"A Nice Whipping Boy": the 1970s New York City Crisis, Neoliberalism & Risk Federalization

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ABSTRACT:

This paper challenges the influential thesis that the 1970s New York City fiscal crisis was the crucible in which the neoliberal project was forged to restore the power of financial elites. Through a triangulated analysis of archival records from the Gerald R. Ford Presidential Foundation's "Oral History Project" and *The New York Times* Article Archive, this study argues that empirical evidence suggests motives alternative to a coherent or premeditated class politics. Instead, this record suggests a far more contingent and complex process: ideological divisions within Ford's administration, significant political conflicts and constraints at federal and local levels, and a growing assessment of national – perhaps even global – financial risk. The resolution of the crisis, therefore, is perhaps better understood as a pragmatic outcome of federalizing risk.

INTRODUCTION:

The year 1975 began with the financial capital of the world facing an abyss, where banks were unwilling to buy the city's debt at any price. What started as a local issue mutated into the threat of "a smallpox epidemic" in the municipal bond market, a crisis which would roll out of New York to devastate municipalities across the country. Quickly, top officials and European experts were gripped by the realization that a default could trigger a global economic downturn and deliver a tremendous shock to confidence in the entire financial system. The administration, initially dismissive, took seriously the national and global implications of a New York City default, eventually bailing the city out under a temporary rearrangement of federal and local power.

This was not a controlled legislative process, but a paralyzed political system reacting to the immediate threat of systemic financial collapse. While politicians used the dying city as a point of debate, the ground-level reality was stark: retirement savings were imperiled, and the interests of pension beneficiaries were placed in jeopardy. Even after a federal intervention seemed in place, a shock court ruling invalidated the city's lifeline, throwing New York back into reaction and threatening to undo the entire rescue plan.

An analysis of President Gerald Ford's administration and the 1970s New York City municipal fiscal crisis offer a compelling alternative to the argument, advanced by class theorists such as David Harvey (1989: 145, 2005: 45), that the crisis was the crucible in which the neoliberal project was forged, restoring the power of financial elites. While the outcome included austerity measures and a new regime of fiscal discipline, archival evidence from Ford administration officials and contemporary reporting from *The New York Times* suggests the political response was not a coherent, premeditated project aimed against one class in favor of another. Perhaps more troubling for such theorists, the political response was not carried out in a way which would favor the finance class over the government of New York.

In analyzing this data, I provide an alternative to the hypothesis that New York City's crisis governance was a neoliberal project or progenitor. However, the primary empirical sources used will not capture data exclusive to other outside sources, with my dataset limited to two specific sources on the topic: the "Gerald R. Ford Oral History Project" conducted by Richard Norton Smith on behalf of the Gerald R. Ford Presidential Foundation, and the archives of *The New York Times* (from August 9 1974 to January 8 1977 – the beginning and end of Ford's presidency). In contrast to the class-instrumentalist hypothesis that crisis governance equated a neoliberal conquest by financial capitalists, I take the position that the nature of the crisis and resolution may have been characterized by the logic of risk-management rather than class-struggle.

Politics within and outside New York City suggest a complex and often improvised reaction, constrained and contorted by deep internal administration debates and significant political constraints across all levels of the federalist divisions of government. As far as any political values being expressed across parties and across levels of government, it appears it may have been their resistance to or support for the federal absorption of local risks. Two particular discourses and orientations appear significant in the debates and resolutions surrounding this event: either characterizing the local crisis as a federal problem, or the resistance to this characterization.

A triangulated analysis of Ford administration oral histories and contemporaneous *The New York Times* reporting supports this view, suggesting that the political response was not a consistent strategy but a far more contingent process. The empirical record shows deep ideological divisions within the White House, exemplified by the “tug of war” between hardliners like Treasury Secretary William Simon and moderates like Vice President Nelson Rockefeller over the tone of Ford’s pivotal National Press Club speech. The political process across the federal and local governments was instead dominated by an omni-directional and reactive assessment of risk. While some Democrats produced narratives to scapegoat both the Republican presidency and “the wolves of Wall Street”, the administration and both parties used New York City itself as a “nice whipping boy”. This dynamic held at both federal and local levels, and may be viewed as a potential risk-mitigation tactic, containing the risk to New York City until the municipal risk was absorbed by the federal government.

PROBLEMATIZING A CRISIS OF STATE-FINANCE:

The Problem of Class-Reductionism and Class-Instrumentalism

If the New York City fiscal crisis of 1975 appears in our rearview mirror as the inevitable birthplace of neoliberalism, it is only because a reductionist view obscures the contingent struggles that actually produced them. The existing orthodoxy, defined by political-economic critiques of William Tabb (1982) and Harvey posits the crisis as a mechanism of "accumulation by dispossession": a unified project by financial and political elites to impose a new economic order, restoring the power of capital by state redistribution and disciplining the working class. In this narrative, the state financial operations function as a double-ledger bookkeeper for capitalism, with spending commitments to social welfare on one hand, and subsidizing private capital on the other hand. Then, state power is used to ensure that the contradictions of the state expenses are resolved in favor of the financial class. This perspective of the city's crisis governance as an instrument for classes persists, with research on the city's management of employees as "neoliberalization", or the role of local associations among the working and middle classes in building neoliberal governance "from the ground-up" (Krinsky 2011; Holtzmann 2021).

