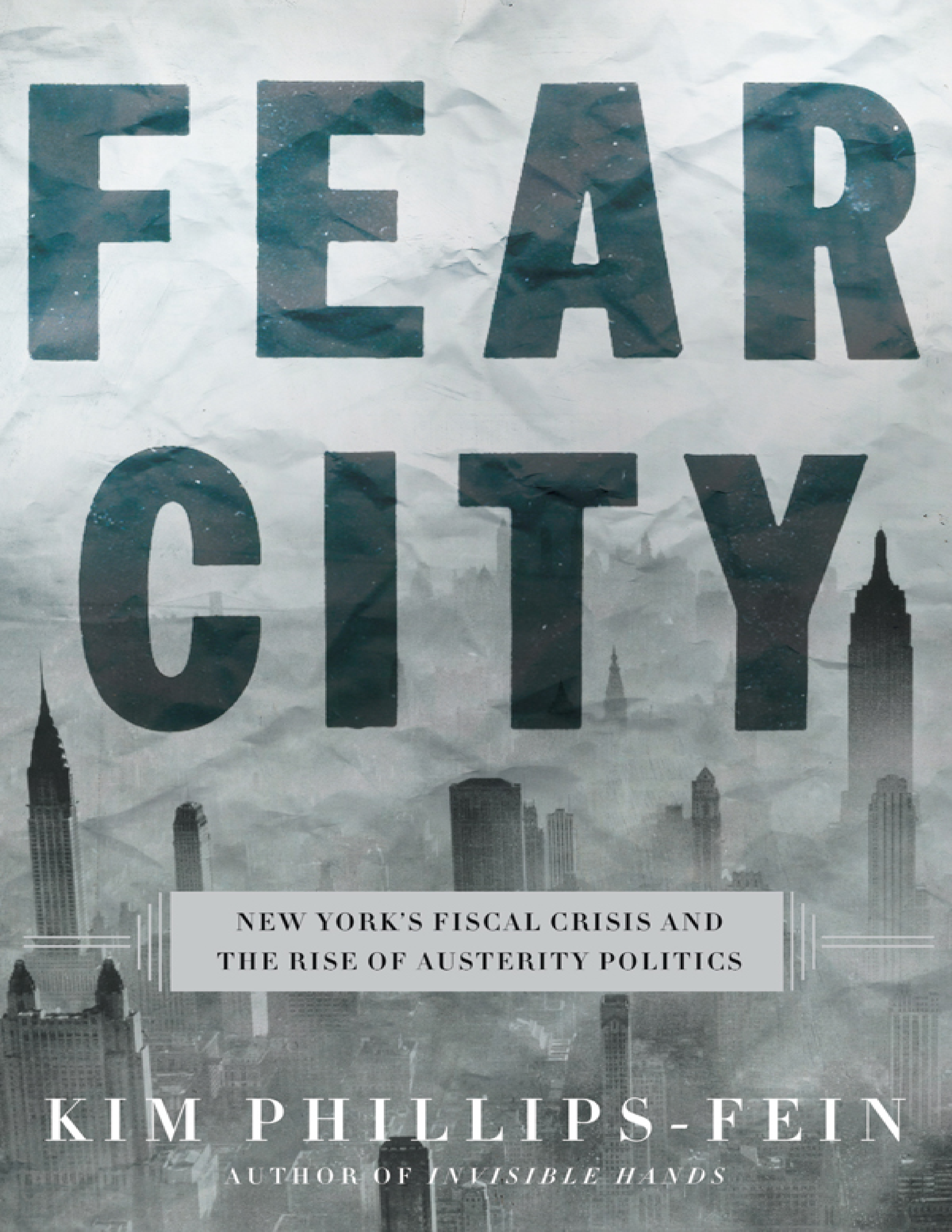
FEAR CITY
NEW YORK'S FISCAL CRISIS AND THE RISE OF AUSTERITY POLITICS
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# WELCOME TO FEAR CITY

A Survival Guide for Visitors to the City of New York

# Introduction

On October 30, 1975, the *New York Daily News* printed the most famous headline in its history: "Ford to City: Drop Dead."

The previous day, President Gerald Ford had delivered a speech at the National Press Club in Washington on the looming bankruptcy of New York City. Once inconceivable, such a collapse fit with the climate of the time. American politics in the autumn of 1975 had taken on the qualities of a grotesque. Saigon had fallen just a few months before Ford's speech. The memory of President Nixon's resignation in the midst of the Watergate scandal was still fresh. Oil shocks in 1973 had made it clear that the United States could not control supplies of the black gold on which its economy depended, and rapid inflation throughout 1974 and 1975 transformed each paycheck into a game of chance. Across the country, people had been boycotting meat and sugar to protest exorbitant prices. Massive corporate bankruptcies, near-bankruptcies, and financial collapses shook familiar business icons: the Penn Central railroad in 1970, the defense giant Lockheed in 1971, and the Long Island–based Franklin National Bank, the twentieth largest in the country, in 1974.

The prospect of New York City's collapse seemed a further terrifying lurch. The leading men at the city's biggest banks—

including First National City Bank (the forerunner of Citibank), Morgan Guaranty, and Chase Manhattan—had spoken out in favor of federal aid for New York. Executives from around the country had traveled to Washington to testify that if the city went under, the fragile national economy might topple as well. Cold Warriors warned that the city's bankruptcy would bolster the Soviet Union. Lawmakers in Washington, Albany, and New York City itself eagerly awaited any hint that Ford might lend his support to a bailout deal. How would it look—what would it mean—for New York City, the country's largest metropolis, the home of Wall Street, the heart of American finance, to wind up in bankruptcy court?

