A City Built by Labor and the Crisis that Disciplined It

New York City's 1975 Fiscal Crisis and the Restructuring of Municipal Governance

Lara Prakash

Undergraduate Senior Thesis

Department of History

Columbia University in the City of New York

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Seminar Instructor | Professor Hannah Farber

Second Reader | Professor Kim Phillips-Fein

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Note to the Reader

My thesis will take you between union minutes, speeches, newspaper headlines, and the technical world of municipal finance. Each of those arenas comes with its own vocabulary. In the 1970s, as today, finance was notorious for producing "fancy" terms that can make ordinary realities sound complex. Part of that is functional: cities genuinely do rely on specific financial systems that must be named precisely. That being said, a lot is performative. Super fancy language can make bankers sound authoritative, especially in moments when democratic debate is being stifled in the name of "expertise" and "confidence." This is why a glossary of many key terms is outlined in the next sub-section, in addition to some definitions embedded within my

thesis itself. The glossary exists to keep you oriented and to prevent the story from being captured by jargon. By clarifying concepts like “liquidity” and “rollover borrowing,” the glossary helps reveal how “technical” mechanisms became politicized. I hope this is a digestible toolkit that can be returned to as needed throughout the following chapters.

Glossary

Austerity policies limit government spending and public services in order to reduce budget deficits. (Alesina, Alberto, Carlo Favero, and Francesco Giavazzi. Austerity: When It Works and When It Doesn’t. Princeton University Press, 2019).

The borrowing intermediation system consists of banks and underwriters who connect governments in need of funds with investors eager to lend. This system influences borrowing costs, market confidence, and the speed with which financial decisions are made. (Craig O. Brown, “The Politics of Government Financial Management,” Journal of Public Economics 156 (2017)

Bond ratings are evaluations from credit rating agencies that look at how likely it is that a government or business will pay back its debt on time. These ratings affect the interest rate the business has to pay to borrow money. (Cornaggia, Jess, Kimberly J. Cornaggia, and Ryan D. Israelsen. “Credit Ratings and the Cost of Municipal Financing.” The Review of Financial Studies 31, no. 6 (2018): 2038–79).

Bond underwriting occurs when financial firms assist a government in issuing bonds by negotiating conditions for potential investors and assessing credit risks. Banks may work together to share responsibility and limit individual exposure. This process is similar to a team behind a brokerage assisting someone in selling their home: pricing it right for potential buyers, and ensuring all paperwork is in order. (Municipal Securities Rulemaking Board, MSRB Glossary of Municipal Securities Terms, 3rd ed. (Washington, DC: Municipal Securities Rulemaking Board, 2013).

A cash-flow crisis happens when anticipated revenues are received too late to satisfy immediate expenses such as wages or debt payments. The issue is not long-term insolvency, but rather short-term timing, which forces governments to scramble to pay for crucial expenditures. It is like receiving your paycheck after your rent is due. Your finances may be fine overall, but the timing mismatch causes serious problems. (Abraham D. Beame, "Financing New York City," Political Science Quarterly 90, no. 3 (1975): 388; International Monetary Fund, "How to Develop a Framework for the Investment of Temporary Cash Surpluses," IMF Technical Notes and Manuals 2020/003 (2020).

City (municipal) bonds are long-term borrowing instruments used by governments to fund infrastructure and public services. Investors receive interest payments as compensation. (U.S. Securities and Exchange Commission. "Investor Bulletin: The Municipal Securities Market." Investor.gov. March 30, 2023.)

Full collective bargaining rights, in the context of my thesis, means that public employees can form unions and select representatives to negotiate on their behalf. The public employer must then bargain in good faith over wages, hours, and other terms and conditions of employment, put agreements in writing and use structured procedures. Before the 1967 Public Employees' Fair Employment Act (the Taylor Law) and the New York City Collective Bargaining Law, municipal employees could organize unions but did not have a legally protected framework for collective bargaining. (New York State Public Employees' Fair Employment Act (Taylor Law), 1967; New York City Collective Bargaining Law, 1967; New York City Office of Collective Bargaining, "How OCB Was Created"; U.S. Department of Labor, Labor-Management Relations in the Public Sector.)

Credit market access refers to how easily a government can borrow money and at what interest rate. Strong access provides flexibility, whereas a "credit squeeze" can rapidly worsen a financial crisis. It is similar to a person's credit score. When lenders question your reliability, even small

loans become expensive or impossible to obtain. (Rami Al-Amine and Lev Ratnovski, "Investor Sentiment, Sovereign Debt Mispricing, and Economic Costs," IMF Working Paper 20/166 (Washington, DC: International Monetary Fund, 2020).

Debt service refers to the obligatory annual payments of interest and principal on municipal debt. These responsibilities frequently take precedence over discretionary spending, restricting policy alternatives during crises. Debt service, like a car loan or mortgage payment, is unavoidable. A person must pay it whether or not other costs arise during the month. (Harold Wolman, "Understanding Local Government Responses to Fiscal Pressure," Journal of Public Policy 3, no. 3 (1983).

Default occurs when a borrower fails to make the legally necessary payments on a loan or bond. For governments, default destroys investor trust and significantly raises future borrowing costs. (Eduardo Borensztein and Ugo Panizza, "The Costs of Sovereign Default," IMF Staff Papers 56, no. 4 (2009); World Bank, Averting and Dealing with Sovereign Debt Default (Washington, DC: World Bank, 2015).

In the context of my thesis, I refer to democratic systems as one of negotiated municipal governance that came after WWII. After World War II, City budgets were made by negotiations between elected officials and public-sector unions. These two groups worked together to settle disputes over wages, services, and taxes. This negotiation was important because of flexible borrowing practices and rising revenues. Political choices were also fiscal choices, and labor had a say in that process. (Michele Kagan, "More Austerity Coming? Lessons from New York City's 1970s Fiscal Crisis for Covid-19 Recovery," New Labor Forum 29, no. 4 (2020): 38–46).

Democratic displacement happens when unelected entities or experts take over decision-making powers previously held by elected leaders. It indicates a shift in power systems rather than a moral judgment on the individuals involved. The outcome may be efficient, but some agency is

undoubtedly lost. (Michael Spear, "The New York City Municipal Unions, the 1970s Fiscal Crisis, and the Attack on the Public Sector," WorkingUSA 6, no. 1 (2002).

District Council 37 (DC 37), founded in 1944, is New York City's largest municipal union, representing roughly 150,000 workers and nearly 90,000 retirees. It has long shaped labor politics and public-sector contract negotiations in the City. Victor Gotbaum (1924-2015), the executive director of DC37 during the fiscal crisis, helped define municipal labor strategy amid the fiscal crisis. ("Who We Are," DC37, Tamiment Library and Robert F. Wagner Labor Archives, New York University, "American Federation of State, County, and Municipal Employees, District Council 37 Records)

The Financial Emergency Act (FEA), which was passed in 1975, mandated stringent monitoring of New York City's finances and enforced balanced budgets. (Office of the New York City Comptroller, A Stronger Fiscal Framework for New York City: Proposals to Improve the City's Financial Management and Promote Fiscal Responsibility (New York: Office of the New York City Comptroller, June 7, 2024), under "Executive Summary.")

Insolvency occurs when a government cannot practically meet its long-term financial obligations, even if short-term payments are achievable. It indicates a systemic imbalance between what is owed and what can be earned. It is similar to owing more on your mortgage than you could possibly pay off with your salary. (Davit S. Grigorian, Anna Sbirakos, and Shane G. Streifel, "Restructuring Domestic Sovereign Debt," IMF Working Paper 2023/024 (Washington, DC: International Monetary Fund, 2023).

A "Keynesian response" refers to using public borrowing and increased government spending to keep jobs, public services, and overall demand going during the downturn, with the idea that the economy would eventually get better and stabilize City finances. (William K. Tabb, The Long Default: New York City and the Urban Fiscal Crisis (New York: Monthly Review Press, 1982)

Liquidity refers to an organization's ability to transform assets into cash to meet immediate obligations. Even if a government appears to be solvent on paper, it may face an emergency. (Davit S. Grigorian, Anna Sbirakos, and Shane G. Streifel, "Restructuring Domestic Sovereign Debt," IMF Working Paper 2023/024 (2023).

Market reactions refer to the way investors incorporate new information into financial markets, often observed through changes in asset prices, bond yields, or stock values following a news event or policy announcement. (Eugene F. Fama, "Efficient Capital Markets: A Review of Theory and Empirical Work," Journal of Finance 25, no. 2 (1970): 383–417).

Out-year deficits refer to the amount of money that is expected to be missing from the budget in future fiscal years, based on expected income and expenses. (New York City Independent Budget Office, Analysis of the November 2024 Financial Plan, Fiscal Years 2025–2028 (New York: IBO, 2024), table showing revenues, expenditures, and "Gap to be Closed"; New York City Mayor's Office of Management and Budget, "Budget Glossary," NYC.gov.)

Oversight Organizations mainly include:

Municipal Assistance Corporation (MAC): The New York State Legislature set up the Municipal Assistance Corporation in June 1975 at the request of Governor Hugh Carey. Its job is to help New York City get long-term financing by issuing bonds. It had a board of directors and was allowed to sell bonds to help the City's finances stay stable.

Emergency Financial Control Board (EFCB): The New York State Legislature set them up in September 1975 under the New York State Financial Emergency Act to keep an eye on how New York City was handling its money during its fiscal crisis. The board, which was made up of officials from both the state and the City, was given the power to look over and approve the City's budgets and long-term financial plans.

Office of Management and Budget: In order to consolidate financial planning and budget supervision within the mayor's office, New York City Mayor Abraham Beame created the Office of Management and Budget in 1976 as a replacement for the Bureau of the Budget. The organization creates financial forecasts and reports in addition to preparing the City's capital, revenue, and expense budgets. (Dall W. Forsythe, "Fixing the Mess: A New York City Chronicle," Wagner School of Public Service, New York University, 2007, 1–2, 13; New York City Mayor's Office of Management and Budget, "Budget History")

Rank-and-file members make up the vast majority of a union's membership, excluding elected leaders. They take part in voting and other decision-making procedures. Their influence is comparable to that of ordinary citizens in a democratic nation. (Tagliacozzo, Daisy L., and Joel Seidman. "A Typology of Rank-And-File Union Members." American Journal of Sociology 61, no. 6 (1956): 546–553.)

Rolling over debt involves repaying maturing debts by issuing new ones rather than using cash reserves. This technique is dependent on ongoing investor confidence. (Thorvardur Tjörvi Ólafsson, "A Primer on Managing Sovereign Debt-Portfolio Risks," IMF Working Paper 18/74 (2018).

A "social-democratic city" means the distinct postwar New York City governing order in which a powerful labor movement (through municipal unionism and allied liberal politicians) helped push the City toward expanded public services, and a more redistributionist use of municipal policy than was typical in the US. Joshua Freeman, in *Working-Class New York: Life and Labor Since World War II*, contends that a "social democratic city" is established through the accumulation of many small institutional wins (recognition rules, grievance procedures, standardized hours, wage schedules, and bargaining routines) that gradually transformed municipal workers into a recognized negotiating party.

Short-term borrowing refers to loans that are repayable within a year and used to stabilize cash flow. Heavy reliance on short-term borrowing might lead to instability if lenders refuse to renew the loans. It resembles a household that uses payday loans. It is not necessarily terrible once, but potentially dangerous as a habit. (Yan Carrière-Swallow, Jonathan David Ostry, and Luis Felipe Zanna, "Debt Maturity," IMF Working Papers 2019, no. 003 (Washington, DC: International Monetary Fund, 2019).

Solvency evaluates a government's ability to satisfy long-term financial obligations based on predicted revenues. A solvent city has the ability to repay obligations over time, even if short-term liquidity is limited. It is analogous to someone with a steady income and a modest mortgage (one they can afford). The long-term outlook is as important as the monthly stress. (Davit S. Grigorian, Anna Sbirakos, and Shane G. Streifel, "Restructuring Domestic Sovereign Debt," IMF Working Paper 2023/024 (2023).

Tax Anticipation Notes (TANs) are short-term loans that governments take out in anticipation of future tax collections to cover immediate cash needs, while Revenue Anticipation Notes (RANs) are short-term loans repaid with other expected revenues, such as state aid or fees, rather than taxes. (Municipal Securities Rulemaking Board. MSRB Glossary of Municipal Securities Terms. 3rd ed. Washington, DC: Municipal Securities Rulemaking Board, 2013).

Technocrats wield power because of their expertise in subjects such as economics or engineering. They are normally appointed rather than elected, and their choices are meant to be based on competence rather than politics. Their function is similar to that of a pilot during a flight. They are trusted not because they were elected, but because they understand how to operate the plane. (Duncan McDonnell and Marco Valbruzzi, "Defining and Classifying Technocrat-Led and Technocratic Governments," European Journal of Political Research 53, no. 4 (2014).

The United Federation of Teachers (UFT) was created in 1960 and represents around 190,000 teachers and school personnel. It established a strong presence in both education policy and municipal labor politics. Albert Shanker (1928-1997) led both the United Federation of Teachers and the American Federation of Teachers. He gained national recognition for his views on education policy and labor relations. His leadership approach blended academic rigor and a willingness to engage in public debate. (United Federation of Teachers, "About the UFT," (Tamiment Library and Robert F. Wagner Labor Archives, New York University).

Union leadership consists of elected officials and appointed staff who negotiate contracts and coordinate membership services. Their efforts shape the union's public image and internal governance.

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Image 1: *Athens Banner-Herald*. "Cagey Pickets—These New York City park department employees huddle in a cage called 'Bob Moses' Zoo.'" November 13, 1955. Page 11. *Georgia Historic Newspapers.*

Image 2: *Welcome to Fear City* (New York: Council for Public Safety, 1975), reproduced via Internet Archive

Image 3: Michael Beyea Reagan, *"A Crisis without Keynes: the 1975 New York City Fiscal Crisis Revisited,"* The Gotham Center for New York City History, August 12, 2021, Table 1, "NYC Revenue, Expenditure, and Debt," sourced from U.S. Department of Commerce, Bureau of the Census, City Government Finances.