However, the reductionists' skeleton-key approach to unlock all arenas of social analysis by reference to class relies on a retrospective coherence that the archival record simply does not support. To accept the neoliberal thesis is to presuppose a unity of purpose among elites that does not appear in the archives, and to ignore the logics expressed within a divided federal government. Examining the "Gerald R. Ford Oral History Project" against *The New York Times* Article Archive, a different possible interpretation emerges: this crisis was without precedent, and the government needed to figure out how to grapple with risks of a municipal debt crisis so widespread that America and Europe could plunge into chaos. The resolution of the city's crisis was not a coherent ideological victory, nor the victory of one class above others, but an improvised outcome when faced with the threat of an international contagion.

The Problem of the State's Autonomy

Martin Shefter's *Political Crisis/Fiscal Crisis* (1992) put forward a structural model which posited the crisis as a recurring outcome of the city's political spending cycles. For Shefter, the relative autonomy of state actors from market dynamics was taken for granted, as the over expenditure of state finances was endogenous to the cost of financing the incentives for a political coalition which could carry elections. Initial scholarly reactions to the crisis also included Shalala and Bellamy's *A State Saves a City* (1977), examining the event's immediate legal-administrative dimensions. While Kim Phillips-Fein's (2017) recent *Fear City* may be positioned as an effort at revisionist history, it would be more accurate to say this work represents a synthesis of these orthodox approaches to this subject, documenting the contingent political and class conflicts, and concluding that this struggle established an era of urban and national austerity politics. However, for my study, the most important development in this literature has been Phillips-Fein's insistence that the city crisis must be interrogated as a result of the federal government's ultimate power, rather than of classes or locally confined politics.

To understand why the Ford administration hesitated, and why they eventually intervened, we can look beyond the instrumentalist view of the state found in Harvey and turn instead to the theoretical insights of Fred Block (1977). Block paved out a structural class theory which posits that the "relative autonomy" of state actors from the market should be thought of as a division of labor. When necessary, the state must rescue the economic machinery upon which the state depends, and even in times of non-emergency the objective of state actors is a "reproduction of the social order" and "maintenance of political and economic order". Perhaps the Ford White House exemplified this fractured field of struggle, drawn into the political and economic situation by the growing appearance of federal risks to be managed, rather than by an intention to represent large financial capitalists or to rearrange local political relations.

Far from being a monolith dedicated to any class interests, the White House was a site of internal debate, and of mediation for the different demands from Congress, state government and city government. This political conflict across the federal division of labor should not be ignored by a view of the state as a mere instrument for capitalists; it was a substantive battle over the definition of the federal government's role in local affairs, reflected in the chaotic drafting of Ford's pivotal "Drop Dead" speech, where competing factions submitted dueling drafts until the final version reflected the position of hardliners in the White House while shocking the moderate faction. If this were truly a revolution in the interest of the capitalist class, one would expect a swift and unified intervention to bail out banks rather than increasing their uncertainty. In contrast, Democrats campaigning on an expansion of New Deal politics sought a federal insurance program for all cities in the countries, which would have guaranteed the payment of banks while backing up the finances of municipal social democrats.

Rather than interpret the administration's threat to veto aid to New York as part of a strategy to empower finance capitalists (who were, in fact, pleading for a direct bailout of city bondholders), it was perhaps instead an assertion of state autonomy against the risks and consequences associated with profligate local governance. Other alternatives were also available to the administration, such as forcing New York City into a default, which would place the city under austerity for decades as it is dictated to pay off its debt to banks (as happened to cities during the Great Depression). Instead, Ford's approach reflected a strategy for federalizing New York's risks, while compelling New York City to address its own accounting before the federal government would risk its own credit or encourage other cities to seek their own bailout.

The Problem of Risk Federalization

The limitations of a class-reductionist model become even more apparent when we shift our analytical lens from the “fiscal crisis of the state” to the specific mechanics of a debt crisis, as defined by James O'Connor (1973). O'Connor’s model argues that the state is structurally trapped between funding accumulation and social legitimization. However, the record indicates that the crisis in New York was not simply a budgeting problem. Instead, it was a crisis of liquidity resembling the model of Eaton and Gersovitz (1981): due to a governments’ lack of “willingness to pay,” lenders measure extension or increase of loans to be too risky and become unwilling as lenders. In their framework, default is not a technical failure but as a decided political strategy—an indicator that the state’s relationship with private lenders has voluntarily broken down. Following the normative models of political crisis, this standoff reflects what Jürgen Habermas (1975) identifies as a “legitimation crisis,” where the rational state, having expanded its intervention according to social expectations, finds itself responsible for managing the very risks that its own modernization has generated.

