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New York City: Managing without Democracy

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BOOK REVIEWED:
Charles R. Morris, *The Cost of Good Intentions: New York City and the Liberal Experiment, 1960–1975.* New York: W. W. Norton, 1980.

When New York City ran out of money in April 1975, marking the official beginning of its fiscal crisis, an era in American politics ended. No other city so fully reflected the liberal values that had dominated the domestic political agenda of the 1960s. To many observers, the failure of New York to make good on the promise of its social programs signaled the bankruptcy of liberalism itself. The fiscal crisis led to a reassessment of the proper role of government action and the limits to social policy. Today this process stands substantially complete, as it results in a set of lessons that will guide policymakers in government, business, banking, and labor. Thus Felix Rohatyn, the banker who became the architect for much of New York's recovery plan, writes a series of candid essays on the need for austerity and sacrifice. Thus a new administration in Washington warns that the profligacy of the past—carried to extremes by New York City only a little sooner than by the rest of the country—can no longer be tolerated. In other aging cities, officials look at what New York has done since 1975 for answers to their own inflated budgets. As before, New York serves as the model, only now as the chastised repenter rather than the licentious spendthrift.

Into these efforts to interpret the meaning of recent events in New York enters Charles Morris, with the most comprehensive study to date of the causes of the fiscal crisis. Morris, too, wants to draw lessons about the failure of rational government action and *The Cost of Good Intentions*. And because he is a careful analyst, his book presents a formidable challenge to those who would defend liberalism. But Morris ultimately goes further than his own evidence allows: he overlooks or misunderstands factors that were important in urban political life during the '60s, and he misstates the nature of the fiscal crisis. Nevertheless, *The Cost of Good Intentions* provides an historical context that allows us to set the record straight. Much can be learned from New York: lessons about the problems of older cities, about the limits on city governments, and, most importantly, about popular self-government and democratic responsibility. The current dialogue about New York ignores these themes. We must restore them before the wrong lessons become the basis of future urban policy.

Morris sets out to explain how the city found itself with a huge budget deficit in 1975, a condition he identifies as the fiscal crisis. His account revolves around the two administrations of Mayor John Lindsay, in the years 1966–1973. Lindsay presided over a period of "shattering change for the city" when the mayor himself "attempted to be a spokesman—indeed almost a national rallying point—for new approaches to urban government" (pp. 171, 13). Morris served in the second Lindsay administration in a succession of managerial positions. His study represents less an attempt to vindicate Lindsay—for Morris makes many harsh judgments—than an effort to get at the root causes of the fiscal crisis. The events of 1975 and after were so spectacular, Morris fears, that they overshadow the deep-seated origins of the crisis. By retracing the Lindsay years, he hopes to show that elected officials in this period lost control over the city, leading to decisions and policies that later culminated in disaster.

To present the Lindsay record, Morris divides his study into two sections. The first is devoted to a narrative of city politics in the Lindsay era. He places special emphasis on the new elements in New York's political economy, including the expansion of governmental functions at all levels, the challenge posed by the influx of new racial minorities, and the trend toward public-employee unionization. Each element found an expression in the city's budget: during Lindsay's first term operating costs grew more than 15 percent annually. Another factor was added after 1969, when the city's economy went into decline. In this pattern of budget growth and poor economic performance, Morris uncovers the seeds of the 1975 crisis. Faced with higher costs and static revenues, the second Lindsay administration adopted a series of precarious budgets. The city papered over real deficits with increased short-term borrowing, inaccurate revenue and spending estimates, and other budget gimmicks. Personal and partisan conflicts appeared to rule out any basic restructuring of the city's financial practices. Instead, the Lindsay administration chose to enlist the support of state officials, the banks, the unions, and the city council by renouncing spending cutbacks "as a feasible budget balancing alternative" (p. 154). By late 1974, as the Beame administration carried the dubious budget practices to extremes, it had become clear to the financial community that the city's ability to pay back its borrowings could not be guaranteed. The closing of the credit markets was only a matter of time.

