Beyond Reaganomics: The Long Economic Crisis and the Rebuilding of America, 1974-1988



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'You call that history; that was my prime!'
–Vinnie Gioe, 2015 –

Abstract

Between 1974 and 1984, the United States experienced an extended period of acute economic turmoil. During this informal decade, unemployment and inflation rates skyrocketed, a number of America's largest cities and corporations teetered on the brink of bankruptcy, and hundreds of thousands of the nation's blue-collar workers permanently lost their jobs. Yet a mere four years later, inflation and unemployment rates were falling, the country's largest industrial corporations were reporting profits, and cities whose decline had once seemed inexorable appeared to be in the midst of a revival.

Most historians place the federal government and the cocktail of *laissez-faire* economic policies known as 'Reaganomics' at the center of their narratives when they talk about this period of U.S. history. Indeed, according to most major works on the 1970s and 1980s, this was a period in which free-market and free trade ideas moved from the margins to the mainstream of American political life and actors associated with the conservative movement seized the political reins and successfully reshaped America's political and economic landscape in their image.

This dissertation tells a different story. Focussing on public policies enacted at a subnational and sectoral level, *Beyond Reaganomics* reveals the limited appeal of free-market and free trade ideas amid the profound turbulence of the long economic crisis of the 1970s and 1980s. At the same time, it also highlights the important — but largely overlooked — role that the state played in shaping markets and preventing corporate and municipal failures through interventionist and protectionist policies. Arguing that these were not just moments of exception, this dissertation makes the case that we need rethink our understanding of the political economy of the decades after the 1960s. Instead of thinking of the last three decades of the twentieth century as an era of *laissez-faire* and free trade, *Beyond Reaganomics* suggests it is more accurate to regard the last three decades of twentieth century U.S. history as a producer-orientated era in which policymakers across the ideological spectrum sought to use public policy to help the, supposedly embattled, American producer.

Extended Abstract

In the 1970s and 1980s, the very foundations of American capitalism were shaken by a series of overlapping financial, industrial, and economic crises. During this informal decade (which this dissertation dubs the long economic crisis), economic issues dominated American life in a way that they had not done since the Great Depression. Given the extent of the crisis, this is perhaps not surprising. After all, at its nadir, in the early 1980s, many basic economic statistics — unemployment, inflation and bankruptcy rates — were worse than at any point since the 1930s. Perhaps most worryingly of all, although this period of extraordinary economic and financial turbulence had been triggered by a number of specific events, the problems that certain cities and industries confronted went back decades. As such, it seemed unlikely that a national economic recovery would resolve the various local and sectoral crises that emerged during this informal decade. Put simply then, for most of the second half of the 1970s and much of the first half of the 1980s, the American economy was in free-fall and it was not clear when, how, or even if, this new terrifying nightmare would end.

This dissertation is about this fraught period in post-Second World War history. It is neither a tightly focussed monograph, nor a sweeping narrative history. Instead, it is a wide-ranging interpretative political history that examines a number of the most significant moments within this ten-year period of economic confusion, political uncertainty, and human misery. It begins in the mid-1970s, with the 1973 OPEC oil embargo, the New York City fiscal crisis, and growing fears about the waning of American economic and industrial dominance. It ends in the mid-1980s, with the resurgence of the U.S. automobile industry, growing talk of a national urban revival, and the beginning of a prolonged period of national economic stability and expansion (later termed the 'Great Moderation').

By concentrating on this period and these specific events, *Beyond Reaganomics* tells the extraordinary story of the overlapping industrial, financial, and economic crises which engulfed America and the policies and initiatives that prevented its largest cities and industries from collapsing. This is not a tale that can accurately captured by examining the actions of various groups or individuals associated with the New Right or by statically surveying developments from the vantage point of Capitol Hill or the White House. Instead, it is a story that demands examination of multiple geographical scales of analysis as well as attention to decisions and policies devised at a local, regional and sectoral level. Ranging widely and drawing on a broad range of archival and printed primary sources, this dissertation reveals how during this period of profound economic turbulence, the American state (and states) played an integral role in creating and shaping markets, preventing corporate and municipal bankruptcies and transforming global economic geographies.

One of the most striking things that emerges from a close study of the long economic crisis is how little changed during the course of this informal decade. Between 1973 and 1983, the national economy and America's largest industries were plagued by the same maladies and policymakers turned to many of the same remedies. Moreover, in the early years of the 1980s, the Reagan administration seemed to share the Carter and Ford administrations' innate ability to make economic matters worse, rather than better. At the same time, it kept in place many of the policies that it had inherited from its predecessors. To be sure, in several policy arenas, much did change between the mid-1970s and the early 1980s. The fact that journalists wrote in real time about 'Reaganomics' and the 'Reagan Revolution', but not about 'Fordonomics' or the 'Carter Revolution', is a testament to that fact. Yet, while the Reagan administration arrived into office with a much clearer policy agenda, broad-based disillusionment with the administration's signature policies arose just as quickly as jokes about Gerald Ford's Whip Inflation Now initiative had nearly ten years earlier. This continued for some time. Indeed, well into 1983,

leading journalists were predicting that Ronald Reagan would share his predecessor's fate of being a one-term president.

Beyond Reaganomics also challenges our basic assumption that the 1970s and 1980s was an era of *laissez-faire* and free trade. After years of profound and sustained economic turbulence and political disarray, by the 1980s, many Americans had come to feel that sweeping public policy changes were required to stabilise the national economy and embraced market-based thinking and rhetoric. Yet, contrary to what several scholars have implied, this neither automatically translated into public policy, nor put U.S. history on a path that inevitably led to the warm embrace of Ronald Reagan or free-market and free trade approaches. Publicly, many of America's leading politicians and business leaders did profess their fealty to free enterprise doctrines and spouted anti-government rhetoric. But, to resolve various local, regional, and sectoral crises that arose during this period, many took an entirely different position and supported — or made little attempt to oppose — the kind of interventionist and protectionist federal policies that are usually thought to have been the sole preserve of previous era of American history. Though they may have rediscovered the market rhetorically, in the face of a crisis that seemed to threaten American economic and industrial dominance, many of the nation's political and economic elite were prepared to abandon or disregard their supposedly deeply held principles.

While the long economic crisis was a period during which many publicly championed free trade, it was also an era of rampant protectionism. Desperate business executives and labour union leaders from a variety of different industries formed coalitions and vigorously lobbied for the imposition of import restrictions and quotas on manufactured goods. To make their case for restrictive trade policies (and justify their deviation from their free trade ideals), those who pressed for import restrictions argued that their industries urgently needed 'breathing space' to restructure or made the case that their struggles were partially the result of the 'unfair trade' policies of other nations. A number of these campaigns were successful. As a result, for much of the informal decade that *Beyond Reaganomics* explores, American manufacturing goods — both large and small — were sold in a domestic marketplace that was anything but free.

A similar disjuncture between rhetoric and action can also be seen in the response of political and economic elites to the very real threat of large municipal or corporate bankruptcies during the long economic crisis. At the same moment as domestic producers were struggling to compete with their Japanese counterparts, America's largest city, New York City, and 14th largest company, the Chrysler Corporation, were also on the brink of bankruptcy. Neither was able to access financial markets and each desperately required cash. Stepping in where the financial community feared to tread, in both cases, the federal government agreed to provide billions of dollars of financial assistance to prevent a municipal default and a corporate bankruptcy. This involvement was not short-lived. In fact, the federal government remained actively involved in the company and the city's financial affairs and operations for years after these bailouts took place. For both Chrysler and New York City then, the long economic crisis was a period of more federal regulations and central state oversight.

It might be tempting to dismiss these episodes as historical glitches — politically insignificant and short-lived interruptions to the normal service of the decades after the 1960s. Certainly, as *Beyond Reaganomics* shows, these events stood in stark contrast to the broader policy agendas that successive presidents came into office intending to pursue. Moreover, most of the interventions chronicled in the pages that follow were largely temporary (few lasted the whole of the 1980s, and fewer still existed into the next decade). Nevertheless, they had an impact and are just as much a part of the politics and economics of the 1970s and 1980s as tax and spending cuts, deregulation, and public speeches trumpeting the benefits of free trade and decentralized

government. Just as strikingly, the fact that these policies could win such widespread support on the eve or in the midst of the supposed Reagan Revolution suggests that the political economy of the long economic crisis was more protean and much less ideologically rigid than the conventional scholarly and popular wisdom conditions us to believe.

Given these contradictions, it would be easy to recast the 1970s and 1980s as an age of uncertainty that was defined by inconsistency, confusion, and contradiction — an era of unresolvable paradoxes. However, this would be a mistake. As *Beyond Reaganomics* argues many of the political economy trends that scholars of neoliberalism and conservatism have identified and the countertrends that I pinpoint in the pages that follow came from the same source. For sure, they cannot be mapped onto the same ideological axis. However, they all derived from the premise that something was seriously wrong with the production side of the economy and that only action by the state could bring an end to the long, dark night of the economic crisis and restore morning again in America. The element of this story that we are most familiar with is the conservative side (the small band of *laissez-faire* stalwarts who consistently called for the shrinking of the state). In reality though, at a sectoral, regional, and local level, during the long economic crisis, this group was often not able to secure support for their agenda. Instead, in the face of a deep crisis that by the early 1980s seemed to challenge the very future of American economic might, many — including constituencies usually associated with the New Right — threw their support behind producer-orientated policies that required the state to roll forwards, not back.

This argument unfolds over the course of four thematic chapters. Chapter One, 'Prosperity Challenged', follows the political and economic experience of New York City in the mid-1970s. Complicating the idea that the 1970s was a period in which the national government took a back seat in urban affairs, this chapter highlights the deep and lasting (if often out-of-sight) contribution that New York State and the federal government played in resolving the New York City fiscal crisis. At the same time, it also reveals how the Ford and Carter administrations' attempts to prevent the default of New York City, while simultaneously containing federal spending and devolving urban policy, led to policy decisions that expanded the power of the central state and diminished local governmental autonomy in America's largest city.

While the first chapter looks at a particular city, Chapter Two, 'Concealing Intervention', concentrates on a specific sector: the U.S. automobile industry. Telling a fall and rise story, it tracks the fortunes of the Big Three American automakers during a period in which they went from reporting billion dollar annual losses to reporting billion dollar annual profits. Unlike conventional business accounts, the narrative that emerges through close scrutiny of Chrysler, Ford, and General Motor's trajectory during this period is not (primarily) one of management ingenuity or research and design innovation. Instead, 'Concealing Intervention' shows how non-corporate actors — particularly the federal government — played a critical, but purposefully obscured, role in aiding America's largest automobile producers and protecting them from the hazards and vicissitudes of the market.

Chapter Three, 'Free Market Scepticism', takes a broader national view and discusses how the crises chronicled in the first two chapters and other global economic and industrial developments ignited calls for the introduction of a formal industrial policy. Exploring this radical moment in 1980s political economy, this chapter shines a spotlight on the broad coalitions that called for industrial policy as well as the anxiety that this movement provoked among even the staunchest defenders of *laissez-faire* doctrines. In so doing, it draws attention to the role that global developments played in conditioning the response of America's political and economic elite to the era's many nightmares as well as the narrow acceptance of *laissez-faire* doctrines at the nadir of the long economic crisis.

The fourth and final chapter, 'Bringing the States Back In', adds a layer of complexity to the traditional declension narrative of the industrial policy movement. Telling a national story from a subnational vantage point, it examines economic development policy in three Rustbelt states in the later years of the long economic crisis. Drawing on new ideas about the sources of growth, Ohio, Michigan, and Pennsylvania introduced a set of industrial policies that were designed to catalyse local entrepreneurship and stimulate the growth of advanced technology industries. These policies quickly caught on. Indeed, by the second half of the 1980s, most states had introduced economic development policies modelled around those pioneered in the Rustbelt. Even as the national government was pushing producer-orientated 'small government' policies as the answer to America's problems, struggling states were putting into place 'big government' producer-centred policies and actively trying to shape and create markets.

Between the opening and closing scenes of this dissertation, the expectations and assumptions governing American political and economic life transformed dramatically. In 1973, the nation's leading politicians, corporate executives, and labour union leaders had very few concerns about the health and vitality of the nation's economy. They expected the post-Second World War economic boom to continue; they regarded America's status as the world's pre-eminent industrial and economic power as secure; and they had few concerns about the strength and international competitiveness of American producers. By 1988, however, it would have been difficult to find anyone that still held these views. It is the surprising and often unexpected tale of what happened between these two points in U.S. history that this dissertation explores.

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light-hearted conversation. I cannot imagine a better or more forgiving group of close friends, particularly given the mildly carcinogenic 'Christmas dinner' that I inflicted upon them in 2015! For providing much additional good cheer, I should also thank many other members of Lincoln College's Middle Common Room as well as Simon Faulkner and Laura Perrins.

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Finally, I would like to thank Claire, 'I deserve a bloody paragraph', Wills. Claire decided long ago that the study of history was not 'worth [her] time', yet she listened patiently as I explained the American War in Vietnam, my conceptual angst(s), and latest structural dilemmas. At the close, she also read the project in its entirety — exposing (with characteristic attention to detail) many mistakes and instances of sloppy prose. As a result, she has left her mark on most pages of this project. There is not enough chocolate in the world to show my appreciation for all the different forms of support that she provided over many years.

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List of Abbreviations

BCA	Baruch College Archives
CQA	Congressional Quarterly Almanac
CQWR	Congressional Quarterly Weekly Report
DFP	Detroit Free Press
DR Papers	Donald Riegle Papers
DTR Papers	Donald T. Regan Papers
DT Papers	Dick Thornburgh Papers
GFPL	Gerald Ford Presidential Library
LA Times	Los Angeles Times
LOC	Library of Congress
NYDN	New York Daily News
NYT	New York Times
TNR	The New Republic
WP	Washington Post
WSJ	Wall Street Journal

Introduction

A New Nightmare

At noon on 9 August 1974, Vice President Gerald Ford became the 38th president of the United States. This was a turn of events that no American (least of all Ford) had planned for or anticipated. By the summer of 1974, Ford had been Vice President for less than a year. Before that he had possessed no serious White House ambitions. In fact, in the autumn of 1973, Ford — a member of Congress since 1949 and the House Minority Leader since 1965 — had been contemplating political retirement.[1] But when the Vice President, Spiro Agnew, pleaded no contest to income-tax evasion charges and resigned, Richard Nixon announced that he was nominating Ford as Agnew's replacement.[2] Because of events beyond Ford's control, though, this new role proved extremely short-lived. On 7 August, 1974, a group of senior Republicans advised Richard Nixon that impeachment proceedings were unavoidable and the following day, the president announced his resignation.[3] As a result, a little less than nine months after he had taken the vice presidential oath of office in the chamber of the House of Representatives, Ford recited the presidential oath of office in the White House's East Room.

From the outset, the new Ford administration wanted to project a 'national feeling of unification and reconciliation' and to take actions to restore the 'confidence and trust of the American people.'[4] Unsurprisingly therefore, these were central themes in Ford's brief inaugural address. Acknowledging that he owed his position to 'extreme circumstances', Ford spoke of his 'sincerity', 'honesty', 'openness and candor' and promised that this 'little straight talk among friends' would be the 'first of many.'[5] The new president hoped that the reassuring tone and informality of these remarks would be enough to distance himself from his now politically toxic predecessor. However, his aides felt that he needed to go further and urged the President to explicitly pledge to change the country's course. It was this suggestion that led to the speech's most memorable line: 'my fellow Americans, our long national nightmare is over.'[6]

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[1] James M. Naughton and Adam Clymer, 'Gerald Ford, 38th President, Dies at 93', *NYT*, 27 December 2006.
[2] Ford was the favoured candidate of the Democratic Party's congressional leadership. In October, Nixon asked the Senate Majority Leader, Mike Mansfield, and the Speaker of the House, Carl Albert, for advice about Agnew's replacement. Claiming credit for Nixon's selection of Ford, Albert later recalled, 'we gave Nixon no choice but Ford. Congress made Jerry Ford President.' Quoted in James M. Cannon, *Time and Chance: Gerald Ford's Appointment With History* (New York, 1994), p.205.
[3] Caroll Kilpatrick,'Nixon Resigns', *WP*, 9 August 1974.
[4] 'Transition Team Action List', p.1, Clay Thomas Whitehead Papers, Manuscript Division, Box 48, LOC.
[5] For insight into the parts of the speech that Ford and his aides wanted to emphasise, see 'Swearing-in Ceremony', Box 1, President's Speeches and Statements: Reading Copies, 1974-77, GFPL.
[6] *Ibid.*

The nightmare which Ford referred to was Watergate. Between 1972 and 1974, a scandal that had begun with a botched break-in at the Democratic National Committee's headquarters was the subject of numerous newspapers articles, discussions on Capitol Hill, and recorded White House conversations.[7] But Watergate's impact did not end there. Just as Ford's aides feared, the events that led to Richard Nixon's downfall unleashed political shockwaves which transformed American attitudes towards public officials and the state and altered the relationships between the President, Congress, the media, and the wider public. In twentieth-century U.S. political history, Watergate was a hugely significant and transformative event. And yet, the same could also be said of the Vietnam War, local battles over community control and spatial segregation, and the urban uprisings of the late-1960s.[8] By the summer of 1974, these subjects had all been part of the national conversation for years, had inspired large and highly visible protest movements, and become the subject of lengthy congressional investigations or public inquiries. Looking back, it is clear that the late-1960s and early 1970s was an era of many nightmares and that Watergate was but one.

At the time Ford made his speech, America had fully awakened from some of these bad dreams and it was beginning to stir from the rest. In 1973, the Paris Peace Accords officially ended U.S. military involvement in Vietnam; Supreme Court decisions in 1973 and 1974 transformed busing into an issue for local courts and municipal governments; and the urban North was no longer wracked by the large-scale violence and rioting of the 1960s. For sure, many of these issues did reappear — in 1975, intervention in Vietnam was the subject of fierce debate on Capitol Hill; discussions about Watergate and abuse of government power were reawakened by Ford's pardoning of Nixon, and the Church and Pike committees' investigations; and Boston's busing crisis made national news headlines in 1974, 1975, and 1976. Nonetheless, these events did not spark the same sense of collective national crisis as they had previously. Viewed from this perspective, the long national nightmares of the late-1960s and early 1970s *did* end with Gerald Ford's inauguration.

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[7] On Watergate, see Stanley I. Kutler, *The Wars of Watergate: The Last Crisis of Richard Nixon* (New York, 1990).

[8] For books that make arguments about the transformative impact of these events, see: Christian Appy, *The Reckoning: The Vietnam War and Our National Identity* (New York, 2016); Kathleen Belew, *Bring the War Home: The White Power Movement and Paramilitary America* (Cambridge, MA, 2018); Jonathan Rieder, *Canarsie: The Jews and Italians of Brooklyn Against Liberalism* (Cambridge, MA, 1985); Jerald E. Podair, *The Strike that Changed New York: Blacks, Whites, and the Ocean Hill-Brownsville Crisis* (New Haven, 2005); Matthew D. Lassiter, *The Silent Majority: Suburban Politics in the Sunbelt South* (Princeton, 2007); Michael W. Flamm, *Law and Order: Street Crime, Civil Unrest, and the Crisis of Liberalism in the 1960s* (New York, 2005).

However, this *did not* signal a return to the 'great dreams' of the early 1960s, for just as the crises of the late-1960s and early 1970s were drawing to an end, a *new* long national nightmare was unfolding.[9] Between 1973 and 1983, the very foundations of American capitalism were shaken by a series of parallel economic, industrial, and financial crises. During this informal decade (which this dissertation dubs the long economic crisis), unemployment, inflation, and interest rates skyrocketed, some of America's largest cities and corporations teetered on the brink of bankruptcy, and hundreds of thousands of Americans lost their jobs. At its nadir, in the early 1980s, many basic economic statistics — unemployment, inflation and bankruptcy rates — were worse than at any point since the 1930s.[10] Perhaps most worryingly of all, though this period of extraordinary economic and financial turbulence had been triggered by the international monetary crisis of 1971 and the oil supply shock of 1973, the problems that certain cities and industries faced had much deeper roots.[11] Because of this, it seemed unlikely that a national economic recovery would resolve the various local and sectoral crises that emerged during this informal decade. Put simply then, for most of the second half of the 1970s and much of the first half of the 1980s, the American economy was in free-fall and it was not clear when, how, or even if, this new terrifying nightmare would end.

Amid this profound economic turbulence, 'decline' and 'collapse' replaced 'conspiracy' and 'cover-up' as the words on nearly every American's lips. Giving voice to deeper concerns, in March 1979, *Business Week* devoted a special issue to examining 'the decline of U.S. power'.[12] As *Business Week*'s special issue illustrates, the mood of the country at the end of the 1970s was serious and sombre. Accordingly, in the summer of 1980, the White House Assistant for Communications warned President Jimmy Carter that 'given the state of the economy' the 'American people... don't think there is much to smile about' and advised the president to 'think

[9] The phrase 'great dreams' is borrowed from David Farber's synthesis of 1960s history. David Farber, *The Age of Great Dreams: America in the 1960s* (New York, 1994). I am not the first historian to portray the early 1970s as a nightmarish era. In their overviews of this period, Phillip Jenkins, Laura Kalman, and Joshua Freeman, use this term when describing the early 1970s. Though they do not foreground the term nightmare, Rick Perlstein and Dominic Sandbrook also frame their chronicles of the 1970s around the decade's 'horrors.' In all of these cases, however, it is the period's political, social, and cultural nightmares that are the main focus. Phillip Jenkins, *Decade of Nightmares: The End of the Sixties and the Making of Eighties America* (Oxford, 2006); Laura Kalman, *Right Star Rising: A New Politics,* 1974-1984 (New York, 2010); Joshua Freeman, *American Empire: The Rise of a Global Power, The Democratic Revolution at Home* (New York, 2012); Rick Perlstein, *The Invisible Bridge: The Fall of Nixon and the Rise of Reagan* (New York, 2014); Dominic Sandbrook, *Mad as Hell: The Crisis of the 1970s and the Rise of the Populist Right* (New York, 2011).

[10] In 1982, the U.S. national unemployment rate reached its highest level since 1941 and more businesses failed than in any year since 1932. Christopher Byron, 'Booms, Busts and Birth of a Rust Bowl', 27 December 1982, *Time.*

[11] For background on these events, see Robert M. Collins, *More: The Politics of Economic Growth in Postwar America* (Oxford, 2000), pp.117–21; Judith Stein, *Pivotal Decade: How the United States Traded Factories for Finance in the Seventies* (New Haven, 2010), pp.30-50; Meg Jacobs, *Panic at the Pump: The Energy Crisis and the Transformation of American Politics in the 1970s* (New York, 2016), pp.49-85.

[12] The special issue examined the decline of U.S. economic, financial, diplomatic, political, and military power. 'The Decline Of U.S. Power', *Business Week*, 12 March 1979, pp.36-96.

before you smile'.[13] It was not just on the presidential campaign trail that smiles were in short supply. In bookstores, grim tales of economic collapse practically flew off the shelves. In the bestselling non-fiction book of 1980, the investor, Douglas Casey, advised Americans on how they could profit from 'the coming Great Depression', while Stephen King's 1982 dystopian science fiction novel, *The Running Man*, depicted America in the wake of a global economic collapse.[14] At the time, these did not seem particularly far-fetched predictions. In fact, by the early 1980s, even those writing about the present were raising the possibility of an impending economic meltdown. Taking the lead in April 1981, *Time* Magazine raised the possibility that the long economic crisis was evidence of deeper problems within the global economy and asked, on its front cover, 'Is Capitalism Working?.'[15]

In reality, most Americans probably did believe that capitalism's global future was secure. Many though were concerned that something was seriously wrong with the U.S. economy. By 1975, prominent politicians like former Vice President Hubert Humphrey were voicing suspicions that 'the 'old economic rules no longer applied.'[16] By the late-1970s, many policymakers shared Humphrey's assessment that longstanding principles of political economy were deficient. At the same time, very few individuals were convinced by the idea that America's most immediate and pressing economic ailments could be cured by shrinking the state and 'freeing' the market. For sure, this was a period of gigantic tax cuts, massive non-military public spending reductions, and deregulation of industry. However, at a local, regional, and sectoral level, elected officials repeatedly demonstrated that they were prepared to do whatever it took to prevent an economic meltdown (and secure their political survival) — ideological consistency be damned.

This led to some surprising actions and policy suggestions. Convinced that conventional free-market policies were insufficient, during the long economic crisis, many groups and individuals that publicly rejected 'big government' nostrums, advocated — or made little attempt to resist — activist and protectionist policies. In perhaps the clearest example of this, in 1986, Ronald

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[13] Gerald Rafshoon to Jimmy Carter, 5 July 1980, Hamilton Jordan's 1980 Campaign Files, Container 79, JCPL.
[14] Douglas R. Casey, *Crisis Investing: Opportunities and Profits in the Coming Great Depression* (New York, 1980); Richard Bachman, *The Running Man* (New York, 1982).
[15] This was not the first — or only occasion — during the long economic crisis that *Time* raised questions about capitalism's future or efficacy. In July 1975, the magazine's editors had asked "Can Capitalism Survive?" on its front cover. This first cover story, though, was much more optimistic about the future than the 1981 cover story. 'Can Capitalism Survive?,' *Time*, 14 July 1975; 'Is Capitalism Working?', *Time*, 21 April 1981. For the articles themselves, see: 'Can Capitalism Survive?,' *Time*, 14 July 1975, pp.52-63; George M. Taber, 'Capitalism: Is it Working...? Of Course, But...', *Time*, 21 April 1981, pp.40-55.
[16] Quoted in Patrick Andelic, '"The Old Economic Rules No Longer Apply': The National Planning Idea and the Humphrey-Hawkins Full Employment Act, 1974-78", *Journal of Policy History* (2019), Volume 31 (1).

Reagan's Commerce Secretary privately suggested that the federal government could solve the problems that American steel producers faced by buying U.S. Steel (America's largest steel corporation) and bulldozing its steel mills.[17] It is unclear whether this was a serious proposal or just a macabre jest. But whatever the case, the suggestion speaks to the depths of fear and uncertainty that prevailed among policymakers even after the period of acute national crisis had passed.

And then, after ten years of profound economic volatility, prosperity and growth returned. In the second half of the 1980s, inflation and unemployment rates plummeted, America's largest industrial corporations began to report record profits, and municipalities whose decline had once seemed inexorable appeared to be in the midst of a recovery. Perhaps most importantly, the recovery lasted for an unusually long period of 92 months, from November 1982 until July 1990.[18] Confidence in the future returned almost overnight. Instead of bleak predictions about the future and gloomy economic news, the business and economics pages of major magazines and newspapers were now filled with uplifting stories about the entrepreneurial genius of major corporate leaders, the sudden revival of the nation's major cities, as well as positive predictions for the years and decades ahead.[19] A little more than four years after its 'Is Capitalism Working?' cover, on its 24 September 1984, cover *Time* hailed 'America's Upbeat mood,' a turn of events which it attributed to the nation's 'slam-bang economy.'[20]

This media hype masked an uncomfortable reality: a decade of acute upheaval and transformation had left deep economic, social, and political scars. Basic indicators of national economic health may have been positive, but the depression-like conditions of the long economic crisis persisted in many areas, particularly in the former industrial areas of the Midwest and Northeast. In addition to the hundreds of thousands of blue-collar workers who had lost their jobs, many who remained employed nevertheless had their pay and benefits cut. Moreover,

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[17] Darrell Williams to Thomas Moore, 11 November 1986, OA 18906, Thomas Moore Files, RRPL.

[18] At the time, this was the second longest period of economic expansion in American history after the 1960s. (Throughout this dissertation, I use the National Bureau of Economic Research's business cycle designations to date periods of economic contraction and expansion. While a recession is sometimes defined as a period of two or more quarters of gross domestic product decline, the NBER's Business Cycle Dating Committee make their decisions based on consideration of broader array of economic statistics. As such, there may be some discrepancies between the dates that I provide and those provided in newspaper and other historical accounts.) See The National Bureau of Economic Research, 'US Business Cycle Expansions and Contractions', www.nber.org/cycles/cyclesmain.html [accessed 2 August 2018].

[19] See, for example, Iver Petersen, 'Young is Selling a City that Others Sell Short', *NYT*, 6 March 1983; 'Pittsburgh Shakes Off Steel's Setback', *Fortune*, 6 Feb 1984; Mark K. Metzger,'F. Kenneth Iverson Of Nucor: Man Of Steel', *INC. Magazine*, 1 April 1984; Taylor, 'Iacocca's Tightrope Walk Act,' *Time*, 21 March 1983.

[20] Kurt Andersen, 'America's Upbeat Mood', 24 September 1984, *Time*.

even those living in areas that *did* experience recovery felt the after-effects of America's decade long economic nightmare. Shuttered manufacturing plants, empty hotels, and closed firehouses dotted the urban and suburban landscape, while 55 mile-per-hour national speed limits, increased state and municipal taxes, higher public transport fares, and new university tuition fees provided almost daily reminders of the enduring changes wrought by the long economic crisis.

Not only did the crisis leave deep scars, but the fruits of the economic recovery were not broadly shared. The primary beneficiaries of this economic resurgence were the rich. For those who owned few assets and did not work on the top rungs of the service and knowledge economy, income gains were modest or, in many cases, non-existent. The result was growing economic inequality. Between 1982 and 1988, the proportion of national income going to the wealthiest one percent of Americans increased from 13 percent to 17 percent, while the share that the bottom 80 percent received fell from 48 percent to 45 percent.[21] At the same time, as a consequence of deep reductions in public spending on housing and welfare as well as skyrocketing housing costs, rates of homelessness soared. According to one estimate, in 1988 alone between 40,000 and 100,000 families spent a night in homeless shelters.[22] As such, it was wealthy and middle-income Americans that experienced the 'slam-bang' U.S. economy of the 1980s. For the rest of America, the national economic boom was something that was best enjoyed vicariously by watching *Dallas*, *Dynasty*, or *Lifestyles of the Rich and Famous*.

The rise of inequality amid so much talk of renewed national prosperity and economic revival did not go unnoticed.[23] In a keynote address at the 1984 Democratic National Convention, New York Governor, Mario Cuomo, attacked Ronald Reagan and described the nation's economic recovery as a 'tale of two cities' in which 'not everyone' was 'sharing in [America's] splendor and glory.'[24] Three years later, Oliver Stone's Academy Award-winning film *Wall Street* focused on the actions of a ruthless corporate raider and attacked the 'greed is good' ethos of 1980s business culture.[25] These were cutting critiques. Yet, they also illustrate the extent to which the terms of debate had changed within just a few years. At the height of the long economic crisis, American

[21] Edward Wolff, 'The Asset Price Meltdown and the Wealth of the Middle Class', NBER Working Paper 18559, 2012, p.50.
[22] Michael S. Foley, *Front Porch Politics: The Forgotten Heyday of American Activism in the 1970s and 1980s* (New York, 2013), p.267.
[23] For more on the rising economic inequality, see Peter H. Lindert and Jeffrey G. Williamson, *Unequal Gains: American Growth and Inequality Since 1700* (Princeton, 2016); Thomas Piketty, *Capital in the Twenty-First Century* (Harvard, MA, 2014).
[24] 'The Democrats in San Francisco: Transcript of Keynote Address by Cuomo to the Convention', *NYT*, 17 July 1984.
[25] 'Wall Street', dir. Oliver Stone, 1987.

newspapers and magazines had questioned if capitalism was working. Five years later, magazines, newspapers, and politicians were asking who capitalism was working for. As a result, those who came of age during the late-1980s, lived with the legacies and aftershocks of the long economic crisis, but never experienced it first-hand.

This dissertation is about the long economic crisis of the 1970s and 1980s. It is neither a tightly focussed monograph, nor a sweeping narrative history.[26] Instead, it is a wide-ranging interpretative political history that examines a number of the most significant moments within this ten-year period of economic confusion, political uncertainty, and human misery. It begins in the mid-1970s, with the 1973 OPEC oil embargo, the New York City fiscal crisis, and growing fears about the waning of American economic and industrial dominance. It ends in the mid-1980s, with the resurgence of the U.S. automobile industry, growing talk of a national urban revival, and the beginning of a prolonged period of national economic stability and expansion (later termed the 'Great Moderation').[27]

By focussing on this period and these specific events, *Beyond Reaganomics* tells the extraordinary story of the overlapping industrial, financial, and economic crises which engulfed America and the policies and initiatives that prevented its largest cities and industries from collapsing. This is not a tale that can be fully or accurately captured by examining the actions of various groups or individuals associated with the New Right or by statically surveying developments from the vantage point of Capitol Hill or the White House. Instead, it is a story that demands examination of multiple geographical scales of analysis and attention to decisions and policies devised at a local, regional and sectoral level. Ranging widely and drawing on a broad range of archival and printed primary sources, this dissertation reveals how during this period of profound economic turbulence, the American state (and states) played an integral role in creating and shaping markets, preventing corporate and municipal bankruptcies and transforming global economic geographies. In so doing, I offer an account of the 1970s and 1980s that departs sharply from the master narrative.

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[26] Given the lack of literature on this subject, it is not possible to produce a full historical account of the 'long economic crisis' simply by synthesizing the secondary literature. For a concise and highly readable overview that seeks to place the long economic crisis in a 'global' (European, Japanese, and American) frame, see Marc Levinson, *An Extraordinary Time: The End of the Postwar Boom and the Return of the Ordinary Economy* (London, 2016).

[27] On the 'Great Moderation', see James H. Stock and Mark W. Watson, 'Has the Business Cycle Changed and Why?' in Mark Gertler and Kenneth Rogoff, eds., National Bureau of Economic Research, *Macroeconomics Annual 2002* (Cambridge, MA); Galí, Jordi, and Luca Gambetti, 'On the Sources of the Great Moderation.' *American Economic Journal: Macroeconomics* (2009), Volume 1 (1).

Time Warp and Tunnel Vision

Historians first began to analyse and interpret the decades after the 1960s during the late-1980s. The most influential work within this first wave of scholarship was Gary Gerstle and Steve Fraser's 1989 edited volume, *The Rise and Fall of the New Deal Order*.[28] In their book's introduction, Gerstle and Fraser argued that the 1980 elections marked a critical turning point in American history that brought to an end a distinctive half-century political epoch. According to this argument, the New Deal endowed the U.S. with an 'ideological character, a moral perspective, and a set of political relationships among policy elites, interest groups, and electoral constituencies that shaped American political life for forty years.'[29] For much of the lifespan of this political order, it seemed as if the 'era ushered in by the New Deal would go on forever.'[30] As the book's title suggested, this was not to be. In fact, it was during the tumult of the 1960s and 1970s, Gerstle and Fraser, suggested that the 'ideas, public policies, and political alliances' that had sustained the New Deal order during the previous three decades began to break down.[31] In this telling, after decades of deterioration, the New Deal order finally succumbed to the wounds that it had sustained in previous decades 'when Ronald Reagan assumed office in the January of 1981.'[32]

This analytical framework has helped to set the historiographical terms of engagement ever since. Initially, most historians concentrated on examining the fractures in the New Deal order that developed during the 1960s. Elaborating on Fraser and Gerstle's argument that the 1960s and 1970s were the decades when the New Deal order decayed, scholars explored subjects including white working-class reaction to the Vietnam War, the implementation and transformation of the Lyndon Johnson administration's liberal reform agenda, and the evolution of the social movements of 'the Sixties'.[33] Emphasising national events and policies, works in this genre suggested that the New Deal order's fall was the product of a 'white backlash' sparked by the overreach of liberal policymakers and the radicalisation of the era's social movements during the Johnson and Nixon years. Like Fraser and Gerstle, therefore, these historians attributed the

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[28] Gary Gerstle and Steve Fraser (eds), *The Rise and Fall of the New Deal Order*, 1930-1980, (Princeton, 1989).
[29] Gary Gerstle and Steve Fraser, 'Introduction' in *Ibid.*, p.xi.
[30] *Ibid.*, pp.x.
[31] *Ibid.*, pp.ix.
[32] *Ibid.*
[33] See, for example: Daniel T. Carter, *The Politics of Rage: George Wallace, the Origins of New Conservatism, and the Transformation of American Politics* (New York, 1995); Thomas Edsall and Mary Edsall, *Chain Reaction: The Impact of Race, Rights, and Taxes on American Politics (*New York, 1991); Allen J. Matusow, *The Unravelling of Liberalism: A History of Liberalism in the 1960s* (New York, 1984); Gareth Davies, *From Opportunity to Entitlement: The Transformation and Decline of Great Society Liberalism* (Lawrence, 1996); Ronald P. Formisano, *Boston against Busing: Race, Class, and Ethnicity in the 1960s and 1970s* (Chapel Hill, 1991).

New Deal order's decline and eventual collapse to developments that occurred during the tumultuous years of the late-1960s and early 1970s.

More recently, scholars have shifted their attention to the immediate post-Second World War period and revised some of these earlier interpretations. Examining the New Deal order's alleged heyday, an influential group of urban historians have drawn attention to the campaigns against racial integration waged by white homeowners during the 1940s and 1950s.[34] Another group of historians has also focused on the behind-the-scenes mobilisation and work of conservative activists and organizations (at both a grassroots and elite level) during the immediate post-Second World War period.[35] Inserting themselves into these discussions, but concentrating on intellectual rather than political networks, a third and final group of historians and social scientists have also examined the behind-the-scenes role that a transatlantic community of 'neoliberal' intellectuals played in promoting anti-statist, free-market ideas during the first half of the twentieth century.[36] Challenging the idea that the New Deal order reigned hegemonic between 1933 and 1968, these three related clusters of scholarship have drawn attention to the deep racial, religious, and gender-based fissures baked into the post-Second World War political system and helped to excavate the long transatlantic root-network of the modern U.S. Right.

Since the turn of the millennium, scholars have also taken a second look at the 1970s. Once regarded as an uneventful decade sandwiched between the liberal 1960s and the conservative 1980s, in the past 15 years, historians have successfully recast the 1970s as a 'pivotal decade' when 'something happened.'[37] For most scholars, this something was the rise of the New Right

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[34] See, for example, Arnold Hirsch, *The Making of the Second Ghetto: Race and Housing in Chicago, 1940-1960* (Cambridge, 1983); Thomas Sugrue, *Origins of the Urban Crisis: Race and Inequality in Postwar Detroit* (Princeton, 1996); Andrew R. Highsmith, *Demolition Means Progress: Flint, Michigan, and the Fate of the Urban Metropolis* (Chicago, 2015).

[35] The body of scholarly work on modern conservatism is too large to comprehensively list in a word limited dissertation. However, for a relatively representative sample of different approaches, see: Lisa McGirr, *Suburban Warriors: The Origins of the New American Right* (Princeton, 2001); Kim Phillips-Fein, *Invisible Hands: The Making of the Conservative Movement from the New Deal to Reagan* (New York, 2009); Bethany Moreton, *To Serve God and Wal-Mart: the Making of Christian Free Enterprise* (New York, 2009); Elizabeth Tandy Shermer, *Sunbelt Capitalism: Phoenix and the Transformation of American Politics* (Philadelphia, 2013); Kathryn Olmsted, *Right Out of California: The 1930s and the Big Business Roots of Modern Conservatism* (New York, 2015); Nicole Hemmer, *Messengers of the Right: Conservative Media and the Transformation of American Politics* (Philadelphia, 2016).

[36] Daniel Stedman Jones, *Masters of the Universe: Hayek, Friedman, and the Birth of Neoliberal Politics* (Princeton, 2012); Angus Burgin, *The Great Persuasion: Reinventing Free Markets Since the Depression* (Cambridge, MA, 2012); Phillip Mirowski and Dieter Plehwe eds, *The Road from Mont Pèlerin:The Making of the Neoliberal Thought Collective* (Cambridge, MA, 2009); Quinn Slobodian, *The Globalists: The End of Empire and the Birth of Neoliberalism* (Cambridge, MA, 2018).