Therefore, Ford’s oppositional “Drop Dead” posture could be interpreted as functioning to reset the “willingness to pay” parameters. While the observable impact was the internalization of costs by the city, such a strategic game would be played on a fragile board. The crisis was thus a panic-driven crisis, where city finance faced the equivalent of a sudden bank run by lenders, and threatened a collapse in the financing of city operations regardless of fundamental solvency. Placing this event at the origin of neoliberalism fails to account for the fact that the primary victim of this event was not organized labor or capitalist classes, but the rational state itself. The administration's delay was not a calculated attempt to starve the city for the sake of capital, but a miscalculation of how the logic of debt would operate in a federalist division of government. They believed initially, erroneously, the effects would be felt by the city government alone, without risk of contagion.

The definitive challenge of the neoliberal teleology lies in the administration's dramatic pivot driven not by class interests, but by the undeniable reality of risk. As Thomas Beamish observes in *After Tragedy Strikes* (2024), the modern American government "federalizes risk," assigning the federal government the responsibility to manage the massive, complex instabilities that state governments cannot manage alone. The crisis of New York became a crisis for the White House precisely at the moment when the risk could no longer be contained. In May 1975, the administration's posture was defined by Secretary Simon's assessment that the national impact of a New York default would be "negligible". This calculation may have allowed the faction of hardliners to dismiss the city's plight as a risk internalized to the city.

However, as the summer wore on, the reality of the bond markets shattered this assessment. By August, the administration's tone had shifted dramatically: officials now feared that a default would trigger cascading bankruptcies across American cities and European banks. The eventual resolution (a $2.3 billion federal loan package to New York) was not the culmination of a neoliberal project, but a pragmatic act of risk management. Reflecting on the record, a retreat from the "moral" position of the hardliners was necessitated by the material danger of a contagious financial crisis.

If the outcome appears to fit contours of the neoliberalism narrative (with an externally imposed austerity via the Emergency Financial Control Board and the Municipal Assistance Corporation), these instruments were not created because Ford set out to build a lasting economic arrangement, or represent the interests of any class above other classes. Rather, these federal mechanisms were the ad-hoc tools seized upon to stabilize the city's bond market. What has been called the "neoliberal" era appears to begin not from any grand design, but from a reluctant president's containment of a political meltdown in the heart of global finance.

METHODS:

The research approach of triangulation is, in this case, both temporal and spatial-institutional. The recollections in the "Oral History Project" reflect the publicly expressed opinion of people within and around the executive branch of the federal government during the Ford administration, looking back on their political problem and political actions, as well as their social reception at the time and onwards. In contrast, the records of *The New York Times* contain coverage of political affairs as the crisis unfolded, allowing us to see exactly how different levels of federal office participated in this crisis until it was resolved.

The information utilized from the dataset may be viewed by critics as cherry-picked. While this characterization may be true, it would ignore both the ethical importance and utility of searching for cherries in particular. My strategy of searching and selecting particular information from archives follows from Weber's "moral" advice for social scientists. As such, I have sought out what Weber (1946) referred to as "inconvenient facts" as opposed to our "party opinions": facts on record exceeding our political characterizations and compelling us to provide alternative interpretations of actors and events. It is up to the reader to dispute the importance of these findings relative to preexisting political narratives.

The "Gerald R. Ford Oral History Project" contains retrospective interviews (conducted from 2008 to 2013 by Richard Norton Smith) of 160 people who were in and around the Ford administration.[1] I reviewed each oral history, searching for any discussion around New York

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[1] The Foundation describes the breadth and purpose of the Oral History Project as follows:

> From 2008 through 2013, the President Gerald R. Ford Oral History Project sought to preserve the enduring legacy of our Nation's 38th President. Historian Richard Norton Smith conducted over 160 interviews with Ford Family members, friends of President and Mrs. Ford, President Ford's colleagues in the U.S. Congress, former Cabinet and White House Staff members of the Ford Administration, and numerous others. (Gerald R. Ford Presidential Foundation 2017)

City. Given my assumption that the presidential administration might have read this as a national issue rather than a local issue, I also selected for the Ford administration's approach to federal governance; how they perceived the relationship between federal government and the states *in general* (rather than strictly New York). Therefore, interviews which only discussed their approach to California were not included in the final dataset if they were not explicit that it was part of a broader approach that the federal government was taking towards states *in general*.