The second section of *Good Intentions* analyzes the Lindsay administration's overall performance and its responsibility for the 1975 crisis. Morris argues that Lindsay ought to be judged by comparison with the record of other cities during the same period. To the degree that New York resembled other cities, Lindsay should not be blamed for the crisis, which Morris regards as a unique event. Only by examining the things New York did differently does it become possible to draw up a Lindsay balance sheet. Even then we must distinguish between the actions under the control of city government and those imposed upon the city.

New York shared a long list of problems with other cities. For all the blame heaped on city employees since the crisis, the best evidence suggests that their wages, pensions, and fringe benefits grew at a slightly slower pace than did those of employees in other major cities. Morris notes that in cities generally, public-sector labor costs grew more rapidly than costs in the private sector. Welfare rolls began to expand rapidly in New York in the early '60s, but by 1973 other cities had caught up and New York's case load was about average. On the revenue side, the stagnation in the tax base was precipitated by the economic downturn that set in around 1970. Here New York followed a national trend that earlier had struck cities dominated by a single industry. New York, once thought to lead a charmed existence because of its economic diversity, lost 340,000 jobs between 1969 and 1974.

Where New York differed from other cities was in the scope of its budgetary responsibilities. The city paid for a range of programs and services not normally covered by a municipality. The state government mandated some of these responsibilities upon the city, notably 25 percent of the cost of welfare and Medicaid payments. Because then-Governor Nelson Rockefeller miscalculated (or misrepresented) the true cost of state programs, these contained no proper controls to limit expenditures. Together welfare and Medicaid added nearly a billion dollars to the city's operating budget in the mid-1970s. In a similar vein, the federal government provided categorical grants to establish specific programs that then required gradual state and local takeover. Money from the state and federal governments also meant dependency: intergovernmental aid became an indispensable source of revenue for New York City. But this left the city vulnerable to policy shifts at other levels of government, as happened when both Albany and Washington moved to limit aid early in Lindsay's second term. Finally, the city imposed some unique expenses upon itself in the areas of higher education and health care. Beginning in 1970, for example, the city made available a free college education to every high school graduate, a measure that produced a fivefold cost increase (to $200 million) in four years. For these types of programs Morris holds the Lindsay administration responsible. The capacity of the city to pay for something like open enrollments, he contends, was never even considered (p. 192).

Certain lessons emerge from *The Cost of Good Intentions*. Some are rather modest; no one could argue with the claim that a city needs a functioning accounting system so that it pays its bills and collects its revenues on time. New York slid into a budget crisis partly because city officials did not know how bad finances really were. Morris also defends a more significant conclusion that cities need to be spared from costs imposed by other levels of government. If New York State paid the entire nonfederal share of welfare and Medicaid payments, as most states do, then the city's budget gap would have virtually disappeared. Partisan politics have long hindered reform of these practices. For example, under a proposed new state constitution in 1967, the state would have gradually assumed the city's welfare burden. Voters, however, rejected the constitution because conservatives had included an amendment allowing state aid to parochial schools. The state legislature, dominated by suburban and upstate representatives, has consistently refused to act on its own.

But Morris sees a larger meaning in the record of the Lindsay administration. New York under John Lindsay represented the fullest expression of modern liberalism: a faith that any social problem, any challenge facing government, could be solved by the application of sufficient intelligence and the commitment of adequate financial and technical resources. This sense of rational omnicompetence had become "the quintessential liberal dogma" (p. 37). It was a confidence the Lindsay administration shared with the authors of the New Frontier and the Great Society. The Lindsay record therefore stands as a verdict on an entire mode of thought. In New York City the rationalist approach produced not solutions but polarization, tension, and uncontrolled budget growth. This failure in turn leads to doubts about the capacity of any government to find rational answers to social problems of the least complexity. By making rationalism the focus of his study, then, Morris can treat the 1975 crisis as the decisive test—and defeat—of the modern liberal ideal.