[37] Stein, *Pivotal Decade*; Edward Berkowitz, *Something Happened: A Political and Cultural Overview of the Seventies* (New York, 2005). See also: Thomas Borstleman, *The 1970s: A New Global History from Civil Rights to Economic Inequality* (Princeton, 2012); David Farber and Beth Bailey (eds), *America in the Seventies* (Lawrence, 2004); Kalman, *Right Star Rising*; Bruce J. Schulman, *The Seventies: The Great Shift in American Culture, Society, and Politics* (New York, 2001).

or ascent of neoliberalism.[38] In this telling, the astonishing global economic turbulence of the 1970s as well as debates over energy, culture, and macroeconomic economic policy unsettled long-standing certainties and political alliances.[39] Benefitting from this climate of uncertainty and division, conservative interest groups, policy entrepreneurs, businesspeople, and Republican Party elected officials mobilised and managed to 'coalesc[e] into a full-scale political movement and forg[e] durable connections between state and society.'[40]

This subsequent scholarship has helped to add nuance and complexity to the story of the New Deal order's fall. As a result, of the historical work published in the years since 1989, a revised narrative of the 1940s, 1950s, and 1960s has emerged. At the heart of this new narrative are actors who never accepted the New Deal order and who poured a great deal of energy, time, and money into trying to overturn its 'ideas, public policies, and political alliances.'[41] Yet, while political historians have modified elements of the New Deal order's story they have not overturned or replaced its broader outlines. Indeed, although recent scholarship chronicles the long series of subterranean battles over the roles and responsibilities of the state and business-labour relations that occurred in the decades following the New Deal, there remains a strong scholarly consensus that 'between the late 1960s and the election of Ronald Reagan in 1980, conservative politics...influence[d] and in many cases dominate[d] public debates over civil rights, foreign policy, sexuality, feminism, taxation, education, and the regulation of business activities.'[42] Put another way, of all the arguments that Fraser and Gerstle made in their short

[38] Many historians and scholars describe the political transformations of the late-1970s as a 'neoliberal turn.' For a brief period, this was a label that a small band of political philosophers and economists — who spent the 1940s, 1950s, and 1960s trying to renovate *laissez-faire* doctrines for the post-Great Depression era — embraced. However, there is by no means a scholarly consensus about its utility. Throughout this dissertation, I refer to ideas and policies that are sometimes bundled together using the umbrella term neoliberalism. For the sake of clarity, however, I tend to avoid using the term itself. This is not because I believe the concept lacks utility. Rather, it is because I think that neoliberalism is an effective analytical tool for comparing and contrasting the political economy of the New Deal order with the political economy of the post-1960s. However, as a framing device for discussions squarely focussed on contemporary history and political economy, I believe that it obscures significant differences in opinion and approach, dismisses important conflicts and divisions between different groups and individuals, and renders a multi-faceted set of approaches and ideas curiously two-dimensional. For a recent scholarly debate about the term's analytical utility, see 'Debating the Uses and Abuses of "Neoliberalism": Forum', *Dissent*, 22 January 2018, www.dissentmagazine.org/online_articles/debating-uses-abuses-neoliberalism-forum [accessed 20 October 2018].
[39] Stein, *Pivotal Decade*; Jacobs, *Panic at the Pump*; Jefferson Cowie, *Stayin' Alive: The 1970s and the Last Days of the Working Class* (New York, 2010).
[40] Bruce Schulman and Julian Zelizer (eds), *Rightward Bound: Making America Conservative in the 1970s* (Cambridge, MA, 2008), p.3. See also: Benjamin Waterhouse, *Lobbying America: The Politics of Business From Nixon to NAFTA* (Princeton, NJ, 2014); Donald Critchlow, *The Conservative Ascendancy: How the GOP Right Made Political History* (Cambridge, MA, 2007); Jason Stahl, *Right Moves: The Conservative Think Tank in American Political Culture since 1945* (Chapel Hill, 2018).
[41] Gerstle and Fraser, 'Introduction', p.ix.
[42] Benjamin C. Waterhouse, 'Mobilizing for the Market: Organized Business, Wage-Price Controls, and the Politics of Inflation, 1971–1974,' *Journal of American History* (2013), Volume 100 (2), p.456.

introduction, the assertion that the election of Ronald Reagan marked the end of a distinct era in American political history (and the beginning of another) has proved very durable.[43]

The longevity and dominance of this analytical framework has profoundly shaped the types of research that twentieth-century U.S. historians have conducted. Buying into *The Rise and Fall of the New Deal Order's* broader periodisation and overall argument, over the past thirty years, historians have read the origins or roots of the New Deal order's fall — and Ronald Reagan's 1981 election victory — further and further back in time. As a result of this scholarship, we have a much fuller and richer narrative of the history of conservatism than we did a quarter of a century ago. However, as the historian Matthew Lassiter, perceptively noted in 2011, this historiographical fixation with the modern conservative movement has also produced an 'all-roads-lead-to-Reagan' master narrative in which 'almost anything that happened after about after about 1938 culminates in the Reagan revolution of the 1980s.'[44]

Not only do most roads lead to Reagan, they also often end with Reagan. Satisfied that they have chronicled the most significant turning point in post-1930s American political history, many academic historians have either chosen to end their narratives in the early 1980s or compressed their discussion of the post-1981 period into brief concluding chapters or epilogues. As a result, while there is much scholarship on the immediate post-New Deal decades, there is comparatively little work that devotes sustained attention to the decades after the 1970s. There are, of course, some notable exceptions. However, scholarship on the 1980s and 1990s remains very limited and most of the works that do treat the 1980s as an opening, rather than closing, scene are decadal overviews written for a broad audience.[45] Although these syntheses are very readable, because of the limited number of monographs on this period, the authors of these texts have mostly relied on the same small collection of secondary work and printed primary sources and

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[43] The political scientist Stephen Skowronek's influential book *The Politics Presidents Make* advances a similar argument. Drawing parallels between Jimmy Carter and Herbert Hoover, Skowroneck makes the case that Carter and Hoover affiliated themselves with 'out-moded [political] regimes' and depicts Franklin Roosevelt and Ronald Reagan as 'reconstructive leaders' who were responsible for creating new 'governing regimes.' Stephen Skowroneck, *The Politics Presidents Make: Leadership from John Adams to Bill Clinton* (Cambridge, MA, 1993), pp.365, 414, and 447.

[44] Matthew Lassiter, "Political History Beyond the Red Blue Divide," *Journal of American History* (2011) 98 (3), p.761.

[45] See John Ehrman, *The Eighties: America in the Age of Reagan* (New Haven, 2005); Robert M. Collins, *Transforming America: Politics and Culture in the Reagan Years* (New York, 2007); Douglas C. Rossinow, *The Reagan Era: A History of the 1980s* (New York, 2015); Sean Wilentz, *The Age of Reagan: A History, 1974-2008* (New York, 2008); Gil Troy, *Morning in America: How Ronald Reagan Invented the 1980s* (New Jersey, 2005); Michael Schaller, *Right Turn: American Life in the Reagan-Bush Era, 1980-1992* (New York, 2007); Godfrey Hodgson, *More Equal than Others: America from Nixon to the New Century* (Princeton, 2004); Kevin M. Kruse and Julian E. Zelizer, *Fault Lines: A History of the United States Since 1974* (New York, 2019).

discussed the same small handful of events, debates, and characters.[46] As such, anyone who spends time reading more than one overview of the 1980s is likely to be left with a serious sense of *déjà vu*.

Much of the historical scholarship that does explore the period covered by this dissertation is also very narrowly focused. While monographs on the period may be small in number, many hefty, and sometimes multiple volume, scholarly and popular narratives about America's 40th president, Ronald Reagan can be found in university libraries and high-street bookstores.[47] Even tightly focused monographs in which Reagan is no more than a historical extra carry his name on their title pages and the leading interpretative syntheses variously refer to the period as the Age or Era of Reagan.[48] Whereas Benjamin Harrison is a reasonably invisible figure in many narratives of the Gilded Age, when it comes the 1970s and 1980s Ronald Reagan, an individual who 'mystified' even his authorized biographer, looms large and seldom leaves the stage.[49]

Publishers and bookstores clearly believe that Reagan — like sex — sells. But, so too do biographies of other presidents. And yet, in earlier periods of U.S. history, scholars have not been so single-minded in their focus on the occupant of the White House. Over the last thirty years, in writing about earlier periods of U.S. history, most academic historians have generally followed Fraser and Gerstle's lead and produced accounts that 'diminish the importance of particular political actors — presidents, senators, and others — as well as of the normal two-, four-, and six-year electoral cycles.'[50] Acknowledging the distortions that arose from identifying earlier periods of the 'Age of Jackson' and 'Age of Roosevelt', several historians have put

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[46] These issues are very apparent in James T. Patterson's, *Restless Giant*, the eleventh volume of the Oxford History of the United States series. Though very readable, it is shorter and less conceptually nuanced than other works in the series (including Patterson's other contribution). James T. Patterson, *Restless Giant: The United States from Watergate to Bush v. Gore* (New York, 2005).

[47] For major and recent scholarly biographies, see: Robert Dallek, *Ronald Reagan: The Politics of Symbolism* (Cambridge, Ma, 1984); Iwan Morgan, *Reagan: American Icon* (New York, 2016); John Patrick Diggins, *Ronald Reagan: Fate, Freedom, and the Making of History* (New York, 2007); H.W. Brands, *Reagan: The Life* (New York, 2015); Robert Mann, *Becoming Ronald Reagan: The Rise of a Conservative Icon* (Lincoln, 2019). For major and recent popular accounts, see: Lou Cannon, *President Reagan: The Role of a Lifetime* (New York, 1991); Richard Reeves, *President Reagan: The Triumph of Imagination* (New York, 2006); Craig Shirley, *Reagan Rising: The Decisive Years, 1976-1980* (New York, 2017); Bob Spitz, *Reagan: An American Journey* (New York, 2018); Larry Schweikart, *Reagan: The American President* (New York, 2019).

[48] See, for example: Bradford Martin, *The Other Eighties: A Secret History of America in the Age of Reagan* (New York, 2011); Nick Witham, *The Cultural Left and the Reagan Era: US Protest and Central American Revolution* (London, 2015); Rossinow, *The Era of Reagan*; Wilentz, *The Age of Reagan;* Steven F. Hayward, *The Age of Reagan: The Fall of the Old Liberal Order, 1964-1980* (Roseville, CA, 2001); Steven F. Hayward, *The Age of Reagan: The Conservative Counterrevolution, 1980-1989* (New York, 2009).

[49] Edmund Morris, 'Dutch', *New York Review of Books*, 12 April 2007.

[50] Gerstle and Steve Fraser (eds), *The Rise and Fall of the New Deal Order*, p.x.

forward their own alternative frameworks.[51] This methodological and analytical revolution has not reached the study of recent history, however. Contentedly stuck in a sort of methodological time-warp, historians of the 1970s and 1980s have continued to lavish the lion's share of their attention on Ronald Reagan and the cocktail of *laissez-faire* policies popularly known as 'Reaganomics.' As a result, the approaches that have helped fundamentally transform the study of earlier periods of U.S. history have made very little impression on the field of contemporary political history.

There are, of course, some exceptions to this general trend. A small cadre of historians writing about the decades after the 1960s have sought to de-centre both Ronald Reagan and the conservative movement. They have done so by calling attention to previously overlooked instances of activism in this period and highlighting the continued bipartisan embrace of 'big government' policy agendas in Washington during the 1970s and 1980s.[52] Others have also called for a rethinking of this period. For example, the intellectual historian, Daniel Rodgers, has made the case that intellectual currents associated with both the left and the right, influenced and shaped the dramatic political, cultural, and intellectual shifts of the 1970s and 1980s.[53] Joining this conversation, a handful of prominent U.S. historians have also written short 'think pieces' emphasising the moments, events, and characters that cannot easily be incorporated into broader narratives of ideological decline and ascendancy or business-labour conflict and partisan polarization.[54] As yet, however, there has been no historiographical revolution. Indeed, drawing heavily from the work on the rise of modern conservatism, the authors of some of the leading (and most recent editions) of U.S. history textbooks include chapters on the 1970s and 1980s

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[51] Tony Badger, 'The New Deal Without FDR: What Biographies of Roosevelt Cannot Tell Us', in T.C.W. Blanning and David Cannadine (eds), *History and Biography: Essays in Honour of Derek Beales* (Cambridge, 1996); Daniel Howe, 'Goodbye to the Age of Jackson', *New York Review of Books*, 28 May 2009; Thomas C. Cochran, "The 'Presidential Synthesis' in American History." *The American Historical Review* (1948), Volume 53 (4), 1948, pp. 748–759. On alternative frameworks, see: Louis Galambos, 'The Emerging Organizational Synthesis in Modern American History', *The Business History Review 44*, no. 3 (1970); Alan Brinkley, 'Writing the History of Contemporary America: Dilemmas and Challenges', *Daedalus 113*, (Summer 1984).

[52] Foley, *Front Porch Politics*; Lane Windham, *Knocking on Labor's Door: Union Organizing in the 1970s and the Roots of a New Economic Divide* (Chapel Hill, 2017); Stephen Tuck, "'We Are Taking Up Where the Movement of the 1960s Left Off': The Proliferation and Power of African American Protest during the 1970s", *Journal of Contemporary History* (2008), Vol 43, Issue 4, pp.637-54; Gareth Davies, *See Government Grow: Education Politics from Johnson to Reagan* (Lawrence, 2007); Suleiman Osman, *The Invention of Brownstone Brooklyn: Gentrification and the Search for Authenticity in Postwar New York* (New York, 2011).

[53] Daniel Rodgers, *Age of Fracture* (Cambridge, MA, 2011).

[54] See Brian Balogh, *The Associational State: American Governance in the Twentieth Century* (Philadelphia, 2015), pp.1-23; Lassiter, 'Political History Beyond the Red Blue Divide'; Thomas J. Sugrue, "All Politics is Local: The Persistence of Localism in Twentieth Century America," in *The Democratic Experiment: New Directions in American Political History,* eds., Meg Jacobs, William J. Novak, and Julian Zelizer (New Jersey, 2003); Brent Cebul, Lily Geismer, and Mason Williams, 'Beyond Red and Blue: Crisis and Continuity in Twentieth-Century U.S. Political History' in *Shaped By the State: A New Political History of the Twentieth Century* (Chicago, 2018).

titled 'The Triumph of the Right', the 'Conservative Revival', and 'The Resurgence of Conservatism.'[55]

Although scholarship on the subject remains modest, there is a broad-based consensus about the character of the political order that emerged in the wake of the New Deal order's collapse. After Ronald Reagan's 1980 election victory, so the standard narrative goes, the contestation, confusion, and paralysis that defined American political life for at least a decade melted away and a new set of anti-government, free-market, and free trade 'ideas, public policies, and political alliances' slowly became hegemonic.[56] This new electoral coalition did not collapse after Ronald Reagan left office. On the contrary, the momentous shift in political economy that took place during Reagan's time in office was part of a much larger and longer revolution in which *laissez-faire* and free trade became the reigning orthodoxy.[57] So complete and so sweeping was this transformation that by the mid 1990s it was a Democratic Party president (and former George McGovern campaign volunteer) that was signing tax and spending cuts, repealing financial regulations, and declaring that 'the era of big government [was] over.'

This narrative is not so much incorrect as incomplete. The rise of neoliberalism, conservative ascendancy, and Age of Reagan paradigms do identify important historical trends.[58] However, their dominance in post-1930s U.S. political history has also created a sort of scholarly tunnel vision and left us with significant and very noticeable scholarly blind spots. This has happened more by accident than by design. Trained to put their work in conversation with leading works in the field, professional historians interested in post-Second World War history have rushed to

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[55] Eric Foner, *Give Me Liberty! An American History* (New York, 2016); Jane Kamensky et al., *A People and a Nation: A History of the United States*, 11th ed. (Boston, MA, 2019); Paul Boyer et al., *The Enduring Vision: A History of the American People*, 9th ed., (Boston, 2018); David M. Kennedy and Lizabeth Cohen, *The American Pageant*, 17th ed. (Boston, MA, 2020).

[56] In the most sophisticated narratives of this period, historians do highlight the 'switchbacks and deadends' and 'resistance' that this new governing regime encountered. But, in acknowledging the limitations of the right turn, historians have concentrated almost exclusively on the defeats and disappointments that social and religious conservatives suffered and devoted very little attention to political economy. David T. Courtwright, *No Right Turn: Conservative Politics in a Liberal America* (Cambridge, MA, 2010), p.6. See also, Meg Jacobs and Julian E. Zelizer, *Conservatives in Power: The Reagan Years, 1981-1989* (Boston, 2010).

[57] See especially Gary Gerstle, 'The Rise and Fall(?) of America's Neoliberal Order', *Transactions of the Royal Historical Society 28* (2018); Monica Prasad, *The Politics of Free Markets: The Rise of Neoliberal Economic Policies in Britain, France, Germany and the United States* (Chicago, 2006); Stein, *Pivotal Decade*; Fred Block and Margaret R. Somers, *The Power of Market Fundamentalism: Karl Polanyi's Critique* (Cambridge, MA, 2014); Rodgers, *Age of Fracture*.

[58] These frameworks are not entirely synonymous. Scholars that favour the term neoliberalism are more likely to focus on intellectual communities and behind-the-scenes policy formation, while those who foreground the idea of a conservative ascendancy are more likely to focus their stories on more conventional partisan political actors and the activities of grassroots activists. However, though proponents of these paradigms place differing emphasis on the power sources that drove this political movement forwards, they generally agree about its overall character and outline.

build on the pathbreaking work on modern conservatism published in the early twenty-first century. At the same time, many historians have sought to produce research that has a clear through-line to the modern-day and have focused on ideas, policies, and approaches that they know have staying power. These very particular analytical lenses have helped to bring certain aspects of the post-1960s history into sharper focus, but they have made other parts of the picture more difficult to see. Perhaps most importantly in their rush to examine events, ideas, and policies that fit into pre-existing historical templates and to connect the past to the present, historians have unintentionally created a teleological master narrative of 1970s and 1980s U.S. history that is far too smooth and straightforward.

A Producer Revolution

As the title suggests, one of the primary aims of *Beyond Reagonomics* is to widen our field of vision of post-1960s U.S. history, particularly in the area of political economy. Achieving this goal requires moving the discussion past Ronald Reagan, the conservative movement, and the policies and ideas that they publicly championed. To be sure, it is impossible to build an accurate picture of the economic and political struggles of this period without consideration of America's 40th president and the conservative movement. Both had profound influence on the political and economic history of America during the long economic crisis and suggesting otherwise would be fatuous. However, there was much more to this era than just the narrow set of actors and institutions covered in the rise of conservatism literature. Indeed, in order to fully understand the transformations in political economy wrought by the long economic crisis and the power sources of the economic comeback of the 1980s, it is also necessary to look beyond Washington, 'Reaganomics' and electoral politics and examine the approaches and policies developed at a local, regional, and sectoral level during the crisis-ridden years of the 1970s and 1980s.

Between the mid-1970s and the mid-1980s, economic issues dominated American life in a way that they had not done since the Great Depression. With a wide-angled lens focused on the *longue* (ish) *durée* of the late twentieth-century, it is possible to depict the economic restructuring of this era as responsible for triggering the beginning of a new decidedly conservative era. As we have seen, this is how the late-1970s and the early 1980s are usually portrayed by scholars, remembered in the American national imagination, and depicted in popular histories.[59] This

[59] On the popular history of the 1970s and 1980s, see, in particular, CNNs two documentary series — *The Seventies* and *The Eighties*. The coverage in both series adheres closely to the Washington, White House, and macroeconomic centric narratives found in most major syntheses and textbooks. For topics most closely related to this dissertation, see episode two of *The Eighties* and episode five of *The Seventies*.

orthodox narrative presents Ronald Reagan's arrival in the White House as an epoch-shifting moment in which the policy disarray and broader political uncertainty of the Ford and Carter years melted away and an unswerving anti-government, free-market approach took hold. This is a seductively neat narrative that comes complete with a cinematic opening scene on the National Mall and cast of larger-than-life characters. Yet, for all of its linear allure, this story only holds up to scrutiny if we examine the history of this period in a zoomed-out and sped-up fashion, and focus on developments at the ballot box and in the nation's capital. As this dissertation reveals, a quite different picture emerges if we alter the scale, compress the timeline, and read the history of this period forwards.

One of the most striking things that emerges from a close study of the long economic crisis is how eerily similar the early years of the 1980s were to the final years of the 1970s. Between 1973 and 1983, the national economy and America's largest industries were plagued by the same maladies. Moreover, in the early years of the 1980s, the Reagan administration seemed to share the Carter and Ford administrations' innate ability to make matters worse, rather than better. At the same time, it kept in place many of the policies that it had inherited from its predecessors. To be sure, in several policy arenas, a lot did change between the mid-1970s and the early 1980s. The fact that journalists wrote in real time about 'Reaganomics' and the 'Reagan Revolution', but not about 'Fordonomics' or the 'Carter Revolution', is a testament to that fact. Yet, while the Reagan administration arrived in office with a much clearer policy agenda, broad-based disillusionment with the administration's signature policies arose just as quickly as jokes about Gerald Ford's Whip Inflation Now initiative had nearly ten years earlier. This continued for some time. Indeed, well into 1983, leading journalists were predicting that Ronald Reagan would share his predecessor's fate of being a one-term president. Before 1984, the idea of comparing the political impact of America's 40th president with the political impact of Franklin Roosevelt, or adopting Reagan's name as short-hand for a multi-decadal era that stretched backwards into the 1970s and forwards into the 1990s, would have seemed utterly fanciful.

Beyond Reaganomics also challenges our basic assumption that the 1970s and 1980s was an era of *laissez-faire* and free trade. After years of profound and sustained economic turbulence and political disarray, by the 1980s, many Americans had come to feel that dramatic public policy changes were required to stabilise the national economy and embraced market-based thinking and rhetoric. Yet, contrary to what many scholars have implied, this neither automatically translated into public policy, nor put U.S. history on a path that inevitably led to the warm embrace of Ronald Reagan or free-market and free trade approaches. Publicly, many of

America's leading politicians and business leaders did profess their fealty to *laissez-faire* doctrines and spouted anti-government rhetoric. But, to resolve various local, regional, and sectoral crises that arose during this period, many took an entirely different position and supported — or made little attempt to oppose — the kind of interventionist and protectionist federal policies that are usually thought to have been the sole preserve of much earlier eras of U.S. capitalism.[60] Though they may have rediscovered the market rhetorically, in the face of a crisis that seemed to threaten American economic and industrial dominance, many of the nation's political and economic elite were prepared to abandon or disregard their supposedly deeply held principles.

While the long economic crisis was a period during which many publicly championed free trade, it was also an era of rampant protectionism. Desperate business executives and labour union leaders from a variety of different industries formed coalitions and vigorously lobbied for the imposition of import restrictions and quotas on manufactured goods. To make their case for restrictive trade policies (and justify their deviation from their free trade ideals), those who pressed for import restrictions argued that their industries urgently needed 'breathing space' to restructure or made the case that their struggles were partially the result of the 'unfair trade' policies of other nations. A number of these campaigns were successful. As a result, for much of the informal decade that *Beyond Reaganomics* explores, American manufacturing goods — both large and small — were sold in a domestic marketplace that was anything but free.

A similar disjuncture between rhetoric and action can also be seen in the response to the very real threat of large municipal or corporate bankruptcies during the long economic crisis. At the same moment as domestic producers were struggling to compete with their Japanese counterparts, America's largest city, New York City, and 14th largest company, the Chrysler Corporation, were also on the brink of bankruptcy. Neither was able to access financial markets and each was desperately in need of cash. Stepping in where the financial community feared to tread, in both cases, the federal government agreed to provide billions of dollars of financial assistance to prevent a municipal default and a corporate bankruptcy. This involvement was not short-lived. For years after these 'bailouts' took place, the federal government remained actively involved in the company and the city's financial affairs and operations. For both Chrysler and

[60] Here, I am thinking of the 'out of sight' role that the American state played in protecting domestic industry and providing financial assistance to large corporations during the nineteenth century. See: Marc-William Palen, *The "Conspiracy" of Free Trade: The Anglo-American Struggle Over Empire and Economic Globalization, 1846-1896* (Cambridge, 2016); Richard White, *Railroaded: The Transcontinentals and the Making of Modern America* (New York, 2011); Brian Balogh, *A Government Out of Sight: The Mystery of National Authority in Nineteenth-Century America* (Cambridge, 2009).

New York City then, the long economic crisis was a period of more federal regulations and oversight.

It might be tempting to dismiss these episodes as historical glitches — politically insignificant and short-lived interruptions to the normal service of the 'Age of Reagan.' Certainly, as *Beyond Reaganomics* shows, these events stood in stark contrast to the broader policy agendas that successive presidents came into office intending to pursue. Moreover, most of the interventions chronicled in the pages that follow were largely temporary (few lasted the whole of the 1980s, and fewer still existed into the next decade). Nevertheless, they are just as much a part of the political and economic history of the 1970s and 1980s as tax and spending cuts, deregulation, and public speeches trumpeting the benefits of free trade and decentralised government. Just as strikingly, the fact that these policies could win such widespread support on the eve or in the midst of the supposed 'Reagan Revolution' suggests that the political economy of the long economic crisis was more protean and much less ideologically rigid than the conventional scholarly and popular wisdom conditions us to believe.

In addition to drawing attention to the disjuncture between what different individuals and groups said and did during this period, *Beyond Reaganomics* also highlights the varying approaches of different levels of government. As I reveal, if we adopt a different scale and examine local and regional attempts to halt industrial America's economic and financial slide, the 1970s and 1980s seems even less like an era of ascendant anti-government and free-market conservatism. In fact, at virtually every moment that *laissez-faire* policies were being advocated in Washington, very different policies were being implemented in cities and states. At the same time as Ronald Reagan was trying to pass a massive income tax reduction, for example, in the Northeast and Midwest mayors and governors were trying to convince voters and state legislatures to approve income tax increases to resolve their city or state's financial problems. Indeed, although historians have focused a great deal of attention on the 'tax revolt' of the 1970s, the long economic crisis was also an era in which many Americans voted to increase their taxes.[61]

Something similar also happened in the field of economic development policy. While the federal government increasingly sought to take a backseat role and hand responsibility for economic development policy to private actors, at a state level in particular, economic development

[61] For arguments that depict the tax revolt of the 1970s as indicative of a rising anti-government impulse (and precursor to the 1981 federal income tax cut), see Borstlemann, *The 1970s*, p.155; Hodgson, *More Equal than Others*, p.43.

spending was raised, the public sector took on new financial responsibilities, and large new activist initiatives were begun. Though many initiatives were carried out by governmental partnerships with the private sector, there is no question that these were public-private, rather than private-public affairs — the public sector was in control and the private sector followed. One cannot fully understand the long economic crisis or the political economy of the decades after the 1960s without grappling with these seemingly counterintuitive moments and events that occurred outside of Washington.

What then are we to make of the political economy of the long economic crisis? It might be tempting to recast the 1970s and 1980s as an age of uncertainty that was defined by inconsistency, confusion, and contradiction; an era of unresolvable paradoxes. However, this would be a mistake. As *Beyond Reaganomics* argues many of the political economy trends that scholars of neoliberalism and conservatism have identified and the countertrends that I pinpoint in the pages that follow came from the same source. For sure, they cannot be mapped onto the same ideological axis. However, they all derived from the premise that something was seriously wrong with the production side of the economy and that only action by the state could bring an end to the long, dark night of the economic crisis and restore morning again in America. The element of this story that we are most familiar with is the conservative side (the small band of *laissez-faire* stalwarts who consistently called for the shrinking of the state). In reality though, at a sectoral, regional, and local level, during the long economic crisis, this group was often not able to secure support for its agenda. Instead, in the face of a deep crisis that by the early 1980s seemed to challenge the very future of American economic might, many — including constituencies usually associated with the conservative movement — threw their support behind producer-orientated policies that required the state to roll forwards, not back. It is this second story that the main body of this dissertation chronicles.

A Play in Four Acts

Beyond Reaganomics is divided into four thematic chapters. The individual chapters focus on discrete topics and make a number of specific arguments. One could, therefore, read them independently like individual articles within a scholarly journal. This, however, would be a mistake. The subjects considered in each chapter are not disconnected case studies that simply happened to have occurred at similar moments in time. As will become apparent, contemporaries experienced or perceived the events chronicled in each chapter as connected developments and came to view them as part of one broader and singular crisis. For example,

after taking lessons from the New York City Financial Crisis and applying them to Chrysler, many of the leading actors in this dissertation became convinced that a bigger federal intervention was needed. As America's economic nosedive continued, the conviction that these overlapping crises were linked became so strong that by the mid-1980s many were calling for radical national policy overhauls. Drawing attention to this important — but almost entirely overlooked — larger story in the political economy of 1970s and 1980s America is the primary aim of this dissertation.

Chapter One, 'Prosperity Challenged', follows the political and economic experience of New York City in the mid-1970s. Complicating the idea that the 1970s was a period in which the national government took a backseat in urban affairs, this chapter highlights the deep and lasting (if often hidden) contribution that New York State and the federal government played in resolving the New York City fiscal crisis. At the same time, it also reveals how the Ford and Carter administrations' attempts to prevent the default of New York City, while simultaneously containing federal spending and devolving urban policy, led to policy decisions that expanded the power of the central state and diminished local governmental autonomy in America's largest city.

While the first chapter looks at a particular city, Chapter Two, 'Concealing Intervention', focuses on a specific sector: the U.S. automobile industry. Telling a fall and rise story, it tracks the fortunes of the Big Three automakers during a period in which they went from reporting billion-dollar annual losses to reporting billion-dollar annual profits. Unlike conventional business accounts, the narrative that emerges through close scrutiny of Chrysler, Ford, and General Motor's trajectory during this period is not (primarily) one of management ingenuity or research and design innovation. Instead, 'Concealing Intervention' shows how non-corporate actors — particularly the federal government — played a critical, but purposefully obscured, role in aiding America's largest automobile producers and protecting them from the hazards and vicissitudes of the market.

Chapter Three, 'Free Market Scepticism', takes a broader national view and discusses how the crises chronicled in the first two chapters and other global economic and industrial developments ignited calls for the introduction of a formal industrial policy. Exploring this radical moment in 1980s political economy, this chapter shines a spotlight on the broad coalitions that called for industrial policy as well as the anxiety that this movement provoked

among even the staunchest defenders of *laissez-faire* doctrines. In so doing, it draws attention to the role that global developments played in conditioning the response of America's political and economic elite to the era's many nightmares as well as the narrow acceptance of *laissez-faire* doctrines at the nadir of the long economic crisis.

The fourth and final chapter, 'Bringing the States Back In', adds a layer of complexity to the traditional declension narrative of the industrial policy movement. Telling a national story from a subnational vantage point, it examines economic development policy in three Rustbelt states in the later years of the long economic crisis. Drawing on new ideas about the sources of growth, Ohio, Michigan, and Pennsylvania introduced a set of industrial policies that were designed to catalyse local entrepreneurship and stimulate the growth of advanced technology industries. These policies quickly caught on. Indeed, by the second half of the 1980s, most states had introduced economic development policies modelled around those pioneered in the Rustbelt. Even as the national government was pushing producer-orientated 'small government' policies as the answer to America's problems, struggling states were putting into place 'big government' producer-centred policies and actively trying to shape and create markets.

Between the opening and closing scenes of this dissertation, the expectations and assumptions governing American political and economic life transformed dramatically. In 1973, the nation's leading politicians, corporate executives, and labour union leaders had very few concerns about the health and vitality of the nation's economy. They expected the post-Second World War economic boom to continue; they regarded America's status as the world's pre-eminent industrial and economic power as secure; and they had few concerns about the strength and international competitiveness of American producers. By 1988, however, it would have been difficult to find anyone who retained these views. Indeed, as the Epilogue reveals, even after an extended period of economic growth, record corporate profits, and financial stability, few believed that it was possible to recreate or return to the pre-long economic crisis age. It is the surprising and often unexpected tale of what happened between these two points in U.S. history that the following pages explore.

Chapter One

Prosperity Challenged:
The New York Fiscal Crisis and the Beginning of the Long Economic Crisis

'The City of New York is on the brink of financial collapse; an unparalleled disaster looms over it.'[62]
–Governor Hugh Carey (D-NY), 1975–

'We've been denied the cash that we need to operate. We've heard the echoes in financial houses and in our state and national capitals, echoes that are magnified in editorial columns which are more concerned with numbers than with people.'[63]
–Mayor Abraham Beame (D-NY), 1975–

On Saturday 22 March 1975, thousands of people gathered in downtown Manhattan to commemorate the two hundredth anniversary of the New York First Provisional Congress. To build excitement for the following year's bicentennial celebrations, a whole day of festivities had been arranged. Based purely on the attendance numbers, these events were a success: An estimated 50,000 people lined the pavements of Broadway to watch the colonial-themed parade that opened the festivities; 3,000 people gathered at New York's City Hall to listen to speeches and readings from prominent figures including Walter Cronkite and Marian Anderson; 300 people tucked into a slice of the red, white, and blue 'Liberty Cake' at the Rockefeller Center; and 40,000 people gathered on Central Park's Great Lawn to listen to the American Symphony Orchestra and watch the evening's fireworks display.[64] After the collective national nightmares of Vietnam and Watergate, the events of May 1975 provided thousands of New Yorkers with a few hours of escapism.

At least one person in attendance, however, did not enjoy the occasion. Throughout the day, New York City's Mayor, Abraham Beame, had been angry and irritable. The source of his ire was the Ford administration. Eight days earlier, the White House had rejected a request for emergency federal government aid from the mayor. Still fuming, during the Bicentennial Gala, Beame delivered an impassioned speech comparing the 'political subjugation' of 1775 to the 'economic subjugation' of 1975. Making no attempt to win over the White House, Beame declared that the 'fate of the city and the fate of the nation are entwined' and described the Ford administration as 'aloof and distant.' Continuing, he warned his audience that New York City needed to 'guard against being dominated by the will of a handful of people who have never stood for election' and announced that 'no American should be asked to mortgage the Statue of

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62 'Text of Carey's Message on City's Plight,' *NYT*, 6 September 1975.
63 'Transcript of Mayor Beame's Speech Describing Austerity Budget for City', *NYT*, 30 March 1975.
64 Deirdre Carmody, 'Patriotism on Parade as City Bicentennial Gala Begins,' *NYT,* 23 March 1975; Steve Mathews, 'Marchers Take Constitutional Up B'way to Begin Bicentennial', *NYDN*, 23 March 1975.

Liberty as the price to provide the quality of life that we have worked so hard to achieve."[65] An upbeat call for national unity and togetherness, the mayor's speech was not.

Beame's combative address was just one dramatic episode within the long-running saga of the 1975 New York City fiscal crisis. For nine months in 1975, America's largest city teetered on the edge of default. The cause of this financial chaos was the city's massive debts and colossal budget deficit. Ever since the 1960s, New York City had turned to municipal bond markets to cover the increasingly large shortfalls between its revenues and expenditures. As a result, by the middle of the 1970s, a great deal of the city's operating budget was financed through borrowing. Then, in the spring of 1975, America's commercial banks suddenly — and unexpectedly — refused to underwrite the city's municipal bonds and notes. Without the ability to borrow money, New York City could not pay off its short term debts as they matured or meet its bimonthly payrolls. As a result, over the course of a few weeks, a full-blown crisis emerged. In the short-term, New York City was able to keep its financial head above water because of financial aid from the state government, massive investments in bonds by the city's municipal unions, and deep spending cuts. In the longer term though, only the federal government or the nation's largest banks had the resources at their disposal to help the city pay its debts, meet its payroll, and avoid a default.

No U.S. city of New York City's size had ever defaulted on its debts before. Despite this, news of Gotham's financial travails did not spark panic in Washington or on Wall Street. In fact, for much of the second half of 1975, commercial banks and the Ford administration steadfastly refused to come to the city's aid. Outside of the White House, there was also no consensus about what should happen. Many newspapers, magazines, and members of Congress argued that America's largest city should be forced to face the consequences of decades of extravagant spending. At the same time, others insisted that the broader national and international ramifications of a default of the global financial capital were too disastrous to contemplate and urged the federal government to step in. The public debates over who was to blame for the crisis and how it should be resolved raged for months. Eventually, a federal aid package was agreed. However, it was six more years before New York City could independently sell long-term bonds and another 11 years before the city's government regained full control over its finances.

[65] Sam Roberts, 'His-Tory Lesson,' *NYDN*, 23 March 1975.

This is a relatively well-known tale. At the time, major national newspapers printed thousands of stories about the latest twists-and-turns in the New York City fiscal crisis, television reporters chronicled the latest near-misses in nightly newscasts, and politicians and other key players seldom missed a chance to air their opinions publicly.[66] In subsequent years, a number of historians have also turned their attention to events in America's largest city during this period.[67] These scholarly narratives tend to present the crisis as a defining moment in contemporary U.S. history in which a new urban political order emerged. In this telling, New York City's 1975 fiscal crisis was responsible for 'shift[ing] the common ground of American politics' and laying foundations for a new urban political order predicated upon privatisation, financialization, and self-help.[68] According to the conventional narrative therefore, for America's largest city it was *1975* (not 1981) that a 'dominant order of ideas, public policies, and political alliances died' and a new *laissez-faire*, pro-business political regime emerged.[69]

These accounts pinpoint important and significant trends. Looking back, it is evident that the New York City fiscal crisis occurred at a transformative moment in which many signature policies of the 'Reagan Era' began to take hold. By examining on-the-ground developments in New York City, historians have rightly drawn attention to the constituencies that were involved in, and excluded from, the decision-making process during the crisis. In so doing, they have illustrated how policy choices made by a small group of (overwhelmingly white and male)

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[66] In the wake of the New York City fiscal crisis, several journalists produced book-length accounts of the episode. See Ken Auletta, *The Streets Were Paved with Gold* (New York, 1980); Jack Newfield and Paul Du Brul, *The Abuse of Power: The Permanent Government and the Fall of New York* (New York, 1978); Fred Ferretti, *The Year the Big Apple Went Bust* (New York, 1976).

[67] A number of academic books on New York City history (detailed below) devote sustained attention to the New York City fiscal crisis. However, it is usually mentioned only very briefly in syntheses of 1970s and 1980s American history. In these narratives, it is largely treated as an event that was only symbolically important. See, for example, Sandbrook, *Mad as Hell*, p.127; Kruse and Zelizer, *Fault Lines*, pp.15-17; Freeman, *American Empire*, pp.334-5; Kalman, *Right Star Rising*, pp.62-3.

[68] Kim Phillips-Fein, *Fear City: New York's Fiscal Crisis and the Rise of Austerity Politics* (New York, 2017), p.9. See, also, David Harvey, *A Brief History of Neoliberalism* (New York, 2005); Joshua Freeman, *Working-Class New York: Life and Labor since World War II* (New York, 2000); Jason Hackworth, *The Neoliberal City* (Ithaca, 2007); Kim Moody, *From Welfare State to Real Estate: Regime Change in New York City, 1974 to the Present* (New York, 2007); Michael Spear, 'A Crisis in Urban Liberalism: The New York Municipal Unions and the 1970s Fiscal Crisis', PhD Dissertation, (CUNY, 2005); Michael Reagan, 'Capital City: New York in Fiscal Crisis, 1966-1978', PhD Dissertation (University of Washington, 2017). For accounts that locate the origins of the city's privatisation and pro-business policies in an earlier moment, see Joe Merton, 'John Lindsay, the Association for a Better New York, and the Privatization of New York City', 1969-1973, *Journal of Urban History* (2018); Miriam Greenberg, *Branding New York: How a City in Crisis Was Sold to the World* (New York, 2008).

[69] Gerstle and Fraser, *The Rise and Fall of the New Deal Order*, p.ix. While there is a broad agreement on the political consequences of the 1975 New York City fiscal crisis, historians differ on whether it represented, in the political scientist Timothy Weaver's memorable formulation, 'neoliberalism by design' (a self-conscious power grab by 'financial leaders, politicians...and conservative intellectuals') or 'neoliberalism by default' (a moment in which 'the threat of bankruptcy elided policy choices, making it appear as though there were simply no alternatives'). This chapter adheres most closely to this second reading. Freeman, *Working Class New York*, p.287; Fein, *Fear City*, p.8. For a discussion of these concepts, see Timothy Weaver 'By Design or by Default: Varieties of Neoliberal Urban Development,' *Urban Affairs Review* (2018), Volume 54(2), pp.234–266.

corporate and political elites moved New York City politics away from the urban liberalism of the post-Second World War era. However, by fixing their sights on tracking the rise of new austerity and pro-business logics, historians have side-lined other vital parts of the story. In particular, by situating the New York City fiscal crisis within longer narratives of ideological transformation and by foregrounding the tough anti-statist rhetoric of powerful politicians and business leaders, most existing accounts either downplay or gloss over the story of *how* the New York City fiscal crisis and similar moments of financial hardship in other American cities were resolved.

Despite the public statements of members of the Ford Administration and others during and after the New York City fiscal crisis, there was nothing *laissez-faire* or decentralised about the governmental response to the events in America's largest city during 1975. Throughout the crisis, the federal and state government were both actively (if, at times, indirectly) involved in trying to prevent or mitigate the financial impact of a default. Contrary to what many broad overviews of the post-1960s suggest, this was not just a symbolically important event that had local and short-term significance. In fact, as *Beyond Reaganomics* illustrates, the 'New York model' would shape how the political leaders of other cities responded to similar moments of crisis and also influence governmental responses to events chronicled in later chapters. As a result, though the New York City fiscal crisis may have helped to usher in an era of small government in the longer-term, in the short and medium-term, it sparked a brief but important period of state activism and centralisation that runs counter to wider public policy trends during this period.

This chapter tells the story of the 1975 New York City fiscal crisis. Throughout, I show how the travails of America's largest city were shaped by the broader economic and political terrain of the 1970s and 1980s as well as by public policy and financial developments that occurred before the onset of the long economic crisis. Much of the chapter therefore focusses in detail on events in New York and Washington D.C. in 1975 and 1978. However, to fully explain the dynamics at work during the New York City fiscal crisis it is necessary first to explore the underlying structural problems that helped create the crisis atmosphere of the mid and late-1970s.

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The Onset of the Urban Fiscal Squeeze

During Gerald Ford's first year as President, many of America's cities had to come to terms with financial and economic turbulence. This was largely an unexpected development. To be sure, the post-Second World War period was hardly an era of abundance and financial stability for urban America. On the contrary, during the 1950s and 1960s, capital and residential flight (trends that accelerated in the wake of urban uprisings of the 1960s) significantly reduced municipal revenues. Simultaneously, the ambitious urban revitalisation schemes and social welfare programmes of the 1950s and 1960s dramatically increased city expenditures and America's cities built up large debts in an effort to reduce political conflict over taxes and spending.[70] But, because they continued to receive large amounts of federal and state dollars and were able to borrow at very low rates of interest throughout the 1960s and early 1970s, municipal budget deficits were, for the most part, fairly easily resolved. In the mid-1970s, however, this changed. Indeed, as a result of a series of parallel and overlapping developments New York City and several other large industrial cities found themselves with massive budget deficits that they were unable to finance through borrowing. The urban fiscal squeeze of the 1970s and 1980s had arrived.

The first significant development that contributed to the crisis-ridden atmosphere of the mid-1970s was the transformation of the municipal bond market. For decades, America's commercial banks had enthusiastically bought and marketed municipal debt. Eager to win the bidding wars for these tax-exempt bonds, banks (either individually or as part of a syndicate) snapped up municipal debt at low rates of interest. This changed with the onset of the long economic crisis. In July 1974, as many Americans queued at the nation's gas stations and Watergate entered its stunning final act, commercial banks suddenly began refusing to buy municipal bonds unless cities, including New York and Chicago, set interest rates in excess of 7 percent for their bonds.[71] This caused chaos. Most city governments had assumed that they would be able to borrow at the rates of interest (five percent or lower) that they had grown accustomed to during the 1950s and 1960s and had budgeted accordingly. Some cities refused to pay these higher rates of interest and cancelled planned bond sales; others were unable to change their financial plans and had no choice but to devote larger amounts of their revenues to servicing the debts.

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[70] For more on how these trends affected New York City, see Charles R. Morris, 'Of Budgets, Taxes, and the Rise of a New Plutocracy' in Joseph P. Viteritti ed., *Summer in the City: John Lindsay, New York, and the American Dream* (Baltimore, 2014); Martin Shefter, *Political Crisis/Fiscal Crisis: The Collapse and Revival of New York City* (New York, 1985), pp.60-5.