But President Ford and his closest advisers—a circle that included his chief of staff, Donald Rumsfeld, and the chairman of his Council of Economic Advisers, Alan Greenspan—strongly opposed federal help for New York. They were convinced that the city had brought its problems on itself through heedless, profligate spending. Bankruptcy was thus a just punishment for its sins, a necessary lesson in how the city should change to move forward. And as far as the national economy was concerned, Ford and his circle believed that the banks, the businessmen, and the city were scaremongering, that the economic impact of the city's financial collapse would easily be contained—that the market had already factored it in. Accordingly, Ford promised to veto the bills that were circulating through Congress to provide emergency aid to New York. Instead, he supported reforms to existing bankruptcy regulations that would make it easier for the city to file. The meaning was clear: New York could go bankrupt, and the federal government would do nothing to help.

For the president, as for much of the nation, New York City stood for urban liberalism, an example of the central role that government might play in addressing problems of poverty, racism, and economic distribution. At the National Press Club, Ford challenged New York's network of municipal hospitals and its free public university as lavish, unnecessary extravagances. The federal government should not give a penny in bailout funds that allowed New Yorkers to continue these indulgences, he said. Why should other Americans "support advantages in New York that they have not been able to afford for their own communities?"

The harsh lesson was intended not only for New York. Ford believed that the United States had to face a new reality: the country—indeed, the world—had entered an era of slowed economic growth, an age of austerity, in which it was no longer possible for the government to pay for many social services to which the American people had grown accustomed. The citizens' basic attitude toward government had to be transformed. Americans needed a revived philosophy of individual initiative centered on fiscal responsibility and limited spending. In the last few minutes of his talk, Ford scolded the nation: "If we go on spending more than we have, providing more benefits and more services than we can pay for, then a day of reckoning will come to Washington and the whole country just as it has to New York City." And "when that day of reckoning comes, who will bail out the United States of America?"[1]

On that note, the president departed for California. He was embarking on a fundraising trip for his 1976 presidential campaign on the home turf of his main rival on the right: the former governor of the state, Ronald Reagan.

Even before Ford's speech, there were many in New York who felt that they had been abandoned. A few months earlier, in the spring of 1975, a woman named Lyn Smith wrote a letter to her senator, the liberal Republican Jacob Javits. Smith described the housing conditions in a South Bronx neighborhood near her home. The city, it seemed to her, had stopped making any effort to demolish burned-out buildings, despite their dangers. "When a house burns down they don't destroy the frame, they leave it standing—you never know when it's going to fall. A little boy I know or knew named Ralfy lives in the South Bronx he was playing in one of the broken down houses and he fell through the floor he's dead now but if that building had been torn down he wouldn't be dead." Smith's tone—flat, apathetic, resigned, quietly bearing witness but hardly even launching a protest—is perhaps the most haunting aspect of her missive. "I don't know why I wrote this letter you'll probably never read."[2]

For a woman like Lyn Smith, austerity meant not only budget cuts but a political mood of bleak hopelessness. The fiscal crisis involved discarding a set of social hopes, a vision of what the city could be. For Ford and those around him, the New York City fiscal crisis was a story of the bankruptcy—economic and moral alike—of liberal politics. It proved that using government to combat social ills would end in collapse. It provided a spectacular repudiation of the Great Society, the War on Poverty, even the New Deal. But for ordinary people, the fiscal crisis meant something different: it marked a change in what it meant to be a New Yorker and a citizen. We are still living with the consequences of this transformation today.

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Forty years after the fiscal crisis, the 1970s remain a touchstone of New York City politics, the nightmare era to which no one wants to return. The classic cinema of the 1970s and 1980s memorialized these years of disinvestment and blight in films such as *Taxi Driver*, *The Panic in Needle Park*, *The Taking of Pelham One Two Three*, and *Fort Apache, The Bronx*, which portrayed New York as a sea of filth and despair, an urban cesspool. The decade is widely remembered as a time of crime, violence, lawlessness, disorder, graffiti-covered subways, inflation, unemployment, and budgets completely out of control—an era of social breakdown, economic malaise, and political collapse.[3] The politics of the country more generally are recalled with a similar sense of failure: this is the decade when the old American dream fell apart, when unemployment and inflation replaced the steady prosperity of the postwar years, and the international supremacy of the United States ceased to be something to take for granted. As Christopher Lasch wrote in the opening pages of his 1979 bestseller, *The Culture of Narcissism*, “Those who recently dreamed of world power now despair of governing the city of New York.”[4]

The common wisdom about the crisis holds that its primary cause was the flagrant irresponsibility of politicians such as John Lindsay, the idealistic mayor in the late 1960s who saw fighting poverty as a top priority for city government, and, even more, his successor Abraham Beame, who submitted to political pressures that endangered the city’s solvency. Lindsay threw money at entrenched social problems without regard for budget realities; Beame was unable to resist the newly powerful public sector unions. The result of their foolish overspending was that the city soon found itself with debts that it had no reasonable way of ever paying back.[5]

At the same time, paradoxically, the crisis is sometimes noted as a great triumph for New York: the moment when the city repudiated an older tradition of irresponsible altruism. Everyone—labor, business, the banks, ordinary citizens—is thought to have accepted the need for austerity and chipped in. Many of those who led New York through the valley of the shadow of default remember it as a time of solidarity, an era when the common people were willing to do what it took to rescue the city from its shame. As Felix Rohatyn, the Lazard Frères investment banker who helped to broker the deals that ultimately kept the city out of bankruptcy, later wrote, “The people of the city were willing to make real sacrifices as long as they believed that those sacrifices were relatively fairly distributed, that there was an end in sight and that the result would be a better city, a better environment, and a better life.”[6]

