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The Time the Teacher's Union Saved New York From Bankruptcy

By ERIC JAFFE

Earlier this week, writing in the New York Post, Nicole Gelinas of the Manhattan Institute called Detroit's bankruptcy a "warning shot" reminding New York to get its finances in order. Asked about that comparison by Dana Rubinstein of Capital NY, mayoral candidate Christine Quinn quickly dismissed it: "But we are not — and I don't mean this disrespectfully — Detroit. We once were almost Detroit, in the 1970s. And we've learned from those mistakes."

Gelinas and Quinn and others can debate the extent of that learning in the press. As for the history, it was 1975, to be more precise, when New York nearly had to do what Detroit has done: file for bankruptcy. The era is described with a delightful thoroughness in "The Man Who Saved New York: Hugh Carey and the Great Fiscal Crisis of 1975" (SUNY Press, 2010), by Seymour P. Lachman and Robert Polner.

At the time, write Lachman and Polner, the city owed billions in debt and banks grew wary of shouldering the load. Governor Hugh Carey and state legislatures gave New York a mid-year lift by establishing the Municipal Assistance Corporation, an independent entity tasked with selling state-backed bonds to assist the city, but that alone wasn't enough to dig the city out of its hole.

By fall, New York was still teetering on the brink. An Emergency Financial Control Board was created to help with the budget crisis, requiring (among other things) various city unions buy MAC bonds for their pension funds. The last holdout was the teacher's union led by Albert Shanker, who wasn't sure he wanted to play ball.

In the "predawn hours" of October 17, 1975, according to Lachman and Polner, Governor Carey sent developer Richard Ravitch (whose wife had written a book about the city's school system) to convince Shanker to change his mind. They spoke throughout the night but made little progress. When Ravitch and Shanker parted ways at 4 in the morning, no deal had been reached.

If the city didn't receive the union's contribution by 3 p.m. that day, it would go broke.

The end seemed nigh. City Hall reporters took bets on whether or not the bankruptcy would occur. Mayor Abraham Beame worked the phones calling other union leaders to see if they'd pick up Shanker's slack. Lawyers drew up the bankruptcy documents just in case. A statement that the city had "insufficient cash on hand to meet debt obligations due today" was drafted for the mayor to read if all else failed.

Finally Shanker called Ravitch and agreed to meet again. They convened at Ravitch's place, which apparently had so little food that all the host could offer his guest was some Passover matzah. A little after 1 p.m., after four hours of conversation, Shanker agreed to pony up the pension money. The bank agreed to stay open longer than usual in case the teacher's union representative didn't get there in time.

Lachman and Polner take it from there: "In the end, the unprecedented extension of hours proved unnecessary. As promised, the teachers union showed up before the standard three o’clock bank closing time with a check from its pension fund. New York City had avoided default with only hours to spare, its closest brush with financial collapse in its history, or ever since.”

New York wasn’t quite out of the woods yet. Eventually the city had to ask the federal government for a bigger bailout. President Gerald Ford demurred at first — prompting the Daily News to run its famous “Ford to City: Drop Dead” headline — but ultimately backed a $2.3 billion loan passed by Congress. Ford’s statement about that assistance was delivered on November 26, 1975, with a tone of paternal caution: “I trust we have all learned the hard lesson that no individual, no family, no business, no city, no State, and no nation can go on indefinitely spending more money than it takes in.”

Some lessons, it seems, are harder to learn than we think.