FINAL ★★★★

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# FORD TO CITY: DROP DEAD

## *Vows He'll Veto Any Bail-Out*

# Origins of NYC Fiscal Crisis

- Deindustrialization &suburbanization eroded NYC economic base – loss of population, tax base, jobs; housing deteriorated, schools underfunded and overcrowded, city services cut back. Result: SOCIAL UNREST
- Addressed problem through expanded public employment, public provision, federal funding and public debt (Municipal Bonds)
- When Nixon administration confronted fiscal crisis in the early 1970s, declared the urban crisis "over" and dramatically cut back federal funding to cities.

# Crisis as Opportunity: Finance Capital Responds

- As recession reduced city revenues, financial institutions prepared to help bridge the gap in 1975
- Citibank and other banks refused to roll over the debt; sought to push the city into bankruptcy in order to restructure the management of the city budget (austerity!)
- First, used tax revenues to PAY OFF BONDHOLDERS and whatever left went to essential city services. (result: wage freezes, cutbacks in public employment, education, public health, transport services, etc.)
- Imposes user fees (tuition was introduced into the CUNY university system tem for the first time).
- Required municipal unions to invest their pension funds in city bonds.

- City appeals to fed - President Ford's Secretary of the Treasury William Simon said NO, insisting the terms of the bail out be "punitive"
- Consequences: infrastructure deteriorated; unemployment/homelessness rose; wages declined; schools declined and many closed; municipal labor movement loses power
- Finance capital makes city "business friendly":
  - public funds for telecommunications infrastructure
  - gave businesses subsidies and tax incentives
  - economy redirected to finance, legal services, media
  - Lower Manhattan gentrified at the expense of poor black and brown neighborhoods ravaged by crack cocaine and AIDS

# Consequences for NYC

- NYC eventually avoided bankruptcy. However, the fiscal crisis was not caused by overpaid unions and welfare recipients but by the global financial crisis exacerbated by years of suburbanization and capital flight.

- Fed and banks could have bailed out the city without draconian cuts but instead used it as an opportunity to restructure the economy, diminish the social wage, buttress business interests, and redistribute income upward.

# Neoliberal Democrat: Carter Years (1976-1980)

- Both Carter and Ford reduced taxes, cut spending, and backed austerity measures to pull the country out of recession. . .
- Under Carter, Congress cut one billion dollars in federal social welfare programs like Aid to Families with Dependent Children (AFDC) and Food Stamps, under the guise of cutting fraud and abuse.
- Carter reduced taxes on the wealthy: 44 percent of the benefits went to the top 5% of all taxpayers.
- Carter also launched the first significant efforts at deregulation of the airline industry, of transportation, and of parts of the financial sector.

# Paul Volcker Shock Therapy

- Volcker appointed Chairman of Federal Reserve 1979
- Attacked inflation by severely contracting the money supply and raising interest rates from about 10% to 20% by 1981.
- Tighter credit reduced consumer spending; fewer mortgages, car loans, etc.
- Corporations cut back on investment
- Firms in debt went under, leading to massive unemployment
- Manufacturing output fell
- Unemployment rate rose to above 11% for the first time in 40 years

# Tax Revolt! Case of California

- Rise in home prices: 1973 -$1,000 lower than national average; 1979 $42,400 higher; 1988 $143,000 higher
- Jarvis-Gann initiative or Proposition 13. Voted in 1978, won by 2-1 margin, reducing the state's property tax revenue from 12 billion dollars to 5 billion (57% reduction)
- Set maximum real estate tax imposed on any locality to 1.25% of the market value of the property.
- Reduced property tax rate by 80%
- Only group to vote overwhelmingly against it were African Americans (78 to 22)

# The Price of Prop 13

- Loss of revenue led to cuts in basic services—police, fire, hospitals, clinics/healthcare programs; water, street maintenance, sewer; libraries and various social services.
- With the tax revolt and anti-immigrant sentiment, Californians begin voting DOWN bond initiatives to support public schools.
- 1994, California ranked 42$^{nd}$ out of 50 states in spending on education per pupil; 4$^{th}$ graders tied LOUISIANA for last place in standardized test scores.

# “Regulatory Capture”: Politics of Business

- Virginia Public Choice school (1950s-70s) regarded state as a crucial mechanism to promote business interests. George Stigler developed the theory of “regulatory capture.”
- Stigler’s basic thesis was regulation ought to be dominated by the interests *of the regulated.* Political power over state regulatory functions is goal. The state should be mobilized to:
  - Provide direct public subsidy to a particular sector through cash grants or bailouts.
  - Manage or control the entry of new competitors into the market through protective tariffs and/or trade agreements.
  - Intervene when necessary to fix or adjust prices
  - Also meant promoting laws and rules that could lower, say, EPA standards, lower minimum wage laws, reduce union power, permit monopolies.

# Lobbyists and the Politics of Business

- Chamber of Commerce, National Association of Manufacturers, Business Roundtable, etc., and think-tanks (American Enterprise Institute and the Heritage Foundation) push for neoliberal policy prescriptions in Washington, D. C.
- 1971 Federal Election Campaign Act, authorized political action committees (PACs); by 1978, over 800 corporate PACs operating.
- Succeeded in defeating legislation supporting union rights and regulation (environment, consumer protection, occupational safety)

# Lobbyists and the Politics of Business (cont.)

- Banks succeed in repealing limits on credit card interest
- Savings and Loan deregulation allow for more financial instruments and riskier investments:
  - money market accounts,
  - Loan beyond the residential mortgage markets.
  - Purchase “junk” bonds
  - ease restrictions on multiple branches and interstate operations – which ultimately led to a wave of bank mergers.

# Reaganomics

- First act: break air traffic controllers strike (PATCO) 1981; threat to organized labor everywhere.
- "Supply side" economics tax cuts and deregulation would **stimulate business** and reduce the size of government
- Tax cuts subsidized the movement of industry to sunbelt states; corporate taxes reduced from 70 to 28 percent
- Military spending rose (in constant 2000 dollars) from $267.1 billion in 1980 (4.9% of GDP and 22.7% of public expenditure) to $393.1 billion in 1988 (5.8% of GDP and 27.3% of public expenditure)
- During his two terms, military spending increased by 46 percent while housing slashed by 77 percent and education by 70 percent

# Small State? Balanced Budget?
# Reagan's expansion of the warfare state

- Tax cuts combined with increases in military spending led to enormous deficit spending and increased national debt from $997 billion to $2.85 trillion.

- U.S. shifts from the world's largest international creditor to the world's largest debtor nation under Reagan