This book takes a different view. Here, the budget comes to life as the place where opposing visions of the city's future were contested, fought out, and finally decided. For much of the twentieth century, New York City did have an unusually expansive and generous local welfare state, the result of generations of organizing by labor unions, reform groups, and working-class and poor people. The institutions they built were hardly extravagant or unnecessary. New York's public sector—which made the city, in the words of historian Joshua Freeman, something like an island of social democracy in the midst of postwar America—helped to create much of what was most distinctive in the city: its democratic sensibilities, its working-class ethos, its common public life. The fiscal crisis permanently altered these ideas and this vision. Contemporaries were stunned by the swiftness of the cuts to social services, enacted at a time of intense need. And in addition to the pain caused by the contraction of the public sector, the experience of the fiscal crisis seemed to delegitimize an entire way of thinking about cities and what they might do for the people who live in them.

But just as the city's pre-crisis spending should not be treated as wasteful and irrelevant, its financial difficulties should not be reduced to a parable of municipal irresponsibility or a story about how local governments tend to succumb to the insatiable demands of pressure groups. The dynamics of the crisis created a sense that New York City's problems were entirely its own fault, which made it harder to see where the power really lay: at the level of the state and the federal government, which had created the policies that led to the unraveling of the city. It was federal subsidies for homeownership and federal investment in highways, for instance, which encouraged middle-class residents to move from New York to the surrounding suburbs, depriving the city of income tax revenue even though it remained the economic motor of the tristate area. And it was federal policies that made it easy for manufacturing companies that had once formed the city's economic base—such as the celebrated garment industry—to move away in search of cheaper labor, first to the southern United States and then overseas. Nor did New York create the racial fears and hostilities that led middle-class white people to flee to the suburbs as the city drew in more African Americans, as well as Latinos and other immigrants. America's political system failed to adequately confront such challenges, just as it failed to confront the urban poverty that was the result of capital flight and deindustrialization.

The city's politicians tried to skirt these problems in myriad different ways, but in the city budget they proved impossible to avoid forever. The city turned to debt in an effort to sidestep an open debate over whether it could continue to make good on its efforts to carve out a distinctive set of social rights. While the city's financial problems were real enough, its elected leaders' evasion of these political arguments—the attempt to use debt to settle problems that were at heart political—was the deeper failure. New York expanded its borrowing at a time when public debt was growing across the country, when bankers were enthusiastically marketing and buying its bonds and notes. Although they would later excoriate the city for its irresponsibility, these financiers played a central role in encouraging its indebtedness when it suited their purposes to do so.[7]

Finally, it is important to recognize that many of the New Yorkers most affected by the budget cuts did not meet the crisis with a spirit of equanimity and sacrifice. To remember it this way is an act of forgetting, for the retrenchment brought into the open fierce disagreements over the city's future. It is certainly true that people in the economic and political elite quickly reached consensus that sharp budget cuts and the restructuring of the city government were the only way back to fiscal health. Beyond the inner circles of power, though, there was far more resistance to the transformation of New York. Rather than accept a shrunken version of their city, ordinary

New Yorkers loudly protested the contraction of the public sphere. When they were faced with the withdrawal of services that had become tantamount to rights, many people asserted their demands all the more forcefully, as long as they were able to do so.

They were driven to do so because they intuited that New York would emerge from the crisis a changed metropolis. The people who would come to have the deciding vote would be those who belonged to the moneyed elite: the ones who could decide whether or not to invest in New York, who had the access to private capital on which, it was suddenly clear, the city relied. The 1970s crisis was a crucial point on the way to a new New York, helping transform the city into the highly stratified metropolis it is today—a city of apartments bought as investment properties for the wealthy of the world even as almost 60,000 New Yorkers live in homeless shelters, a city that's among the most unequal in a nation that has itself become radically more hierarchical than it was during the postwar era. Today, many people describe this transformation as "progress," seeing the shining contemporary city as a vanquishing of the dismal past. This book, though, suggests that in the process, New York lost as much as it gained. The struggle over whom the city government would serve, and on what terms, echoes the deepening conflict over the future of the United States as a whole.

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Crises are disorienting events, revealing that long-accepted facts differ from a new reality. New York's fiscal crisis, in addition, also threw sharply different perceptions of the city—indeed, of the world—into conflict with each other. For the bankers who rebelled against the city's old fiscal practices, it became the chance to assert a modern, technocratic, and market-oriented ethos, rejecting New York's long tradition of a robust public sector aimed at supporting the working classes. For the residents who saw their firehouses threatened with closure, their children's teachers laid off, and their roads going unpaved, the crisis marked a power grab by financiers who wanted to recast New York as a white-collar professional city. For the men who were catapulted by the events of the crisis into positions of unusual decision-making power (and the few women who joined them), the fiscal crisis was a nerve-racking but exciting time of late nights, early breakfasts, and meetings around the clock, an urgent struggle to save the city from bankruptcy against all odds. For lifelong New York politicians, it was a bewildering shift in priorities and expectations, a time when they were blamed for bankrupting the city by trying to protect services and jobs, the very things they formerly had been lauded for providing.[8]

