also see Stanley Aronowitz, False Promises, op. cit., and Food, Shelter and the American Dream, (New York, 1974); O'Connor, op. cit.; Demac and Mattera, op. cit.; DiTomaso, op. cit.

27. Piven and Cloward, "The Urban Crisis As An Arena for Class Mobilization," op. cit., pp. 10-11.

28. This is not to say that the mobilization of public employees alone accounted for this expanded social service network. Pressure by the poor, as well as incentives from the federal government in the form of the war on poverty, must be recognized as major factors behind the expanding budgets of that era. Still, I here wish to emphasize the impact of public employee unionism on the city as a background to the fiscal crisis. For a description of the federal role in the expanded service network see Morris, op. cit., pp. 34-36.

29. Piven and Cloward, op. cit., p. 11. Also see reports by the Temporary Commission On City Finances which arrive at similar conclusions though written as a consulting tool for New York City's management.

30. Temporary Commission On City Finances, op. cit.

31. Morris, op. cit., p. 95.

32. Ibid.

33. Ibid., pp. 97-98.

34. Ibid., p. 97.

35. Professor Horton, quoted in Auletta, op. cit., p. 234.

36. Morris, op. cit., pp. 87-88.

37. Ibid., p. 88.

38. Ibid., pp. 88-89.

39. Ibid., p. 89.

40. Ibid., p. 90.

41. Fortune Magazine, op. cit., p. 145.

42. Ibid.

43. For an elaboration of this thesis see Richard Child Hill, "Fiscal Collapse and Political Struggle in Decaying Central Cities in the U.S.," KAPITALISTATE, No. 4-5 (Summer 1976), also see Tabb, in Tabb and Sawers, op. cit.; as well as articles in Alcaly and Mermelstein, op. cit.

44. O'Connor, op. cit.

45. Aronowitz, Food, Shelter and the American Dream, op. cit., p. 151.

## III. PRODUCING AND USING CRISIS: BANKS AND THE FISCAL CRISIS OF NEW YORK CITY

The previous chapter argued that the fiscal crisis was produced and the result of a prolonged history of class struggle. We saw the developing influence and organized militance of the city's labor unions, as well as its workers. I argued that the fiscal crisis must be understood as originating in the struggle between public sector workers and their workplace - the city bureaucracy - on the one hand; and, on the other, between the class needs of major New York corporate and banking interests and the community at large. And this struggle, I argued, ensued within a severe and prolonged economic recession. This recession was most evident in the decline of the city's manufacturing base.

In the following chapter I will continue this argument by detailing the actions taken by the city's major financial and corporate "representatives" that both used and produced the city's fiscal crisis. Of particular import here is my suggestion that this crisis was both real and produced; that it was both real in economic terms and manipulated by corporate elites. The fiscal crisis was real in the sense that banking and corporate interests had much to lose had the city been formally bankrupt. The fiscal crisis was manipulated in the sense that it presented an opportunity to achieve class aims. Indeed, the very task of this chapter is to argue that the fiscal crisis - though the culmination of years of economic decline and class struggle - was used to promote corporate interest through the restructuring of city government. Therefore, the fiscal crisis represented both threat and opportunity for New York's financial and corporate elite.

Banking Power: Producing the Fiscal Crisis

In late 1974, with the city's debts piling up, the financial community began to show its "concern" over the city's fiscal stability. In separate, independent internal memoranda analysts at the Chase Manhattan Bank, Citibank, Bankers Trust and Morgan Guaranty Trust all expressed reservations over the marketability of future city bonds and notes.[1] Indeed, even the Clearinghouse Association, representing New York's major clearinghouse banks which had underwritten and marketed city securities in the past, had been alerted to the potential danger of the city offering debt not covered within its constitutional limits, and the possible cool reception of investors to such an offering. For example, the Securities and Exchange Commission reported that a December 1974 letter from Richard L. Tauber, a Vice President of Morgan, "advised" a substantial investor that the city was indeed in a financial crisis.

> The letter stated that although the author believed that the rating agencies [rating city securities] would give the city the benefit of the doubt, a downgrading was very possible if the financial deterioration of the city continued; this would narrow the market for City securities. The letter recommended that the client reduce his holdings of City securities by not renewing maturing obligations and by tax loss trading.[2]

Yet, at that very moment, the Wall Street Journal carried a report that substantiated great demand for the last offering of city securities.[3] Individual investors were quite excited about purchasing part of the December 2, 1974 offering of $400 million in Revenue Anticipation Notes (RANs) and $200 million in Tax Anticipation Notes (TANs).[4] In part this was due to the high interest rates: 9.4% on the TANs and 9.5% for the RANs. The demand was also partly caused by the "low" $10,000 denominations. We can surmise from this that smaller investors were being attracted to these city notes even as bankers were warning their major clients to divest of city securities.

Still, the banks continued to circulate internal memoranda warning of trouble ahead. One such memorandum from Amos T. Beason, Vice President of Municipal Credit and Finance, Morgan Guaranty Trust, to Frank Smeal, Executive Vice President of Morgan Guaranty Trust, suggested that part of the problem was that

> city officials did not appear to comprehend the seriousness of the situation. It was asserted that, in the recent past, the City's problems were solved by more borrowings, budget gimmicks and increased Federal and State aid receivables. The reported attitude among dealers and investors was that the New York City financial institutions and the State and Federal governments would not permit the demise of the City to occur. However, investors were said to need concrete signs that the City's problems were being addressed by City officials and the financial institutions.[5]

Indeed, the memorandum went on to suggest that the bank

> apply some financial discipline to the City's operation . . . /and then recommended the following course of action/
> (1) a substantial moratorium on capital expenditures
> (2) a substantial cut in the City payroll
> (3) the development of "honest three-year plans" on revenues and expenses
> (4) a review of the City tax structure
> (5) an analysis of the City's overall debt structure . . . by officials of the City, State and City's business community . . . /with/ the results of the study /to include/ suggested remedial legislation.[6]

The memorandum went on to suggest that the banks would agree to fund the city by lending substantial capital in short term loans if the city undertook a rigorous program of fiscal recovery. Indeed, the banks had already decided that austerity was necessary - even prior to the refusal of investors to buy city securities.

All the while, the Mayor and the Comptroller of the city could not agree on the size of the budget deficits, nor the methods to close the budget gap. The public bickering, along with the actions of the clearinghouse banks, pushed interest rates higher. So it was that on October 16, 1974 the city issued $478.58 million in long term bonds at an average interest rate of 7.3318%. A November 4th issue of $500 million RANs and $115 million of TANs were marketed at an average rate of 8.3359% by a syndicate led by Morgan Guaranty. But by December 2nd the interest rates had climbed to 9.5% for the RANs and 9.4% for TANs. This indicated a marketing problem; it also indicated that the banks' perception that the city was becoming unmarketable at any price might have affected the marketing process itself.

Even so, the squabbling between Mayor Beame and Comptroller Goldin certainly could not assure investors of the city's financial stability. As the city moved to greater and greater debts, the actions of its elected officials only served to verify the deep trouble that lay ahead.

> The major impact of the dispute was felt after a bidding syndicate had already purchased a new bond issue from the city but before the bonds were resold by the underwriters to the public. Prices on the bonds fell sharply as investors felt the need for a higher interest rate to compensate them for greater uncertainty, and the underwriters were forced to sell bonds into the market at very substantial losses. Meanwhile, the Technical Debt Advisory Committee [whose members were bankers] had warned the comptroller that the city's heavy schedule of short-term debt offerings were likely to meet market resistance, resulting in higher interest rates.[7]

So it was that interest rates continued to climb. With this, the city's debt service increased thereby necessitating further borrowing. The data which follow demonstrates the increased costs of borrowing. As the data indicates, by fiscal year 1975 the city was allocating 14% of its budget to pay off its accumulated debt.

Table IV: Debt-Service Expenses ($ thousands)

| Fiscal Year ending 6/30 | Debt Service* | Expense Budget* | Proportion of Budget for Debt |
|---|---|---|---|
| 1970 | 705,753 | 6,722,824 | 10.5 % |
| 1971 | 781,819 | 7,744,761 | 10.1 |
| 1972 | 847,433 | 8,659,194 | 9.8 |
| 1973 | 1,099,101 | 9,560,928 | 11.5 |
| 1974 | 1,175,973 | 10,287,546 | 11.4 |
| 1975 | 1,826,965 | 11,895,019 | 14.0 |

* Extracted from Annual Reports of the Comptroller for each year.

In November 1974 the city began cutting its expenses. Its solution then was to be the same throughout the next three years: expenses would be cut by layoffs, attrition and austerity. November saw 1500 layoffs of civil servants and provisional workers followed by 3725 the next month. The December layoffs, however, included uniformed personnel as well as teachers. In addition, up to 2700 workers faced forced retirement. The financial community continued to press for more layoffs and stricter control of city expenditures in a series of meetings with the city administration. The financiers were willing to cooperate with "saving" the city, but the price for this cooperation was the forthcoming austerity program.

In January 1975 the city continued to lay off its workers, with 4050 police officers, firefighters, teachers and other city workers "axed" for an alleged saving of $15 million. Union concessions and funds, however, were able to save many of these jobs, at least for a short while.

January 1975 was also important for the financial community began to formalize its influence over city policy. On January 9th the Financial Community Liaison Group (FCLG) was formed. Its membership included the major officers of the City's most important financial institutions and was chaired by Ellmore Patterson, Chairman of Morgan Guaranty Trust. Other prominent members of the FCLG included David Rockefeller, Chairman of the Board at Chase Manhattan Bank; William I. Spencer, President of Citibank; Alfred Brittain III, Chairman of the Board at Banker's Trust; Donald C. Platten, Chairman of the Board at Chemical Bank; John F. McGillicuddy, President of Manufacturers Hanover; as well as the Chairman of the Board of Merrill, Lynch - Donald T. Regan, and William Salomon, Managing Partner of Salomon Brothers. Heading the staff of the FCLG were David Grossman, Senior Vice President of Chase and former budget advisor to Mayor Lindsay; as well as members from other major banks and brokerage firms. The overt function of the FCLG was to establish a formal mechanism through which the financial community and the city could cooperatively work to reopen the municipal credit markets to the city.

Essentially, this committee established the power of finance capital over the city's fiscal affairs. At this point, that power was exerted through a mechanism, the FCLG, which had no legal authority to mandate the city's actions and policies. Yet the FCLG was able to exert a powerful influence over both the municipal credit markets and the city. Still, this power was informal and depended upon an atmosphere of "cooperation" and "responsibility." In this regard

> the underwriters and the City were brought together in a series of meetings at which the fundamental concerns about the clash between the City's budget gap and its constant need for new debt were aired in great detail. Among the principal problems discussed were the inability of the City to continue on the path of ever-increasing budget gaps and short-term note issuances, the use of budget gimmicks to disguise the true state of the City's deficit, and the need for immediate City action to remedy the situation. A recurrent theme during these meetings was a recognition of the scope of the problems, the need for immediate action, the consequences of the failure to take such action, and the difficulty, given political realities,

of taking effective action.[9]

At the meetings between the FCLG and the city, the FCLG stressed that effective and significant expenditure cutting actions must be taken if investors were to be impressed and, indeed, reassured that the city was not a risky investment. On February 11, 1975 the staff of the FCLG decided that its major activities should concentrate on analyzing the "City's budget problems . . . /to develop/ a long range plan for the City's financial management."[10] The staff would concern itself with the methods by which the city financed itself. Indeed, the FCLG, in order to reassure investors, would assert that "reforms" be made in these financing methods and in the City's budgetary processes.

In this regard it is important to note that the financial community later made the claim that they had no prior knowledge of the depth and seriousness of the fiscal crisis. They consistently argued that their knowledge of the city's fiscal problems did not predate the actual fiscal crisis. One banker, Jac Friedgut of Citibank, argued that the fiscal crisis crept-up on both the public and the banks. This was, he asserted, due to the inadequacy of credit analyses of the city. When I interviewed Friedgut in January 1979 he maintained that

> On the surface, through 1974 or so, it was not manifestly clear to anyone other than a very astute observer, like the Citizen's Budget Commission, that there was a huge accumulated imbalance which, if anything, was getting worse. Maybe it should have been clear and maybe the banks should have had people spending an awful lot of time on this, say in 1973 and 1974 . . . but there was no really in depth studies that got at some of the real raw problems and the growing problems.

And Donna Shalala, an "expert" on public financing, maintained that the banks were indeed weak in collecting information regarding municipal finance. In an interview with Dr. Shalala, conducted after she had finished serving as the Treasurer of the Municipal Assistance Corporation, the following exchange took place.

> Lichten: Did the banks have adequate information?
> Shalala: No. I thought that was the most interesting thing about the banks - that they really did not know what was going on half the time and that they did not have good information. They had relatively weak staffs in this area. They were dependent upon the rating firms. They themselves knew little about municipal finance. I don't think there were many people who cared very much about municipal finance and the bankers had their weakest people in their municipal finance divisions. So that my view of the banks was that we have less of a conspiracy theory and more of a view that they simply did not know for a long time what they were doing; they did not know or understand what was happening.

Yet, in the preceding chapter we saw evidence suggesting that these very same banking institutions were indeed within a circle of advisors with access to information indicating the city's financial status. As William Scott indicated, the banks served on the Technical Debt Management Committee organized by Abraham Beame while he was the Comptroller of the City of New York. This committee routinely assisted the Comptroller in assessing the marketability of city securities based upon their assessment of the city's financial status. Furthermore, the banks in question had access to Citizen's Budget Commission reports, issued as early as 1967, warning of impending fiscal crisis.[11] Lastly, Dr. Shalala's and Mr. Friedgut's emphasis on banker's ignorance is challenged by the Securities and Exchange Commission Report on the city's fiscal crisis. This report maintains that

> Long before October 1974, the financial community realized that the City's fundamental problem was the insufficiency of revenues to meet expenses, resulting in a chronic and ever-increasing budget gap. The financial community had also come to understand the consequences of using short-term debt issues to close its budget gap and questionable budgetary practices

to conceal the gap.
As early as March 7, 1966 Herman Charbonneau, Vice President, Municipal Department of Chemical, who was later to play a significant role on behalf of the bank during the City's crisis period, wrote an internal memorandum decrying the City's practice of making up the gap between current expenditures and revenues by selling RANs and other short-term debt instruments. In the memorandum, Charbonneau concluded that the use of such "deficit funding is an inherently unsound operation, and one which can lead to disaster." [12]

To reiterate, it seems clear that the banks had access to data detailing the serious financial crisis towards which the city was heading. These banks had representatives serving on the Technical Debt Advisory Committee, as well as on the Board of Directors of the Citizen's Budget Commission. Ignorance does not seem to be a well supported argument.

Still, the financial community pressed for more influence over the city's financial affairs and, in so doing, assisted the climate of investor insecurity pushing the city to fiscal collapse. In order to gain more control over the process the financiers would find it necessary to exert control over both the city's financing arrangements and city expenditures. Hence, they would find it necessary to control the budgetary processes of the city. This, in turn, would require formalized, legal authority.

An influential staff member of the FCLG was Jac Friedgut, Vice President of Municipal Securities at Citibank. In a February 25, 1975 meeting of the FCLG Mr. Friedgut circulated a memorandum in which he suggested that the city must institute a complete and rigid program of reducing city expenditures. Included in this memorandum were suggestions that the city institute a

> (1) review [of] . . . all City programs and . . . cutback in low priority items;

(2) freeze on jobs;
(3) joint effort /with/ the business community to /secure/ Federal and State funds;
(4) increase /city workers'/ productivity;
(5) /reduce/ debt and an immediate termination of the issuance of debt for operating expenses.[13]

These recommendations, if followed by the city, would require huge budgetary cutbacks. These cutbacks would be necessitated by the reduction of operating funds due to the absence of funds acquired through the credit markets. In effect, Mr. Friedgut was suggesting that the city operate only on its revenues, without substantial credit. New York City had not accomplished this in a decade and such a program would seriously erode the quality of essential services.