Introduction

Zohran Mamdani's mayoral campaign in 2025 was not only a battle with Andrew Cuomo, but also with the structural limits that had governed New York City since the mid-1970s. In an article warning that "the biggest threat to Mamdani's agenda isn't Trump – it's Wall Street," *In These Times,* a very progressive publication, defined Mamdani's campaign as an attempt to restore a vision of New York that formerly worked as the "closest U.S. example of Scandinavian-style social democracy."[1] Mamdani's agenda, which included free universal daycare, free buses, more public housing, improved libraries and hospitals, and a $30 minimum wage, was presented not as a set of policy recommendations, but as a challenge to a post-1975 fiscal crisis order. The article recalled how New York's post-WWII municipal system, which included free public higher education, subsidized transit, extensive public housing, and a robust welfare infrastructure, was disrupted when banks stopped buying City bonds. This capital strike compelled austerity, including cuts to social programs, senior centers, schools, and public services, as well as tuition at the City University of New York (CUNY) for the first time in its 130-year existence. Mamdani's campaign argued that the current constraints for ambitious public investment are not inherent or technical necessities, but rather, they are the political aftermath of a conflict between democratic displacement and economic power.[2]

Scholars have interpreted the 1975 fiscal crisis in several distinct ways. One influential framework saw New York as having promised more than it could afford, while public-sector unions were cast as politically powerful beneficiaries of a municipal system that had grown beyond its means. A second body of scholarship has challenged that moralized account by

[1] Josh Silver. 2025. "The Biggest Threat to Mamdani's Agenda Isn't Trump — It's Wall Street." *In These Times*, September 29, 2025.
[2] Ibid.

locating the crisis within deeper transformations in political economy. Rather than seeing 1975 simply as the result of mismanagement or excessive demands, this work treats the fiscal crisis as a turning point in the reorganization of urban governance under the pressure of deindustrialization, capital mobility, shrinking public revenues, and the growing authority of finance. Kim Phillips-Fein's *Fear City* shows how business leaders and state officials used fiscal emergency to institutionalize austerity and weaken democratic control,[3] while Benjamin Holtzman's *The Long Crisis* places New York within the broader rise of neoliberal urbanism and the increasing subordination of public authority to market discipline.[4] A third line of interpretation, associated with labor and urban history, helps explain what made this transformation so consequential for municipal workers in the first place. Joshua Freeman's concept of "the City labor built" positions public-sector unions not as peripheral interest groups, but as central architects of a post-War urban order in which collective bargaining, pensions, service expansion, and public employment formed part of a broader social-democratic city. It was a city whose basic capacity to govern depended on labor arrangements that tied public services, social citizenship, and municipal legitimacy together.[5] This body of scholarship is essential because it clarifies what was being dismantled or remade in the 1970s: not only contracts or budgets, but a broader understanding of the City as a site of negotiated public obligation.

This thesis builds on all three strands of scholarship while shifting the focus in a different direction. Existing research has shown how the crisis was moralized in public discourse, how it

[3] Kim Phillips-Fein, *Fear City: New York's Fiscal Crisis and the Rise of Austerity Politics* (New York: Metropolitan Books, 2017), 4-7.
[4] Benjamin Holtzman, *The Long Crisis: New York City and the Path to Neoliberalism* (New York: Oxford University Press, 2021), 168.
[5] Joshua B. Freeman, *Working-Class New York: Life and Labor Since World War II* (New York: The New Press, 2000), 55.

marked a broader restructuring of the political economy, and how it disrupted the labor-liberal order of the post-War City. Yet, labor often appears in these accounts primarily as a target of restructuring, or a casualty of a new austerity regime. My thesis instead examines how public-sector union leadership internally adapted to the crisis and, in doing so, helped stabilize the fiscal order that emerged from it. I argue that austerity endured not only because it was imposed from above through institutions such as the Municipal Assistance Corporation (MAC) and the Emergency Financial Control Board (EFCB), but also because union governance itself changed in response to the demands of liquidity, fiduciary duty, and market credibility. As union leaders moved from mobilization toward the management of concessions, rank-and-file members were not simply disciplined from the outside, but also participants in translating fiscal emergency into a durable mode of governance. Unions were neither the passive recipients of discipline nor the main cause of the collapse. They were actors with limited authority who made decisions that helped stabilize a system that narrowed their future power.

My thesis does not attempt a full reconstruction of rank-and-file union politics in the 1970s. Rather, by drawing on union executive minutes, SEC accounts, balance sheets, financial reports, pension debates, and union internal and public communications, it examines leadership discourse, institutional adaptation, and the changing terms of political legitimacy under fiscal crisis. To explain this restructuring, my thesis makes two analytical distinctions. First, it distinguishes between long-term insolvency and a cash-flow crisis. New York's 1975 fiscal crisis was driven less by sudden bankruptcy than by rollover risk and dependence on short-term borrowing. Second, it separates the moralized stories of excess that dominated public discourse from the deeper structural fragility of the City's fiscal system. These distinctions help reveal the paradox at the center of the crisis. Public-sector unions were widely portrayed as causes of fiscal

instability, yet when private credit markets dried up, municipal labor became a crucial source of stabilization. Pension funds purchased City and MAC debt and, in doing so, provided liquidity at a moment when ordinary market mechanisms had failed.[6] The institutions blamed for the crisis became essential to containing it.

Chapter One describes the post-War City from 1945 to 1975, examining the development and meaning of collective bargaining, and the importance of pensions and service workers. It also identifies fundamental structural financial vulnerabilities, such as reliance on short-term borrowing and rollover dependence. The chapter concludes by looking at pre-crisis media narratives that portrayed unions as extravagant and economically reckless. Chapter Two takes place within the union hall in 1975. It examines layoffs and inflation from employees' perspectives, as well as leadership techniques under pressure. It delves into how leaders like Victor Gotbaum of District Council 37 (DC37) and Albert Shanker of United Federation of Teachers (UFT), two of NYC's largest unions in the post-War era, balanced accountability to members and discussions with businessmen and state officials. The chapter concludes with the pension investment choice, and the beginning of emergency oversight boards, led by bankers such as Lazard's Felix Rohatyn who promoted strong market discipline.[7] Chapter Three examines how technocratic authority strengthened after 1975. The creation of the MAC and the EFCB set up a system that made collective bargaining harder by endorsing multi-year planning and servicing debt, for example. Today's NYC policies are still assessed using bond ratings, market reaction, and multi-year financial plans. Citations of prior emergencies, notably the 1975

[6] Gregory N. Heires, "Labor Saves New York: DC 37 Plays a Central Role in Helping the City Avert Bankruptcy," *Public Employee Press*, June 2009, 12.
[7] Jeremy Bernstein, "Allocating Sacrifice," *The New Yorker*, January 24, 1983.

fiscal crisis, are used to support the case for reserve needs. Welfare policies are filtered through a fiscal architecture created to prevent a future fiscal crisis even before they are debated.[8]

Chapter One: The City Labor Built

The fiscal crisis in New York City in 1975 has been characterized as an urban economic collapse caused by liberal governance and an unruly public sector.[9] New Yorkers perceived and experienced the crisis in different ways. For instance, what one actor, a banker, saw as a financial design flaw, another, a sanitation worker, saw as a moral obligation. One was employed by a bank that provided funding for the day-to-day operations of New York. The other, who was a member of the union and collected the City's trash, was now required to assist in preventing the City from going bankrupt.

New York City was no longer a regular client of First National City Bank's (Citibank) municipal finance desk by the beginning of May 1975.[10] Sitting with a familiar document, a cash-flow projection, was the banker in charge of examining the City's most recent request. A cash-flow statement shows when money actually enters and exits the treasury, in contrast to a budget, which distributes funds over a fiscal year. This was a stark document. Payroll to public workers and debt service were among the City's ongoing expenses. Its income was distributed unevenly, and borrowing had filled the void for a long time.[11]

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[8] Josh Silver. 2025. "The Biggest Threat to Mamdani's Agenda Isn't Trump — It's Wall Street." *In These Times*, September 29, 2025.
[9] William K. Tabb, "The New York City Fiscal Crisis," in *Political Struggle and Fiscal Crisis*, (New York: Monthly Review Press, 1977), 324.
[10] Securities and Exchange Commission, *Transactions in Securities of the City of New York* (Washington, DC: U.S. Securities and Exchange Commission, August 26, 1977), 27–28.
[11] Gerald R. Ford Presidential Library, "SIMON ADVISES NEW YORK OFFICIALS NOT TO EXPECT FEDERAL BAILOUT" (May 9, 1975), in *New York City, May–October 1975,* 1.

This borrowing was in the form of short-term notes, which have monthly rather than yearly due dates.[12] To address timing discrepancies between spending and incoming taxes or revenues, tools like Tax Anticipation Notes (TANs) and Revenue Anticipation Notes (RANs) were used.[13] Operating deficits, or the regular excess of spending over recurring revenue, were managed by using them.[14] The pattern was evident to the banker. Old notes were being repaid with new borrowing, not with tax receipts. Rollover dependence resulted from this practice, which meant that the City could only fulfill its responsibilities if investors consistently consented to refinance maturing debt.[15] The system worked as long as markets cooperated, but it did not work if they hesitated.

Grave hesitancy had begun by the spring of 1975. Banks were concerned that political unrest (between City Hall, Albany, and Washington, D.C.) increased the risk of repayment, and investors started to wonder if the City was fully disclosing the scope of its financial issues.[16] At the same time, New York had become dangerously dependent on short-term debt, loans that needed to be paid back or refinanced in a matter of months.[17] Since so much of the City's debt was due so soon, even a temporary decline in market confidence had immediate repercussions.

Liquidity, or the amount of money the City had on hand to pay debts as they became due, was crucial. Money was needed now, not later, for payroll and debt service.[18] In contrast, there was little assurance regarding solvency, the longer-term question of whether the City's total

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[12] Securities and Exchange Commission, *Transactions in Securities of the City of New York* (Washington, DC: U.S. Securities and Exchange Commission, August 26, 1977), 29.
[13] Ibid, 9.
[14] Ibid, 44.
[15] U.S. Congress, Joint Economic Committee, *New York City's Financial Crisis,* (November 3, 1975) 4-5.
[16] Gerald R. Ford Presidential Library, "Memorandum from Secretary of the Treasury William E. Simon to the President," May 9, 1975, *New York City, May–October 1975 (1)*, L. William Seidman Files, Box 78, 2.
[17] Securities and Exchange Commission, *Transactions in Securities of the City of New York* (Washington, DC: U.S. Securities and Exchange Commission, August 26, 1977), 2.
[18] U.S. Congress, Joint Economic Committee, *New York City's Financial Crisis* (Washington, DC: U.S. Government Printing Office, 1975), 65.

assets exceeded its liabilities. If a City is unable to generate cash on the days when bills need to be paid, it may be solvent in theory but fail in practice.[19] The City would soon run out of money to pay its employees if it did not take out new loans to replace maturing debt. Once unthinkable, default was now a reality.[20]

The crisis at the sanitation quickly became a blame story.[21] For over a decade, the DC 37 members had worked at night. He paid into his pension with each paycheck, collected trash in all weather conditions, and had a reasonable expectation that the City would fulfill its obligations if he fulfilled his own. The newspapers started telling him otherwise that spring. *The New York Daily News* and public officials claimed that the City had overpaid its employees and fostered a liberal political culture that was beyond its means. Welfare spending, and the reckless nature of it, was equated to the government's draining of money in the Vietnam War.[22] The fiscal crisis was portrayed as a moral reckoning rather than a failure of the financial system.[23]

In meetings, Victor Gotbaum attempted to reframe the issue as the City was experiencing a cash shortage, not bankruptcy. That distinction was important.[24] Paychecks could be disrupted by a cash crisis even if the City eventually generates enough revenue to pay for them. For this reason, leaders were requesting that unions think about limiting wages and, more controversially, using pension funds to stabilize municipal finances.

The way New York had financed itself for years, borrowing short-term to cover regular expenses, postponing difficult decisions, and presuming markets would always rebound, were

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[19] Gerald R. Ford Presidential Library, "Memorandum from Secretary of the Treasury William E. Simon to the President," May 9, 1975, L. William Seidman Files, Box 78, "NYC Cash Account Data."
[20] U.S. Congress, Joint Economic Committee, *New York City's Financial Crisis*, 9–10
[21] William K. Tabb, "The New York City Fiscal Crisis," in *Political Struggle and Fiscal Crisis*, (New York: Monthly Review Press, 1984), 323.
[22] Ken Auletta, *The Streets Were Paved with Gold: The Decline of New York* (New York: Random House, 1979). 70-71.
[23] Ibid, 71.
[24] "Squaring Off," *The New Yorker*, January 28, 1980.

not seen as grave moral faults by the City's leadership. The sanitation worker, having dug beyond mainstream headlines into the causes of the fiscal crisis, felt that the reasoning was reversed. He had no say in the City's accounting procedures or created its debt structure. However, it now appeared that his retirement funds were the key to the solution of financial structural fragility. While the real architecture that required his sacrifice remained hidden, the sacrifice was presented as a civic obligation in the media and by the wealthy businessmen and politicians that controlled it. To fully understand the shift of responsibility for the crisis from financial institutions to municipal workers, it is essential to analyze the construction of New York City's post-War labor organization, the structural fragility of its finances following decades of growth, and the evolution of public narratives regarding unions as these vulnerabilities emerged.

1.1: Postwar Liberalism and Union Ascendancy (1945-1975)

The description of New York as "the City labor built" is more than just a slogan that unions used to describe their place in the City post-World War II. It is physically and institutionally true. In the decades following World War II, New York City's ability to govern, defined by the ability to manage hospitals, parks, welfare offices, schools, libraries, sanitation systems, and other public services, was often dependent on physical labor. The policies defining postwar urban liberalism were made not merely between voters and elected officials, or liberals and conservatives, but also between City Hall and a workforce that increasingly saw itself as a political agent. In this first section of Chapter One, I aim to show how the workforces, particularly those in DC37, the City's largest public union, forced recognition and established bargaining rights. Above all, this organization reframed public employment as a political

obligation, binding the City's responsibility to secure pensions and benefits for its workers to their duty to provide reliable public services to residents.