Race and class were at once omnipresent and invisible in the fiscal crisis. The crisis saw a group of almost universally white elites remake life in a city that was becoming increasingly black and brown. The collapse of the postwar social compact in New York happened at the very moment when it was losing its white middle-class population, when more and more of those using city services were low-income minorities. Many of the elites at the time blamed those impoverished African Americans and Latinos (and the public sector workers who served them) for New York's financial problems. And yet the crisis provided a way to change the politics of the city in profound ways without ever talking about race or class explicitly. The threat of bankruptcy elided policy choices, making it appear as though there were simply no alternatives—as though the transformations were brought about not by anyone's decisions, but by the abstractions of fiscal rectitude and financial necessity.[9]

The story of this sea change in political rhetoric is not only one of New York City, or even of urban politics.[10] Some left-leaning scholars have described the 1975 crisis as the dawning of a new conservative age.[11] In a certain sense it was: the spectacular failure of the New

York City government crystallized the antigovernment ethos that was gaining momentum nationally during the 1970s. But at the same time, the crisis was also the product of the postwar liberal era, and it transformed liberalism as much as it galvanized the right. After all, the people who brought austerity to New York City were not free-market zealots or right-wing political leaders. Many of them were self-identified liberals who believed government had a legitimate role to play in the economy. Yet these people also became ardent promoters of the idea that New York had to make deep budget cuts, drive a hard bargain with its unions, streamline services, improve efficiency, and reinvent its government. They continued to see themselves as committed to a liberal agenda, but what this meant had undergone a profound change.

The transformations in the city's politics mirrored those taking place within the national Democratic Party, where longtime liberals were re-evaluating their old commitments and priorities as the long postwar economic boom drew to a close. Like liberals at the local level, national Democrats became far more ambivalent in their support for labor unions, for civil rights, for an activist government. The story of the fiscal crisis reminds us that the move to the right in American politics of recent years should not be seen only in terms of the rise of the conservative movement, but also as a story of the remaking of liberalism, a shifting of the common ground of American politics for people on both sides of the aisle.[12]

* * *

Today, fiscal crises are back in the headlines. A wave of municipal bankruptcies followed the financial panic of 2008, culminating in the collapse of Detroit in the summer of 2013. Greece is still on the verge of collapse, its society imploding as its government strips away social benefits despite a 2015 voter referendum rejecting austerity.

Puerto Rico has already defaulted on some of its nearly $70 billion debt. And in late summer of 2016 its finances were placed under the management of an unelected fiscal control board charged with slashing government spending.

The politics of inevitability that defined New York in the 1970s have been at work in all these cases as well. Just as happened in New York, the long-standing tensions that create fiscal crises seem to vanish from consideration in the heat and drama of the moment. Modern politicians and economists employ a moralistic rhetoric of responsibility and belt-tightening just as they did in 1975, but they do so with far more confidence than at that earlier moment, thanks to the intervening forty years of antigovernment politics. As a city, or a nation, struggles to avoid default, the debate becomes framed in the narrowest possible terms: Which programs to cut? Which taxes to levy? How to balance the budget most quickly? How to satisfy the lenders and the banks, whose presence is under normal conditions invisible, but who become the main actors in the fiscal drama the moment their money seems in danger?

Nonetheless, today as in the 1970s, austerity remains a political choice. The forces that make it seem the only option obscure the underlying reasons why cities become poor, why wealthy metropolises come to have governments starved for funds. Beneath the narrow debates about how debts can be repaid reverberate larger, as yet unresolved questions about what kind of society we want to have, about who will pay for certain kinds of social provisions and whether we will have them at all. At the end of the day, these are inescapably political questions, not accounting ones.

In the contemporary crises, from Detroit to Greece to Puerto Rico, there has been a sense that events are at once completely shocking and entirely anticipated. That is how it was in New York City in 1975 as well. At first no one could believe that the city could actually go bankrupt. And yet once its finances began to unravel, failure appeared almost to have been foreordained. Both the crisis and the government responses to it suddenly seemed almost inevitable. To question that inevitability is the project of this book.

PART I

# ORIGINS

# 1. Warnings

When the West Side Highway first opened in 1930, it seemed to promise a glorious “new era of speed in motor transportation,” in the words of the Manhattan borough president. In a city of subways, the wide, elevated road opened up new possibilities for car transportation. Rising on steel archways above the busy streets of the meatpacking district, it appeared sure to last forever.[1]

By the early 1970s, though, the highway’s asphalt had been worn down by the vast traffic of the postwar years. The surface had eroded under the tons of salt dumped on it each winter; cars and trucks bumped over the uneven metal plates the city had used to patch the gaping spaces. The skeletal supports that held up the elevated portions of the highway were rusting, damaged by decades of rain and melting snow. Mayor John Lindsay planned a major repair for the deteriorating structure, and construction began in the autumn of 1973. As the city’s commissioner of highways put it, “You can’t just fill cavities on this highway. You have to put in new teeth.”[2]

The work had barely started when the disaster the city feared came to pass. In December 1973, the highway simply buckled under the weight of a repair truck carrying asphalt at the intersection of Little West 12th and Gansevoort Streets in the West Village. A tremendous hole ripped open in the road, the broken pieces on either side sloping down in a sharp diagonal to the street below. The driver of the truck managed to leap out as his vehicle plunged to the ground, taking with it a four-door sedan that had been driving along behind.[3] Miraculously, neither driver was badly hurt. But the downtown stretch of the highway had to be closed to traffic immediately. The city shut down the highway uptown as well, closing it from 72nd to 79th Streets for repairs slated to take at least a year.[4]