Unfortunately, while Morris attaches an enormous importance to rationalism, he neither explains it very well nor develops its implications. To say that the Lindsay people thought "enthusiasm and intelligence" could solve all problems (p. 31) does not take us very far. From the actual practices of the Lindsay administration, however, the nature of the liberal-rationalist approach can be deduced. The rational method begins by stating a problem—urban decay, bureaucratic inertia, poverty—as an outcome, then seeks to modify this outcome by varying in an ordered manner some set of inputs. Thus, to achieve a new outcome, the rationalist government calls upon technical expertise, money, new administrative systems, and even community action programs. Each potential response shares in common the status of a technique, to be manipulated with precision by highly trained specialists. Rationalism, in other words, represents a managerial approach to public policy.

The efforts directed at management reform by the Lindsay administration show the rationalist method to its best advantage. Confronted at the outset by a near collapse of the city bureaucracy, Lindsay promised reform based on the use of "'high efficiency' business methods" (p. 46). Borrowing a page from Kennedy's New Frontier, the mayor brought in waves of young administrators, supplemented by specialists from the Rand Corporation. The newcomers applied a variety of management techniques, ranging from project management teams to Program, Planning, and Budgeting Systems (PPBS, a Robert McNamara invention). City departments were combined into a dozen "superagencies" to reorganize service delivery and improve policy coordination. By Lindsay's second term, management performance began to respond, largely through concentration on basic services.

If the Lindsay administration showed what a rationalist approach could accomplish, the application of the method to all aspects of city government also revealed its severe limitations. Was the purpose of day care to allow welfare mothers to work or was it to educate children? The answer to this question would dictate the appropriate management strategy. But rationalism refers only to the mechanisms applied to a specified problem; identification of the desired outcome remains external to the rationalist framework. Thus, when faced with ambiguous or competing policy options, the administrator finds that the rationalist method fails him. He is instead forced to apply his techniques indiscriminately to every program goal that presents itself. Meanwhile, though rationalism is not equipped to select between demands made upon the political system, the confident strutting of the rationalist managers has the ironic effect of encouraging citizens to raise new and more extensive challenges for the managers themselves. Lacking some selection principle, the Lindsay administration dissipated its energies to satisfy competing priorities and committed resources to many false starts. Moreover, where successfully applied, the rationalist method resulted in rapidly expanding programs and sharply rising costs. Cumbersome bureaucracy had served as a natural check on spending. As the Lindsay "whiz kids" cut through red tape and upset standard procedures, the city began to build hospitals and schools, spend more on welfare, and open new health clinics. No one in the administration objected, since money was simply another policy instrument. But the expansionist tendencies implicit in rationalism work only so long as a government can afford them.

For Morris the Lindsay years represent rationalism on trial, with the fiscal crisis serving as the ultimate verdict. The triumph of the method in management reform suggests to him that "city government is for the most part a fairly dull and mundane business, a grab-bag collection of routine housekeeping and regulatory functions" (p. 204). Too often, though, rationalism led the city into commitments it could not possibly keep. The hospital system, the city university system, anti-poverty programs, and day care—in each instance the belief that "the most intractable problems would give way before the resolute assault of intelligent, committed people" (p. 23) pushed the city into practices that soon led to crisis. The lesson Morris sees is that these kinds of problems are just as likely to solve themselves through normal social processes as through government action (pp. 78–79). New York illustrates the folly behind the rationalist faith—a city condemned by its confidence that it could find a shortcut to everything.

The rationalist hypothesis is intriguing, and it does capture an important quality about the Lindsay era, but on balance Morris fails to sustain the claim that this approach to public policy led the city directly into the 1975 crisis. Other factors contributed to the emergence of a budget gap, factors that Morris himself acknowledges without seeming to grasp their full significance. In particular, public-employee unionization, economic decline, and political fragmentation of the metropolitan area combined to leave successive city administrations without hope of fiscal stability. Taken together, these elements far outweighed any independent effect rationalism exercised on the city's budget.

