ONE

INTRODUCTION

> "... control over capital flows allows the banking community to socially construct economic reality for governments and corporations alike."
>
> —David Glasberg[1]

There were three revolutions in America: the overthrow of the British empire in 1776, the New Deal in the midst of the Great Depression of 1929, and Ronald Reagan's New Federalism. In the first American Revolution, American colonists revolted against their king in response to severe taxation and brutal economic conditions. In the second American Revolution, voters swept into office Franklin Delano Roosevelt who led Americans out of the collapse of capitalism by spending government money and fundamentally changing the role of government in the United States. Finally, in the third American Revolution, voters dissatisfied with deep inflation and an oil crisis voted in Ronald Reagan who, in 1980, ran on the slogan "Government was the problem, not the solution" and proceeded to "starve the beast" of tax revenue that had secured the New Deal safety net, largely revising the relationship between government and the governed.

The signs of the third American Revolution began earlier, in 1975, during the oil crisis, when New York City experienced its worst fiscal crisis since the Great Depression. Our focus is on this third revolution—the ways in which New York City presaged other municipal crises and was burdened by the national economy and new political regime in order to answer the question: who controls urban mayors?

New York has been a city of progressive thought and a provider of generous social services for its citizens beginning with the Great Depression of 1929. The Great Depression offered the opportunity for progressive elected officials to construct a safety net of social services for citizens. New York City did so by embracing redistributive policies. During the Depression, Mayor

Fiorello LaGuardia, with financial support from President Franklin Roosevelt, established extensive governmental services for city residents—public housing, new public schools, rent control, expansion of public health services, and public hospitals, to name just some of the most important actions. The Great Depression brought substantial progressive services for the city's citizens for over forty years until the fiscal crises of the 1970s unraveled the safety net of that earlier period.[2]

Today, the city retains a semblance of rent control, to the consternation of the powerful real estate lobby, and is one of the few remaining cities that does so. It supports eleven public hospitals, the only city in the nation to provide this service. It also has the largest public housing authority in the country. And it runs the country's third largest public university, which, until 1975, charged no tuition.[3]

Nevertheless, the city has also lost a great deal. The 1975 fiscal crisis sparked the end of an era in the history of New York City and in the history of America. In 1975, the city had a $1.5 billion deficit out of a $12 billion budget as well as $11.3 billion in debt of which $4.5 billion was in short-term notes maturing within a year.[4] Certainly, the city needed rescuing. The city, in effect, would run out of cash unless the banks bought its bonds, and this, in 1975, was what the banks refused to do. They declined to buy any more city bonds. "The terms of the financial rescue put the city in a budgetary straitjacket that made it impossible to sustain the high level of social activism and income redistribution that had characterized the Lindsay and Beame mayoral years."[5] In secret meetings with Mayor Abraham Beame, the Financial Community Liaison Group (FCLG), consisting of officials from the largest New York banks, insisted that the mayor slash services and end free tuition at the City University system.[6] Faced with the worst fiscal crisis since the Depression and under enormous pressure from the combined forces of Governor Carey and the FCLG, Mayor Beame agreed to charge tuition at the City University system (CUNY) and to lay off 40,000 workers, disrupting vital city services.

The cutbacks were devastating. The schools were in chaos as over 10,000 teachers were laid off; park maintenance was abandoned; crime increased as the police force was reduced; fire stations and health clinics were closed, and a third of CUNY's faculty was terminated. Tuition was established at CUNY that has now increased dramatically to $2,000 a semester.

The schools were beleaguered. Over a two-year period, from 1975 to 1977, over 5,700 classroom teachers in the elementary schools, over 2,000 in the junior high schools, and over 1,800 in the high schools were terminated. The impact of these layoffs was a loss of one in five teachers in elementary schools and about one in six on the upper levels.[7] And it was not simply teachers who were let go—assistant principals, guidance counselors (one out of every two at the elementary school level), school secretaries, thousands of paraprofessionals, school crossing guards, and security guards. The schools were in chaos from the loss of staff resources and from teacher transfers as seniority rights took precedent; teachers were transferred all over the city.