February and March 1975 were very difficult for the city as its securities increasingly became more difficult to market. One such debt offering of RANs on March 13th was marketed only after bankers had secured a guarantee that certain State per-capita aid would be designated to retire the notes when they matured in three months. This offering of RANs underscored the trouble that the city was having in marketing these securities. Before they would market these notes, the financial community demanded that the revenues to repay them be secure and identified. Only in the event of bankruptcy could there be a question about repayment. In an interview with me in January 1979, Jac Friedgut of Citibank and the FCLG emphasized the significance of the events that transpired during the negotiations and marketing of these notes.

> What happened was we were offering investors, and Citibank ran that particular note sale, a very short coupon - three months - a good rate, and much better security, and an identifiable source of repayment than had ever been offered before. Yet they stayed away in droves. So the skelter came together in my mind on that Friday, the 14th /of March/ was (a) that the

> city was in really big trouble and (b) whether or not they [the city] knew the reasons for investors' sense that the city was indeed in trouble.

Only one-half of those notes were successfully marketed; the underwriting syndicate was left holding the remaining notes.

In a previous memorandum circulated on March 5, 1975 Mr. Friedgut recommended that the city "bite the bullet" (emphasis is mine) and institute a strict austerity program by which the city would be forced to live within its means; that is, without market access.[14] In order to do this, he recommended reducing expenditures with a freeze on all labor costs, including wages and benefits, and an across-the-board reduction in city services. Still, Mr. Friedgut maintained that his recommendations were not to be conveyed to the Mayor to pressure him; rather, they would be communicated only if the Mayor asked for advice and specific recommendations. His "bite-the-bullet" memorandum was intended for William Spencer, President of Citibank, who was to meet with the Mayor. It can be surmised that Mr. Spencer communicated these recommendations to the Mayor. Mr. Friedgut maintained, in our interview, that "if the city recognized any of the depths of its troubles and the depth of investor suspicion of the city, and therefore did something very dramatic to show that they intended to get control of their finances" then investors might be willing to invest in city securities. Otherwise, the erosion of investor confidence would continue, as already evidenced by the unsuccessful March 13th sale of Revenue Anticipation Notes.

On March 17th Mayor Beame met with David Rockefeller, Ellmore Patterson and William Spencer in a meeting whose function was to be kept from the public. These prominent bankers wanted to convey the urgent and serious nature of the fiscal crisis, with the erosion of investor confidence, to the Mayor. Yet, they feared that

> knowledge of the participants, purpose and the message of this meeting could trigger a real panic in the market for New York City securities and have a serious impact on markets, worldwide, because of the extensive ownership of the billions of dollars of New York City securities and especially because of the concentration of that ownership among the large New York City banks.[15]

At this meeting, these bankers told the Mayor that the traditional market sources of funds were no longer open to New York City. Nor could these banks, the Mayor was told, with one-quarter to one-fifth of their capital invested in city securities, afford to hold additional securities. Essentially, Mayor Beame was told that the city could no longer borrow from the municipal credit markets or the clearinghouse banks: the city's lifeline of funds to cover its operating expenses and to retire maturing debt had been closed. Before it would reopen, the bankers told the Mayor that the "confidence of the banks and the underwriters must be restored."[16]

The bankers were operating with information supplied to them from Jac Friedgut of Citibank and Frank Smeal of Morgan Guaranty Trust. Jac Friedgut confirmed, during our interview, that Beame was told that "the city was running out of gas and had to do something very dramatic."

On Tuesday, March 18th Mr. Friedgut met with the New York City congressional delegation in Washington, D.C. Edward Koch, then a Congressman and now the Mayor of New York City, was the Secretary of the delegation and had arranged the meeting. Mr. Friedgut described that meeting to me during that very same interview. He stated that:

> I had been told that everything would be off the record and would not be given to the press, and I spoke very frankly and candidly. . . I felt that sooner or later . . . that Washington had to be dragged in . . . and before they got in . . . they should realize not only what is Washington's role . . . I told them that the dimension of what has to be done on an annual basis is $500 to $800 million worth of budget balancing dollars. That this would involve biting-the-bullet on the city front and also having to go to Washington and getting some additional aid . . . As part of my presentation I said . . . that unless the city takes very drastic steps the city's paper would be unsaleable at any price. Now we were talking about the . . . increase in the interest rates and how Beame had been very critical that the interest rates were so high. And I said it won't even be a question of price; it will be a question of availability. And that unless something dramatic is done, city paper would be unsaleable at any price.

These statements were leaked to the public and soon the city's securities were unmarketable at any price. Futher exacerbating the erosion of confidence in city securities was the unloading of city securities by the major New York banks - the very same banks that had underwritten city bonds and notes for years. At the very same time that they were underwriting city securities and meeting with the city administration "to keep the market open," these banks were divesting themselves of their own very substantial holdings of city securities. Jack Newfield reported that "the big New York City banks, as well as major banks across the nation, quietly dumped approximately $2.3 billion in New York City securities on the market between the summer of 1974 and March, 1975."[17] The banks were involved in the dual role of underwriting and divesting of city securities. All the while they "advised" the city of possible measures to secure investor confidence in the stability of the city's finances. Yet, their actions could only lead to a glut in the municipal securities market which was already burdened by the enormous amount of city debt. They continued, however, to recommend that the city reduce expenditures for municipal workers and decrease the quality of services for the residents of New York City.

In April 1975 the city could not borrow to meet its expenses and found itself dependent upon New York State to provide the funds to escape bankruptcy. The price to be paid for this aid was a crisis budget, based on austerity, and the eventual layoff and/or attrition of approximately 67,000 jobs. The city's debt was now at $11 billion, with $4.5 billion in short term securities due to mature. For the first time, but not the last, the city was faced with the real possibility of bankruptcy. The banks had produced the fiscal crisis, we saw, by flooding the credit markets, refusing to purchase additional city securities for their own portfolios and by adding uncertainty to an investment climate that was already shaky.

Banking Power: Using the Fiscal Crisis

With the city facing near bankruptcy its only alternative was to seek financial assistance from both New York State and the federal government. The city recognized that it could not rely on the city's major banks for substantial assistance; that had been made clear by the banks' actions during the preceding months. Further exacerbating the problem, President Ford announced that the city would not be "bailed-out" with federal funds.

Bankruptcy did not seem to be a viable option for its corporate sector and advisors. To avoid such a fate, some of New York's most powerful corporate executives began to devise a "rescue" plan. Richard Shinn, President of Metropolitan Life Insurance Company; Felix Rohatyn, a partner in the investment banking firm of Lazard Freres and a director of ITT and six other major corporations; and

Frank Smeal of Morgan Guaranty Trust purportedly arranged the structure and functions of the Municipal Assistance Corporation (MAC) on May 26, 1975.[18] MAC formalized the power of the financial and corporate class over the city's long range fiscal planning. Governor Carey's appointments to the MAC board included eight members, out of nine, with banking and brokerage connections. They were: Felix Rohatyn; Simon Rifkind, a corporate lawyer and director of the Sterling National Bank; Robert Weaver, director of the Bowery Savings Bank and the Metropolitan Life Insurance Company; Thomas Flynn, a director of the Household Finance Corporation as well as trustee of the American Savings Bank; William Ellinghaus, President of the New York Telephone Company, director of Bankers Trust and a trustee of the Dime Savings Bank; John Coleman of Adler, Coleman and Company, a brokerage firm; Francis Barry, President of Campbell and Gardiner, a brokerage firm; and George Gould, chairman of Donaldson, Lufkin, Jenerette Securities. The only appointee without these connections was Dr. Donna Shalala, a professor at Columbia University and an expert on state financing. Yet, she, by her own admission, was not within the circle of decision makers of MAC. In my interview of her in October 1978, Dr. Shalala argued that

> during that period it was Felix Rohatyn and only Felix Rohatyn. It was a very small group of people [making decisions]. MAC was usually represented by one person or by two at the most. Ellinghaus, when he was chairman, with Rohatyn. You didn't put all the MAC people into a room, with all the Mayor's people and all the Governor's people. So in a sense, while I knew what was going on, and I certainly felt consulted, I didn't feel that I was a central person in the negotiations [to refinance the city and institute an austerity plan].

It has already been shown that New York's major banks were deeply implicated in the events which led up to the fiscal crisis.

We saw that through the FCLG finance capital was exerting its influence over city policy. Yet, with MAC, the financial community began to exert more control, in a formalized, legally authorized state board. One union leader described the power of the banks at this point this way: "The banks were doing business all the time. They [had been getting] 9 1/2% interest . . . and they were cracking the whip." The newest "whip" was to be the Municipal Assistance Corporation.

The staffing of MAC quite obviously demonstrated the power that the financial and corporate factions of the capitalist class were able to exert at this point. In a very real sense, their view of the fiscal crisis became the prevailing ideology. The interests of the city were presented as parallel to capital's interests. At the same time, those interests necessitated reductions in the city's workforce, as well as reduced real wages for those workers who remained. Austerity was to be introduced even as MAC was to renegotiate the city's short term debt into long term state guaranteed MAC bonds. In the process the city was to be saved from bankruptcy.

Dr. Shalala revealed the Governor's concerns and the financial community's power when she described to me how staffing decisions were made.

> It was seen as a financing problem and the Governor's first inclination was to find people who were politically acceptable but knew the substance [of the problem]. Remember, the problem was credibility with the financial community and therefore he was urged to make a series of appointments that would be looked at by the financial community, as well as by the unions and other people, as respectable people; people who, even though they had some connections with the banking community didn't have a particular axe to grind or weren't anti-union particularly.

Regardless, the unions did not exert veto power over appointees.

More importantly, they were not consulted about the legislation creating MAC until <u>after</u> it had been drafted. Edward Handman, Public Relations Director of District Council 37 of the American Federation of State, County and Municipal Employees (New York City's largest public employee union) described the union's influence, or lack thereof, over the legislation:

> The same thing was happening all the time: when a crisis came they had to run to the unions . . . so that we could solve the problem. And then anytime something new was happening they would do it themselves without asking the unions [for assistance]. So the legislation [creating MAC] they drafted that themselves. And one morning we were having a Municipal Labor Coalition meeting and we suddenly learned that they got the legislation ready to go and they hadn't even shown it to us. So we had a press conference and everybody was here waiting for it and the word got to the Governor that we were angry - so they held it up. And we went . . . over the legislation. But basically it was the same and an example of a unilateral document. We made some minor changes at the moment. We were in a frustrating position. They would draft something without us. (Interview with Handman - December 1978)

It was quite clear that the unions lacked real power in the context of this crisis. Instead, power seems to have centered on the financial community that had helped deny the city its much needed operating funds. Indeed, Jac Friedgut of Citibank and the FCLG made that point clear to me in our interview of January 4, 1979. I asked Mr. Friedgut if it were true, as Jack Newfield maintained, that the bankers took control of the city after September 1975. Mr. Friedgut first distinguished between commercial and investment banking and then stated that

> It is true that the investment bankers, particularly Felix Rohatyn, George Gould and Edward Kresky, probably had more say in the financial restructuring of the city on a continuous basis since the second half of 1975 than any other group. <u>So, in a sense, the bankers did take over the city</u>. (emphasis is mine)

Yet, Jac Friedgut went on to maintain that it was not the commercial, but rather the investment bankers who gained so much power. In part this may have been his analysis as a commercial banker for, as we have seen, the commercial banks exerted a great deal of power through the FCLG and later, through MAC. Still, there may have been an important point here. Investment bankers could play an important and pivotal role in redirecting the financial structure of New York City and could, Mr. Friedgut maintained, mediate between labor and the commercial banks. Continuing his analysis Mr. Friedgut argued that

> the bankers did take over the city. But these were not the commercial bankers. And you know, if you asked Jack Newfield who do you mean, he would say the Wristons of this world. Well, that's just not true. To a large extent if you said the Rohatyns of this world, it is pretty close to the mark. Now some people would say yes, but doesn't Rohatyn feel more comfortable with a Wriston than with a Jack Bigel, representing labor. And that is not true either because Felix Rohatyn's genius is that he's been able to effect the same type of communication with Bigel as with Wriston; to somehow harmonize their positions in a way that's good for the city. (Interview with Friedgut - January 1979)

Felix Rohatyn was indeed able to effect an accommodation with the city's labor unions. Nevertheless, this accommodation was not based on an equality of power between finance capital and labor; rather, it was predicated on keeping union mobilization ineffectual or reactive to already accomplished policies. This was the case for the legislation creating MAC and, a short time later, the Emergency Financial Control Board.

The unions were constantly working with plans submitted by the banks. The MAC legislation was one such instance in which members of the corporate sector drafted legislation without prior consultation with the city's labor unions. Furthermore, the function of MAC itself served the interests of the financial community; it was intended to establish the security of investments in the city and to allow finance capital to invest elsewhere; or, in other words, to disinvest in New York. MAC was authorized to market $3 billion of bonds. These bonds would be issued by MAC as an agency of New York State, not New York City. The bonds would be retired upon maturity by a fund set aside and protected by law. The fund would consist of State taxes imposed on retail sales within the city, as well as a stock transfer tax. It was a financing instrument, controlled by finance capital, and, more importantly, devised by financiers.

On June 30, 1975, under pressure from both the State and Federal governments, as well as the continuing pressure from the financial community, Mayor Beame unilaterally ordered a wage freeze applicable to the city's labor force. The unions, in a meeting at the Americana Hotel one month later, capitulated to these demands and signed an agreement deferring a portion of their wages. The bankers' demands for a reduction in labor costs were being met. Still, there was no rush by investors to show confidence in a city moving through the initial stages of austerity.

On July 10th MAC began marketing its first series of long term bonds. It was a $1 billion issue, with a high interest rate of 9.25%, tax free. Nevertheless, only $550 million of this was successfully marketed to the public, despite an "A" rating from the municipal bond rating agencies. The underwriting banks and brokerage houses were forced to absorb the remaining $450 million.

It was clear that investors were demanding more austerity before they would express their confidence in the city. The prominent banking and corporate appointees to MAC were not enough to inspire confidence in MAC; it had been too closely identified with New York City. Despite the security of separate funds and the status of State agency, investors refused to commit their capital to MAC bonds. On July 17th a group of bankers led by David Rockefeller, Frank Smeal and Walter Wriston met with the MAC board to propose the direction that the city must take. At this meeting the bankers asserted that the MAC board must take more control over the city's finances and budget. Furthermore, they suggested an end to free tuition at the City University of New York, a raise in the transit fare, a wage freeze, further reductions in the size of the city's labor force and deeper service cutbacks. In addition, the bankers questioned the ability of the mayor to take the "dramatic" steps necessary and urged a fiscal program be implemented and monitored by an outside agency or control board. They were suggesting that it was now necessary for a non-elected control board to administer the fiscal affairs of the city.[19] According to Jack Newfield, Mayor Beame was then advised by MAC that further and much more drastic austerity measures were necessary.

By August it was apparent that MAC was not able to perform its function. The investment community was on strike - denying the city funding, even through a state agency such as MAC. The corporate sector, and especially the city's banks, were pressing for a stronger, more powerful control board. Jac Friedgut detailed, in our interview in January 1979, the process leading to the control board.

> I think we made it clear . . . that there was no way that even MAC . . . at first we all made a joint judgement that people would differentiate between MAC and the city and therefore

> would buy MAC bonds, though not city bonds. That was wrong. Then we said o.k., let's try this as a judgement - that the only way that people will buy more MAC bonds will be if you make it very very clear that the state is not only borrowing on behalf of the city, but that it's also clamping down on the city and getting the city back into line. (emphasis is mine)

In September the "clamping down on the city" process was formally legislated with the creation of the Emergency Financial Control Board (EFCB). This board was legislated to have the power to

> (i) review, control and supervise the financial management of the city, (ii) . . . approve . . . a plan that will provide the basis for a return of the city to sound financial condition, (iii) control . . . the disbursement of city funds, under which debt service requirements will be met as a first priority, (iv) review and audit city operations . . . to assure that sound management practices are observed or restored.[20]

It was, in all respects, a formal and legally authorized austerity board. Most importantly, its function was mandated by law and it was able to institute austerity regardless of any potential resistance from the city's unions, workers or residents. It had been isolated from potential popular movements against austerity.