The sudden closure of the West Side Highway irritated commuters and city residents who found their streets clogged by rerouted traffic. But for some, the quiet highway became a respite. Upper West Side children played on the empty tree-lined road, exulting in the freakish expanse of open space.[5] The highway became a path for cyclists long before bike lanes were marked around the city. Novelist Frederic Morton described the eerie peace of the "splendid promenade" where he would go for moonlit strolls on winter evenings, enjoying the cracked road as though it were a Roman ruin and watching the cats frisk among the broken stones.[6] A young downtown artist, Terence Sellers, wrote in her journal about glimpsing the "enormous towers of the World Trade Center" looming from the deserted highway, the second of the newly built pair emerging into view "as if one was not enough."[7] But while the closed highway might have been splendid, it was hardly safe. In the summer of 1974, a fourteen-year-old boy fell to his death at the corner of Little West 12th and Gansevoort, tumbling through the forty-by-fifty-foot hole that had been left gaping when the truck ripped through the pavement nine months earlier.[8]

In the early 1970s, the entire city was a bit like the West Side Highway. The promises and the visions of an earlier era had come up against their limits. Everyone knew that things might collapse. And though no one was willing to talk too openly about the possibility of failure, the problems of the city were common knowledge, unmistakable and impossible to hide. There was perhaps something appealing about this disrepair, a certain freedom in the unkempt metropolis. Yet there was also real danger. And there was no rescue in sight, nothing that would come in to close the holes, to fix what had been broken, to save the people who lived in the city that was slowly falling apart.

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When a person goes bankrupt, there's always the last punishing expense: the extra medical bill or tuition payment, the final credit card charge, the mortgage interest rate that ticks up at just the wrong moment. But this is never the full story. The tragedy has its climax, but its origins lie deep in the past—the lost job, the student debt, the divorce, the illness, the long-hoped-for raise that never materialized. For a city, it's the same. There's the short version of events, and then there's the one that goes back.

The collapse of New York in the 1970s stunned the nation because for so long, the city had embodied a kind of government and society whose success seemed unassailable. During the decades that followed World War II, New York represented the fullest realization of the confident liberalism that dominated American politics. Throughout the 1950s and 1960s, people who visited New York from other parts of the country, whether from small rural towns or from cities such as Chicago, Los Angeles, and San Francisco, found much to wonder at. They marveled not only at the familiar postcard attractions—the Statue of Liberty, the Empire State Building, the magnificent skyline—but also at the way that New Yorkers lived.

New York City had been at the forefront of social reform ever since the early twentieth century. Progressive reformers had pressed for housing market regulations to ensure that apartments for poor people were not dangerous firetraps. Labor organizers had won laws protecting workers on the job after the Triangle Shirtwaist Factory fire of 1911. In the early 1930s, following the onset of the Great Depression, the city government had been plagued by fiscal problems; it was saved from default by bankers who extended a loan and demanded service cuts. But these cuts were rolled back within a few years, when Mayor Fiorello La Guardia was able to win funding from Franklin Delano Roosevelt—the former New York State governor occupying the White House—for a vast array of public works and social programs.[9]

As a result, during the postwar period New York provided a remarkable range of services to its citizens, through an extensive public sector hard to imagine today.[10] At its peak, the city ran a network of twenty-four municipal hospitals, along with dozens of neighborhood primary care and pediatric clinics. Its health department even conducted original research into matters of public health. Over the decades, the city built numerous parks and playgrounds, elementary and secondary schools, public housing, swimming pools, college campuses, piers, highways, bridges, and airports. In the 1960s, it opened day care centers for low-income mothers and treatment clinics to help drug addicts. Its sprawling library system included public research libraries that rivaled many private university collections.

Physically, too, the city was opened up to everyone by the far-reaching system of inexpensive public transportation. In 1950, the subway fare was just 10 cents a ride (equivalent to less than a dollar today); a bus ride was 7 cents. The Metropolitan Museum of Art and the Museum of Natural History had no charge for entry, not even a recommended amount. The city ran three radio stations and two public television stations, and the City Center of Music and Drama offered bargain tickets on theater, opera, symphony, and ballet—high culture at low prices.[11] New York also controlled its Board of Education, which was a separate entity in many other cities, and it took on responsibilities (such as running the court system and a network of college campuses) that elsewhere were the province of county or even state governments.

Before New York became the decrepit city of the early 1970s, in other words, it had been the capital not only of high finance and Wall Street, but also of a certain robust strain of democratic politics: a demonstration of citizenship bound up with social as well as political rights. The most visible, obvious examples of public investment—the subways, the parks, the city university—were impossible to overlook. But there were also countless other ways that the city government made itself felt in the lives of New Yorkers, less monumental but no less vital.

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Greenpoint-Williamsburg, a neighborhood at the northern edge of Brooklyn abutting the East River, is today the epicenter of the Brooklyn renaissance: an enclave of hipsters, artisanal food, craft beers, locally made chocolate, cool bars, and luxury apartment buildings built to take full advantage of the riverfront views. This transformation into a garden of consumer pleasures would have shocked the people who lived there in the middle years of the twentieth century. Back then, the area was packed with immigrants from southern and eastern Europe and their descendants, and filled with the factories where they labored.[12] It was a working-class part of the city: 95 percent of the residents of North Brooklyn (a region that included Greenpoint-Williamsburg as well as Bushwick, Bedford-Stuyvesant, and Crown Heights) earned incomes under $5,000 per year in 1955, the equivalent of about $44,000 per year today.[13]