Within the total 160 interviews, only 22 interviews contained information which survived this screening. When using *The New York Times* Article Archive, I limited the years of authorship to the years of Ford's presidency. Under this restriction (seeking only articles published between August 9, 1974 and January 20, 1977), a search in *The New York Times* Article Archive for "New York City" and the "Ford administration" results returned 10,000 articles. The vast majority of these articles were not relevant to this research. Therefore, I restricted the archive search by adding more key terms to my search request. To refine the search results in an effort to restrict my data to articles to the handling of the fiscal crisis, I added "municipal bonds" to the search query, given that the fiscal crisis became unavoidable once bond buyers had boycotted New York City. The final search running on *The New York Times* archive search engine is: "'New York City' 'Ford' 'municipal bonds'". As a result of adding additional key terms, the archives returned only 55 articles relevant to this combination of terms. After comparing these articles to the information to the "Oral History Project", we find a story of American politics quite different from the David Harvey narrative of the financial class's ascendancy.

REASSESSING THE TIMELINE:

1975 started with New York City's finances already on a shaky foundation. A survey in

January 1975 showed that investors already had mixed feelings about municipal bonds, with some having lost their retirement savings when prices previously plunged (Metz 1975). By March, the collapse of New York's bond-financed Urban Development Corporation – "the first major state agency to fail to pay its debts" – had eroded trust among banks, and suspicion began to fall on both the state's and city's bonds (New York Times 1975d). Adding to the complexity was a long-standing state legislative practice of using bond sale proceeds to reimburse the general fund for capital expenditures, a practice that had not been followed since 1972 (New York Times 1975a).

The situation escalated dramatically by the middle of the year. In May, despite congressional leaders pushing for a four-point aid program for the city, President Ford firmly rejected any direct federal financial help (Lyons 1975). This stance was bolstered by a strong anti-New York sentiment in Congress, partly fueled by the New York delegation's recent vote against an emergency farm bill. Even fellow Democrats, such as Congressman Charles Rose of North Carolina, would criticize this request for urban aid from other states as having "that New York quality of chutzpah".

Back in the city, Mayor Abraham Beame retreated from a proposal for a wage freeze or shorter work week for municipal unions (New York Times 1975c). This decision, seen as a capitulation of tough budgeting decisions to powerful interest groups, further damaged the city's credibility with Washington and private investors. The market for the city's municipal bonds and notes effectively collapsed, with banks unwilling to buy them "at any price". To manage this crisis in state finance, the legislature created the Municipal Assistance Corporation (MAC), an entity designed to borrow money on behalf of the city (Goldstein 1975). The MAC, led by investment banker Felix G. Rohatyn, took over the appeal to Washington, proposing a federal guarantee of its bonds (Dale 1975). However, the Ford Administration remained unmoved.

Federal officials recognized that any rescue operation for New York City was deeply unpopular across the rest of the country, making it difficult to pass the necessary legislation (Dale 1975). To counter this, Mr. Rohatyn suggested the guarantee should be made for all municipal securities in the nation, not only for New York. However, Treasury Secretary Simon stated in May that the national impact of New York City defaulting would be “negligible” (Silk 1975). The Treasury continued to believe a default of New York City would not be a “mortal blow” to the financial markets (Dale 1975).

By the end of August, the administration's perspective had changed dramatically. President Ford's top economic advisers, including Secretary Simon, began to publicly express that a default could, instead, have “serious national implications” (Goldstein 1975). They now feared it could harm municipalities across the country, disrupt financial markets, and slow the current national economic recovery. This concern was amplified when New York State's Budget Director warned that a city default would likely be followed by a state default within 30 days. Despite this shift in concern, administration officials maintained that their hands were tied without new legislation from Congress In addition, the administration remained concerned that any unconditional bailout of one municipality would be followed by many other municipalities, and would increase the risk of municipalities neglecting tough questions of budgeting into the future.

As the crisis deepened, the state took more drastic action. In early September, Governor Hugh Carey's emergency plan passed the legislature. It created the Emergency Financial Control Board (EFCB), a state-run entity that effectively stripped city officials of their fiscal power and was mandated to enforce severe austerity measures (Clines 1975a). The plan also involved a $2.3

billion aid package funded by state borrowing and a mandate for state and city pension funds to invest in MAC bonds. And despite all this, on October 9, President Ford delivered a whirlwind speech at the National Press Club, where he definitively refused to “bail out” New York City, stating he would veto any such legislation (New York Times 1975f). However, Secretary Simon would go on to clarify: any aid, if passed by Congress despite the President's speech, should have financial terms “so punitive that no other city will be tempted to turn down the same road”. This speech led to the infamous *New York Daily News* headline: “Ford to City: Drop Dead” – a phrase the President never actually said, and a framing which he personally disliked, but which would define the administration’s position for months (Greenspan 2008; DeFrank 2011).