[71] Hearings Before the Subcommittee on Financial Markets of the Senate Committee on Finance, 'The Growing Threat of a Domestic Financial Crisis,' (Washington D.C., 1974), p.3

At the time, this rapid rise of bond interest rates seemed to come without warning. In reality though, because of public policy decisions taken during the Nixon administration, municipal bond markets had been in flux for some time. In an attempt to curb inflation and address money shortages, during the late-1960s and early 1970s, the White House had lifted certain restrictions on interest rates and allowed commercial banks to market new financial products to consumers.[72] At the same time, major American banks also began to expand their international operations and to invest in European markets.[73] Presented with a host of new and lucrative investment opportunities, banks (which at the start of the 1970s held around half of America's total municipal debt) began selling off the city bonds already on their books and demanding ever-higher interest rates in order to buy new bonds.[74]

Initially, these developments did not have a particularly significant impact. For most of the early 1970s, commercial banks still underwrote and promoted bonds. Furthermore, because America's two largest bond-ratings agencies (Moody's Investor Service and Standard and Poor's Corporation) continued to rate the majority of municipal bond issues favourably, major institutional investors remained willing to purchase the debt of America's largest cities.[75] However, the bankruptcy of America's 20th largest bank, Franklin National Bank, in 1974 and the default of the gigantic public-private urban redevelopment agency, The New York State Urban Development Corporation in 1975 upended this situation and — in the words of one reporter — 'sent shivers through the entire municipal bond market.'[76] By the middle of the decade, major institutional investors and bond ratings agencies were investing more cautiously and insisting that municipalities disclose additional financial information before they purchased bonds. As a result, by the mid-1970s, the seller's municipal bond market of the 1950s and 1960s had been replaced by a buyer's market.

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[72] Greta R. Krippner, *Capitalizing on Crisis: The Political Origins of the Rise of Finance* (Cambridge, MA, 2011), pp.73-5. On the Nixon and Ford administration's enthusiasm for 'regulatory reform' of the commercial banking industry, see Mark H. Rose, *Market Rules: Bankers, Presidents, and the Origins of the Great Recession* (Philadelphia, 2019).

[73] For a more detailed discussion of these developments, see Reagan, 'Capital City,' pp.157-75.

[74] Robert J. Samuelson, 'No Funds for Fun City,' *TNR*, 10 May 1975; Fein, *Fear City*, pp.75.

[75] John H. Allan, 'Price of Bonds Continue to Rise,' *NYT*, 21 April 1972. On ratings agencies, see Jacob Hacker, *The Neoliberal City: Governance, Ideology, and Development in American Urbanism* (Ithaca, 2007), pp.17-39; Roger Biles, 'Public Policy Made by Private Enterprise: Bond Rating Agencies and Urban America', *Journal of Urban History* (2018), Volume 44(6).

[76] Dave Anderson, 'Hospital Bonds Won't Sell,' *DFP*, 26 February 1976; 'Banking: Franklin Fizzles Out,' *Time*, 21 October 1974; 'Securities: A Moral Issue,' *Time*, 10 March 1975.

The mid-1970s was also a period of transformation in the relationship between America's cities and the national government. Over the previous decade, federal expenditures had grown at an explosive rate, and a complex network of government agencies had been created to administer a broad array of different urban programmes.[77] By the late-1960s however, a broad-based consensus had developed that this centralised and intricate system of bureaucracy was inefficient and in need of reform.[78] Responding to this (as well as his own personal hatred of federal bureaucracy), Richard Nixon unveiled a series of policy proposals in his first six months in office that he claimed would tackle America's 'urban crisis', 'social crisis', and shift 'power, funds, and responsibility' from 'Washington to the States and to the people.'[79] These 'New Federalism' initiatives included an array of changes to existing welfare and job training programmes. However, the most significant change for urban America was the introduction of a new revenue-sharing system in which federal income tax revenues would be provided to state and local government with few conditions on how the money could be spent.[80] After years of programmes that had expanded the size and reach of the central government, the Nixon administration was pursuing policies designed to significantly alter the relationship between the municipal state and the central state.

At first, this policy overhaul received the support of many local elected officials. Excited by the promise of greater autonomy and of additional federal resources, state and municipal officials from across the country rushed to endorse the Nixon administration's New Federalism programme.[81] It soon become apparent however that in addition to removing 'Federal strings' and 'decentralizing government power', the Nixon and Ford administration's urban policy reforms would move federal aid away from the large industrial cities of the Northeast and Midwest towards the suburbs and the sprawling cities of the Sunbelt and West.[82] Consequently,

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[77] Roger Biles, *The Fate of Cities: Urban America and the Federal Government, 1945-2000* (Lawrence, 2011), pp.112-59.
[78] Daniel Amsterdam, 'The President, Congress, and Federal Social Policy in the 1970s', in Mark H. Rose and Roger Biles, *The President and American Capitalism Since 1945* (Gainesville, 2017), pp.270-1.
[79] Richard Nixon, 'Address to the Nation on Domestic Programs,' *The American Presidency Project* https://www.presidency.ucsb.edu/node/239998 [accessed 2 September 2019]
[80] Quoted in Timothy J. Conlan, 'The Politics of Federal Block Grants: From Nixon to Reagan', *Political Science Quarterly* (1984), Volume 99 (2), p.252.
[81] James E. Steele, 'Administration to Seek Revenue-Sharing, Mayors Told,' *The Philadelphia Inquirer*, 9 December 1970; Bernard J. Frieden and Marshall Kaplan, *The Politics of Neglect: Urban Aid from Model Cities to Revenue Sharing* (Cambridge, MA, 1975), p.242.
[82] Richard Nixon, 'Special Message to the Congress on Sharing Federal Revenues With the States' *The American Presidency Project*, https://www.presidency.ucsb.edu/node/240017 [accessed 2 September 2019]; Robert S. Boyd, 'Revenue Sharing Called Big Double Cross,' *DFP*, 1 March 1973.

by the mid-1970s, city officials were not just having to grapple with rising borrowing costs; they were also having to plan for a future in which federal dollars would be in much shorter supply.[83]

These changes in federal urban policy and municipal bond markets could not have occurred at a worse moment in time. In October 1973, the Middle Eastern countries within the Organisation of Petroleum Exporting Countries (OPEC) cut off oil exports to the United States in response to America's support of Israel in the Yom Kippur War. In the embargo's wake, inflation rates rose steeply as did energy prices and unemployment.[84] With basic economic indicators in free-fall, in November 1973 the U.S. economy slipped into a severe recession. The recession proved to be much deeper and longer than any of the previous post-Second World War business cycle contractions. Indeed, although inflation fell rapidly from its January 1974 peak of 11 percent during 1975, wages and business profits continued falling throughout the year. Making headlines, in the spring of 1975 the national unemployment rate rose above 9 percent (the highest since 1941).[85] Although it was not clear at the time, the post-Second World War economic boom had come to a juddering halt, and ten years of acute financial and economic volatility was just beginning.

Turning to the Federal Government

The national and international economic turbulence of the mid-1970s left many American cities with acute financial problems. As unemployment soared and business profits nose-dived, the underlying budgetary woes that urban America had faced since the beginning of the suburban age multiplied considerably. Amid the recession, property and income tax revenues plummeted and social welfare expenditures soared. Confronted with a crisis that seemed beyond their resources to tackle, America's mayors reacted in the same way as they had during the municipal budget crunch of the Great Depression: turning to the federal government for financial help.[86] Various proposals for anti-recessionary financial aid that were put forwards during this period, however, were initially rejected by the Ford administration.[87] While America's mayors may have

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[83] The Housing and Community Development Act of 1974 consolidated several different urban aid programmes into one programme. Most importantly, however, as a result of the new distribution formula, the federal funding that more than 100 large cities received fell. Harold L. Bunce, 'The Community Development Block Grant Formula: An Evaluation', *Urban Affairs Quarterly* (1979), Volume 14 (4), p.446; Biles, *The Fate of Cities*, p.190.
[84] Hobart Rowen, 'How High Can Prices Climb?', *WP,* 6 September 1973.
[85] Stein, *Pivotal Decade*, p.112; Deborah Pisetzner Klein, 'Employment and Unemployment in the First Half of 1975', *Monthly Labor Review* (1975), Volume 98 (8), p.11.
[86] On the federal government's reaction to such appeals in the 1930s, see Mark I. Gelfand, *A Nation of Cities: The Federal Government and Urban America, 1933-1965* (New York, 1975), pp.22-70; John J. Gunther, *Federal-City Relations in the United States: The Role of Mayors in Federal Aid to Cities* (Newark, 1990).
[87] John Kifner, 'Big City Mayors Ask U.S. for Emergency $2 Billion,' *NYT*, 6 July 1975.

responded to the economic turbulence of the 1970s in the same way as they had during the Franklin Roosevelt administration, the White House did not.

At the same time as the U.S. Conference of Mayors was unsuccessfully trying to make a case for a massive countercyclical urban aid package, New York City's mayor, Abraham Beame, was also making an individual plea for federal assistance on behalf of his city. At the start of March 1975, Beame travelled to Washington D.C. to ask high-ranking members of the Ford administration for an emergency federal government loan.[88] At the time, commercial banks were requesting eight and nine percent rates of interest in return for marketing the city's debt — a rate that Beame considered to be 'outrageously high.'[89] Though the Ford administration officials present at the meeting did not share Beame's sense of outrage, they were wary of the potential political impact of immediately rejecting his request. Stalling for time, Ford's aides promised Beame that they would study New York City's aid proposal and respond at a later date.

At the time of this Washington meeting, America's largest city's debts were staggeringly large. Altogether, New York City had long-term debts of $8 billion, short-term debts of $5 billion, and a multibillion-dollar annual deficit.[90] This was not a new problem. During the course of the late-1960s and early 1970s, New York City had repeatedly turned to bond markets to bridge the growing gap between its revenues and expenditures.[91] Rather than paying off these debts through spending reductions and tax rises, successive mayors had simply issued more bonds. By the time that the 1973-75 recession hit and municipal bond investment rates began to soar, New York City's debts were so large that it could only meet its bimonthly payrolls and service its debts by new bonds.[92] Not only did higher interest rates force the city to spend even more of its revenues servicing its debts, but they also raised the horrifying possibility of a nightmare scenario in which investors simply refused to buy any more of the city's debt.

In the wake of Beame's trip to Washington, New York City's financial problems multiplied. Days after the meeting with Ford administration officials, the municipal government succeeded (after lengthy negotiations) in borrowing $537 million. This, however, was the last positive

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[88] Martin Tolchin, 'Beame Bids U.S. Lend City Money Without Interest,' *NYT*, 6 March 1975.
[89] Edward Ranzal, 'City to Pay 9.4%, 2D Highest Rate, on 1-Year Notes', *NYT*, 8 January 1975.
[90] Securities and Exchange Commission Staff Report, 'Transactions in the Securities of the City of New York' (Washington D.C., 1977), Chapter 1, p.121.
[91] For a breakdown of New York City's expenditures, revenues, and debt during this period, see Attiat F. Ott and Jang H. Yoo, *New York City's Financial Crisis Can It Be Reversed* (Washington D.C., 1975), pp.4-5.
[92] Joint Economic Committee, 'New York City's Financial Crisis: An Evaluation of its Economic Impact and of Proposed Policy Solutions,' (Washington D.C., 1975), pp.22-28.

financial news that New York City's officials would receive for some time. In mid-March, the leaders of several major banks privately notified New York City's political leaders that they were no longer willing to buy the city's bonds.[93]After this announcement, developments moved apace. Citing the 'inability or unwillingness of the major underwriting banks to continue purchasing the city's notes and bonds', in early April, Standard and Poor's suspended its ratings of the city's bonds.[94] This created chaos. Initially, New York City's elected officials *had* intended to pay the $600 million of debt that was imminently due to mature through new borrowing.[95] But, Standard and Poor's decision as well as more informal rumblings of discontent from various institutional investors, made this plan impossible. If New York City was to avoid a default, it needed additional money — and it needed it fast.

In the end, salvation came from the state government. The day after Standard and Poor's suspended the city's bonds, New York Governor, Hugh Carey, announced that the state government would borrow $400 million so that it could provide the city with an advance on state welfare payments.[96] This intervention resolved the immediate cash-flow problem. But, it was only a very temporary fix. The next month New York City would have to pay bills of a similar size and it would therefore confront precisely the same problem. Convincing Albany to provide more aid was unlikely to be easy, however. Indeed, in May 1975, the Republican-controlled State Senate rejected a request from Beame for more state aid, and the authorisation of new taxes.[97] With neither the state government nor commercial banks prepared to provide the $1 billion that New York City required to pay its bills, an alternative solution was urgently required.

It was against this gloomy financial backdrop that Beame travelled with Hugh Carey to Washington for another meeting with Ford administration officials. This time, there were more reasons for optimism. After the meeting, the Treasury Secretary, William Simon, informed journalists that he was 'concerned' by developments in New York City, and worried about the possible 'ripple effects' a default might unleash in financial markets.[98] But, just three days after the meeting, the Treasury Secretary told reporters that he thought 'assistance would not be appropriate' and announced that 'the fundamental solution to the city's financial problems does

[93] SEC Staff Report, 'Transactions in the Securities of the City of New York,' Chapter 4, pp.53-60.
[94] 'N.Y. Bonds 'A' Rating Suspended', *WP,* 3 April 1975.
[95] SEC Staff Report, 'Transactions in the Securities of the City of New York', Chapter 1, p.216.
[96] Fred Ferretti, 'State to Advance Funds to the City to Pay April Bills', *NYT*, 4 April 1975.
[97] Maurice Carroll, 'There is Just So Much the State Can Do For the City; And Only So Much It Will Do, Politically', *NYT*, 18 May 1975.
[98] Edwin L. Dale, Jr., 'Federal Aides Reviewing Ways the City Might be Aided', *NYT*, 8 May 1975.

not lie at the Federal level.'[99] Just as it had with proposals for counter-cyclical urban aid, the Ford administration took a hard line when it came to providing additional federal financial assistance to America's cash-strapped cities.

This decision shocked Beame and Carey. Seeking to appeal, they demanded an audience with Gerald Ford — a request that was accepted. But, if Beame and Carey harboured any hope that the meeting had been arranged because Gerald Ford did not agree with his Treasury Secretary, these beliefs were quickly dispelled. At the opening of the meeting, Ford declared that he was 'very sympathetic' towards the plight of New York City and its residents.[100] His sympathy only went so far, however. Indeed, after patiently listening to Carey and Beame's appeals, the President turned to his briefing notes and began highlighting cutbacks that would 'improve the expenditure side and revenue side' of the city's budget.[101] Perhaps unsurprisingly therefore, the public response that the White House issued a few days later, stated that 'fiscal responsibility is essential for cities, states and the Federal Government' and that federal aid would 'merely postpone [New York City] coming to grips with the problem.'[102]

As explicit as the Ford administration's rejection letter was, it did not remove all hope of federal aid. While the White House made clear that it was unwilling to help New York City immediately, it did not exclude the possibility of *future* assistance. Gerald Ford's letter promised that the Treasury would continue to 'follow closely the credit situation of the City of New York' and 'keep [the President] informed.' Moreover, it also stressed that the administration's judgement was guided by a belief that America's largest city lacked a 'sound plan to balance the budget' as well as a conviction that the state government could — and should — provide the city with more aid. As such, the Ford administration made clear that its opposition to federal aid was not based upon philosophical discomfort with giving financial aid to a city that commercial banks had turned their back on. Instead, it derived from a belief that other avenues had not yet been exhausted and that New York City officials should cut 'less essential services and subsidies.' If the White House became convinced that this had changed, the letter implied that Ford might

[99] Edwin L. Dale, Jr., 'Simon Says U.S. Won't Aid in Financial Rescue of City', *NYT*, 11 May 1975.
[100] Jim Cannon, 'Meeting with Governor Hugh Carey and Mayor Abe Beame', Box 45, '1975/05/13 - President, Abraham Beame, and Hugh Carey', James M. Cannon Files, GFPL.
[101] This account is constructed from talking points prepared by the director of the White House Domestic Policy Council, notes taken by the director of the Office of Management and Budget, and newspaper reports. *Ibid.*; Handwritten notes, 'New York City Finances - Meeting with the President, Vice President, Beame, and Carey, May 13, 1975', Box 23, James M. Cannon Files, GFPL; Philip Greer, 'Ford to Decide Quickly on New York City Aid', *WP*, 14 May 1975.
[102] 'Text of President's Letter,' *NYT*, 15 May 1975.

reassess his position. In the meantime, however, the city would have to find a way to pay its bills without federal assistance.

Debating the Future of the Municipal State

In the wake of Ford's decision, a brief, but intense battle raged among New York's political and economic elite over how to resolve the city's financial problems. On one side was Abraham Beame and other leading members of the city government. During the spring months, Beame in particular went on the offensive — describing the Ford administration's decision to reject his aid request as 'more political than practical,' and denouncing the 'unthinkable' spending cuts that the 'Republican pincer movement in Washington and Albany' was demanding in return for financial aid.[103] Behind this anger, Beame did accept that the city's borrowing was out of control, and, in November 1974, he had introduced a deficit reduction plan and reduced the size of the city's workforce.[104] However, he wanted to lessen the pain of austerity by bringing the city's debts down slowly and was steadfastly opposed to the idea of eliminating social welfare programmes that he believed helped the city's neediest residents. Put simply, in Beame's mind, the 'social democratic polity' constructed in New York City during the heyday of the New Deal order was something that should be fought for and preserved at all costs.[105] If he was to pursue this course of action, however, he would need to either win the support of the federal government or Wall Street.

Among those who could provide New York City with the money that it urgently needed if it was to avoid a default, few shared the views of the city's mayor. On Wall Street in particular, the mayor's public statements aroused anger and distrust. Having concluded that the city's political leadership was unwilling to jettison — what they perceived as — the free-spending practices of his predecessors, the financial community acted quickly. In late May, the leaders of thirty major banks finally did what they had been privately threatening to do for several months: shut America's largest city out of the national bond market.[106] With this decision, the state government became New York City's best hope for aid. However, if anything, Beame had fewer friends in Albany than he did on Wall Street. Those who wielded political power at a state level, did not share the mayor's view that the dismantling of the New Deal municipal state would be an undesirable outcome of the crisis — in fact, many held the opposite view. Firmly committed to

[103] Frank Lynn, 'Carey and Mayor Express Anger', *NYT*, 15 May 1975; John Darnton, 'Beame Threatens 38,000 Dismissals', *NYT*, 17 May 1975.
[104] Ronald Smothers, 'A Chronicle of the Crucial Dates in the City's Financial Crisis,' *NYT*, 28 July 1975.
[105] Freeman, *Working-Class New York*, p.55.
[106] John T. McQuiston, 'Bankers Offer Loan Plan; Goldin Sees a 'Rejection,' *NYT*, 23 May 1975.

bringing the city's spending down as well as to keeping property, income, and sales taxes low, the Republican leadership in the State Senate made clear that it would only support an aid package if the city agreed to layoff city workers, introduce a budget ceiling, increase the city's transit fares, and impose a four-day workweek on public sector employees (spending cuts that Abraham Beam had already made clear he would oppose).[107]

Deadlock ensued. Even as New York City's debt repayment and bimonthly payroll deadlines grew closer, neither the city government nor the senior Republican members of the state legislature made attempts to build bridges or compromise. In the end, New York Governor Hugh Carey intervened. Horrified at the prospect of a default, the governor — who was far less committed to a particular vision of the roles and responsibilities of the municipal state than either Beame or Republican leaders in the State Senate — asked a four-member committee of 'nonpoliticians' (prominent financiers and members of the business community) to review the options available to the city and recommend financial reform measures that would help the city avert a default. Within days, this blue-ribbon committee had proposed the creation of a new state agency, the Municipal Assistance Corporation (MAC).[108] The plan was that this agency would sell $3 billion of long-term bonds (backed by state revenues) and then use this money to provide New York City with new long-term, low-interest loans. In short, the state agency was designed to function as an intermediary and to provide America's largest city with the ability to do something that commercial banks would not allow it to do: refinance its short-term debts.

This proposal represented a blow for Abraham Beame and the city government more generally. Although the MAC would *not*, if created, have the power to compel the city to make any specific spending cuts, it would place a number of new restrictions on the autonomy of the municipal government. In particular, in return for the state agency's money, city officials would be forced to accept strict restrictions on New York City's future borrowing as well as continuous financial scrutiny from the new agency's nine-member board.[109] Perhaps unsurprisingly then, the state government and Wall Street banks quickly agreed to provide New York City with additional financial assistance, *if* the City Council approved the creation of the state agency. Believing that the alternative was a default, Abraham Beame also announced his support for the idea. Others, however, were not so easily convinced. Objecting to the long-lasting budgetary and borrowing

[107] Ferretti, *The Year the Big Apple Went Bust*, p.193.
[108] Maurice Carroll, '$200-million Limit Set on Aid from the State', *NYT*, 22 May 1975.
[109] Under the proposal, five members of the MAC's nine-member board would be selected by Carey, and four by Beame. 'Corporation's Provisions,' *NYT*, 10 June 1975.

constraints and the surrendering of the city's decision-making autonomy, the City Council President announced that he refused to 'reject [a default] out of hand' and promised that he would check 'every word, every comma' to assess 'how harsh the terms of the corporation are.'[110] Opposing the bill on different grounds, one Republican legislator declared that the proposals would 'bail out the city on behalf of state taxpayers,' while the Republican leader of the State Senate announced that he did not want to give 'what amounts to a papal blessing to the mortal sins of the past.'[111]

In the end, it was Albany, not the Vatican, that provided the blessing. After days of wrangling, the day before the loans were due to mature, an agreement was reached. It was a little after 2am when the City Council approved the measure, and nearly 3am when the State Senate passed the legislation. Keen to ensure that all the legal hurdles were cleared as soon as possible, Hugh Carey's aides woke the Governor so that he could sign the bill into law.[112]

The Long and Stormy Summer of 1975

Although the creation of a new state agency may have rescued New York City from an immediate default, it did not end the crisis.[113] The MAC was intended to 'buy [New York City] a couple of months' in which 'a climate and a series of perceptions' could be forged that would allow the city to regain access to financial markets.[114] Success was not guaranteed. In fact, there was much that could go wrong with this plan. If, for example, the agency did not manage to persuade the same institutions that had refused to purchase New York City's notes and bonds to buy the agency's $3 billion long-term debt, the city would once again be on the brink of default. Furthermore, even if the MAC achieved this goal, it was possible that New York City would not be able to regain the confidence of investors by the autumn. For the nine members of the MAC's board, the summer holidays would have to wait; the months ahead were simply too important to waste.

The new agency did not get off to a good start. At the beginning of July, the MAC issued bonds worth $1 billion (more than double that of any previous single municipal bond offering). Keen

[110] Fred Ferretti, 'State Aid Agency City's Only Option, Panel Insists,' *NYT*, 5 June 1975.
[111] Francis X. Clines, 'An Accord Near on Plan to Block Default By City', *NYT*, 10 June 1975.
[112]'Beame, Anderson Reach Final Agreement on Big MAC,' *NYDN*, 10 June 1975.
[113] After the creation of the new state agency, various parties made good on their pledge to assist the city. Commercial banks issued the city with loans of $380 million, the state provided an aid advance of $200 million, municipal pension funds agreed to purchase $51 million of city securities, while New York City received an additional $26 million from corporations, landlords, and unions that had decided to prepay their real estate taxes. Fred Ferretti, 'State Corporation Set Up to Avert City Default', *NYT*, 11 June 1975.
[114] Fred Ferretti, 'City and State Split on Aid Bill,' *NYT,* 6 June 1975.

to demonstrate their support for the agency, local institutional investors agreed to buy more than half of these bonds. The good news ended there, however. Annual rates of interest in excess of nine percent were enough to pique the interest of local commercial banks, savings banks, and insurance companies, but they were not of interest to investors from outside of New York. As a consequence, eighteen days after they were issued, $50 million of bonds remained unsold.[115] This was not a complete disaster (MAC raised enough money with its bond sales to enable the city to meet its July and early August obligations). But, the fact that the new agency had stumbled at the first hurdle and struggled to interest investors in its first offering did not bode well for subsequent bond issues.

The 'hostility' that 'investors west of the Hudson' expressed towards MAC's first bond offering created much panic.[116] Among the organisation's directors, there was a consensus that this 'very cool reception' stemmed from the lack of 'visible indication[s] that positive changes were going to take place in the financial administration of the city government.'[117] There was certainly plenty of evidence to substantiate this interpretation at the time. Throughout July, the pages of *The Wall Street Journal* and the *New York Times* were filled with various statements from members of the financial community criticising the inaction of the city's elected officials on financial matters. Explaining to a reporter why his institution did not purchase any of the MAC's first round of bonds, one Midwestern banker said 'we don't see anything being done...I mean what the hell is going on over there?'[118] Convinced by this and similar statements that something urgently needed to change, in the final week of July, the agency's board voted to reduce the weekly allotment of cash it gave to the city and began to formulate its own 'package of recommendations' for fiscal reform.[119] From now on it would be the MAC, not the state government, that would be the chief source of pressure pushing the city government to make spending cuts.

While they were developing fiscal reform measures to present to the city government, MAC's board were also talking to the federal government. At the end of July, three of the agency's directors went to Washington for a meeting with a group of high-ranking Ford administration

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[115] John H. Allen, 'Record Bond Issue is Sold in the Tax-Exempt Market,' *NYT*, 2 July 1975; John Darnton, 'M.A.C. In Trouble Too', *NYT*, 19 July 1975.

[116] Only one West Coast bank agreed to underwrite the bonds, while only one major Chicago bank joined the syndicate. *Ibid.;* John Darnton, 'Resistance to M.A.C. Bonds is Called a Result of City's Recent Ills', *NYT*, 19 July 1975.

[117] Ferretti, *The Year the Big Apple Went Bust*, p.236; 'Big MAC Takes Charge', 18 July 1975.

[118] Darnton, 'Resistance to M.A.C. Bonds.'

[119] John Darnton, 'Need for Quick Action Unites M.A.C. Board', *NYT* 29 July 1975; 'Board of Directors Meeting Minutes', 22 July 1975, MAC Archives, Series 2, Box 1, BCA.

aides. The meeting was arranged so that the White House could be updated 'on the progress that [New York City had] made.'[120] Arriving with a slightly different agenda, the agency's directors made their own appeal for federal aid — a request that was rebuffed.[121] There were several reasons behind this new rejection. Within the White House, there was a strong fear that helping the city would permanently increase federal spending obligations. Not only was the administration conscious that 'the City can legitimately argue that the problems of illegal aliens and policing the United Nations are Federal responsibilities,' but it was also wary of creating a 'precedent' that would affect 'Federal relationships with other cities.'[122] In addition, the Ford administration also did not want to appear to be 'threatening and bullying the City into actions designed to harm the low and middle classes' and to 'avoid the political problems inherent in any direct attempt to pressure the City toward fiscal reform.'[123] In the minds of the Ford administration, the overriding concern remained the impact that a federal intervention might have on its political popularity and on the federal budget.

This desire to avoid direct involvement in the New York situation did not make the White House a dispassionate or passive observer of events. Ford's key economic advisors, in fact, held strong opinions on the particular steps that were required to restore the city's fiscal health. In particular they believed that New York City would need to reduce its annual expenditures significantly and to take some other 'highly visible corrective steps.'[124] This left the White House with a conundrum. It had little confidence that 'the City government, left to its own devices, was prepared to take such [fiscal reform] steps.' But at the same time, it was extremely wary of the political effects of intervening directly. In this context, the perfect solution seemed to be to find an intermediary that could help the administration achieve its goals and insulate it from political criticism.[125] Confident that it might be possible to steer 'the state — through MAC' to compel New York City to alter its spending practices, in the summer of 1975, members of the Ford administration set about 'establishing contact' with 'selected MAC Board members.'[126]

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[120] Minutes, Board of Directors Meeting, 22 July 1975, Series 2 Box 1, MAC Archives, BCA.
[121] The MAC's representatives urged the White House to announce that it was considering insuring the Municipal Assistance Corporation's bonds (a statement that they believed would improve the marketability of its bonds). Minutes, Board of Directors Meeting, 24 July 1975, Series 2 Box 1, MAC Archives, BCA; Minutes, Board of Directors Meeting, 25 July 1975, Series 2 Box 1, MAC Archives, BCA.
[122]William Simon and James M. Cannon to Economic Policy Board Members, 14 July 1975, Box 23, James M. Cannon Files, GFPL.
[123] *Ibid.*
[124] *Ibid.*
[125] *Ibid.*
[126] *Ibid.*

The MAC needed no prodding from the White House. By the end of July, the agency's directors had spent weeks pressing Beame and the leaders of the city's labour unions to commit to austerity measures that included an end to free tuition at the city's university system, a wage-freeze for city employees, a doubling of public transport fares, and budget cuts in excess of $300 million.[127] At first, Abraham Beame, who at the start of the month had announced the layoff of 19,000 city workers (a decision that led to massive public protests), resisted many of these proposals.[128] However, as the threat of default grew closer and the late-night meetings became more frequent, positions softened.[129] Ending his opposition, on the final day of July, Abraham Beame unveiled a series of fiscal reforms in a speech before the New York City Council. Included within this package of spending cuts were wage freezes for the city's employees, large budget cuts for the city's university system, massive capital budget cuts, increases in bus, subway, and rail fares, an increase in bridge and tunnel toll charges, and the elimination of three city departments.[130] In the face of concerted pressure from the MAC and the continued opposition of the White House to intervention, Beame had essentially agreed to make the cuts Republicans within the state legislature had been demanding for months.

Shortly after this announcement, the MAC's leadership returned to Washington for a meeting with leading members of the Treasury, the Federal Reserve, and the White House. Just like the previous month, the agency's leadership raised the question of federal assistance and the Ford administration representative reiterated that aid would not be forthcoming. But, unlike the previous occasions, this two-hour meeting was a very public affair. In addition to inviting photographers in to take pictures, after the meeting a formal statement was released announcing that the federal officials believed 'the steps being underway by the city are sound' and that fiscal reforms were 'clearly in the direction necessary to place New York City on a sound financial basis'.[131] While it may not have been willing to intervene financially to help the city, in the

[127] Felix Rohatyn, *Dealings: A Political and Financial Life,* (New York, 2010) p.137.
[128] At the same time, Beame also ordered city departments that were not under his control to make large economies that were likely to require layoffs of a similar size. Lawrence Van Gelder, 'Layoffs of 40,000 Ordered as City Ends Fiscal Year', *NYT*, 1 July 1975, p.1. These austerity measures did not go unchallenged. From the moment that Beame announced the first phase of spending cuts, New Yorkers had mobilised in an effort to protect services that they deemed vital and to restrict the number of permanent job losses. Some, like the leadership of the city's municipal unions negotiated through formal channels and offered wage and benefit concessions in return for the promise of fewer job reductions; others, took to the streets and organised public protests. See, Spear, 'A Crisis in Urban Liberalism,' pp.118; John Corry, 'City's 10,000 Sanitation Men Strike; Police and Firemen also discuss Job Actions to Protest Layoffs, 2 July 1975; Fred Ferretti, 'Violence Flares', *NYT*, 2 July 1975.
[129] See Fred Ferretti, 'Plan of Action,' *NYT*, 30 July 1975.
[130]'Text of Beame Statement Calling for Financial Restraint and Service Cutbacks,' *NYT*, 1 August 1975.
[131] Ernest Holsendolph, 'U.S. Gives Praise to City But No Aid', *NYT*, 9 August 1975.

summer of 1975 the Ford administration was prepared to make public statements designed to influence financial markets.

It would take more than pictures with White House officials and warm words to reassure investors. Immediately prior to this trip to Washington, the MAC had issued a second round of bonds. The $960 million of bonds issued by the state agency were all sold.[132] However, in order to sell this second round, the MAC had been forced to offer even higher interest rates. Perhaps most importantly, it had also strong-armed commercial banks, the state, and state and municipal employee pension funds to purchase the majority. These were unsustainable sales tactics — even if they came with supportive statements from members of the Ford administration. Indeed, making clear that they believed that had fulfilled their civic obligations to the city, at the end of August, the leaders of New York's major commercial banks informed one MAC director that their bank would not buy any more of the agency's bonds.[133]

This decision plunged New York City once again into crisis. By the end of August, it looked extremely unlikely that the agency would be able to repeat its 'monthly miracle' and find investors willing to purchase more bonds in September.[134] Spelling this out plainly, in late August, the chairman of MAC warned Hugh Carey that 'the cash necessary to meet the maturing obligations of the city and operating expense requirements for September and beyond cannot be raised through the sale of MAC bonds.' Matters were not totally hopeless, however. Indeed, after making clear that he believed that 'default is now an imminent prospect,' MAC's chairman concluded his letter to Carey by urging New York's Governor to take 'emergency action of a new and decisive kind.'[135]

This assessment was difficult to dispute. By the end of the summer, a consensus had developed among policymakers and journalists that the default of America's largest city was an 'imminent prospect' and that only 'emergency action' would prevent this from occurring. At the same time, though, there was no agreement about the specifics of what this 'emergency action' should be and what parties should be involved. In the autumn of 1975, as the extent of New York City's problems became clear, discussions over these questions went national. The outcome of these debates and the developments at the end of 1975 would have a long-lasting impact on New York

132 Fred Ferretti, 'M.A.C. and Banks Prepare to Meet City's August Cash Needs', *NYT*, 2 August 1975.
133 Minutes, Board of Directors Meeting, 28 August 1975, Series 2 Box 1, MAC Archives, BCA.
134 'M.A.C.' s Last Miracle,' *NYT*, 15 August 1975.
135 Quoted in Ferretti, *The Year the Big Apple Went Bust*, pp.298-99.

City, on Chrysler (as we will see in Chapter Two), and on economic policy debates at the nadir of the long economic crisis.

Felix's Emergency Financial Fix

During the autumn of 1975, nobody was more involved in determining New York City's fiscal future than Felix Rohatyn. Prior to 1970, Rohatyn, who had spent most of his career working in mergers and acquisitions for the investment bank, Lazard Frères, had expressed little interest in politics outside of his immediate business interests. However, as the 'go-go years' of the 1960s, gave way to financial turbulence, he became anxious about the direction of America's economic and financial travel.[136] Welcoming the opportunity to exert some influence over events, in 1970, he agreed to chair a 'Crisis Committee' charged with preventing a slump in the New York Stock Exchange from snowballing. Involving himself in Washington life as well as Wall Street, a few years later Rohatyn served as a consultant to the Securities and Exchange Commission and as an advisor on Senator Edmund Muskie's (D-ME) ill-fated 1972 presidential campaign.[137] Three years later, therefore, when Hugh Carey came knocking (at Rohatyn's Hamptons home), he jumped at the idea of serving on the Municipal Assistance Corporation's board of directors.[138]

Rohatyn quickly emerged as one of the MAC's most prominent and influential members. In addition to serving on the agency's executive board and as the chair of its finance committee, the investment banker also became the Ford administration's contact on the MAC board.[139] Just like Hugh Carey, Rohatyn was determined to do everything he could to ensure that the 'unquestionable, terrible catastrophe' of a default did not occur.[140] As a consequence, satisfying those likely to invest in the city and appeasing the White House was his first and overriding concern. Once it became clear that the MAC was unlikely to sell its third issue of bonds, the investment banker frantically drafted a 111-page fiscal and legislative plan for New York City.[141] It was this plan that formed the basis of the 'Financial Emergency Act' that Carey presented to an emergency session of the state legislature at the start of September 1975.

The legislation that Carey presented to the state legislature went much further than the

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136 I borrow this phrasing from John Brooks' book on the 1960s stock market boom. See, John Brooks, *The Go-Go Years: The Drama and Crashing Finale of Wall Street's Bullish 60s* (New York, 1973).
137 For more on Rohatyn and these events, see Rohatyn, *Dealings,* pp.76-134; Peter Hellman, 'The Wizard of Lazard,' *NYT*, 21 March 1976.
138 Rohatyn was also one of the four-member committee of 'nonpoliticians' that Carey asked to find a solution to the city's financial problems in the spring. As a result, his involvement pre-dated the formation of the MAC.
139 Frank J. Prial, 'Fiscal Relief Pitcher', *NYT*, 22 July 1975.
140 Quoted in 'New York: Last Chance for the Big Apple,' *Time*, 15 September 1975.
141 Rohatyn, *Dealings,* p.143.

legislation that created the MAC. If the bill was approved, New York City would be required to formulate a financial plan that balanced the city's budget and reduced its short-term debt by $800 million within three years. In addition, the city would also have to implement a one-year wage-freeze (a move that would void existing collective bargaining agreements) and restrict the size of expenditure increases.[142] To ensure that the city followed these tough fiscal reform steps, the 'Financial Emergency Act' established another new state agency: the Emergency Financial Control Board (EFCB).[143] The proposed organisation would have the 'rights of approval, disapproval, and modification' over New York City's three-year financial plan. Moreover, under the terms of the legislation, all revenues received by the city would be directly deposited into the EFCB's accounts.[144] Only *after* the agency had determined that there were enough funds to meet the city's debt-service payments, would city officials be provided with access to the city's revenues. The EFCB's reach did not end there, however. Remarkably, if the agency deemed that things were going disastrously wrong, the EFCB would also have the ability to suspend or remove *any* city official who disobeyed or refused to carry out a directive from the board. As one reporter remarked, if the Emergency Financial Control Act were signed into law a state agency, not the mayor, would be 'running the city of New York for the next three years.'[145]

These proposals reveal a great deal about Rohatyn and Carey's opinions. While the EFCB's immediate and most pressing aim was to prevent an immediate default, as Felix Rohatyn later acknowledged 'the unarticulated part of [the Emergency Financial Act] plan — at least in the public announcement — had always been the hope that if we pulled off this $2.3 billion rescue, the next step would be a federally assisted three-year or four-year strategy.'[146] The EFCB plan was designed, therefore, not to prevent a New York City default outright, but to persuade the Ford administration to intervene. Here, it seems that the message Carey and Rohatyn were trying to send to Washington and Wall Street was that, in order to save the city from default, they were prepared to overhaul the city's management structure radically and forcibly take responsibilities and powers from the municipal state. With Abraham Beame as mayor and the city in crisis, decentralisation was not viewed as desirable or beneficial.

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[142] If the measure was approved, the state government had agreed to provide the city with aid amounting to $750 million, state, municipal pension funds had committed to purchasing $750 million of new MAC bonds, and banks had agreed to provide the city with aid a little short of $500 million.
[143] In the initial legislation, the EFCB's membership would consist of the Governor, the Mayor, the State Comptroller, the City Comptroller, and a non-governmental representative selected by the Governor.
[144] 'Financial Emergency Act for New York City,' 21 July 1975, MAC Archives, Series 6, Box 1, BCA.
[145] William Sherman, 'Abe to Have Six Pseudo Mayors on His Lap,' *NYDN*, 10 September 1975.
[146] Rohatyn, *Dealings*, pp.145-6.

In the crisis atmosphere of the autumn of 1975, neither Hugh Carey's proposal to use the state's police and emergency powers, nor the prospect of a dramatic shift in the relationship between the state and the municipal government caused much concern in Albany. To be sure, support for the EFCB was not unanimous. Several upstate Republicans opposed the use of state funds to help a city that they argued had not lived within its means. Objecting to the proposal on very different grounds, members of the Black and Puerto Rican coalition resisted the plans, which they argued would hand a great deal of power to individuals who 'have no feeling for the poor.' [147] However, the most influential voices in the debate were supportive of the proposals. Indeed, in return for some minor concessions, Abraham Beame, several major municipal unions, and the Republican majority leader of the state senate, all gave their endorsement to the legislation.[148] With the backing of these individuals, there was more than enough support in the state legislature to pass the bill.

Differences of Opinion

There was one stumbling block in Carey and Rohatyn's plan: the position of the White House. During the course of the summer, the Ford administration's position had hardened considerably. Exasperated with the 'posturing and manoeuvring' which 'seem to dominate day-to-day developments,' the White House aides charged with monitoring the situation had concluded that the city was 'drifting towards a default.'[149] Convinced that a federal intervention would mean that the federal government would have to play an 'undesirable role' in 'decisions to close the [city's] hospitals, schools, and other facilities,' the aides began exploring how 'the adverse effects of a default' could be 'contained.'[150] Endorsing this position, in September, Gerald Ford told White House aides that he 'did not approve of any of the options...to provide Federal financial assistance to New York City' and instructed them to give representatives of the city 'no encouragement with regard to expecting future new Federal assistance.'[151] Obeying these instructions, the White House Press Secretary responded to the news that Hugh Carey had signed the Emergency Financial Act into law by informing reporters 'there is no plan to provide federal financial assistance in New York City.'[152]

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147 'New York: Last Chance for the Big Apple,' *Time*, 15 September 1975.
148 The most significant adaptation to the bill was the addition of two additional gubernatorial appointees to the EFCB's board (a condition of the Republican Majority Leader's support).
149 Edwin H. Yeo III to Gerald Ford, 18 August 1975, Box C26, Presidential Handwriting Files, GFPL.
150 *Ibid.*
151 L. William Seidman, Memorandum of Decisions, 9 September 1975, Box C27, Presidential Handwriting Files, GFPL.
152 'Congress Approves Loans For New York City', *CQA*, (Washington, D.C., 1975), p.443.