Life for the people who lived in the wood-frame houses dotting the half-industrial area was never easy. But even in the poorest neighborhoods, the city government provided substantial assistance in ways both large and small. Greenpoint Hospital, a municipal health center, cared for neighborhood residents; the Greater New York Health Council offered workshops on nutrition; an old police station on Stagg Street had been transformed into a city youth center. In the summers, a child growing up in North Brooklyn in the 1950s could participate in a special chorus program run by the Board of Education, or swim at the public McCarren Pool, or attend marionette plays presented by the Parks Department in McCarren Park.[14] In the winters, the park was home to a city Christmas tree.[15]

A similar scene played out in Morrisania and Mott Haven, two South Bronx neighborhoods largely populated by poor black and Latino families. By the 1970s they had become prime examples of urban despair, and even during the postwar years they were already experiencing white flight and disinvestment. The construction of the Cross-Bronx Expressway in 1955 further hurt the communities, displacing residents and destroying housing stock.[16] Yet despite their many problems, during the 1950s these neighborhoods too benefited from the expansive activism of the city government. A family worried about the polio virus that spread through the city in a "mild epidemic" in 1955, for example, could get immunizations through a city-run program at the neighborhood child health center, which brought the new Salk vaccine to more than 170,000 children.[17] Crooked teeth might have been treated at the orthodontic clinic that the Morrisania City Hospital opened in 1950.[18] Indeed, the local public hospitals were so heavily used in the 1940s and 1950s that the city expanded its programs to provide medical care to people at their homes.[19]

In Morrisania, the Forest Houses public housing project, built during the 1950s, offered space for 1,350 families, and sought from the outset to create an integrated neighborhood bringing together blacks, whites, and Latinos.[20] A few blocks away, Morris High School boasted a new gym and cafeteria constructed by the city. Annual talent shows there pulsed with rhythm and blues—a kind of training ground for performers who might go on to such neighborhood institutions as Club 846, where Thelonious Monk and Charlie Parker were regulars in the 1940s and 1950s, and the Tropicana Club, a Latin music club where stars like Tito Puente often came to play.[21]

When the children of the South Bronx and Greenpoint-Williamsburg grew older, they might, if they were strong enough students, go to college at one of the city's public campuses and earn a bachelor's degree without paying tuition. In the 1950s and 1960s, the four-year schools were joined by two-year community colleges. No other city in the country ran a network of municipal colleges of this scope. And in addition to the university system, the city operated a continuing education program through which people who had never been to high school or even elementary school could earn equivalency degrees, attending daytime or evening classes held in community centers and other locations.[22]

This heavy investment in libraries, hospitals, subways, buses, health clinics, museums, theater, education, and art had a great deal to do with the political economy of New York in the postwar years. The city then was industrial: at the end of World War II, 41 percent of its workforce was employed in blue-collar jobs, including 28 percent in manufacturing. But in contrast to the steel towns of Pennsylvania or the South Side of Chicago, New York was not dominated by a single massive employer. Its factories were small shops rather than gargantuan assembly lines employing thousands of people, of the kind found at River Rouge near Detroit. Its industries were diverse and specialized, many serving a local or regional rather than a national market. Blue-collar jobs outnumbered white-collar ones, the frenetic activity of the port was as important a part of downtown as Wall Street, and the trade in physical commodities was as critical as the exchange of financial instruments. New York was a city of making, lifting, and transporting, and to many it seemed clear that the people who did this work were those for whom the city should run.[23]

The city's politics reflected its economic structure. The working class was socially visible and politically strong; its unions were a recognized force, an accepted part of the life of the city as a whole. A quarter to a third of the city's workers were in unions: they represented everyone from dental technicians to machinists, commercial artists to barbers, movie publicists to people who serviced vending machines.[24] The industrial nature of the city also meant that there was a clear economic rationale to the investment in public goods. The subways got workers to their jobs, the clinics kept them healthy, and the libraries and universities offered skills training and an avenue for upward mobility and the purchasing power that went with it. The city's small manufacturers—many of whom had much in common socially with the people who worked in their plants—benefited from all these services themselves. Even when the business owners objected to taxes, the small scale and dispersion of their companies made it difficult for them to influence the city's politics as much as the working classes did.

To be sure, there was always some strain underneath the surface of the postwar city, with its institutions criticized from both left and right. Civil rights activists fiercely denounced the myriad ways that city government failed people of color; as they pointed out, the city was a far easier place to live in for the predominantly white middle classes than for the racially diverse poor.[25] The elites, meanwhile, were often skeptical of the "social democratic" bent of the city and its deep investments in the public sector. Heads of national corporations, financial executives on Wall Street, real estate developers whose main priority was finding ways to boost property prices—many of the powerful longed to create a different kind of New York City. They imagined it remade as a gleaming white-collar consumers' paradise of corporate headquarters and rising real estate values. They viewed the garment and electrical manufacturers of downtown as a waste of valuable space, eyesores that tarnished the potential of the city. Ever since the 1920s, these leaders had described their ambition to zone away industry, expand parkland to raise land values, and build highways that could allow "decentralization" of the city's economy—that is, moving factories to the suburbs.[26] Sometimes, they warned that the hospitals, libraries, schools, and social workers placed an unsustainable weight on city budgets.

Still, despite such tensions, in the mid-twentieth century New York appeared prosperous, powerful, and successful. Its politics were at the left edge of urban liberalism, demonstrating that it was possible to run a city government that did far more for its citizens than most American cities ever dreamed of accomplishing.