1. *Unionization in the public sector.* Morris attributes the rapid increase in labor costs during the Lindsay administration to the mayor's decision to make labor relations a test of the rationalist approach. He eschewed the backroom style of his predecessor Robert Wagner for modern labor-management negotiating mechanisms. Fact-finding panels and arbitration replaced glad-handing and personal favors for labor leaders. Because the new techniques resulted in larger settlements, Morris concludes that rationalist methods were responsible for much of the increase in public-employee compensation. But to blame rationalism for the rapid rise in labor costs is farfetched. Morris understates the more convincing explanation: Beginning in the 1950s, labor-management relations had been transformed by the growing strength and militance of public-employee unions. Unionization originated in the functional specialization and collective self-identification of employees that occurs in modern urban bureaucracies. For a time, jurisdictional disputes and professional misgivings (notably among teachers) limited the power of the unions in New York City. Once these barriers fell, however, New York experienced a surge in labor costs. Two factors made it especially difficult for the city to find affordable settlements. First, the growing minority representation in the city work force produced explosive tensions within the unions. Old-line leaders, often white ethnics, fought to maintain control; a favorable contract settlement became

a matter of survival, ruling out behind-the-scenes compromises with a city administration. Second, unlike workers in the private sector (especially in competitive industries), public employees did not feel constrained by any "bottom line" or profit margin. City budgets appeared expandable through the simple expedient of higher taxes. How could city officials point to any figure and say "This is it" when no market pressure seemed to make it so? Moreover, few politicians in New York —or anyplace else—have had the stomach to face a strike that would close down essential services. The power that unionization puts into the hands of city workers best accounts for the growth in labor costs in New York that began in the days of Wagner and has continued to the era of Ed Koch.

2. *Economic decline and the Lindsay tax policy.* Thanks to a diverse job base and a growth in public-sector employment, New York City's economy remained in robust health through the 1960s. Public officials believed the rhetoric about the inherent strength of the city economy. Shortly after taking office, the Lindsay administration restructured the city's tax policies to make revenues more sensitive to change in overall economic activity—"change" at that time implied growth alone. The new revenues thus gained completely offset the enormous spending increases of Lindsay's first term. However, this policy of tying revenues to growth meant that revenues would stop growing or even decline during a recession.

As it turned out, New York had only delayed the forces of decline. When the national economy slid into a recession in 1969–70, the city found itself especially hard pressed. Former areas of economic growth, particularly the finance, insurance, and real estate (FIRE) sectors, suddenly began to lose jobs through extensive computerization and the closing of brokerage houses. New office towers, part of a speculative building boom, displaced small manufacturing plants, then stood empty for years because capacity exceeded demand. With so many jobs permanently lost, the city economy never fully recovered. Government costs continued to mount during the 1970s while revenues failed to keep pace, leaving the Lindsay administration to scramble after the solution to an ever larger budget gap. City officials erred by supposing the recession to be a temporary phenomenon. But this confidence can be blamed less on their rationalist optimism than on the fact that, before the 1970s, Americans had never had to deal with the complexities of stagflation. A brief economic recovery in 1972 served only to reinforce the mistaken faith that the city economy was basically sound. Recession soon returned, costing the city an estimated $1.5 billion in lost revenues before the 1975 crisis.

3. *The suburbs and political fragmentation.* Three things happened to the jobs that left New York City in the early 1970s: some disappeared, as marginal businesses closed; some relocated to the Sun Belt; and most moved to the surrounding suburbs. Suburban growth is the flip side of the city's economic decline. To a certain extent the city government can be held responsible for this. Morris claims that Lindsay alienated many whites with his one-sided view of racial problems (pp.