While the Ford administration was adopting a much firmer and harder line stance on federal aid, other prominent politicians were also taking positions on the question of federal aid. During the spring and summer of 1975, there had been minimal discussion of New York City on Capitol Hill. But, as the crisis intensified and the 1976 elections drew closer, this changed. Aside from the New York City congressional delegation, the first influential member of Congress, to speak publicly in support of federal aid for New York City was Senator Hubert Humphrey (D-MN). Announcing that he was concerned that 'New York City's deepening financial crisis will have profound adverse implications for other major cities and quite possibly for other major sectors of our economy', in early September, Humphrey asked the staff of the Joint Economic Committee of Congress (a committee he chaired) to study the issue and requested that the Treasury Secretary and chair of the Federal Reserve supply the committee with assessments about the impact of a New York City default.[153]

In the wake of Humphrey's actions, the Capitol Hill flood gates burst open. In mid-September, all of the Democratic Party presidential contenders in Congress publicly took a stance. Declaring that 'New York City and the need for capital formation in urban areas is a key issue today', Senator Edward Kennedy (D-MA) told one reporter that 'New York is the key. We ought to be talking, focusing on alternatives, and make it one of the major debates [in the 1976] campaign.' Others shared Kennedy's opinion but were much more direct in their criticism of the White House. Accusing the Ford administration of 'sawing off Manhattan,' Senator Birch Bayh (D-IN) announced that 'if New York City collapses, every community in Middle America will be jeopardized.' Adopting a similar stance, Senator Henry Jackson (D-WA) described New York City's financial problems as 'one of the issues that cuts across state lines and ideological lines' which 'ties into broader economic objections to the Ford Administration management of the economy.[154]

This surge of Democratic Party support for federal aid was not driven purely by electoral considerations. By September, there was a growing fear in Washington that New York City's travails were much more than just a local issue. Expressing concerns about the broader impact of a New York City default, Congressman Paul Simon (D-IL), for example, argued that urgent

[153] Hearings Before the Joint Economic Committee of Congress on Financial Markets of the Senate Committee on Finance, September 24 and October 8, 1975 (Washington D.C., 1976), pp.3-6.
[154] Martin Tolchin, 'Fiscal Crisis Called a '76 Campaign Issue', *NYT*, 18 September 1975.

action was needed to 'prevent the New York disease from spreading.'[155] Many believed that the disease had already spread. Announcing that 'what we have seen across this Nation and in my own State of Texas are the highest municipal bond rates this country has ever seen', in late September, Senator Lloyd Bentsen (D-TX) told the Joint Economic Committee that 'the impact of [New York City's] problem exists throughout the Nation.'[156] With this framing, a federal intervention to prevent the default of New York City could be portrayed not as an act of kindness and endorsement of the urban liberalism of the New Deal era, but as an economically pragmatic decision that would prevent a larger chain reaction and broader crisis from developing. In time, this argument would gather momentum. In the early autumn of 1975, however, the dominant national conversation concentrated mainly on the city's perceived past fiscal transgressions.

While Democratic Party presidential contenders were lending their support to federal aid, a Republican Party hopeful was taking a quite different stance. Ronald Reagan did not formally announce that he was challenging Gerald Ford for the Republican presidential nomination until November. But, throughout 1975, he used his syndicated radio shows to build his national political profile and stake out positions on major issues. Accordingly, in September, he recorded a radio segment that addressed the New York City fiscal crisis. Insisting that 'it would be foolish to tap our national resources to bail N.Y. out of its trouble when no one in the city seems moved to correct the policies which led to its present disastrous plight,' Reagan asked 'why should the people of Peoria, St. Louis or rural America be taxed to save the city of great wealth?'[157] In themes that he would also repeat in his newspaper columns and public speeches, he also insisted that the city should 'face reality' and solve its problems on its own.[158] Adopting a very different position from Paul Simon and Lloyd Bentsen, Reagan depicted the New York City fiscal crisis as a local issue and essentially made the question of federal aid a referendum on approval of the city and its previous politics.

Newspaper and magazine coverage of the city's travails helped to reinforce the narrative that Reagan pushed in his radio broadcast. In its stories on the crisis, *Time*, for example, frequently

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[155] Paul Simon, 'New York City and Southern Illinois,' 14 September 1975, Paul Simon Papers, Box 1451, Southern Illinois University.
[156] Hearings Before the Joint Economic Committee of Congress on Financial Markets of the Senate Committee on Finance, September 24 and October 8, 1975, (Washington D.C., 1976), pp.3-6.
[157] In 1975, Reagan's five-minute pre-recorded radio segments were broadcast on nearly 300 radio stations, while his newspaper columns were printed in more than 200 newspapers. Kiron K. Skinner, Martin Anderson, and Annelise Anderson, eds., *Reagan, In His Own Hand: The Writings of Ronald Reagan that Reveal His Revolutionary Vision for America* (New York, 2001), p.405.
[158] *Ibid;* Perlstein, *The Invisible Bridge*, pp.516-7.

highlighted the 'extravagant pensions' of the city's employees and drew attention to the 'good works ranging from the City Opera to the City University to 17 city hospitals and a special police guard for the diplomatic corps' that New York City funded.[159] Adopting an even harsher editorial stance, the *Chicago Tribune* condemned the city's 'lavish welfare, hospital, college education, and transportation services', while the *Washington Post* denounced 'New York's excesses' and warned that federal aid would 'encourage financial foolhardiness.'[160] As opinion polls taken in early October revealed, across the country sympathy for the plight of New York City and its residents was in short supply.[161]

Altering Perceptions

Despite this oppositional movement, the struggle that those in favour of federal aid to New York City were faced with in October of 1975 was a battle over perceptions, rather than a conflict between competing ideologies. With the exception of Abraham Beame and a small group of New York City officials, very few political decision-makers questioned the decision of Wall Street banks to shut the city out of bond markets or believed that federal aid should be provided to help moderate spending cuts. Similarly, opinions on federal aid (even among strident conservatives) did not centre around a debate about the propriety of state or federal intervention in municipal affairs. Instead, opponents of a national intervention argued that the pain New York City was experiencing was long-overdue punishment for years of fiscal irresponsibility, while supporters argued that a default of America's largest city would have disastrous wider financial consequences. These were two very different discussions, but they were *not* completely at odds. If opponents of federal aid could be convinced that New York City had atoned for its (perceived) past sins, and if supporters could provide a demonstration of the deleterious broader consequences of a default, there were reasons to hope that supporters of aid could gather support for their position. This, however, was a big if, particularly within a short period of time.

In the autumn of 1975, a variety of parties explicitly sought to improve national perceptions of America's largest city. At the beginning of September, New York's two U.S. senators announced

159 'CITIES: Saying No to New York', 26 May 1975, *Time*; 'CITIES: Fighting the Unthinkable,' 8 September 1975, *Time*.
160 'New York is Saved — For Now,' *Chicago Tribune*, 19 September 1975; 'The Last Chapter in New York?', *WP*, 8 September 1975.
161 In an October Gallup poll, 47 percent of respondents said that the federal government 'should not provide funds to help New York City get out of its financial difficulties,' while only 43 percent of respondents said that it 'should' (a further ten percent of respondents voiced 'no opinion'). Gallup Poll, October 1975, *IPoll Database*, [accessed 24 July 2019].

that they had established a 'temporary body' designed 'to deal with a short-term crisis.'[162] The group, which would later become known as the Citizen's Committee for New York (CCNY), was designed to 'give New Yorkers a pragmatic way in which to show their loyalty to the City,' improve investor confidence, and demonstrate to the 'country as a whole' the 'willingness of the people of New York to contribute and to shoulder individual responsibilities.'[163] Taking its public relations role seriously, in the autumn of 1975, CCNY took out advertisements in major newspapers and magazines.[164] As a consequence, instead of just reading stories about Abraham Beame's confrontational rhetoric and New York City's near-misses, in the autumn of 1975, those who opened the pages of America's largest newspapers were also presented with information about the steps that the city's civic elite were taking in an effort to help the city.

At the same time, another group, the Association for a Better New York (ABNY), was also engaged in a highly visible campaign to demonstrate the commitment of wealthy New Yorkers to helping the city. Founded in 1970 by the real estate executive Lewis Rudin, ABNY's primary objective at its founding was to prevent a corporate exodus from the city.[165] But, as New York City's financial problems mounted, Lewis Rudin encouraged members of the organisation to take on a broader role in helping the city. To this end, in the summer of 1975, Rudin personally wrote to the heads of many banks and corporations and encouraged them to prepay their real estate taxes.[166] Enticed by the promise of an eight percent discount, by the start of September, the city's business community had responded to Rudin's plea by agreeing to prepay more than $150 million in property taxes.[167]

On the surface, the role that New York's civic leaders played through CCNY and ABNY is trivial and seems to reinforce the claim that, in their responses to the New York City fiscal crisis, the city's corporate and economic elite promoted (intentionally or unintentionally) a conservative political agenda. Before and after 1975, ABNY certainly pushed for tax breaks and deregulation.[168] Moreover, in the wake of the New York City fiscal crisis, elite-led non-profit

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[162] Statement of Osbourne Elliot, 1975, Series 10, Box 28, Jacob Javits Papers, Stony Brook University Special Collections and Archives

[163] Rich Berman to Jacob Javits, 2 October 1975, Series 10, Box 28, Jacob Javits Papers, State University of New York, Stony Brook; CCNY, 'Nurturing the Grassroots,' N.D., CCNY Collection.

[164] See, for example, 'We need 10,000 "greedy, heartless" New Yorkers to work for 5 years. For Free,' *New York Magazine*, N.D. (1975), CCNY Collection.

[165] Robert L. Roper to Sumner G. Baum, 27 October 1970, ABNY Collection.

[166] Lewis Rudin, 'Blue Room, City Hall Manhattan Speech,' Transcript, 13 June 1975, ABNY Collection.

[167] Abraham Beame, Press Release, 4 September 1975, ABNY Collection.

[168] See, for example, Greenberg, *Branding New York*; Merton, 'John Lindsay, the Association for a Better New York, and the Privatization of New York City.'

organisations such as CCNY, also played an important role incubating a new 'moral perspective' based around self-help and voluntarism.[169] However, this is emphatically *not* what these organisations and individuals were seeking to achieve when they mobilised in the crisis-ridden months of 1975.

Nobody involved in ABNY or CCNY seriously thought that either real estate tax prepayments or self-help initiatives, such as distributing brooms, would alter New York City's dire financial situation. After all, if the city was to survive in the longer-term estimates suggested that it would need to find a way of raising $8 billion by the end of the financial year. Instead of raising and saving money, the real purpose of the fund-raising and self-help initiatives of 1975 was to challenge negative perceptions of New York City and to counter widespread allegations of the city's profligacy. Indeed as one of CCNY's founders later admitted, the organisation was primarily intended to 'prov[e] to Congress that New Yorkers were interested in saving their city' and prepared to work together.[170] Providing a counter-narrative to the hostile opinion editorials and magazine stories about New York's spending habits, the campaigns that these civic organisations waged were part of a broader effort to change the national conversation.

Though these campaigns may have had some impact, the biggest public relations boost that America's largest city received during this period was unplanned and nearly disastrous. In the middle of October 1975, New York City experienced its closest brush with default since its financial problems began. As part of the Emergency Financial Act's complex $2.3 billion borrowing package, New York City's Teacher's Retirement System had committed to buy $200 million of the MAC's bonds. These purchases were not made immediately. In fact, a month after the legislation had been signed into law, the teacher's pension fund had only bought $50 million of the MAC's bonds it had promised to buy. Then, on the evening of the 16 October, the trustees of the New York City Teachers' Retirement Fund unexpectedly voted against purchasing the remaining $150 million bonds.[171] This decision could not have occurred at a worse time. The following day, $450 million of municipal bonds were maturing. Without the money from the teacher's pension fund, New York City would not be able to pay its creditors and would have to default on its debts. Default had become an imminent and very real possibility.

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169 Gerstle, 'The Rise and Fall of the Neoliberal Order,' p.258.
170 Jacobs Javits with Rafael Steinberg, *Javits the Autobiography of a Public Man* (Boston, 1981), p.444.
171 Steven R. Weisman, 'Teacher's Reject 150-Million Loan City Needs Today', *NYT,* 17 October 1975; Richard D. Kahlenberg, *Tough Liberal: Albert Shanker and the Battles Over Schools, Unions, Race, and Democracy* (New York, 2007), p.184.

When the teacher's union trustees announced their decision, Abraham Beame and Hugh Carey were attending the annual Alfred E. Smith Memorial Foundation dinner. On hearing the news, they both left the 1,700-person banquet. At the mayor's residence in the Upper East Side, Beame asked a team of lawyers to draw up a bankruptcy petition that would protect the city's essential services and instructed an aide to draft a speech for delivery in the event of a default.[172] While Beame was preparing for the worst, in a midtown office building 42 blocks away, Hugh Carey was desperately trying to prevent a default. Working alongside Felix Rohatyn and other members of the MAC, Carey met with the trustees of the teachers' pension fund and frantically tried to convince them to change their position.[173] Desperate for federal aid, the Governor made a midnight call to the White House. After failing to change the trustees' opinion or to convince White House aides to wake Gerald Ford, Carey called Richard Ravitch, an attorney and real estate developer who was close to the president of the United Federation of Teachers, Albert Shanker. After being instructed by Carey to 'get Shanker to change his mind,' Ravitch was taken by a state police car to the union leader's apartment.[174]

The negotiations continued into the early hours. At first, there was only bad news. The pension fund's trustees voted against the bond investment for a second time, while the meeting between Ravitch and Shanker ended at 5 am on an inconclusive note.[175] Unwilling to give up, the parties agreed to resume talks at a more reasonable hour. After a brief postponement, at 10:30 am — while the noteholders that had lined up outside the Manhattan Municipal Building were being told to return later in the day — Shanker and Carey sat down together.[176] This time progress was made. After a three-hour discussion, the union leader agreed to support the city and speak to the pension fund's trustees. At 2pm, the teachers' union announced that the trustees had changed their mind and decided to purchase the city's bonds. To ensure that bondholders were paid that day, an emergency extension of the opening of hours of the city's banks was hurriedly arranged. Until December, New York City would be safe from default.

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172 For a copy of Beame's draft statement, see Jeff Nussbaum, 'The Night New York Saved Itself from Bankruptcy,' *The New Yorker*, 16 October 2015.
173 Seymour P. Lachman and Robert Polner, *The Man Who Saved New York: Hugh Carey and the Great Fiscal Crisis of 1975* (Albany, 2011), p.140.
174 'Richard Ravitch on New York's 1970's Fiscal Crisis', *CUNY-TV Oral History of New York City's Financial Crisis*, Baruch College, New York University, 1997, www.baruch.mediaspace.kaltura.com/media/Richard+Ravitch+on+the+1970%27s+New+York+City+Fiscal+Crisis/1_rjql32kd [accessed 9 October 2019].
175 Richard Ravitch*, So Much to Do: A Full Life of Business, Politics, and Confronting Fiscal Crises* (New York, 2014*),* p.92.
176 Linda Greenhouse, 'Anxious Night on the Brink of Default as City Sought to Get Teacher-Pension Funds', *NYT*, 18 October 1975; 'New York City: Saved Again From the Jaws of A Default,' *Time*, 27 October 1975.

At Death's Door

To many, the events of mid-October provided a terrifying glimpse of the broader national and international ramifications of a New York City default. The morning after the Al Smith Dinner, the Dow Jones Industrial Average fell sharply, world gold prices rose, and currency trading in Europe slowed to a standstill.[177] For months, leading members of the Ford administration had insisted that a New York City default was avoidable and that the broader financial and economic risks were minimal. However, in the weeks before the Al Smith dinner, states like Massachusetts and Georgia and cities such as Buffalo, Atlanta and Newark had been forced to withdraw bond issues or pay historically high-interest rates.[178] This financial turbulence seemed to undercut arguments about the negligible wider impact of a default. Capturing the thoughts of many, in September the president of Standard and Poor's declared 'as unpalatable as the specter of federal intervention is, the social and economic consequences of default of the proportions we are facing clearly make it the lesser of two evils.'[179] From this point onwards, the national conversation about federal aid would focus much more heavily on the potential economic ramifications of a default and far less on the pay and benefits that the cities' employees received.

These events did not initially alter the Ford administration's position. In fact, in a carefully orchestrated speech at the National Press Club, at the end of October, the President described federal aid proposals as a 'patently bad policy' that would encourage the 'continuation of "politics as usual"' and create a 'terrible precedent' for other cities.[180] Continuing, Ford said that 'the people of the United States will not be asked to assume a burden that is not of their own making' and announced that he was 'prepared to veto any bill that has as its purpose a Federal bail-out of New York City to prevent a default.' After laying out his 'convictions and conclusions', Ford presented his own solution: a revision of bankruptcy laws so that federal courts had 'sufficient authority to preside over an orderly reorganization of New York City's financial affairs.' From there, he moved from 'straight talk' into a sermon. Warning his audience that 'though we are the richest nation in the world, there is a practical limit to our public bounty,

177 Michael C. Jensen, 'A Rally Follows: Trading on Exchanges Sluggish Till Word of a Reprieve Comes,' *NYT*, 18 October 1975.
178 'How to Save New York', *Time*, 20 October 1975.
179 *Ibid.*
180 Ford's aides spent some time searching for an 'appropriate forum in Washington' that would 'ge[t] the President's position well-stated to the country' (the Girl Scouts of America, the Railway Progress Institute, and the National Council of Jewish Women were all ruled out as inappropriate venues). Jerry Jones to Donald Rumsfeld, 23 October 1975, Box 23, James M. Cannon Files, GFPL.

just as there is to New York's', he concluded his speech with a rhetorical question: 'When th[e] day of reckoning comes, who will bail out the United States of America?'[181]

Much has been written about this speech. Taking their cue from the New York City *Daily News*' infamous next day headline — FORD TO CITY: DROP DEAD — journalists and historians frequently treat the National Press Club speech as emblematic of Gerald Ford's consistent opposition to federal aid for New York (his later reversal of position is often scarcely mentioned).[182] The speech certainly illustrates the Ford administration's zeal for fiscal conservatism, its desire to ensure that the national government did not take on greater responsibilities for the financial and economic well-being of municipal and state government, as well as its animosity towards New York City's political leadership. But it was decidedly *not* a call for federal inaction. During the course of the speech, Ford promised that 'the federal government will work to assure that police, fire and other essential, services...are maintained'.[183] This was a *telling* pledge. Although it was staunchly opposed to 'bailing out [New York City's] bond holders and politicians', the Ford administration did want to 'insure the protection of life and property for the citizens of New York.'[184] Just as it had been since the start of March therefore, the White House position on aiding New York was shaped by a vague conviction that the city's civic and political elite needed to throw their support behind spending reductions. If this did not occur, the White House would try to ensure that federal aid arrived after a default, not before.

A New Hope

On Capitol Hill, Democrats viewed Ford's speech as a setback, but not a disaster. Although they conceded that they could not muster the votes to override a presidential veto, supporters of federal aid were buoyed by polls that indicated public opinion had recently swung in favour of federal aid and by several previous instances in which the White House had reversed its position.[185] Convinced that Ford's tough rhetoric might not translate into action, in October,

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[181] '10/29/75 — Address to the National Press Club', Box 18, President's Speeches and Statements: Reading Copies, 1974-77, GFPL.
[182] For a sample of the journalistic coverage of the speech, see 'The President's New York Speech: Initial Reaction', 30 October 1975, Box C30, Presidential Handwriting, 11/3/1975 (2), Presidential Handwriting File, GFPL. For accounts that foreground the 'Drop Dead' speech but do not dwell on the Ford administration's subsequent reversal, see: Zelizer and Kruse, *Fault Lines*, p.16; Kalman, *Right Star Rising*, p.63.
[183] '10/29/75 — Address to the National Press Club', Box 18, President's Speeches and Statements: Reading Copies, 1974-77, *GFPL*.
[184] 'Option Paper,' 28 October 1975, Box 23, James M. Cannon Files, *GFPL*.
[185] In a November Gallup poll, 45 percent of respondents said that the federal government 'should' guarantee New York City's bonds, 40 percent said that it 'should not,' and 14 percent declared that they had 'no opinion' on the

congressional committees readied legislation, while supporters of loan guarantees vigorously lobbied those on Capitol Hill that were undecided on the issue.[186] Of course, opposition to aid had not entirely melted away.[187] But the potent cocktail of New York's near bankruptcy and Ford's 'Drop Dead' speech spurred supporters of federal aid forwards and dramatically reduced the number of Washington politicians that were uncommitted on the issue.

While Congress was preparing to vote on loan guarantee legislation, an array of state and local officials attempted to publicise the painful retrenchments that the city was making and dramatise the broader consequences of a voluntary bankruptcy. Devoting much of his time to lobbying for federal aid, in November, Hugh Carey embarked on a frantic nationwide publicity blitz. In major West Coast and Midwestern cities, Carey painted a vivid picture of the 'chaos of bankruptcy' and argued that federal loan guarantees were likely to be a much less expensive proposition than Ford's plan for an open-ended commitment to maintaining the city's essential services.[188] While Carey made a case for financial and economic pragmatism, Abraham Beame happily played the role of a political attack dog. Speaking at the National Press Club, a week after Ford's 'Drop Dead' speech, Beame made clear that New York was asking for 'not a penny' of taxpayer money, but for the same help that many 'corporations across this nation' received.[189] After calling for an end to the 'hatred, disunity, and confusion,' Beame ended his speech with a reworked version of Ford's rhetorical question. 'If we embrace the past and fail to face the future; if we allow our cities to decay and die; who will, when that day of reckoning comes, bail out America?'[190]

In the face of this onslaught and newspaper rumours of a softening of position, the White House maintained that Ford had 'not changed his position one iota.'[191] This, however, was more than a little deceptive. Although the White House was still pushing for a revision of the federal bankruptcy laws, a number of leading figures within the administration were privately toying with the idea of a pre-default federal intervention. Using Rohatyn as an intermediary, less than two weeks after the 'Drop Dead' speech, White House aides let Hugh Carey know that the administration might be willing to change its position and provide New York City with some aid,

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issue. Gallup Poll, October 1975, *IPoll Database*, [accessed 26 July 2019]; For members of Congress highlighting Ford's previous policy shifts, see Tolchin, 'Senate Unit, 8 to 5.'

[186] Elizabeth Bowman, 'Democrats Push Ahead Despite Veto Threat,' *CQWR*, 1 November 1975.

[187] Within the Republican Party, many supported the White House's call for a post-default federal intervention. See Vern Loen to Max Friedersdorf, 29 October 1975, Box 22, John Marsh Files, GFPL.

[188] *Ibid.;* Lachman and Polner, *The Man Who Saved New York*, p.160.

[189] Austin Scott and William Claiborne, 'Beame Asks "Not a Penny" of Taxpayers', *WP*, 6 November 1975.

[190] Quoted in Ferretti, *The Year the Big Apple Went Bust*, p.381.

[191] Francis X. Clines, 'Ford Reiterates that He Opposes U.S. Help for City', *NYT*, 10 November 1975.

if the city took some 'hard actions.'[192] Determined not to waste this sudden and unexpected opportunity, Carey, Rohatyn, and several others began hurriedly putting together a new aid package proposal.

By the middle of November, Carey and Rohatyn had submitted a formal request for aid to the Ford administration. To ensure that the package met with the White House's approval, they put a great deal into designing an aid package that they thought would be acceptable. Instead of asking for loan guarantees or long-term loans, these proposals called for the provision of $1.5 billion of short-term federal loans in 1976, and $2.3 billion of federal loans in both 1977 and 1978. [193] At the same time, Rohatyn and Carey also designed this request in order to have the appearance of being a cooperative effort between the federal government and a number of other parties. Reflecting this, if New York City was provided with federal loans, Carey promised that he would propose an increase in state taxes as well as reductions in state spending. Just as significantly, he also told the Ford administration that he would use the state's emergency powers to enact a law that would allow the city to postpone principal payments on $1.6 billion of its short-term notes.[194]

Other parties also made commitments. The city's municipal union pension funds, for example, told the Ford administration that they would purchase a further $2.5 billion of MAC bonds and refinance $1.2 billion of the city's short term debt that it already held.[195] Making the smallest commitment, New York's commercial banks promised that they would convert their existing short-term notes into long-term debts.[196] All told, Carey, Rohatyn, and their advisors forecast that this package would ensure that New York City could access the money it needed to balance its budget and implement its three-year financial plan. After months of temporary — and frantically patched together — late-night solutions, a proposal which had the potential to resolve New York City's problems for more than a few months was on the table.

The White House was pleased with the package that Rohatyn and Carey presented. But, fearing that 'if there is advance information that we are caving, necessary action from the state

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[192] Felix Rohatyn to William Simon, 13 November 1975, Box 15, Ron Nessen Papers, GFPL.
[193] Hugh Carey to William Simon, 14 November 1975, Box 15, Ron Nessen Papers, GFPL; Stephen S. Gardner to Max Friedersdorf, 14 November 1975, Box 5, White House Special Files Unit, GFPL.
[194] Under the proposal, the holders of the affected note issues would have to choose between exchanging their notes for ten-year MAC bonds or retaining their existing short-term notes but receiving no principal for the next three years (an arrangement that all involved expected the courts to strike down).
[195] *Ibid.*
[196] *Ibid.*

government, labour unions, and banks will not materialize,' the Ford administration did not immediately make the aid package public.[197] In private, though, lips were not as tightly sealed. Two days after it had received the request, the White House briefed members of Congress on the package, while at an economic summit in France, the president told the leaders of France, Germany, Italy, Japan, and the United Kingdom of the 'written proposals for action that he had received' from Carey and Rohatyn.[198] Continuing, Ford reassured his European and Japanese counterparts that he 'would probably recommend legislation either to guarantee the obligations of the City to meet the cash flow problem on a seasonal basis or legislation to loan to New York City necessary money.'[199]

During the final weeks of November, events moved quickly. Earlier in the month, the New York State legislature voted by a large margin in favour of legislation to impose a moratorium of up to three years on the repayment of the city's short-term notes. At the same time, the unions and banks also quickly made their formal commitments to assist the city. Winning approval for increased taxes in Albany was not so straightforward. Not only did Republican and Democrat state legislators have different ideas about which taxes should be increased, but many were also worried that a vote in favour of a tax rise would damage their political careers. A deal was eventually reached. Rather than 'impose' new taxes, the state legislature would 'authorize' the EFCB to raise new taxes — the intermediary that had been created to reassure bond buyers and the federal government that New York City was committed to fiscal reform was now being used to provide political cover for state politicians.[200] Satisfied that Carey, Beame, and the EFCB would take the political blame for increasing New York City's taxes, two days before Thanksgiving, state legislators approved the bill.

After Albany's approval of the new tax package, the White House held a televised press conference. Ford began by announcing that New York City had made tremendous progress since his National Press Club Speech. 'Only in the last month, after I made it clear that New York would have to solve its fundamental financial problems without the help of the Federal taxpayer, has there been a concerted effort to put the finances of the city and the State on a

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197 'Economic Summit Second Session,' 16 November 1975, National Security Adviser's Memoranda of Conversation Collection, Box 16, GFPL.

198 Bill Gorog to Bill Seidman, 16 November 1975, Box 5, New York Special Files Unit, GFPL; Economic Summit Second Session', 16 November 1975, National Security Adviser's Memoranda of Conversation Collection, Box 16, GFPL.

199 *Ibid.*

200 Alongside increasing the city's income tax by 25 percentage points, the legislation also approved various other minor tax increases. Thomas Poster, '205M in State Taxes OKd in Albany Rush', *NYDN*, 26 November 1975; 'New York: Whipping Up A Stew Over Taxes,' *Time*, 1 December 1975.

sound basis.' Despite this, however, Ford told reporters that New York would still 'lack enough funds to cover its day-to-day operating expenses.' Maintaining that these problems stemmed from the city's inability to access private credit markets and need 'to pay its bills on a daily basis throughout the year while the bulk of its revenues are received during the spring', Ford announced that he was prepared to approve legislation that would provide New York City with 'seasonal financing' of up to $2.3 billion per year until June of 1978.[201] Less than a month after his infamous 'Drop Dead' speech, Ford had abandoned his opposition to pre-default aid.

In the wake of this announcement, Congress sprang into action. After substituting the pending loan guarantee legislation for the White House proposal, the House of Representatives passed guaranteed loan legislation by a vote of 213-203.[202] In the Senate, a number of Republicans — most notably Barry Goldwater (R-AZ) — attempted to postpone the vote. However, in a rare display of bipartisan unity, the Republican and Democratic Party leadership worked together and quashed the various efforts to delay proceedings.[203] Shortly after midnight on 6 December, the Senate voted 57-30 in favour of the bill.[204] Despite the significance of the moment, in Washington there was only a muted celebration. Conscious of the threat that Ronald Reagan's primary challenge posed to the president's re-election prospects, the White House, did not want to draw additional attention to the bill's passage. As a result, when Gerald Ford signed the New York City Seasonal Financing Act into law three days after the Senate vote, the White House did not invite guests or photographers, distribute any souvenir pens, or issue a public statement.[205]

This did not disguise the fact that there had been a major and unexpected plot twist in the long-running saga of the New York fiscal crisis. For months, the city's travails and the White House's response to various aid requests had been frontpage news. With his National Press Club speech, Ford had purposefully courted publicity and sought to curry political favour with constituencies hostile to the city. For most of this period, the White House had also sought to portray itself as deeply committed to fiscal conservatism and wary of taking actions that would centralise

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[201] *Public Papers of the Presidents of the United States: Gerald R. Ford* (Washington D.C. 1977), Book II, pp.1903-4.
[202] Opposition to aid was strongest among those who represented farming or southern states. However, supporters of the bill maintained that the close margin of the vote was deceptive because several Representatives had promised to switch their position if their votes were required. 'Congress Approves Loans for New York City,' *CQA* (Washington D.C., 1975), p448.
[203] *Ibid.*, pp.450-2.
[204] Because of their six-year terms, most senators were not faced with the same electoral pressures as their counterparts in the House of Representatives. As a result, in the Senate votes on New York's loan guarantees did not divide so neatly along regional lines.
[205] White House aides did draft a brief speech for the signing, but Ford decided not to deliver it. Jim Connor Note, 9 December 1975, Box 5, White House Special Files Unit, GFPL.

authority and discourage municipal self-sufficiency. If the public rhetoric of the Ford administration is taken at face value, therefore, the decision to commit the federal government to financially supporting America's largest city until 1978 (and charge the Treasury Secretary with monitoring the city's financial progress) was a surprising reversal of position.

The White House sought to explain this shift by implying that its previous stance had primarily been a negotiating tactic. At the economic summit in France, Ford told the leaders of France, Germany, Italy, Japan, and the United Kingdom that the Ford administration had engaged in a 'sort of brinkmanship' that was designed to 'forc[e] New York City and New York State to take responsible action.'[206] Ten days later, during the press conference in which he unveiled his aid proposals, Ford made similar claims. Responding to a reporter's observation that he 'seem[ed] to be suggesting that [his] opposition earlier to assisting New York was based primarily on a tactical manoeuvre', the president declared that 'if we had shown any give, I don't think that they would have made the hard decisions that [New York City and New York State] would have made in the past week or so.'[207]

These explanations are neither entirely true nor entirely false. The White House's public and private statements on New York City *were* crucial in shaping the actions of Felix Rohatyn and Hugh Carey. Throughout the New York City fiscal crisis, the MAC and the state government's actions were conditioned by information that came from the White House. Similarly, without the encouragement and informal, private backing of the Ford administration, it seems unlikely that all of the elements of the November aid package would have fallen into place. But, although the White House may have been backstage helping to mould events, this *does not* mean that there was a pre-meditated strategy in place. During this period, the White House was consistent only in its undefined call for deep spending cuts. Otherwise, its opinions were fluid and shaped by political and economic events, both related and unrelated to the crisis. Even when Ford eventually took a clear public position in October 1975, this decision was soon reversed. Thus, the resolution of November 1975 was much more a policy outcome borne of accident and luck than a product of design and calculated manoeuvring.

In the autumn of 1975, the White House also sought to promote the idea that America's largest city had saved itself from default. When he announced his support for direct federal loans, Ford

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[206] 'Economic Summit Second Session,' 16 November 1975, National Security Adviser's Memoranda of Conversation Collection, Box 16, GFPL.
[207] *Public Papers of the Presidents of the United States: Gerald R. Ford* (Washington D.C. 1977), Book II, pp.1908.

stressed that 'Americans have always believed in helping those that help themselves' and that 'New York officials' had 'accept[ed] primary responsibility' for solving its financial problems.[208] Returning to these themes, the president responded to one reporter's questions by stressing that 'New York City has bailed itself out' because of 'what they have done in conjunction with New York State, with the note-holders, with the labor organisation, [and] the pension fund people.'[209] Just as with his statements justifying his shift in position, Ford's narrative about the city bailing itself out was self-serving and reliant on significant distortions. The parties that the president named did play important roles in ensuring that the city did not default on its debt. But, without the approval of federal loans, New York City would almost certainly not have been able to pay the principal on the loans that matured in early December. In short, in the final months of 1975, it was the federal government's intervention that prevented a New York City default.

Pain and More Aid

New York City's fiscal crisis did not suddenly end with the approval of federal loans. In order to fulfil the terms of the state and federal legislation put in place to help the city, between 1975 and 1978 the city had to implement drastic budget cuts, pay its federal loans back on time, and keep the Treasury Secretary and the members of the EFCB satisfied with the city's fiscal reform progress. The crisis may have eased, and the major policy decisions made, but the smaller fiscal reform decisions and financial oversight from higher levels of government would continue for years. Assessing with brutal honesty what the future was likely to hold for New York City and its residents, Felix Rohatyn predicted that 'the pain is just beginning' and warned that the city was about to experience 'the most brutal kind of financial and fiscal exercise any community in the country will ever have to face.'[210]

Rohatyn was right; between 1975 and 1978, New Yorkers did experience a great deal of pain. During this period, the number of city employees was reduced by around 70,000, from approximately 295,000 to 225,000.[211] At the same time, city spending on day-care and drug-rehabilitation centres, libraries, fire and police services, street cleaning, and subway maintenance fell sharply, while the city's university system began charging for tuition.[212] In the face of

[208] *Ibid.*, p.1903.
[209] *Ibid.*, p.1906.
[210] Fred Ferretti, 'M.A.C Head's Prediction: City's "Pain" Just Starting,' *NYT*, 10 December 1975.
[211] Because of the union-backed seniority principles (informally known as the 'last hired, first fired rule'), these layoffs disproportionately affected the city's racial minorities. Fein, *Fear City*, p.207.
[212] For a breakdown of the city's changing expenditures (which *does not* take into account inflation), see Charles Brecher and Raymond D. Horton. 'Retrenchment and Recovery: American Cities and the New York Experience,'

vigorous protests, city officials did abandon some of the larger proposed cuts. But, while citizen activism may have prevented the shutdown of some libraries and fire stations, they did not stem the tide of austerity. Though less dramatic, more minor retrenchments also had a significant impact. In healthcare, education, policing, and many other areas, city services and programmes were scaled back considerably. As a result, during the late-1970s, New York City became a dirtier, more dangerous, and more expensive place to live and work.

While these cuts were taking place, the occupant of the White House changed. For America's cities, this appeared to be a positive development. During his election campaign, Carter had repeatedly attacked Ford's urban policies and pledged that he would seek to be 'a friend, an ally and a partner' to the nation's cities.[213] After his election victory, Carter continued to reassure the nation's mayors of his intention to create a 'new partnership' between cities and the federal government.[214] Yet, when Carter's national urban policy proposals were eventually released, it included no major new urban initiatives and provided little increased funding for existing programmes.[215] Rather than building a Franklin Roosevelt style partnership between the local and federal governments, the Carter administration's urban policy (with its emphasis on locally administered and low cost, small-scale, and market-orientated national programmes) represented little more than a continuation and strengthening of the Nixon and Ford administrations' devolved and decentralised strategy for solving America's urban problems.[216]

This approach to urban issues did not seem to bode well for New York City. For three years, the city had adhered to the conditions set down in 1975. As we have seen, under the watchful eye of the Emergency Financial Control Board, the MAC, and two U.S. Treasury Secretaries, the city government made significant additional spending cuts. At the same time, the federal loans that the city claimed were paid back on time, or ahead of schedule.[217] But these reforms did not achieve their desired result: regained access to national bond markets.[218]As a result, as soon as its

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Public Administration Review (1985), Volume 45 (2) p.269. For a graphic — inflation-adjusted — representation of changing operating expenditures, see Shefter, *Political Crisis/Fiscal Crisis* p.138.

213 Quoted in Thomas Sugrue, 'Carter's Urban Policy Crisis,' in Gary M. Fink and Hugh Davis Graham (eds), *The Carter Presidency: Policy Choices in the Post-New Deal Era* (Lawrence, 1998), p.138.

214 Carter won by wide margins in large cities including New York, Boston, Chicago, Cleveland, and Detroit.

215 See Tracy Neumann, 'Privatization, Devolution, and Jimmy Carter's National Urban Policy,' *Journal of Urban History*, 2014, Volume 40 (2), pp.283-300; Biles, *The Fate of Cities*.

216 On the federal government's relationship with city governments during the Franklin Roosevelt administration, see Mason Williams, *City of Ambition: FDR, La Guardia, and the Making of Modern New York* (New York, 2013).

217 During the 1976 fiscal year, the city borrowed $1.26 billion. The following year, it borrowed $2.1 billion, and in the final year of the New York Seasonal Financing Act 1978 it borrowed $2 billion (the Treasury earned about $30 million in interest from these loans).

218 In one of his last acts in office, Abraham Beame tried — and failed — to sell an issue of New York City bonds.

federal loans expired in 1978, the city would confront the same problems as it had faced in 1975. With its loans months away from expiring, New York City's political leaders concluded that if America's largest city were to avoid a default, it would need more federal funds.

In the time between New York City's first and second aid request, the city elected a new mayor: Edward Koch. Koch was a very different politician from his predecessor.[219] Whereas Beame regarded preserving the city's social welfare institutions and programmes as one of his major responsibilities, his successor viewed restoring the city's fiscal health to be his primary duty. Accordingly, throughout 1975, Koch was very open about the fact that he was prepared to do 'whatever has to be done' to win the confidence of investors.[220] At the same time, however, he did not believe that New York City could tackle its financial problems independently. Having reached this conclusion, Koch spent much time and energy during his first six months as mayor lobbying the federal government for further financial aid.

Less than three weeks after Koch's inauguration, Jimmy Carter delivered his 1978 State of the Union address. Sounding a lot like Gerald Ford or Ronald Reagan, Carter announced that 'there is a limit to the role and the function of government... Government cannot eliminate poverty or provide a bountiful economy or reduce inflation or save our cities.'[221] Despite appearances, this 'age of limits' talk was not a veiled reference to the administration's position towards America's largest city's new aid request. Indeed, shortly after the speech, Carter 'promised' Koch, in a private meeting, that he would do all that he could to 'prevent' New York City from being forced into bankruptcy.[222] At the same time, however, Carter also counselled Koch that winning support from Congress for further aid would require further promises of fiscal belt-tightening.

New York City's mayor did not need telling twice. By the time that he met Carter, he had already unveiled a 'candid and realistic' four-year programme to restore the city to financial health. This plan consisted of a reduction of the city's workforce by 20,000 jobs, a series of initiatives designed to improve efficiency, and other spending reductions intend to save $174 million per year.[223] In addition to these cuts, Koch proposed that the federal seasonal loan programme be extended for another three years (in reduced amounts) and that the state and federal government

[219] For more on Koch, see Jonathan Soffer, *Ed Koch and the Rebuilding of New York City* (New York, 2010).
[220] Edward Koch to Jacob Javits, 13 December 1977, Box 1A, Edward N. Costikyan Papers, Columbia University Libraries Manuscript Collection.
[221] 'Shades of Grover Cleveland,' *WP*, 20 January 1978.
[222] Jimmy Carter, *White House Diary* (New York, 2010), p.168.
[223] Soffer, *Ed Koch*, p.155.

increase by $300 million the annual aid that they provided to the city. Most significantly, he also asked for a massive infusion of federal aid so that the city could finance infrastructure projects. Since 1975, the city had spent virtually nothing on maintaining its infrastructure. As a result, across the city, bridges, sewers, roads and gas and water mains were all in urgent need of repair. So that the city's physical environment did not crumble, Koch requested that the federal government guarantee long-term bonds worth up to $2.25 billion.[224]

Among many members of Congress, this proposal was not well received. Even before Koch had released his aid request, several prominent members of the Senate had made clear — both publicly and privately — that they were 'reluctant' to provide America's largest city with more aid.[225] Making an even stronger statement, less than a month after Koch released his proposals, the Senate Banking Committee unanimously endorsed a report that downplayed the economic consequences of a bankruptcy and argued that further federal aid to New York City would 'weaken the incentive for fiscal discipline...and erode the foundations of our federal system.'[226] Without the backing of the Senate Banking Committee, New York City's federal aid proposals were unlikely to be approved.

This did not alter the White House's position. Making clear where it stood on the issue of aid, in the early spring, the Carter administration publicly came out in support of federal assistance. Tweaking Koch's proposal slightly, the Treasury Secretary told a Senate Committee that if the state continued to provide oversight of the city's finances through the MAC and EFCB, the White House was prepared to guarantee up to $2 billion of long-term bonds, but would not continue the seasonal loan programme. Positively responding to this proposal, in the late spring, the House Banking Committee approved loan guarantee legislation by an overwhelming margin. Not everyone was so impressed, however. The same month that the House approved loan guarantees, the chairman of the Senate Banking Committee made clear that he feared loan guarantees would create a dangerous precedent and repeatedly delayed his committee's hearings on loan guarantees. With a month to go until the expiry of seasonal loans, New York City's fate was far from certain.

After seven months of slow progress, during the summer of 1978, events accelerated. At the start of June, the House approved, by a 92-vote margin, the $2 billion loan guarantee legislation.

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[224] *Ibid.*, pp.155-6; 25; 'New York City Aid: The Bargaining Begins,' *CQWR*, 25 February 1978, p.546.
[225] Edward C. Burks, 'City Faces Fight on More Loans', *NYT*, 6 December 1977.
[226] 'New York City Aid: The Bargaining Begins,' *CQWR*, 25 February 1978, p.547.