Serving on the EFCB were Governor Carey, Mayor Beame, State Comptroller Levitt, City Comptroller Goldin and three members of the corporate sector: Felix Rohatyn, William Ellinghaus, both members of MAC, and David Margolis of Colt Industries.

The most powerful member of the EFCB was Felix Rohatyn. By this time Felix Rohatyn had become the major decision maker in plans to introduce austerity. He devised and approved financing plans; he smoothed over any rough spots with both the banks and the unions. As Dr. Shalala stated in our interview of October 1978

> He had the power of his prestige [originating from his work in the financial and corporate sectors]; tremendous power because of his prestige and visibility in this situation. He was simply trusted by a large number of people that were involved

> in the process and therefore I think he had enormous power during this period. And in fact he shaped the financial settlements.

This wizard of the corporate world was now setting the fiscal policy of the city, though within the constraints set by the deteriorating position of New York City in the municipal credit markets. Still, with all his prestige and power, he could not successfully market MAC bonds without the establishment of the EFCB.

The overt function of the EFCB was to institute tight control over the city, its policies, and to force austerity in the form of control over expenditures, finances and city labor contracts. To this end, the EFCB asserted its authority over all major contracts that the city entered into - including and especially the city's contracts with its labor unions. Consequently, the board began to force, within the context of a new three year planned austerity program, layoffs, attrition and a general reduction in city services. These actions, it was thought, would reassure investors that the city would reform its profligate ways. Indeed, investors would be reassured, it was hoped, that the city was no longer a union town; that its unions no longer held power over the city purse.

The MAC still had difficulty marketing its obligations and paying for the city's reduced services. In November 1975 President Ford reacted to the city's austerity program and approved a $2.3 billion seasonal loan program. Some time later, with the hindsight that history brings, Senator William Proxmire, chair of the Senate Banking, Housing and Urban Affairs Committee which had oversight responsibility over the Seasonal Loan Program for the city, had this to say about the legislation to "save" the city. "Obviously, the

Federal Loans have provided a convenient way for the banks to get out of New York City securities."[21]

Especially now the city needed a continuous flow of capital invested in either MAC or future city notes and bonds. The banks were clearly refusing to bankroll the city while it remained in such a precarious and risky financial condition. A source of funds would have to be found and soon, or else the city might find itself falling into bankruptcy. The source of these funds was to be the city's unions. In this way, the banks used the fiscal crisis to divest in the city, gain power for finance capital, institute austerity and pro-business policies and restrict the influence of the city's labor unions.

The next chapter will present and analyze the strategies adopted and not adopted by the city's unions in response to the developing austerity. By doing this we shall be better able to understand the fiscal crisis not only as the <u>product</u> of class struggle but also itself a <u>moment</u> of class struggle.

Footnotes

1. Securities And Exchange Commission Staff Report, op. cit., see chapters 1 and 4 for a detailed account of the connection between the city and its major banks.

2. Ibid., Chapter 1, p. 35.

3. "Several Firms Put Off Offerings As Price Cuts Continue On Old Issues," Wall Street Journal, December 4, 1974, p. 34.

4. The city offered three types of short term securities. They were Revenue Anticipation Notes (RANs), offered in anticipation of taxes (excluding real estate taxes) and monies to be collected from New York State and the Federal Government; Tax Anticipation Notes (TANs), offered in anticipation of real estate taxes; and, Bond Anticipation Notes (BANs), offered in anticipation of monies collected from subsequent bond offerings. Short term securities were offered with maturities of one year and less. The city found itself, so deeply in debt, offering short term notes to retire maturing notes.

5. Securities And Exchange Commission Staff Report, op. cit., citing memorandum from Amos T. Beason to Frank P. Smeal, December 13, 1974, Chapter 1, p. 40.

6. Ibid., pp. 40-41.

7. Jac Friedgut, "Perspectives On New York City's Fiscal Crisis: The Role Of The Banks," City Almanac, Vol. 12, No. 1 (June 1977), p. 3.

8. Securities And Exchange Commission Staff Report, op. cit., Chapter 3, p. 19.

9. Ibid., Chapter 4, p. 16.

10. Ibid., p. 59.

11. Citizen's Budget Commission issued numerous reports warning of impending fiscal crisis. These included: "On The Mayor's Executive Expense Budget for 1967-68," (May 9, 1967); "The Financial Outlook for New York City," (July 21, 1969); "Coping with Crisis," (November 9, 1970); "Facing the Fiscal Crisis," (May 19, 1972); and "New York City's Debt Problem," (July 1973).

12. Securities And Exchange Commission Staff Report, op. cit., Chapter 4, pp. 7-8.

13. Ibid., Chapter 1, p. 104.

14. Ibid., p. 187, this memorandum, with its infamous prescription for the city's ills, was verified by Mr. Friedgut during my interview of him on January 4, 1979.

15. Ibid.

16. Ibid., p. 189.

17. Newfield and DuBrul, op. cit., p. 38.

18. Ibid., p. 178.

19. Newfield and DuBrul provide a chilling account of this meeting, op. cit., pp. 184-188.

20. New York State Financial Emergency Act for the City of New York, approved by the New York State Legislature September 9, 1975, p. 2.

21. New York Times, March 30, 1981, p. B4.

# IV. ACCOMMODATION TO AUSTERITY: MUNICIPAL UNIONS AND THE FISCAL CRISIS OF NEW YORK CITY

## Crisis Strategy

From its inception, the unions responded to the ever-deepening fiscal crisis by cooperating with the emerging public policy seemingly defined by the sacrifices of the city's workers and unions. These sacrifices became economically and politically "necessary" as the city found increasing reluctance among investors, both institutional and individual, to its note and bond offerings. In November 1974, with Harrison Goldin, the city's Comptroller, admitting a budget deficit of $650 million, interest rates on the city's debt obligations climbed to 9.5% as doubt grew about the solvency of both the city and its notes.

To highlight the erosion of confidence in the city's fiscal health one must recall that just one month earlier the city marketed $420.4 million in Bond Anticipation Notes at a 7.79% interest rate. This rate was, up to that time, the highest interest rate ever paid by the city on this type of offering. Further causing investor anxiety was the decision by Fitch Investor's Service, Inc. to reduce its ratings of New York City bonds from an "A" to a "BBB" rating for maturities before January 1, 1980 while those maturing after that date were rated "BB." In so doing, Fitch reported that the city might soon have "difficulty in meeting all its financial obligations, debt service, as well as operating expenses."[1]

In order to attract investors, the city was obliged to offer 8.6% to 9.5% interest, and even under those conditions the city could not attract ample investor interest. The crisis atmosphere was further complicated and promoted by an urgent necessity to borrow

$2.3 billion to meet operating and payroll obligations due within a few short weeks. By the end of 1974 the city had accumulated more than $13 billion in outstanding debt and was facing the real and threatening possibility of bankruptcy.

In November 1974 the controversy over the city's solvency was fueled by the actions of the city administration. Despite growing concern by the city's major financial powers and authorities, the Mayor's and Comptroller's offices could not stop bickering in public over the actual size of the budget deficit. The Mayor argued that the deficit was $430 million - $220 million short of the Comptroller's estimate. Investors, already wary of the city's leadership, saw confirmation of their doubts in the confusion over the size of the deficit. Could the city be so poorly administered that its Mayor and Comptroller did not know the size of its debt?

As Mayor Beame and Comptroller Goldin argued, the major institutional investors began to pressure the city to produce a financing plan capable of closing the budget gap, whatever its actual size. In November 1974 Mayor Beame began to economize as he announced a three phased program designed to relieve the crisis. At first Mayor Beame ordered $100 million in economies; then, later that month he announced the layoff of 1510 civil servants and provisional employees in order to save an additional $44 million. Comptroller Goldin, however, suggested harsher economies with additional personnel cuts. In December Mayor Beame announced over 3700 additional layoffs including, for the first time, police, fire and sanitation workers as well as teachers. In addition, 2700 city workers were faced with forced retirement. The total savings produced by the two phased cutback was announced by the Mayor's office to have reduced the budget deficit to \$135.4 million from the originally estimated \$430 million: a reduction of \$294.6 million in expenses.

In January 1975, with the crisis atmosphere growing, Comptroller Goldin reduced a planned bond and note offering to respond to "the market problem of oversupply." This action had been made in response to a memorandum by Frank Smeal, Executive Vice President of Morgan Guaranty Trust, and after a meeting with Wallace Sellers of Merrill Lynch. Mr. Sellers had communicated the concern of the financial community with the growing crisis and informed city officials that the last note and bond offerings were a "total disaster." Therefore, he added, the January offerings would most likely not receive a bid from the financial underwriters.[2] In response to this lack of investor interest Comptroller Goldin arrived at a plan which included issuing \$650 million in notes with a one year maturity as well as an investment of \$450 million in bonds by the city's union pension plans.

For the first time during this crisis the union's pension funds would finance a plan requiring worker layoffs. (We will discuss the implications of this strategy for the unions later on in this chapter). Phase three of the Mayor's plan was announced shortly thereafter and projected the laying off of 4,050 uniformed and non-uniformed personnel. These dismissals were projected to save \$15 million. The total layoffs and dismissals, including forced retirements, up to this point supposedly numbered 12,700.[3] <u>These numbers, however, were estimates at best as the confusion concerning actual totals of city workers employed, laid off, forced to retire, and/or dismissed underscored the failure of the city's administrations and management to effectively rationalize city services and, indeed, the</u>

administering of city government.

Clearly this failure to effectively rationalize city government perpetuated much of the investor anxiety, as represented by the expressed concerns of finance capital (banks, investment brokers). This lack of rationality, of managerial control and predictability, was deemed fiscally unsound by those who represented investment capital. What could seem more irresponsible to capital than a managerial system that does not manage the productivity and discontent of its workers and clients? Does this not violate capitalism's operating basis?

In the face of these layoffs the municipal unions began to talk about possible job actions and strikes. At first there was an attempt to unite the various unions through the Municipal Labor Coalition (MLC). This coalition was formed in 1967 to represent all the unions involved with the city's Office of Collective Bargaining (OCB). The MLC excluded unions in non-mayoral agencies, such as the United Federation of Teachers and the Transit Workers Union, thereby weakening its potential power. Indeed, it may be theorized that one reason for these two unions' subsequent militancy was their omission from the MLC. Being left to their own independent action may have encouraged militancy. The MLC, however, was not an organization functioning to promote militancy among union members. The function of the MLC prior to the fiscal crisis was to be the "vehicle through which the unions negotiate policy in the OCB, select their representatives in mediation and arbitration procedures, and assume the unions' share of the costs to maintain the OCB."[4] In other words, the function of the MLC was to promote the collective bargaining process and to inhibit the necessity of militant action. One might say that in that sense the MLC functioned as a tool for the management of class conflict; of negotiation rather than confrontation. Because District Council 37 was its largest member union, District Council 37's Executive Director Victor Gotbaum served as the chairman of the MLC.[5]

In late 1974, amidst growing calls for the mass layoff of city workers, the city's unions attempted to alter the function of the MLC. For the first time in their history, the unions in the MLC were faced with "an issue which all its members could recognize as being in their self-interest" to unite.[6] Unity amongst these unions, however, was not easy to achieve. Edward Handman, of District Council 37, described the problem to me in the following way:

> In fact, there were hostilities within the MLC - police, fire-fighters, sanitation all had flashpoints with each other. The uniform people were generally not too receptive to our union. There was kind of grudging participation within the MLC. However, with this first crisis, Victor Gotbaum really got the notion that the MLC had to start working as . . . the bargaining unit for all the city's employees.

The MLC, representing approximately 200,000 city workers, soon thereafter met with Mayor Beame to discuss, negotiate and relay their concern with the early layoffs. The strategy that was arrived at within the MLC

> was twofold: one - to prevent layoffs of civil servants, which is opposed to provisional employees. <u>This is really a defense posture knowing that somebody had to get laid-off</u>. And the second was to retain collective bargaining. Victor Gotbaum didn't want to be in a position where the city could make decisions which were uncontestable. (Emphasis is mine) (Interview with Handman - December 1978)

With this defensively minded strategy, and with no long term alternatives to austerity to offer, the unions met with Mayor Beame. The result arrived at that December seemed to portend continuing union success in avoiding massive numbers of layoffs. The announced layoffs of late 1974 were avoided, or at least temporarily postponed, by a union plan to

> substitute cash savings for jobs. Each union accounted for its share of money [saved] in its own way. District Council 37, for example, waived a $6 million payment long due its health and security fund and saved the jobs of about 650 men and women it represents.[7]

Some city workers were thus able to keep working - their pay coming from union dues and funds. Nevertheless, this was a one-time, temporary, stop-gap plan and, as it was, never could be seen as an alternative to austerity or as a solution to the budget crisis. Some city workers kept their jobs - but for a very short time.

The December 9, 1974 minutes of the Municipal Labor Committee reveal the process by which the unions attempted to influence the city's proposed policy of worker dismissals. The sections of the minutes pertaining to the layoffs highlight the lack of concrete long range planning by the unions individually, or the unions collectively within the MLC. Furthermore, these minutes suggest the lack of unity which would characterize union efforts throughout the first and most significant moments of the fiscal crisis. The sections of the minutes pertaining to the Mayor's actions regarding employee layoffs are quoted below.

> The Chairman then introduced discussion on the recent layoffs of civil service employees. It was agreed that the following proposal would be presented for approval to the General Membership as the MLC position on layoffs . . . 'The member unions of the Municipal Labor Committee oppose any attempt by the City of New York to effectuate budgetary savings by dismissing permanent civil service employees while, at the same time, wasting funds by contracting out services which could be performed more economically by City employees and retaining provisional, exempt, temporary and other personnel doing non-essential work.'
>
> In his report, Mr. Gotbaum stated that the MLC policy on layoffs would be presented to the press and to the Mayor. He recommended that since a budgetary crisis does, in fact, exist,

> labor leaders should look at the situation in any attempt to solve the problem before the situation becomes more severe.[8]

Regardless of this statement's implied unity, underlying the statement was an "on your own" attitude. The member unions of the MLC were basically being told to individually negotiate plans with the city to avert layoffs. In other words, these negotiations and solutions were to be arrived at independent of any long term common strategy and position. The solution arrived at allowing the unions to buy back the jobs of some of those laid off was a temporary one at best. It was a band-aid for a cancer. More significantly, the unions clearly accepted the crucial argument that the crisis necessitated layoffs and that provisional employees could be sacrificed.

In a sense, the unions had accepted what they might have very well fought and negotiated. Nowhere, in the minutes of the MLC nor in any negotiating position, was there a plan submitted by the unions by which New York City's major corporations could be taxed directly on their "surplus" profits in exchange for a continuing level of city services. Nor were there plans suggesting a renegotiation of city debt held by major institutional lenders, as these lenders arranged for Third World debtor nations (such as Zaire). The unions began their crisis strategy by accepting the one argument that would render them powerless: that the fiscal crisis necessitated their eventually sacrificing the jobs of some of their membership. Already the notion of alternative solutions was being dismissed.

