Lessons To Be Learned: The New York City Municipal Unions, the 1970s Fiscal Crisis, and New York City at a Crossroads after September 11

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Soon after the destruction of the World Trade Center on September 11, New York City pundits, fiscal watchdogs, and politicians began to speak of a fiscal crisis looming over the city. Some compared the situation today to that of the city's last major fiscal crisis in the mid-1970s. In a *New York Times* editorial, Felix Rohatyn, the former US ambassador to France and prominent financier who played an important role during 1970s crisis, went so far to warn that the city possibly faces a worse crisis today than it did over twenty years ago.[1] With such ominous talk came discussion of the possible need for large-scale layoffs, wage freezes, and significant cuts to the city's social programs.

Clearly the events of September 11 have had a serious negative impact on the city's economy. Already suffering from the national recession and a downturn on Wall Street, the city's economy took an even sharper turn for the worse after the attacks on the World Trade Center. Just in the two months after September 11, the city lost 90,000 jobs, bringing the city's total job loss for the year to just over 132,000—the worst since 1991. And in mid-February, Michael Bloomberg, the newly elected Mayor, announced that the city faced a $4.7 billion dollar budget deficit for the fiscal year beginning July 1, 2002 and that he was calling for $1.86 billion in cuts in city spending to help balance the budget (the city is required by law to have a balanced budget each year).

However, while the city does face a serious budget gap and while it is still too early to make any definitive predictions about September 11's long term impact on the city's economy, it is not likely that the city is facing the fiscal or political crisis that it did in the mid-1970s. For despite the national recession and September 11, the city's economy is fundamentally stronger today than it was in the mid-1970s and the city's finances are in much better order. Also, the 2001 recession appears likely to be short and mild compared to the recessions of the early 1970s, and while the 90,000 job losses since September are significant, no economist is expecting job losses of the magnitude of 600,000 (the number that the city lost from 1969 to 1975). Furthermore, the 1970s fiscal crisis was perhaps the key turning point for New York City in the postwar period. While September 11 certainly did have an impact on city politics, it is unlikely that it will be so radical.

Nonetheless, while today's situation is not so dire as it was in the mid-1970s, it is still instructive to examine the 1970s fiscal crisis since it was such a crucial moment in the city's history and had an enormous impact on the city. The rela-

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tive conservatism of the city's politics, the ability of Republicans to win the mayoralty in a city that is overwhelming Democratic, and the rather dismal state of city's liberal politics can all be traced back to the 1970s fiscal crisis. And once again, as in the 1970s, despite such calls for New Yorkers to "share the pain" it is the city's poor and working-class who are expected to pay the price for putting the city back on a good fiscal footing with cuts in social services and strict limits on wage increases for municipal workers. It is also instructive to look back at the municipal unions' actions during the 1970s fiscal crisis. They played a crucial role during the crisis and their actions today will have a serious impact on how the city resolves its fiscal difficulties and moves forward. Moreover, the present day politics of the municipal unions stems from choices that they made during the 1970s crisis.

The 1970s fiscal crisis was one of the key moments in postwar New York City because it marked the almost cataclysmic breakdown of the city's liberal political order that had dominated the city's politics since the late 1930s. Buttressed by strong progressive heritage and spurred on by the Great Depression, a particularly robust form of urban liberalism emerged in New York during the late 1930s. One of its main foundations was a vibrant immigrant working-class culture and labor movement that supported such liberal politicians as US Congressman Vito Marcantonio and Mayor Fiorello La Guardia. The Communist Party and the American Labor Party flourished in the city during the late 1930s and through the 1940s. Even the red scare of the late 1940s and early 1950s did not significantly curtail the dominance of this broad liberal political order, though it did drain it of much of its more radical and grassroots edge. What emerged during the 1950s and 1960s was a liberal pro-growth corporatist regime in which powerful private sector unions, the business community, and leaders of both the Democratic and Republican parties continued to develop a broad array of institutions such as a massive public hospital system, public and union built housing, and an expanded free City University of New York. However, there were serious limitations to this liberal corporatist regime of the 1950s and early 1960s. Two of the most important were that the city's rapidly growing Black and Latino population reaped few benefits from it and that it failed to address the problem of the massive flight of manufacturing jobs from the city.[2]

Of course the city's politics were never static. During the 1960s, the city's liberal political order came under pressure from middle-class reformers, the new left, and Black and Puerto Rican activists who demanded that it be more responsive to people of color, break with the corrupt Democratic Party machine, and democratize city agencies. During Mayor John B. Lindsay's administration (1966–1973), this new liberalism reached the pinnacle of its power and successfully won open admissions at the City University of New York and significant funding increases in a variety of programs for the poor. At the same time, anxious about the loss of manufacturing jobs, inflation, rising crime, and resentful of what they saw as liberal pandering to minorities, many white working-class New Yorkers began to shift to right politically.