Oral histories recall a significant internal debate within the White House over this speech's tone (Greenspan 2008; DeFrank 2011). One camp, including Treasury Secretary Simon and Council of Economic Advisers Chairman Alan Greenspan, advocated for a hard line to force the city to reform its finances (Hills 2009). This view was partly influenced by the growing Republican primary challenge from a more conservative presidential candidate, former governor Ronald Reagan. Another camp, which included Vice President Nelson Rockefeller and Ford’s Special Assistant for Economic Affairs William Seidman, favored a more moderate approach (Kilberg 2010). President Ford ultimately sided with the hardliners, and was remembered as believing that a bailout would set a dangerous precedent for other cities and empower unions to resist necessary fiscal discipline. Years later, many figures, including Governor Carey, would credit Ford's “tough love” approach for forcing the city to make the painful but essential changes needed for its own salvation (Rumsfeld 2009).

By November, however, the political calculus began to change again. Influential conservative Republicans, including House Minority Leader John Rhodes and Federal Reserve

Chairman Arthur Burns, started to signal a willingness to support some form of federal assistance (Tolchin 1975d). Finally, after the New York Legislature passed a plan that included tax increases and a moratorium on repaying certain city notes, President Ford reversed his position (Lydon 1975). He announced his support for a program of short-term federal loans to the city totaling up to $2.3 billion to help it meet its seasonal cash needs over a span of three years.

While the risks were ultimately managed, the archives suggest that President Ford's handling of the crisis was controversial. Democrats argued that Ford's delay had damaged municipal bond markets nationwide, slowed public investment, and that he was simply averting a crisis he had helped create (Lydon 1975). The President's allies – which included Governor Carey, behind closed doors – argued that his hardline stance forced New York to implement genuine, painful reforms that would not have happened otherwise (DeFrank 2011). This event was seen as a "landmark" that changed how politicians and the public thought about government spending.

While most of the material in the archives are focused on the financial events preceding and during 1975, notable political events occurred in 1976 which provide us more context. In what was described as a rare and impressive move, President Ford personally briefed the press on the details of the 1977 federal budget (Greenspan 2008; Gergen 2010). This event was not only considered remarkable because of the skill required to memorize the federal budget, but because it suggested Ford's politics of fiscal restraint was influenced by a detailed knowledge of government finance (Rumsfeld 2009; Hills 2009; Spencer 2008). Those in and around the administration would look back on his approach to national governance as representing a break from the past, remembering the administration as a prelude to a bipartisan motion towards restricting the role of the federal government in politics and economics (Greenspan 2008; Hills 2009).

The fiscal crisis and President Ford's handling of it had become a central theme in the 1976 Presidential campaign (Tolchin 1975c). Senator Henry Jackson, campaigning in New York, explicitly called himself the last self-proclaimed “liberal” in the race, as he presented a “six-point plan to save America's cities” (Kneeland 1976). His plan included the federal government taking over welfare costs and creating a federal insurance program for municipal bonds, similar to the Federal Deposit Insurance Corporation (FDIC) instituted in the wake of the Great Depression. Jackson argued that New York was a “harbinger” of what other cities would face and that its problems were national, not local, in scope (New York Times 1976a). A *New York Times* poll in October 1976 showed Jimmy Carter leading President Ford in New York State (New York Times 1976d).

The austerity measures and the city's damaged credibility in the bond market had tangible consequences for New Yorkers. In January 1976, the Twentieth Century Fund, a nonpartisan research foundation, released a study stating there was “no justification” for public pension funds to be used to buy municipal bonds (New York Times 1976e). It argued the practice, which was a key part of the 1975 rescue plan, placed the pension beneficiaries' interests “in jeopardy”. The fiscal crisis forced a complete stop to the city's public housing efforts (New York Times 1976b). By July 1976, it was clear that all new public housing construction in New York City would be halted for at least several years. There is also evidence that living under the crisis-management had generated a lack of trust in government. One letter to the editor expresses a looming fear that an EFCB wage-freeze would be carried out in such a ham-fisted way as to extend employees at the district attorney’s office, and then spiral into a crisis of rising crime (New York Times 1975b.

Just as the city seemed to be operating under its new financial constraints, a legal decision at the end of the year threatened to undo the entire rescue plan (New York Times 1976c). In a remarkable decision in late November 1976, the New York State Court of Appeals invalidated the debt moratorium that had allowed the city to suspend payments on its short-term notes. The court ruled that the state legislature did not actually have the power to unilaterally suspend the city's “full faith and credit” pledge to its bondholders. This meant the city once again needed to pay the billion dollars that the moratorium was supposed to have postponed. The ruling threw the city back into risk-management. Officials and lawyers for the MAC had to devise a new plan, which included offering the aggrieved noteholders a new series of long-term MAC bonds or a cash offer, to avoid a true default. This wider bailout to antagonistic bondholders also raised new grievances in those more politically passive bondholders who had “voluntarily” exchanged their notes for bonds under the now-invalidated premise of the moratorium.