In 1935, private-sector workers obtained protection for collective bargaining, but public employees did not. The National Labor Relations Act (NLRA) established enforceable rights to unionization and collective bargaining in the private sector, but it did not provide an equivalent system for government employees.[25] Despite having the ability to organize unions, municipal employees lacked a constitutionally protected method of collective bargaining, defined as a union's right to bargain or strike for all members on pay, hours, and working conditions while requiring the employer to do so in good faith. Instead, labor relations relied on unofficial talks and political pressure rather than legal enforcement.[26] In practice, this meant that unions sought salary increases and workplace modifications through personal ties with City officials and legislative lobbying, with outcomes determined by mayoral discretion rather than enforceable contracts or agreements. Gains were unequal among departments and could be rapidly reversed, highlighting a system in which access and influence were more important than legal rights. Therefore, post-War municipal unionism had to create its own institutional framework rather than merely growing within an existing legal framework. One such attempt was the establishment of DC 37 in 1944 by the American Federation of State, County, and Municipal Employees (AFSCME), which aimed to bring the City's many local unions together under a single district council that could exercise collective political influence. However, the most significant mobilization occurred in 1947 when Jerry Wurf, "a fiery, brilliant, idealistic young socialist, civil rights, and labor advocate," assumed leadership of AFSCME with a clearly political goal: to replace "collective begging" (piecemeal and one-off deals with City Hall) with a

[25]"1935 Passage of the Wagner Act," National Labor Relations Board.
[26] Jane Latour, "Born in Struggle," *Public Employee Press* (April 2009), 9.

strategy that allowed for structural changes in wages and conditions, for instance [27] "Collective begging" was a derogatory name for lobbying-based and ad hoc initiatives in the absence of legally mandated collective bargaining. It suggested municipal workers should continue to rely on patronage and informal influence instead of a system of workplace rights that could be enforced. Wurf's plan in the 1950s was to first organize numerous smaller unions (often named as “Local XXX”) and then use disruptive collective action to force the City government to negotiate. DC 37's "Bermuda Day" protest was an example of disruptive collective action, as municipal workers gathered at City Hall wearing Bermuda shorts to make fun of Mayor Robert F. Wagner Jr. 's vacation and show how they were being left out of formal negotiations.[28] They coordinated an embarrassing spectacle to force City officials to deal with labor demands. In 1952, Wurf made a big tactical change when he got rid of outside lawyers (who supposedly made a lot of money representing workers by taking parts of raises) and replaced them with a "quick, simple union-run system" that gave workers big raises. This change was part of a larger push for legal representation to be politically aligned with union priorities and accountable to members, rather than independent professionals profiting from workers' gains.[29] The push for formal recognition was becoming strategic. After many protests, Mayor Robert F. Wagner Jr. finally signed an executive order on July 21, 1954, that set up a "code of rights" for City workers in terms of labor relations.[30] Importantly, this did not immediately give employees full collective bargaining rights. However, it did make it official that employees could join unions and required agencies to set up ways to hear complaints. In terms of institutional development, the 1954 order

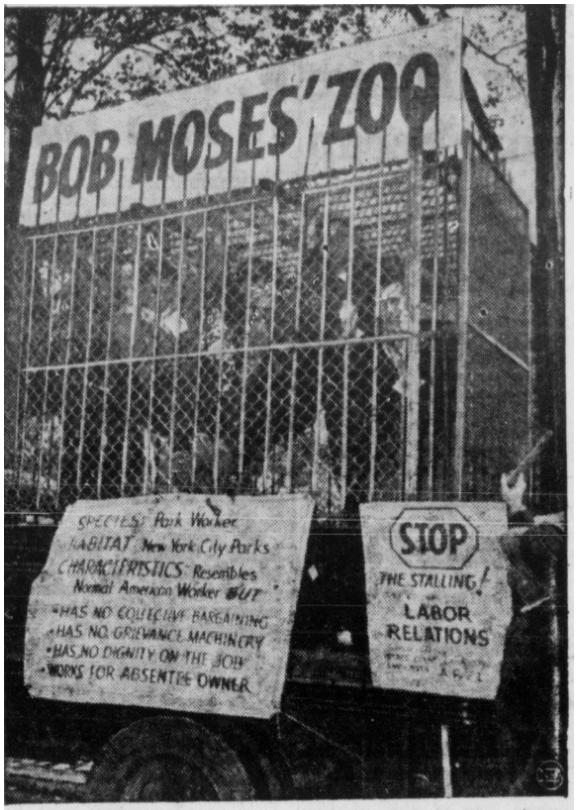
[27] Ibid, 9.
[28] American Federation of State, County and Municipal Employees (AFSCME), District Council 37 Photograph Collection, “Bermuda Day” demonstration, 1959, Tamiment Library and Robert F. Wagner Labor Archives, New York University.
[29] Jane LaTour, “Born in Struggle.” *Public Employee Press*, April 2009, 9.
[30] Ibid, 9.

was a turning point.[31] It changed labor relations from an informal political space to a somewhat administrative one. This transformation is defined by explicit procedures for dispute settlement. Unions were officially registered under this system, grievances were handled using defined procedures, and labor-management relations became routine rather than relying on personal connections to City Hall.

Robert Moses, an urban planner, was the toughest administrator in fighting against Wagner's order. Moses became the City's first and only City Construction Coordinator under Mayor William O'Dwyer.[32] This put him in a position to represent New York City's post-War infrastructure agenda at higher levels of government, while also working on projects such as establishing the United Nations' permanent Manhattan site.[33] He ran the parks department like a "quasi-military operation," kept spies inside, made workers work 72 hours a week, and threatened to fire union members.[34] Many often think of post-War liberalism as a story about improving public welfare and services, but Moses shows us that the administrative state can be brutal on its own employees. On November 3, 1955, DC 37 organized a demonstration that "in all but name was a one-day strike," protesting poor wages, inconsistent levels of pay among agencies, and the dependence on informal labor relations rather than recognized collective bargaining.[35] Over 2,000 employees filed leave-of-absence forms at Central Park's Arsenal, followed by blocking traffic and other forms of disruption. They created a spectacle for the press: a truck transporting members in a big cage called "Bob Moses' Zoo." When Moses refused to reply, they gathered at City Hall and yelled "Which Bob is boss?" until Wagner summoned Wurf

[31] Ibid, 9.
[32] New York City Municipal Archives, *Guide to the Records of Mayor William O'Dwyer, 1946–1950* (New York: NYC Department of Records and Information Services, 2019), 4.
[33] Robert Moses, "Build and Be Damned," *The Atlantic*, December 1950.
[34] Jane LaTour, "Born in Struggle." *Public Employee Press*, April 2009, 9.
[35] Ibid, 9.

and, famously, in Wurf's presence, called Moses to uphold the "code of rights."[36] This account is significant not just because it is colorful, but because it shows a key reason why municipal unions were gaining power: workers used public attention to pressure the City's political leaders to hold their own administrative elite accountable (see Image 1 below). Municipal unionism served not only as an interest organization but also as a democratizing force within the bureaucracy.



CAGEY PICKETS—These New York City park department employes huddle in a cage called "Bob Moses' Zoo" during a recent protest parade against Parks Commissioner Robert Moses. Some 2000 park employes marched to protest what they called "cruel practices and flagrant union-busting" by Moses. A truck carried the cage in the parade.

Image 1: *Athens Banner-Herald*. "Cagey Pickets—These New York City park department employees huddle in a cage called 'Bob Moses' Zoo.'" November 13, 1955. Page 11. Georgia Historic Newspapers.

[36] Ibid, 9.

After Moses insisted DC 37 prove they truly represented workers in the City, the first election among City employees was held in January 1956, with parks employees voting for DC 37 4,097 to 173.[37] Wagner's 1954 executive order "code of rights" delegated union recognition mostly to individual agency heads, but officials like Robert Moses retained the authority to demand proof that a union represented a majority of City employees before negotiating with it. According to DC 37, the benefits included gaining the 40-hour week for hospital and park workers. By 1957, five years into Wurf's leadership, DC 37 had risen from just 400 members to 25,000 members and was "poised for the struggle to make bargaining a reality."[38] On March 31, 1958, Wagner agreed to collective bargaining under Executive Order 49, mandating City departments to formally recognize employee associations, establish grievance procedures, and conduct systematic negotiations rather than ad hoc negotiations. Further, bargaining capacity emerged cumulatively through repeated confrontations, procedural experiments, and incremental workplace gains that, over time, redefined municipal workers as a legitimate negotiating party. The January 1956 election was thus one moment in a longer process of institutional construction, not its decisive cause. Freeman's definition of a social-democratic urban city was eventually created by thousands of minor institutional actions that transformed a workforce into a negotiating party.

In the 1960s, public-sector unions were trying to change the rules for City services and jobs on a large scale. Their point of view was that the City could not say it was a "liberal" provider of public goods while keeping the people who delivered those goods in conditions that were marked by low pay and a lack of social services. The "strike wave" in this decade shows momentum from the progress made in the 1950s. This decade was one of "social progress and

[37] Ibid, 9.
[38] Ibid, 9.

tragedies," clearly linking the actions of municipal unions to the political climate of the time, which was shaped by the Civil Rights movement, the Voting Rights era, and the overall idea that sometimes one had to "defy bad laws" to make progress.[39] In the early 1960s, clerks for the transit authority in Local 1655 were the first to get a written agreement negotiated.[40] In 1962, when Local 983's negotiations with the City broke down, 2,000 motor vehicle operators violated the Condon-Wadlin law, which prohibited strikes. Their two-week strike led to the first welfare fund for City workers who did not wear uniforms and forced the City to double its last offer for wages and benefits. In 1963, Local 372 won the right to negotiate for 6,200 school lunch workers.[41] Importantly, labor's activism aligned within the context of the moral and political energy of the time, although many would quickly switch up to view it as greed in the following decade.

Wurf left DC37 in 1964 to lead AFSCME nationally, building it into "one of the most powerful unions" in the United States.[42] Victor Gotbaum became executive director in 1965, and DC 37's own internal histories later say that he built the council into the "largest union of municipal workers in any City" in the country. Gotbaum grew DC 37 from about 36,000 members to more than 110,000 over the course of 20 years.[43] Wurf and Gotbaum both originated from the post-War labor-liberal environment and shared a desire to establish long-term institutions rather than depending solely on episodic initiatives. Wurf's experience organizing municipal workers in New York informed his opinion that public-sector unions could only wield power if they combined political engagement, and disciplined collective action, a paradigm he eventually brought to AFSCME's national leadership. Gotbaum, on the other hand, prioritized

[39] Alfredo Alvarado, "Strike Wave, Dramatic." *Public Employee Press*, May 2009, 20.
[40] Ibid, 20.
[41] Ibid, 20.
[42] Ibid, 20.
[43] Clyde Weiss, "In Memoriam: Victor H. Gotbaum," *AFSCME.*

consolidating wins within the City, streamlining DC 37's internal processes, and broadening its reach across agencies and professional lines.

The 1965 welfare workers' strike was a watershed moment in the development of a "social-democratic" city. On the first workday in January 1965," 8,000 Welfare Department employees walked out, protesting insufficient wages.[44] The walkout was led by two organizations: the Social Services Employees Union (SSEU) and DC 37's Local 371, which represented both supervisors and clerical workers. Important contractual achievements included 9% raises, impartial arbitration, the first 100% City-paid health insurance for civilian employees, the first union education fund for City workers, and the freedom to bargain on a variety of subjects.[45] The agreements from 1956 gave workers basic recognition and some bargaining rights, but the strike in 1965 turned that recognition into material guarantees, such as wages, and benefits. This made collective bargaining a real part of how the City was run, not just a political concession. Thus, the 1965 strike is known to prompt a "revolution in collective bargaining," driving the City to centralize labor relations by establishing the Office of Labor Relations in 1966, and in partnership with unions, the Office of Collective Bargaining (OCB) in 1967.[46] This agreement in 1966 resulted in the implementation of the New York City Collective Bargaining Law in 1967, as well as the formation of an independent agency, the OCB, to ensure fair dispute resolution and acceptability by both labor and management.[47]

The consequences of the welfare protest were vast, as the walkout lasted 28 days, making it the longest public employee strike in New York City history.[48] Mayor Wagner fired all of the

[44] Alfredo Alvarado, "Strike Wave, Dramatic." *Public Employee Press*, May 2009, 21.
[45] Ibid, 21.
[46] Ibid, 21.
[47] "How OCB Was Created," New York City Office of Collective Bargaining.
[48] Alfredo Alvarado, "Strike Wave, Dramatic." *Public Employee Press*, May 2009, 21.

strikers and imprisoned 19 leaders for two weeks. Even though the union was strong and well-organized, it had to work in a legal environment where public employees who went on strike were technically breaking the law. The City again used the Condon-Wadlin Act to fire thousands of employees, resulting in widespread media coverage as hundreds of thousands of welfare beneficiaries were left without services.[49] In other words, the strike highlighted a unique feature of municipal labor conflict: bargaining power extends beyond economic leverage, influencing the daily functioning of public life. The City could discipline its staff, but this would cause an additional crisis in welfare management.

City governance after WWII may have seemed strong based on welfare policies, but it was based on a shrinking tax base and a financial system that relied more and more on rollover debt instead of stable revenue. Two dynamics about union activism are particularly significant here. First, post-War liberalism's moral terminology (rights, inclusivity, equity, and the public good) allowed unions to portray their demands as aligned with the City's governing goals rather than greedy demands. Second, the institutionalization of collective bargaining, pensions, health insurance, and labor agreements resulted in a series of long-term fiscal obligations that the City would struggle to maintain among its structural fragility. This proved a double-edged sword: the rhetoric of shared public purpose strengthened unions' political leverage, but the resulting bargain locked the City into obligations that depended on continued growth and stable revenues. In *Working-Class New York*, Freeman contends that New York City's values were guided by progressive-minded unions, which was far from common in the rest of the United States.[50] This broadened the definition of urban citizenship and resulted in tangible benefits for hundreds of

[49] SSEU Introducing the Social Service Employees Union, (1963), 16.
[50] Joshua B. Freeman, *Working-Class New York: Life and Labor Since World War II* (New York: The New Press, 2000), 17.

thousands of municipal employees. Despite this energy at the time, in response to increased union militancy, Governor Nelson Rockefeller pushed the Taylor Law through the state legislature in 1967.[51] The statute established harsh penalties for public-sector strikes, driving DC 37 to organize 25,000 members for a massive protest at Madison Square Garden the same year.[52] When municipal workers gained additional rights and influence, political and business elites began to see those gains as barriers to their control, rather than democratic wins that aligned with the post-War liberal era.

As a result, I see the 1950s and 1960s not as a story of the ascent of public-section unions, but as the formation of settlements. Wages, hours, health and education benefits, pensions, and bargaining rights all improved significantly during this time period. However, these achievements were accompanied by rising political tensions about the proper extent of public-sector labor power and the City's financial commitments. Though transformational, the settlement was unstable, setting the institutional basis for the 1970s conflicts over whether New York should stay a pro-labor social-democratic metropolis or shift to an austerity-oriented governing model.

1.2: Structural Fragility of NYC in the Postwar Era

By the early 1970s, New York had become financially vulnerable for three main reasons: a tax base that was increasingly incompatible with the City's costs,[53] a municipal-state relationship that distributed revenues unevenly,[54] and a credit structure that allowed the City to be

[51] Alfredo Alvarado, "Strike Wave, Dramatic." *Public Employee Press*, May 2009, 20.
[52] Joshua B. Freeman, *Working-Class New York: Life and Labor Since World War II* (New York: The New Press, 2000), 55.
[53] William K. Tabb, "The New York City Fiscal Crisis," in *Political Struggle and Fiscal Crisis* (New York: Monthly Review Press, 1982), 24.
[54] Kim Phillips-Fein, *Fear City: New York's Fiscal Crisis and the Rise of Austerity Politics* (New York: Metropolitan Books, 2017), 15.

governed only as long as private lenders continued to roll over its short-term debts.[55] This vulnerability stemmed from a larger shift in the City's political economy in the 1960s and early 1970s. Manufacturing employment fell, steady industrial positions vanished, and many middle-class citizens and businesses relocated to the suburbs, taking their taxable income and property value with them.[56] At the same time, poverty became more concentrated in the City, raising demand for welfare, hospitals, schools, transportation, sanitation, and other government services.[57] Growth was increasingly driven by sectors such as banking and real estate, which benefited the City in ways other than the industrial and residential revenue bases that had historically funded municipal expansion.[58] Additionally, The Great Society and War on Poverty raised expectations on cities, and federal funds helped to offset some of the costs associated with unemployment, segregation, and concentrated poverty. By the early 1970s, however, that assistance had become uneven and increasingly insecure, as inflation and political retrenchment reduced the federal government's willingness to maintain the same level of urban investment.[59] As a result, New York faced mounting social obligations while outside support dwindled, making the City more reliant on private borrowing at a time when lenders were less inclined to offer it. TIME magazine's national newsweekly coverage, specifically the April 7, 1975 article "New York City: The Big Apple on the Brink," told the story of the crisis as the expected result of a cash-cycle/short-term-note system.[60] When debt markets collapsed later in 1975, and political actors and local New York press spun the situation into a story about public-sector "excess," they almost acted as if the fiscal crisis appeared out of thin air.