It was at this point in the mid-1960s that municipal unions emerged as a sig-

nificant force. The municipal unions combined elements of both the old and new liberalism. On the one hand, with their increasingly large minority membership, their willingness to strike, and their occasionally more progressive politics, the municipal unions were often aligned with the new liberalism. One the other hand, several of the municipal unions had long-standing ties to the Democratic machine and close relationships with the Republican Governor Nelson Rockefeller and were adept at the older power-broker politics of the old liberalism. Even Victor Gotbaum, the leader of DC 37, which was emerging as the city's largest and most powerful municipal union, and who worked closely with civil rights and anti-Vietnam activists, endorsed important Republican state legislators to win better pensions for his members. The municipal unions' success at winning significant wage increases and generous pensions cost the city a great deal of money, and by the end of the 1960s both the city's business elite and good government groups began to warn that the powerful municipal unions' power was endangering the city's fiscal health.

By the early 1970s, the racial tensions of the 1960s, the growing conservatism of much of the city's white working class, and the retreat of the labor movement from a broader social vision had weakened the city's once robust liberal political regime. Moreover, economic growth, the glue that had always held the city's liberal coalition together, had disappeared with the back to back recessions of the early 1970s. By the early 1970s the city faced major budget problems. Under Mayor Lindsay, the city had increasingly relied on more and more borrowing and began to engage in dangerous fiscal practices such as taking money out of the capital budget to pay for daily expenses. By late 1974, the major banks, which had been making a significant profit for years as the underwriters of these borrowings, decided that these city securities were too risky and refused to purchase them. Unable to sell its securities, the city teetered on the edge of bankruptcy. In the end, the city managed to avoid bankruptcy, but only at a high price. First, home rule was radically reduced with the creation of the Emergency Financial Control Board (EFCB), a state agency that had the right to reject the mayor's budget proposals and labor settlements. Second, with EFCB and the federal government looking over his shoulder, Mayor Abraham Beame made draconian cuts in spending. Social programs for the poor were drastically cut, over twenty thousand municipal workers were fired, and tuition was imposed for the first time in over one hundred twenty years at the City University of New York.

While the municipal unions took a beating during the fiscal crisis with massive layoffs and a wage freeze, union leaders used the leverage that they did have to remain a powerful force during the fiscal crisis. What was this leverage? First, the unions controlled the assets of their members' pension funds. Early in the crisis, the unions agreed to invest 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. The unions cleverly arranged the dates of these investments to coincide with new contract negotiations. Second, while early on in the crisis the union leaders had privately ruled out the use of

militant tactics such as strikes, they constantly warned the banks and the EFCB that if they went too far in their demands for layoffs or wage cuts they would not be able to control their rank and file. Third, the unions adeptly used their substantial political clout in Albany and Washington to protect themselves.

In a sense, this strategy worked. For while minority groups and even the City Council were excluded from decisionmaking during the crisis, municipal union leaders such as Victor Gotbaum of District Council 37 (DC 37) and Al Shanker of the United Federation of Teachers (UFT) remained powerful players along with the business community in shaping the resolution of the crisis. By the end of the crisis, the business community and newspapers, which were only a couple years earlier disparaging them as "greedy union bosses," were praising Gotbaum and the other union leaders for their "responsible" and "statesmen-like" behavior. But Gotbaum and the unions remained players only by agreeing not to oppose in any significant way the emerging politics of austerity. However, the unions were rewarded for their good behavior with an agency shop in late 1976 and with a significant rehiring and wage increases after the fiscal crisis ended while Mayor Edward Koch continued to keep spending on social services for the poor relatively low.[3]