81–82). The white middle class also found itself with the heaviest state and local tax burden in the country, so that it seemed to be financing every one of Lindsay's new programs. But suburbanization had begun long before Lindsay took office; and while suburban growth in part reflected the changing racial composition and political balance in the city, federal policies also contributed by promoting highway construction and individual home ownership. The balance of responsibility does not rest with the city.

Suburbanization represented a problem for New York because the city was denied tax revenues needed to sustain the victims of economic decline. The New York metropolitan area is fragmented into a host of separate political communities and special districts—more than a thousand—each with its own autonomous tax jurisdiction. Enter a Lindsay administration committed to a measure of redistribution of social values. As a matter of principle, the Lindsay regime believed business and the middle class ought to bear a larger share than previously of the cost of city government. As a matter of practicality, these officials doubted whether either group could afford to leave the city proper. Leave they did, however, on those federally funded highways, to single-family houses and spacious industrial parks. There they still enjoyed easy access to the Manhattan business center while paying taxes to local governments that spend money on common municipal functions rather than social programs. Lindsay tried to counter this with a commuter income tax, but his proposal was undermined by the state legislature. His experience indicates the futility of trying to impose redistributive social policies at the local level in the face of federal policies and political fragmentation that encourage suburbanization. All this Morris curiously ignores.

Unionization, economic decline, and political fragmentation—these three elements made budget stability in New York impossible after 1970. Each was a consequence of trends long evident in urban political economies. This suggests that the crisis in New York was not primarily the result of policies developed during the Lindsay years by managers held in the grip of rationalism. For Morris to imply that their ideology had a decisive effect in unbalancing the city's budget asks rationalism to assume a burden that the evidence does not support. We need to look elsewhere—at New York's turbulent political life—to appreciate the significance of the rationalist ethos.

The first Lindsay election brought to the fore another ideological current that had begun to influence city politics during the Wagner years: democratization. As Wagner lost his grip, he found himself confronted with new demands from groups previously barred from any significant involvement in the political institutions governing New York. Morris attributes this political expansion to the growing awareness on the part of blacks and Puerto Ricans that they had been treated unfairly by city government. But these new demands in fact came from every neighborhood of the city, from all the "little people" excluded from political discourse for the past thirty years during which New York lay under the domination of the likes of Robert Wagner, Robert Moses, the Democratic party machine, the construction unions, and other well-organized interests. Sometimes manipulated, usually ignored, New York's citizens pleaded not just for better services but for public institutions that would respond *to them*. Lindsay seemed to listen when he promised to do battle against the "power brokers."

The democratizing impulse pointed toward a restructuring of city government to allow both political and administrative decentralization. Democratization, however, was not just a matter of more widespread participation. As Jane Jacobs insisted in her enormously influential work, *The Death and Life of Great American Cities*, democratization entailed responsibility every bit as much as involvement. If city dwellers wanted to expand the scope of political membership, they would have to pay the price by making hard choices about how to allocate scarce public resources. Take neighborhoods and their needs seriously, Jacobs argued, but do not patronize them by pretending there are no limits to what government can do. Democratization leads to a more equitable and representative public policy, not universal satisfaction. She proposed a thorough political decentralization for New York to allow those directly familiar with local conditions and problems to make major planning and land-use decisions traditionally under the jurisdiction of the Board of Estimate and City Planning Commission. Equally important, these elected district governing bodies would impose an authority organized along geographical lines over the many "vertical" functional agencies responsible for service delivery. Such agencies otherwise respond only to the mayor, if they respond to outside voices at all. What Jacobs's district governments would sacrifice in overall city coordination—coordination is largely a myth in New York City in any event—they would gain in knowledge of neighborhoods and responsiveness to their needs.[1]

Concerned citizens and city officials long have recognized the practical logic underlying Jacobs's solution. For more than twenty years, for example, the community boards have been charged with representing districts about the size of her proposed governmental units. But these voluntary organizations, consisting of appointed members and lacking formal veto or budget power, are a pale shadow of what a district authority needs to be. With only advisory responsibility, community boards cannot be required to balance competing neighborhood needs or to trade off service delivery coordination for local responsiveness.