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[55] Federal Reserve Bank of New York, “The New York City Budget: Anatomy of a Fiscal Crisis” (1976)
[56] Ibid, 333–336.
[57] Ibid, 334.
[58] Ibid, 335-336.
[59] J. Ward Wright, *New York City and the Urban Fiscal Predicament* (Chicago: Municipal Finance Officers Association, 1976), 4.
[60] New York City: The Big Apple on the Brink,” *TIME*, April 7, 1975.

To that point, one of the most striking aspects of the fiscal crisis is how consistently DC 37 describes the 1970s breaking point as one that had already been apparent in the late 1960s: rising demand for urban services and a dwindling ability to pay for them. DC 37 recognized "the welfare population had doubled since the mid-'60s," while "the tax base had eroded as a result of deindustrialization and middle-class flight."[61] That statement is doing more than just describing demographics, but stating the well-known fact that the City was structurally fragile. A city can, for a time, absorb rising service obligations if it can also depend on stable employment and a tax base that grows consistently. However, it was abundantly clear in the years before 1975 that the City's obligations increased (poverty relief, public hospitals, schools, transit, sanitation, and public safety) while the sources most capable of meeting those obligations, industrial employment and middle-income residency, declined. This discrepancy in funds turned political: a "business backlash" against public-sector gains, where bankers and "budget hawks" attacked labor contracts not only as too expensive, but also as illegal claims on a decreasing amount of City resources.[62] Put simply, the post-War City relied on a functional alliance of government, labor, and private capital (primarily the bond market and underwriting process). By the late 1960s and early 1970s, the alliance was fracturing, and blame was quickly being put on the public sector (rather than blaming deindustrialization and middle-class flight that the government did not seem to combat efficiently, for instance).

Further, New York's structural weakness included the use of debt to keep cash flow and operational deficits, but it was more than just "in debt" when the crisis hit. The City was ruling through debt, which required market trust. In this case, "ruling through debt" means that New

[61] Gregory N. Heires, "Labor Saves New York: DC 37 Plays a Central Role in Helping the City Avert Bankruptcy," *Public Employee Press*, June 2009, 12.
[62] Ibid, 12.

York City's ability to govern (pay workers, provide services) depended more on its ability to borrow money on short-term markets than on its ability to make decisions about the budget. The City did not use debt as a one-time method to obtain money. Instead, it used rolling notes and cash-flow borrowing to pay for everyday costs. Governance needed permanent market trust: as soon as banks or investors were unsure about refinancing, the City's ability to act fell apart. A "rollover problem" happened because the City could not turn short-term notes that were about to expire into longer-term securities on good terms. Even after some conversions, the City had to roll over billions of dollars in notes in late 1975 and the first half of 1976.[63] This is the vulnerability that historian Phillips-Fein highlights in her interpretation of the crisis: not just that expenditures were high, but that New York's budgeting had become inextricably linked to a short-term borrowing regime that was only sustainable as long as lenders cooperated, highlighting the City's overreliance on short-term tools.[64] Since the City's capacity to make payments is based on its ability to borrow, a credit squeeze can quickly escalate into a governability crisis. The Security and Exchange Commission's (SEC) subsequent report during the time treated New York's fiscal collapse as a problem of municipal underwriting, disclosure, and market dynamics, rather than the overspending spending parable that the press expressed.[65]

In late 1974, Mayor Abraham Beame (faced with a "$140 million budget gap") announced layoffs in November and again in December; "thousands of provisional workers lost their jobs."[66] "Provisional" workers are City employees who were hired on a temporary basis,

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[63] U.S. Congress, Joint Economic Committee, *New York City's Financial Crisis: An Evaluation of Its Economic Impact and of Proposed Policy Solutions* (Washington, D.C.: U.S. Government Printing Office, 1975).
[64] Kim Phillips-Fein, *Fear City: New York's Fiscal Crisis and the Rise of Austerity Politics* (New York: Metropolitan Books, 2017), 16.
[65] U.S. Securities and Exchange Commission, *New York City: A Study of Its Financial Crisis* (Washington, D.C.: U.S. Government Printing Office, 1977).
[66] Gregory N. Heires, "Labor Saves New York: DC 37 Plays a Central Role in Helping the City Avert Bankruptcy," *Public Employee Press*, June 2009, 13.

hence, do not have the same job protections or rights as permanent City workers. This distinction is significant because provisional workers were structurally more susceptible to layoffs. This also illustrates how the early phases of the crisis was handled by slashing employment, rather than through structural fiscal changes. The "real crisis erupted" in the spring of 1975, when the budget deficit "ballooned to $1 billion," and "bankers cut off the City's credit and demanded repayment of short-term loans."[67] This encapsulates the move from structural weakness to liquidity crisis. At this time, DC 37 describes the banks' refusal to lend credit and buy MAC bonds as measures that "set up the City to fail," as well as the humiliations that came with the crunch, such as banks restricting where municipal workers could cash paychecks.[68] When credit markets close against a municipality that has organized its operations around rollover borrowing, budget politics transforms into emergency politics. In this state of emergency, the Nixon administration "increased the tendency of the urban insurgents (primarily unions and Civil Rights organizations) to compete with each other," as public spending was cut in response to recession and "diverted, largely to the sunbelt states."[69] This paved the way for future austerity measures to arise, not as an inherent economic imperative but as a political decision influenced by the termination of credit and the government's refusal to finance municipal deficits. It reconfigured the political landscape by pitting labor, Civil Rights organizations, women's movements, and other communities against one another, diminishing their ability to respond collectively. 1975 was a "crisis without a Keynesian response." The City experienced an economic downturn and market failure in municipal finance, but rather than reduce taxes and increase spending, austerity became the guiding principle.[70]

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[67] Ibid, 13.
[68] Williams, Diane S. "Remembering Victor Gotbaum." *Public Employee Press*, May 2015, 14.
[69] Nick Rabkin, "How to Fight the Urban Crisis: Beat the Banks!," *Moving On: Monthly Magazine of the New American Movement* 1, no. 2, (1977), 3.
[70] Michael Beyea Reagan, "A Crisis without Keynes: the 1975 New York City Fiscal Crisis Revisited," Gotham Center for New York City History.

Instead of merely identifying "causes" of the fiscal crisis, focusing on the "structural fragility" of the City paints a much fuller picture. If the fiscal crisis was “caused” by too much spending or union power, the drama turns into a morality play before it even starts (the same more or less trap that subsequent media, businessmen, and politicians use). That being said, when one sees the crisis as a mix of factors, social obligations increasing as a result of deindustrialization and fiscal management becoming increasingly reliant on short-term borrowing, federal assistance lessening among national insecurity, the complexity of the causes become clear. From a structural standpoint, the City's demise does not indicate that public expenditure was inherently unsustainable, but does show that private funding was necessary for welfare to last. That condition is what made the latter changes in governance possible: the shift to technocracy, from negotiation to discipline, and from the City as a democratic society to the City as an entity whose legitimacy depended on paying off creditors. Victor Gotbaun, reflecting on the aftermath, describes how the City's governance shifted into "private hands," naming MAC and the EFCB as boards that "relieved City officials of the responsibility of managing the City's affairs," while austerity measures followed.[71] I will not go into detail on the MAC and the EFCB as institutions here because the following part will look at how politicians and the media narrated (and hence legitimized) those structures. I am naming them now to emphasize the causal link: structural instability created the conditions that allowed extraordinary governance to be marketed as necessary.

1.3: “Liberalism’s Vietnam”: How Media Shaped the Crisis

[71] Nick Rabkin, “How to Fight the Urban Crisis: Beat the Banks!,” *Moving On: Monthly Magazine of the New American Movement* 1, no. 2 (1977), 3.

Even though the fiscal crisis was an issue of cash flow and credit, it quickly exposed social and economic conditions in New York City. Who is to blame? Who can be trusted to lead? These questions were debated through media headlines, political speeches, and the public language of finance. By the late 1970s, many New Yorkers (and Americans) believed more than just that the City had run out of money. The problem was that liberal governance had lost its legitimacy. That loss of credibility was not caused by the press alone. Newspapers and publications contributed to the popularization and dramatization of the crisis, but politicians and corporate elites were actively behind this, developing a language of blame that redefined public-sector labor as a threat to the City's future.[72] In that sense, media coverage should be viewed as part of a larger coalition of players with a vested interest in portraying the economic crisis as an issue of labor excess and urban irresponsibility. This matters because the narrative did more than just convey the issue. It helped to legitimate austerity, and the shrinking of democratic systems.

The first widely read stories of the crisis were journalistic, written with the urgency of a political and economic scandal. I situate journalist Ken Auletta as one of the first to create a moral narrative for the public memory. As a reporter for the *New Yorker*, he wrote pieces that were both rhetorically and politically charged. In *The Streets Were Paved with Gold,* Auletta infamously compared New York's problems to "Liberalism's Vietnam," saying that "more money, more programs, more taxes, more borrowing—didn't work here; just as more troops, more bombs, more interdiction, more pacification programs didn't work" in Vietnam.[73] This indicates

[72] Kim Phillips-Fein, "The Legacy of the 1970s Fiscal Crisis," *The Nation*, April 16, 2013.
[73] Ken Auletta, *The Streets Were Paved with Gold: The Decline of New York* (New York: Random House, 1979). 70-71.

how swiftly the crisis was framed as evidence of liberalism's failure, caused by excess and managerial cowardness.

Paula Chakravartty, a current professor in New York University's Department of Media, Culture, and Communication, situates New York's fiscal-crisis coverage amid a larger change of tabloid politics. She claims that after acquiring the *New York Post*, Rupert Murdoch saw an opportunity to shift the paper toward "a right-wing slant, alongside racy stories and increased sports content," making the tabloid not only more eye-catching but also more ideologically charged.[74] In that context, reporting on the crisis could more easily transform budget issues into moral theater: villains were identified, and public institutions were used to represent a supposedly excessive liberal order. This is consistent with Kim Phillips-Fein's argument that powerful critics described New York as the embodiment of "profligacy" and "arrogant liberals," using language that turned austerity into a test of discipline and virtue rather than a contested political choice.[75] When read together, Chakravartty and Phillips-Fein argue that the media did more than merely broadcast the crisis to the public. They also helped build a political common sense in which disciplining labor may appear necessary, or even ideal.

That Vietnam metaphor changed the issue from the realm of technical fiscal structure, such as short-term notes and rollover risk, to a national narrative of liberal overreach. Auletta's narrative was not the only one, but it is an example of what became somewhat common sense. Unions were too powerful, public expenditure was excessive, politicians were ineffective, and the City's citizens were paying the price for a liberal policy that had lost touch with reality. A

[74] Paula Chakravartty, "Channel Power," in *The International Politics of Communication: Representing Community in a Globalizing World* (Ann Arbor: University of Michigan Press, 2023), 165.
[75] Kim Phillips-Fein, *Fear City: New York's Fiscal Crisis and the Rise of Austerity Politics* (New York: Metropolitan Books, 2017), 215-225.

problem involving a villain encourages retribution. In other words, the media played into the narrative that austerity was the only option.

This narrative, however, did not come solely from newspapers, but was also run in real time by political elites. In May 1975, Treasury Secretary William Simon rejected federal aid as "not appropriate," insisted that "the fundamental solution" to New York's crisis did not lie at the federal level, and publicly outlined the types of actions the City should take in its place, such as ending free CUNY tuition, increasing subway fares, enforcing East River bridge tolls, requiring employee contributions to pension funds, and limiting wage increases.[76] According to administration rules, the state of New York is the result of "over ten years of fiscal irresponsibility" and help to the City is "unfair to taxpayers in the other forty-nine states."[77] Despite being critical to the City's survival, Governor Hugh Carey helped to institutionalize the language of emergency discipline by supporting MAC-style intervention and other forms of external control that took authority away from regular municipal politics.[78]

The press exaggerated the narratives of political officials. The most famous depiction of this narrative was the *Daily News* headline: "FORD TO City: DROP DEAD."[79] It reads like a verdict and establishes a political stance: the federal government would not support the City until it demonstrated discipline. The headline condensed into tabloid form a broader federal position already being articulated by policymakers who saw New York less as a City in need of support than as an example that had to be disciplined. This means that the City's fragility has become a national spectacle. It is crucial to comprehend what the headline did and did not cover. The

[76] William E. Simon, "Simon Rejects City of New York's Request for Financial Aid," May 12, 1975, in *New York City, May–October 1975 (1)*, Gerald R. Ford Presidential Library, 7-8.
[77] Ibid, 7-8.
[78] Seymour P. Lachman and Robert Polner, *The Man Who Saved New York: Hugh Carey and the Great Fiscal Crisis of 1975* (Albany: State University of New York Press, 2010), 130–31.
[79] *New York Daily News*, October 30, 1975, front page, "Ford to City: Drop Dead."

headline occurred in response to President Gerald Ford's speech against a federal bailout, and it quickly became "what the president said," despite being a harsh translation by a newspaper. Ford's speech on October 29, 1975, did not call for abandoning New York, even though the headline made it seem this way. In reality, Ford called for a framework that would keep essential services running while forcing the City to balance its budget and fix its finances with highly controlled federal loans.[80]

Through these media narratives, the most obvious contradiction of the crisis is that labor was stigmatized, but also their pension funds were deemed necessary to save the City. Union leaders recognized and feared the strength of this villain narrative in real time. According to one account of DC 37's role, the crisis was not simply an economic disaster but also an environment of "enormous political and media pressure to make sacrifices," while "leading Wall Street bankers called for thousands of layoffs and deep service cuts."[81] The wording demonstrates that sacrifice became a public expectation shaped by the demand (from businessmen/the market and the press). This era was retroactively labeled as irresponsible during the fiscal crisis by these actors.