At this early stage there was some talk among the union leaders of job actions and strikes to halt the development of austerity budgeting. However, the crisis presented a situation heretofore not encountered by the unions; hence, a strike was deemed a radical action with unpredictable results. The union coalition, such as it was, was characterized by disunity leaving the union leaders suspicious of one another. The labor movement in the city was less a unified social movement than it was a group splintered into factions each vying for the remaining city revenues. Disunity, and sometimes conflict among the unions was therefore a consequence of the structure of labor relations in the city. Indeed, it was a consequence of a complex division of labor within the public service sector itself; as well as between the public and private sector work-forces. So it should not be surprising that a general strike and job actions, slow-downs and sick-outs were, in Edward Handman's words

> talked about but nobody wanted to do it. You would hear it but nobody really wanted to do it. For one, you always had the problem that you didn't know if everyone would go out on a general strike, particularly the uniformed people. They are adverse to striking. And nobody wanted it because that's chaos and much of what was going on, you have to remember, everything that was going on had never happened before. There was no experience.
> (Interview with Handman - December 1978)

While the union leaders in the MLC were ruling out any militant opposition to the Mayor's layoff plan and the outcries for further austerity, their union members began to threaten resistance. Some union leaders, particularly those in the police, firefighters and transit unions, were not in a position to passively accept the layoffs due to their lack of control over their rank and file membership. Hence, they were all too ready to defer, as much as possible, to the leadership of Victor Gotbaum of District Council 37. From then on, Gotbaum, as director of the union with the largest membership, would take a prominent role in formulating union strategy. In my interview of him, Edward Handman explained the situation at that time in the following manner:

> Fortunately, and I'm the public relations person at D.C. 37, Vic [Gotbaum] was on the scene. He was the guy who clearly had the most and clearest vision of the problems that existed, of the extent of the problem and what it would take to rectify it and save it. The Mayor never had it and was never conscious of it. He was conscious of a tremendous problem and he was ready to throw in the towel. <u>The banks were doing business all the time. They were at that time getting $9\frac{1}{4}$ percent interest for their bonds and they were cracking the whip</u>. And nobody had the sense that you got to get all these pieces together or the whole city is going to go down - except for Victor Gotbaum. He was the one. He, on the other hand, had the sense that the unions had to work together which also meant not only getting one voice in terms of understanding the problem and trying to defend our position, but also getting the responsibility on the union side. It would have been easy for anybody to become a demagogic hero and call for strikes and such. And he had to keep that in mind and it was very difficult, extremely difficult, because you had dozens of union presidents and each one had his own members to perform for. It meant that they had to, on the one hand, have Victor as their spokesperson which meant that they had to look in their own eyes perhaps like lesser figures to their own membership. Some of them were inexperienced and were reluctant to take that kind of role and lose their manhood, so to speak, to their members. Most of them were, I think, delighted that Victor was there because they clearly were over their heads and they were delighted to leave it with him. Which is what happened. So our position was to maintain collective bargaining and to limit the firings. The first time, in November 1974, the ultimate solution was that we gave back to the city proportionately to the number of people in their respective unions fired and we saved their jobs.

But only temporarily. Throughout the early months of 1975 investor confidence in the city severely eroded. In January, Mayor Beame announced the layoff of 4050 city workers. However, union concessions saved the jobs of most of the workers threatened with the loss of their job. At this point union strategy seemed to have stalled the austerity cutbacks designed to lower the cost of labor; indeed, actual dismissals totalled 1,941 after these months of public posturing, threatening and cajoling. But during this time the Financial Community Liaison Group, representing banking interests, was formed and began to exert severe pressure on the city to adopt a stringent austerity policy (see Chapter 3).

The financial pressures mounted and Mayor Beame found the city in a "cash flow" crisis as the city had difficulty borrowing $260 million to pay its March bills. Later that month, in response to the bankers' suggestions, the Mayor reduced the amount of projected borrowing for the remainder of the fiscal year from $3 billion to $1 billion. It was thought that this reduction would decrease the pressure on an otherwise glutted municipal securities market. Mayor Beame then blasted critics who suggested that he had lost control of the city to the banks. "'Nobody is going to tell me how to run the city'," said the Mayor.[9]

This brings us to an important point. Throughout the early stage of the fiscal crisis Mayor Beame maintained that it was not a long term problem. He suggested then that only short term remedies were required and he therefore resisted any major realignment in the city's institutional arrangements. The only exception to this was the acceptance of the informal connection between the Financial Community Liaison Group and the city administration. The Mayor's denial of the severity of the fiscal crisis and his conflict with the Comptroller was seen by many as a contributing factor in its acceleration.[10] I interviewed William Scott in December 1978, then the assistant to Albert Shanker and once the Third Deputy Comptroller of the City of New York, who revealed the conflicting points of view between Mayor Beame and Comptroller Goldin.

> There were long periods of time when the Comptroller and the Mayor did not see eye to eye. There was a political difference between the two men. I believe that Beame honestly did not believe that the notes and the bonds of the city were no

> longer saleable. I think he honestly thought that this was - a conspiracy is too harsh a word - done by design by the banks and the financial institutions against the city, and even the federal government. I don't think that he really ever early on felt that there was no market for the city's securities. He felt that this was a false premise. And he was encouraged in this by his Deputy Mayor Jimmy Cavanaugh who felt very strongly, in the choicest of languages, that the banks were anti-city. Jay Goldin, on the other hand, felt that the banks were getting a very high rate of interest for the bonds that they happened to be buying just before the point in time when they wouldn't be buying anymore. But I think that he even failed to realize that the market was drying up for city bonds.

Scott's assessment of the Beame administration's refusal to accept the depth of the fiscal crisis, and the exacerbating function this had on the crisis, was also Dr. Shalala's analysis. Dr. Shalala conveyed this point to me during our interview of October 1978 in the following way:

> There wasn't much that we /members of the Municipal Assistance Corporation/ could do while the Mayor was running around acting like there wasn't a real crisis. I remember sitting in Dallas when someone stood up and said "Hey, the Mayor of your city says in the New York Times he doesn't know how many employees you have or the Mayor says that the crisis will be over shortly." It was very difficult because the city wasn't acting as if there was a crisis and taking serious steps during the summer of 1975 for us to convince anyone that that was happening.

This confusion then, must be seen as critical to the remainder of the crisis. The strategies adopted here by the unions, banks and the city administration were to be repeated often with similar affect - the institutionalization of austerity. By this time finance capital had mobilized and unified as a class and demanded austerity as the solution to the fiscal crisis. Meanwhile, the city administration floundered without direction and lacked a concrete awareness of the growing depth of the crisis and was therefore unable to find alternative budgetary, taxing or borrowing strategies to counter demands by capital for a planned and externally imposed austerity program. And in this void the city's unions lacked the unity and the class ideology, as well as the knowledge of the depth of the crisis and the peculiar characteristics of the city's finances, to successfully oppose the oncoming crisis resolution being developed, planned and imposed by capital's representatives. It is within this context that we will analyze the function, power and contradictory position of the city's public employee unions.

The Limitations of Public Sector Unionism During Crisis

We must be careful not to abstract thes municipal labor unions from the structural and historical context within which they were operant and developed their crisis strategies. Public employee unions do not control nor have they direct influence over the municipal securities markets that so powerfully effect city finances and from which the city desperately needed to borrow operating capital. The unions' only influence over these markets was an inverse one: these markets may have responded more favorably towards the city's notes and bonds had the unions voluntarily undertaken sacrifices in wages, benefits and work productivity regulations. However, this action would have been highly disfavorable to both the union leadership and the city's rank and file workforce.

The paradox here is that the unions seemed caught between a crisis not yet so deep as to necessitate such stringent austerity and, on the other hand, the need to institute drastic worker sacrifices and restore investor confidence before the city, caught in the deepened crisis, was completely shut out from market accessibility. But in either case the city's workers would be victimized in the process. The power of finance capital seemed to lie in its control over much needed operating capital; to counter this power an alternative funding source had to be found. We will discuss the implications of this process of power, deeply imbedded in capitalism itself, in later sections of this work. We will now however continue with this much needed analysis of the limited power of the city's unions.

To develop such a counter-strategy would have necessitated arousing public consciousness against the actions of New York City's financial and corporate class. The actions of the city's major banking institutions, documented in earlier chapters, provided a key to mobilizing class consciousness against capital's interests. The crisis resolution itself, that is, austerity, has been experienced by New York's working and poor classes as a real threat to the quality of everyday life. Yet the public was brought to believe that austerity was absolutely necessary in the form it took. Furthermore, public consciousness came to view the unions' actions as self-serving and against the interests of the community at large.

Labor was presented as the possessor of threatening greed while capital was largely ignored. The news media daily published and aired stories which claimed that the city's workers were overpaid, overpensioned and underworked. One need only recall the airing of news stories in which television cameras followed public employees as they worked recording how much time the work crews took for lunch. Ravaged by recession, inflation and high taxes the city's residents were easily convinced that the city's fiscal crisis was the direct result of profligate city workers. Nowhere was there a connection made between the struggles for a better work life and a higher quality community life. The city's news media seemed notoriously anti-worker and continually ran stories "exposing" the power and greed of city workers. This contributed to an anti-worker, anti-union consciousness and played directly into the hands of capital. Meanwhile, New York's major commercial banks, I remind you, were "dumping" approximately $2.3 billion in city securites and flooding the municipal securities market, thereby making it improbable that the city could market any more debt obligations.

Yet this news was not made available to the city's residents. Union publicist Edward Handman described the situation to me in our interview of December 1978 in this way:

> There was not a necessity for the kind of panic and hysteria that we had. The media, of course, played a tremendous role in that. And the fact that attacking the city and attacking the public servants was such a handy thing for everybody that it just kept escalating and skyrocketing. We have a news media that is ecstatic about this kind of thing . . . This is the most sensational, the most saleable item you have in New York City - a scandal that is anti-worker and anti-city. To suggest that civil servants are overpaid is tremendous copy. Politicians could get hearings everyday of the week . . . just by saying we got to lay off civil servants - we're paying them too much - that the bus driver retires with more money than he ever made. And you'll tell them that 12,000 city workers retired last year and that only forty of them were bus drivers and what about the other 11,960; the others who went out with $4,000 a year, or $3,000, or whatever. They don't even listen to you. And that kind of attitude presents a problem - there's no question about it. It's a question of what they're saying in the Times about welfare reform - about the need to get federal help . . . We were saying that in 1974 and 1975 and they wouldn't even print it. The only time they would print it is they would say "Victor Gotbaum is raising a red herring about welfare reform," or something like that to take the pressure off.

Without control over the major disseminators of public information, or active campaigns through or outside the media, it was indeed extremely difficult for the city's working class to mobilize effective and informed mass opposition to austerity; or indeed, to even recognize such a need and possibility. Alternatives were not discussed or presented as within the realm of the politically realistic. There was, I think, a <u>language of limitations</u> that solidified and concretized the fiscal crisis and the absolute, non-negotiable necessity for drastic action. One might say that the <u>language of crisis</u> - "there is no money," "what else can we do but make severe budget cuts," "these city workers don't work but have excessive salaries and pensions," "we can't afford teachers" - came from the ideology of capital. The lack of alternative consciousness reflected, in part, this control over the forum and parameters of debate. The language of this fiscal crisis was capital's language, consciousness and needs. Bankers' logic defined the parameters of discourse and served to restrict the possibility of the development of a consciousness which viewed city government and city services in terms of human needs. Indeed, human needs were sacrificed to the rigid god of capital; that is, the almighty bottom line.[11]

In this context, the now anything but militant unions left themselves institutionally isolated within the city's power structure. In the first place, they put their own survival. They determined that they must devise a strategy to ensure their organizational survival along with the viability of their main legitimation: collective bargaining. Mere survival was to be assured even at the expense of many city workers. It should not come as a surprise that collective bargaining, even during a crisis where wages and benefits were unilaterally reduced, was seen as the focal point of union strategy. Collective bargaining is, after all, the basis for union acceptance and legitimation within corporate capitalism.

The bargaining process legitimates both capital-management and the union within the status-quo of class exploitation.

Indeed, collective bargaining masks the existence of class exploitation and establishes the notion that all the worker deserves and gets is a "fair days wage for a fair days work." Therefore, the maintenance of the bargaining process, even if this process was more illusion than reality during the fiscal crisis, was deemed by the union leadership to be absolutely necessary.

Later, after the further institutionalization of austerity had weakened the unions and made the bargaining process an empty formality, Albert Shanker, President of the United Federation of Teachers, and one of the most powerful of the union leaders, suggested the temporary suspension of collective bargaining. In a statement that angered the other major labor leaders in the city Shanker said: "When there's nothing to be bargained for it is a form of torture to send people in to bargain. Maintaining bargaining as usual in a period of the combination of want and bankruptcy is ridiculous." Shanker went on not to suggest opposition to austerity, not mass resistance to the deterioration of the quality of city services due to the budget cutting, but rather the institutionalization of a labor-management control board similar to the War Labor Board operant during the second world war. This type of board would establish a set of wage controls to monitor and regulate working class wages, benefits and productivity. William Scott, now an assistant to Mr. Shanker, explained this proposal made in November 1976.

> Much to the dismay of all the other labor leaders in this city - they didn't think it was right - /Shanker made this proposal/. But he worked on a little different level. He is more international than most of the other labor leaders in this city since he's the national president and since he represents the government and the A.F. of L. in many conventions around the world. And he had more exposure to a war board. I don't really think he meant what he said. I think what he meant was that to go in under the guise of collective bargaining and to merely bargain as to how you are going to reduce your contract is not bargaining at all. It might be better . . . to have a uniform limitation on all of labor in a particular situation, for a particular period of time, rather than to go in and let this fellow bargain away this and that fellow bargain away that . . . Basically, I guess when Shanker said "I don't want to bargain a contract down. Impose it on me," that he was really saying: "Don't give me the option of telling my members I'm going to take $10 away from them or ten days away from them. You impose it on me. Don't let me bargain for that." That's what he was saying. It was taken up generally by the press as meaning that he didn't want to collective bargain during the fiscal crisis. He didn't mean that at all. He meant that you impose your conditions during the time when you can prove you can't do anything else and when I decide that you now have come to the point when you can do something else, then I will bargain with you.

Shanker was recognizing that the basic strategy of the MLC - to maintain collective bargaining - was an empty one since there was no real collective bargaining during the fiscal crisis. Still, his suggestion, the impostition of restrictive and austere contracts through a superordinate labor-management board, also abdicated any oppostion role that unions might play. Shanker was calling for more union collaboration, not less. He was willing to cooperate with a pre-conceived and pre-defined reality conforming to capital's best interests. This strategy accepted without question the legitimacy of austerity.

Still, the other labor leaders, however enraged by Shanker's proposal, were more in agreement with him than they would care to admit. After all, they adopted the diplomatic approach which was also based on a perceived responsibility to a community larger than their membership or the city's working class. Before we continue to describe and analyze union strategy throughout the remaining early years of the fiscal crisis it seems necessary to understand the origin of this type of labor strategy.

The municipal labor union leadership adopted strategies which, no doubt, accepted sacrifices without militant opposition. They eschewed any collective, mass resistance to austerity as a threat to the security of the community at large. American labor unions, in the private as well as the public sectors of the economy, have similarly adopted a reformist ideology which views the class interests of workers and capital as basically contiguous and not structurally contradictory. Collective bargaining allegedly functions to mediate the class interests and resolve potentially disruptive working class activism; indeed, working class activism is thereby channeled into constructing labor relations which ensure productivity.

In this ideology, capitalism provides room for workers' economic freedom. As a result, when workers take positive actions to gain more collective control of their labor and/or community they are presented as a threat to the community at large and must do so without union support. Here, stability is defined as manageable class relations within a general status-quo which legitimates and helps preserve capitalist social relations: equilibrium is control; fiscal health is a deteriorating wage and service network; a healthy economy is a high rate of profit and management firmly in control.

Simply put, the interests of capital are viewed as sustenance for the community at large while the interests of workers, when expressed independent of union hierarchy, are viewed as disruptive and chaotic. The interests of unions become identified with stability even when the consequences of this stability cause suffering for the working class. Yet this interest is not expressed in equal partnership with capital. Indeed, the basis for this partnership is union acquiescence to capital's power to organize and control production in the private sector and, in the public sector, to organize and reorganize the mediating functions of local government.

As this ideology takes shape it makes sense that the cause of the fiscal crisis is not viewed as contained within the contradictory social relations of the labor process but rather as the self-serving and community-threatening activity of labor. The unions, then, must serve the community by denying workers. Yet, by doing so the union denies the autonomy of the working class, thereby relegating the community to capital's own. Cooperation within such a "community" works against a potentially autonomous workers' "community."