Significantly, the political vision that New York's public institutions expressed was not limited to the city alone. It was part of the liberal politics that had emerged in the 1930s and that seemed in certain respects to dominate the United States during the postwar years: a society that saw promoting working-class consumption as an important way to generate overall prosperity, and an activist government that was willing to intervene to improve the quality of life for ordinary people. The difference was that New York pushed this vision much further than other parts of the country, and did so in ways that were deeply linked to the big-city environment. For much of the country, the "New Deal order" had become intertwined with the rise of suburbia and the flight from cities. New York was a reminder that there was also an urban version of this political and social sensibility, one that emphasized common spaces and public investment more than the private greenswards of lawns and country clubs. The city almost seemed to proclaim a right to happiness and pleasure, even for people insignificant in terms of wealth and power. That was the promise implicit in the ordinary, everyday monuments of the local health clinics, the free museums, the affordable transportation: a right to belong to the city and to have the city belong to you.[27]

* * *

By the early 1970s, this confident and prosperous city seemed frayed almost beyond recognition.

New York's once-beautiful parks were dirty and deteriorating. Its glorious research library was deep in the red. The public hospitals were dilapidated, their emergency rooms overcrowded and their equipment out of date. The city university was struggling to meet demand. Fires had started to tear through the once stable neighborhoods of the South Bronx.

The economy that had supported the expansive social sector of the postwar years was falling apart. The small manufacturers that had once populated downtown Manhattan and the outer boroughs were slowly departing the city, seeking cheaper land and a more tractable, nonunion workforce in the suburbs, the South, and overseas. Shipping companies moved to New Jersey, pulled by new transportation technologies that required a port deeper than New York's harbor, and pushed along by real estate developers eager to rezone Lower Manhattan so it could be developed without the behemoth of the port and the grime of industry.[28] By 1966, fewer than half the manufacturing jobs in the New York metropolitan region were in the city itself. This loss of jobs was most pronounced in those industries where employment had once been strongest, such as apparel and garment production, electrical manufacturing, and printing and publishing.

For more than a century, New York had been able to assimilate millions of immigrants in its insatiable demand for human labor, but increasingly the jobs that earlier generations had held were no longer there. When the national economy went into recession in the early 1970s, the loss of jobs turned into a flood: between the late 1960s and the mid-1970s, half a million jobs disappeared from the city. Job loss and the attendant deepening poverty (especially severe for black and Latino New Yorkers) meant that more and more people were in need of city services. The number of people in the city receiving some form of public assistance rose from 322,921 in 1960 to a high of 1,255,721 in 1972—approximately one out of every eight New Yorkers.[29]

At the same time, New York, like many other cities in the Northeast and Midwest, was increasingly affected by federal policies that encouraged middle-class people to leave the cities. They were drawn to suburbia by tax incentives that favored homeownership, by the construction of new highways that made it easier to commute to work, and by social expectations that celebrated racially homogenous, family-oriented communities of prosperous homeowners. They were also driven out of cities by racial fears, anxious about the slightest hint that black or Latino people might be moving into their communities. As one Queens retiree told the *New York Times* in 1964, "I would be the first to move out if a Negro family moved into this neighborhood. Property devaluates as soon as a Negro moves into an area."[30] In 1940, less than 7 percent of New Yorkers were nonwhite; by 1970, more than one-fifth of the city's population was black and 16 percent was Latino. Almost a quarter of the city's white population would move out during the 1970s—a decade when New York's overall population fell by more than 800,000, even as its Latino population increased by 17 percent and the black population grew slightly. The city also became older and poorer: the portion of its population over 65 rose from 8 to 12 percent between 1950 and 1970, while the portion with incomes lower than the national median climbed from 36 to 49 percent.[31]

The problems that New York confronted were not unique, but the scope of the city's public sector brought them to the fore. As New York's economy declined, its local welfare state became the subject of rising conflict. How was the city to pay for social services as incomes that might sustain income taxes fell, as sales that might generate sales taxes dropped, as property values that might produce property taxes declined? How was it to cope with social needs that were increasing as the economy worsened, when the economic downturn made it hard even to meet the regular level of demand? Such questions were not simply economic but political, a challenge to the city's public institutions. Racial politics played a role as well: as services became increasingly used by African American and Latino residents, many Italians, Poles, Jews, and other working-class white people in the city began to resent that their tax dollars were being used to benefit people they viewed as unworthy and inferior. An editorial by the chairman of one Brooklyn neighborhood group summed up this barely disguised racial hostility, complaining that "for years, we have witnessed the appeasement of nonproductive and counter-productive 'leeches' at the expense of New York's middle class work force."[32]

Meanwhile, as small manufacturers departed, the city's business elite was itself in a state of transformation. Corporate executives, financial industry managers, and real estate developers did not have a large workforce benefiting from the generous public sector, as the old industrial employers once had. These businesspeople disliked the expansive social sector, which seemed to them unnecessary, and they feared that taxes would have to keep being raised to pay for more services for poor people. They wanted lower taxes for themselves, and to use tax incentives to attract and retain business—not to pay for day care, health care, or more spaces in the city university system.