All eyes now turned towards the Senate Banking Committee. At the start of the month, more members of the committee opposed the loan guarantees than were in support. But the testimony of loan guarantee supporters during the committee's much-delayed hearings and an intense personal lobbying offensive by Jimmy Carter and his Vice-President, Walter Mondale, led some members of the committee reconsider their position.[227]As a result, the Senate Banking Committee voted in favour of a compromise bill in which the federal government would guarantee up to $1.5 billion of guaranteed loans bought by the state and city pension funds — a piece of legislation that the Senate approved by a vote of 53-27. At the end of July, the Senate and House passed a compromise bill which saw New York provided with $1.65 billion in loan guarantees in four instalments.[228]

Approaching matters very differently from his predecessor, Carter chose to sign the new aid bill at an outdoor event in Manhattan. With 2,000 guests and 4,000 onlookers, an army band playing 'Happy Days Are Here Again,' and an opera singer singing the national anthem, the event at New York City Hall had all the trappings of a major sports event.[229] The day's speeches were a little more muted, however. Edward Koch, in his remarks, praised Jimmy Carter and warned New Yorkers that there would be 'more sacrifices in the years ahead.' Picking up on similar themes, in his speech, Carter commended Koch for his imposition of 'tough discipline' and described loan guarantees as a 'crucial first step in New York's long and difficult climb back toward solvency and independence.' Lightening the mood, once the remarks concluded, Carter signed the legislation (at a desk used by George Washington), held the signed bill aloft, and began singing along to the All-City Chorus's rendition of 'Give My Regards to Broadway.'[230]

Although it went reasonably unnoticed, by guaranteeing the MAC's bonds the federal government took on a more significant role in overseeing New York City's fiscal affairs. As part of the legislation, the Treasury Secretary had to certify that the city was unable to obtain money through private bond markets and approve the city's financial plans. At the same time, the Senate or the House of Representatives also had the power to veto the 1980 and 1981 instalments of guaranteed bonds, while the state government would have to maintain an 'independent fiscal monitor' (the EFCB) for the duration of the loans.[231] These features of the legislation were intended to make the 'New York solution' unappetising to other cities. However,

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[227] See 'New York City Aid Extension Cleared,' in *CQA 1978* (Washington D.C., 1979), pp 258-64.
[228] Lee Dembart, 'Senate Unit Votes Long-Term Loan Aid,' *NYT*, 16 June 1978.
[229] Lee Dembart, 'Carter Signs Aid Bill for New York at a Gala Celebration at City Hall,' *NYT*, 9 August 1979.
[230]Bruce Drake, 'Carter Gives City a $1.65B Bill', *NYDN*, 9 August 1978.
[231] 'New York City Aid Extension Cleared,' in *CQA 1978* (Washington D.C., 1979), pp.258-64.

they also ensured that the state government, the Treasury Secretary, and members of Congress had the power to steer and shape the financial direction of America's largest city well into the 1980s. To save New York City, members of Congress and the Carter administration chose to disregard any broader philosophical commitment to devolution and decentralisation. Instead, they gave their support to solutions that dramatically, but indirectly, shifted much more power and responsibility for America's largest city's finances to the federal and state government.

An Urban Renaissance?

The early 1980s was a period in which urban America received a great deal of positive coverage in newspapers and magazines. This was quite a transformation. Between the late-1960s and late-1970s, journalists, film-makers, and commentators overwhelmingly portrayed America's large industrial cities in a negative light.[232] Reflecting this broader trend, in 1980, a presidential commission established by the Carter administration had described certain cities as 'snapshots of a bygone era' and 'withering monuments to the industrial age.'[233] Soon after the publication of the committee's report, however — and at almost the same moment that the Reagan administration was cutting urban spending — the national conversation about urban America changed. Where once journalistic coverage had concentrated overwhelmingly on crime, racial unrest, and crumbling and abandoned buildings and infrastructure, in the mid-1980s the focus of stories shifted toward the downtown building boom and improvements in the fiscal health of many urban areas. Cities that had often been labelled as 'dying,' 'decaying,' or 'declining,' were now being described as experiencing a 'rebirth,' 'revitalisation,' or 'renaissance.'

Outwardly, the city whose fortunes appeared to have transformed most dramatically during the 1980s was New York City. After Jimmy Carter signed the New York City Loan Guarantee Act into law, the city continued to make deep budget cuts. From a purely financial perspective, these cuts had the desired effect. In 1981, Standard and Poor's announced that it was raising the city's bond rating to an investment grade.[234] Making the most of the opportunities that this decision provided in late March, the city issued $75 million worth of bonds. Over the next five years, New York City's financial situation continued to improve. Consequently, in June 1986, more than 11 years after the beginning of the New York City fiscal crisis, the city government was able

[232] On the place that American cities occupied in American culture during the late-1960s and 1970s, see Robert A. Beauregard, *Voices of Decline: The Postwar Fate of America's Cities* (Cambridge MA, 1993), pp.185-216; Brian Tochterman, *New York and the Ideology of Fear* (Chapel Hill, 2017).
[233] United States Panel on Policies and Prospects for Metropolitan and Nonmetropolitan America, 'Urban America In the Eighties: Perspectives and Prospects,' (Washington, D.C., 1981), pp.105-6.
[234] Adopting a more conservative approach, Moody's did not change the city's bonds to investment grade until 1983. Edward A. Gargan, 'Moody's Lifts City Bonds to an Investment Grade,' NYT, 10 November 1983.

to repay its federally-guaranteed debts. Satisfied that the city had met the conditions set by the state government, in a specially arranged outdoor meeting, the Emergency Financial Control Board formally gave up its powers to approve the city's budget and financial plans. Likening this moment to the 'symbolic burning of the mortgage,' Edward Koch euphorically declared that New York City had 'weathered hard times,' 'endured the pain' and 'triumphed.'[235]

Between the late-1970s and early 1980s, New York City as a whole had weathered hard times and endured much pain. But, for all of the media hype and elected official euphoria that the restoration of municipal financial health and the simultaneous downtown building boom of the 1980s generated, for many residents the alleged urban renaissance of the 1980s did not herald an improvement in living standards. In fact, in many cases, the opposite was the case. Not only did tens of thousands of municipal employees lose their jobs as a result of the New York City fiscal crisis, but many of those that remained had their wages frozen or cut and their benefits reduced, while simultaneously paying higher taxes for fewer public services.

This shrunken municipal state was not a temporary phenomenon that disappeared after the crisis conditions of 1975 had abated. Even once the municipal fiscal squeeze that had sparked the New York City fiscal crisis eased, austerity continued and direct public investment in urban revitalisation and public services was comparatively modest. To be sure, in an era of massive federal spending cutbacks and continued population loss, the city's coffers were hardly overflowing with cash. It would, therefore, have been very tricky, both politically and economically, for the city to completely restore the public sector positions or social welfare programmes that had been cut by the municipal government during the preceding years of hardship. However, a partial rebuilding was possible. The fact that this did not take place was an indication of the extent to which the 'age of limits' logic of the financial and economic turbulence of the 1970s and 1980s had reshaped ideas about the core responsibilities of municipal government.

Though the municipal governments may have played a less direct role in trying to solve social problems during the 1970s and 1980s, in other areas they expanded their commitments. Prioritising spending that they thought likely to boost municipal revenues in the longer term, city political leaders provided tax breaks and other forms of financial assistance to private sector

[235] The MAC continued to function until 2008, and the Financial Control Board continues to review and comment on the city's four-year plans to this day. However, it lost its powers to control the city's borrowing and spending in 1986. Murray Weiss, 'City Fiscal Crisis is Finnis', *NYDN*, 1 July 1986.

actors who pledged to bring jobs, investment, and publicity to central cities. As a result, while many city residents may have experienced the 1980s as an era of small government, for real estate developers and large service sector corporations, it was a period of heightened city government largesse.[236] Mayors and other city officials publicly justified these policies as a means to an end — a sort of economic stimulus that would help expand the fiscal capacities of cash-strapped city governments in the longer term. However, keeping middle-class professionals, real estate developers, *Fortune 500* companies, and bankers happy proved to be a time consuming and costly job. As a result, pinpointing the trickle-down effects of the municipal corporate welfare policies of this period was often difficult.

Although the crisis that had pushed New York City to the brink of bankruptcy may have lifted, its much-vaunted urban renaissance was more a reincarnation than a turning back of the clock. As a consequence of the actions taken between 1975 and 1985, America's largest city emerged from the ashes of the fiscal crisis with many unrecognizable features. The same was also true in most other large cities in the Northeast and the Midwest. Indeed, as a consequence of decisions taken at a national level and the new corporate focused policy agendas of the municipal governments, the cultural and social character of cities changed dramatically.[237] At the same time, life in cities also became much more dualistic: great wealth existed alongside much poverty; cities' debts and deficits fell, but local income taxes rose, and spending on public services declined; new lucrative employment opportunities emerged for the middle-class and well educated, but the chances that existed for working-class Americans were much fewer. For some, the much-celebrated urban renaissance of the 1980s was a reality; for others, it was a fiction.

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A close examination of the politics of the New York City fiscal crisis helps to confirm much of the conventional wisdom about the political and economic trajectory of America during the 1970s and 1980s. For nine months in 1975, the elected officials and members of the financial community that had the ability to bring America's largest city's financial agony to an end steadfastly refused to do so. Depicting the city government's spending on social welfare as excessively lavish and unaffordable, from the outset, these parties repeatedly made clear that they would only consider providing financial assistance if New York City *immediately* and *drastically* reduced the size of its public sector. As a result, the fiscal crisis quickly evolved into a broader

[236] For more on these themes, see Fein, *Fear City*, pp.256-267; Jon Teaford, *The Rough Road to Renaissance: Urban Revitalization in America, 1940-1985* (Baltimore, 1990), pp.281-284.
[237] For more on these themes, see: Freeman, *Working-Class New York*, pp.291-305; Teaford, *The Rough Road to Renaissance*, pp.253-307.

discussion about the role and responsibilities of municipal governments as well as a debate about the duties and obligations of the national state towards lower levels of government.

Initially, many of the most important players involved — and the broader America public — took the side of the federal government and the banks and blamed New York City for bringing its problems on itself. To be sure, at a local level, thousands of the city's residents did take to the streets to protest the public spending cuts that were initiated in response to these messages. However, with the exception of Abraham Beame and a few other city politicians, none of the major actors in the New York City fiscal crisis sought to pressurise the banks to change their decision or argued that austerities should be made at a slower pace in order to cushion the human impact of cuts. Accepting the decision of the bankers and the wishes of the members of the state legislature and Ford administration, Hugh Carey, Felix Rohatyn and others devised new public-private institutions that shifted power and responsibility away from the relatively uncompliant city government towards the state government and private sector actors. With saving the city from default their primary (and often only) goal, Carey, Rohatyn, and later Ed Koch — unwittingly — ended up embracing the anti-government and privatisation logics that in earlier eras would have been regarded as the preserve of strident free-market conservatives.

Seen from this perspective, the New York fiscal crisis does appear to have happened at a moment in in U.S. history in which the New Deal order was taking its dying breaths and a new, more conservative, political order was emerging. After all, in the pages of the nation's leading newspapers and magazines, the plight of America's largest city was frequently held up as an example of consequences of a government that had refused to live within its means or to say no to the demands of its citizenry. Even among those who supported federal aid to the city, it is difficult to find many examples of groups or individuals who called for a federal intervention based upon compassionate grounds. Instead, most of the prominent and influential critics of the Ford White House's stance did so by calling for financial pragmatism — asserting that the broader financial consequences of a New York City default would have catastrophic national ramifications that were simply too horrifying to consider. Culturally and politically, something had clearly shifted amid the financial turbulence of the long economic crisis.

The centrality of economic reasoning in the debates over the New York City fiscal crisis does not mean that anti-statist and free-market ideas prevailed. To be sure, leading members of the White House frequently deployed anti-statist language throughout the crisis and championed

decentralisation. However, the Ford administration's rhetoric (particularly the sentiments voiced in the 'Drop Dead' speech) provide a very distorted window for understanding the governmental responses to the New York City fiscal crisis. Not only did the White House swiftly change its opinion in the face of changing public sentiments and mounting congressional pressure, but the policies that were put in place to resolve the crisis ran counter to approaches that were supposedly in the ascendancy.

It is impossible to accurately explain the course of events in New York City in 1975 and 1978 without detailing the actions of the White House. For most of the key decision-makers involved in the New York City fiscal crisis (except for Abraham Beame), Gerald Ford, Jimmy Carter, and Congress' opinions were the ones that mattered the most. As such, many of the actions that Felix Rohatyn, Hugh Carey, and others pressed the city government to take in 1975 and 1978 were tailored towards securing federal government approval and aid. This situation did not come to an end with the arrival of aid. On the contrary, as a result of the strict conditions attached to state and federal aid and the continued presence of the EFCB and the MAC, the state and federal governments continued to closely monitor and shape the city's affairs well into the 1980s and Ronald Reagan's first term. At the same time, a number of other parties also played an important role in resolving the crisis. Through their pension funds, the New York's municipal unions bought nearly $3 billion of the city's debt, while the state government provided the city with numerous financial advances and helped to refinance the city's short-term debts. Perhaps most importantly, through Hugh Carey, New York State was involved in managing the crisis and active in the formation and subsequent management of both the EFCB and the MAC.

In the longer-term, the events of 1975 did help to establish a new urban fiscal policy regime based around 'small government' approaches to social policy and 'big government' approaches to business centred economic development. However, in the shorter-term, for much of the long economic crisis, the state-driven aspect of the New York City fiscal crisis story also had significant influence and impact. In many places, New York City became a cautionary tale. Desperately attempting to avoid the same painful restructuring that America's largest city was compelled to take, during the long economic crisis, cities including Detroit and Cleveland made pre-emptive retrenchments and raised their taxes during the 1970s and 1980s. In the case of Detroit and Cleveland, New York City also served as a model. Faced with their own deep financial problems, the mayors of both cities asked the self-styled 'saviour of New York' Felix

Rohatyn for formal advice and recommendations.[238] Going one step further, Ohio even established its own variation of the EFCB to restore Cleveland's financial health in the wake of the city's 1978 default.[239] For America's cash-strapped cities, the New York City fiscal crisis of 1975 served as both a model and as a cautionary tale.

It was not just city and state officials that regarded events in New York City as something that could be learned from and adapted for other contexts. As the long economic crisis deepened and the small-government macroeconomic policies of the Reagan administration failed to pull America out of its economic nose-dive, many regarded the New York City fiscal crisis as an example of successful crisis management. In reality, as we have seen, the governmental response to the financial problems that New York City suffered was haphazard, improvised, and based upon the lack of trust several parties had in the city government and Abraham Beame. However, in the second half of the 1970s and early 1980s, the peculiar aspects of the story were forgotten and models were drawn from the crisis. Indeed, in 1979, when Chrysler asked the Carter administration for federal aid, the White House would turn to the lessons that it had taken from (what it regarded as) New York City's rescue and successful comeback and offer federal aid under very similar terms to America's third-largest automobile manufacturer.

[238] Iver Petersen, 'Cleveland Testing Advice of Rohatyn,' *NYT*, 15 February 1981; Ken Fireman, 'U.S. Is Key to Bail-Out of City, Consultant Says,' *DFP*, 4 June 1983.
[239] 'Press Release Regarding House Bill No.132', Container 113, George Voinovich Papers, Western Reserve Historical Society.

Chapter Two

Concealing Intervention:
Assisting the U.S. Automobile Industry in the 'Age of Reagan'

'If you're a corporate titanic and your failure is gigantic,
down in Congress there is a safety net for you.' [240]
–Tom Paxton, 1980 –

'You know, there really is something magic about the market place when it is free to operate.' [241]
–Ronald Reagan, 1982 –

On 31 March 1980, eight senior American and European bankers dined at New York City's Waldorf-Astoria hotel.[242] The dinner was not a social occasion. In fact, over rounds of Guinness and Heineken, the small group discussed how the debts of the world's 14th largest company, the Chrysler Corporation, could be restructured. These talks were neither simple nor straightforward. None of the bankers were willing to provide additional loans to the debt-ridden company. However, they were prepared to lower the interest rates and alter the payment schedules of the firm's outstanding loans. Proceeding on this basis, by the end of the meal, the bankers had formulated the outlines of a debt-restructuring deal. Jubilation ensued. Convinced that they had devised an agreement that would save Chrysler from bankruptcy, the bankers celebrated by ordering a magnum of 1955 vintage Dom Pérignon champagne — 'the kind James Bond drinks.'[243]

Though they revelled in toasting their own ingenuity, the eight bankers had actually achieved very little. The meeting took place at the Waldorf-Astoria because the small group believed that they were more likely to hammer out a deal without the presence of Chrysler's executives and other lenders. This may have been true. But, if the agreement they devised was to become a reality, the parties who had been deliberately excluded from the discussions would also have to accept the deal. As a result, even as they euphorically sipped Dutch beer and French sparkling wine, the small group of bankers knew that the future of America's third largest automobile producer was still hanging in the balance. Desperate to persuade the other lenders to accept the deal, the next morning the 'Waldorf Eight' rushed to Chrysler's Manhattan offices in the Pan-

[240] Tom Paxton, 'I'm Changing My Name to Chrysler', *At the Navy Pier Auditorium, Chicago* (Klondike Records, 1980).
[241] Ronald Reagan, 'Radio Address to the Nation on Taxes, the Tuition Tax Credit and Interest Rates', 24 April 1982, *Public Papers of the Presidents of the United States: Ronald Reagan: 1982* (Washington D.C., 1982), p.512.
[242] Five of those who attended the dinner worked for European banks — two each from Barclays Bank and Algemene Bank Nederlande, and one from National Westminster Bank. The three other attendees worked for American banks — Irving Trust Company, Chase Manhattan Bank, and Manufacturers Hanover Trust Company.
[243] Gary Hector, 'The Chrysler Saga, Act IV: Dom Perignon, Excedrin', *American Banker*, 10 November 1980.

Am building for a pre-scheduled meeting between the firm's top executives and 50 bankers and insurance executives.

The Pan-Am building meeting did not begin the way that the 'Waldorf eight' had envisaged. Chrysler's assistant treasurer, Steve Miller, opened the day's discussions by solemnly announcing that the firm's board of directors had spent the previous evening in an emergency meeting. There had been no champagne at this gathering. Instead, according to Miller, the firm's directors had spent hours soberly examining sales projections, economic forecasts, and financial reports. After careful consideration, Chrysler's top executives had concluded that the firm's survival was impossible. As a result, Miller gravely told the bankers, earlier that very morning the '[Chrysler] corporation ha[d] taken the extraordinary step of filing for bankruptcy.'[244] The bankers sat in stunned silence. However, after only a brief pause, Miller cleared his throat and jovially announced that since it was the first day of the month he had decided to open the meeting with an April Fool's Day prank. Few of those present were amused. Relaying the incident to a reporter, one of those present declared 'it wasn't very damned funny — we believed him.' [245]

Miller's hoax was indeed frighteningly plausible. Throughout 1978 and the first quarter of 1979, Chrysler had reported huge losses. By the spring of 1979, the firm had exhausted its financial reserves and was losing between $5 and $8 million each day.[246] Five years after New York's near bankruptcy, and two years after Cleveland's default, the short- and long-term future of one of America's most iconic and powerful corporations was far from certain. Making matters worse, Chrysler was not alone. During the second oil crisis and the ensuing recessions, both Ford and General Motors reported huge losses. As their losses mounted, and small, fuel-efficient automobiles produced by Japanese manufacturers captured an ever-larger share of the North American market, journalists and commentators wrote death notices for the U.S. automobile industry.[247] Capturing the prevailing atmosphere of gloom, John Updike's Pulitzer Prize winning 1981 novel, *Rabbit is Rich,* included the line 'The people out there are getting frantic, they know the great American ride is ending.'[248]

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[244] Steve Miller, *The Turnaround Kid: What I Learned Rescuing America's Most Troubled Companies* (New York, 2008), p.41.
[245] Quoted in Robert Reich and John Donohue, *New Deals: The Chrysler Revival and the American System* (New York, 1985), p.179.
[246] *Ibid.*, p.183.
[247] See for example, 'Is Chrysler the Prototype?', *Business Week*, 20 August 1979; Claude Reed, 'The American Auto Industry: Is Our Cornerstone Crumbling?', *New York Amsterdam News*, 15 November, 1980; Edward Meadows, 'Ford Needs Better Ideas, *Fortune*, 16 June 1980.
[248] John Updike, *Rabbit is Rich* (New York, 1981), p.1.

The obituaries were premature. Three years after the publication of *Rabbit is Rich* — and just in time for Ronald Reagan's re-election campaign to declare that it was 'morning again in America' — Chrysler, Ford and GM (the Big Three) began reporting record profits. For the rest of the decade, profits remained sky-high. After being pushed to the brink of bankruptcy, the U.S automobile industry seemed to have emerged from the long-economic crisis rejuvenated. This remarkable comeback was not simply the result of extravagant business dinners between bankers or meetings of top executives in corporate boardrooms. As this chapter shows, the actions of organised labour and public policies debated and approved by Congress and the White House were crucial to the survival and subsequent revival of the Big Three, as well as the rise of new domestic producers. Some of these sectoral policies were consistent with *laissez-faire* prescriptions for growth. However *others* were decidedly not, and it was from these interventionist and protectionist policies that the Big Three benefitted from most directly.

The idea that the federal government was responsible for preventing the collapse — and propelling the revival — of three of America's largest companies sits uneasily within prevailing narratives of the so-called 'Age of Reagan.' After all, historians are used to thinking of the late-1970s and early 1980s as a period of seismic political and ideological shifts, in which Americans rediscovered the market and the federal government lent its support to various management offensives against organized-labour.[249] Perhaps unsurprisingly therefore, labour and political historians writing about this period have paid considerable attention to the Big Three's calls for 'regulatory relief' and the Carter administration's support for concession bargaining during the 1980 federal government bailout of Chrysler.[250] Journalists and business scholars meanwhile have examined the decisions made in the Big Three's board rooms, and produced admiring accounts of the actions of corporate leaders like Chrysler boss, Lee Iacocca (the Steve Jobs of the 1980s American automobile industry).[251] Taken together, these accounts present the automobile crisis as an illustration of the centrality of *laissez-faire* approaches, anti-union policies, and dynamic corporate executives to late-1980s and early 1990s American capitalism.

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[249] For more on historiographical trends, see my Introduction.

[250] Foley, *Front Porch Politics*, p.183; Nelson Lichtenstein, *State of the Union: A Century of American Labor* (Princeton, 2002), pp.233-4; Waterhouse, *Lobbying America*, pp.174-81.

[251] See, for example, David Halberstam, *The Reckoning* (New York, 1986); Brock Yates, *The Decline and Fall of the American Automobile Industry* (New York, 1983); Reginald Stuart, *Bailout: America's Billion Dollar Gamble on the 'New' Chrysler Corporation* (Indiana, 1980); Michael Moritz and Barrett Seaman, *Going for Broke: The Chrysler Story* (New York, 1981); Paul Ingrassia and Joseph B. White, *Comeback: The Fall and Rise of the American Automobile Industry* (New York, 1994); Nitin Nohria and Sandy E. Green, Jr., 'Iacocca's Legacy,' Harvard Business School Case Study, 2002 (rev. edition); Mark Pelofsky, 'Transformation at Ford,' Harvard Business School Case Study, 1991 (rev. edition); Dimitry Anastakis, 'The Last Automotive Entrepreneur?: Lee Iacocca Saves Chrysler, 1979-86,' *Business History Conference* (2007), www.thebhc.org/sites/default/files/anastakis_0.pdf [accessed 26 March 2018].

At best, this is a highly simplified rendering of the U.S. automobile industry's contemporary history, one that diminishes the crucial role that labour unions and public intervention played in the turn around. There is, of course, some truth in the business centred tales: decisions made in corporate boardrooms and in automotive design studios are an important part of the story of the automobile industry's reinvention. But, just as with New York City, organised labour and governmental actors were not as passive or subservient as the conventional narrative suggests. Indeed, on many different occasions during the automobile crisis of the 1970s and 1980s, the public sector devised the solution and supplied the resources to help the country's ailing automobile producers. Moreover, in many of these instances, the private sector acquiesced in the wishes and demands of organised labour and the federal government.

This chapter charts the changing fortunes of the U.S. automobile industry during the 1970s and 1980s. On the surface, the tale that emerges seems eerily familiar. In discussing the automobile industry, policymakers and business leaders made constant references to the market and argued that the Big Three's problems would be resolved by dynamism of private-sector actors. At the same time, organized-labour acceded to requests made by management and government for wage and benefit concessions. However, if one dives beneath the surface and looks closely at the fine detail, the hollowness of this market rhetoric becomes apparent, as does the complex and cooperative relationship between management and labour. Throughout this period, elected officials and corporate executives *did* consistently maintain that the American automobile industry's problems would be resolved in the market place and call for the repeal of various regulations. Simultaneously however, they also repeatedly argued in favour of and pushed for interventionist and protectionist policies. Ultimately, it was these policies which helped to fundamentally reshape an industry that had remained fairly unchanged since the prosperous, unchallenged years of the 1950s.

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The 'Heyday' of the American Automobile Industry

For corporate executives and America's unionised automobile workers, the period between 1945 and 1975 was the golden age of the U.S. automobile industry. In this era of steady national economic growth, comparative low unemployment, frenetic highway construction and rapid suburban expansion, consumer demand for new cars seemed insatiable.[252] Between 1946 and

[252] It was not just suburban areas that were built to accommodate the automobile during the post-Second World War period. Although often downplayed, improving automobile access to the central city and downtown was also one of the central goals of 1950s and 1960s urban planners. See, Owen Gutfreund, *20th Century Sprawl: Highways and*

1955, new car sales quadrupled and by 1960, 75 percent of American households possessed at least one car.[253] Though they celebrated these sales figures, many executives feared that demand would soon slump. Anxious to prevent markets from maturing, America's automakers devoted huge amounts of their resources to marketing campaigns and frequently updated or restyled their line-ups in an effort to persuade consumers to regularly replace their cars.[254] This strategy of 'planned obsolescence' proved effective, and automobile sales continued to climb long after the pent-up demand of the 1930s and 1940s was satisfied.

The primary beneficiaries of America's post-Second World War transformation into an automobile society were the Detroit-based firms of General Motors (GM), Ford, and Chrysler. Between 1945 and 1955, the majority of the handful of domestic automobile producers which had survived the Great Depression went out of business or were purchased by the Big Three.[255] As a result, by 1957 three automobile firms enjoyed near complete control of the massive North American market.[256] This oligopoly was not quite total — both the American Motors Corporation (AMC) and Volkswagen of America managed to carve a market niche for themselves by producing small, fuel efficient cars. However, in an era of comparatively cheap gasoline and rising disposable incomes, the Big Three were happy not to compete in this relatively unprofitable niche and were able to achieve market dominance and large profits with line-ups comprised almost exclusively of large and powerful cars.

There were some bad sales years in the 1950s. During the short but sharp world-wide recession of 1958, Chrysler, Ford and GM's sales fell dramatically, from 7.2 to 5.1 million.[257] But not all automobile manufacturers suffered equally as a result of the slump. In fact, several of the smaller and foreign automobile producers that specialised in producing small, inexpensive cars reported increased sales. From 207,000 units in 1957, sales of imported passenger vehicles rose to 379,000 units in 1958, while sales of American Motors's new Rambler models more than doubled.[258] As a result, the companies that had fared poorly during the first half of the decade actually benefitted from the recession. Confident that this development vindicated his decision to transform AMC

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the Reshaping of the American Landscape (New York, 2004); Clay McShane, *Down the Asphalt Path: The Automobile and the American City* (New York,1994).

253 Lizabeth Cohen, *A Consumer's Republic: The Politics of Mass Consumption in Postwar America*, (New York, 2003), p.123.

254 See Karal Ann Marling, *As Seen on TV: The Visual Culture of Everyday Life in the 1950s* (Cambridge, MA, 1994), pp.129-62.

255 See John Rae, *American Automobile Manufacturers: The First Forty Years* (New Jersey, 1960), pp.172-201.

256 'Import Share of the U.S. Automotive Market 1955-1981', Marc Stepp Collection, Box 1 Folder 4, Walter Reuther Library.

257 James J. Flink, *The Automobile Age* (Massachusetts, 1990), p.284.

258 Lawrence J. White, *The Automobile Industry Since 1945* (Cambridge: MA, 1971), p.182.

from a full-line automobile producer into a compact car specialist, in 1958 the company's chairman, George Romney, declared that 'consumers are rebelling against the size, the large horsepower and the excessive styling changes made each year by many auto manufacturers.'[259]

In one sense, Romney was right. The oligopoly of the Big Three did weaken during the 1958 economic downturn and smaller manufacturers were, as a consequence, able to increase their market share and expand their dealer networks.[260] Yet, in the medium term, American automobile buying habits did not undergo the permanent 'revolution' that Romney had predicted. Indeed when the economy rebounded in the early 1960s, American consumers returned to buying large and fuel-inefficient cars.[261] Making the most of the public's seemingly boundless appetite for cars with powerful V-8 and 6-cylinder engines, the Big Three used components from the compact car models that they had developed in response to the 1958 recession to manufacture the first generation of muscle cars. These new models sold well, and in 1965, America's domestic manufacturers produced a record 11.1 million automobiles.[262]

In addition to being decades of prosperity for America's largest automobile corporations, the 1950s and 1960s were also boom decades for the nation's autoworkers. Working life as an autoworker was physical, occasionally dangerous and often monotonous, but it was well rewarded.[263] Between 1947 and 1960, average wages within the industry nearly doubled and autoworkers received company-funded health insurance and pension funds as well as cost-of-living adjustments that protected wages from inflation.[264] To be sure, employment in the automobile industry was highly cyclical and mass layoffs and plant shutdowns often accompanied national economic downturns.[265] Nonetheless, the automobile industry provided hundreds of thousands of working-class Americans with better pay and benefits than they could

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[259] Quoted in, 'Some Agree With President', *St Louis Post-Dispatch*, 10 April 1958.
[260] By 1970 foreign made cars accounted for 15 percent of all passenger vehicle sales. John Rae,*The American Automobile Industry* (Boston, 1984), p.127.
[261] In 1956, the auto industry employed 778,000 production workers. After a brief dip in 1958 and 1959, employment soon rebounded. Kevin Boyle, *The UAW and the Heyday of American Liberalism, 1945-1968* (Ithaca, 1995), p.94.
[262] Cohen, *Consumers Republic*, p.123.
[263] For a deeply textured account of automobile production line work, see Ruth Milkman, *Farewell to the Factory: Auto Workers in the Late Twentieth Century* (California, 1997).
[264] Nelson Lichtenstein, *Walter Reuther: The Most Dangerous Man in Detroit* (New York, 1995), p.288.
[265] As a result of the 1949 recession and the Korean War, many American automobile workers spent the late-1940s and early 1950s unemployed or working odd jobs. On the instability and precarity of automobile work between 1945 and 1960, see Daniel J. Clark, *Disruption in Detroit: Autoworkers and the Elusive Postwar Boom* (Urbana, 2018).

receive in almost any other industry.[266] As a result, during the 1950s and 1960s, automobile workers — and their families — were able to enjoy many of the fruits of the post-Second World War boom.

These generous wage and benefit packages were not simply the product of management benevolence. They were instead the result of fierce union organising and executives' anxiety about the long-term commercial ramifications of prolonged work stoppages.[267] These fears were not without foundation. When the Second World War ended, automobile executives opposed the increased wage and benefit demands made by organised labour. The resulting strikes at GM and Chrysler lasted more than 100 days and cost the two companies around $3 billion in lost profits.[268] Concerned that additional long work stoppages might do lasting damage to their sales figures and satisfied that wage increases could be absorbed through higher prices, the Big Three made peace with the United Automobile Workers (UAW). Though the union and automobile producers never fully abandoned their adversarial relationship (short strikes were common), for the next 29 years, Chrysler, General Motors and Ford would negotiate the same terms with the UAW and the wages and benefits that the Big Three's autoworkers received would steadily increase.

America's automobile manufacturers were confident that raised prices would not lead to reduced sales, in no small measure because of the weakness of their foreign competitors. In the 1950s and early 1960s, overseas brands were attractive only to those who could not afford to purchase or run American-made cars. However, in the second half of the 1960s, foreign manufacturers expanded their dealership networks, introduced medium and full-sized cars designed for the American market, and made quality improvements.[269] The result was that public perceptions

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[266] At the beginning of the 1970s, U.S. automobile and steel workers earned around 30 percent more than workers in other industries. By the end of the 1970s, autoworkers received earned 60 percent more than average workers in other industries. Halberstam, *The Reckoning*, p.608.

[267] For more on UAW bargaining patterns during this period, see Harry C. Katz, *Shifting Gears: Changing Labor Relations in the U.S. Automobile Industry* (Cambridge, MA, 1985), pp.13-47.

[268] Walter Ruch, "100-Day Chrysler Strike Ends in a Bitter Mood of 'Futility'", 5 May 1950, *NYT*; Lichtenstein, *Walter Reuther*, p.280; Charles K. Hyde, *Riding the Rollercoaster: A History of the Chrysler Corporation* (Detroit, 2003), pp.154-6.

[269] In 1970, Volkswagen sold 569,000 cars in the US, while Toyota — the foreign carmaker with the second highest sales — sold around 250,000. By contrast, in 1970 the Big Three sold nearly 2.4 million cars. David W. Chute, 'Business Today', *The Luddington Daily News*; George Lardner, 'Checked Your Volkswagen Lately?: The Beetles,' *TNR*, 9 October 1971; Tom Kleene, 'Auto Sales Up in April', *DFP*, 6 May 1971. On the strategies that German and Japanese firms used to increase their market share, see James Rader, *Penetrating the U.S. Auto Market: German and Japanese Strategies, 1965-1976* (Ann Arbor, 1980).

about foreign cars steadily improved during the 1960s.[270] This alteration in attitudes did not provoke panic in Detroit, for GM, Ford, Chrysler and AMC were reporting combined profits of $2.7 billion in 1971 and there was little to suggest that this would change.[271] After all, the Big Three controlled the lion's share of the most profitable and largest sections of the market and they alone seemed capable of designing and producing the palatial, option-laden cars that the American public demanded in times of prosperity. But in 1973, when the post-Second World War era of cheap energy stalled, this situation changed dramatically.

A Serious Jolt

The 1973-74 Organisation of Petroleum Exporting Countries (OPEC) oil embargo substantially altered the car buying habits of American consumers.[272] In a period of less than six months, the price of crude oil quadrupled, gasoline prices soared and long queues developed at American gas stations.[273] Rising energy prices and gasoline shortages had both a psychological and economic impact. In addition to inducing panic, the oil shock also produced inflation. With the price of non-durable goods rising rapidly, many Americans postponed the purchase of expensive items. This created alarm among car producers. For decades, artificially low energy prices and relatively steady economic growth had fuelled demand for large cars, while weak international competition had led the Big Three to invest in marketing and sales, rather than research and development. However, during the OPEC oil embargo and ensuing recession this approach did not deliver profits. Instead, it left America's automobile firms reeling and in sudden need of a new strategy.

The OPEC oil embargo created a sharper and longer downturn in the automobile industry than the global recession of 1958. In early 1973, GM reported record sales and production statistics and the largest ever annual profit for a private corporation.[274] Less than 12 months later, the company announced the temporary closure of 16 assembly plants and the lay-off of 137,000 workers.[275] Over the next two years, automobile sales continued to slump. In 1974, 2.6 million fewer cars were sold in the United States than the year before and by the beginning of 1975, 25 percent of America's autoworkers were temporarily laid off.[276] Some producers were affected

[270] At the same time, perceptions of American cars began to change. This owed much to the investigative reporting of Ralph Nader and subsequent *exposés* of the industry produced by a number of young muck-raking journalists.
[271] Emma Rothschild, *Paradise Lost: The Decline of the Auto-Industrial Age* (London, 1974), p.3.
[272] On the first energy crisis, see Jacobs, *Panic at the Pump*, pp.49-122; Berkowitz, *Something Happened*, pp.53-71.
[273] For a breakdown of gasoline prices during the 1970s, see Philip K. Verleger Jr., 'The U.S. Petroleum Crisis of 1979' in Arthur M. Okun and George L. Perry (eds), Brookings Papers on Economic Activity 1979, p.467.
[274] Rothschild, *Paradise Lost*, p.4.
[275] 'Autos: The Painful Change to Thinking Small', *Time*, 31 December 1973.
[276] Annual U.S. Passenger Car Retail Sales, Memorandum, DR Papers, Box 37, University of Michigan-Flint; 'Autos: Detroit's Gamble to Get Rolling Again,' *Time*, 10 February 1975.

more severely than others. Just as in 1958, the Big Three experienced a much worse downturn in sales than companies that specialised in compact and subcompact cars. Now convinced that they needed to compete for sales in the small car segment of the automobile market, in the first half of the 1970s the Big Three committed billions of dollars to developing new lighter, smaller, and more fuel-efficient models.

While the Big Three were investing in the development of smaller cars, decisions were made on Capitol Hill that would help to resuscitate the market for large, fuel inefficient cars. When the oil embargo ended in March 1974, many elected officials believed that the state should play an active role in encouraging energy independence and conservation. Presuming that automobile manufacturers would not produce fuel-efficient cars unless compelled to do so, Congress established the first ever federal fuel economy regulations.[277] But while legislators wanted to encourage conservation, they also wanted to help cash-strapped consumers. As a result, though the bill set fuel economy standards, it also placed a price-ceiling on oil, which would keep prices artificially low for the next three years.[278] In the short term, this measure helped bring an end to panic-buying and provided Americans with access to affordable fuel.[279] In keeping energy prices artificially low, however, the federal government removed market incentives to downsize, and encouraged consumers to return to their post-Second World War buying habits.

During the economic recovery of the mid 1970s, the sales of passenger vehicles rebounded. In an attempt to penetrate the small car market, the Big Three developed new subcompact and compact cars. Despite this, consumers continued to turn to European and Japanese firms when buying small cars and showed comparatively little interest in the Big Three's newly developed fuel-efficient cars. By this time, though, executives were not particularly concerned with small car sales figures. With energy prices falling and the economy growing, consumers regained their appetite for big, luxurious cars. By 1977 intermediate and full-size cars represented 60 percent of all passenger vehicle sales and in some areas trucks and vans were outselling passenger cars.[280] With demand booming, in 1978 passenger vehicle sales reached 13 million and a year later

[277] Under the terms of the Corporate Average Fuel Economy Standards (CAFE), the Big Three were required to double the average miles-per-gallon of their fleet over a ten-year period.
[278] On the Ford administration's reaction to the bill, see Jacobs, *Panic at the Pump*, pp.148-51.
[279] Between 1975 and 1978 the price of gasoline rose by only 12 cents per gallon. Seaman, *Going for Broke*, pp.169-170.
[280] Stuart, *Bailout*, p.103.

employment in the motor vehicle and equipment industries hit 1 million (both records).[281] Reaping huge profits from this banner sales year, GM reported record full-year earnings of $3.5 billion, while Ford made a profit of $1.5 billion.[282]

Not all of the Big Three prospered when the OPEC oil embargo ended. In 1974, Chrysler lost $41 million and the next year it lost $207 million.[283] By the winter of 1974, things had become so bad that journalists and members of the Ford administration were voicing fears that the smallest of Detroit's Big Three was doomed.[284] Chrysler pulled through, but in order to do so it laid off 80 percent of its engineering staff and reduced its overall workforce by nearly a third.[285] These cost-cutting measures helped the firm to limit its losses, but they also hampered the firm's product development programme.[286] In an industry where products rapidly become obsolete and sales volumes fall dramatically with age, this proved extremely damaging in future years. That said, during the second half of the 1970s, Chrysler did unveil a number of new models. But, the launch of these models was repeatedly delayed and the company was also forced to issue a number of recall notices. As a consequence, in 1977 and 1978, the firm's reputation among consumers nosedived, its sales fell, and its market share dipped considerably.[287]

In the face of poor sales and a series of disastrous product launches, Chrysler's executives were by no means passive. In 1978, its chairman John Ricardo unveiled a five-year $7.5 billion revitalisation plan.[288] Under normal circumstances, Chrysler could have borrowed the money required for this programme. But, in 1978, the firm had a debt-to-equity ratio of 40 percent and its stockholders were unhappy with the company's management and poor performance when compared with Ford and GM.[289] In the end, Chrysler was able to raise the money it needed by issuing new stock, but this was approved at the annual general meeting by a slim margin and only

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281 Annual U.S. Passenger Car Retail Sales, Memorandum, DR Papers, Box 37, University of Michigan-Flint; Christopher J. Singleton, 'Auto Industry Jobs in the 1980's: a decade of transition', *Monthly Labor Review*, Feburary 1992, p.19.

282 Stephen Chapman, 'On the Hill: Welfare Chrysler,' *TNR*, 4 August 1979.

283 Alex Taylor, 'Chrysler: Profits from Daring Moves', *DFP,* 24 June 1979.

284 Memorandum, 'Economic Position of Chrysler', 22 November 1974, Arthur Burns Papers, Box 13, GFPL; William Greider, 'Motor City Reels From Clobbering', *WP*, 29 December 1974.

285 Stuart, *Bailout*, p.81.

286 See, Chapman, 'On the Hill.'

287 Between 1976 and 1978 Chrysler's share of the passenger vehicle market dropped from 13.6 percent to 11.2 percent. Reich and Donohue, *New Deals*, p.44.

288 Under the plan Chrysler would modernise and extend the size of eight of its factories and improve its engineering and testing facilities. These investments were designed to allow the company to introduce a slew of new models and to make the transition to producing front-wheel drive cars.

289 By contrast, Ford had a debt-to-equity-ratio of 15 percent, while GM had a ratio of just 6 percent. Allan Sloan, 'Chrysler Struggles to Erase Its Red Ink', *DFP*, 15 May 1978. Chrysler also had a significant amount of capital tied up in its huge inventory of unsold cars. Amanda Bennet, 'Orphan Autos: Cars Chrysler Built Without Orders Burden Firm Now', *WSJ*, 31 August 1979.

after stockholders publicly berated the company's management for three hours.[290] Increasing stockholder and consumer confidence in the firm's products and its financial future would take more than just the announcement of an expensive revitalisation campaign.