The Lindsay administration took office, then, with the intellectual ground-

1 Jane Jacobs, *The Death and Life of Great American Cities* (New York: Random House, 1961), chapter 21.

work laid for substantive democratic reorganization, with some decentralization efforts already in place, and with the eager support of neighborhood and minority organizations. Any systematic democratization of city politics still would have to overcome major obstacles, especially the polarization between blacks and whites that hindered discussion of either's legitimate grievances. Nevertheless, the many successful examples of interracial neighborhood preservation groups and tenants' coalitions should have suggested that the gap between races could be bridged. The most serious barrier to democratization turned out to be the Lindsay administration itself. City officials, including Morris, never recognized the democratizing current simmering beneath city politics for what it was. The mayor read every social conflict through the prism of race, often ignoring the aspirations and fears of struggling white neighborhoods. Thus the city focused its decentralization efforts on the minority community and allowed "community control" to be unfairly identified as a black demand. Lindsay did try to respond to the democratic challenge in these terms. But when his attempt to permit black control over the mostly black school district of Ocean Hill–Brownsville backfired, the mayor drew back from community control of major public institutions and systems. Thereafter efforts to improve government responsiveness took the modest form of administrative decentralization of selected service delivery operations. City government implicitly assumed that no common ground between subcultures and neighborhoods could be found.

The Lindsay administration's cool attitude toward democratization cannot be wholly explained by its preoccupation with the question of race. Rather, the administration misunderstood the democratic impulse because it clashed directly with Lindsay's rationalist approach to government. For, unlike rationalism, democratization is not a managerial method; it is frankly and deliberately political. Democratization implies social priorities chosen through messy processes, sometimes bruising debates, pointed controversies. And the setting of priorities entails a recognition that not all problems can be solved. With this emphasis on the act of choosing, the democratic mode makes it difficult for an administrator to find a fixed outcome from which he can track back through PPBS programs or project teams to the necessary inputs. Instead, the management specialist must wait for the political dialogue to resolve itself so that the outcome to be modified is defined for him. At root, then, democratization and rationalism attach different goals to a political system. Democratization emphasizes the role of citizens in formulating problems, admits to the legitimacy of their participation, and insists they bear responsibility for making choices. A rationalist approach maximizes administrative efficiency, treats participation as a technique, and attempts to solve all problems fed into a political system. Given the rationalist orientation of the Lindsay people, the fate of the democratizing current in New York was foreordained.

Ironically, the triumph of rationalism assumed a particular form that contributed directly to the 1975 budget crisis. The Lindsay rationalists tried to preempt the democratic challenge by offering new programs to all comers. Committed to solving every problem, the administration found itself encouraging and legitimizing new demands, yet unable to turn its back on established constituencies. In retrospect, the failure to experiment with a variety of democratic forums that might order the claims on public resources stands out as key factor in Lindsay's downfall. Obliged to pay for everything promised, his managers instead turned their attention to revenue-expanding techniques, including dubious gimmicks and borrowing. The practices used to resolve the conflict between rationalism and democracy set in motion the chain of events that destabilized the city's budget.