The unions' reformist ideology of responsibility, so socially and politically conservative in its repurcussions, finds further expression and influence when the workers labor and struggle in the public sector. Actions in opposition to management by public sector workers are seen as threatening to the public, the community. Capital seems not to enter into the conflict except as victim: the flow of labor to business may be disrupted, or the circulation of capital may be stalled. Then, capital may move out of the community to find labor peace, leading a public cry of "if only the workers were less disruptive and more cooperative and sympathetic to business needs," or "if only government paid attention to the needs of business."

In such a labor dispute in the public sector, management is presented as representing the public interest - after all, government is class neutral and protects the needs of the unity of the community, itself class neutral. An independent and autonomous working class consciousness seems less critical since capital's exploitation is accepted not to exist. This absence of working class unity, as indicated by the ideological separation of public and private, isolates the public sector worker. The public employee union then finds its interests best served in collaboration with city management and corporate capital. But in this case, of the fiscal crisis of New York City, this collaboration enabled capital to deny the city the necessary operating funds to resist budgetary cutbacks and, in the long run, austerity.

> In failing to develop an independent ideological stance of its own, organized labor in America has remained a reactive movement, always more or less captive but certainly never an equal partner of private capital.
>
> The same pattern holds true in the relationship between private capital and governing institutions. Again it is private capital that makes the important decisions regarding economic growth, planning, and allocation of resources and jobs. Like organized labor, local and state governments have also become captive partners, accepting the notion that what's good for business is good for the community. Moriarty of the Congressional Coalition put his finger right on the problem when he remarked that "given the nature of the capitalist system, you have to count on them all the time to carry the major load." The role of local and state governments in this partnership has always been to accommodate to the needs of private capital, and on occasion to act as a mediator between its abuses and excesses and the reactions of an angry public.[12]

In this crisis, however, there was no effective voice representing an angry public against the excesses and abuses of finance capital. Without such active opposition, capital was able to press its demands for austerity. The public employee unions meanwhile continued to act reactively and defensively, thereby abdicating the state to those who demanded worker sacrifice. In the following pages, we shall see how this union strategy, measured by its powerlessness, impacted upon the remainder of the fiscal crisis.

Pension Funding Austerity

As the fiscal crisis deepened throughout 1975, the city's skirmishes with bankruptcy became more frequent. Within this milieu of fiscal and political uncertainty the mechanisms of social control over the city's labor unions were becoming more pervasive and powerful. Key to comprehending the constraints on union activism was the adoption of the strategy to invest public employee pension funds in city and MAC bonds. This section will elaborate the process by which these pension funds were committed to save the city from bankruptcy even while the austerity policy was imposed on the city's labor unions.

Central to my argument has been the position that the strategies adopted by the unions during this time actually contributed to the construction of an anti-labor austerity. As detailed here, we saw the unions adopt a no strike strategy of cooperation. Now, in this case, they used pension monies to establish a financial foundation for austerity. This action gave the city time to reorganize its finances and managerial policies and, if you will, to be reorganized to restore investor confidence. The following pages will confront this issue - the connection between pension funds, bankruptcy and austerity - since it was fundamental to, our topic, class struggle and fiscal crisis.

There were not many public and private sector leaders in support of a city bankruptcy. The city government, its unions and the city's banking and corporate elite all wanted to devise an alternative to bankruptcy. The banks, we have seen, could not afford bankruptcy while they still held a large amount of city securities. As the fiscal crisis grew more serious and their investments less secure, the commercial and investment banks shifted their investments elsewhere. While their investment activity focused elsewhere, the banks demanded a stringent austerity policy for the city under the rationale that investment would not return otherwise.

It is important and interesting to note that the power of finance capital, as represented by New York City's major banks, was realized as <u>disinvestment</u> in New York was proceeding. Finance capital was, at the same time, leaving the city for its lack of investment desireability and trying to reorganize the basis of politics within the city. <u>A new class politics was emerging</u> and the city's labor unions seemed ill prepared for it. This necessitated nothing short of the reorganization of city government: reestablishing managerial authority, reducing labor costs as well as the costs of services to the city's poor, working and middle class communities which were so dependent on city services. In this new class politics, corporate and finance capital improved its power in relation to labor by withdrawing finance and productive capital. We might suggest that this withdrawal left a political vacuum for the exertion of labor's power. Where, then, was labor?

The withdrawal of credit from the city (discussed in Chapter 3) created a need for an alternative source of operating capital. One might suggest that this source had the potential to exert enormous power over the policy of city government. The source of these new found funds turned out to be the city's labor unions. And in the context of fiscal crisis, the unions wound up funding, underwriting and investing in their own austerity. Let us first describe how it was that the pension funds were tapped for their investment capital and then, why it was that the union leadership was not able to halt austerity. In the context of the ebb and flow of class struggle, we shall see that this process was closely tied to the possibility of bankruptcy and the potential uncertainty that such bankruptcy would bring to the city's unions.

Let us review our previously stated position regarding the formulation of union strategy. From the beginning of the fiscal crisis the municipal unions felt it necessary to adopt a "pragmatic" approach. This pragmatism accepted that the fiscal crisis was real and severe. Therefore, that cutbacks in city expenditures were necessary, even at the expense of the city's workers.[13] As Al Viani of D.C. 37 asserted when I interviewed him in August 1978, the unions were willing to make what they deemed to be necessary sacrifices

> because those sacrifices had to be made. There was no getting away from it. The crisis was real, the billion dollar gap was there, everybody knew it and we had to deal with that. Now one could say that if the unions were strong there would have been no sacrifices and no cutbacks. But that was impossible. I mean it would either have been made up with layoffs or, if there were no sacrifices on the wages, or no deferral of wages, or anything of that sort, then it would have been made up in layoffs or dismantling of various agencies or whatever. That had to be dealt with and from the unions point of view in the most pragmatic kind of way. And that was to get out of what was admittedly a very severe crisis the best way we possibly could without any long term erosion of either the basic salary structure or the basic fringe structure.

In this regard it is interesting to note that "pragmatism" had already been defined as cooperation with an anti-labor austerity. As Viani and other labor leaders asserted, there was a crisis which inhibited labor's response. Yet it appears in their depiction of the strategy making process that alternative strategies to cooperation with austerity - more militancy, demanding more labor input into decision making, influence over managing services - were hastily set aside to demonstrate labor's responsibility to the "public." The separation of workers from the control of the labor process was strengthened as management was given more control by labor without a fight. And as the crisis progressed, labor's "pragmatic," "cooperative" and "responsible" strategy was used against the city's workers to develop a formal mechanism of institutional control. Indeed, we have seen that labor's responsiveness to the depths of the crisis was used against labor. In a sense, therein lies the ideological and political weakness of labor. In terms of the prevailing ideology, union militancy and demands for more workers control might have been viewed as anti-public and anti-city. Meanwhile, the banks' responsibility was to protect its investors' money. This definition allowed finance capital, as represented by the bankers and financiers now mobilized to promote austerity, to legitimize its withdrawal of credit to the city.

The fate of municipal labor was therefore tied to the city while finance capital knew no such political or financial boundaries. Al Viani pointed to this basic social relation between labor and the community when he stated that

> Our considerations [like the banks] are also bottom line, but our approach is quite different. Our basic responsibility was to protect the workers to the maximum extent that we could. That is our constituency and our responsibility. But we do have a social conscience and we are concerned about the city

> as a city. But our primary goal was to protect the worker. And we made the judgement that it would be in the best interests of the workers ultimately if the city survived and if the city made it through the crisis. That was being truly honest in terms of what was best for the people that we represented. And so the goals of the employees and the goals of the city, in terms of survival, were just not divergent. They were the same and once we made that decision then we decided how we would go about it - to help save the city and not clobber the employees to the extent that they have a long term impact. And we did what we had to do. The banks on the other hand, their constituency is quite different. The bottom line is the motto that they live by; that is, make money and protect your money. They didn't do anything for any social reasons. Corporations respond to only one thing: make as much money as they can. And the banks are exactly the same. They have no social responsibility, I don't believe, no social conscience. And their goal was to protect their investors and that was it. There is nothing more to it. They weren't going to be so bleeding heart that they would care about the city of New York. They were only going to care about their big bucks.

Within this relationship - of labor to community and finance capital to no human community - was the potential for and limitation of class power. The labor leaders only recognized the social control side of this social relation. The potential for alternatives, for social change involving a labor-community coalition and unity, went unrecognized and, perhaps, feared. Viani described the uncertainty of this moment in the following way:

> The point I have been making was that we were dealing with an entirely unknown situation and we were feeling our way along. We didn't know . . . in retrospect one could argue with the unions' posture at various stages along the way. But it was a very delicate and dangerous kind of situation. The city was going in over a short period of time, two or three months, for over $6 billion in financing - $6 billion that particular year as I recall. We're at the end of fiscal year 1975 and the beginning of the new fiscal year. /Note: from June through September 1975 the city needed $3 billion. Viani is here referring to the period before June and after September./ There was some huge amount of money that was required. Actually, I thought it was $6 billion. It was a totally unknown situation - bond markets, bankers and all that shit. The unions did not know anything about this.

This lack of knowledge led the unions to hire Jack Bigel as a financial and strategic consultant. Bigel was not tied to any rank and file constituency. Again Viani:

> A few people like Jack Bigel understood it probably better than most people did, or at least had sources of information that would give him an advance warning of what the potential problems were. Basically, Bigel is a power broker. There is no other way to call such a person in this city. He has contacts in all kinds of places and in different areas and basically was the right man at this particular time. He had these lines into the financial community, as well as the city and the unions. He could serve as our focal point for a lot of the stuff that was coming on in terms of guiding the unions as to how to deal with these things. Or at least he could alert the unions to the magnitude of the problem and what the banks were saying - what the Mayor was saying - and what the realities of the situation were. Everybody tried to figure a way to deal with it. It was totally in the labor unions. The dumping of notes by the banks - nobody was aware of that. There were people who were arguing internally that this union, D.C. 37, should, when the threat of bankruptcy came in the late Spring and early June of 1975, say to the Mayor, to the Federal Government and the State and the business community, fuck you - let the city go bankrupt. You don't want to open up the market, sorry, I am going to let the whole thing go down. This would have been such a horrible threat that nobody would have allowed it to happen and they would have come up with cash right away to prevent it from happening. We didn't do that, the Mayor - he didn't do that and first there was the Municipal Assistance Corporation, then the Emergency Financial Control Board <u>and all the power was openly taken away</u>. (Emphasis is mine)

The unions, I have shown, discussed more militant alternatives within a context of uncertainty about the consequences of such actions. The union leaders returned, however, regardless of actions taken against its rank and file, to a strategy guided by conservative notions of pragmatism and responsibility. These notions amidst a deepening crisis led to a policy of investing pension funds in city and MAC debt obligations.

The unions were being trapped by a crisis they did not control, nor felt they produced, and by their own ideology. All the while, layers of control were being imposed upon them. Their own trade union philosophy had been transplanted from private sector unionism.

While it was often militant, it always was reformist and that inhibited the development of concrete alternatives to cooperation with austerity. The union leaders feared a general strike and the consequences it might bring. Remarkably, they seemed to fear that more than they feared the worker layoffs and reduced wages and benefits that an austere budget would bring. As Edward Handman stated in my interview of him during December 1978: "There was never - let me say this point blank - a serious possibility of a general strike during those years." A general strike might produce bankruptcy and lead to judicial intervention. This might cause the unions to lose the little control that they had over the situation, or so they felt. As Al Viani stated in our interview of August 1978:

> What our approach essentially was from the very beginning was that we didn't want unilateralism. We recognize the severity of the problem. Whatever is done, we want it done as a result of negotiations with the union. We don't want anything imposed upon us. We would cooperate because that was the only way that we could get some measure of control as to what was really going to happen. Had we taken a very hard line, bankruptcy would have given control to somebody else. There might have been legislation that took control from us. So tactically, we said we could take a hard line and maybe look good with the troops initially, in the short run. In the long run, if we don't have any say with what happens then we will really be out of the picture and they'll really just run right over us.

It was this fear, of losing what little power they had, that guided union strategy. With the city facing bankruptcy and the political uncertainty this would bring, the source of operating funds became the city's unions. Pension funds would be diverted from other investments into city and MAC bonds and notes. The unions had two choiced as they saw it: to commit pension funds or to live with bankruptcy. Let us now see how the union leadership arrived at the decision to use their pension funds.

There are two versions in connection with this commitment. One version - the one that makes the most sense given the history of the crisis and the relative position of the unions at the time - was offered by William Scott, then the Third Deputy Comptroller of the city, and when I interviewed him in December 1978, the assistant to Albert Shanker of the United Federation of Teachers (UFT). Here is his version.

> Well, let me put this into perspective. Remember now, at the time we're talking about I was on the other side, working for the Comptroller. I was the sellor of these bonds to the pension systems. At that time the unions in New York City were, to say the least, not friendly towards each other. Gotbaum and Shanker didn't agree at all. In 1975, however, there was a requirement that the city had to get money out of the pension funds. And Gotbaum, nor Shanker, nor any other union leader developed a plan of using the pension funds. The fellow who developed that plan was a fellow named Steve Clifford, who was a deputy to the city omptroller. And he worked out what you understand today to be the financing system. And he showed it to the Comptroller and I met with the Comptroller in his apartment for breakfast on a Saturday morning with Felix Rohatyn and George Gould /a director of MAC and President and Chief Executive Officer of The Madison Fund. Until 1976 he was also Vice-Chairman of the Board of Directors of Donaldson, Lufkin and Jenrette Securities Corporation, Director of First National Stores, Incorporated, and International Controls Corporation./ And the plan was presented to them that morning. And it showed how each month's capital needs were going to be met, the expense budget, all the rest was laid out and it required that each month so much money was to be coming from the pension funds. The plan also expected that the federal government would participate as they did later in the seasonal loans. <u>And that was all presented and so it was all worked out entirely without the unions</u>. The unions did not enter into it. The newspapers were both pro and con. There were learned newspapers that opposed the whole idea of using pension money to support city government. This business of buying the employer's securities, which is prohibited under ARISA, was the same effect as the unions buying city securities. We met with the pension funds jointly and some of them acquiesced to buy them because they didn't really understand the problem. Others agreed to buy them and Gotbaum was in this predicament because he did understand the problem - so he agreed to buy them. But there was a difference. Gotbaum himself was a trustee of the retirement system, as was Feinstein /Teamsters/, as was John DeLury /Sanitation/. They, as trustees, said I will vote for it. They could do that.

> Shanker, however, is not a trustee of the pension system. In the teacher's system there are elected members. And they said no soap.

We will return to discuss the sequence of events which finally resulted in the UFT's retirement trustees committing their funds to the city. First, it is necessary to put forward the other version of the process by which these funds were committed. This version is offered by Edward Handman of District Council 37. It should be remembered that the unions had already set a precedent for investment when they loaned the city money to rehire laid-off workers as late as July 1975. At this time the city was prepared and actually did lay-off, on June 30, 19,000 workers including 5,000 police and 2,000 firefighters. As Seymour Mann, also of District Council 37, and Edward Handman described it:

> This brought immediate response in the streets. Over the next few days, sanitation began a wildcat strike; 500 police staged a rush-hour demonstration at the City Hall end of the Brooklyn Bridge; firemen began a call-in-sick program; and a wildcat strike of highway workers tied up traffic on the Henry Hudson Parkway.[14]

This led to a financing package with funding from new city taxing power and contributions from the city's unions. "Within two days, 2,000 laid-off policemen and 750 laid-off firemen were returned to work as were all laid-off sanitationmen."[15] The precedent of union money funding city jobs was set. Still, this money was used directly for saving jobs. Pension funds, on the other hand, would not be used for those direct purposes. Lastly, the union leaders seemed to have lost the message: worker militancy had the potential to change the course of the crisis.

Mann and Handman go on to describe the strategy concerning union pension funds allegedly first offered by Victor Gotbaum.