Management Changes

At the same time as Chrysler's president and chairman, John Riccardo, was attempting to sell the new stock issue to shareholders, he was also engineering a boardroom coup. From the moment of his appointment as Chrysler Chief Executive Officer (CEO) in 1975, Eugene Cafiero had clashed with Riccardo. By 1977, the two men were barely on speaking terms. In the summer of that year, Cafiero told Riccardo that he was leaving the firm. Concerned that this might endanger his own position, Riccardo convinced Cafiero to stay. However, this represented only a temporary cease-fire and a little more than a year later, Riccardo was holding talks with the former president of the Ford Motor Company, Lee Iacocca. After several further clandestine meetings with Iacocca, Chrysler's board announced in November 1978 that Cafiero would become vice-chairman of the board (a newly created post with no defined role) and Lee Iacocca would become the firm's new chairman and CEO.[291]

Among reporters, there was an almost unanimous agreement that Iacocca was exactly what Chrysler needed. After his appointment, the *New York Times* hailed Iacocca's 'proven skills in marketing' and 'eye for style'; the *Washington Post* spoke in glowing terms about his keen sense of 'public demand'; and the *Chicago Tribune* predicted that his reputation would help provide the firm's dealers with a psychological lift.[292] Iacocca certainly came with a glittering resumé. During his 32-year career at Ford, he had developed a reputation as an innovative executive with an innate talent for sales and a seer-like ability of anticipating consumer demand. This was fuelled, in part, by his swift rise through the company's ranks. After joining Ford as regional sales and marketing manager in 1946, Iacocca had soon attracted the attention of reporters and the company's top executives. In 1964, at the age of just 39, Iacocca (then general manager of Ford's car division) unveiled the Ford Mustang, a car whose development he had overseen, and appeared on the cover of *Time* and *Newsweek*. The following year, 'the hottest young man in

[290] 'Chrysler's Outraged Shareholders', *NYT*, 7 May 1978.
[291] Under this new arrangement, Riccardo remained the company's chief executive officer and chairman, but resigned his position as president of Chrysler's Operating Committee. As a result, Iacocca assumed responsibility for day-to-day operations of Chrysler, while Riccardo (an accountant by training) took charge of the firm's financial affairs.
[292] Douglas Williams, 'Iacocca President of Chrysler', *WP*, 3 November 1978; Reginald Stuart, 'Iacocca's Plans for Chrysler', *NYT*, 7 November 1978 James Mateja, 'Iacocca is Named Chrysler President', *Chicago Tribune*, 3 November 1978.

Detroit' was promoted to Vice-President of Ford's Car and Truck Group and five years later he became Ford Motor Company's ninth president. Over the next eight years however, Iacocca's relationship with Ford's chairman and CEO, Henry Ford II, deteriorated. Despite the fact that the company was reporting healthy profits, in July 1978 Iacocca was abruptly fired by Henry Ford.[293]

Iacocca's work at Ford during the post-Second World War era did not prepare him for the challenges that he would face at America's third largest automobile manufacturer during the turbulent years of the long economic crisis. The same day that Iacocca was appointed president, Chrysler announced its worst ever three-month loss.[294] Yet, despite these substantial losses, the firm had just sold its new stock offering with relative ease; it was not, therefore, in immediate danger of running out of money. Moreover, as GM and Ford's sales figures proved, consumer demand for large automobiles remained strong. While few believed that Chrysler could transform its losses into profits overnight, most observers expressed faith in Iacocca's ability to turn the firm's fortunes around in the longer term. However, such predictions were based on the assumption that demand for new automobiles would remain relatively stable. Unfortunately, events halfway around the world in Iran ensured that this would not be the case.

The Second Oil Shock

The autumn of 1978 was an inauspicious moment to take charge of a struggling automobile company. A month before Lee Iacocca took the helm, political unrest in Iran spread to the nation's oil fields. On 26 December, three weeks before the Shah of Iran fled the country, oil production shutdown completely and all exports were cut off for 69 days.[295] As a result, between October 1978 and January 1979, Iranian oil production fell by nearly five million barrels a day (around seven percent of total global production) and in 1979 Iran produced less than half the oil that it produced in 1977.[296] Although the loss of global oil production was modest, the trouble in the world's fourth-largest oil producer created a worldwide economic shockwave. Fears about shortages prompted panic buying and created a sellers' market that led OPEC to

[293] The events that led Ford to fire Iacocca remain murky. In his autobiography, Iacocca provides a detailed — and embittered — narrative of his dismissal. The journalist David Halberstam, however, has disputed this account. Halberstam, *The Reckoning*; Lee A. Iacocca and William. Novak, *Iacocca: An Autobiography*. (London, 1985).
[294] Williams, 'Iacocca President of Chrysler', *WP*.
[295] Jacobs, *Panic at the Pump*, pp.196-197.
[296] James D. Hamilton, 'Historical Oil Shocks', in Randall E. Parker and Robert Whaples, *Routledge Handbook of Major Events in Economic History* (London, 2013), p.252. Daniel Sargent, *A Superpower Transformed: The Remaking of American Foreign Relations in the 1970s* (New York, 2015), p.277.

raise the price of crude oil by 14 percent in March 1978 and 9 percent in March 1979.[297] The result: between January and June of 1979, U.S. gasoline prices increased by 55 percentage points and huge queues once again formed at America's gas stations.[298]

The Iranian revolution produced what Lee Iacocca later described as the 'most abrupt change of buying patterns in automotive history.'[299] After four years of healthy and growing sales, the Big Three had already prepared themselves for a modest sales slump in 1979.[300] However, as result of the events in Iran transformed domestic automobile sales would plummeted by 1 million units between 1978 and 1979.[301] Making matters worse for the Big Three, the fall in sales were not evenly distributed across entire model ranges. Indeed, just as in 1958 and 1973, sales figures for large and fuel inefficient cars fell by the most, while demand for small, fuel-efficient cars increased. Models that had drawn the most interest on dealer forecourts in the relatively prosperous years of the 1970s, now attracted very little attention and orders mounted for cars that had previously sold poorly.

The firm most affected by the abrupt change in consumer demand was Chrysler. In 1975, the company's management had concluded that developing its own engine for its new line of sub-compacts would be too costly. Instead, Chrysler agreed to purchase 300,000 four-cylinder engines per year from Volkswagen. Initially this arrangement worked well for both parties.[302] In 1977 and 1978, VW supplied Chrysler with more than enough engines to meet demand. However, in the wake of the second oil shock, sales soared and VW refused Chrysler's request to increase the size of its four-cylinder engine contract.[303] Unable to source enough engines to meet demand, Chrysler was faced with no choice but to limit production and start waiting lists. But, by the summer of 1979, Chrysler's three-month waiting lists were the least of its executives' worries.

Less than a year after the beginning of the second oil crisis, Chrysler's finances were in dire shape. For much of 1979, executives downplayed the seriousness of the firm's financial situation. In June 1979, Chrysler's Treasurer told the *Detroit Free Press* that the company could afford to lose $200 million in 1979 — the same as it lost in 1978 — without experiencing any financial

297 *Ibid.*
298 Stein, *Pivotal Decade*, pp.213-215.
299 Lee Iacocca, Press Conference Transcript, 15 September, 1979, UAW President's Office: Douglas Fraser Papers, Box 15, Walter Reuther Library.
300 Reginald Stuart, 'Can Detroit Finance the Car of the 1980's?', *NYT*, 7 January 1979.
301 Flink, *The Automobile Age*, p.391; Stein, *Pivotal Decade*, p.252.
302 James Mateja, 'Chrysler small-car sales boom cutting profits,' *Chicago Tribune*.
303 Seaman and Moritz, *Going for Broke*, p.252.

difficulty.[304] Adopting a similarly upbeat approach, at Chrysler's annual general meeting, Lee Iacocca confidently declared that: 'within a very short time the opportunities for Chrysler Corporation will be far greater than the problems.'[305] However, these optimistic public statements did not deceive anyone who closely scrutinised the firm's earning statements and financial reports. In response to the news that Chrysler's had lost more money than any other *Fortune* 500 company in 1978, a number of America's major ratings agencies downgraded the company's credit rating.[306] Just as four years earlier during the New York City fiscal crisis, this decision pushed Chrysler deeper into crisis and put it on a path that would eventually lead to a desperate appeal for federal aid.

With credit markets increasingly difficult to access, Chrysler was forced to cut costs. In this, it was not alone; by August 1979, Ford and General Motors had placed 32,000 of their employees on indefinite lay-off and announced that they would delay the production of their 1980 full-and mid-sized models by at least three weeks.[307] Chrysler, however, went far beyond halting production and announcing temporary layoffs. In late May, Chrysler notified the more than 900 workers at its trim plant in Lyons, Michigan that it was permanently shutting down production at the site.[308] Shortly afterwards, the firm also announced that it was closing its massive 75 year-old, Dodge Main plant in Poletown, Detroit.[309] Inclusive of these closures and production reductions at its other plants, the firm laid off more than 30,000 workers between the spring and summer of 1979, including 5,000 of its 35,000 white-collar workforce.[310] Keen to prevent protests and unrest, Riccardo and Lee Iacocca (both were already multi-millionaires) announced that they would reduce their $360,000 annual salaries to $1 for the next two years.[311]

By summer of 1979, there was little more that Chrysler could do to reduce its operating costs. During the second half of the 1970s, the firm had dramatically scaled back the size of its world-wide operations — selling its indoor heating and air conditioning business as well as its foreign

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304 Donald Woutat and Alex Taylor, 'How No.3 Tightens Its Belt', *DFP*, 10 June 1979.
305 Tom Kleene and Donald Woutat, 'Critics Follow Chrysler to Syracuse Meet', *DFP*, 16 May 1979.
306 Healy, 'Chrysler Again the Industry's Sick Man', JH Papers, p.5
307 Barry Rohan, 'Following the Recession's Path in Michigan', *DFP*, 12 August 1979.
308 At the time Chrysler was the only major employer in Lyons, a small farming community located between Lansing and Grand Rapids. Rene Becker, 'Town Shattered by Plant Closing Strives to Survive', *DFP*, 24 July 1979.
309 In Chrysler's heyday, the massive, eight-storey Dodge Main factory produced 12,000 cars per week and employed 20,000 people. By 1979, only 2,600 people were employed at the plant. Despite this, Chrysler remained the largest single employee in the Detroit suburb. Warren Brown, 'A Plant and Its City Fall Victim to Chrysler's Decline', *WP*, 14 November 1979.
310 Gregg, 'Hill Leaders Pledge Prompt Consideration of Chrysler Aid', *CQWR*, 18 August 1979 p.1700.
311 Although there was a long history of corporate executives taking $1 salaries in government (particularly during the First and Second World Wars), this was one of the first occasions in which private sector executives agreed to take such a large pay cut. James L. Rowe, Jr., 'Top Chrysler Two $1 a Year Men', *WP*, 31 August 1979.

automobile subsidiaries.[312] These sales allowed Chrysler to increase its working capital and provided the firm with nearly $1 billion that it could plough into its ambitious, multi-year product development and retooling programme. However, it did not alter the fact that Chrysler's North American car and truck operations (now its primary line of business) were losing vast amounts of money.

Raising money from banks and other investors was also not an option available to America's third largest car firm. In the second quarter of 1979, Chrysler lost $207 million — a figure greater than its loss for the whole of 1978.[313] Unnerved by this, investors stopped buying the firm's commercial paper. In response, Chrysler borrowed $50 million a day from its pre-existing lines of emergency credit.[314] This was not a sustainable approach. Indeed, the banks within the credit syndicate were alarmed by this development and quickly made clear that they would not extend the $560 million credit agreement once it was depleted.[315] As the firm's economic problems grew, Chrysler's executives desperately searched for external investment. But, secret merger talks with Volkswagen broke down and meetings held with other potential investors also proved fruitless.[316] With the national economy continuing to deteriorate, banks refusing to lend it more money, and the firm rapidly running out of money to pay its bills and meet payrolls, in the summer of 1979, Lee Iacocca concluded that the firm's only real survival chance lay in 'turn[ing] to government.'[317]

Convincing the White House

The White House was well acquainted with Chrysler's problems. In February 1978, a year before the oil crisis, John Riccardo had privately met with Jimmy Carter's chief domestic policy advisor, Stuart Eizenstat. In this brief meeting, Riccardo informed Eizenstat that although Chrysler's balance sheet appeared healthy, it was likely that the firm would not be able to privately borrow the money that it needed to complete its ambitious revitalisation programme and overcome its problems. After making the case that Chrysler had done everything that it could to raise money by selling off its overseas and domestic subsidiaries, Riccardo urged the White House to approve

312 'Chrysler Airtemp Subsidiary sold', *The Times Herald*, 24 February 1976; Chrysler Unloads Losing South Africa Operation in Merger', *DFP*, 4 November 1976; Paul Lewis, 'French Spinster Peugeot comes courting in the U.S.', *DFP*, 29 May 1981.
313 Martha Shirk, 'Chrysler Loss Prompts Federal Studies', *St Louis Post-Dispatch*, 1 August 1979.
314 John McGillicuddy statement before the Senate Banking Committee, transcript of remarks, November 1979, Box 26, *DR Papers*,
315 Gary M. Hector, Act I: The Banker's Rebellion, *American Banker*, 13 October 1980.
316 Iacocca, *Iacocca*, pp.203-5.
317 *Ibid.,* pp.202-3.

a two-year exemption from federal emissions standards — a regulatory change that Chrysler's boss maintained would help the firm save enough money to complete its retooling campaign.[318]

Although the Carter administration did not provide an instant response to this request for aid, its actions in the months that followed did give the firm's executives some hope. In early 1979, the Carter administration privately indicated that the company would not be fined if it failed to meet federal fuel economy standards.[319] A year before, this would have been sufficient. However, by 1979 Chrysler's finances had deteriorated considerably and it needed capital immediately. While regulatory relief would save the firm money, it would not provide it with the capital infusion that it desperately needed. Accepting that it needed much more financial assistance from the federal government, Chrysler asked the lobbyist and tax lawyer, Thomas H. Boggs, to find a solution to its problems.[320] Boggs quickly formulated a plan. Recognising that earlier regulatory relief proposals were no longer viable, he privately urged the Chairman of the Senate Finance Committee and the Secretary of the Treasury to provide Chrysler with 'tax relief.'[321] Encouraged by the response that key policy makers gave to its new aid request, John Riccardo announced at a July news conference that he was 'working on the assumption' that the federal government would soon 'grant some form of [tax] relief' to Chrysler.[322]

Chrysler's aid proposals certainly appealed to the White House's economic policy instincts. Between 1978 and 1980, the Carter administration successfully pushed for the deregulation of the transportation industry and sought to restrain inflation. Not only had the White House positioned itself as a strong advocate of deregulation and opponent to unnecessary federal spending, but by 1979, it also seemed increasingly supportive of measures designed to bolster the supply-side of the economy.[323] Though it was firm-specific, the 'tax relief' that Chrysler was asking for seemed to fit within the Carter administration's new producer-orientated economic policy framework. Crucially however, the tax and regulatory relief that Chrysler was asking for came with no federal government oversight. Initially, the White House did not voice objections

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[318] Chrysler maintained that the 'burden of regulation' fell 'most heavily on the smaller manufacturers.' In 1979 the firm said that it was spending $640 per car to meet federal regulations a number that it estimated was around double what General Motors had to spend. Chrysler Operating, Financial and Product Plan, p.7, Box 15, UAW President's Office Papers, Walter Reuther Library.

[319] Brock Adams to Jimmy Carter, 'Coordination of Fuel Economy Standards,' 25 May 1979, Office of Staff Secretary, Presidential File, Folder: [6/18/79- Not Submitted-DF]; Container 121, JCPL.

[320] Boggs was the son of the former House Majority Leader and an attorney that specialised in tax law. Thomas H. Boggs, interview, 14 August 2014. Transcript in author's possession.

[321] Under the terms of Boggs' new aid proposal, the federal government would provide Chrysler with $1 billion in cash as an advance on tax credits that it would receive in future years because of its 1979 losses.

[322] Quoted in, Stuart, *Bailout*, p.114.

[323] Bruce Schulman, 'Slouching Towards the Supply Side,' in Fink and Graham, *The Carter Presidency*, pp.62-7.

to this. Soon though, this issue would become a stumbling block for key members of the Carter administration's newly refreshed cabinet.

The summer of 1979 was not a good time to ask the White House for help. When Chrysler publicly announced that it was seeking federal aid, the Carter administration was in the midst of an internal crisis. Energy prices remained high, more than 30 states had severe gasoline shortages, and Jimmy Carter's personal approval ratings had dropped below 30 percent.[324] In an attempt to reboot his administration, Carter retreated to Camp David. From there, he delivered his infamous 'malaise' speech, and announced a shake-up of his cabinet.[325] One of the cabinet members replaced by Carter was the Treasury Secretary, Michael W. Blumenthal. At the time, many newspaper reporters dismissed this as an insignificant change.[326] But while Blumenthal and his successor, G. William Miller, possessed almost identical views on key macroeconomic issues, they possessed very different views on Chrysler's tax relief proposals. Blumenthal had first-hand knowledge of the U.S automobile industry and had been sympathetic to Chrysler's tax relief request.[327] In contrast, G. William Miller had developed a strong dislike for John Riccardo while he was chairman of the Federal Reserve Board and did not believe that the federal government should assume that Riccardo could turn the firm's fortunes around.[328] In its bid for 'tax relief', Chrysler had lost a friend and gained an enemy.

Though G. William Miller did not formally begin at the Treasury until after the Labor Day holiday, he wasted no time making his position on Chrysler's federal aid request clear. In early August, Miller told a reporter that 'the administration does not favor any proposal for unrestricted tax credits', since they 'would, in effect, represent interest-free, unsecured, subordinated cash advances from taxpayer funds.'[329] This represented a significant blow to Chrysler. However, in spite of appearances, this was not Miller's 'drop dead' moment. In fact, while the incoming Treasury Secretary stated that 'governmental financial assistance to private

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[324] Jacobs, *Panic at the Pump*, pp.222-3.
[325] On Carter's 'malaise' speech, see: Kevin Mattson, *"What the Heck Are You up to Mr. President?": Jimmy Carter, America's "malaise," and the Speech That Should Have Changed the Country.* (New York, 2009); Stein*, Pivotal Decade*, pp.216-8.
[326] John M. Berry, 'Little Change Now', *WP*, 22 July 1979; Clyde H. Farnsworth, 'Blumenthal Policies Likely to Continue With Miller', *NYT*, 21 July 1979.
[327] Before joining the Carter administration, Blumenthal was chairman of the Bendix Corporation, a Michigan company that produced automobile parts.
[328] While he was chairman of the U.S. Federal Reserve, Miller had forcefully told Riccardo that if Chrysler was unable to borrow money privately, it should use the protection offered by America's bankruptcy laws to reorganise itself.
[329] Martin Tolchin, 'White House Offers Aid on Loan Guarantee Plan, Rejecting $1 Billion Advance'*, NYT,* 10 August 1979.

companies is neither desirable, nor appropriate,' he went on to declare that 'there may, however, be occasional circumstance where the public interest justifies government intervention.' Making clear the type of assistance that he was prepared to offer, Miller announced that the administration would help Chrysler to formulate a loan guarantee proposal, which would have to be approved by Congress.[330]

After G. William Miller's appointment, the Carter administration went to great lengths to cultivate the image that it was helping Chrysler to 'resolve [its] fiscal problems through the free enterprise system.'[331] Acting as if they were conducting due diligence, Treasury officials asked to review Chrysler's financial records and requested that the firm put together 'an acceptable financial and operating plan' that provided detailed evidence of the company's inability to raise money from private sources and ability to turn its fortunes around.[332] Complying with this demand, Chrysler and its outside consultants spent more than a month compiling the operating and financial plan that the Treasury demanded. However, administration officials were not satisfied by Chrysler's request for federally guaranteed loans of $1.2 billion, or by John Riccardo's place at the head of the firm. Stressing that the White House was only prepared to help Chrysler in a 'very limited way', in September, G. William Miller publicly told the firm to 'reconstitute their management', modify its financial and operating plan, and return with a loan guarantee request of less than $1 billion.[333] Aid would be provided under the terms that the Carter administration set, not Chrysler.

Desperate to secure the support of the White House, within a month of Miller's rejection of the original aid plan, John Riccardo announced he would step down from his position at the firm and Chrysler submitted a renewed aid request and operating plan to the White House.[334] After reviewing the revised documents, in early November, Miller announced that the Carter administration would support legislation to provide Chrysler with up to $1.5 billion in federal government loan guarantees.[335] Given that Miller had publicly called Chrysler's initial request for $1.2 billion in federal loan guarantees 'way out of line,' his endorsement of a $1.5 billion federal

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330 Tolchin, 'White House Offers Aid on Loan Guarantee Plan'*, NYT*.
331 Carter, *White House Diary*, p.349.
332 Tolchin, 'White House Offers Aid on Loan Guarantee Plan', *NYT*.
333 Judith Miller, 'Chrysler Presents Formal Aid Request and is Given Rebuff', *NYT*, 16 September 1979; William H. Jones, 'Riccardo Retiring Early at Chrysler', *WP*, 18 September 1979.
334 In order to reduce its federal loan guarantee request to the Treasury's the plan identified an additional $450 million from non-governmental sources. However, it did not give much detail about where it expected these funds to come from. At the time, many commentators voiced the suspicion that this was simply a sleight of hand designed to fulfil the terms that the Carter administration imposed.
335 Judith Miller, 'Carter Urges Plan to Back $1.5 Billion in Chrysler Loans', *NYT*, 2 November 1979.

aid package appeared to be a 'mysterious reversal of position' (especially given that Chrysler had only asked for $750 million).[336] In reality however, Miller's harsh October rhetoric was little more than a public performance. With energy prices sky-high, unemployment soaring, and Edward Kennedy considering a primary challenge, the Jimmy Carter administration was unwilling to let 'a very important part of [America's] national economy' go bankrupt.[337] Thus, in spite of its tough public pronouncements, when the Treasury's own analysts concluded that Chrysler would be unable to survive with only $750 million in federal aid, the Carter administration accepted that it would need to increase the amount that it was prepared to provide.

Both Chrysler's management and the leaders of the UAW were thrilled with the announcement. Speaking soon after Miller's statement, Lee Iacocca declared that he was 'delighted' with the Carter administration's 'vote of confidence.'[338] Echoing Iacocca's assessment, John Riccardo said that loan guarantees were 'good news for the employees of Chrysler, our dealers, and the hundreds of thousands of workers who depend for their employment on Chrysler Corporation.' Responding similarly, the UAW President, Douglas Fraser, hailed the loan guarantees as a 'very positive step,' which would 'assure the jobs of nearly half a million American workers.'[339]

Not everyone shared their enthusiasm. A poll taken for *ABC News* in September showed that 49 percent of Americans were opposed to 'the federal government giving special financial assistance to big companies which have gone broke or are close to it' (46 percent were in favour).[340] Even more worryingly, many members of Congress similarly made clear that they philosophically opposed the idea that the federal government should interfere in the marketplace and provide Chrysler with aid. Indeed, after speaking to more than 20 members of Congress, *New York Times* reporter, Judith Miller, concluded that many Washington legislators were 'very sceptical' about Chrysler's aid plea.[341] There was therefore no guarantee that Congress would simply rubber stamp the Carter administration's loan guarantee proposals for Chrysler. Despite the Carter administration's support, in the autumn of 1979, informal and formal polls indicated many

[336] Gary M. Hector, Act II: Confrontations and the New Law, *The American Banker*, 22 October 1980.
[337] Quoted in, Gail Gregg, 'Hill Leaders Pledge Prompt Consideration of Chrysler Aid', *CQWR*, 18 August 1979, p.1695.
[338] Quoted in Miller, 'Carter Urges Plan to Back $1.5 Billion in Chrysler Loans', *NYT*.
[339] 'Business: Big Loss, Bigger Bailout', *Time*, 12 November 1979.
[340] ABC News/Harris Survey, September 1979. *IPOLL Database*, The Roper Center for Public Opinion, http://www.ropercenter.uconn.edu/data_access/ipoll/ipoll.html, [accessed 7 August 2014].
[341] Judith Miller, 'Congress Sceptical on Chrysler', *NYT,* 11 September 1980.

members of Congress and broad swathes of the public accepted the 'primacy of free markets' and were opposed to a state intervention to prevent a large market failure.[342]

This is not to say that there were no grounds for hope. In their efforts to persuade members of Congress to support loan guarantees, Chrysler's supporters could point to two recent precedents: the 1971 approval of a $250 million federal government guaranteed loan for America's biggest defense contractor, Lockheed Aircraft Corporation, and the 1975 approval of the New York Seasonal Financing Act.[343] Yet, despite these precedents, loan guarantees were a divisive economic policy tool. The year before the rescue of Lockheed, the Nixon administration abandoned proposals to guarantee $200 million in loans to the struggling Penn Central Railroad because of strong congressional opposition.[344] Moreover, although Congress backed federal loan guarantees for Lockheed, the measure was approved by only a one vote margin in the Senate and three votes in the House. In New York City's case, it was the White House that was the stumbling block and loan guarantee legislation was approved by Congress by a wide margin. But, just as they had done with Lockheed, many elected officials voiced fears about setting a precedent for bailing out large corporations and cities.

In 1979, it was, therefore, unclear whether Congress would approve the Carter administration's loan guarantee proposals. Opinions divided along similar lines to those seen four years earlier in New York. Some flatly opposed the idea that the federal government should intervene in the marketplace and provide aid to a company that the finance industry had deemed too risky. This group had no intention of approving the proposals. Others, however, believed that a Chrysler bankruptcy would have devastating local, regional, and national consequences and wholeheartedly supported federal aid proposals. Many members of Congress did not fall neatly into either of these camps and found themselves in a bind. They publicly touted the virtues of private enterprise and market deregulation, but at the same time were concerned about the effects of a Chrysler bankruptcy on the wider national economy and the federal government's finances. Ultimately the fate of the Carter administration's loan guarantee proposals (and in turn Chrysler) would be determined in large part by how persuasively supporters and opponents to the proposal were able to make their case to this third group.

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342 Burgin, *The Great Persuasion*, p.214.
343 See Chapter One.
344 'Congress Clears Railroad Aid Bill, Acts on Strike', in *CQA 1970*, (Washington, DC 1971), p.804.

An Unusual Sales and Marketing Drive

After Chrysler publicly revealed its appeals for federal government aid, it launched an extensive public relations campaign.[345] To counter months of negative news stories, in the summer and autumn of 1979, Chrysler's newly appointed advertising agency produced a series of full-page newspaper advertisements.[346] In August, an advertisement entitled 'Would America Be Better Off Without Chrysler?' was published in 52 newspapers. Building on this, in September and October follow up adverts appeared in the *Wall Street Journal*, *Washington Post,* and *New York Times.*[347] Selling Chrysler and its new management team, these 'confidence series' of advertisements, which were signed by Lee Iacocca and John Riccardo, depicted Chrysler as an innocent victim of circumstances beyond its control, refuted suggestions that Chrysler produced fuel inefficient, poor quality cars, and drew attention to the efficient, front-wheel drive models that the firm was developing.[348]

In televised congressional committee hearings, Lee Iacocca repeated many of the arguments found in Chrysler's 'confidence series' of advertisements. In testimonies that appeared on local, regional and national television news, Chrysler's CEO declared: 'I just don't know where to turn...I've done the best I can. I am committed to it. I'm going to turn it around one way or another. I need your assistance now and I need a vote of confidence.'[349] After playing upon his reputation as a dynamic and innovative entrepreneur, Iacocca then attempted to assuage the concerns of those who might be uncomfortable with the idea of providing a 'vote of confidence' in the form of loan guarantees. Claiming that he was an 'advocate of the free enterprise system', Chrysler's boss maintained that 'in the long run the solutions to [Chrysler's] problems are going to be found in the market place.'[350] In other words, Iacocca was telling lawmakers that they should not regard a vote in favour of loan guarantees as an outright rejection of private enterprise and free-markets; instead they should consider it as a vote of support in his management skills — one of the nation's most admired and revered business leaders.

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345 For a more detailed examination of Chrysler's public relations activities during this period, see Risë J. Samra, 'The Changing Image of the Chrysler Corporation (1979-1980): A Dramatic Analysis', PhD Dissertation 1985, *University of Arizona.*

346 In May 1979, the advertising agency Kenyon & Eckhart resigned its account with Ford to follow Lee Iacocca to Chrysler. At the time, this was the largest advertising account move in history. James L. Rowe, 'Chrysler Lures Ad Agency From Ford Motor's Account', *WP*, 2 March 1979.

347 'Would America Be Better off Without Chrysler', *NYT*, 20 August 1979; Reginald Stuart, 'Chrysler Loan Plan Opposed by Reuss', *NYT*, 18 August 1979.

348 See, for example: 'Display Ad 46', *NYT*, 21 September 1979; Display Ad 123, 10 September 1979, *NYT*.

349 'Chrysler Loan Hearings WJBK', 18 October 1979, King Rose Archives, www.youtube.com/watch?v=ZMMlG0TaKHgl [accessed 5 October 2019]. For a similar sales pitch, see 'Chrysler Loan Hearing WJBK', 15 November 1979, www.youtube.com/watch?v=1zRCJjfg7xw [accessed 5 October 2019]

350 Iacocca quoted in Reich, *New Deals,* p.120.

Lee Iacocca's role in the public relations campaign was designed to arouse sympathy, boost confidence in the firm's turnaround plans, and assuage fears about the danger of setting a precedent. The message was simple: give Iacocca a chance to work his corporate magic. At the same time, others were deployed to make the case that the Chrysler Loan Guarantee Act was a piece of legislation designed to protect blue-collar workers, small businessmen, and their communities from devastating economic forces beyond their control. Whereas Iacocca's public relations pitch was built around his reputation as an ingenious entrepreneur, the second strand of Chrysler's 'bail out' marketing strategy was decidedly place-based and centred upon highlighting the debilitating economic and social consequences of a Chrysler bankruptcy.

Chrysler's 'Bail Out Army'

Even before the Carter administration announced its loan guarantee proposal, a number of powerful political figures had begun lobbying on Chrysler's behalf. During the summer of 1979, Detroit Mayor, Coleman Young, and UAW President, Douglas Fraser, had repeatedly urged the Carter administration to provide aid to Chrysler.[351] Meanwhile, in Congress, Senator Donald Riegle (D-MI) and Representative James Blanchard (D-MI) spent virtually all of their time during the summer and autumn months trying to sell loan guarantees to their colleagues on the House and Senate Banking committees.[352] In an effort to heap more pressure on the Carter administration and to ensure that Congress considered the issue before the end of the legislative session, Blanchard and Riegle even introduced their own loan guarantee bills. Unwavering in their support of federal aid for Chrysler, these individuals would form the vanguard of the lobbying coalition that mobilised in the frenetic autumn months of 1979.

The month after the Carter administration announced its support for loan guarantees, Chrysler intensified and broadened its lobbying efforts. Even as the Senate Banking Committee were wrangling over the details of the loan guarantee proposals, Chrysler and its supporters were approaching different interest groups asking for their support. As a result, by the time that the Banking Committee sent a revised loan guarantee bill to the full Senate, organizations including the AFL-CIO, the National Association for the Advancement of Colored People, the U.S. Conference of Mayors, the Congressional Black Caucus, the Northeast-Midwest Institute, and

[351] Andy Pasztore, 'Bailout Lobby', *WSJ*, 6 September 1979. With fourteen automobile plants in Detroit, Chrysler was the city's largest employer.
[352] James Blanchard, interview, 15 September 2015. Transcript in author's possession; Donald Riegle, interview, 6 October 2015. Transcript in author's possession.

the National Automobile Dealers Association had officially announced their backing of loan guarantee legislation.[353] Support was not simply confined to groups within the Democratic Party's liberal-labor coalition, however. Indeed, corporations including Goodyear Tire, Bendix, GM, and Ford (the two car companies hoped that loan guarantees would make the federal government more amenable to their appeals for the repeal of various regulations) also issued statements backing the Carter administration's loan guarantee proposals.[354] With the survival of one of America's largest corporations seemingly hanging in the balance, parties that often had an antagonistic relationship found common ground and became temporary allies.

With a clear and diverse coalition established, Chrysler and its supporters set about reaching out to individual members of Congress. In order to do this, they made extensive use of statistical data about the economic impact of Chrysler bankruptcy and its potential local and regional economic consequences.[355] Convinced that members of Congress were much more likely to support loan guarantee legislation if they were persuaded that a bankruptcy would negatively affect their local area or constituents, Chrysler compiled a fact book that listed the firm's facilities and dealerships in each congressional district. Believing that these statistics had substantial power, the firm and its lobbyists distributed the book widely. By the time that the loan guarantee legislation reached the Senate Floor, every member of Congress had been sent a personalised copy of the 'Chrysler Fact Book' as well as colour photographs of the firm's forthcoming front-wheel drive cars that the firm was convinced would become future market-leaders.[356]

As well as producing the 'Chrysler Corporation Facilities Factbook,' the group that Senator William Proxmire (a prominent critic of the loan guarantee proposal) called Chrysler's 'bail out army,' employed a variety of different tactics in an attempt to win the support of individual

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353 Dan Morgan, 'Free Enterprise is Fine, Chrysler Supporters Agree, But...', 7 November 1979, *WP*; Robert W. Edgar et al., 6 December 1979, Box 26, Hudnut Collection.

354 Benjamin Waterhouse, *Lobbying America*, pp.175-77; Morgan, 'Free Enterprise is Fine', *WP*; Alan Berlow, 'Chrysler Aid Speeded by Broad Lobby Effort, *CQWR*, 17 November 1979, p.2582.

355 This was not a new strategy. In congressional committee hearings, Lee Iacocca repeatedly returned to a Congressional Budget Office study, which estimated that a Chrysler bankruptcy would result in an immediate loss of 500,000 jobs and, in the first year alone cost local, state, and federal governments $10 billion in unemployment benefits, tax losses, and welfare payments. Adopting a more regional and local focus, in his congressional testimony, Detroit Mayor, Coleman Young drew heavily from another report, which estimated that a Chrysler bankruptcy would double the unemployment rate of cities including Detroit, Huntsville, Alabama, and the metropolitan area of Wilmington, Delaware, and Syracuse. See, Hearings Before the Committee on Banking, Housing, and Urban Affairs, 'Chrysler Corporation Loan Guarantee Act of 1979', Part II, November 1979 pp.1039-42.

356 Judith Miller, 'Chrysler Lobbying for Its Life', *NYT*, 11 December 1979. The Northeast-Midwest Institute also distributed a similar document to the 213 members of the Northeast-Midwest Congressional Coalition. Northeast-Midwest Institute, The Regional Impact of the Crisis at Chrysler Summary, December 1979, Box 26, Hudnet Collection.

legislators or congressional blocs.[357] Representative William Brodhead (D-MI), for example, wrote individual letters to each member of New York's congressional delegation, reminding them that Michigan's congressional delegation had backed New York City's seasonal loan legislation four years earlier.[358] Making a similarly targeted appeal, the head of the Italian American Foundation invited Lee Iacocca (whose parents were Italian) to have coffee and doughnuts with the Italian-American Congressional caucus.[359] Sometimes the pitches were even more personalised. Jimmy Carter, for example, personally phoned Senator Sam Nunn (D-GA) and asked him to look kindly on the bill, while Gloria Steinem, a long-standing friend of the UAW, called Senator Robert Packwood (R-OR) — a prominent pro-choice Republican — to ask him to vote in favour of the legislation.[360]

As the battle of loan guarantees intensified, the UAW and Chrysler also sought to mobilise their rank-and-file. In the summer and autumn of 1979, the union repeatedly urged its 1.5 million members (even those not employed by Chrysler) to write to their member of Congress in support of loan guarantees.[361] Provided with form letters and petitions, thousands of UAW members contacted their congressional representatives. Indeed, in December, Senator Richard Lugar's (R-IN) office reported that it alone received 10,000 to 15,000 letters or petitions from UAW members during this period.[362] At the same time, Chrysler was also urging its dealers to come to Washington and make their pleas in person.[363] Many responded to this call. In the autumn of 1979, nearly 1,000 of the firm's 4,700 dealers travelled to Washington and hundreds more made telephone calls, sent telegrams or wrote letters. During the first week of December alone, 600-700 of Chrysler's dealers were in Washington, with some members of Congress reporting that their offices had received visits from upwards of 20 dealers.[364]

In the autumn of 1979, Chrysler and its supporters — just like New York — attempted to change the conversation about loan guarantees from a debate about the propriety of federal

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357 William Proxmire, *The Fleecing of America* (Boston, 1980), p.175.

358 'Michigan delegation splits over Chrysler aid formula', *The Detroit News*, 26 August 1979. The chairman of the Association for a Better New York, Lewis Rudin also sent letters to New York's congressional delegation. The letter, which Rudin forwarded to William Brodhead, urged New York's Congressional delegation to support a 'Federal Loan Guarantee Plan' to Chrysler in order to 'repay' Michigan's elected officials for their support of New York. Lewis Rudin to William M. Brodhead, 15 August 1979, Legislative Assistants' Files, JH Papers.

359 Miller, 'Chrysler Lobbying for Its Life', *NYT*.

360 In the end, Packwood voted against loan guarantees, while Nunn voted in favour. Moritz and Seaman, *Going for Broke*, p.292.

361 'Without Loan Guarantees, Workers and Taxpayers Will Lose', *UAW Solidarity Magazine*, 22:3, November 1979.

362 Judith Miller, 'Chrysler Lobbying for Its Life', *NYT*, 11 December 1979.

363 For more detail on the lobbying efforts of Chrysler dealers, see Ron Rogers, 'Tilting the Scales in Chrysler's Favor,' *Automobile Executive*, March 1980, pp.22-6.

364 Miller, 'Chrysler Lobbying for Its Life'.

intervention in the market place to a discussion about the social and economic costs of allowing one of America's largest corporations and employers to fail. Setting aside questions about the cause of the firm's problems, Chrysler's 'bail out army', argued that federal aid would benefit hundreds of thousands of autoworkers, prevent the long economic crisis from spiralling, and save the federal government money. In making this plea for pragmatism however, the firm's supporters were forced to contend with an oppositional movement that claimed the various studies presented in support of Chrysler were misleading, that taxpayer funds should not be put on the line to prevent a private sector company from failing, and that the firm should use the legal protections provided by the bankruptcy code to restructure.

Opposition to Loan Guarantees

The Carter administration's loan proposals horrified many free-market evangelists. In his regular *Newsweek* column, Milton Friedman wrote that a Chrysler bankruptcy would be 'highly beneficial for the [economic] system as a whole' because it would 'assure that [financial] resources are directed towards enterprises that can use them most effectively.'[365] In Congress many shared Friedman's views. In a statement to the Senate Banking Committee, Lowell Weicker (R-CT), argued that 'when the element of failure is removed, the [free enterprise] system is destroyed' and made clear that he was 'not going to stand for more government control of, and attacks on, the free enterprise system.'[366] Refuting various economic and financial studies about the impact of a Chrysler bankruptcy, Representative David Stockman (R-MI), argued in a *Washington Post* column that 'a [Chrysler] collapse would make no great difference for U.S. jobs or productivity' and maintained that the federal government should simply 'let Chrysler go bankrupt.'[367]

During the summer of 1979, a number of powerful and well financed extra-congressional interest groups also announced their opposition to the Carter administration's loan guarantee proposals. After a fierce internal debate, the Business Roundtable's Policy Committee released a press release stating that 'the broad social and economic interests of the nation are best served by allowing this [free-market] system to operate as freely and fully as possible.'[368] Adopting a similarly abstract position, the National Association of Manufacturers announced that it opposed

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365 Milton Friedman, 'Chrysler: Are Jobs the Issue?', *Newsweek*, 10 September 1979.
366 Statement of Lowell Weicker Before the Senate Banking, Housing and Urban Affairs Committee, 14 November 1979, Box 26, DR Papers.
367 David Stockman, 'Let Chrysler Go Bankrupt', *WP*, 9 December 1979. Despite strong pressure from Michigan lawmakers and auto-suppliers from his district, Stockman remained steadfast in his opposition to the Chrysler Loan Guarantee Act.
368 Robert Reich, 'Bailout: An Essay in Comparative Law and Industrial Policy', Legislative Assistant Files (1977-1991), JH Papers, p.45.

'Federal Government financial support for private enterprises unless the support is based on laws which have general applicability to comparable enterprises.'[369] The most vocal opposition to loan guarantee proposals, however, came from the Council for a Competitive Economy. Founded in May 1979, this fledgling group regarded itself as 'pro-market,' rather than 'pro-business' and used the funding that it received from Midwest billionaire, Charles Koch, to place full page anti-loan guarantee advertisements in the *Wall Street Journal* and *Washington Post*.[370]

Not everyone who opposed the Carter administration's federal aid proposals were free-market ideologues. Some opposed loan guarantees because they believed that the federal government should intervene in sectoral affairs, but do so under terms that would radically reshape the whole industry. Senator Adlai Stevenson III (D-IL), for example, proposed that loan guarantees should be scrapped and the money should be distributed to corporations with rosier short-term prospects, while Henry Reuss (D-WI), suggested that members of Congress should 'consider alternatives to a bailout of Chrysler itself that would, nevertheless, serve the purpose of providing jobs for the Chrysler employees.'[371] Perhaps the boldest alternative to loan guarantees was put forward by the consumer advocate, Ralph Nader. Accusing Chrysler of having 'an offensively anti-consumer attitude,' Nader urged the federal government to 'turn Chrysler's adversity into a national opportunity' and attach conditions to the loan guarantees, which would force Chrysler to produce clean, safe, and fuel-efficient cars.[372]

Despite its size and diversity, this opposition movement was uncoordinated and failed to mount a particularly vigorous campaign to defeat the proposals. Unlike the UAW and Chrysler, which hired a number of professional lobbyists and went to great lengths to mobilise their membership and employees, the NAM, the Business Roundtable, and the National Tax Payers Union did not devote a great deal of resources or energy to trying to defeat the loan guarantee legislation. Some individuals and groups did mobilise more vigorously. David Stockman, for example, joined forces with Representatives Phil Gramm (R-TX) and Richard B. Cheney (R-WY), and circulated a 'Dear Colleague Letter' that urged members of Congress to 'look before they leap' on Chrysler's behalf. In addition, both Ralph Nader and David Padden, a director of the Council for a Competitive Economy, testified against Chrysler loan guarantees in Senate Banking Committee

[369] Judith Miller, 'Chrysler Aid is Opposed by NAM', *NYT*, 26 September 1979.
[370] David Boaz, interview, 22 August 2014. Transcript in author's possession; 'Chrysler May Go Under That's Bad, The Government May Bail Them Out That's Worse', Advertisement, *WP, 12* September, 1979.
[371] Quoted in Brown, 'Senators Skeptical of Chrysler Bill', *WP*.
[372] William J. Mitchell, 'Romney Joins Nader in a Slap at Chrysler,' *DFP*, 21 November 1979.

hearings.[373] But for the most part, opponents to the Carter loan guarantee proposals decided to make their cases individually in newspaper op-eds and committee rooms, rather than trying to mimic the vigorous 'person-to-person' lobbying campaign of Chrysler's 'bail out army.'[374]

In addition to not seeking to alter the terms of public or congressional debate, those opposing the proposals also turned down various opportunities to block the legislation. The chairs of the Senate and House Banking Committees, Senator William Proxmire (D-WI) and Representative Henry S. Reuss (D-WI), had serious reservations about the Carter administration's proposals. Proxmire, in particular, believed that loan guarantees would be 'a massive giveaway for the taxpayers, and a massive windfall for the banks, stockholders and others who have the main stake in a Chrysler bailout' and argued that Congress was being asked to play the role of a 'deaf, dumb and blind Santa Claus.'[375] Both were able to kill the bill in their committees. Yet, in spite of their tough public rhetoric, Proxmire and Reuss promised that they would not use their positions as committee chairs to block the passage of the Carter administration's proposals.