Public health was compromised for years to come. In 1977, the city's Department of Health (DOH) cut 1,700 staff members, 28 percent of its 1974 workforce.[8] The agency lost seven of its district health centers, dramatically curtailed its methadone program, terminated the employment of fourteen of nineteen health educators, and closed twenty of seventy-five child health centers (responsible for tuberculosis screening and diagnosis). At the city's Health and Hospitals Corporation (HHC), the city payroll was cut by 17 percent between 1975 and 1978. In 1975, HHC eliminated all of its fifty community-based clinics. John Holloman, president of HHC from 1974 to 1976, fought the cuts and was fired. These budget cuts played an important role in the resurgence of tuberculosis in the 1980s and the city's lack of preparation for dealing with the AIDS crisis.[9]

The Parks Department lost 1,440 employees in those two years. The green lawn in Sheeps Meadow became a dust bowl. The Parks Department has never recovered from the drastic cutbacks between 1975 and 1977. The city now spends the least on its parks of all high-density cities. Chicago, with only one-third of New York City's population, spends more on its parks. Among high-density cities, New York City ranks last in the number of swimming pools and recreation centers. Philadelphia has twice the number of pools and four times as many recreation centers for a population one-fifth New York City's size.[10]

The housing stock was equally devastated. Before the fiscal crisis, the city had one of the first programs in the United States that changed ownership of privately held buildings to low-income tenants. The program expanded rapidly so that "by 1973 there were 136 properties, which included a total of 286 buildings, at various stages of the process. However, only forty-two of these properties had completed rehabilitation and conversion when the program was aborted as a result of the New York City fiscal crisis in 1975."[11]

The subway system underwent radical reduction in services and a rapid increase in crime. The subway fare was increased 43 percent. Ridership dropped 27 percent between 1965 and 1982. Unmanageable graffiti, track fires, and frequent train breakdowns became nationally recognized symbols of the degradation of a once-great transit system, and the Second Avenue subway dig was stopped.[12]

Public safety suffered due to the devastating loss by the Police Department of 20 percent of its workforce. In 1972, the city's police force numbered 31,000; by 1980, it had shrunk to 22,000. Robberies had increased by 15 percent by 1983; murders saw a slight rise of 2 percent. The Fire Department had previously undergone cuts that were exacerbated during the fiscal crisis. Ladder companies were reduced from six to five people, and engine staffs were reduced from five to four people in 1975. "By 1976, and in rapid succession, some thirty-five fire companies had been removed from primarily high fire-incidence areas and fire department personnel had decreased from about 14,700 in 1970 to about 10,200 in 1976."[13] The "burning of the Bronx" was found to be closely related to the reduction in fire protection in the 1970s.

Another disappointing trend was the migration out of the city. Whites fled the city—almost two million left between 1975 and 1983. Although the methodology used for counting ethnicity changed somewhat between 1970 and 1980, the drop in the white population was still quite serious. Both the African American and Hispanic communities saw slight increases, but New York City's population was in serious decline, dropping from 7.9 million to 7.1 million by 1983.[14] In addition, the median family income fell from $43,952 in 1969 to $38,593 in 1979 as the more educated populace left for the suburbs. The percentage of households with low income increased by almost 10 percent while medium- and high-income households decreased 3.3 percent and 5.4 percent, respectively.[15] New York City was no longer perceived as an attractive place to live.

City residents were infuriated at the ravaging of city services. Abe Beame, a former city comptroller who had won his job on a platform of financial responsibility, lost all credibility with the voters and became a one-term mayor. No one denies that the city spent more than its revenues. What is open for interpretation was why the only solution involved drastic cutbacks that created miserable living conditions in the city, resulting in a mass exodus to the suburbs for those who could afford it. Why did conservative forces demand cutbacks before helping the city regain its financial stability? Could Mayor Beame have adopted different strategies to avoid this devastation? Could anyone?