Responding to these competing demands—from business elites on the one hand and poor New Yorkers on the other—was extremely difficult, and only became more so as the city's expenditures rose dramatically, from about $2.5 billion a year in the early 1960s to over $10 billion a year by the early 1970s. What did the money buy? The largest area of growth in the budget was in human services: welfare, health care, education, and family support. The amount spent on welfare increased fivefold, health care spending quadrupled, the amount spent on family support services tripled, and the amount for education more than doubled.[33] There were some new programs as well, including a graduate school for the City University of New York, initiatives to help address the rising problem of drug abuse, and manpower training for the unemployed. But most of the new expenses—nine out of every ten dollars—reflected increased spending on programs the city had been operating already.[34]

Because of the heated rhetoric around public sector unions that would follow the onset of the crisis, it is important to note that salaries of the city's labor force were unexceptional. Although public workers did see their wages climb during the 1960s, they were not paid much more than their counterparts in other cities, taking the cost of living into account. Workers in comparable jobs were paid more in Detroit, Chicago, Washington, and Los Angeles (although pensions were better in New York).[35] More notable was how many people the city government employed: over 414,000 by 1970, an increase of 55 percent over 1960. Out of every hundred people with jobs in New York City, eleven were employed by the city itself.[36] In a way, New York made up for the loss of industrial jobs over the 1960s by becoming the employer of last resort, so that by the early 1970s, local government employed more than seven times as many people as the largest private employer, New York Bell Telephone Company.[37]

To a significant extent, this expansion of New York's spending on public employees and the services they administered was made possible by federal and state funding linked to the mid-1960s "War on Poverty." Federal grants rose from a mere 6 percent of the city's budget in 1964–65 to nearly 17 percent by 1970–71. State grants rose as well, though less dramatically—climbing from 19 percent in 1964–65 to 26 percent in 1970–71.[38] By the end of the 1960s, more than 40 percent of the city's revenues came from higher levels of government.[39]

Here, too, New York was not unique. For a few short years in the mid-1960s, cities, states, and the federal government had an unusual relationship. In the aftermath of African American protests and uprisings in Harlem, in Watts, Los Angeles, and throughout the Jim Crow states, liberals had come to believe both that the federal government had a moral obligation to provide aid and that by doing so it might stave off further social upheaval. As a result, Washington carried out the kind of progressive taxation of incomes that was hard for cities to accomplish on their own, then shared part of these revenues. City officials might have imagined that the federal commitment to coping with economic disparities that were the legacy of racial inequality marked a lasting change in social policy—that it meant new revenues would continue to flow far into the future.

But that was not the case. The problem with relying on federal money to pay for a larger city government became evident after Richard Nixon was elected in 1968. Nixon shifted social spending to prioritize fighting crime. He made it clear that the era of the Great Society was over: the federal government would no longer increase its grants to cities to mitigate the problems of urban poverty. He promised to end what he deemed the "era of permissiveness," arguing that too much federal largesse had left the American people "soft" and "spoiled."[41] He also began to change the terms of some federal spending, so that instead of specifically targeting antipoverty efforts, the money was distributed to state governments as general-purpose block grants.

Over the first half of the 1970s, substantial aid to the city did still come in from Albany and Washington: federal grants accounted for roughly 20 percent of the city's annual budget, and state grants covered a bit less than 25 percent. But the War on Poverty period, when rapidly rising aid (especially federal aid) made possible the growth of social services, had come to a close.[42] And while programs with federal funding augmented the city's efforts to aid its poorest residents—both Medicaid and welfare were paid for through a combination of federal, state, and local money—they also placed heavy new demands on locally generated revenues. In New York State, localities were made responsible for a full quarter of the spending on these programs, a much higher proportion than elsewhere in the country. Of all the states and territories participating in federal welfare programs, forty-three paid all the costs of doing so without requiring any contribution from the localities, and none of those that did pass along costs required cities to contribute as much as New York.[43]

Nor could the city easily keep expanding its revenue base to compensate for shortfalls in the amount it received from the state or federal government. Despite New York's size and power, many aspects of its budget were beyond its control. According to the state constitution, passed in the nineteenth century and last amended in 1938, New York City had to win approval from the state legislature to levy taxes—not an easy task, since the legislature was often Republican-dominated and generally skeptical of New York's social generosity. The state constitution also limited the annual amount the city could raise in taxes to cover its operating expenses: in a given year, the city could not levy property taxes worth more than 2.5 percent of the five-year average of the total assessed value of its real estate.[44] The city also faced a constitutional limit on its ability to borrow: its total debt could not go above 10 percent of that five-year average.[45] Other factors, too, restricted the city's ability to tax. Even if it could tax incomes at rates radically higher than other municipalities, for instance, there was little point in doing so—people would move outside the city limits, thus evading the taxes altogether.

On top of all that, New York's various efforts to attract and retain business also cut into its budget. In the 1970s, the city helped subsidize an expensive renovation of Yankee Stadium even as the neighborhoods around it burned. It offered many tax breaks for office towers (such as the World Trade Center) and for middle-income housing developments. It granted "hardship" tax reductions to such companies as the New York Stock Exchange and Con Edison, as well as to Rockefeller Center.[46] Such subsidies to business groups and real estate interests further diminished the amount that could be raised from local revenues.

Aid from federal and state governments had helped the city to expand its welfare state during the 1960s, at a time of rising anger and unrest among poor black and Hispanic New Yorkers. But at the same time it postponed the growing conflict between those who wanted to see the city's social programs become still more inclusive and those who wanted to shrink them. By the early 1970s, the limits of outside funding were becoming clear, setting the stage for the fight over what kind of city New York would become.

The blows hammering New York seemed to be felt throughout the country and around the world, as the hierarchies and faiths that had ordered the postwar era were coming undone. Only a decade earlier, the United States had seemed to extend a promise of ever-greater prosperity, mobility, and security to its citizens, a promise that their material conditions would constantly improve as time went on. This had never been fully realized, of course; the progress left out many, from women to African Americans to poor people untouched by the economic growth of the postwar years. But the promise existed nonetheless. By the mid-1970s, though, it had been broken. The anticipated future of prosperity and confidence could be counted on no longer.

So it was in New York. The old expectations had started to give way. The simplest aspects of the city’s physical infrastructure—its roads and highways—could no longer be relied on. At any moment, they might buckle, leaving nothing but a steep descent into empty air below.