The relatively narrow interest group strategy that the unions pursued during the 1970s crisis was again not a particularly significant shift in strategy. Despite their occasional militancy in the 1960s, the municipal unions had usually defined their goals quite narrowly. The rub was that pursuing such a strategy in a period of economic growth like the 1960s had a significantly different impact on city politics than it did in a period of fiscal austerity like the 1970s. During the 1960s, the municipal unions' narrow interest group approach to politics did not seem to matter. After all, with an expanding economy and a pro-urban administration in Washington there seemed to be more than enough money to begin the open admission program at CUNY and expand its hospital system while at the same time give city workers higher wages and better pension plans. But with the advent of the fiscal crisis, there was no longer an expanding pie. In such a period of retrenchment, the unions, due to their control over the pension funds and the fear of major strikes by the business community, were able to protect themselves, but only at the cost of only rhetorically opposing the new policies of austerity and retrenchment.

Moreover, the unions' strategy during the 1970s fiscal crisis had a lasting impact on union culture and New York politics. Gotbaum's and the other union leaders' top down, often undemocratic decisionmaking procedures during the fiscal crisis have continued to mark the unions to this day. The worst example of this was a 1996 scandal in which high-ranking officials of Gotbaum's DC 37, the city's largest municipal union, rigged a contract ratification vote to force through an unpopular five-year contract. During the subsequent criminal investigation, it was also discovered that several DC 37 local presidents had embezzled millions of dollars from the union coffers. In the end, several high ranking union officers received jail time, the union's executive director (who had been handpicked by Gotbaum) was forced to resign, and its national put the local in

receivership for four years. And while some liberals in the municipal unions hoped that with the return of economic growth during the 1980s, the municipal unions would abandon their conservative interest group strategy, their hopes were dashed. For the most part, the municipal unions have continued to use their considerable political power to make deals with City Hall and the state legislature without trying to build a broader urban liberalism. In fact, it would be fair to say that since the 1970s fiscal crisis the municipal unions' narrow interest group strategy has acted as an impediment to the rebuilding of a strong liberal political culture in New York City. For example, most of the major municipal unions choose to endorse Republican Mayor Rudolph Giuliani in his 1997 reelection rather than his opponent, liberal Democrat Ruth Messinger.

Many liberals hoped that, with Mayor Giuliani leaving City Hall in the fall of 2001 and most of the City Council seats open because of a new term limit law, a Democrat would once again win the mayoralty and there would be a new opening for progressive policy.[4] This was not to be. Liberals, leaders of the minority communities, and the unions failed to come together to support a common Democratic mayoral candidate. In fact, during the Democratic mayoral primary race, DC 37 and UFT, the two most powerful municipal unions, endorsed the two most conservative primary candidates. In the end, partially because of September 11 and the failure of the unions, liberals, and key leaders in the minority communities to agree early on a candidate, billionaire Michael Bloomberg, who had only recently switched from the Democratic Party to the Republican Party, beat Democrat Mark Green in the general election to become the new mayor.

Still, while the municipal unions and liberals face uncertain times ahead, there are some things working in their favor. First, unlike the in 1970s when New York City was looked upon as almost a pariah by much of the nation, the city is now viewed much more favorably. And while it still remains uncertain whether the city will receive all the $20 billion promised by the federal government, President Bush certainly has not told the city to "Drop Dead" as President Gerald Ford did initially at the beginning of the 1970s crisis. Second, the public perception of municipal workers today is much more positive than it was in the 1970s. At that point they were considered overpaid and a primary cause of the fiscal crisis. Now, a majority of New Yorkers seem to realize that the teachers and police in particular need significant raises or more will continue to leave for positions in nearby suburbs where they are offered higher salaries. And of course, firefighters and police officers are looked upon as heroes by many New Yorkers because of their sacrifices on September 11.

This general good will for the city and municipal workers will not, in itself, lead to good contracts for city workers or progressive policies for rebuilding the city. Mayor Bloomberg has made it quite clear that there can be no significant wage increases for the police and the teachers who are still working without a contract as of March 2002 or for other city workers whose contracts expire June 30. Still, there is an opportunity for the municipal unions to fight for decent contracts for their members as well as join with other groups to push for pro-

gressive policies that will help working-class and poor New Yorkers—the vast majority of whom did not see their incomes rise in this last decade of strong economic growth.[5]

There are some encouraging signs that the unions are moving in that direction. For example, some private sector and municipal unions are working with progressive members of the City Council and other liberal groups to push Mayor Bloomberg not to take all tax increases off the table as an alternative to the mayor's proposed cuts to social programs. At a rally in front of City Hall, they argued that the mayor should lobby the state legislature to reinstate the commuter tax (which provided the city $500 million annually). Some proposed that the wealthiest New Yorkers, whose incomes dramatically increased during the 1990s, should accept an increase in their city income tax in the spirit of common sacrifice.[6] Also, there are some encouraging signs of change within the municipal labor movement. For example, in 2001 a group of dissidents won control of the powerful Transport Workers Union (TWU) and have involved the membership in the life of the union and are pursuing a more progressive political agenda.