New York City suffered from two crises in the 1970s. We must distinguish between them before we can speak of the lessons they teach. By defining the credit shortage and budget gap of 1975 as the fiscal crisis, Morris chooses a formulation that highlights the uniqueness of New York. From this formulation it follows that the solution to the crisis lies in reduced spending, stricter accounting practices, and renewed creditworthiness. But suppose we argue, along the lines suggested by James O'Connor some years ago, that the New York City fiscal crisis instead involved the disparity between growing service demands and rising costs in the public sector, and the city's inability to pay for these because of a stagnant tax base.[2] Such a disparity arose because the process of capital accumulation began to bypass the city. Businesses departed for other communities with lower taxes, encouraging the flight of the middle class. New York was left with a large "surplus population" cast aside by an economy with too few entry-level and low-skill positions. This population required some combination of public-sector jobs, expanded social services, and additional welfare expenditures. At the same time, the aging physical plant and transit system fell into disrepair, making New York a less attractive place to do business. With this decline the loss of capital accelerated. Thus trapped in a vicious circle, New York began to resemble a hundred other older cities of the Northeast. Expressed in these terms, the fiscal crisis is a permanent condition common to urban political economies, rather than a specific example of slovenly and careless government.

If we accept this definition of the fiscal crisis, then what happened in New York in 1975 was something else—a *financial* crisis. In response to a financial crisis, a city can balance its budget according to proper accounting procedures and restore financial integrity and creditworthiness; all this New York has done. But the need to support extensive services and a physical infrastructure remains, along

2 James O'Connor, *The Fiscal Crisis of the State* (New York: St. Martin's Press, 1973), introduction and chapter 3.

with the inability to pay for these. Here the distinction between the two crises becomes crucial: while the problems in New York City have lost their unique budgetary form, the underlying decline of the city, the fiscal crisis, continues unabated. Mayor Koch may bleat about the rebirth of the city ("I feel it!"), but in poor neighborhoods and the "outer" boroughs no evidence of rebirth exists.

The financial crisis is not without meaning: it precipitated a solution to the predicament caused by rationalism's Pyrrhic victory over democratization. Confronted with an acute budget crisis, the city needed to delegitimize the demands that had been established in the Lindsay era. A political strategy and an ideological campaign emerged out of the maneuverings between the banks, the state and federal governments, the unions, and the mayors. To balance the city's budget, the Emergency Financial Control Board (EFCB), a nonelected body, was given the authority to review and reject any proposed spending plan and all labor agreements. Nearly one of every four city jobs was eliminated, tuition was imposed for the city university, hospitals were closed, and programs and basic services were reduced. The budget cuts and layoffs (which fell heaviest on minority groups) came in an ideological climate marked by self-chastisement for past excesses. This two-pronged approach has met little resistance. By legitimizing demands rather than political responsibility, Lindsay left all the new claimants without the democratic forums or other means needed to play a part in the post-1975 reorganization. Measures taken since 1975 have reduced access to the political system, allowing the city to ignore demands it once encouraged. To every plea for public help, Mayor Koch responds, "There is no free lunch."

New York's two crises each suggest important lessons for American cities. The fiscal crisis demonstrates that the problems of older cities are mostly not of their own making. We expect cities like New York to pay for too many services needed by too many people. Political fragmentation of metropolitan areas, the flight of jobs and people to the suburbs or the Sun Belt, federal policies promoting suburbanization—all these factors mean that the burdens imposed upon a New York City will be beyond its capacity. On the other hand, the financial crisis teaches about the cost of trying to meet social needs without creating fully democratic political arrangements. Democratization is painful and tumultuous, yes, but necessary if a city government wants to enlist from its citizens the kind of active support needed to deal with the urban challenge. For all his compassion, John Lindsay's approach to politics was not progressive, but the reverse: managerial, technocratic, and paternalistic. No more than any other official, from Wagner to the EFCB, would he trust the citizens of New York to solve their own problems.

These are not the lessons that guide policymakers today. Instead, officials everywhere learn from New York City that it is time for a general retreat from government initiative. The critique Morris develops of liberal-rationalist government thus emerges, in simplified form, as the cornerstone of a new public philosophy. Other cities have begun to apply a strategy, pioneered by New York, that combines budget cuts with efforts to attract private capital. On a larger scale, a parallel strategy defines the Reagan administration's approach to the growth of the federal budget. Felix Rohatyn has proposed that the austerity/market strategy become the basis for national urban policy in the 1980s.