Interviews of those in and around the Ford administration recollect that the “Drop Dead” headline had successfully assigned Ford the credit for New Yorkers’ discomfort, rather than for rescuing New York City from default (DeFrank 2011; Weill 2011). Given that Nixon had won New York in 1972, it may not be unreasonable that Ford officials interpret the press surrounding New York City as responsible for Ford's loss in the 1976 presidential election (Zarb 2013). Additionally, New York as a swing state held a decisive number of electors to determine the outcome of the election (41 electors, with which Ford would have won the presidency with 281 votes in the Electoral College). It is worth noting, as mentioned below, that Democrats produced narratives during this crisis that may have functioned to shift political blame toward the Republican presidency as well as supposed large, predatory banks.

CONTRARY FINDINGS:

The neoliberal thesis presupposes a unified front among financial and political elites to build a new economic order in New York (Mudge 2018). However, *The New York Times* archive and oral histories of Ford's advisors give reason to consider four themes which conflict with class-instrumentalism. We can organize the discrepancies as follows: (1) the presidential administration was divided on how to handle the crisis; (2) the presidential response to the crisis was at first to downplay or ignore the crisis until it measured that other states would be affected in a contagion; (3) apparent geographical obstacles in a federalist division of politics; and (4) the effort to avoid risk rather than to absorb risk, in what was publicly considered to be an incredibly expensive crisis in municipal credit.

A persistent "tug of war" existed between two camps, with Vice President Rockefeller and Ford's Special Assistant for Economic Affairs Seidman taking the softer line, and the other, comprising Treasury Secretary Simon and Council of Economic Advisers Chairman Greenspan, pushed for a much harder line, demanding the city enact radical reforms on its own (DeFrank 2011; Hills 2009; Kilberg 2010; Marsh 2008; Nessen 2009). This conflict came to a head during the drafting of Ford's pivotal speech to the National Press Club. The dueling factions submitted competing drafts, with Seidman believing the moderates' version had won out, only to be astonished when the final version delivered by Ford had the "fingerprints" of the Simon-Greenspan camp. This last-minute shift reflects a reactive and contested policy process, not the execution of a well-defined neoliberal blueprint. The administration was not a monolith executing a single plan, but a contest of factions.

Regardless of factionalism, President Ford's motivations might also be explained by long-held fiscal politics rather than by any arrival to a new neoliberal ideology aimed at disciplining labor or favoring finance capital. Having served for decades on the House Appropriations Committee, Ford conveyed an unusually deep understanding of the federal budget, according to those who remember him (Engler 2010; Gergen 2010; Greenspan 2008; Marsh 2008; Spencer 2008). His presidency was memorialized by Greenspan (2008) as being committed to fiscal responsibility and believing that the federal government should not enable local profligacy. His frequent use of the veto – over 60 times in his short term – was remembered as his primary tool for holding the line on federal spending against a heavily Democratic Congress (Friedersdorf 2009).

From this perspective, the administration's “tough love” stance may not have been primarily about crushing municipal unions but perhaps to incentivize New York to address its own history of fiscal mismanagement, such as hiding deficits and using capital funds for operating expenses. Officials repeatedly stated that a federal bailout would set a dangerous precedent for other cities and that New York had to demonstrate a willingness to make painful adjustments before any federal aid would be considered (DeFrank 2011; New York Times 1975c; New York Times 1975f). As Greenspan asserted, the administration wanted to ensure the city created a system that “would function in and of itself” rather than just receiving a cash infusion (Greenspan 2008). If such an intention did exist across the administration's different maneuvers as Greenspan recollected, it could imply a desire to minimize risks associated with municipal bailout and its recovery management. Tellingly, Democratic Governor Carey later credited Ford's approach, stating that “no change would have been possible” otherwise (Hills 2009; Rumsfeld 2009; Weill 2011; Zarb 2013).

Regardless of New York City’s eventual austerity, the Ford administration's position on New York evolved significantly, betraying a reactive posture in the management of a crisis rather than the proactive implementation of any grand strategy. Initially, top officials publicly downplayed the national consequences of a potential default. While in May 1975, Treasury Secretary Simon had concluded that the impact on the national economy would be “negligible”, by late summer the administration's tone shifted dramatically, as the crisis worsened and the prospect of a domino effect became more tangible. In August 1975, both Simon and Seidman acknowledged in interviews that a default could “adversely affect municipalities all over the country” and complicate an already fragile national economic recovery (Silk 1975). This change in rhetoric reflects a growing realization of the systemic risk involved, a fear echoed by experts who warned of a “smallpox epidemic” in the municipal bond market (Raskin 1975). The administration's movement from dismissal to alarm suggests they were responding to events as they unfolded, not directing them according to a preconceived plan.

Further, the neoliberal narrative often overlooks the powerful political constraints that shaped the outcome. The Ford administration did not operate in a vacuum. Anti-New York sentiment was rampant in Congress and across the country, making any federal aid package politically toxic (DeFrank 2011; Hills 2009). Representative Rose of North Carolina, a Democrat, noted the “arrogance” of the New York delegation asking for a bailout after voting against an emergency farm bill, a sentiment in rural states that made overriding a presidential veto impossible (Lyons 1975). As Senator Jackson noted, contrasting himself against other Democrats, “all of the politicians were running for cover because this was a convenient target, a nice whipping boy, a scapegoat, and they were all denouncing New York” (New York Times 1976a).