> Indicative of one view of the new role of unions, Victor Gotbaum . . . put forth the notion to defer wage increases to save jobs and also offered a plan for the unions to buy two-year city bonds at lower interest than the city was paying on the market, with the savings to be used for rehiring. This plan was received cooly by the other unions and MAC.[16]

Yet, with brief reprieves from bankruptcy foreshadowing future disaster, the city needed to secure and approach financial security. The union pension funds, along with the federal assistance program in the form of seasonal loans, along with State and MAC funds, became the basis for avoiding a formal declaration of bankruptcy. By October 1, 1975 the pension funds had invested nearly $1 billion in MAC, City and City related securities. A partial list of pension fund investments committed during this stage of the fiscal crisis include: August 1975 - $150 million; September 1975 - $100 million in MAC bonds; again, September 1975 - $41.5 million in MAC bonds; October 1975 - another $150 million in MAC bonds; all of these totalling $441.5 million. Yet, despite this investment there were still some anxious moments over the next few months when the city would once again face the threat of bankruptcy. With each threat came pressure to further commit pension monies to both ward off bankruptcy and reduce the degree of austerity. By October 1, 1975 the city's fiscal situation was so bleak that it tried to secure a "crisis loan" from the city's unions. Evelyn Seinfeld, the research librarian of the Department of Research and Negotiations of District Council 37 summarized the situation this way:

> City urged to tap its pension funds for a crisis loan of up to $4 billion. But trustees for portfolios of public employees are cool to proposal. Simultaneously word spread that bankers have told fiscal aides that the State's ability to borrow money on its own behalf - backed by its heretofore unquestioned full faith and credit - is now in serious doubt. Trustees of City pensions are wary of more City bonds, asserting that they have

> already $1 billion invested in MAC, City and City related securities and further loans might raise questions about their fiduciary responsibilities and might also force the funds to either borrow money or sell other securities now in their portfolios at a loss.[17]

This then was the city's financial status when, on October 16, 1975 the city's Teacher Retirement System was asked to invest $150 million in MAC bonds. As previously described by William Scott the trustees answered this request with an adamant "no soap." As this scenario was being acted out, Mayor Beame announced a three year rescue plan

> which the unions attacked for its continued wholesale firings and for ending collective bargaining. Barry Feinstein, of /Teamster/ Local 237, publicly called for a general strike, but it was apparent that the idea was not acceptable to other unions. A last minute purchase of $150 million in bonds by the Teacher's Pension Fund averted default on October 17, and the city was given two months before the next default deadline in December.[18]

Actually, this commitment was not so easily procured, and the manner in which it was demonstrates the enormous pressure under which the trustees made their decision. The hidden story, the one not publicly disclosed, was told to me by William Scott. His version gives us a much clearer perception of both the "public" pressure brought to bear on the unions (and by implication the pressure not brought to bear on the banks) and on the lack of unity among the unions. According to Scott

> they, the trustees, said no soap. We have a personal liability here. We have a prudent man law that we can be held responsible for. And we're not going to do it. I met with that board. And we finally met up in the Governor's office and we sat there all day and we went home at 6:00. And then Shanker had been called in. But Shanker was not called in to agree to that investment. He was called in to convince his members to agree to it. Needless to say, he had a healthy influence on them. In a subsequent legal action the question was raised - the retirement board was sued and one of the questions that the federal judge insisted on having an answer to in affadavits was

> if Shanker ever talked to the teacher members [the trustees] before that meeting as to whether they should or should not buy those securities. And under an affadavit he said that no, he did not, and that they did not talk to him. Did they talk to him that morning? Yes, after he had been called in by the Governor and put with Dick Ravitch [landlord, one time Chairman of the Urban Development Corporation, developer and now Chairman of the Metropolitan Transit Authority]. And the Governor and in Ravitch's apartment he agreed then that even though he said that he is invading a personal responsibility that these people have, he would go down to talk to them. And he did that. Down in the Governor's office. And they did come out of that. And then they sent for Felix Rohatyn and George Gould and they got letters from them that they would never ask the retirement board to buy anymore. And there were conditions that had to be met, among them a law that had to be passed in Albany before they would buy it. All of this was negotiated not with Shanker, but they negotiated this with Rohatyn and Gould.

The split within labor's ranks was most evident over this issue. While the trustees of the Teacher Retirement System resisted the $150 million investment, Victor Gotbaum quietly made it known that his union, by itself or with others, would supply the additional investment if the teachers refused to commit. We had here the case of one union leader undercutting the trustees of another union pension fund. This represented in extreme form the total lack of labor unity without which opposition to austerity, and the banks, was futile. Scott continued to make the coercion clear:

> So at this time there was a question as to whether the Teacher's Retirement Board would buy or not. And it was at this point that Gotbaum's crew came forward and said if they don't buy we will buy their share at this reduced rate of interest. So it wasn't an offer to come in and buy the whole bundle at a reduced share or rate. It was an offer to come in and fill up a slack if the Teacher's Retirement Board did not vote to buy. However, they did vote it . . . All Shanker did was - together with the Governor - to lean on the trustees. And the Governor leaned just as heavy. Why do you think it was held in his office? It was held in his office to intimidate the trustees. Otherwise they would have had it in their own office.

The buckling under pressure by the Teacher's trustees followed the last major attempt at opposing the use of pension monies to fund and underwrite the city. In late November the city once again averted formal default and bankruptcy when the city's unions and banks agreed to renegotiate the city debt that they held; the union pension funds also agreed to an added $2.5 million investment. The financial plan arrived at allowed the city some breathing room over the length of the three year austerity plan. The plan reached fruition on November 26, 1975 and included: new taxing authority for the city estimated at $500 million over three years; a deferral to 1986 by both the banks and pension funds of $819,220,000 of City notes at a reduced interest rate of six percent; a restructuring of $1,808,323,000 of MAC bonds held by banks, pension funds and sinking funds to save MAC and the City $753 million of interest; and, the $2.5 billion investment by the union pension funds in new long term City bonds.

> Through June 30, 1976, $500 million had been invested by the pension funds. In addition, the pension funds agreed to reinvest in City bonds $500 to $600 million of these newly purchased bonds which were expected to mature in the second and third years of the plan period.[19]

With this package intact, President Ford approved the New York City Federal Seasonal Financing Act of 1975. The act made short term loans of $1.3 billion, $2.3 billion and $2.3 billion available to the City for fiscal years 1976, 1977 and 1978, respectively. This federal loan program, however, was not approved until the city's unions had buckled under pressure and had shown that they would not oppose the three year austerity program.

Indeed, not only would they not oppose it, we might say that they were now integrated within it as a major source of investment capital. They were not quite the city's bankers, for they did not have the power that accompanied that class position, but their fate was now enmeshed in the financial structure of the city. Labor conflict might now endanger labor's pension funds and therefore the pensioner's future. Without being an active participant in the reorganization of city government (for the unions were not primary and influential participants within MAC or the EFCB or, for that matter, in the everyday managing of city services) the unions had effectively been limited in their future political options. Newfield and DuBrul summarize this point as it relates to Victor Gotbaum and District Council 37.

> Yet in the wake of the fiscal compromises worked out by MAC and the EFCB, Gotbaum is in the unenviable position of being not only New York City's major labor leader but its biggest creditor as well. And public-employee pension funds are likely to go on being the city's fiscal crutch for at least a decade. To protect his billions in city paper, Gotbaum will continue to be asked to sacrifice his members. He walks a narrow line: a misstep in one direction means endangering the pensions; a wrong step in the other direction means new layoffs. In the event, Gotbaum has become frozen, a captive of the business elite running New York City and now effectively running his union.[20]

The extent to which the union pension funds bankrolled the city is revealed in the table on the following page. This table shows holdings of City and MAC debt as of December 31, 1977. I have adapted the table to show the percentage each institutional investor held of the total City and MAC debt outstanding as of that date.

We can see from this data that the single major institutional creditor was the city's union pension funds as they were responsible for holding 21% of the total outstanding debt. And by June of 1978 the unions' total was scheduled to increase to $3.8 billion in City and MAC securities - representing approximately 38% of union assets.

Table V: Holdings of City and MAC Debt, Dec. 31, 1977 ($ in Millions)

| Holder | City | MAC | Total | % of Total |
|---|---|---|---|---|
| City Pension Funds | $2,111 | $ 886 | $2,997 | 21% |
| State Pension Funds | 0 | 0 | 0 | 0 |
| NY Clearinghouse Assoc. Banks | 328 | 1,662 | 1,990 | 14 |
| NY State Commercial Banks | 115 | 33 | 148 | 1 |
| US Commercial Banks | 111 | 12 | 123 | 1 |
| Savings & Loan Associations | 86 | 68 | 154 | 1 |
| US Treasury | 1,875 | 0 | 1,875 | 13 |
| Other Investors | 4,580 | 2,497 | 7,077 | 49 |
| Total | 9,206 | 5,158 | 14,364 | |

Sources: Offices of the City and State Comptrollers; adapted from the Fiscal Observer, June 15, 1978, p. 7.

The union commitment to invest as compared to the commercial banks' commitment to disinvest is glaring. Ken Auletta provided us with data compiled by Senator William Proxmire, Senatorial overseer of the federal rescue plan.

> Senator Proxmire revealed . . . reason to celebrate: the assets of the largest city banks jumped by 23.5 percent between September 30, 1975, and September 30, 1977. Yet their holdings of city and MAC securities dropped 3.4 percent. By the Spring of 1978, the six major banks had less than 1 percent of their assets tied up in city paper, compared to a scheduled 38 percent by the city's pension funds. If the banks simply returned to their 1975 level of investment . . . this would net New York City about $2.3 billion in long term financing over the next four years.[21]

The choice to invest in New York City was made by the unions from a position of powerlessness. Rather than adding power, these investments restricted the unions' future options. Their choice had been made with only two options seen as politically viable and realistic: pension fund investment or city bankruptcy. Given their outlook and political weakness they chose the former. In this choice we can see the decline of the unions' political influence; public policy, in the form of austerity, could now be instituted with the unions' full cooperation. A new class politics had been formed to the disadvantage of the city's unions and working class. At that moment of class struggle, the limitations of public sector unionism outwighed the possibilities dramatized by the militant 1960s.

<u>Class Struggle And Corporate Unionism</u>

To this point we have been concerned with describing and analyzing the city's unions as a political force. In its relation to the city's power structure we have seen the unions' relative impotence during the fiscal crisis. To be sure, we had earlier seen that these very same unions had grown and gained influence prior to the fiscal crisis.

This loss of political muscle demonstrates the historical phases of class struggle that these unions passed through. First, the organizing phase during which the city's public sector unions gained organizational and legal legitimacy. Second, the militant phase during which these young unions gained political influence through class conflict and as a consequence of their organizational response to worker militancy. Third, the control of union influence by capital and management. In this case this occurred through an austerity policy which functioned to render these unions powerless and passive vis-a-vis management's program of "fiscal restraint." We saw that this last phase necessitated a superordinate policy body which isolated the unions from influencing the institutionalization of austerity. This isolation, achieved through MAC and the EFCB, eroded the unions' strength even as it encouraged union participation in financing the city. This participation, we saw, was based upon political weakness and indeed, once accomplished, precluded union opposition to the city's austerity policy.

Now I wish to move the argument away from the political question to a more general problematic. The unions represent not only a political development, exerting political influence, but also and more importantly a social development of a class. This is clear when we consider the union as an institutional consequence of a social movement arising from and within class antagonism.

The dialectic of class society separates union from worker, public from private and capital from society. Each of these social relations - union, public and capital - becomes alien and hostile to the construction of an autonomous working class as class antagonism is concretely institutionalized. Its institutionalization becomes its mediation - and this serves to regulate, control and channel worker insurgency into non-threatening forms of struggle. As class conflict becomes routinized, alternatives to capitalism are denied. It is at this moment that unionism becomes a vehicle of control.

This holds true for public sector unions as well. These become mechanisms to channel worker insurgency away from challenges to corporatism, which are then deemed impractical. Since worker autonomy is viewed this way, labor conflict during crisis becomes seen by labor leaders as irresponsible. Furthermore, the union aims to be responsible to a "community" which is, in the last instance, a corporate community. And this corporate community lives by the cold, calculating rationality of the bottom line. The bottom line then, becomes responsible for the "difficult" decisions made during crisis.

The separation between the union and the worker results from a class relation between capital and labor. The union arises from a labor process which creates and is created by a working and capitalist class - defining each other in opposition. I have viewed the city's policies as a result of this class opposition. As the city expanded its service network during the 1960s and early 1970s to still the activism of its poor and working class, it provided a glue to hold together, however temporarily, a city vitally important to capital. <u>The social relation then was not a fiscal one, despite analyses to the contrary, but one of class</u>.

I have viewed the city government, and its policies, as constituting both a <u>mediating product and process</u> moving between the antagonistic needs of management and labor, capital and community. As the process of struggle continued, city expenditures increased to meet the demands of the then militant labor unions. To some, it appeared that these unions controlled city government; that is, that they exerted direct power over decision making and city policy. However, the fiscal crisis and its resolution dispelled this appearance.

We saw that power was not held by these unions; in a sense, it was borrowed in much the same way that operating capital was borrowed from finance capital. It was power borrowed through struggle and returned when capital was able to turn the struggle in its favor. It is still, after all, a capitalist society.

We can now see how the unions, trapped by their ideology, failed to act forcefully to oppose austerity. It was not a policy, a thing, that they needed to act against; it was the class behind the policy. And that class, the capitalist class, grows in power when capital is separated from the needs of the community, used privately and withdrawn from the public need.

The unions' response to austerity, to sacrifice the jobs, wages, benefits and working conditions of its members, effectively separated its needs from its members needs. Its needs as an organization were given priority over the needs of the city's workers. Given union passivity at the moment of crisis, the separation of union from worker effectively isolated any worker insurgency from effective opposition to austerity. The unions can therefore now argue that their strategy for survival was successful: collective bargaining still formally exists and their members can still claim most of the benefits won prior to the fiscal crisis. In my interview of him in August 1978, Al Viani of District Council 37 placed union strategy in this perspective:

> Unions and union leaders are very pragmatic people generally and they have to deal with the real world. They also have to look in terms of what their long term goals are. Our /D.C. 37/ goal during the fiscal crisis was to . . . recognize that there was a truly severe and real fiscal crisis and ultimately we realized that. And that we had to deal with it. And we had to devise a strategy that would enable the employees to come out of the period with as many of their benefits intact as possible, without any long lasting cutbacks, and to try to make the compromises - but compromises that were not going to erode the basic benefit structure. And I think we were successful in that respect. There hasn't been any of what a lot of commentators have been calling for: a cutback in employee benefits, fringe benefits, etc, except in one area. That has been in pensions and not for active employees but for newly hired employees. Our big concern in the crisis was layoffs and cutbacks in basic salary and fringe structures. We came out of the contract negotiations /1976/ without any erosion of our basic fringe benefit structure and we came out of the negotiations with the best that I think we could possibly do in terms of the salary. The sacrifice on the wages was a deferral. It wasn't a giveup. That money is owed; it was only a one year thing. They /a fact finding panel that ruled that the deferral was only temporary/ restored the salary rates. Our most trying period was the last contract /June 1978/ where we just had these cost of living adjustments. <u>So that tactically I think we came out of it in good shape, even a little stronger now, I think, than it was prior to the crisis</u>. And we picked up a lot of members during the crisis because people understood that had it not been for the union there would have been more severe layoffs and more severe cutbacks - permanent kinds of cutbacks in benefits and salaries.
> (Emphasis is mine)

According to Mr. Viani's analysis, the city's unions actually were stronger <u>after</u> the sacrifices were made during the fiscal crisis. Nevertheless, we saw that the layoffs were not union sacrifices but banker demands. To sacrifice imples the power to decide and we saw that the unions did not hold such power. Still, the unions did survive as formal organizations. Yet, many union members did not. That Mr. Viani could make the above claim demonstrates the separation of the union from the worker.