Passing, Signing, and Justifying

The relatively lacklustre opposition to loan guarantees did not mean that the legislation's progress through the House and Senate was straightforward. Although those opposed to loan guarantees did not use the power that came with their positions to block the bills, the House Speaker and Senate Majority Leader still had to use every procedural trick at their disposal to ensure that the loan guarantee legislation came to a vote before the 1979 Christmas recess. United by a fear that the firm would be forced into bankruptcy if a vote on the bill was delayed until January 1980, the Chrysler forces blocked several different efforts to sabotage the bill and struck various deals to ensure that the bill came to a vote.[376] Less than a week before Christmas,

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[373] 'Chrysler Aid Speeded by Broad Lobby Effort', 17 November, p.2583

[374] Judith Miller, 'Chrysler Lobbying for Its Life', *NYT*, 11 December 1979.

[375] Quoted in Merrill Brown, 'Senators Sceptical of Chrysler Bill', *WP*, 15 November 1979; Business: Big Loss, Bigger Bailout, *Time*, 12 November 1979. A committed non-conformist, Proxmire hated pork-barrel politics and spent much of his career calling for federal spending reductions (though, he lobbied fiercely on behalf of the dairy industry and was a strong supporter of dairy price supports). This led him to take firm stands on a number of major issues. In 1971, for example, he vociferously opposed providing loan guarantees to the Lockheed Corporation. From 1975 until his retirement from the Senate in 1987, he also handed out monthly 'Golden Fleece' awards to publicly-funded projects that he considered to be wasteful or the product of pork-barrel politics. See Jonathan Kasparek, *Proxmire Bulldog of the Senate* (Madison, 2019); Ralph K. Huitt, 'An Outsider in the Senate: An Alternative Role', *American Political Science Review*, September 1961, 55:3.

[376] Just as with the New York Seasonal Financing Act, a number of members of Congress attempted to postpone the vote on the Chrysler bill. On the night of the Senate vote, for example, William Armstrong (R-CO) held the floor for more than an hour to complain that the bill was being railroaded through Congress without proper consideration.

the House voted 271-130 in favour of the legislation, while the Senate approved the loan guarantees by just nine votes, 53-44, shortly afterwards.[377]

In the end, the margin of the bill's approval mattered to no-one. In a specially arranged press conference the day after the Senate vote, Lee Iacocca puffed on a celebratory Havana cigar and exuberantly promised reporters that within a year Chrysler would report a profit.[378] It was not just Iacocca that treated the loan guarantee act as a personal victory; in the first week of January, the Carter administration invited Douglas Fraser, Lee Iacocca, Donald Riegle, James Blanchard, and William Moorhead to a signing ceremony in the Cabinet Room of the White House. Much of the ceremony was routine: Carter thanked those present for the work that they had done, commended Congress for 'act[ing] expeditiously,' and signed the bill. However, in his brief remarks Carter also went out of his way to defend his decision to provide Chrysler with the largest government assistance package ever offered to an American corporation. Insisting that Chrysler's federally-guaranteed loans would 'not violate the principle of letting a competitive free enterprise system in our country function on its own,' Carter asserted that the Chrysler Loan Guarantee Act 'protect[ed] the soundness of the American free enterprise.'[379]

Much like the Carter administration, many either did not see, or chose not to see, any inconsistency in simultaneously championing limited government and free-market principles, while at the same time lending their support for federal aid for Chrysler. Senator Jake Garn (R-UT), for example, acknowledged that he was 'philosophically opposed to the bailout [of Chrysler],' but then announced that he would support the Carter administration's proposals because he had 'deep concerns about the impact that a Chrysler shutdown would have on employment and the national economy.'[380] For Garn, as well as a number of other members of Congress, economic considerations overshadowed all others. Yet, as the vote tallies also indicate, many members of Congress did not feel comfortable adopting this position. Personal opposition, however, did not automatically translate into attempts to kill the bill. Indeed, as we have seen, opposition was fairly tepid and even those who are typically regarded as committed supporters of *laissez-faire* doctrines did not devote a great deal of time or energy trying to defeating the bill. This was particularly true of Barry Goldwater who declared on the floor of the

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377 Gail Gregg, 'Chrysler Aid Cleared; Congress Goes Home', *CQWR*, 22 December 1979, p.2872.
378 Larry Kramer, Sparked by Hill's Support, Chrysler Hastens to Start its Drive to Recovery', *WP*, 23 December 1979.
379 Jimmy Carter, 'Remarks on Signing Into Law H.R. 5860, the Chrysler Corporation Loan Guarantee Act of 1979,' January 7, 1980. Gerhard Peters and John T. Woolley, *The American Presidency Project*. www.presidency.ucsb.edu/ws/?pid=32978. [accessed 7 September 2017].
380 Judith Miller, 'Chrysler A Republican's Dilemma', *NYT*, 11 November 1979.

Senate that the Carter administration's proposals would be 'probably the biggest mistake that the Congress has ever made in its history' and 'the beginning of the end of the free-market system in America.'[381] Yet, in spite of this strong rhetoric, Goldwater chose not to stay in Washington to vote on the legislation.[382]

In many journalistic and academic accounts, the Chrysler Loan Guarantee Act's approval is depicted as the result of vigorous 'political maneuvering, lobbying, and compromises' by the 'bail out army.'[383] Chrysler's supporters were certainly politically influential, and they did certainly conduct a 'massive lobbying blitz.'[384] However, the anti-Chrysler forces had similar lobbying firepower at their disposal. Both the Business Roundtable and the National Association of Manufacturers had the resources and the experience to wage more sophisticated campaigns. William Proxmire, Henry Reuss, and other members of the Senate Banking Committee also had the ability to kill the legislation entirely, or at least delay it until after the Christmas recess.[385] If Proxmire had fought as vigorously against Chrysler as he did against Super Sonic Transport; or if the Business Roundtable and National Association of Manufacturers had mobilised as intensely against Chrysler as they had against the Consumer Protection Agency, the passage of the loan guarantee legislation could have been defeated or delayed. Ultimately, therefore, congressional approval of the Chrysler Loan Guarantee Act was determined as much by the limited commitment of its opponents, as it was by the political clout of its supporters.

Meeting the Terms of the Loan Guarantee Act

Chrysler's survival in 1980 depended not just on congressional approval of loan guarantees, but also on the actions of union leaders, state officials, and members of the financial community. In order to gain access to the full $1.5 billion in federal guaranteed loans that had been approved by Congress, the firm needed to first secure an additional $2 billion in concessions or aid from other sources – however the legislation was strictly prohibitive as to what these sources could be. Specifically, the firm would need to convince its employees to forgo wage increases of more than $588 million, persuade American and foreign banks to provide concessions worth $625 million in new credit or lower interest rate payments, secure tax abatements, loans or grants worth $250

[381] Barry Goldwater, quoted in Ralph Nader, 'Free Enterprise Undermined in Chrysler Bailout', 30 December 1979, www.blog.nader.org/1979/12/30/free-enterprise-undermined-in-chrysler-bailout/, [accessed 23 September 2014].
[382] *Ibid.*
[383] Hyde, *Riding the Rollercoaster,* p.244.
[384] Hector, Act II, *American Banker.*
[385] At the end of October, the UAW's lobbyists estimated that of the 11 members of the Senate Banking committee, four members supported loan guarantees, three were leaning towards supporting, six were undecided, and two were firmly against. Memo, Committee Head Count, 26 October 1979, UAW Chrysler Department, Box 11, Walter Reuther Library.

million with state or local governments, win concessions from suppliers and dealers worth $180 million, sell-off company assets worth $350 million, and sell $50 million of new stock.[386] Even if Chrysler managed to extract these concessions, the federal government could still refuse to provide aid if the newly created three-member Chrysler Loan Guarantee Board (modelled upon New York City's EFCB) deemed the firm's financial and operating plans unrealistic. In 1980, the future of Chrysler was not wholly in the hands of the firm's executives.

Some of the conditions required by the legislation were fairly easy for Chrysler to fulfill. Before the Carter administration had even unveiled its loan guarantee proposals, the UAW's leadership had made it clear that they did not expect Chrysler to match the new three-year contracts that it had already negotiated with GM and Ford. Instead, in a deal that was designed to provide Chrysler with $403 million, the union's leadership agreed to postpone benefit increases and defer pension payments for the first two years of its 1979-1982 contract.[387] Announcing this deal, Douglas Fraser told journalists, 'these actions make clear that the UAW has met its responsibility in the broad effort to save Chrysler workers' jobs and restore the company to stability. The burden now rests on the Congress to act promptly to assist Chrysler as well as on the banks, supplier companies and others with a stake in this matter.'[388] However, not everyone shared Fraser's belief that the UAW had fulfilled its obligations to help the beleaguered company.

In Washington, many insisted that the UAW's autumn concessions did not 'constitute sufficient sacrifice.'[389] Pushed by the loan guarantee legislation into making further concessions, in January 1980, the leadership of the UAW returned to the bargaining table and agreed to trim an additional $243 million from the contract, which Chrysler workers had ratified by a 62-38 percent margin less than two months previously.[390] Explaining the rationale for these concessions, a UAW spokesperson declared: 'It has been a very painful process to do what we have done...But the alternative was to do nothing, to let the company go out of business and to let Chrysler workers lose their jobs. We hope, we believe, the contract will be ratified because the alternatives are so drastic.'[391] Convinced by the media, debates in Congress, and an internal UAW publicity blitz that 'the [only] alternative was an immediate Chrysler bankruptcy and a massive

386 Gregg, 'Chrysler Aid Cleared', *CQA*, p.2873.
387 William H. Jones, 'Chrysler UAW Reach Pact', *WP*, 26 October 1979.
388 Quoted in Stuart, *Bailout*, p.140.
389 Quoted in William H. Jones and John M. Berry, 'Officials Reaffirm Chrysler Loan Plan,' *WP*, 13 November 1979.
390 'Canadian UAW Vetoes Chrysler Concessions,' *DFP*, 4 January 1980.
391 Warren Brown, 'UAW, Chrysler Officials Agree on Contract Cuts', *WP*, 6 January 1980.

loss of jobs for Chrysler workers', 79 percent of Chrysler's UAW members approved the revised contract.[392]

During the spring and summer of 1979, four states in which Chrysler was a major employer also agreed to provide the firm with financial assistance. In Michigan, a state with 80,000 Chrysler employees, the state government arranged to purchase 800 cars from the company, took over the $150 million mortgage on the firm's headquarters, and approved legislation that provided the firm with a $150 million loan.[393] Summing up the prevailing mood in the state legislature, a member of the Michigan State Senate declared that though the loan represented a 'major shift in the policy of this state...to not provide the loan would be a catastrophe for the state of Michigan.'[394] Other states also stepped in and provided assistance via loans, although they did not come close to matching Michigan's offering (Indiana ($32 million), Illinois ($19 million), and Delaware ($5 million).

On the face of it, this aid was too small to be consequential. After all, by the spring of 1979, Chrysler was losing more than $5 million each day and applying to the federal government for the first guaranteed loan instalment of $500 million.[395] Yet, while they did not significantly alter Chrysler's overall situation, state loans were instrumental in keeping the firm afloat while it negotiated concessions with its lenders. This did not prove to be an easy task. In early April, some of Chrysler's larger lenders agreed a refinancing package based upon the agreement devised at the Waldorf-Astoria. But a number of small and international banks refused to sign the restructuring agreement, creating an immediate crisis for the firm's executives. By the middle of April, the firm needed to find $150 million to pay its major suppliers (a payment that had already been deferred). Fortunately, the firm was spared the trauma of having to negotiate a new delay in payments by the arrival of the $150 million loan from Michigan in Chrysler's accounts.[396] Just as with New York City, state governments played an important role in preventing the long economic crisis from spiralling.

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[392] 'UAW Ratifies Chrysler Concessions', *Enquirer* (Battle Creek, Mi), 2 February 1980; UAW Chrysler Department to UAW members at Chrysler', 8 January 1980, UAW Chrysler Department Collection, Box 11, Walter Reuther Library.
[393] Dmitry Anastakis, *Autonomous State: The Struggle for a Canadian Car Industry from OPEC to Free Trade* (Toronto, 2013), p.150
[394] Malcolm Johnson, 'State Loan to Chrysler OK'd,' *Lansing State Journal*, 7 March 1980.
[395] For more details see, Chrysler Corporation, 'Application to the Chrysler Corporation Loan Guarantee Board, 25 April 1980, Box 25, DR Papers.
[396] 'Chrysler Gets a Scare, Then $150 Million Michigan Loan', *LA Times*, 1 March 1980; Reich and Donohue, *Bail Out*, p.183; Miller, *The Turn Around Kid*, p.44.

With calamity averted, Chrysler's executives could finish negotiating with its creditors. After six months of frantic negotiations, more than 100 flights to destinations all over the United States and Europe, as well as several more financial 'D-days', Chrysler's financial team managed to negotiate a debt restructuring agreement with all of the firm's 400 lenders. Satisfied that the firm had met the terms of the federal aid agreement, in June the Chrysler Loan Guarantee Board approved Chrysler's application for $500 million in federal government guaranteed loans.[397] With this money, the prospect of bankruptcy eased and Chrysler's executives could turn their attention to the firm's medium-term revitalisation strategy.[398] However, while the federal aid provided Chrysler with a financial respite, it did little to tackle the underlying source of its — and the Big Three's — problems.

The Drive to Limit Imports

Federal aid did not simply make Chrysler's problems disappear. Throughout 1979 and the first half of 1980, Chrysler's executives had touted the firm's new front-wheel drive, fuel-efficient K-car platform as the product that would save the company. But, when the firm introduced its first K-cars (the Dodge Aries and the Plymouth Reliant) they both sold poorly. This was distressing news for anyone with a stake in Chrysler's future. Between January 1979 and September 1980, Chrysler lost $2 billion (more money than any company in the history of the United States to that point).[399] By the winter of 1980 it had also already exhausted more than half of the loan guarantees that Congress and the Carter administration had made available.[400] This did not bode well; the turnaround plan that Chrysler had devised in 1979 rested on its new models being an instant success and the economy rebounding quickly from the oil shock of 1979. However, the double whammy of poor K-car sales and the 1980 recession threatened Chrysler's ability to survive as a major automobile producer.

By now, Chrysler was not the only automobile manufacturer that was struggling. As a result of the potent cocktail of high energy prices, high interest rates, and an economic recession, 1980 proved to be the worst sales year for U.S. automobile producers since the 1930s and domestic automobile sales were 20 percentage points lower than they had been in 1979.[401] These grim

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[397] Chrysler Corporation Loan Guarantee Board, 'Report of the Chrysler Corporation Loan Guarantee Board', 15 July 1980, Washington: U.S. Government Printing Office.
[398] Chrysler's federally-guaranteed ten-year notes were offered with an interest rate of 10 percent. Enticed by this high rate of return, some 30,000 investors bought the firm's first note offering. Donald Woutat, 'Chrysler Set for a Second Borrowing,' *DFP*, 24 June 1980.
[399] Alex L. Taylor, 'Detroit's Uphill Battle', 8 September 1980, *Time*.
[400] At the end of July, Chrysler qualified for — and sold — an additional $300 million in federally guaranteed bonds.
[401] 'Review of Developments in the Auto and Truck Markets', DTR Papers, Box 103, Folder 1, Library of Congress.

statistics prompted the Big Three's executives to act. In an effort to boost their sales and counter high-interest rates, Ford and Chrysler offered subsidised loans.[402] In addition, all three automakers took dramatic steps to conserve cash and reduce their costs. As a result, by September 1980, nearly a dozen automobile factories were closed, more than 1,400 dealerships were shuttered, around 300,000 blue and white-collar autoworkers were indefinitely laid off, and an additional 450,000 people were out of work in supplier industries.[403]

Even though they slashed dividends, closed manufacturing sites, and idled assembly plants, the Big Three refused to cut their research and development programmes. The reasons for this were simple. Before the Iranian revolution, General Motors, Ford, and Chrysler had accepted that they would need to invest heavily to improve their manufacturing productivity and develop a new range of fuel-efficient front-wheel drive cars in order to comply with federal fuel-efficiency standards due to take effect in 1985. Because of these regulations and rising fuel costs, Chrysler, Ford and GM's executives all believed that demand for large cars would never again reach their 1970s height and that small cars would represent a much larger proportion of the market in the years ahead.[404] As a result, they were convinced that they needed to change their production and sales strategies and overhaul their factories if they were to be successful in future.[405] Cutbacks on research and development and capital developments were thus viewed by the Big Three's executives as dangerous decisions that were likely to imperil their firm's chances of revival.

The ambitious $80 billion capital spending programmes that the Big Three unveiled during the late-1970s were not due to be completed until the 1984 model year. In the meantime, America's three largest manufacturers would not be able to produce enough small cars to satisfy consumer demand and European and Japanese carmakers were likely to increase their foothold in the North American market.[406] Fearing that the increasing Japanese penetration in U.S. automobile

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[402] The Congressional Budget Office estimated that interest rate rises during 1980 reduced domestic automobile sales by eight percentage points. Peter Behr, 'Auto Dealers Hang In, Hope Worst Is Over,' *WP*, 29 December 1980.
[403] Taylor, 'Detroit's Uphill Battle'; Harley Shaiken, 'Detroit Downsizes U.S. Jobs', *The Nation*, 11 October 1980.
[404] Iver Petersen, 'Extensive Redesign of Cars A Boon to Midwest Industry', *NYT*, 3 March 1980.
[405] In 1980, Japanese automobile manufacturers enjoyed a number of advantages over their U.S. counterparts. In particular, it cost far less to manufacture automobiles in Japan than it did in America Honda, Datsun and Toyota who made all of their cars in Japan, were able to undercut their U.S. counterparts on price. Perhaps even more worryingly for the Big Three, consumer surveys also routinely indicated that consumers regarded foreign manufactured cars as technologically superior and of better quality than domestically produced counterparts. Ronald A Glantz, 'Japanese Cost Advantage v.s. Detroit', Status Report, 31 August 1979, *JH papers*. For more on the differences between Japanese and American industrial practises see, Joseph J. Fucini and Suzi Fucini, *Working for the Japanese: Inside Mazda's American Auto Plant (*New York, 1990).
[406] In 1980, sales of Japanese made cars soared. During the first four months of the year, one out of every five cars sold in the U.S. was made in Japan; by September 1980, foreign-made cars had captured nearly

markets would permanently weaken America's largest automobile producers, the UAW and Ford began to rethink their ideas about government involvement in sectoral affairs. Throughout the 1940s, 1950s, and 1960s, Ford and the UAW had both been vocal opponents of protectionism and staunch supporters of the federal government's free-trade policies.[407] However, it was *much* easier to be in favour of free-trade in decades of large profits and domestic and international dominance, than it was during a period of plant closures, mass lay-offs, and strong international competition. Indeed, after concluding that the success of foreign manufacturers threatened the future of the domestic automobile industry, in 1980, Ford and the UAW performed abrupt policy U-turns and began urging Washington policymakers to temporarily restrict the availability of Japanese-produced automobiles. For the automobile industry, the era of support for free trade was over, and an era of support for protectionism was beginning.

The first group to urge the federal government to limit the number of Japanese automobile imports was the UAW. In January 1980, the union's president, Douglas Fraser, announced that his union wanted the federal government to several steps to restrict the number of foreign automobiles sold in America. Firstly, the UAW wanted the federal government to compel foreign automobile companies that sold cars in the U.S. to open domestic manufacturing plants.[408] Declaring that 'the Japanese are not just exporting cars to the United States, they are exporting unemployment to the United States,' Fraser praised Volkswagen and Honda's decision to build American manufacturing plants, and argued that the federal government needed to 'force' Toyota and Nissan (Japan's two largest automobile firms) to 'put their capital where their markets are.'[409] Perhaps more significantly, the UAW also announced that it wanted the federal government to impose five-year quotas that would more than halve the number of foreign-produced cars and trucks sold in the United States.[410]

America's major automobile producers were divided over the issue of import restrictions. General Motors opposed import restrictions because it was fearful that retaliation by other countries would hurt its international sales.[411] In contrast, Chrysler's executives were in favour, but at the same time were wary of adopting a position that might anger the Carter administration

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30 percent of the U.S. market. For more on the rise of Japanese manufacturers, see Yates, *The Decline and Fall of the American Automobile Industry*, pp.13-42; Flink, *The Automobile Age*, pp.327-45.

[407] See Raymond A. Bauer, Ithiel de Sola Pool and Lewis Anthony Dexter, *American Business and Public Policy: The Politics of Foreign Trade* (New York, 1964), p.251.

[408] 'U.A.W to Seek Bill Making Japanese Open U.S. Car Plants', *NYT*, 14 January 1980.

[409] *Ibid*; Dale Tate, 'Sagging U.S. Auto Industry Pleads for Federal Help', *CQWR*, 10 May 1980, p.1263.

[410] Jane Seaberry, 'Battered UAW Asks U.S. Quotas to Halve Imports,' *WP*, 13 June 1980.

[411] Judith Miller, 'U.S. Weighs Auto Industry Aid', 7 May 1980, *NYT*.

and the members of the Loan Guarantee Board.[412] Ford, however, had no such qualms and lobbied vocally for import restrictions. At the firm's 1980 annual general meeting, Ford's chairman, Phillip Caldwell, declared that 'something has to be done [to help domestic producers] and the hour is now.'[413] Arguing that fuel-efficient Japanese cars were the primary cause of unemployment and the large losses within the automobile industry, Ford's chairman asserted that three-year import quotas would provide U.S. producers with the time that they needed to develop front-wheel drive cars and complete their retooling campaigns.[414]

The White House was not at all supportive of the calls for mandatory import quotas or tariffs. Jimmy Carter and his closest advisors shared GM's chairman, Thomas Murphy's view that protectionist policies would provide automobile producers with a 'phony elixir,' and believed that the industry's problems were caused by mismanagement and the second oil shock, rather than a sudden influx of imported automobiles.[415] In addition, they were also of the view that import curbs would be inflationary, impair energy conservation efforts, encourage the international community to close their markets, and conflict with its broader objective of liberalizing global trade.[416] Making his opposition to 'excessive protectionist barriers' clear at a G7 summit in Venice, Carter promised that he was committed to 'strengthen[ing] the open world trading system' and pledged that he would 'resist pressures for protectionist actions' which he described as 'self-defeating.'[417] However, neither Ford nor the UAW was prepared to accept defeat in their quest for protection from foreign imports.

In an attempt to force the reluctant White House into restricting foreign automobile sales, Ford and the UAW reached out to sympathetic members of Congress. In early May, a bipartisan group of 20 senators met with the President of the UAW, and GM, Ford, Chrysler, and American Motors' top executives. In the meeting, the group considered the industry's acute and mounting problems and discussed potential government aid packages (including proposals for import restrictions and regulatory relief). Though no major decisions were made, the general atmosphere was upbeat. Speaking to a reporter about the meeting, Senator Howard Metzenbaum

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412 Instead of lobbying for import restrictions, Chrysler announced that it believed that Japanese producers should voluntarily eliminate overtime production for a two-year period.
413 Phillip Caldwell, quoted in Clyde H. Farnsworth, 'Union Plans Bid to Curb Japan Cars', 9 May 1989.
414 Donald H. May, 'The Ford Motor Co. and the United Automobile Workers,' *UPI Archives*
415 Jimmy Carter handwritten notes, Thomas Murphy to GM Stockholders, Staff Offices, Office of the Staff Secretary, Office of Staff Secretary; Series: Presidential Files, 5/2/80, Container 160, JCPL.
416 Charles Schultze to Jimmy Carter, 17 June 1980, Staff Office Files: Council of Economic Advisors, Box 4, JCPL; George Eads to Charles Schultze, 1 July 1 1980, *Ibid*, Box 3.
417 Jimmy Carter: 'Venice Economic Summit Conference Declaration Issued at the Conclusion of the Conference,' June 23 1980, *The American Presidency Project*, www.presidency.ucsb.edu/ws/?pid=44647 [accessed 11 October 2017].

(D-OH) said, 'I can't say that we came to a conclusion, but there will be legislative initiatives. There is a general feeling that if the auto industry goes down, it will take the rest of the economy with it.'[418] Following the meeting, senators from the Midwest and Northeast began applying pressure to the Carter administration to intervene and help domestic automobile producers.

Although it was determined to resist the mounting pressure for import restrictions, pressure from various politically important constituencies and interest groups did force the Carter administration to do something for the industry.[419] Convinced of the need to both 'demonstrate [its] concern about the layoffs and plant closures in the automobile industry,' and provide evidence that it wanted to help 'the [U.S.] automobile industry regain its leadership position in the world,' Carter invited representatives of the UAW and Chrysler, Ford, GM, Volkswagen of America and American Motors to the White House for a meeting.[420] Though nothing concrete emerged from this meeting, in the weeks that followed the Carter administration began to assemble a modest federal aid package for the automobile industry.

The package was unveiled in Detroit, a week before the Motor City hosted the 1980 Republican National Convention, and included a number of small regulatory changes that would help save the industry $500 million, changes in tax depreciation schedules (tax relief that would only benefit General Motors), $400 million in federally guaranteed loans to automobile dealers, and $100 million in aid for communities 'severely harmed by industrial dislocations.'[421] Crucially, however, the president continued to maintain 'that import restraints [were] not a good solution to the industry's problems.'[422] Just as with its broader urban policy, the Carter administration was keen to demonstrate its sympathy while being unwilling to commit large amounts of federal dollars to expensive programmes. For all of its tough rhetoric, however, the White House did not want to alienate political powerful figures from within its own party by rejecting import restrictions outright. Accordingly, in the summer, Carter also announced that he would ask the International Trade Commission (ITC) to speed-up its consideration of a trade injury complaint, which the UAW had filed.[423]

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[418] Metzenbaum, quoted in 'Sagging U.S. Auto Industry Pleads For Federal Help,' *CQWR* 10 May 1980, p.1262.
[419] A June 1980, *New York Times* poll revealed that 71 percent of the public — and 67 percent of self-identifying conservatives — supported 'protecting jobs at the cost of higher prices on foreign products,' while only 19 percent favoured 'lower prices at the cost of some domestic unemployment.' Clyde H. Farnsworth, 'Poll Finds Protectionist Trend', *NYT*, 27 June 1980.
[420] Stuart Eizenstat, 'Memorandum for the President', 13 May 1980, Office of Staff Secretary, Presidential Files; Folder: 5/14/80, Container 162, JCPL.
[421] Dale Tate, 'Carter Pledges Auto Aid in Detroit Visit,' *CQWR*, 12 July 1980, pp.1941-2.
[422] See Donald Riegle, 'Meeting with President Carter,' 18 June 1980, Box 128, *DR Papers*.
[423] Alan Lenhoff and Donald Woutat, 'Auto Rescue Program: A 'Good First Step', 9 July 1980, *DFP*.

Three months after the Carter administration unveiled its automobile aid package, campaigners for automobile import restrictions were dealt a further blow. After 19 weeks of investigation and 44 hours of hearings, the ITC ruled against the UAW-Ford import protection petition.[424] The ruling stated that imports were not the primary cause of the depression-like conditions in the U.S. automobile industry, and meant that any import curb would therefore have to come from Congress. Accepting that they could not persuade the White House to impose import restrictions, members of Congress took matters into their own hands.[425] In early December, the House overwhelmingly passed a measure authorising the President to negotiate import curbs. The following day, the Senate Finance Committee approved an amended version of the bill. However, opponents of the measure threatened to filibuster the bill and any attempt to attach it to other legislation unless hearings were held. Agreeing to this request, the Senate Finance Committee announced that it would hold hearings on the issue in early 1981.[426]

In addition to delaying matters, this decision also ensured that hearings on the issue would take place in a changed political landscape. Not only was the composition of the Senate changing, but supporters of import restrictions would have to deal with a new presidential administration that was likely to be even more hostile to restricting imports. However, much like the Carter administration, the Reagan administration would also find it difficult to say no to the Big Three and their powerful allies. When it came to the automobile industry, the story proved to be one of continuity, rather than one of change.

Enter Ronald Reagan

Many analysts and journalists assumed that the results of the 1980 elections had dashed the automobile industry's hopes of securing import restrictions.[427] There was plenty of evidence to substantiate this belief. During 1979, Reagan had been a vocal critic of the Carter Administration's trade policies and had publicly declared his opposition to providing Chrysler

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424 'Business: No to Curbs on Japanese Cars', *Time*, 24 November, 1980.

425 In November the International Trade Commission concluded that increased imports had not been a substantial cause of economic injury to the domestic automobile market. As a result there was no legal justification for implementing import restrictions and the issue would have to go to a congressional vote.. See, Barbara Anne Sousa, 'Regulating Japanese Automobile Imports: Some Implications of the Voluntary Quota System', *Boston College International and Comparative Law Review 431* (1982), http://lawdigitalcommons.bc.edu/iclr/vol5/ [accessed August 22 2014].

426 'Auto Import Curbs', *CQA 1980* (Washington D.C., 1981), pp.303-4.

427 See for example, Rowland Evans and Robert Novak, 'Reagan Expected to Cut Lifeline, Bankrupt Chrysler, *Milwaukee Sentinel*, January 6 1981; 'Chrysler, Belly Up,' *WP*, January 5 1981.

with loan guarantees.[428] Offering his own 'small government' prescription for the domestic automobile industry's woes, Reagan declared in the summer of 1980 that the Big Three 'simply needs the freedom to compete, unhindered by whimsical, bureaucratic changes in energy, environmental and safety regulations.'[429] Even more ominously, Reagan's closest advisors seemed to share these views. Reagan's nominee for the position of director of the Office of Management and Budget, David Stockman, for example, was a fierce opponent of the Chrysler Loan Guarantee Act, while his choice for Treasury Secretary, Donald Regan, had privately made it clear that he staunchly opposed any trade protection for the automobile industry and believed that the federal government should not continue keeping Chrysler alive.[430]

Unsurprisingly then, the election results produced a great deal of anxiety among Chrysler's executives. With interest rates at record levels, the national economy floundering, and buyers continuing to give the firm's K-cars the cold shoulder, by the autumn the firm had spent most of the $800 million federal government guaranteed loans it had received in 1980. Throughout the summer, the firm had forecast that it would make a profit in the final quarter of 1980 (during the first 9 months of the year it had lost $1.4 billion). However, by December, the executives had publicly conceded that the firm would in fact register a loss in the fourth quarter.[431] Even if automobile sales were to soar in the early months of 1981, Chrysler would run out of money sometime in the spring. The only real chance of avoiding bankruptcy seemed to be through securing additional federally-guaranteed loans.

Concerned that the Reagan administration would turn off its federal life-support machine, Chrysler's executives spent the final months of 1980 applying for a third instalment of federally-guaranteed loans.[432] This application went down to the wire. The stumbling block was G. William Miller (the chair of the Chrysler Loan Guarantee Board). Initially, Miller was sceptical of the firm's aid plans and made clear that he believed that the firm needed to implement another deep cost-cutting campaign in order to survive. In response, Chrysler laid off several thousand white-collar workers, cut its product-development spending, and produced an operating and financial plan that would require its 150 lenders to convert $572 million in existing debt into

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[428] Steven Chapman, 'Chrysler Continued' *TNR*, 18 November 1980.
[429] Quoted in, Tate,'Carter Pledges Auto Aid in Detroit Visit,' *CQWR*, p.1941.
[430] During his confirmation hearings, Regan refused to comment on his opinion of the Chrysler loans or import restrictions. However, numerous newspapers reported that he was privately opposed to import restrictions and guaranteed loans. 'Chrysler, Belly Up,' *WP*, January 5 1981.
[431] 'Chrysler Profit Hope is Dashed,' 5 December 1980.
[432] The firm desperately wanted the Chrysler Loan Guarantee Review Board to preliminarily approve its loan guarantee requests before the chairman, G. William Miller, was replaced by Donald Regan.

stock, its 19,000 suppliers to cut their prices, and UAW members to freeze wages and cost-of-living-allowance increases for a two-year period.[433] Satisfied with this plan, the Chrysler Loan Guarantee Board approved the firm's request for $400 million in additional loan guarantees the day before Ronald Reagan's inauguration. Announcing the decision, G. William Miller declared that the Loan Guarantee Board's decision was a 'remarkable reaffirmation of the private enterprise system' that would help Chrysler become a 'progressive and profitable company.' [434]

The Reagan White House was able to use the Carter administration's last-minute decision to provide Chrysler with guaranteed loans to cloak its role in helping America's third largest automobile producer. Because of the time it took to persuade all of Chrysler's creditors to agree upon concessions, the Loan Guarantee Board did not release Chrysler's $400 million guaranteed loans until the end of February. Speaking the day that these bonds went on sale, Donald Regan, the new chair of the Chrysler Loan Guarantee Board, warned that 'we will have to pause if the Chrysler Corporation ever does come back [for the $300 million of remaining loan guarantees].' Continuing, Regan told reporters 'the decision [to issue loan guarantees] was made by the Carter administration, and all we had to do on this one was to see that the conditions had been met.'[435] At the time, journalists uncritically repeated Regan's assertion that he had nothing to do with Chrysler's third drawdown of loans. However, as the Treasury Secretary was aware, these statements were not strictly accurate.

Far from being tied by his predecessor's decisions, the new Treasury Secretary had personally intervened on Chrysler's behalf to ensure the conditions required to draw the $400 million guaranteed loan were met.[436] By mid-February, Chrysler had still not managed to fulfil all of the terms of the Loan Guarantee Act. In particular, the firm had failed to persuade all of its 150 lenders to restructure its debts. The major holdout was Citibank's chairman, Walter Wriston, (Wriston publicly opposed the Chrysler Loan Guarantee Act and testified against it in Congress). Various Treasury officials had spoken to high-ranking Citibank executives urging them to change

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[433] Doyle Arnold to Donald Regan, 'Chrysler Loan Guarantee — Status Summary,' 26 January 1981, DTR Papers, Box 131, Library of Congress.

[434] Miller spent his final days as Treasury Secretary frantically working on both the Iranian hostage negotiations and Chrysler's loan guarantee approval — matters that he later described as 'two of the most complex issues in the memory of living people.' Paul Magnusson and Donald Woutat, 'Loan Board Clears Chrysler Aid', *DFP*, 20 January 1981, p.3; 'U.S. Approves Chrysler Guarantees,' *Pittsburgh Post-Gazette*, 20 January 1981.

[435] Quoted in Donald Woutat and Paul Magnusson, 'Chrysler Gets New Loan After Record 1980 Loss,' *DFP*, February 28 1981.

[436] The Chrysler Loan Guarantee Board's January vote provided only preliminary approval for loan guarantees. Before Chrysler could receive loans, the newly constituted three-member Loan Guarantee Board had to also vote on the issue and various terms had to be met.

their position. But the bank ignored the deadline that the Treasury had set. By mid-February, time was running out. According to the Loan Guarantee Board's estimates, if Chrysler did not receive the guaranteed loans by the end of February, it was likely to run out of money.[437] Desperate to ensure that this did not occur, Donald Regan telephoned Walter Wriston direct. Delivering a clear ultimatum, the Treasury Secretary told Citibank's chairman that if he did not agree to the restructuring deal by midday, he would issue a press release announcing that he was unable to issue Chrysler with loan guarantees because of Citibank and Wriston (a move that was almost certain to push Chrysler into bankruptcy).[438] A week later, the firm received the guaranteed loans.

These actions were hardly consistent with the Reagan White House's oft-proclaimed free-market economic philosophy. However, when it came to the domestic automobile industry, the new administration found itself caught between conflicting political and ideological imperatives. On the one hand, the Reagan administration was philosophically committed to shrinking the size and reach of the federal government and freeing markets. These principles led it to publicly champion a deregulatory, small government policy agenda. On the other hand, Ronald Reagan and his closest advisors did not want to preside over the collapse of the domestic automobile industry, or for a deep crisis within the industry to impede its effort to reduce taxes and cut the budget. In effect, the new administration chose to compromise. By maintaining that its hands were tied, and declaring that it would not issue any more guaranteed loans, the Reagan administration was able to publicly reinforce the impression that it was staunchly opposed to state involvement in the market place. At the same time, it avoided placing itself in a situation where it had no choice but to force the nation's third-largest automobile producer into bankruptcy. Maintaining the image of a political revolution required a small amount of airbrushing.

The Reagan White House's involvement with the automobile industry did not end with loan guarantees. The administration's first year also coincided with a period of heavy losses for America's automobile manufacturers. By the end of February, Chrysler, GM, and Ford all announced their annual results. The newspaper headlines wrote themselves. In total, the Big Three lost $4 billion in 1980 — GM lost $763 million (its first loss since 1921), Ford lost $1.5 billion (the second largest corporate loss in U.S. history), and Chrysler lost $1.7 billion (the

[437] 'Talking Points for Chrysler', 17 February 1981, DTR Papers, Box 131, Library of Congress.
[438] 'Chrysler', 20 February 1981, DTR Papers, Box 131, Library of Congress.

largest corporate loss in U.S. history).[439] While GM's losses were smaller than either Chrysler or Ford's, its results and the surge of Japanese imports led the company to make drastic changes. In 1979 and most of 1980, America's second largest company had tried to operate in the same way as it had done in the prosperous years of the 1970s. In late 1980 and early 1981 however, it instigated a deep cost-cutting campaign; slashing the wages of its employees and eliminating more than 13,000 positions from its payrolls. In a reversal of the company's public position, GM's new chairman, Roger Smith, also strongly endorsed import restrictions in a speech to the National Press Club.[440] Joining forces with the leaders of America's other major automobile producers, in February Smith sent a letter asking for import restrictions as well as regulatory relief and tax breaks.[441]

In Congress, there was also strong support for import restrictions. Before Reagan's inauguration, the Subcommittee on Trade of the Senate Finance Committee held hearings on issues relating to the domestic automobile industry.[442] Convinced by the testimony that the domestic automobile industry was in desperate need of relief, the chairman of the Subcommittee on Trade, Senator John Danforth (R-MI), introduced legislation in February 1981 that would restrict Japanese automobile imports to the United States to 1.6 million units per year for the next three years.[443] Justifying his support for quotas, Danforth declared: 'As much as I believe in free trade, I also believe automobile import restrictions are necessary for the health of this basic American industry.'[444] In Congress, many appeared to share Danforth's sentiments. Senators from the Midwest and Northeast rushed to add their names to the bill, while in the House, Jerome Traxler (D-MI), introduced an identical bill. Consequently, at just the point that many have identified as the high-water mark of the 'Reagan Revolution,' the new administration was coming under strong pressure to tighten its trade policies.

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439 John Holusha, 'Ford Lost $1.5 Billion Last Year,' *NYT*, 20 February 1981; Agis Saglpukas, 'General Motors Reports '80 Loss of $763 Million,' *NYT*, 3 February 1981; Magnusson and Woutat, 'Chrysler Gets New Loan After Record Loss,' *DFP*.

440 Paul Magnusson, 'Hard Auto Industry Times, Heavy Job Losses Predicted,' *DFP*, January 14 1981.

441 Roger Smith et al. to Ronald Reagan, February 3 1981, Office of Policy Development Files, Box 3, RRPL.

442 See U.S. Congress, 'Issues Relating to the Domestic Auto Industry. Hearing Before the Subcommittee on International Trade' (14 and 15 January 1981), Part I.

443 'Glenn Co-Sponsors Bill Imposing Quota of Japanese Automobile Imports', Press Release, 5 February 1981, Box 515, John Glenn Papers.

444 U.S. Congress, 'Issues Relating to the Domestic Auto Industry. Hearing Before the Subcommittee on International Trade' (March 5, 1981), Part II, p.5.

As one Treasury official recognised, import restrictions represented a 'direct contradiction of the Administration's guiding principles.'[445] But with all of America's Big Three automobile producers clamouring for action and Congress threatening to take matters into its own hands, the Reagan administration could not afford to ignore the issue of imports. Taking action to demonstrate its concern, a little more than a week after the inauguration, the Reagan administration created a special cabinet-level task-force to study problems within the automobile industry and to recommend policy solutions.[446] There was a basic consensus among the members of this new task force that the federal government should take urgent action to help the depressed automotive industry. However, when it came to the specifics and the question of import restrictions, there were clear divisions. The Transport Secretary, Drew Lewis (the chair of the group), the Commerce Secretary, Malcolm Balridge, and the Secretary of Labor, Raymond Donovan, all believed that the Reagan administration should impose import restrictions.[447] However, others including the chairman of the Council of Economic Advisors, Murray L. Weidenbaum, Secretary of State, Alexander Haig, Treasury Secretary, Donald Regan, and the Director of the Office of Management and Budget, David Stockman did not.