Union leaders, such as Shanker and Gotbaum, were hesitant to aggressively strike against cuts, as the post-War political economy conditioned labor leaders to believe that municipal development was normal and that demands could be satisfied. They feared that direct confrontation would confirm their public image as the villains. In a congressional speech, Albert Shanker said the false "prevailing sentiment" claimed that the City's crisis was caused by

[80] Gerald R. Ford, "Remarks and a Question-and-Answer Session at the National Press Club on the Subject of Financial Assistance to New York City," October 29, 1975, in *The American Presidency Project*, ed. Gerhard Peters and John T. Woolley (University of California, Santa Barbara).
[81] Gregory N. Heires, "Labor Saves New York: DC 37 Plays a Central Role in Helping the City Avert Bankruptcy," *Public Employee Press*, June 2009, 13.

"extravagant spending on a bloated public employee payroll and utopian social welfare schemes."[82] Labor leaders felt trapped: criticized in public, pressed by bankers and politicians, and forced to function as financial stabilizers.

The story about labor "overspending" conceals an equally important story about creditors. Banks declared a "capital strike" by refusing to extend credit, and union pension funds were utilized to "shore up the City's finances."[83] Labor is positioned as the actor who "saves New York," but the necessity for rescuing becomes, in public narrative, confirmation of municipal moral failing rather than evidence of creditor power. Financial institutions were portrayed as neutral market forces, whereas wage demands and social spending are seen as excessive.

The largest long-term political impact of the crisis was not just budget cuts and pension depletion, but rather a shift in democratic institutions, which was a strategic goal of banks. The creation of oversight organizations limited collective bargaining and shifted authority away from elected officials. Since the public was made to believe the crisis was the result of decades of union dominance and welfare indulgence, a return to discipline seemed like the moral solution. The coalitions that generated post-War liberalism, including public workers and social-service constituencies, could be portrayed as the threat that New York needed to be saved from. Vietnam was more than just a policy failure, but was also a crisis of authority in American public consciousness, prompting many to distrust liberal elites' competence to govern. To name New York "Liberalism's Vietnam" implied that the City, like the War, exhibited liberalism's flaws, the inability to regulate itself and recognize spending limits.

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[82] Albert Shanker, testimony before the Subcommittee on Economic Stabilization of the House Committee on Banking, Currency and Housing, October 28, 1975, in *Congressional Record*, 94th Cong., 1st session, 1975.
[83] Gregory N. Heires, “Labor Saves New York: DC 37 Plays a Central Role in Helping the City Avert Bankruptcy,” *Public Employee Press*, June 2009, 12.

By the end of the 1970s, the narratives surrounding the fiscal crisis had accomplished three objectives simultaneously. First, it presented a complex breakdown of municipal finance and political economy as a morality tale, blaming unions and welfare recipients. Second, it transformed austerity into civic virtue. Third, it cleared the ground for institutional changes by raising market confidence to the status of political legitimacy. This is important in future chapters because the unions' pension "rescue" did more than just correct the City's balance sheet. It forever built a political framework in which labor's money could be mobilized while their voice was restrained, and altered the dynamic within internal union decision-making.

Chapter Two: Inside Union Hall: Paving the Way for Technocracy

2.1: Media Control and Union Leadership

In the spring of 1975, as the economic crisis worsened, the unions in New York City came under increasing pressure from their own members, Albany, City Hall, and the bond market. The media's portrayal of the crisis worsened the strain. Headlines every day threatened "bankruptcy," "irresponsible spending," and a City taken hostage by "special interests."[84] The landscape within union halls was changed by this media environment. In his October 28, 1975 Congressional testimony, Albert Shanker warned that Congress needed a record based on "fact and not prejudice" because the view that the City had been ruined by social welfare was "overly simplistic and fundamentally untrue."[85]

Rank-and-file members did not just read the headlines, but also felt the effects of the crisis in their daily lives. Firefighters said that emergency response times would be slower.

[84]Steven R. Weisman, "How New York Became a Fiscal Junkie," *New York Times*, August 17, 1975.
[85]Albert Shanker, testimony before the Subcommittee on Economic Stabilization of the House Committee on Banking, Currency and Housing, October 28, 1975, in *Congressional Record*, 94th Cong., 1st session, 1975.

Sanitation workers said that the streets would become dirtier. The *New York Daily News* quoted workers directly, writing about what would happen on the ground if there were not enough people to do their jobs, not drawing attention to the City's structural fragility. An elementary school teacher, for example, even gave a testimony suggesting that, even if the City cannot afford to keep all teachers in their academic roles, the teachers could be moved into other areas of the school to keep it running.[86] Budget cuts were increasingly described as inevitable, and layoffs as tragic but necessary. In other sections of the same paper, such as the short article "Gap in Current Budget Will be 59 Million [by the end of the fiscal year 1975]," the crisis itself took on the tone of a natural disaster, not the fault of the City's borrowing practices. This headline did not name a mayor, nor any municipal finance official as responsible. A more prevalent narrative of inevitability and fiscal restraint increasingly challenged the interpretations of some labor leaders that the crisis was caused by structural revenue imbalances and the City's reliance on short-term borrowing.

The media made worker's worries worse by blurring the lines between different unions and types of workers. For instance, DC 37 represented a wide range of workers, such as hospital staff and sanitation workers. The UFT represented teachers and other school workers who had different pay scales. News stories often talked about "the unions" as if they were one group, which hid the differences between them and the different amounts and types of work they had to do.[87] Disparities in contract timelines, work conditions, and pay scales were hidden by this flattening. Members of lower-paid locals might feel that they are being held responsible for agreements negotiated elsewhere when headlines implied that "union contracts" were the cause of the deficit. It was more difficult to maintain cross-union solidarity when there was widespread

[86] "The Workers Have a Word for It: Disastrous," *New York Daily News*, May 1975.
[87] "Cities: How New York City Lurched to the Brink," *TIME*, June 16, 1975.

blame because workers might start to see other public employees as liabilities to collective bargaining power rather than focusing their resentment on structural fiscal policies or City borrowing practices.

The subsequent stage of the crisis was framed by these tensions. Dall W. Forsythe, a former New York State budget official and professor at NYU's Wagner School of Public Service, writes about the decisions made by institutions that helped New York City's finances get back on track after 1975. His research shows that unions only agreed to put their pension money into City securities after layoffs and wage freezes had already started. This meant that incomes had already decreased before pension concessions were offered. Thus, it did not feel like a shared sacrifice to ask workers to risk their retirement savings to help the City balance its budget. Instead, it felt like an extra burden on top of previous losses, which made people worry that employees were being asked to pay twice for a crisis they had not caused.[88]

Media coverage of unions also became more personal, making leaders seem like public enemies and opposition seem unethical. Edward Handman, a union publicist, said that the press often twisted carefully worded statements meant to show cooperation into threats or stubbornness. In one of his pieces in *The New Yorker*, Handman recounted how journalists built a whole story around "overpaid, underworked" workers while ignoring structural explanations.[89] Union leaders learned that being in the public eye was dangerous, and their words could be twisted. During press conferences, reporters kept pushing Victor Gotbaum to speak about his disagreements with Governor Carey, for instance.[90] Media coverage now highlighted specific

[88] Forsythe, Dall W. *Fixing the Mess: Financial Management after the New York City Fiscal Crisis*. Washington, DC, October 2007. Robert F. Wagner School of Public Service, New York University.
[89]Edward Handman and Ken Auletta, “Department of Amplification,” *The New Yorker*, October 3, 1977.
[90] Ibid.

leaders, their pay, their political clout, and their negotiating strategies.[91] This personalization was important because when they were shown through the faces of their leaders, members would be more susceptible to the feeling of betrayal of their own representation. Thus, union leaders tried to hone trust in them during meetings. Gotbaum stressed that the City was in a cash crisis, not bankruptcy, and that short-term sacrifices were needed to keep it from falling apart right away.[92] The faces behind the media, business elites and politicians, were able to hide behind organizations they owned or funded.

When compared to press coverage before the fiscal crisis, coverage of protests depicted the villain narrative. Andy Logan, a journalist for *The New Yorker*, claimed that the fiscal crisis was like a carefully planned play, with threats and layoffs used to justify austerity.[93] Further, the Patrolmen's Benevolent Association (PBA), which represented the City's police officers, distributed the contentious "Fear City" pamphlets in June 1975. These pamphlets warned residents and tourists of the high crime rate in NYC due to planned layoffs and budget cuts. Headlines that focused on the graphic warnings, "crime wave," "violent City," and "survival guide," effectively transformed the union protest from a meaningful debate about municipal budget priorities into a media spectacle about a dangerous and chaotic NYC.[94] The media could not strip unions of their rights, but it did limit their agency, but could depict union disagreement as unacceptable, fueling a villain narrative.

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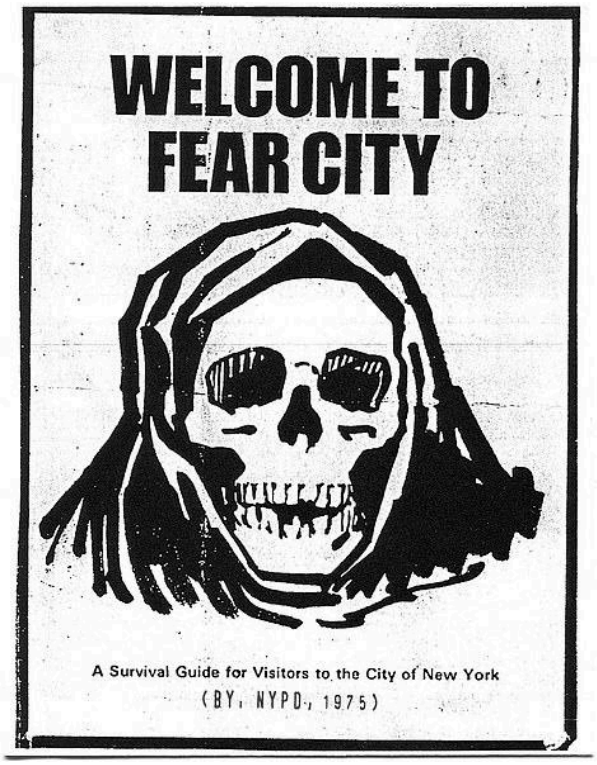
[91] "State Teacher Union Set to Wed Shanker," *New York Daily News*, March 1972.
[92] Andy Logan,"Squaring Off," *The New Yorker*, January 28, 1980.
[93] Andy Logan. "Give Me an M." *The New Yorker*, August 4, 1975.
[94] *Welcome to Fear City: A Survival Guide for Visitors to the City of New York* (New York: Council for Public Safety, 1975).



WELCOME TO FEAR CITY

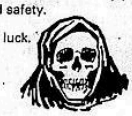
A Survival Guide for Visitors to the City of New York

The incidence of crime and violence in New York City is shockingly high, and is getting worse every day. During the four month period ended Apr. 30, 1975, robberies were up 21%; aggravated assault was up 15%; larceny was up 22%; and burglary was up 19%.

Now, to "solve" his budget problems, Mayor Beame is going to discharge substantial numbers of firefighters and law enforcement officers of all kinds. By the time you read this, the number of public safety personnel available to protect residents and visitors may already have been still further reduced. Under those circumstances, the best advice we can give you is this: Until things change, stay away from New York City if you possibly can.

Nevertheless, some New Yorkers do manage to survive and even to keep their property intact. The following guidelines have been prepared by a council of firefighters and law officers to help you enjoy your visit to the City of New York in comfort and safety.

Good luck.



1. Stay off the streets after 6 P.M. Even in midtown Manhattan, muggings and occasional murders are on the increase during the early evening hours. Do not be misled by the late sunsets during the summer season. If you walk in midtown at about 7:30 P.M., you will observe that the streets are nearly deserted.

2. Do not walk. If you must leave your hotel after 6 P.M., try not to go out alone. Summon a radio taxi by telephone, or ask the hotel doorman to call a taxi while you remain in the hotel lobby. Follow the same procedure when leaving the restaurant, theatre, or other location of your evening activity.

3. Avoid public transportation. Subway crime is so high that the City recently had to close off the rear half of each train in the evening so that the passengers could huddle together and be better protected. It has been proved that increasing the number of Transit police officers will cause a reduction in subway crime, but the announced decreases in Transit patrol will have the opposite effect. Accordingly, you should never ride the subway for any reason whatsoever. In midtown Manhattan, you may, at only slight risk, ride the buses during daylight hours only.

4. Remain in Manhattan. Police and fire protection in other areas of the city is grossly inadequate and will become more inadequate. In the South Bronx, which is known to police officers as "Fort Apache," arson has become an uncontrollable problem. If you remain in midtown areas and restrict your travel to daylight hours, emergency service personnel are best able to provide adequate supervision and protection.

5. Protect your property. Theft has become so great a problem that the City is urging everyone to engrave identifying numbers on all property, and the Police Department has purchased special engraving pens which are made available to the public. If you walk on Madison Avenue or in other major midtown locations during business hours, you will observe that many merchants keep their doors locked and will admit customers only after careful inspection. After hours, they protect their premises with special heavy safety gates. Accordingly, you should observe the following precautions.

6. Safeguard your handbag. If you carry a handbag or similar personal luggage, try to hold it firmly with both hands whenever you are in public. Never let it out of your hands; above all, never let it out of your sight. Places that seem most secure, such as restaurants or cocktail lounges, are often the most dangerous. Even a moment's inattention can result in a serious loss.

7. Conceal property in automobiles. If a package is visible on the seat or floor of your automobile, even though the vehicle is locked, there is an excellent chance that your property will be gone when you return. Accordingly, all property should be locked in the trunk or the glove compartment. Do not park your car and then transfer property into the trunk; you will probably be observed. All property should be secured before you arrive at your parking place. Remember also to keep all doors locked and all windows closed when you are in the vehicle. Remember too that auto thefts have increased this year.

Image 2: *Welcome to Fear City* (New York: Council for Public Safety, 1975), reproduced via Internet Archive

2.2: Internal Communication Within Unions (DC37 and UFT) During the Fiscal Crisis

By the middle of 1975, the internal cohesion of unions such as DC37 and UFT began to falter. Unions were weakened due to the 61,000 layoffs in public-sector jobs, which dramatically reduced the number of those participating in their respective unions.[95] Gotbaum and Shanker were now forced to create an environment in which requesting concessions from their members became a necessity.