This separation of union from worker represents, on the one hand, the concentration of power in capital, and, on the other, the mediating process of both union and government in class society. Arguing the conservative function of corporate unionism Stanley Aronowitz wrote that

> trade unionism still appears as a progressive force among the mass of working poor, such as farm and hospital workers, who labor under conditions of severe degradation. At first, unionization seems to be a kind of deliverance from bondage. But after the initial upsurge has been spent, most unions fall back into patterns of class collaboration and repression. At the point when grinding poverty has been overcome and unions have settled into their conservative groove, their bureaucratic character becomes manifest to workers.[22]

It seems that the bureaucratic character of the city's unions became dominant not due to the personal malevolence of union leaders, but rather because the needs of workers cannot be met by unions ideologically and organizationally committed to corporate capitalism. It is during crisis that we can see this commitment. Jerry Wurf, President of the American Federation of State, County and Municipal Employees, pointed to this commitment as a serious flaw in the American labor movement.

> Fundamentally, the labor movement in this society accepts the social, economic and political system unquestioningly. As a

> matter of fact, it is sometimes more defensive about it than our other institutions. . . Labor here is not an adversary institution . . . The American labor movement supports the economic and social status quo.[23]

In that light, given an ideological commitment to class society and the lack of power to effectively oppose austerity, the unions' strategy made sense. From their position it seems true that

> those sacrifices had to be made. There was no getting away from it. The crisis was real, the billion dollar gap was there, everybody knew it and we had to deal with that. Now, one could say that if the unions were strong there would have been no sacrifices and no cutbacks. But that was impossible. I mean, it would have been made up with layoffs, or if there were no sacrifices on the wages, or no deferral of wages, or anything of that sort, it would have been made up in layoffs or dismantling of various agencies. That had to be dealt with and from the unions' point of view in the most pragmatic kind of way. And that was to get out of what was admittedly a very severe crisis the best we possibly could without any long term erosion of either the basic salary structure or the basic fringe structure.
> (Interview with Viani - August 1978)

These were indeed limited goals which already accepted the inevitability and necessity of austerity. The unions retreated from representing the class interests of its workers. They had withdrawn in the face of crisis as they realized their own powerlessness. And as they retreated, they produced their powerlessness. In crisis, the unions cooperated with an austerity policy at the expense of the city's rank and file: the need for social control dominated their organizational response.

Footnotes

1. "Fitch Update," in Securities And Exchange Commission Staff Report, op. cit., Chapter 1, pp. 44-46.

2. Ibid., pp. 44-46.

3. I have included the 2,700 forced retirees in the estimated number of dismissals. It is not clear to me from the data I have seen whether these 2,700 were included in the figure of 12,700.

4. Seymour Z. Mann and Edward Handman, "Perspectives on New York City's Fiscal Crisis: The Role of the Municipal Unions," City Almanac, Vol. 12, No. 1 (June 1977), p. 9.

5. Ibid.

6. Ibid.

7. Ibid.

8. Minutes of the Municipal Labor Coalition, December 9, 1974, pp. 1-2.

9. Evelyn Seinfeld, "Chronology of the New York City Fiscal Crisis: July 18, 1974 to April 4, 1977," Department of Research and Negotiations, District Council 37, American Federation of State, County and Municipal Employees, p. 4.

10. See, for example, Securities And Exchange Commission Staff Report, op. cit., Chapter 3.

11. I use language of crisis in a conceptual manner similar to the use developed by Lukacs (Reification), Habermas (Distorted Communication) and Marcuse (One Dimensional Thought). The common thread in my concept and theirs is the technocratically distorted language which dominates bourgeois ideology. In this domination is the alienation of human communication. The reification of everyday life, best exemplified in the elevation of the commodity as the central cultural category of everyday activity, mitigates against a non-distorted, non-technocratic and non-reified expression of working class needs. The language of crisis, in this case, demonstrates the technocratic quality of this alienated consciousness and, indeed, praxis. Solutions to crisis become defined by the lack of unity and therefore powerlessness of workers vis-a-vis capital. The discussion of alternatives fail to include genuine working class and human needs. In this sense, domination by capital extends to the "ruling ideas" of crisis resolution.

12. Jeremy Rifkin and Randy Barber, The North Will Rise Again (Boston, 1978), p. 79.

13. It is not my intention to argue that the fiscal crisis was not real or severe. Rather, throughout this dissertation I have argued that the crisis was symptomatic of a far deeper struggle in the social relations of production, represented by class struggle. Furthermore, I have shown that the fiscal crisis was used to reorganize the mechanisms of social control over this class struggle. I have conceptualized these mechanisms of control as austerity.

14. Mann and Handman, op. cit., p. 10.

15. Ibid.

16. Ibid.

17. Evelyn Seinfeld, op. cit., p. 25.

18. Mann and Handman, op. cit., p. 11.

19. Annual Report of the Municipal Assistance Corporation (1976), p. 15.

20. Newfield and DuBrul, op. cit., p. 237.

21. Ken Auletta, op. cit., p. 290.

22. Stanley Aronowitz, op. cit., p. 262.

23. Henry B. Burnett, Jr., "Interview with Jerry Wurf," Skeptic, No. 13 (May-June 1976), pp. 11-12.

## V. CLASS STRUGGLE AND FISCAL CRISIS: CONCLUDING REMARKS ON THE CLASS BASIS OF AUSTERITY

The preceding chapters were concerned, for the most part, with showing the relationship between class struggle and contemporary urban crisis. In a sense, I was mainly concerned with detailing and analyzing the dialectic, the ever changing reciprocity, of this relationship. First, labor seemed to ascend. Then, capital stripped the mystique of power from the public sector union movement, showing that capitalism is, after all, capital's system.

In other words, I was mainly concerned with the ebb and flow of class struggle and how it impacted on, and produced, the fiscal crisis of New York City. This necessitated a detailed historical analysis of the actions of the "representatives" of the capitalist and working classes at the historical moment of crisis. In this case, I have argued that the "representatives" by historical circumstance were the city's banking and investment firms on the one hand, and its labor unions on the other.

The major actors involved in the production and mediation of this crisis were identified and their actions discussed. Yet, they were not viewed as independent actors in this dialectic. I have tried to show their "class being" as well as their consciousness of the class character of their actions. I have tried to demonstrate that the actors in this crisis acted within parameters set by a larger struggle and by the history of that struggle. As Marx wrote long ago but so appropriately to this situation:

> Men make their own history, but they do not make it just as they please; they do not make it under circumstances chosen by themselves, but under circumstances directly encountered, given and transmitted from the past. The tradition of all

> the dead generations weighs like a nightmare on the brain of the living.[1]

I theorized that the fiscal crisis was both the product and process of class struggle; that this crisis was the culmination and reorganization of twenty years of class struggle; and that it was, in fact, the beginning of a turning away from a government policy of enlarging the social service priorities in fiscal politics. In James O'Connor's terms it represented a shift away from legitimation towards support for accumulation.[2] I view this as the development of austerity capitalism. As Alan Wolfe so ably argues "crises, whether of population, energy, legitimacy, budgets, or politics, do not manifest themselves out of thin air; they are in Lukacs' phrase, 'an intensification of everyday life,' a culmination, not a negation, of historical processes."[3]

In the preceding analysis of the fiscal crisis of New York City I was able to show the means by which New York City's government, in particular its budgetary processes, was transformed by the city's major banks. We saw how they forced Mayor Beame, through the Financial Community Liaison Group, the Municipal Assistance Corporation and the Emergency Financial Control Board, to institute austerity and, indeed, by exacerbating the city's social problems to assure investor confidence. There is no argument here, however, about the reality and severity of the fiscal crisis. Indeed, I have argued that the crisis was a result of a combination of class related factors: the decline of the city's economy, the growth of influence of the municipal labor unions, the militancy of community organizations, as well as the interest that investors had in the city's increasing debt service. To be sure, as I indicated, pressure to increase the city's debt service came from both the banking community itself, as well as the city's working class. Along with these pressures to expand came encouragement from the Federal government, itself engaged in expanding social programs. Indeed, we have here a contradiction in capitalism itself - that a crisis may grow out of a policy that seems to benefit and reconcile factions of conflicting classes. The overall debt grew, the fiscal viability of the city became more dependent on the banks and the power of this faction of finance capital over city policy increased.

With the public credit market experiencing a great deal of competition from local governments eager to borrow, the banks began to produce and use fiscal crisis to reshape long term city policy. In this way the crisis was both real and produced; it existed, was real, as a result of economic decline and working class activism; it was produced by actions of New York's investment community. The banks and major institutional investors simply did not need the city in the same way as when they enthusiastically met the city's borrowing needs.

The methods by which the city government was pressured into austerity involved the withholding of financing and the withdrawal of credit from the city; the development and staffing of a State financing instrument (the Municipal Assistance Corporation) and a State financial control board (the Emergency Financial Control Board); and, most importantly, establishing the social and institutional constraints to inhibit labor resistance as austerity was instituted. The city's labor unions became integrated into the austerity structure as they invested pension monies to finance the city while it was shut out of private markets. From the evidence presented in the preceding chapters, it is clear that those who developed and initiated this institutionalization of austerity were powerful members of the capitalist class and represented various factions of finance and corporate capital operative in New York. These influential actors developed the instruments through which austerity was adopted, instituted and enforced against potential disruptions.

The most influential actor was, in fact, Felix Rohatyn, an investment banker and later the Chairman of the Municipal Assistance Corporation, member of the Emergency Financial Control Board and originator of countless strategies to "save" the city from bankruptcy. Jac Friedgut maintained that "by the summer of 1975 people like Felix Rohatyn were essentially making financial policy for the State and the City." (Interview with Friedgut - Vice President, Citibank - January 1979). Dr. Donna Shalala, former Treasurer of the Municipal Assistance Corporation, agreed. The fiscal crisis was "seen as a financing problem . . . Remember, the problem was credibility with the financial community . . . During that period it was Rohatyn and only Rohatyn. He, in effect, shaped the financial settlements." (Interview with Shalala - October 1978).

During crisis periods power structures become more visible. New means to mediate crisis and class conflict are developed and institutionalized to replace or reform the old. This often necessitates transforming the mechanisms of government. So it was in this case that New York City's government, beset by an inability to raise needed operating and capital funds and influenced by militant labor unions, proved ineffectual in its response to capital's needs. As a consequence, the formal processes of city government were superceded by informal organizations representing finance capital (the Financial Community Liaison Group) at first, and later, by more formal organizations and governing bodies of financing and budgetary control (the Municipal Assistance Corporation and the Emergency Financial Control Board). One might conclude from this that the use of power by a class in part involves the transforming of formal mechanisms of government during crisis.[4] In this case, my research suggests that this process of transforming government begins with the use of informal mechanisms to pressure the existing governing bodies. These informal mechanisms are then legislated, or otherwise made, into more formal mechanisms for achieving class aims. These formal governing bodies consolidate the gains of the informal mechanisms. Indeed, in this case the formal mechanisms made austerity an institutional fact.

At this point in my argument then, I showed that the fiscal crisis was: (1) a <u>product</u> of class struggle consisting of the rise of influence of the municipal labor unions as well as general community activism and a welfare rights movement. Together, these groups, representing various factions of the working class, contributed to increased expenditures in city services; (2) a result of the decline of the city's economic base as represented by the decline of manufacturing; and, most importantly, (3) <u>a process of class struggle at the moment of crisis</u> as represented by the actions of factions of finance capital and municipal labor and the consequent restructuring of city budgetary processes along new class lines. This process involved the Financial Community Liaison Group, the Municipal Assistance Corporation and the Emergency Financial Control Board on capital's side. That these were the major actors and governing bodies reflected a new impotence on the part of the public sector labor unions, and their Municipal Labor Coalition. In the face of a declining reservoir of capital, labor's failure to sustain community activism and to unite the working class factions in opposition to austerity, and therefore capital, demonstrates its inability to politically represent the class interests of the city's workers and clients. At all points throughout the fiscal crisis, labor retreated from pushing class interests in opposition to capital and management. Therefore, the process of class struggle during this crisis was represented by the loss of influence by the municipal labor unions.

This is not to say however, that there was an absence of class conflict. As I have used it, class struggle ebbs and flows; one moment capital seems to be powerful and well organized - at another moment, it appears to be labor's turn. Regardless of this chaotic rhythm, <u>each defines the other's power; their histories are made together in an antagonistic unity - a unity of opposition</u>.

I therefore revealed one moment in which power was based on the relative unity of classes in conflict. Hence, we saw the class basis of power during crisis. These concrete power struggles, which resulted in the institutionalization of austerity, can best be understood in regard to the conflict of class interests.

As stated previously, the planning of austerity excluded the representatives of the city's working class. I argued that the investment community, with an eye out for possible resistance, had the power to assert their needs over public policy. As Jac Friedgut asserted when I interviewed him in January 1979: "In a sense, the bankers did take over the city, but these were not the commercial bankers; rather, these were the Felix Rohatyns of this world." The reference here was to investment bankers. And during the fiscal crisis there was an extraordinary degree of class unity within the investment community. "We have a certain noblesse-oblige and tight and firm discipline," stated Jac Friedgut, Vice President of Citicorp. "So that we could marshall our forces and when we spoke to the city or to the unions we could speak as one voice."

This brings us to the concrete role that bankers played throughout the fiscal crisis. William Tabb in The Long Default: New York City and the Urban Crisis is correct when he argues that the bankers acted as bankers must in capitalist society when they "protected" their investments above all else.[5] He is correct that this is the rationality of banking. Tabb is also correct in arguing that the bankers seized the crisis as an opportunity to reorganize the city's financial operations. However, this understates the major issue here. The investment community was able to marshall its forces, mobilize and thereby reorganize city government because the city's unions failed to effectively counter the bankers' aims and actions. Tabb seems to understate the class struggle aspect of this crisis. By stating that the crisis was "falsely blamed" on the city's unions and poor people Tabb places himself in the position of denying the efficacy of working class struggle, the past viability of the labor movement in the city and the past accomplishments of the welfare rights and other community movements.

The process by which city government was reorganized was not predetermined because bankers will be bankers; reorganization was effected because bankers acted as a class during this crisis period. They were able to use this crisis politically for capital's benefit, or, at the very least, for the benefit of banking capital. They reached a degree of unity that labor did not equal. In response, labor was unable to use this crisis and the possible histories it presented. The city's workers, though not the "cause" of the fiscal crisis, were a force in the expansion of the budgetary obligations of the city, forcing it to borrow. And though the city's workers were not paid more than other municipal employees, in other major cities, this only shows that the gains of state sector workers were obtained over a larger, national, context during the past decades. Given this history of class struggle, which I discussed in my chapter on Pre-Crisis Class Struggle, there was more than one direction that the crisis resolution could have taken. To suggest otherwise is to assume that the history of capitalism works itself out mechanically, as a consequence of fate.

This brings us to a discussion of labor union complicity in and accommodation to the austerity policy. In previous chapters I argued that New York City's public employee unions lacked the necessary unity to resist austerity. It is quite clear from the data presented here that the unions, divided by income, occupational status and the division of labor, were unable to come together to plan effective resistance during the early and most crucial days of the fiscal crisis. Given this void, the investment community was able to enforce its definition of the crisis and its proposal for determining the relationship of financing and control. It was through legislation that finance capital was able to institute austerity as government policy and hegemonic ideology.

As the crisis developed, the austerity policy enveloped the unions who, without a coalition with threatened communities, were unable to oppose this resolution of the fiscal crisis. We saw that the unions, faced with the threat of layoffs, allowed union money to be used to forestall bankruptcy; how plans were made within the Municipal Labor Coalition to avoid strikes; how an early decision was made at the highest levels of union leadership to cooperate with the policy of fiscal austerity; how "social responsibility" was defined by union leadership to preclude radicalism. And we saw how all of this contributed to sealing the municipal unions into a powerless position. After investing pensions and tying them to the city's fiscal future, how could labor resist austerity without endangering their members' pensions?