New York City today has a recovery plan that seeks to entice capital investment back to the central business district. Thus far the "Fortress Manhattan" strategy has provided no benefits to the poor and the displaced, and it seems unlikely to do so. But because the most troubled areas of the city are on its geographic and psychological periphery, the recovery program gives an appearance of success. Some new jobs have been created in industries dependent upon the Manhattan commercial/financial core. This idea of attracting the middle class back to the downtown district appeals to other cities operating under the same budget constraints as New York. Given the dependence of local governments on private economic activity, the strategy makes some sense. But most older cities lack even the few relative advantages enjoyed by New York. Worse, by misrepresenting its own economic well-being, the city fosters the illusion that all citizens benefit from this recovery strategy. For this belief there is just no evidence.

The effort to combine public austerity with private reinvestment as a national policy finds two noteworthy advocates in Ronald Reagan and Felix Rohatyn. First, Reagan advances this strategy as a means for coping with the expansionary consequences that the rationalist method has produced in Washington. The notion that government cannot solve complex problems but only adds burdens—a message Morris reads out of the Lindsay record in New York—now becomes the ideological justification for delegitimizing demands on the federal budget. Second, with specific reference to declining cities, Rohatyn proposes to take advantage of the experience gained in New York since 1975. Unlike Morris, Rohatyn focuses on the underlying condition of fiscal crisis that New York shares with other cities across the country. Arguing that this situation calls for a national approach, he calls for a new Reconstruction Finance Corporation (RFC) to provide capital infusions to older cities in exchange for their cooperation in controlling expenditures.[3] The model he uses is the Municipal Assistance Corporation ("big MAC"), one of the supervisory agencies created to regulate New York's budget. Rohatyn interprets the events leading to the 1975 budget crisis as reflective of a lack of political will: to escape the demands on its budget, a city needs outside au-

3 Felix Rohatyn, "The Coming Emergency and What Can Be Done About It," *New York Review of Books*, December 4, 1980, p. 23; Rohatyn, "Reconstructing America," *New York Review*, March 5, 1981, p. 18. See also Rohatyn, "The Older America: Can It Survive?" *New York Review*, January 22, 1981.

thority. MAC reduced a $1.8 billion deficit and restored discipline "with a minimum of social disturbance."[4] Similarly, a new RFC "that is publicly accountable but is run outside of politics" would have to impose temporary austerity on cities seeking its help.[5] This mechanism would limit demands on city governments, giving them time to plot a response to the chronic weaknesses of the urban economy.

Each of the strategies arising from the new public philosophy shares this in common: a fear of the consequences that follow from inflated popular expectations. Rohatyn warns, "To cries of a new elitism or fear of creating a new 'establishment,' I say that where we are going otherwise is infinitely worse."[6] The various solutions worked out under the austerity/market approach are not democratic. But how could we expect otherwise? This, too, is part of the legacy of the rationalist triumph under John Lindsay. The abbreviated experience with democratization in New York leaves few illustrations, few models to which we can refer. This failure to allow people to set limits on themselves leaves no ideological or institutional defense against the policies of Rohatyn or Reagan or Koch.

Like John Lindsay, Morris cannot grasp what democratization might have meant for New York City. He participated in an administration that adhered to an ideology grounded in a different—and opposite—set of concerns. The thoroughgoing rationalism of the Lindsay people stifled the democratic alternative in practice and blocked it out of our thinking about cities. Today when we talk about urban policy, democracy is not an issue: in the hands of the austerity strategists, New York teaches lessons about authority, discipline, and externally imposed limits—lessons with frightening implications for city dwellers and their aspirations. Such a climate begs for the recovery of democratization as an approach to urban government and policymaking. For while liberalism may have failed in New York, democracy was never given a chance.

4 Rohatyn, "The Coming Emergency," p. 20.

5 Rohatyn, "Reconstructing America," p. 18.

6 Rohatyn, "The Coming Emergency," p. 24.