Despite the potential of negative press attention in the fall of 1975, Shanker spearheaded a peaceful protest before swiftly introducing structured votes and trustee procedure. UFT members marched across the Brooklyn Bridge that September when teachers returned to overcrowded schools following layoffs. At an emergency Delegate Assembly, leaders and delegates discussed a strike and sent the decision to a wider membership vote.[96] This sequence is significant because it demonstrates how Shanker uses the union's internal "channels" (delegates to members) to rationalize risky actions as collective rather than individual. A retrospective interview with Victor Gotbaum, conducted in the spring of 1997, offers insight into how union leadership understood internal dynamics during the crisis. Gotbaum concluded, "There wasn’t' [solidarity], not really," and the leadership of the police and fire department were frequently "solidly behind us," but "the membership wasn't," and even the teachers were only "with us, in a sense, up to... a certain point."[97] The UFT still had a formal internal procedure thanks to delegate meetings and membership ballots, but by the fall of 1975, those procedures were severely limited

[95] William K. Tabb, “The New York City Fiscal Crisis,” in *Political Struggle and Fiscal Crisis* (New York: Academic Press, 1984), 333.
[96] Susan Amlung, “Back from the Brink: How the UFT Saved New York from Bankruptcy,” *United Federation of Teachers.*
[97] Victor Gotbaum, interview by Jack Bigel and Edward Rogowsky, CUNY Graduate Center oral history on the New York City fiscal crisis.

and caused rank-and-file strain. In an environment characterized by layoffs, bad press, lender fear, and the possibility of default, leaders were asking them to select between progressively less appealing options. Therefore, the problem was not that internal democracy fell apart, but organizing consent was still necessary, it was increasingly done in an emergency rather than through open discussion.

The same pattern is seen in the UFT's decision to use the Teachers' Retirement System pension fund investments in MAC bonds. Albert Shanker first resisted committing Teachers' Retirement System funds because he was concerned about putting teachers' pensions at risk, even as the fiscal-control regime threatened labor power.[98] Shanker joined an urgent meeting in politician and businessman Richard Ravitch's apartment with Governor Hugh Carey and MAC counsel Simon Rifkind. The trustees, who had voted against the investment the night before, unanimously approved Shanker's new decision to purchase MAC bonds. Pressed by the situation, he asked reporters, "What would the story have read like tomorrow if I hadn't?"[99] Shanker reinterpreted members' interests under crisis conditions, seeing default as more dangerous to teachers' jobs, salaries, and retirement security than the bond purchase.

Unlike Shanker, Gotbaum responded to early layoffs among DC 37 members by emphasizing more sustained communication with the rank-and-file. 1975 was marked by "raucous union [DC 37] meetings" and frequent protests as members argued over whether to go on strike or accept a wage deferral "to save jobs."[100] Gotbaum used straightforward moral language at rallies, such as "Jobs and services are... more important than profits," to help members grasp the stakes without the need for financial jargon.[101] Gotbaum was in charge of a

[98] Jonathan Schell, Jane Boutwell, and Fred C. Shapiro, "Notes and Comment," *The New Yorker*, October 27, 1975.
[99] Ibid.
[100] Gregory N. Heires, *"Labor Saves New York," Public Employee Press*, June 2009, DC 37, 12.
[101] Ibid, 12.

larger coalition at the same time, representing more than a quarter of a million City workers from "a hundred different local unions" while serving as chair and spokesperson of the Municipal Labor Committee from late 1974 to 1976.[102] Caught between Carey and DC 37 members, Gotbaum wanted to make a moderate statement about "harmony" when he got to Carey's office, but reporters kept pushing for a fight headline until he finally gave them a line about fighting Carey in Albany, which was the only part that was shown on TV. [103] Later, Gothbaum declared his leadership strategy was not combative with Carey or other politicians, but he said "I firmly believe in not bullshitting the membership." "You simply don't. You inform them of the crisis's boundaries. I never, ever used it to play games. We were in danger."[104] His perspective that there was "no pulling, no banging" and that the union held together "like a piece of iron" implies Gotbaum saw union cohesiveness not as the absence of dispute or struggle, but as a unity built on shared risk and an honest acknowledgment that compromises were hard necessities.[105]

Overall, the pension-fund strategy was framed as defensive survival because, in the event of the City's bankruptcy, a judge could void contracts and even reroute pension assets to creditors. As a result, negotiating the purchase of pension bonds and wage deferral was framed as safeguarding collective bargaining and benefits that had been won over decades.[106] Put simply, Gotbaum persuaded members that the pension decision was the best course of action when the markets and media were already biased against them, similar to Shanker's experience leading UFT through this crisis.[107] Meetings still occurred, leaders still had to justify their decisions, and members still had to agree, but the range of defensible choices had narrowed so sharply that

[102] Edward Handman and Ken Auletta, "Department of Amplification," *The New Yorker*, October 3, 1977.
[103] Ibid.
[104] Victor Gotbaum, interview by Jack Bigel and Edward Rogowsky, CUNY Graduate Center oral history on the New York City fiscal crisis.
[105] Ibid.
[106] Gregory N. Heires, *"Labor Saves New York," Public Employee Press*, June 2009, DC 37, 12.
[107] Edward Handman and Ken Auletta, "Department of Amplification," *The New Yorker*, October 3, 1977.

"consent" increasingly meant acceptance of the least catastrophic option rather than endorsement of a genuinely desired strategy. What unions were internalizing was not simply austerity as policy, but austerity as the condition under which decisions had to be made. By 1975, investors were already ready to see New York City as too big and politically unstable. If there was any sign of union resistance, such as a threat to strike or a refusal to buy municipal debt, it could be seen as proof that the City lacked the discipline to pay its bills. Markets do not work in a vacuum, but rather respond to signals. During the crisis, unions and their leadership became one of those signals. Even normal bargaining strategies could be seen as risky bets on the City's future. The way the media covered the events changed how investors saw it, and the anxiety in the market confirmed the press's stories of instability.

2.3: The Perfect Storm of Market Timing and Media Narratives Before Technocratic Rule

By the middle of 1975, New York City's public-sector unions had not been silenced, but it is safe to say the shape and breadth of their political involvement have shifted. As internal coherence eroded and public scrutiny increased, unions found themselves operating under a narrow definition of socially acceptable activity. This transformation did not happen because formal technocratic rule had already taken hold, rather, it also arose in response to media pressures that altered the vocabulary and allowable limitations of union action.[108]

The central question was no longer whether an action could mobilize members or force concessions from elected officials, but whether it would cause lender panic or jeopardize the City's ability to meet immediate obligations such as paying workers.[109] The political connotation of labor militancy evolved during this period, as behaviors that formerly denoted strength

[108] Forsythe, Dall W. *Fixing the Mess: Financial Management after the New York City Fiscal Crisis*. Washington, DC, October 2007. Robert F. Wagner School of Public Service, New York University.
[109] Ibid.

became associated with fiscal irresponsibility and would in turn, hurt the union members. Union officials anticipated these interpretations and began to govern their own actions accordingly.[110] Gotbaum recalled that some commentators wanted labor to "show more militancy," but he dismissed that as fantasy: "We could empty out the City," he said, "there's only one problem. You don't punish Washington, you don't punish Albany."[111]

Beyond the media and those who controlled it, financial markets also played a critical part in this shift, operating as political forces rather than neutral background conditions.[112] Markets, unlike City Hall and union leadership, did not negotiate or compromise. They imposed pressure in real-time. The fiscal crisis unfolded as a series of periodic deadlines, moments when the City needed to renew short-term loans, make payroll, and persuade investors to continue lending. These deadlines instilled a perpetual sense of urgency, limiting time for political debate and hastening decision-making.[113] Market-imposed temporality, a governing condition in which decisions had to be made quickly in order to avoid immediate disaster, left little room for debate.[114] This temporal strain was heightened by New York City's reliance on short-term borrowing. Every time a loan came due, the City faced the possibility that lenders would refuse to extend it.[115] Payroll deadlines exacerbated this susceptibility. If borrowing fails, the City may be unable to pay its employees, transforming a financial problem into an instant social and political catastrophe. Due to a combination of these circumstances, decision-making became

[110] Edward Handman and Ken Auletta, "Department of Amplification," *The New Yorker*, October 3, 1977.
[111] Victor Gotbaum, interview by Jack Bigel and Edward Rogowsky, CUNY Graduate Center oral history on the New York City fiscal crisis.
[112] Kim Phillips-Fein, *Fear City: New York's Fiscal Crisis and the Rise of Austerity Politics* (2017), 174.
[113] William K. Tabb, "The New York City Fiscal Crisis," in *Political Struggle and Fiscal Crisis* (New York: Academic Press, 1982), 324–327.
[114] Kim Phillips-Fein, *Fear City: New York's Fiscal Crisis and the Rise of Austerity Politics* (New York: Metropolitan Books, 2017), 174.
[115] Forsythe, Dall W. *Fixing the Mess: Financial Management after the New York City Fiscal Crisis*. Washington, DC, October 2007. Robert F. Wagner School of Public Service, New York University.

compressed. Choices that would normally take months were taken in days or even hours, frequently by a small group of leaders, trustees, and advisors.[116]

By October 1975, that tight time frame had solidified into an acute financial emergency, as NYC was on the brink of default. The City was not only burdened with long-term debt in the abstract, but it faced the real prospect of default if it did not preserve faith in the MAC rescue plan and garner enough backing for its short-term financial obligations. What made the time politically crucial was that union pension funds entered the crisis at precisely this juncture, not as passive sources of capital, but as part of the emergency attempt to keep the City running. Before delving into what the pension-fund choice meant politically, it is necessary to consider what it did chronologically. It helped stabilize the City at a time when default appeared imminent.

When unions agreed to use pension funds to buy City bonds, they were not only making a financial decision, but they were also introducing a new style of political activity.[117] Before the crisis, public pension funds were thought of as trusts that "safeguard the deferred wages of workers for retirement."[118] Labor's involvement in pension investing started out of fear that money was being put into companies that were "among the most anti-union" and "hinder rather than help workers."[119]Appointed representatives were solely responsible for representing the interests of plan beneficiaries, which supports the idea that pension assets were meant to protect retirement security, not to stabilize public finance. The 1975 decision to use pension funds to buy City bonds marked a major shift from their previous, more private and beneficiary-focused purpose. Pension decisions were made through board votes and technocratic assistance, making them compatible with increasing fiscal responsibility requirements. This change had far-reaching

[116] Jonathan Schell, Jane Boutwell, and Fred C. Shapiro, “Notes and Comment,” *The New Yorker*, October 27, 1975.
[117] Ibid.
[118] Nicole A. Salazar, *The Micro-Implications of a Disintegrating Social Contract: Public Pension Funds and Community Investing in New York City* (PhD diss., Massachusetts Institute of Technology, 2013).
[119] Ibid, 36.

implications. Pension funds pushed unions to frame political decisions in terms of financial stability and market confidence, rather than democratic pressure or moral demands. Leaders increasingly defended their decisions as inescapable responses to external restrictions, rather than expressions of common will.[120] Consent was obtained by urgency rather than persuasion, through fear of imminent harm rather than dedication to long-term objectives. Further, the pension decision also changed unions' institutional identities. Unions were positioned as both guardians of enormous pools of wealth and representatives of workers. Pension trustees, who are legally obligated to protect assets, became key political actors, functioning within frameworks that limited the scope of acceptable action.[121] In reality, unions began to work in ways that were similar to the technocratic logic that would later define formal monitoring organizations.

At this point, one could make a counter-argument. Union leaders may have acted sensibly and responsibly in the face of unprecedented circumstances. Faced with the prospect of default and widespread layoffs, cooperation to use pension funds may be interpreted as pragmatic adaptations rather than political retreat. The shift to technical decision-making may thus be viewed as a technique for keeping influence in a progressively shrinking range of possibilities. This interpretation is not wrong, but it is incomplete. What counts historically is that these decisions were normalized. Even as pragmatic adaptations, they contributed to the idea that crises should be resolved by finance professionals and politicians under time constraints, rather than through open conversation with rank-and-file union members. They changed governance standards in ways that persisted beyond the immediate emergency.[122]

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[120] Edward Handman and Ken Auletta, "Department of Amplification," *The New Yorker*, October 3, 1977.
[121] U.S. Securities and Exchange Commission, *New York City: A Study of Its Financial Crisis* (Washington, D.C.: U.S. Government Printing Office, 1977).
[122] William K. Tabb, "The New York City Fiscal Crisis," in *Political Struggle and Fiscal Crisis* (1984), 341.

When technocratic organizations like the MAC and EFCB were established, they did not impose a completely new order on an otherwise resistant labor movement.[123] Instead, they institutionalized procedures that had already emerged. The emphasis on technocratic oversight and budgetary discipline echoed the strategy used by unions to weather the recession. In this way, the pension-fund decision foreshadowed the technocratic future of New York City government. It highlighted how financial instruments might be used to exert political authority rather than elections or mass mobilization, and how collective power could be redirected in ways that were compatible with market discipline. By the time technocratic institutions took official control, the limitations of legitimate political action had already been confined.

Chapter Two demonstrated that a technocratic government did not emerge suddenly and fully formed from outside the labor movement. Before permanent oversight was established, union officials had already begun to operate under a crisis framework characterized by deadline pressure and the management of the least catastrophic choice. Chapter Three shifts focus from makeshift emergency politics to the institutional institutions that kept it stable. If Chapter Two examines how union governance reacted to fiscal constraints, Chapter Three investigates how oversight bodies and new budgeting regulations transformed temporary crisis tactics into a long-term system of municipal discipline.

Chapter Three: Austerity and Union Policy After 1975

3.1: Austerity Policies: A Long-Lasting Emergency

By late fall 1975, the immediate crisis of meeting payroll and rolling over short-term debt faded away, but the way the City ran its budget now was very different from the way it had been

[123] Ibid, 328.

run in the past, when post-War liberalism shaped labor relations.[124] In the months after the crisis, federal and state officials made it clear that the goal was no longer recovery but discipline.[125] Austerity was not an abstract idea that came from above, but rather, a set of specific rules that changed how decisions could be made and when they could be made.[126] It was integral that New York would never again govern in ways that hurt creditor confidence or access to capital markets.[127]

The most important part of the austerity regime was the need for the City's operational budgets to be balanced. The EFCB believed NYC could no longer rely on ordinary deficit financing to pay for its running costs.[128] After WWII, City leaders used short-term loans and optimistic revenue projections to balance different social claims without having to cut back right away. Tax revenue growth and access to credit markets made it possible to put off fiscal imbalances until future budgets.[129] The EFCB had the power to deny approval of City budgets that did not satisfy its requirements.[130] Since labor was one of the biggest parts of the operational budget, the ban on deficit financing made it impossible to negotiate wage hikes, staffing levels, and benefit expansions without also considering overall fiscal goals.[131]Austerity started with orders that changed the way political choice and economic constraint worked together.[132]

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[124] Kim Phillips-Fein, *Fear City: New York's Fiscal Crisis and the Rise of Austerity Politics* (New York: Metropolitan Books, 2017), 174.
[125] Greta R. Krippner, *Capitalizing on Crisis: The Political Origins of the Rise of Finance* (Cambridge, MA: Harvard University Press, 2011).
[126]Benjamin Holtzman, *The Long Crisis: New York City and the Path to Neoliberalism* (New York: Oxford University Press, 2021), 203–204.
[127] Michael Reagan, "Capital City: New York in Fiscal Crisis, 1966–1978" (PhD diss., University of Washington, 2014).
[128]U.S. General Accounting Office, *Review of New York City's Progress Under Its 3-Year Financial Plan* (Washington, DC: U.S. General Accounting Office, 1976), 2–3, 7.
[129] U.S. Government Accountability Office, *New York City Fiscal Crisis: Report to the Congress* (Washington, DC: U.S. Government Accountability Office, 1977), 156-157.
[130] *Financial Control Board, New York State*, New York State Archives.
[131]William K. Tabb, "The New York City Fiscal Crisis," in *Political Struggle and Fiscal Crisis* (1984), 325–28.
[132]Benjamin Holtzman, *The Long Crisis: New York City and the Path to Neoliberalism* (New York: Oxford University Press, 2021), 130–31.