Unfortunately, TWU remains a relatively isolated case. All of the other major municipal unions are still controlled by an old guard who are protected by various less-than-democratic structures and who remain relatively uninterested in involving their rank-and-file in decisions about political endorsements or collective bargaining. Moreover, it is not only the municipal unions that continue to pursue a narrow interest group strategy at the expense of building a broader progressive politics. Unlike in Los Angeles, where the Los Angeles County Federation of Labor has overseen significant grassroots organizing and has worked with the Latino community and churches to become a major force for progressive politics, the New York City Central Labor Council remains relatively conservative.[7] For example, in February 2002, it endorsed a Republican in a State Senate special election instead of endorsing Democrat Liz Krueger, a longtime community activist from Manhattan who had the support of the gay community and most of the city's progressive unions. Perhaps even more discouraging, in February 2002 SEIU/1199 Health and Hospital Workers Union worked out a complex deal with Republican Governor George Pataki that guaranteed its members significant and much needed wage increases, but only at the expense of the healthcare of low-income New Yorkers. It now appears likely that 1199, perhaps the state's most politically powerful union and one with a history of progressive politics, will either support Governor Pataki in his 2002 reelection campaign or remain neutral—either of which is a major setback for the Democratic Party.[8]

However, with over 250,000 members the city's municipal unions are still a remarkably powerful force in city and state politics. The question is whether the unions will do what they did in the 1970s fiscal crisis—pursue a narrow strategy to protect their institutional power and the interests of their members instead of adopting a strategy that both defends their members and working-class New Yorkers in general. Pursuing the old strategy will win some benefits for union

members in the short term as it did during the 1970s fiscal crisis, but only at the price of allowing the city's and state's politics to continue to shift rightward, which will in turn undermine the unions' ability to defend their members in the long term. Governor Pataki will not have to worry that the unions might cause a ruckus while he continues to shortchange the crumbling New York City schools. Mayor Bloomberg will not have to worry about the unions putting up much opposition to his cuts in social spending as long as he offers them a small wage increase. And progressives in this "union city" with over a third of the city's work force in unions will remain on the defensive as they have since the 1970s fiscal crisis instead of actually being in a position to put in place policies that can address the city's many problems such as the crumbling public school system and the high levels of poverty that exist in the midst of this wealthy city.

NOTES

1. Felix Rohatyn, "Fiscal Disaster the City Can't Face Alone," *New York Times,* October 9, 2001, A25.

2. Joshua B. Freeman, *Working-Class New York: Life and Labor Since World War II* (New York: The New Press, 2000)

3. This discussion is based on the author's dissertation, "A Crisis in Urban Liberalism: The New York City Municipal Unions and the 1970s Fiscal Crisis" to be defended in Fall 2002.

4. A good example of this hope for a rebirth of liberal politics in New York City are the essays in John Mollenkopf and Ken Emerson, eds. *Rethinking the Urban Agenda: Reinvigorating the Liberal Tradition in New York and Urban America* (New York: The Century Foundation, 2001). Published only a couple months before September 11, the essays present a set of liberal policy proposals on a host of issues such as healthcare, low income housing, tax policy, land use, and policing.

5. James A. Parrott, "Bolstering and Diversifying New York City's Economy," in Mollenkopf and Emerson, *Rethinking the Urban Agenda,* 41–61.

6. Diane Cardwell, "Mayor Urged Not to Rule Out Tax Increases," *New York Times,* February 28, 2002, B4.

7. On the Los Angeles Federation of Labor, see John Nichols, "Labor's Muscle," *The Nation,* March 27, 2000.

8. Tom Robbins, "Blue Cross Hijacked: How the Governor and the State's Most Powerful Union Shortchanged Health Consumers," *The Village Voice,* February 19, 2002, 23.