While this characterization appears to be accurate at the federal level, the archives portray this obstacle to be even more real at the local level. Mayor Beame and Governor Carey were often at odds, each seemingly wanting the city or state to assume the political blame for imposing unpopular austerity measures (Clines 1975b, 1975c). Until folding at the last minute, local Republicans and Democrats had joined together to reject national demands of tax increases in New York (Tolchin 1975a, 1975b). The city's powerful municipal unions initially rejected a wage freeze – preferring the alternative of thousands of union members being laid off – which appear to have forced the mayor’s hand, and might mean that local organized labor, too, were shaping the painful terms of the crisis (New York Times 1975c).

Therefore, while the resolution of New York City's fiscal crisis was reacted to with temporary austerity and financial oversight, the archival evidence challenges the interpretation that it was the product of a deliberate neoliberal project for market supremacy orchestrated by the authority of the state. The outcome was less an ideological victory for a new economic theory and more a pragmatic, politically-constrained resolution to a forecasted, widespread urban collapse and an international financial meltdown.

THE POLITICS OF RISK FEDERALIZATION:

President Ford and Treasury Secretary Simon repeatedly stated that the city's problems were self-inflicted and that a federal bailout would run the risk of setting a dangerous precedent (Carroll 1975; New York Times 1975f). Simon not only suggested that any aid should be “so punitive that no other city will be tempted to turn down the same road”, he also speculated that aid to the city would fail to benefit “the needy” rather than benefit “the greedy”. This rhetoric was a powerful political tool. Opponents of federal aid, like Senator Harry F. Byrd, argued that any rescue plan would not benefit the citizens of New York, but that “those who will gain by it are those who hold the bonds and the New York City banks are the major bondholders” (Tolchin 1975b).

One Democratic assemblyman, Harvey Strelzin of Brooklyn, described the situation as being “in the hands of the Philistines and [having] to cater to the banks” (Clines 1975a). Another, Seymour Posner from the Bronx, claimed that “the wolves of Wall Street” were dictating the crisis legislation. Posner, “facing full into the television camera” which was recording the emergency assembly session, shifted blame from the city to the banks which “never blew the whistle either”: “[t]hey not only want their pound of flesh, but they want to decide how it's going to be carved from our own body”.

During the Senate Banking Committee's deliberations on aid to New York City, Senator Adlai E. Stevenson, an Illinois Democrat, successfully persuaded Chairman Proxmire to hold additional hearings. Stevenson argued that all the committee's witnesses thus far had been “interested parties”, and suggested that bankers opposed to loan guarantee legislation had been “intimidated by the big New York banks” (Tolchin 1975a). “It's extremely difficult to find a single banker in the United States who feels free to testify,” he said, asserting, “[t]hey've been intimidated by certain large banks in New York”. Stevenson even singled-out a Chicago banker, Allen P. Stultz, as an example of someone who had been intimidated. However, when contacted, Mr. Stultz denied the accusation: stating he couldn’t speak in support because the situation was “too complicated”, and that “as far as intimidation goes, New York banks have not said word one to us”. This narrative, using financial institutions as convenient scapegoats for municipal risk, however, oversimplified the reality of who the city had outsourced their risk to.

While holding financial capital makes someone a capitalist by definition, not all financial capitalists resemble the large Wall Street bank which has risen above the risk of private destitution. As large banks had pulled back from the increasingly risky municipal market, individual investors made up a dominant share of bond buyers – nearly 75% by 1975 (Cole

1975). These individual investors were less equipped to assess risk than large banks, and therefore were more vulnerable, increasing the urgency for municipal reform. One poignant letter to the editor from November 19, 1975, was from a 63-year-old professor who had 60% of his life's savings in New York City bonds and was facing retirement, pushing back against the rhetoric that lumps him in with what he called “fat cats” (New York Times 1975b).

An article from December 14 1975, profiles a small-town banker in Iowa whose bank held millions in municipal bonds, mostly from local Iowa towns. It notes that such banks were often the primary, if not sole, bidders for the municipal bonds of small localities (King 1975). Unlike corporations, municipalities were exempt from SEC registration and disclosure requirements (Cole 1975). Therefore, any individual buyer or small banker was actually exposed to the financial risks of politicians and city officials. Investors often received little information, and both politicians and officials charged that the city had relied on “massive fraud” and “gimmicks” in its accounting to hide its true financial condition (Clines 1975a).