Without the necessary class unity and an ideology of class opposition the unions found it impractical to resist. And in this case, austerity was introduced with very little effective resistance. Workers lost their jobs; poor people saw the already low quality of their health care decline with the closing of medical facilities; students at the City University paid increased tuition for larger sized classes, or they dropped out for lack of tuition funds; day care centers were closed; and the infrastructure of the city, its bridges, streets, tunnels continued to erode; and the subway system, without which labor-power cannot meet capital, continued to deteriorate, subjecting riders to discomfort at a higher price per ride.

I have argued that the precrisis period was characterized by years of labor militance. Yet, we must distinguish between offensive and defensive militancy. The precrisis activism came from a position of strength, it was offensive when the political, economic and social conditions contributed to the clear possibility of success at achieving class aims. These very same organizations proved to be inadequate as defensive organizations. Not only were they unable to protect against the institutionalization of austerity, but they were unable to turn the fiscal crisis against the investment community. The leadership's inability to use the discontent of the rank and file to oppose austerity may demonstrate possible shortcomings of the public sector labor movement.

Throughout the fiscal crisis the rank and file made known their discontent. There were job actions by teachers, police, firefighters, sanitation workers and hospital employees. Yet the respective union leaderships seemed to distrust the militancy of the rank and file and tended to disassociate itself from these job actions. Instead, the union leaderships opted for a relatively conservative strategy designed in part to control its membership. It was, in short, afraid of losing control over its membership in an increasingly dangerous fiscal situation. As Edward Handman of District Council 37 stated when I interviewed him in December 1978: "The banks were cracking the whip." The acts of a strong membership might have brought penalites from the Emergency Financial Control Board, as was the case for the United Federation of Teachers which was unable to pursuade the EFCB to approve its contract, even one year after the UFT and the city had reached agreement. As one union leader argued, the unions could not initiate a general strike because "that's chaos."

This point is similar to the argument made by Stanley Aronowitz in False Promises where he argues that today's private sector unions have become integrated into the control mechanisms of corporate capitalism. The data I have presented here suggest that the same may be said of the public sector unions.

> The most notable feature of the present situation is that the unions are no longer in a position of leadership in workers' struggles; they are running desperately to catch up to their own membership. There are few instances in which the union heads have actually given militant voice to rank-and-file sentiment.[6]

Still, Aronowitz makes clear that the unions retain their positions as the only available organizations for worker defense. So at the same time the union "remains an elementary organ of struggle, yet it has also evolved into a force for integrating the workers into the corporate capitalist system."[7] And yet, when Aronowitz wrote this he could also state that this was not yet the case for public sector unionism. Writes Aronowitz:

> Unionism in the public sector is still somewhat raucous and unpredictable from management's standpoint. Even when labor leaders fervently desire close relations with public officials and are prepared to cooperate in confining membership action to approved channels, the workers in hospitals, schools, post offices, and city agencies often succeed in changing the script.[8]

In the case studied here, the rank and file was unable to alter the script calling for union cooperation and, indeed, the funding of austerity. One might argue that instead of using rank and file dissatisfaction with budgetary cutbacks, the unions instead chose to go toward business unionism accepting cooperation rather than conflict as the only appropriate and responsible position.[9] William Scott highlights the split between the leadership and the rank and file of the UFT, for example, during the 1975 teacher's strike.

> In 1975 that was really a strike by the membership. It was not a strike that the leadership actually wanted to lead. The leadership was aware of the financial crisis. The members felt that it fell all around them but that it never touched them. And this they could not accept. And when the conditions in the contract that they didn't like, or when we couldn't get a settlement, they wanted a strike and strike thay had. That was, I think, one of the few strikes in public areas where the leadership didn't lead them or encourage them. And in that case there was neither - not encouragement nor leadership. And it was a pretty costly strike. It cost the members. (Interview with Scott - December 1978)

The union leadership separated the needs of the organization from the needs that motivated its members' resistance to the austerity program which undermined prior contract victories. And so, it could later argue that the municipal unions survived the fiscal crisis without suffering serious damage to their bargaining and political power.[10]

There are two opposing interpretations of the fiscal crisis that I now wish to compare. They speak to the relative power of labor vis-a-vis management and capital. The first is given by Jack Bigel, labor consultant and, according to Jack Newfield, "power broker" for the municipal labor unions. Bigel argues that:

> I have a sense of inequality. I sense that management has more power. It is management that determines the economic fruits for its employees. We have the right to grievance. They have the right to determine people's lives. A union is a defensive instrument.[11]

According to this view, labor unions are powerless beyond the minimal gains that they might negotiate. Grievance procedures do little more than cool-out labor spontaneity in the face of management intransigence. In this view labor unions are always at a disadvantage and are therefore powerless, especially during crises periods.

Another view is offered by Commissioner Anthony Russo of New York City's Office of Labor Relations. Russo states that "to a great extent, the servants have become the masters."[12] Yet, the history of the fiscal crisis belies the validity of this analysis. It was the public's perception and, perhaps, city management's, that the unions had consolidated their power. And indeed, I have argued that these unions were able to force valuable and costly concessions from city management before the fiscal crisis. But during the crisis the unions were not negotiating with city management. I have shown that the conditions under which they labor were being decided elsewhere and not by city management. Finance capital was demanding the rationalization of the labor process, and it was capital's rationality that was ascending. This is what Ken Auletta misunderstands when he maintains that the city's unions acquired new power as a result of their pension funds lending the city so much operating capital. Writes Auletta:

> In some way, the fiscal crisis lessens the power of the unions. They must temper their demands, worry about other audiences, including the Congress . . . forge a new partnership with the city/State/ and banks to avoid bankruptcy, perform under the glare of constant publicity. But over the first three years of the crisis they also assumed new powers as the city's chief banker. By June 1978 the municipal employee pension funds were scheduled to have invested $3.8 billion in city and MAC securities - three times the amount invested by the banks. The unions milked this power, using it as leverage in their contract negotiations - no contract, no loan. Another indication of their power is that, strictly speaking, these are not "union" pension funds. Not only did taxpayers contribute roughly 90 percent of these funds, but public officials exercise voting control over three of the five major city pension funds, a power they prefer not to advertise since they traditionally defer to union wishes.[13]

Auletta argues that the unions became both banker and employee, thereby enhancing bargaining leverage with city management. But he neglects to add that these unions were, in a very real sense, not truly negotiating with city managers. Negotiations proceded with eyes turned towards the Emergency Financial Control Board and Washington, where they were closely followed.

The EFCB had the final authority to pass on all of the city's major labor contracts. The EFCB, one recalls, returned the 1975 transit settlement to renegotiation because it allegedly threatened the city's three year financial recovery (austerity) plan. With one decision the EFCB established itself as the real negotiator of labor contracts; city management was only the first level of opposition that the unions faced. And city management had become the least important. Defeating management at the negotiating table became far less rewarding than Auletta makes it seem. And, in fact, what was negotiated was the dismantling of union influence and the reorganization of labor conditions that had been won by these very same unions in their more militant, powerful days.

The negotiating process demonstrated the decline of power and influence that the municipal unions suffered. And as the data demonstrated, the commitment to invest pension funds was made under coercion: the coercion of bankruptcy, the coercion from the Governor and Felix Rohatyn, as well as the federal government. Rather than proving the unions' power, these pension commitments indicate just the opposite. Furthermore, these investments tie labor's hands; to threaten the city with conflict or strike was to threaten the financial future of their membership. They could no longer oppose the bottom-line rationality of capitalism because that would now threaten their investments. They had become integrated into the austerity structure.

It is a curious irony that the unions saw their influence fade while they were becoming the city's major institutional source of funding. As I have argued, the opposite case can be made for the city's major commercial and investment banks. As they disinvested in the city they saw their influence greatly strengthened. They were able to induce the unions to take whatever risk was involved in investing in the city and the Municipal Assistance Corporation, even as these unions saw their contracts eroded. As O'Connor argues, the functions of the governmental budgetary processes depend upon the level of class organization. In this case, we can see that the legitimation functions of the state suffered as the accumulation functions were pushed by a well organized financial sector.

The entire history of the fiscal crisis therefore calls into question the viability of public sector unions as the sole source of power to oppose austerity, management and, ultimately, the power of private capital as it influences and impacts upon the functioning of the city. Indeed, this history argues against the validity of "interest group" theories which assume that unions and factions of capital, among other interest groups, can fairly compete within local governments. The data here speak to the inherent strength of capital in a capitalist social system, as well as the inherent powerlessness of a labor union detached from mass movements.

What this crisis shows is that the political process operated outside the realm of public discussion and influence; that it responded to the needs of capital, and not labor, during crisis; and that it was temporarily reorganized to mediate a crisis emerging from class struggle. And finally, the history of this fiscal crisis speaks to the weakness of public sector unions, and unions in general when they are no longer part of a wider social movement. Without such a movement - uniting public sector workers with private sector workers, public workers with working class communities, those with jobs with those who do not have wage labor, uniting those who suffer from austerity - public employee unions have little public support with which to oppose management and capital. Ultimately, management and capital were able to use the split between public and private sector work to present public sector unions as a selfish and greedy interest group.

This brings me to my last specific point. During March 1981 the fiscal crisis was officially declared cured - six years after its official designation as a crisis. While newspapers and public officials celebrate the city's "cure," its workers, along with working class and poor communities, continue to feel the long term impact of austerity. In light of the impact that austerity has had on the social, political and economic history of this city, one ponders the hidden question of this research. What consequences did this crisis have on the political viability of the public sector labor movement?

I have maintained that the fiscal crisis presented the city's financial and corporate elite with the opportunity to reorganize city government. In the face of their activity, these factions of the capitalist class met little resistance from the city's labor unions. To be sure, the city's unions did not just passively accept the bankers' plans; they did not roll over and die. Yet, they did fail to present, organize or encourage a united opposition force; indeed, this failure led them to cooperate with austerity to "cut their losses."

The impact of austerity is felt each day as public sector workers labor within more strictly controlled and managed bureaucracies. These workers were the "scapegoats" of this crisis allowing capital once again to shift critique away from everyday life in capitalism towards the working class itself. This ideological deflection suited capital well and helped strengthen management. Today, the city's workers

> are faced daily with the arrogance of those who hold power in the big public bureaucracies that supposedly serve the people. Trapped inside whole systems, the vast majority of public workers find themselves not only blamed for this cluster of failures, but, through pay cuts, lay offs, speed ups and contracting out, they are forced to pay for them as well.[14]

Given this, one must challenge the contention of some union officials that they fared well during the fiscal crisis. The strategies adopted by these unions all pointed to their relative lack of power. These strategies were all formulated to avoid conflict, and that they did well. So, in their own narrow terms, the unions did survive the crisis - but in the process of surviving, we find the unions more isolated from both the city's power structure and the unions' own rank and file. The separation of union from worker thereby adds to the relative powerlessness of these unions.

During crisis, however, conflict is unavoidable if opposition forces attempt to challenge the status quo and both the rationality and power of capital. As Piven and Cloward argue in Poor People's

Movements "the main features of contemporary popular struggles are both a reflection of an institutionally determined logic and a challenge to that logic."[15] For opposition to be effective, in terms of broad class needs as against the unions' narrow self interest, it must refuse the convenience of being "realistic" if that realism is formulated to inhibit resistance and social change. I argued that this was the logic of being "realistic" during the fiscal crisis. To be realistic meant that labor had to avoid conflict for fear of bankruptcy. The labor unions backed-off challenging that logic which thereby allowed capital to institute austerity that much more quickly.

Still, we must recognize that the unions' leadership was not "free to act without regard to the constraints imposed by their social context."[16] I argued throughout the preceding chapters that there were powerful constraints placed upon the labor unions. Nevertheless, these constraints were constructed over a period of one year and indicate the failure of labor to act decisively in oppostion to them. This leads me to suggest that this heightened the necessity of labor/community unity, of just the opposite of what occurred. In analyzing the consequences of worker and poor people's movements, Piven and Cloward forcefully make the point that these groups could not further their class interests without serious conflict, and, this conflict brings backlash. The backlash itself indicates the power of the protest.

In a sense, Piven and Cloward argue as I did here, that class struggle ebbs and flows. They argue against class collaboration as an effective means for pushing working class interests. The unwillingness of labor unions to engage in social conflict splits the union from the activism of its membership. Piven and Cloward write that

> It is as if group or class struggles can, when carefully managed proceed without engendering conflict. Obviously, the labor struggles of the mid-thirtees helped produce the corporate-led backlash that began in 1939 and culminated in the "witch-hunts" of the late forties and early fifties; and just as obviously the black struggles of the fifties and sixties helped produce the backlash of the seventies . . . But how could it have been otherwise? Important interests were at stake, and had those interests not been a profound source of contention, there would have been no need for labor insurgency in the one period nor black insurgency in the other. Put another way, the relevant question to ask is whether, on balance, the movement made gains or lost ground; whether it advanced the interests of working people or set back those interests.[17]

While this case does not involve historical conditions exactly similar to those stated by Piven and Cloward, the question remains the same. Were there political options available, "suppressed historical alternatives" as Barrington Moore terms them, that were not seized?[18] This leads me to my final point. The fiscal crisis and its austerity solution represented a serious setback to the workers' movement because there was an absence of a mass movement to protect the previously won gains of public sector workers and working class communities. Given this, we can argue that the union leadership failed to promote such a mass movement; that it feared the loss of control over its membership that the unions may have suffered; that it feared the consequences of class conflict. The union leadership chose to protect the union as an organization with decreasing political influence rather than promoting the class needs of the rank and file. Consequently, there was no effective nor sustained effort to produce a movement against austerity.

This then brings me to my concluding point: In the absence of an anti-austerity movement, uniting labor with community resistance, this fiscal crisis provided a social milieu that enabled finance capital to exercise a nearly free hand to reorganize city government to meet corporate needs. In the process, austerity became the basis of a new class politic. It became the ideological and political formula for the reassertion of power and social control by factions of the capitalist class, as well as the basis for the reorganization of the budgetary priorities of city government. In the process, however, austerity also presents the historic opportunity for a reemergence of a worker-community movement with a mass base. Austerity does not alleviate the crisis, rather, it shifts the burden of the crisis onto the everyday lives of workers. Austerity does indicate the reassertion of control by corporate and finance capital vis-a-vis labor. Still, it is no more than a moment in the ever changing dialectic of class struggle.

Footnotes

1. Karl Marx, The Eighteenth Brumaire Of Louis Bonaparte (New York, 1963), p. 15.

2. O'Connor, op. cit.

3. Alan Wolfe, The Limits of Legitimacy (New York, 1977), p. 2.

4. See James Weinstein, The Corporate Ideal in the Liberal State (Boston, 1968). This conclusion supports Weinstein's thesis of the development of the social welfare policies legislated in the New Deal. Weinstein maintained that these policies were argued about and developed during the preceding "Progressive Era" by organizations representing factions of corporate capital.

5. William K. Tabb, The Long Default: New York City and the Urban Fiscal Crisis (New York, 1981).

6. Aronowitz, op. cit., p. 214.

7. Ibid., p. 217.

8. Ibid., p. 250.

9. See DiTomaso, op. cit., for a discussion of the attack on public sector workers and the possible reponses of their unions.

10. For discussions of public sector unions, their members' militancy and capital's "counter-attack" see: John H. Mollenkopf, "The Crisis of the Public Sector in America's Cities," in Alcaly and Mermelstein, op. cit., pp. 113-131; also see DiTomaso, op. cit., Johnston, op. cit., Levi, op. cit.

11. Auletta, op. cit., p. 188.

12. Ibid.

13. Ibid., p. 186.

14. Johnston, KAPITALISTATE, op. cit., p. 30.

15. Frances Fox Piven and Richard A. Cloward, Poor People's Movements (New York, 1979), p. x.

16. Ibid., p. xii.

17. Ibid., p. xii-xiii.

18. Barrington Moore, Injustice: The Social Bases of Obedience and Revolt (New York, 1978), cited in Piven and Cloward, p. xiv.

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