Another significant reform was closely linked to the balanced-budget mandate: reorganizing the City's accounting systems, particularly the separation of operating and capital budgets.[133] Oversight officials identified the City's pre-crisis budgeting system as a major source of fiscal instability, claiming that overlapping short-term operating expenses and long-term capital financing had allowed recurring costs (particularly wages and services) to be hidden through borrowing.[134] Under a post-1975 paradigm, day-to-day expenses had to be covered first, and borrowing was increasingly limited to long-term capital projects. Previously, capital borrowing served as a release valve, allowing elected leaders to postpone politically contentious decisions by smoothing out operational gaps over time.[135] Following the crisis, this valve became effectively closed. The separation of accounts made operating deficits obvious and administratively unacceptable, forcing politicians to confront labor and service costs head-on. For unions, this meant that demands for pay or working conditions were no longer mediated through flexible accounting techniques, but rather were subject to rapid fiscal inspection.[136]

[133] U.S. Government Accountability Office, *The Long-Term Fiscal Outlook for New York City*, PAD-77-1 (Washington, D.C.: U.S. GAO, April 4, 1977), 6.
[134] Benjamin Holtzman, *The Long Crisis: New York City and the Path to Neoliberalism* (New York: Oxford University Press, 2021), 130–31.
[135] Ibid, 130–31.
[136]David Harvey, *A Brief History of Neoliberalism* (Oxford: Oxford University Press, 2005), 46.

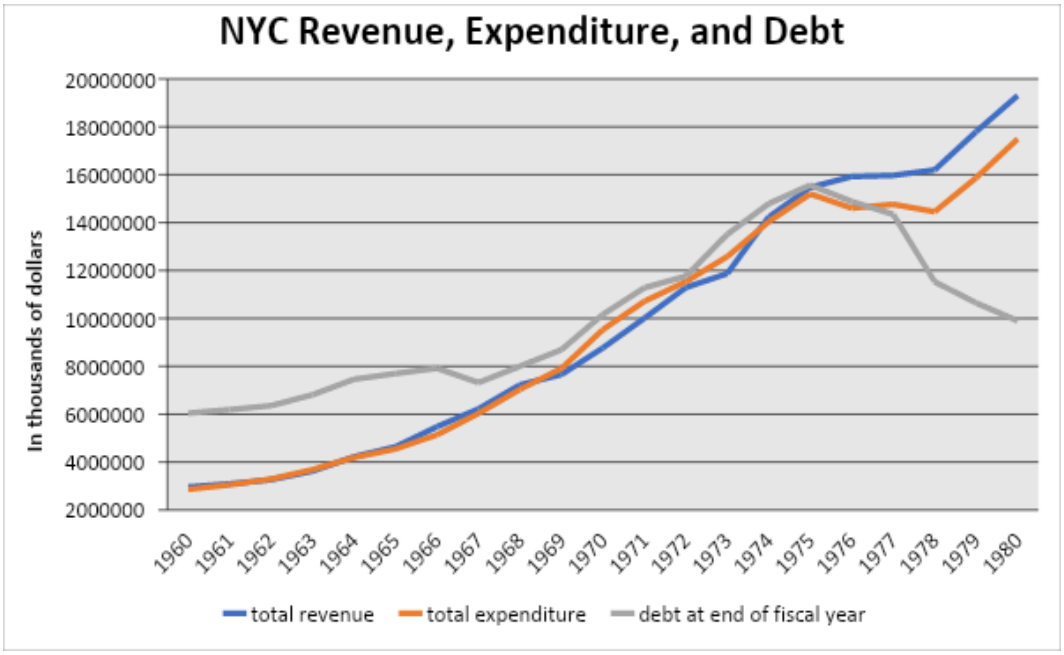

Image 3: Michael Beyea Reagan, *"A Crisis without Keynes: the 1975 New York City Fiscal Crisis Revisited,"* The Gotham Center for New York City History, August 12, 2021, Table 1, "NYC Revenue, Expenditure, and Debt," sourced from U.S. Department of Commerce, Bureau of the Census, City Government Finances.

The U.S. Department of Commerce's municipal finance data show that NYC's total debt compared to its revenue in the mid-1970s was not higher than in some of the best years of the 1960s. What had transformed was the structure: by the early 1970s, a much larger part of the City's debts were short-term notes that needed to be refinanced all the time. Therefore, multi-year financial planning was meant to do more than just cut costs, but also stop the debt structure from coming back, which made current governance always depend on future market confidence.[137] After 1975, on the basis that they endangered the fiscal balance two or three years from now, even short-term affordable plans could be turned down. Austerity logic shifted from being

[137]Reagan, Michael Beyea. "A Crisis without Keynes: The 1975 New York City Fiscal Crisis Revisited." *The Gotham Center for New York City History*. August 12, 2021.

reactive to predictive, so limiting what unions and local authorities could reasonably demand or accept. Crucially, this process dispersed accountability for austerity over time, making it more challenging to identify a single choice as the cause of layoffs. When multi-year planning was implemented, labor's bargaining power was displaced from present wants or conditions to speculative futures that were determined by oversight organizations.

Further, City officials and oversight bodies took steps to limit pay growth by deferring collectively agreed increases and implementing explicit freezes.[138] Planning documents from late 1975 and early 1976 made this argument obvious, saying that keeping pay levels the same was required to keep the City's budget balanced according to new accounting requirements.[139] Cost-of-living adjustments and contracts were all put on hold frequently because even slight increases would result in unacceptable big deficits in out-of-year projections. Rather than being determined by mutual agreement between labor and oversight committees, the acceptable range of outcomes had already been established by external fiscal targets by the time unions entered negotiations.[140] As a result, wage setting became a fiscal compliance issue rather than a topic for political negotiation. This change marked a significant departure for public-sector unions from previous bargaining strategies, in which salary increases were frequently made gradually through voting and negotiation.

As wage restraint became entrenched, City officials and state oversight bodies turned to work-rule modifications and productivity offsets to contain labor costs.[141] Mayor Abraham Beame and the EFCB pressed unions not only to accept wage freezes but to produce measurable

[138] New York City Independent Budget Office, *Dawn of a New Era: New York City Fiscal Policy After(?) the Financial Emergency Act*, Background Paper (New York: New York City Independent Budget Office, November 2007).
[139] U.S. Comptroller General, *The Long-Term Fiscal Outlook for New York City*, PAD-77-1 (Washington, D.C.: U.S. Government Accountability Office, April 4, 1977), 138.
[140] Ibid, 137.
[141] Ibid, 138-140.

"productivity improvements" as a condition of fiscal recovery.[142] Post-crisis negotiation placed more emphasis on obtaining more output from a smaller and more limited workforce than it did on defining austerity as only freezing wages. In the late 1970s, negotiations over contracts generally linked any potential compensation changes to measurable improvements in efficiency, including heavier workloads or the relaxation of long-standing labor laws. Productivity was reframed as a technical necessity based on financial necessity.[143] Compared to wage freezes alone, this was a more covert yet invasive sort of restriction for unions, as it ingrained different standards of public-sector employment. [144]

Layoffs were a direct instrument of financial responsibility because salary limitations and productivity goals did not address predicted budget deficits.[145] By the summer of 1975, the scale of layoffs made this evident. Mayor Beame cut off 19,000 employees in June and July alone, including 5,000 police officers, 1,500 firefighters, and 3,000 sanitation workers, with another 21,000 layoffs expected in covered agencies.[146] Within nineteen months, about 65,000 City employees (more than one-fifth of the municipal workforce) had been laid off.[147] Federal officials and monitoring agencies portrayed these cuts as unavoidable. Layoffs were carried out unevenly among agencies and were frequently focused in sectors such as sanitation, hospitals, and administrative services, where staff expenses accounted for a sizable portion of operational

[142] Ibid, 138..
[143] Ibid, 152–157.
[144] Ibid, 152–157.
[145] U.S. Government Accountability Office, *The Long-Term Fiscal Outlook for New York City*, PAD-77-1 (Washington, DC: U.S. GAO, April 4, 1977), 152–157.
[146] History of the New York City Fiscal Crisis," Program Planners Inc., Bigel Collection, Baruch College Archives, William and Anita Newman Library.
[147] Mayor Abraham Beame at the Biennial Leadership Conference for the 61 Local Unions in D.C. 37, June 14, 1977, Bigel Collection, Baruch College Archives, William and Anita Newman Library.

costs. Wage freezes could be temporary, but a lost employment meant the loss of a member for unions, weakening internal solidarity.

Officially presented as short-term steps to stop payroll costs from increasing again, hiring freezes frequently continued long after severe financial strains had subsided. Municipal workforce levels had been steadily declining, according to City employment statistics from the late 1970s and early 1980s. In order to make up for workforce shortages, departments increasingly turned to overtime and heavier workloads, which strengthened the productivity rationale. Hiring freezes hampered membership growth.[148] According to the EFCB, between fiscal years 1975 and 1977, the City reduced its full-time employment by tens of thousands of posts, with the majority of cuts concentrated in health, sanitation, and social service agencies.[149] Hospitals reported overcrowding and longer wait times as staffing levels decreased, while sanitation delays became a symbol of the City's visible strain. The EFCB stressed "productivity improvements" and "management reform" as answers to falling service quality, characterizing reduced employment as corrective discipline rather than structural limitation.[150] Mayor Abraham Beame confirmed this logic in speeches in 1976 and 1977, presenting layoffs and service reductions as necessary "shared sacrifice" to restore the City's financial integrity.[151] Rather than presenting service contraction as a political choice, he framed it as a fiscal inevitability imposed by market realities and creditor demands. Beame's speeches, which emphasized the need to regain investor confidence and stabilize credit ratings, echoed the language of the EFCB and

[148] Spear, Michael. "In the Shadows of the 1970s Fiscal Crisis: New York City's Municipal Unions in the Twenty-First Century", *WorkingUSA* 13, 3 (2010): 351-366.
[149] Freudenberg, Nicholas, Marianne Fahs, Sandro Galea, and Andrew Greenberg. 2006. "The Impact of New York City's 1975 Fiscal Crisis on the Tuberculosis, HIV, and Homicide Syndemic." *American Journal of Public Health* 96, no. 3: 424–34.
[150] U.S. Government Accountability Office, *The Long-Term Fiscal Outlook for New York City*, PAD-77-1 (Washington, DC: U.S. GAO, April 4, 1977), 152–157.
[151] Beame, *1976-77 Economic Report of the Mayor's Advisory Committee on the Economy* (Baruch College CUNY), 1976-77.

normalized the idea that public services must contract in order to maintain financial credibility.[152] As services deteriorated, members took on larger workloads under hiring freezes and salary restraint agreements reported by the New York City Office of Labor Relations.[153] Austerity thus functioned as a vicious cycle: staffing cuts impeded service delivery, degradation eroded public trust in municipal workers, and decreased legitimacy made subsequent layoffs more justified.

A reorganization of financial priorities that gave debt service precedence over nearly all other municipal obligations was the fundamental component of the austerity regime that followed 1975. Mayor Beame and Governor Carey emphasized a liquidity deadline in 1975.[154] The EFCB's yearly reports frequently cautioned that failure to maintain adequate cash reserves would threaten the timely payment of debt service and operating expenses, thereby reactivating the threat of default even during periods of relative calm.[155] Decision-making was hurried by these deadlines, leaving little opportunity for sustained mobilization or for alternative offers during negotiations dominated by the specter of impending payroll shortages or refinancing deadlines. The austerity regime ensured that fiscal restraint operated not just through official regulations and projections but also through frequent spurts of urgency that prevented democratic participation by normalizing deadline-driven agreement. In this sense, scheduling and cash flow management completed the austerity enforcement architecture, tying both City officials and labor to a cycle of limited choice and proactive adjustment.

[152] Beame, *1976-77 Economic Report of the Mayor's Advisory Committee on the Economy* (Baruch College CUNY), 1976-77.
[153] U.S. Government Accountability Office, *The Long-Term Fiscal Outlook for New York City*, PAD-77-1 (Washington, DC: U.S. GAO, April 4, 1977), 65–67, 154–55.
[154] Ibid, 4.
[155] Ibid),74.

Even though the austerity regime that followed 1975 imposed many constraints on the City's rehabilitation, Gotbaum and Shanker were still important players in finding a solution to the crisis. They were active in negotiations about pension investments and fiscal restructuring, in addition to testifying before monitoring bodies. The Municipal Unions and Financial Leaders Group was created after the crisis, which brought together union officials and financial leaders, such as Gotbaum and Rohatyn, in a standing forum to extend their collaboration beyond emergency negotiations.[156] Gotbaum's visibility in this group should not be confused with structural authority. The same issue that kept union officials at the table also limited what they could determine at that table. The main things that went into making decisions (multi-year financial planning, debt-service priorities, balanced-budget requirements, and liquidity stabilization) were built into the oversight structure itself instead of being negotiated through collective bargaining. Michael Spear, a modern-day labor historian who wrote about lessons learned from the fiscal crisis, makes it apparent that union leaders "stayed in the game only by agreeing not to oppose the growing politics of austerity in any major way."[157] To take part, Gothbaum and Shanker had to agree to cut back, putting "over three billion dollars from pension funds in City securities over a three-year period at a time when the City desperately needed that money to stay out of bankruptcy."[158] Even here, influence worked within the limits that were already in place. Pension investments did not allow unions to change balanced-budget rules or take away monitoring power. Union leaders may respond to ideas and set the parameters for compliance, but they cannot change the budgetary limits that made those proposals possible in the first place. At a time of cutbacks, unions were able to "protect themselves, but only by

[156] Andy Logan, "Band of Brothers," *The New Yorker*, April 30, 1979.
[157] Michael Spear, "In the Shadows of the 1970s Fiscal Crisis: New York City's Municipal Unions in the Twenty-First Century," *WorkingUSA* 13, 3 (2010), 351-366.
[158] Ibid, 351-366.

rhetorically opposing the new policies of austerity and retrenchment."[159] Austerity changed involvement from a way to have a real impact to a way to make something seem legitimate. Union leaders showed responsibility and economic restraint by staying at the table and publicly supporting compromise, but this is how labor's involvement helped to stabilize the new budgetary system. Participation became a two-pronged strategy: being involved meant keeping the union's status and defending members wherever possible, while not being involved meant being blamed for the union's failure and being pushed to the side.