The fiscal crisis did not end with Mayor Beame's tenure. The Municipal Assistance Corporation (MAC), Emergency Financial Control Board (EFCB), and the New York State Special Deputy Comptroller for New York City—all institutions created by the combined forces of New York State officials and bankers during the fiscal crisis—have constrained the fiscal policy choices of subsequent mayors to this day, more than thirty years after the fiscal crisis.

Municipal creditors were commercial banks and are now investment banks that buy and sell bonds to individual American and foreign investors, pension funds, mutual funds, insurance companies, and overseas governments. Bankers are financial intermediaries who provide financial services to all levels of government—they buy and sell government bonds. These financial leaders profit from the need for all levels of government to borrow funds for long-term capital improvements (bonds) or short-term revenue needs (revenue anticipation notes or tax anticipation notes). Government bonds represent a promise by government to pay back lenders both the principal and interest of the amount borrowed. The borrowed funds are used for a vast array of projects.

Although there are several bond sectors—corporate, U.S. Treasury, agency, asset-backed securities, mortgage, and municipal—we are focused on the municipal bond market in which state and local governments and their authorities raise funds. The municipal bond market is made up of many kinds of professionals. Principally, there are the sellers (state and local government officials) and the buyers (bank corporations, mutual funds, insurance firms, individual investors, etc.). For New York City, Wall Street banks often become the underwriters, buying the city's bonds and reselling them to investors of all kinds. The underwriters, in effect, manage the sale of the bonds. These banks often form underwriting syndicates and work together to sell billions of bonds for the city.

Each subsequent mayor experienced sizeable fiscal crises. From 1975 to the present, New York City has undergone cycles of economic strength and decline—fat surpluses followed by huge deficits. These cycles are closely related to national and regional economic trends.[16] In each of these subsequent crises, the financial structures established during the 1975 fiscal crisis have dominated New York City fiscal policy. These institutions call upon the city to reduce taxes and cut back government services based on the theory that private business will be stimulated by the tax reductions and that less government spending means more capital for the private sector. However, at some point, having fewer government services works against the city's ability to be attractive enough for business.

The financial elites use their power to control the city's access to the bond market to pressure city officials to keep taxes low and spending lower. All mayors have felt this pressure. During the 1975 fiscal crisis, Ellmore (Pat) C. Patterson, chief executive officer of JP Morgan; Walter Wriston, chief executive officer of Citibank; David Rockefeller of Chase; and Chairman Gabriel Hauge of Manufacturer's Hanover Trust formed the FCLG to put pressure on the mayor to cut his proposed budget. In 1979, Mayor Koch faced extreme fiscal pressure from Comer S. Coppie, executive director of FCB, when he sought to rehire sanitation workers.[17] In 1993, Felix G. Rohatyn, a partner at Lazard Freres, and chairman of MAC, demanded and got Mayor Dinkins' financial team to meet in Rohatyn's office to make last-minute changes to the budget. When Mayor Giuliani put together his first budget, the FCB warned him that hiring was out of bounds. Only Mayor Bloomberg, a highly successful business executive, who filled his first budget with one-shots, was treated with deference by financiers.[18]

Through this case study of New York City's fiscal crises, we consider the strength of the financial elites in their relationships with elected officials. Is it possible for mayors to oppose business interests or is the influence of the financial elites indomitable? If states are in close alliance with financial elites, what kinds of options do urban mayors have in developing local fiscal policy? Elkin maintains that "political leaders have choices in how to respond to this economic context."[19] As the world center of financial services, New

York City is an informative case study of the power that financial elites exert over the political leadership and how mayors can push back to assert their own political agendas. In the final analysis, although some mayors do achieve their own policy initiatives, their choices are significantly limited by these powers of the financial interests.