The administration's position had shifted from originally seeing a potential default as having a “negligible” impact to fearing “serious national implications” – or, in other words, would harm the federal economy (Silk 1975). In November of 1975, key conservative Republicans such as House Minority Leader Rhodes and Federal Reserve Chairman Burns signaled a willingness to support federal action – a significant change in political winds (Tolchin 1975d). This shift was driven by the growing realization of an “ironic aspect” of municipal default: it was “no cheap way to evade responsibility.” Based on the “record of the 4,770 cities [...] that stopped paying on their debt in the Great Depression,” there was “virtually unanimous agreement” that New York would, in the long run, “have to pay all its creditors in full,” likely through a court-managed process (Raskin 1975). Mayors from across the country, including

Chicago, New Orleans, and Denver, expressed that a New York City default would "create serious problems for them" and harm their own ability to sell municipal bonds (Tolchin 1975e). This was not mere speculation; cities like Buffalo had to withdraw bond issues for a lack of buyers. Others saw their interest rates spike. European economic specialists warned that a default could risk a global economic downturn, impact the value of the dollar, and create a "tremendous shock to confidence" in the world's financial capital (Farnsworth 1975). There was "near unanimity" among officials, bankers, and economists that a default would cause widespread economic disruption far worse than any historical municipal failures.

When default seemed imminent in late 1975, the state passed controversial legislation imposing a moratorium on the payment of some short-term city notes, offering holders long-term MAC bonds instead. This was legally framed as a necessary emergency measure, not a default, though many experts disagreed with that semantic distinction (Weisman 1975). If the purpose of this emergency legislation was to place New York City's politics under a neoliberal/finance regime, the outcome was instead risk-management which took the burden of debt off the city and onto MAC (a state agency, financed by the federal government). Numerous alternative solutions were debated, including the aforementioned federal insurance for municipal bonds (similar to the FDIC for bank deposits), direct loan guarantees, and changes to the tax-exempt status of municipal bonds to attract a wider range of investors.[2]

It is also worth reminding the reader that in 1976 a second opportunity had arisen to force New York City into a default in favor of the financial demands of bondholders, and this path was rejected in favor of MAC's emergency improvisations. Several articles and letters to the editor

[2] These alternatives are discussed in several articles. The proposal for federal insurance for municipal bonds is discussed in Tolchin (1975f) and Carroll (1975). Loan guarantees are mentioned in Stetson (1975). A plan to change the tax-exempt status of municipal bonds is discussed in Robards (1975).

suggest President Ford's tough stance was a political strategy for the 1976 election, designed to appeal to conservative voters outside of New York (New York Times 1976c). Letters to the editor portray a divided public, allowing Democratic presidential candidates to seize the crisis as a key campaign issue to criticize Ford's leadership (New York Times 1975e). From the archives, it appears that no New Yorkers would be satisfied by Ford's approach to risk-management, perhaps too pragmatic for those involved. Voters in support of the Democratic narrative accused the Ford administration of waging a political "war" on the city and pointed out that New York was a massive net contributor to the federal treasury. Other citizens within New York, however, were furious with the city's history of mismanagement and wanted to see a default.

CONCLUSION:

The New York Times articles (restricted to my specific search query in the archives) and the Gerald R. Ford Presidential Foundation's "Oral History Project" records decisively counter the narrative that the political handling of the New York City fiscal crisis ground-zero for American neoliberalism. The evidence undermines the notion of any unified elite project, suggesting instead an administration deeply fractured between hardliners demanding punitive austerity and moderates advocating for support. President Ford's ultimate course of action was perhaps personally guided by a politics of fiscal conservatism, publicly expressed over decades in Congress and in justifying his extensive use of the veto to curb federal spending. While this politics might be argued to share preferences or outcomes with neoliberalism, one of the ultimate concerns was whether the costs and risks of New York City could be contained or if the presidency needed to announce parameters for a federalization of municipal risk.

Furthermore, the administration's policy was fundamentally reactive rather than proactive. The administration shifted from dismissing the crisis as a local matter to intervening only when the systemic risk of a national financial contagion became undeniable. This improvised response – although constrained by widespread anti-New York sentiments (from other states and from individuals in the presidential administration) and by local politics – resulted in a pragmatic resolution which appeared focused on averting a wider economic collapse, not on rearranging economic and political relations in New York to benefit one class above another. Rather than rearranging classes, subjects in the archives appear to have been much more concerned with (temporarily) rearranging federal powers in such a way that the state of New York would be funded and supervised by the federal government as the state took over city finances.

This re-examination of the 1975 crisis suggests that the turn towards austerity and fiscal discipline in American urban governance was less an ideological project or a class conquest, rather than a politically negotiated outcome born of necessity and pre-existing political convictions. The discourses of moral failure and risk management, deployed by various actors to assign avoid or compel intervention, proved to be more immediately influential than any nascent neoliberal doctrine. My interpretation of the New York City crisis suggests that historical events in political economy are not always the product of grand, coherent strategies, or a simple story of class struggle – they can emerge from the messy interplay of rationalistic and pluralistic features of the state: entrenched political factions, federalist divisions of power, and the unforeseen demands of risk-management as crises appear and unfold.

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