3.2: Effects of Austerity on DC 37 and UFT

Conventional means of collective action, such as protest, were not well-suited to austerity policies that were deemed legally or mathematically necessary. This leads to the key issue facing public-sector unions in the legislative climate that developed after 1975: how to continue to be viable players within a governance structure that viewed restraint as the fundamental requirement of legitimacy, rather than how to get concessions from the City. According to internal communications highlighted by DC 37 in the late 1970s, union leaders warned that openly opposing fiscal restraint could lead to public criticism and political isolation, emphasizing that "the survival of this union depends on our ability to demonstrate responsibility under the present fiscal realities."[160] Refusing to engage under these conditions would not restore bargaining leverage but would imperil jobs, pensions, and the overall credibility. A significant decrease in overt labor militancy coincided with the shift in leadership discourse, as mass mobilizations and strikes were less frequent in the years after the crisis.[161] This change was the result of a

[159] Ibid, 351-366.
[160] District Council 37, *Labor Saves New York: A History of DC 37 and Its Role in the Fight to Save New York City* (New York: District Council 37, AFSCME, AFL-CIO, 2005).
[161] "In the Shadows of the 1970s Fiscal Crisis: New York City's Municipal Unions in the Twenty-First Century." *WorkingUSA* 13, no. 3 (2010), 351-370.

recalculation of the political costs of confrontation under austerity, not an just abrupt loss of organizational capabilities due to layoffs, for instance. Negotiation or deferral was used to end episodes that might have otherwise turned into strikes, frequently with clear warnings that any interruption would endanger public support or prompt harsh measures from oversight bodies.[162] Work stoppages, an example of what would cause labor to be deemed militant, could be portrayed as a threat to essential services, placing the burden solely on unions, given the strict debt objectives and balanced-budget rules. In an article in 1981 in *The New Yorker*, "the most frequent use of the word 'strike' has been by the Mayor in warnings that he will not be intimidated by threats of strikes that have not been made," illustrating how even hypothetical labor action was framed as a looming danger to the City's functioning.[163] The same article noted that political elites who praised union leaders for fiscal cooperation simultaneously denounced rank-and-file workers as "bums who really don't want to work," reinforcing the portrayal of labor unrest as irresponsibility rather than negotiation. Unions avoided instant criticism by avoiding aggressive tactics, but they also gave up one of their most powerful sources of leverage. Thus, the fall of militancy in the face of perpetual austerity was not a sign of submission but rather of adaptation to a political climate where confrontation had been reframed as a dangerous liability.

As overt militancy declined among unions, they relied more on procedural approaches like formal consultations, committees, arbitration, and votes to maintain legitimacy and manage internal disagreements. This trend is reflected in the 1979 New York prison guards' strike, when almost all state prison guards participated in a large-scale work stoppage, leading to significant

[162] Michael Spear, "In the Shadows of the 1970s Fiscal Crisis: New York City's Municipal Unions in the Twenty-First Century", *WorkingUSA* 13, 3 (2010), 351-366.
[163] Andy Logan, "Squaring Off." *The New Yorker*, January 28, 1980.

interventions such as the deployment of the New York National Guard.[164] When unions in New York City negotiated wage restraint or changes to work rules during the late 1970s, there was a noticeable focus on adhering to formal bargaining procedures, with careful documentation of meetings, votes, and agreements, even when outcomes were not in the unions' favor.[165] Unions deferred most of the 6% wage increase that workers were supposed to receive in 1975, with the unions estimating the total deferral at $180 million, a decision that followed established union procedures.[166] It communicated to civic authorities and oversight organizations that unions were responsible and orderly on the outside. However, proceduralism also signaled a change in what union democracy meant. Consent to preset selections, as opposed to group discussion of alternatives, became the increasingly common definition of participation. Committees oversaw implementation rather than strategy, and voted approved decisions made elsewhere. In other words, the main method of union action was more procedural.

Rank-and-file uneasiness remained and, in certain situations, grew. Members questioned why leadership focused on accountability without providing a clear recovery plan and why service conditions worsened despite mounting sacrifices, for example. A federal evaluation of the City's long-term prospects highlighted the reasons for potential enduring discontent: it described the 1976–78 timeframe as a "virtual wage freeze" for municipal employees and predicted that, post-1978, workers would seek to "recoup their losses through collective bargaining," indicating sustained pressure and unresolved tensions regarding the total impacts of

[164] Philip Shabecoff, "New York Prison Guards End Their 16-Day Strike; Rejections at Some Plants," *New York Times*, May 5, 1979.
[165] David Lewin and Mary McCormick, "Coalition Bargaining in Municipal Government: The New York City Experience," *Employee Responsibilities and Rights Journal* (EPRN).
[166]District Council 37, *Labor Saves New York: A History of DC 37 and Its Role in the Fight to Save New York City* (New York: District Council 37, AFSCME, AFL-CIO).

austerity measures.[167] Instead of confrontation, dissatisfaction frequently manifested as disengagement. Meeting attendance fell, involvement dwindled to formal votes, and resignation was accompanied by mistrust about leadership choices.[168] *The Militant*, a socialist newspaper that often covered labor politics, recounted that there was "barely a quorum" at the UFT Delegate Assembly meeting on September 9, 1977, with only 254 delegates voting and 50 of them voting against Shanker's motion. There were about 3,400 representatives in the UFT Delegate Assembly, so this means that less than 10% of the full body participated.[169]

When considered collectively, the development of union strategy after 1975 shows a process of adapting to austerity. Surviving the fiscal crisis required a significant shift in the way power was perceived and used. Crucially, this change was not entirely externally imposed. By converting budgetary regulations into internal procedures and standards, union leaders helped sustain the very structure that held them back as they adapted to austerity. As a result, labor continued to play a crucial role in municipal administration, but it did so within a framework that disciplined themselves within set parameters. The next section discusses public-sector pension funds, which completed the shift of labor's role in post-crisis New York by making unions not only subjects of fiscal restraint but also players in the success/continuation of austerity measures.

3.3: The Final Straw of Formalizing Technocratic Control: Pension Funds

The use of public-sector pension funds became the institutional link that most strongly tied unions to the new budget policies after the crisis. After the crisis of 1975, pensions stopped

[167] U.S. Government Accountability Office, *The Long-Term Fiscal Outlook for New York City*, PAD-77-1 (Washington, D.C.: U.S. Government Accountability Office, April 4, 1977), 39.
[168] "In the Shadows of the 1970s Fiscal Crisis: New York City's Municipal Unions in the Twenty-First Century." *Working USA* 13, no. 3 (2010), 351-370.
[169]Judy Kleinberg, "UFT Delegate Assembly … Then Lines Up Behind Beame," *The Militant*, September 9, 1977, 7.

being just a way for workers to save money for retirement, but instead became a stabilizing force for cities. In the spring and summer of 1975, private banks refused to roll over short-term City debt, which meant that New York could not get credit from traditional markets. Before the crisis, pension funds were invested safely, mostly in government bonds and other fixed-income securities instead of local development or rescue financing. This shows a philosophy based on keeping capital safe and getting predictable returns, rather than investing in stocks, for example.[170] Pension funds were some of the first and most important buyers of MAC bonds after banks pulled out.[171] These investments were not only temporary emergency measures.[172] In simple terms, if workers were willing to put their own retirement money into New York's recovery, it was seen as a vote of confidence by the markets.

Austerity curtailed labor from the outside, through budget regulation and oversight boards, but pension governance shows a bigger change, as fiscal discipline is internalized, linking retirement security to the financial health of cities. Fiduciary duty was the legal way that made this internalization last. According to New York law, pension trustees must only operate in the best interests of the beneficiaries, putting financial security ahead of political concerns.[173] Public pension trustees claimed that fiduciary standards "structure and constrain" investment decisions, thereby restricting the utilization of pension assets for explicit political leverage.[174] *The New York Times* reported at the time that pension funds buying MAC bonds was a smart and responsible decision, not an overtly political one, that was in line with trustees' legal duties, not an act of political solidarity.[175]

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[170] Nicole A. Salazar, *The Micro-Implications of a Disintegrating Social Contract: Public Pension Funds and Community Investing in New York City.*
[171]"Pension Funds Agree to Buy MAC Bonds," *New York Times*, October 18, 1975.
[172] David Harvey, *A Brief History of Neoliberalism* (Oxford: Oxford University Press, 2005), 45.
[173] *New York Retirement and Social Security Law* § 13, US Senate.
[174] Dana M. Muir, "The Fiduciary Obligations of Public Pension Trustees," *American University Law Review* 42, no. 4 (1993).
[175] Peter Kihss, "Pension Funds Agree to Buy MAC Bonds," *New York Times*, October 12, 1975.

Fiduciary duty directly pertained to pension trustees, those serving on the boards of public retirement systems, including the New York City Employees' Retirement System, the Teachers' Retirement System, and several municipal funds.[176] A significant number of the trustees were union officials or representatives appointed by the union. While serving as trustees, they were not legally functioning as political advocates.[177] When investments were seen as a legal duty to be careful, holding back money to pressure the City on salaries or personnel may be seen as breaking fiduciary duties. Fiduciary reasoning turned what may have been a political discussion (should unions support austerity?) into a technical one (are these bonds good investments?). Pension trustees were starting to think more like technocrats, assessing City and MAC bonds according to financial risk and anticipated return.[178] If trustees declined to invest in municipal debt to exert pressure on the City for purposes of collective bargaining, such conduct could be contested as prioritizing political strategy over beneficiaries' financial interests. Fiduciary norms not only promoted prudence but also legally restricted the utilization of pension assets as negotiation leverage. Trustees were obligated to substantiate decisions by recorded financial analysis. By the late 1970s, when the EFCB formalized multi-year financial planning and credit oversight, the terminology of risk assessment and long-term solvency increasingly influenced the evaluation of pension funds, transforming them into institutional investors. The fiduciary duty reorganized labor's political responsibilities, requiring union leaders to serve as trustees under a framework of fiscal restraint rather than collective bargaining power, which gradually incorporated unions into the technocratic justification of post-crisis fiscal control.[179]

[176] *Withers v. Teachers' Retirement System,* 447 F. Supp. 1248 (S.D.N.Y. Mar. 9, 1978).
[177] Ibid.
[178] Municipal Assistance Corporation for the City of New York, *Board of Directors Minutes*, October 16, 1975.
[179] Greta R. Krippner, *Capitalizing on Crisis: The Political Origins of the Rise of Finance*.

Shanker, for example, knew how sensitive it was to use pension funds in this manner. The UFT believed that pension participation was a prudent way to secure members' long-term benefits amid a financial crisis.[180] Pension investments were defensive moves to make sure that promised benefits would be paid. Congressional hearings from 1975 repeatedly warned that if a City went bankrupt, it would put retirement systems and the whole financial market at risk.[181] The uneasiness among rank-and-file workers only increased because of this. Workers could understandably question why "their money" could be used to buy bonds when there was not enough money to pay them. Fiduciary framing weakened the group's ability to resist. That being said, it was clear if one was against pension investments, they seemed not to care about retirement security. Fiscal responsibility became a key part of political legitimacy. When labor's fiduciary obligations conformed to the institutional rationale of austerity, constraint became self-perpetuating. Austerity lasted not only because markets wanted it, but also because workers had a financial and legal stake in keeping it going.

Conclusion

The fiscal crisis that New York City experienced in 1975 revealed more than a shortfall in the budget. It revealed a governing system that had grown wide but was structurally fragile due to its dependence on short-term borrowing and its susceptibility to market dynamics. In an attempt to evaluate the complexity of the blame-game between technocrats, labor unions, and City governance, Chapter One traced the development of the post-War municipal order, "the City labor built," and its structural fragility. Chapter Two took place within union halls during the crisis itself. Instead of being framed as a surrender, concessions, such as turning over the pension

[180]United Federation of Teachers, “Back from the Brink,” UFT.
[181]Joint Economic Committee, U.S. Congress, New York City’s Financial Crisis: Report of the Joint Economic Committee, 94th Cong., 1st session, July 15, 1975.

funds of rank-and-file members, were rather framed as a moral responsibility by elite businessmen, media, and politicians. Chapter Three demonstrated how these internal adjustments occurred along with the consolidation of technocratic monitoring. The management of the fiscal crisis and following austerity measures stagnated the ability of labor unions to achieve their goals, as political legitimacy was rethought in relation to fiscal credibility. The crisis did not merely impose discipline on the workforce from the outside, but rather it reshaped governance from the inside out.

New York City is still structured according to ways set during the 1975 crisis. By the 2025–2026 fiscal year, the budget of the City will have surpassed 115.9 billion dollars and will continue to be formally balanced. The budget for the fiscal year 2026 maintained and increased in some areas such as spending on childcare for working families.[182] The Department of Social Services and the Human Resources Administration are responsible for the administration of billions of dollars' worth of benefits, including Medicaid, cash assistance, and services for the homeless.[183] However, the budget structure is a reflection of the legacy that was left behind in 1975. It is common practice to discuss every expansion in terms of out-year gaps. The estimated deficits for years three and four of the financial plan are the first thing that is presented in budget presentations. [184] Even the most progressive policy goals are amortized over the course of several fiscal years. This distinction denotes the establishment of budgetary discipline as an institutional function. The expenditures associated with special education are described as long-term liabilities that need to be reconciled with the estimates of revenue. Not only was it a

[182] New York City Council, "City Council Adopts $115.9 Billion Fiscal Year 2026 City Budget," *New York City Council* (June 30, 2025).
[183] New York City Council. "DSS/HRA Budget Overview for FY 2026." *City Council Committee on Finance*, May 16, 2025.
[184] FPWA. *FY 2026 NYC Budget Analysis.* Fiscal Policy Institute, 2025.

spur-of-the-moment emergency response in 1975, but it was also a departure from the post-War liberal ideology.

Today, DC 37 is continuing to press vigorously for the restoration of staffing levels in both parks and libraries, as well as sanitary facilities. DC 37's leadership has been celebrating funding victories in recent budget cycles, while at the same time, highlighting the importance of securing these victories within the City's budgetary strategy. "We fought for adequate staffing and increased funding for the City institutions that serve our communities," said current Executive Director Henry Garrido, describing the budget discussions as "fights to protect institutions that serve communities."[185] That phrasing demonstrates how even urgent labor demands are now made within a political framework structured by fiscal constraints, rather than outside of it. The internal union governance reforms that began amid the 1975 fiscal crisis did more than just address an urgent emergency. They established fiduciary logic and fiscal discipline as permanent limits on democratic action, restricting the landscape of labor politics and changing the rules under which New York City continues to govern today.

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