These divisions did not resolve themselves through further private discussion. After nearly two months of discussion, the task force remained split. The group that the *New York Times* referred to as 'free market purists' had formulated proposals for helping the auto industry, which it believed were 'fully consistent with the Administration's economic philosophy and approach to government business relationships.'[448] The faction dubbed 'political pragmatists' by the *New York Times* supported a number of these policy proposals. However, they also believed that a prolonged period of low sales and high losses would leave the Big Three permanently emaciated and unable to compete with their foreign rivals.[449] Pointing to dealership closures and recent cost-cutting decisions which had resulted in Chrysler and Ford scaling back their revitalisation programmes, the 'political pragmatists' in the task force argued that only the imposition of

[445] Craig Roberts to Donald Regan, 'Political Economy of Quotas', 6 March 1981, DTR Papers, Box 103, Library of Congress.
[446] Andrew Lewis to Ronald Reagan, 'Automobile Industry Task Force: Status Report', February 12 1981, Office of Policy Development Files, Box 3, RRPL.
[447] David Stockman, *The Triumph of Politics* (New York, 1986), pp.165-6.
[448] Clyde H. Farnsworth, 'Car Import Curb Splits Cabinet,' *NYT*, March 5 1981; Donald Regan, David Stockman and Murray Weidenbaum, 'Memorandum for Colleagues on the Auto Task Force', March 16 1981, Office of Policy Development Files, Box 3, *RRPL*.
[449] Andrew Lewis, 'Re: The Auto Industry Task Force Meeting', 9 March 1981, 1981, Office of Policy Development Files, Box 3, RRPL.

import restrictions by the federal government would provide the Big Three with the time and resources they needed to emerge as leading players in the new global auto-market of the 1980s.[450]

Many supporters of import restrictions were alarmed by newspaper stories that described these divisions in the cabinet-level task force.[451] In response, supporters of trade restrictions attempted to pile pressure on the Reagan administration. Making clear that members of Congress were prepared to take matters into their own hands if the President sided with the 'free market purists', the chair of the House Budget Committee told the *New York Times* that Congress would authorise automobile trade quotas 'just as soon as we get the budget out of the way.'[452] Outside of Congress, others also took action. Threatening to stir up rank-and-file discontent, Douglas Fraser announced that the UAW would organise strikes and arrange a Washington demonstration if the administration decided against restricting imports.[453] Others made their case in a less confrontational manner. The governors of America's seven largest automobile-producing states (Delaware, Indiana, Illinois, Michigan, Missouri, Ohio, Pennsylvania) sent a letter to Reagan arguing that 'domestic automobile producers need an opportunity to earn a larger share of the market' — an opportunity that only import restrictions could provide.[454]

Import restrictions were not without their opponents. In the spring, a group of importers, consumers and farmers sent a telegram to Cabinet members arguing that restraints would 'jeopardize exports, penalize consumers and in general retard growth of the United States economy.' Adopting a similar approach, members of Congress from America's farm states sent a letter to the President warning that import restraints could spark a trade war and threaten farm exports to Japan.[455] Others focused on the effect that import restrictions would have on consumers. The economist, Robert J. Samuelson, for example, campaigned vigorously against import restrictions, arguing that the policy would benefit automobile corporations but raise the price of automobiles and restrict consumer choice. Won over by these arguments, the *New York Times, Washington Post,* and *National Journal* published articles suggesting that import restraints would create an indirect tax on consumers which would destroy more jobs than it would save.[456]

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450 Andrew Lewis to Members of the Auto Task Force, 9 March 1981, 1981, Office of Policy Development Files, Box 3, RRPL.
451 Farnsworth, 'Car Import Curb Splits Cabinet,' *NYT*; Hedrick Smith, 'Reagan's Cabinet Split on Imports of Japanese Cars,' *NYT*, 13 March 1981.
452 Clyde H. Farnsworth, 'Legislator Warns of Car Quotas.'
453 *Ibid.*
454 William Milliken et al. to Ronald Reagan, March 6 1981, 1981, Office of Policy Development Files, Box 3, RRPL.
455 Farnsworth, 'Legislator Warns of Car Quotas,' *NYT*.
456 'Why Reward Failure in Detroit?', *NYT*, 5 March 1981; 'The Cost of Import Quotas', *WP*, 4 March 1981; Robert Samuelson, 'Curbing Auto Imports With a Seedy Bargain', *National Journal,* 13 March 1981.

However, this opposition had little effect in stemming pressure for import restrictions from organised labour groups and members of Congress.

By the spring of 1981, Reagan's time for making a decision appeared to be running out. Supporters of import restrictions had lost patience with the administration's indecision and were calling for prompt action. The Danforth and Bentsen bill continued to gather sponsors and the Senate Finance Committee had scheduled the legislation's mark up for early May.[457] If the legislation passed, Reagan would be forced to make a decision between signing the act or vetoing it. It was not clear whether congressional support for automobile imports was strong enough to override a presidential veto. However, if the White House chose to take such a step it was likely to exhaust much of its political capital and enrage residents of automobile producing states (areas with large numbers of electoral college votes). In short, the Reagan administration could no longer remain neutral or stall for time; it needed to offer something for automobile producers without delay.

Despite the pressure, the White House publicly continued to stick to its free-market guns. In March 1981, it announced that Ronald Reagan believed that 'the Government should not become deeply entangled with the economic fortunes of any company or industry' and suggested that import restriction advocates would be disappointed with its automobile industry policies.[458] The administration's policies also seemed to confirm this prediction. In April, Vice-President George Bush announced proposals to modify or eliminate 34 safety or air quality regulations, an aid package which it estimated would help domestic auto producers save $1.3 billion over the next three years.[459] By all appearances, this seemed to represent a victory for 'free market purists' and a defeat for the 'political pragmatists.' After all, as Bush stressed, the Reagan administration had purposefully chosen not to include tax relief or import restriction measures in its automobile aid package. In reality though, this was a sleight of hand. The Reagan administration *had* given into political pressure and decided to restrict Japanese imports. It had simply chosen to do so in a cloaked way that would allow it to publicly maintain the appearance that it was committed to free trade policies.

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[457] On 18 June the Bentsen import restriction bill was passed by a 90 to 4 vote in the U.S. Senate. By this time, 81 members of the Senate had sponsored the legislation. Donald Riegle to William Giles, 18 June 1980, Box 37, DR Papers.

[458] Ronald Reagan: 'Statement by the Press Secretary on the President's Meeting with the Auto Task Force', 19 March 1981, RRPL, www.reaganlibrary.gov/research/speeches/31981d [accessed 9 October 2019].

[459] Jane Seabury, 'Auto Industry Relief Plan Outlined by White House,' *WP*, 7 April 1981; Clyde H. Farnsworth, 'U.S. Proposes Eased Car Standards,' *NYT*, April 7 1981.

At the same time as George Bush was announcing proposals to rollback 'excessive regulations,' a team of U.S. government officials were on their way to Tokyo. This was not a secret mission. In a carefully worded statement, the administration announced that this group was travelling to Tokyo, 'at the request of the Government of Japan,' to 'brief Japanese Government leaders on domestic measures being undertaken to promote the revitalization of the U.S. auto industry,' and to explain 'trends in public opinion in the United States.'[460] In reality however, the primary purpose of the group's trip was to convince Japan's Ministry of International Trade and Industry (MITI) to unilaterally limit automobile exports to the United States. The taskforce's work did not prove to be straightforward. For legal and political reasons, the group was instructed to 'brief' the MITI, but told that it could not specifically discuss import restrictions.[461] This meant that the Reagan administration's representatives were forced to negotiate in a peculiarly oblique fashion — repeatedly warning the Japanese that strong pressure was building in Congress for mandatory import quotas and insinuating that Japanese auto producers would be able to export more cars if they pre-empted Congress and announced that they were voluntarily restricting automobile exports to the United States.[462]

In Japan, the Reagan administration's efforts to conceal its attempt to restrict Japanese automobile imports caused confusion. As the auto task force reported, Japanese automobile companies did 'not want to restrain [exports], particularly since U.S. [*sic.*] has not asked for restraints.'[463] Moreover, there was also confusion among Japanese government officials about the export levels that the Reagan administration and Congress would accept. Resolving these issues required a number of in depth — but humorously indirect — conversations between Japanese and U.S. government officials. Initially, these talks only created more bewilderment. In the end, after the U.S. Trade Representative, William Brock, led another trade delegation to Tokyo in late April, these confusions were resolved (through a series of winks and nods) and an agreement was reached.[464] As a result, at the beginning of May the Japanese Government announced that it

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460 Office of the Press Secretary, Press Release, Office of Policy Development Files, Box 3, *RRPL*.
461 Since the ITC had ruled against import restraints, negotiating with the Japanese (rather than submitting a new claim to the ITC) to restrict imports potentially violated antitrust law. See Michael William Lochmann, 'The Japanese Voluntary Restraint on Automobile Exports: An Abandonment of the Free Trade Principles of the GATT and the Free Market Principles of United States Antitrust Laws', *Harvard International Law Journal*, vol. 27 no.1 (Winter, 1986).
462 James A. Dunn Jr., *Driving Forces: The Automobile, Its Enemies, and the Politics of Mobility* (Washington D.C., 1999), pp.66-7. In March, various members of the Reagan administration also conveyed a similar message to the Japanese Foreign Minister. Ronald Reagan, *An American Life* (London, 1990), pp.254-5.
463 'First Day Summary on Auto Mission,' 7 April 1981, 1981, Office of Policy Development Files, Box 3, *RRPL*.
464 For more details of Brock's 'discussions' with the Japanese, see Stephen D. Cohen, 'The Route to Japan's Voluntary Export Restraints on Automobiles: An Analysis of the U.S. Government's Decision-Making Process in

would limit its automobile exports to the United States for a period of three years.[465] After a sustained battle with both the Carter and Reagan White House, the import restriction coalition had secured victory.

The UAW and Domestic Content

Import restrictions and federal government guaranteed loans could not disguise the fact that America was no longer the world's pre-eminent automobile producer. In 1980, for the first time in history, more cars were produced in Japan (11 million) than in America (7.8 million).[466] Not only was the size and economic power of the Big Three waning, but the very future of North American automobile manufacturing also seemed to be under threat. In 1950, America produced nearly 80 percent of the world's automobiles. By 1981, this figure had fallen below 30 percent.[467] As we have seen, in an effort to stall or reverse this loss of market share, the Big Three were investing heavily in research and development, automation, and making extensive use of parts manufactured abroad.[468] However, these programmes would not necessarily have a positive effect on automobile industry employment in the United States. Indeed, even if newly developed models helped the Big Three recapture their market share, it was far from clear that this would put the 180,000 autoworkers currently on indefinite layoff, the 300,000 more in supplier industries that were unemployed or the 100,000 in the dealership network back to work.[469]

During the first half of the 1980s, international outsourcing and the rise of foreign automobile manufacturers was a source of deep concern for the UAW's leadership. Douglas Fraser, in particular, believed that plant closings and relocations were the most important matters that the union would have to respond to in the first half of the 1980s. In an attempt to exert control over this process, the UAW adopted a new approach in collective bargaining negotiations. Instead of trying to win ever-larger wages and benefits for American automobile workers, between 1979 and 1982 the UAW's leadership focussed on increasing union participation in corporate decision

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1981', National Security Archive, George Washington University, www.nsarchive2.gwu.edu//japan/scohenwp.htm [accessed 17 October 2017].

[465] During the first year, Japanese car shipments to the United States were limited to 1.68 million units (a 140,000-unit reduction from 1982). During the second year, exports were set at 1.68 million units, plus 16.5 percent of any growth that occurred in the US market. In the third year, the Japanese government made clear that it would consider extending import restraints, if passenger vehicle sales remained depressed. 'Announcement by Minister of International Trade and Industry,' Provisional and Unofficial Translation, 1 May 1981, Legislative Assistant Files (1977-1991), *JH Papers*.

[466] 'Japan's Next Export: Car Plants,' *DFP*, 20 January 1981. Among America's automobile workers, the success of Japanese producers provoked a great deal of resentment. For a more detailed discussion of these developments, see Chapter 3.

[467] Yates, *The Decline and Fall of the American Automobile Industry*, p.15.

[468] Edwin McDowell, 'Made in the U.S.A.–With Foreign Parts,' *NYT*, 9 November 1980.

[469] Office of the Press Secretary, 'Fact Sheet', 6 April 1981, Box 12, James W Cicconi Files, RRPL.

making and winning contract provisions that would improve job security and ensure that autoworkers workers would benefit financially if the U.S. automobile industry recovered from its slump. This new strategy meant that the UAW was prepared to make wage and benefit concessions. In return, however, the UAW expected that the Big Three would make their own concessions and surrender privileges that had previously been reserved only for the firms' top executives.

In exchange for concessions, the Big Three accepted the majority of the terms that the UAW demanded.[470] Between 1979 and 1981, the UAW's Chrysler contract was renegotiated three times. Each time, the UAW agreed to make wage and benefit concessions. In return, Chrysler appointed Douglas Fraser to its board of directors, created a stock ownership plan, established a profit-sharing plan, and promised to continue operating four small Detroit plants that had been slated for closure.[471] With these deals as a template, in 1982, the UAW negotiated new two-year contracts with Ford and GM. Just as with Chrysler, the UAW accepted that the two firms desperately needed to reduce their operating budgets and agreed to make wage and benefit concessions. However, as a *quid pro quo* the UAW demanded — and won — profit sharing plans, new benefits for laid off workers with more than 15 years of seniority, a two-year moratorium on plant closures caused by shifts to outside suppliers, and the opportunity to address the board of directors twice a year (neither company was prepared to offer the UAW seats on their boards of directors).[472]

Despite these modest victories, by the end of 1981, Douglas Fraser was convinced that the only way to 'address the savaging of the U.S. economy by the Japanese' and prevent 'the exporting of

[470] Scholars often frame the UAW's acceptance of concession bargaining as a victory for business and defeat for organised labour. With the benefit of hindsight, it is possible to see the 1979 Chrysler contract as a turning point in which the post-Second World War labour-management accord or compact was broken. However, what often gets overlooked in this 'defeat' narrative is that in return for concession bargaining the UAW won many concessions that it had spent decades unsuccessfully pushing for. Moreover, though the UAW and Chrysler's executives opened the Pandora's Box of concession bargaining, this was not immediately apparent in 1980. Instead, both management and labour leaders assumed that concession bargaining would only lead to a temporary suspension of the post-Second World War labour management accord.

[471] Fraser hoped that a UAW position on Chrysler's board of directors would allow it to have an input 'at the point the decisions are made or before the decisions are made.' Douglas A. Fraser, 'Worker Participation in Corporate Government: The U.A.W.-Chrysler Experience — The Kenneth M. Piper Lectures,' *Chicago-Kent Law Review*, Volume 58 (4), pp.953. Ralph Orr, 'UAW Council Approves Acceptance of Wage Freeze,' 20 January 1981, *DFP*. See also Robert A. McCormick, 'Union Representatives as Corporate Directors: The Challenge to the Adversarial Model of Labor Relations,' 15 U. *Mich. J.L.* Reform 219 (1981-1982).

[472] John Holusha, 'Auto Unionists Narrowly Favor New GM Pact,' *NYT*, 10 April 1982; John Holusha, 'Ford Workers Accept Concessions in New Contract by a Wide Margin', *NYT*, 1 March 1982; George Ruben, 'Collective Bargaining in 1982: Results Dictated by Economy,' *Monthly Labor Review*, January 1983, pp.29-30.

American jobs and capital by General Motors and Ford' was through legislation.[473] These were not new objectives. For much of the 1970s, the UAW had sought to persuade Japanese producers to establish automobile production facilities in the U.S. and expressed concern about the Big Three's increasing use of foreign-made parts.[474] However, in the crisis atmosphere of 1980, these campaigns acquired new urgency and the UAW shifted its tactics. Convinced that previous attempts to encourage the Japanese and U.S. automobile producers to invest in U.S. manufacturing plants had not been particularly effective, the UAW began lobbying for a domestic content law — legislation that would compel automobile producers who sold cars in the United States to produce a certain percentage of their parts in the U.S.

In the winter of 1981, the UAW made domestic content legislation its 'highest legislative priority.'[475] Representative Richard Ottinger (D-NY) gave legislative form to the UAW's domestic content proposals with the 'Fair Practices in Automotive Product Act.' At its heart, the bill the UAW drafted was attractively simple. By the 1984 model-year, automakers whose annual U.S. sales exceeded 100,000 would be required to produce a specified proportion of each vehicle (parts and labour) in the United States. Small manufacturers with annual U.S. sales of between 100,000 and 150,000 cars would be obliged to produce cars with 25 percent domestic content, while large manufacturers with annual sales of 500,000 or more would be required to make cars that were 90 percent 'American built.' Companies that did not comply with these domestic content regulations would be forced to reduce the number of vehicles that were sold in the United States by a quarter for 12 months.[476] In essence therefore, the Fair Practices in Automotive Product Act was a sophisticated and far-reaching quota that was designed to affect the Big Three as well as large foreign automobile firms.

The legislation Ottinger introduced was very radical. If the Fair Practices in Automotive Product Act became law, the state would exercise a great deal control over the investment decisions of some of the world's largest corporations. Toyota, Nissan, and Volkswagen would almost certainly violate the local content requirements of the bill. They would, therefore, be faced with the choice of investing in U.S. manufacturing plants, using more domestic parts and labour, or

[473] Fraser, quoted in Dana Frank, *Buy American: The Untold Story of Economic Nationalism* (Boston, 1999), p.172.
[474] Andrew C. McKevitt, *Consuming Japan: Popular Culture and the Globalizing of 1980s America* (Chapel Hill, 2017), pp.112 and 117.
[475] Gordon T. Lee, "Detroit's Advocates in Congress Want to Stamp Cars with 'Made in America,'" *National Journal*, 10 July 1982.
[476] *Ibid.*

curtailing their exports to the United States.[477] Since the U.S. was by far their largest market, the Big Three would not have the same luxury of choice as their European and Japanese counterparts. To comply with 90 percent U.S. content standards, Ford, GM, and Chrysler would be forced to source their parts domestically. In this sense, the domestic content bill, represented a highly visible attempt to use public policy to radically reshape global automobile markets.

With domestic content legislation, the political battles lines were drawn along much clearer ideological lines than they had been for Chrysler's loan guarantees or for import restrictions. Claiming that the Fair Practices in Automotive Product Act would create or save 886,000 well-paid manufacturing jobs, the UAW took out full-page newspaper advertisements and flooded congressional offices with form letters signed by its members.[478] Pressured by the UAW, groups including the AFL–CIO and the Consumer Federation of America also lent their support to the measure. Some stayed out of discussions altogether; for fear of souring their relationship with the UAW, the Big Three, for example, remained notably silent on the issue. However, the Reagan administration, foreign automobile manufacturers, and major business groups including the Chamber of Commerce, the National Association of Manufacturers, and the Heritage Foundation all vocally opposed the bill.[479]

When Ottinger first introduced the 'domestic content' legislation in the House, it did not initially gather much support. But, as the 1982 elections drew closer, the economy spiralled into recession, and plant closure announcements increased, many members of Congress publicly announced their support for the bill. Reflecting on the momentum gathered in the summer of 1982, a member of the Commerce Department said 'we never thought the bill would get out of committee. Now all of a sudden, it has over 200 co-sponsors.'[480] Throughout August the bill's popularity continued to swell and by September more than half of the members of the House

[477] In 1982, seven foreign automobile firms sold more than 100,000 cars per year in the United States (Toyota, Nissan, Honda, Volkswagen, Mazda, Mitsubishi, and Isuzu). With sales of 576,000 in 1981, Toyota would have to comply with the 90 percent domestic content standard, while Nissan and Honda, which both had sales over 250,000 would have to meet the 75 percent domestic content standard. Ikuo Kabashima and Hideo Sato, 'Local Content and Congressional Politics: Interest-Group Theory and Foreign-Policy Implications,' *International Studies Quarterly* (1986), Vol. 30 (3), pp.296-7; Judy Sarahson, 'UAW Wins Backing for Domestic Content Bill,' 11 September 1982, *CQWR*, p.2243.
[478] Lee, "Detroit's Advocates in Congress Want to Stamp Cars with 'Made in America,"' *National Journal*, p.1222.
[479] Sarahson, 'UAW Wins Backing for Domestic Content Bill,' *CQWR*, 11 September 1982, p.2243; Catherine England, 'Domestic Content Laws: Will They Save the Auto Industry,' 24 August 1982, http://www.heritage.org/node/22692/print-display [accessed 20 October 2017]; Tony Velocci, 'American-Made Cars from Abroad,' *Nation's Business,* October 1982.
[480] Lee, "Detroit's Advocates in Congress Want to Stamp Cars with 'Made in America,"' *National Journal*, p.1221.

had signed on as cosponsors.[481] Opponents of the bill tried to stall its passage and put forward dozens of amendments designed to weaken the bill. But, with the support of House speaker Tip O'Neill in mid-December, the measure passed the House in a 215-188 vote.[482] The 97th Congress adjourned however, before the Senate could take up the measure.

The House approved the bill for a second time in November 1983. Just as in 1982, the bill was backed heavily by Democrats and Republicans from industrial states who claimed that foreign car imports were taking jobs away from U.S. manufacturing industries. However, even the legislation's staunchest supporters believed that getting the bill through the Republican-controlled Senate would be much trickier. Optimistically outlining his strategy for passing the bill, the UAW's new president, Owen Bieber, told a reporter 'some people who find it easy to say no to this today just might find it harder to say that in an election year.'[483] As Bieber predicted, in 1984, domestic content legislation did gain some support; by the spring, four Democratic Party presidential hopefuls had endorsed the measure and 13 others had agreed to co-sponsor the legislation.[484] However with the exception of those seeking the endorsement of organised labour, there was little enthusiasm for the measure and it was never reported out of committee.[485]

On the surface, the death of the Fair Practices in Automotive Product Act represented a major defeat for the those that had organised in support of domestic content legislation. The UAW and its rank-and-file members certainly viewed it in these terms. However, in Congress, opinions were more varied. The reasons behind this were simple. Even the fiercest congressional supporters of domestic content legislation regarded it as a means of blocking imports of

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481 'Automobile Nationalism,' *Chicago Tribune*, 4 September 1982.
482 Alan Murray, 'House Passes Auto Domestic Content Bill,' *CQWR,* 18 December 1982*,* p.3072.
483 Owen Bieber quoted in, 'Auto Domestic Content, *CQA 1983* (Washington D.C., 1984), p.257.
484 Robert Shogan, 'Mondale Trade Stand Assailed in Iowa Debate,' *LA Times*, 22 January 1984. At campaign rallies in Iowa and rural Illinois, Ronald Reagan criticised Democrats for supporting domestic content legislation. Ronald Reagan, 'Remarks at an Iowa Caucus Rally in Des Moines,' 20 February 1984. Gerhard Peters and John T. Woolley, *The American Presidency Project*, http://www.presidency.ucsb.edu/ws/?pid=39546 [accessed 21 October 2017]; Ronald Reagan, 'Remarks at an Agricultural Forum in Decatur, Illinois,' August 20, 1984. Online by Gerhard Peters and John T. Woolley, *The American Presidency Project*. http://www.presidency.ucsb.edu/ws/?pid=40271 [accessed 21 October 2017].
485 Though domestic content legislation was never passed, rules of origin quotes were established by the 1994 North American Free Trade Agreement. Under these rules, to sell tariff-free automobiles in Canada, the United States, or Mexico, 62.5% of a vehicle's content must originate within the free trade area. As part of its efforts to renegotiate NAFTA, the Trump administration initially demanded that this content requirement be increased to 85 percent (with at least 50 percent coming from the U.S.). In April 2018, U.S. trade negotiators dropped the demand for a specific U.S. percentage and lowered their regional content demand to 75 percent. Sabrena A. Silver, NAFTA's Rules of Origin for Automobiles: A Need for Reform, 62 Fordham L. Rev. 2245 (1994), https://ir.lawnet.fordham.edu/ r/vol62/iss7/14. Anthony Esposito and David Lawder, 'U.S. lowers NAFTA key auto content demand: auto executives,' *Reuters*, 13 April 2018, www.reuters.com/article/us-trade-nafta/u-s-lowers-nafta-key-auto-content-demand-auto-executives-idUSKBN1HK2A3 [accessed 16 April 2018]; Ana Swanson, 'U.S. Seeks Quick NAFTA Deal, but Allies Balk as It Gives Little Ground,' *NYT*, 11 April 2018.

Japanese cars and encouraging global trade liberalisation, not as a way to control the investment decisions of the Big Three and prevent outsourcing.[486] As the bill's chief-sponsor, Richard Ottinger, put it: 'the U.S. has been a sucker in this trade business and has generously given away free access.' He added, the 'most desirable result [of domestic content legislation] will be the removal of all trade barriers.'[487] In practice, this meant that few were disappointed when the bill failed to win Senate approval. Indeed, as Representative Robert T. Matsui (D-CA) told a reporter 'I don't know if I would vote for it if I thought it would become law, but I think to send messages or signals it is important.'[488]

Japanese Transplants

Although domestic content legislation never became law, during the first half of the 1980s, Japan's largest automobile manufacturers did begin assembling and producing cars in the United States. While a variety of factors were responsible for this decision, automobile import restrictions (which were extended for a third year in 1984) and fears of further trade restrictions in the form of domestic content legislation were undoubtedly an important element in pushing Japan's export-orientated automobile firms to invest in North American production facilities.[489] Reflecting this, the first Japanese firms to open U.S. manufacturing plants were those who were most dependent on North American exports. Overtime, smaller producers also invested in either manufacturing plants or joint production ventures in the United States. As a consequence, though the voluntary restraint agreement remained in place until 1994 (during the supposed heyday of the 'neoliberal order'), by the late-1980s Japanese automobile makers had shifted large amounts of their production to the U.S. and the number of Japanese import sales in America were well below the ceiling.[490]

The first Japanese automobile company to produce cars in North America was Honda. In 1969, Honda sold a mere 65 cars in the United States. But, amid the oil crises of the 1970s, its fuel-

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[486] The sudden influx of Japanese imports was often referred to as the 'Japanese invasion.' In Congress, however, allusions to the Second World War were used on both sides of the debate. See, Murray, 'House Passes Auto Domestic Content Bill,' *CQWR*.

[487] Lee, "Detroit's Advocates in Congress Want to Stamp Cars with 'Made in America,'" *National Journal*, p.1221-2

[488] Matsui, quoted in Kabashima and Sato, 'Local Content and Congressional Politics,' p.310.

[489] In June 1982, the Japanese government announced (after being pushed by the Canadian government) that it would restrict the number of cars that it exported to Canada. For an extended discussion of the links between import restrictions and increased Japanese foreign investment in the United States, see Richard Florida and Martin Kenney, 'Japanese Foreign Direct Investment in the United States: The Case of the Automotive Transplants,' Jonathan Morris (ed.), *Japan and the Global Economy* (London, 1991); A.J. Jacobs, *The New Domestic Automakers in the United States and Canada: History, Impacts, and Prospects* (Maryland, 2016), pp.81-150; James M. Rubenstein, *The Changing US Auto Industry: A Geographical Analysis* (London, 1992), pp.162-5;Dmitry Anastakis, *Auto Pact: Creating A Borderless North American Auto Industry, 1960-1971* (Toronto, 2005), p.173.

[490] Andrew Pollack, 'Japan to End Restraints on Auto Exports to the U.S', *NYT,* '29 March 1994.

efficient Civic and Accord models became hugely popular, and in 1979 the firm sold more than 350,000 cars in America.[491] For understandable reasons, the executives of the fastest-growing automobile corporation in the U.S. were concerned by congressional discussion of import quotas. Unwilling to cut exports to its largest overseas market, in January 1980 Honda announced that it would open an automobile assembly plant in Ohio. The first Honda Accord rolled off the factory's assembly line in November 1982, and by 1985 it was producing 150,000 cars a year at the facility.[492] Anticipating that import limits would be extended and convinced that 'any future increase must come from U.S. production,' Honda's president announced further plans in 1985 to expand the firm's U.S manufacturing operations that would see its production capacity rise to 330,000 cars per year by the end of 1986.[493]

Other firms quickly followed Honda's lead. In October 1980, Nissan declared that it would build a manufacturing plant in Tennessee. Three years later, Toyota and GM confirmed that they would jointly build a Toyota-designed subcompact at a shuttered GM assembly plant in California. Over the next five years, the announcements came thick and fast. In 1984, Mazda announced that it would turn a former Ford manufacturing plant in Detroit into a manufacturing facility.[494] Expanding its North American operations beyond California, the following year Toyota reported that it would build new manufacturing plants in Kentucky and Ontario. Smaller automakers also followed suit, with Mitsubishi and Chrysler revealing a joint production venture in Illinois, and Subaru and Isuzu announcing that they would open a plant in Indiana.[495] As a result of this wave of investment, in the late-1980s, one scholar estimated that Japanese firms would employ 30,000 US autoworkers and produce more than two million cars per year by the early 1990s.[496]

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[491] Jacobs, *The New Domestic Automakers in the United States and Canada*, p.84.
[492] 'Japanese Foreign Direct Investment in the United States: The Case of the Automotive Transplants,' Jonathan Morris (ed.), *Japan and the Global Economy* (London, 1991), pp.93-4.
[493]'Honda Maps Strategy to Overtake Toyota in U.S. Sales,' *DFP*, 19 December 1985.
[494] James Mateja, 'Mazda Expected to Announce Its Site for U.S. Car Plant,' 30 November 1984, *Chicago Tribune.*
[495] Richard Florida and Martin Kenney, 'Japanese Foreign Direct Investment in the United States', Jonathan Morris (ed.), *Japan and the Global Economy* (London, 1991), pp.93-4.
[496] Andrew Mair, Richard Florida and Martin Kenney, 'The New Geography of Automobile Production: Japanese Transplants in North America,' *Economic Geography* (1988)*,* Volume 64 (4), p.356. This trend continued during the late-1980s and early 1990s. On more recent automobile industry 'transplants', see: Timothy J. Minchin, 'When Kia Came to Georgia: Southern Transplants and the Growth of America's "Other" Automakers,' *Journal of Southern History* (2017), Volume 83 (4) pp. 889-930; Timothy J. Minchin, 'Showdown at Nissan: The 1989 Campaign to Organize Nissan in Smyrna, Tennessee, and the Rise of the Transplant Sector,' *Labor History* (2017), Volume 58 (3), pp. 396-422; Doron P. Levin, '"Transplant" Car Makers Redefine the Industry,' *NYT*, June 23, 1992.

The Big Three's Dramatic Comeback

By the time Japanese automobile manufacturing firms were opening their new U.S. manufacturing plants, GM, Ford and Chrysler's executives were not nearly as concerned by the rise of Japanese manufacturers as they had been during the early 1980s. In no small measure this was because the crisis conditions within the domestic automobile industry had begun to subside. After three years of depressed sales — in which they reported combined losses of $8 billion — in 1983 the Big Three's sales began to climb.[497] With the U.S. economy rebounding from the 1981-82 recession, consumers who had chosen to delay purchasing new cars during the dark days of the long economic crisis rushed to buy new cars. As a result, after a four-year period in which the Big Three's sales figures had repeatedly fallen short of estimates, sales now drastically exceeded projections.

The transformation of Chrysler's fortunes was nothing short of remarkable. For sure, this did not happen overnight. After spending more than two-years on the brink of bankruptcy, in the second quarter of 1981 Chrysler declared that it had made a small profit. Boasting about this 'historic achievement', Lee Iacocca declared 'Chrysler has fought its way back to profitability.'[498] In spite of Iacocca's upbeat rhetoric, at the end of 1981, the firm reported a loss. Yet, this full-year loss had been anticipated and budgeted for accordingly. There was therefore no need to turn to the federal government for more assistance. Amid the 1981-82 recession, things began to improve. In 1982, Chrysler reported an annual profit of $170 million (a feat attributable to the sale of its tank division, rather than car sales). As Wall Street investors recognised, in a year of declining automobile sales this was a notable achievement — one that provided evidence that Chrysler was well placed to benefit from the surge in consumer demand that was just around the corner.[499]

In the first nine months of 1983, Chrysler's sales continued to increase and so did its profits. Making the most of its new success, in August 1983, the firm hosted a champagne celebration at the Waldorf-Astoria. Three-years previously, Chrysler's largest creditors had formulated a debt restructuring deal in the hotel's restaurant. This time, it was Lee Iacocca who proposed toasts in the hotel's ballroom. With two new cars on display, a bill-board sized cheque as a backdrop and a room filled with reporters, Iacocca presented a cheque for $813,487,500 to the vice-chairman

[497] John Holusha, 'Autos End a Poor 1982 on the Rise,' 6 January 1983, *NYT*.
[498] John Holusha, 'Chrysler Makes 3 Month Profit, First Since 1978,' 23 July 1981, *NYT*.
[499] Alexander Taylor, 'Iacocca's Tightrope Walk Act,' *Time*, 21 March 1983.

of the New York bank, United States Trust Company.[500] This cheque represented not only the final repayment of Chrysler's federal government guaranteed loans (seven years ahead of schedule), but also the final payment of interest and fees connected with the loans.[501] Raising a glass of U.S. produced sparkling wine to 'the efforts of many great Americans to save a great enterprise,' Iacocca announced that he was 'ecstatic' with Chrysler's 'declaration of independence' and invited reporters to examine Chrysler's upcoming 'revolutionary small wagon,' the Voyager.[502]

This time, the upbeat rhetoric of Chrysler's top executives was fully justified. In 1983, the firm's car sales increased by 26 percentage points and it reported record profits of $700 million.[503] For the 1984 model-year, the firm introduced its new 'minivan' and a number of other models. Sales of these new models and its other front-wheel drive cars were so strong that the firm was forced to run every one of its assembly plants on full overtime for the whole calendar year.[504] After selling 500,000 more cars than it had in 1983, Chrysler reported full-year profits of $2.4 billion in 1984.[505] Over the next five years, the firm continued to report large earnings and improve its market share. Indeed, although Chrysler's sales figures dipped when the huge pent-up demand from the prolonged downturn was fulfilled, it still reported profits in excess of $1 billion in 1985, 1986, 1987, and 1988.[506]

No one benefitted from Chrysler's turnaround more than Lee Iacocca. Not only did the former Ford president earn nearly $7 million between 1983 and 1984 (plus an additional $11 million in stock options), he also became the world's most admired and visible corporate leader.[507] As well as continuing to appear as the firm's spokesman in Chrysler's television adverts, he twice made the cover of *Time* (in 1983 and 1985), and guest starred in the popular television show "Miami-Vice". It was Iacocca's ghost-written autobiography, creatively titled 'Iacocca: An Autobiography,' that really catapulted the businessman to true fame, however. With around 2.7 million copies sold, the book was the highest selling nonfiction book in both 1984 and 1985.[508]

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[500] 'Happy Day for Chrysler,' *DFP*, 13 August 1983.
[501] By paying off the loans early, Chrysler saved more than $300 million in interest payments.
[502] Ingrassia and White, *Comeback*, p.62; 'Chrysler Makes Last Payment on U.S. Loan,' *St Louis Post-Dispatch*, 13 August 1983.
[503] Chrysler's previous record annual profit was $422 million in 1976.
[504] Ingrassia and White, *Comeback*, p.63.
[505] Hyde, *Riding the Rollercoaster*, p.234.
[506] *Ibid.*, p.264.
[507] *Ibid.*, p.257.
[508]Josh Getlin, 'Ghost to the Stars: William Novak Is the Invisible Writer Behind Memoirs by Lee Iacocca, Nancy Reagan and--Soon--Magic Johnson,' 17 September 1992, *LA Times*; Kurt Andersen, 'A Spunky Tycoon Turned

Whether in news-stands, on television, in airport book stores, or in the checkout counter grocery stories, in the mid 1980s, it was almost impossible to escape Iacocca's face and name.

As a consequence of this publicity and his new-found celebrity status, Iacocca achieved rock star levels of fame and public attention. In the first five months of 1985 alone, he received more than 25,000 letters and was asked to give speeches by thousands of different organisations.[509] With 'rampant Iacoccamania' sweeping the nation, Chrysler's boss was also talked about as an ideal Democratic Party presidential candidate and foil to Ronald Reagan. In 1988, Iacocca briefly flirted with the idea of a running for president — hiring a speechwriter, staking out positions on major policy issues, and releasing a second ghost-written book. Yet while polls indicated that he had enjoyed high levels of public support, he eventually decided not to run.[510]

Although Chrysler and Lee Iacocca received the lion's share of publicity, if anything the turnaround at Ford was even more remarkable. Unlike the smallest of the Big Three, Ford made a significant loss in 1982. Just like Chrysler, however, in the years that followed, the firm reported larger and larger profits. After losing more than more than $3 billion between 1980 and 1982, Ford made after-tax profits of $1.9 billion in 1983 and $2.9 billion in 1984.[511] Having invested much more heavily than Chrysler on product development, Ford was also able to continue releasing new and updated-models long after Iacocca's firm released all its K-car variants. As a result, Ford sales and profits continued to increase during the second half of the 1980s. This paid off, and in 1986, the firm made a net profit of $3.3 billion, earning more than its much bigger rival, GM, for the first time in 64 years.[512] The profit surge did not end there. Indeed, the following year, Ford reported earnings of $5.3 billion, a record for a manufacturing firm and more than half of the firm's total profits during the 1970s.

The world's largest car company, General Motors, also turned its fortunes around and re-organised during the long economic crisis. Though the firm's financial health had never been in doubt, it also spent billions reorganising internally and moving towards the production of front-wheel drive cars. This revitalisation programme had mixed results. In the sellers' market of the mid-1980s, GM reported increased sales and earnings of $3.7 billion in 1983 and $4.5 billion in

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Superstar', 1 April 1985, *Time*; Daniel Immewahr, 'Books of the Century,' www.ocf.berkeley.edu/%7Eimmer/booksall [accessed 1 November 2017].

[509] Andersen, 'A Spunky Tycoon Turned Superstar'

[510] Halberstam, *The Reckoning,* p.668.

[511] Flink, *The Automobile Age*, p.391.

[512] Ingrassia and White, *Comeback,* pp.136-7.

1984.[513] But, while Ford was reporting record profits in the second half of the decade, GM's market share fell considerably and its 'look alike' new model line-up became the subject of much ridicule.[514] In time, this would create a sales and reputational crisis for America's largest car firm. However, at the moment in time that Ronald Reagan's re-election campaign were declaring that it was 'morning in America again,' the extent of the firm's underlying problems had not yet become evident. As a result, in 1984, when the long economic crisis ended, GM like Chrysler and Ford appeared to be in the middle of a financial turnaround that many regarded as 'little short of spectacular.'[515]

Profits were only part of the story. During the crisis years of the late-1970s and early 1980s, the Big Three invested billions in new technology and equipment as well as research and development, while also transforming themselves into leaner and more efficient producers.[516] Ford, for example, cut its break-even point for domestic production from 3.6 million cars per year to 2.3 million, while Chrysler similarly reduced theirs from 2.3 million vehicles per year to 1.1 million.[517] These remarkable achievements transformed an industry and have been studied in business schools for decades.[518] The Big Three emerged from the long economic crisis both more able to deal with future cyclical slumps in consumer demand and compete with their Japanese counterparts in the compact and subcompact sectors of the American automobile market.

What was good for the Big Three's executives and shareholders, however, was not necessarily good for America's automobile workers. While efficiency improvements, cost-cutting campaigns, and model downsizing helped to ensure Chrysler and Ford's survival, they inflicted much economic pain on the nation's autoworkers. In 1978, Chrysler employed 140,000 people and operated 50 North American manufacturing plants. Six years later, at the firm's 1980s sales and profit peak, it employed 87,000 people and 21 of the factories that it operated in 1978 had been

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513 Alex Taylor, *Sixty to Zero*: *An Inside Look at the Collapse of General Motors — and the Detroit Auto Industry* (New Haven, 2011), pp.63; James Risen, 'GM Posts '84 Record Net of $4.5 billion, *LA Times*, 5 February 1985.
514 See 'On a clear day you can still see General Motors,' *The Economist*, 2 December 1989; Taylor, *Sixty to Zero*, pp.53-69.
515 John Holusha, 'Detroit Closes Out a Banner Year,' *NYT*, 6 January 1984.
516 Between 1978 and 1983, America's automobile producers invested $51.3 billion in improving their products.
517 James K. Glassman, 'The Iacocca Mystique,' *TNR*, 16 July 1984; William Serrin, 'The Importance of Being Iacocca,' *NYT*, 23 December 1984.
518 Ford and Chrysler's 'turn arounds' both became the subject of Harvard Business School case studies. Both case studies focus on the firm's corporate executives and examine how they restructured their companies during the dark days of the 1980s. Significantly, in both case studies, the impact of the public-sector assistance on the firms' fortunes is downplayed. Nitin Nohria and Sandy E. Green, Jr., 'Iacocca's Legacy,' Harvard Business School, Leadership and Managing People Case Study, 2002 (rev. edition); Mark Pelofsky, 'Transformation at Ford,' Harvard Business School, Leadership and Managing People Case Study, 1991 (rev. edition).

shuttered or sold.[519] At Ford the story was very much the same: between 1979 and 1983 the company shuttered 13 facilities and cut 90,000 employees from its hourly workforce.[520] Although the mid-1980s may have been years of prosperity for the Big Three, for many of those who lived and worked in America's automobile towns and factories it was not so easy to move past or forget the hard times of the late-1970s and early 1980s.

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In April 1984, Ronald Reagan visited a refurbished Ford assembly plant in Kansas City, Missouri. Relatively speaking, 1984 was a good year for U.S. automobile producers. At the end of that year, America's Big Three auto firms — G.M., Ford, and Chrysler — reported combined annual profits of nearly 10 billion dollars.[521] Yet Reagan began his speech to the Kansas City plant employees by highlighting the depression-like conditions within the industry that had existed in 1980 and 1981. 'An industry which burst onto the scene in the early days of the 20th century and became a vital part of our existence found itself crippled by too much regulation, too much government interference, and too much backseat driving by Washington.' [522] The speech did not end on this message of gloom, however. Fast-forwarding to 1984, Reagan announced because of his administration's efforts to 'get [government] out of the way of the people and the spirit of enterprise that encourages risk taking and rewards innovation' as well as the 'determination, dedication, and hard work' of union leaders and management executives 'the sun is shining on a strong economy and an American automobile industry that's moving forward again.'[523]

The historical accuracy of the 'morning in America' narrative, which Reagan laid out in his speech to the Missouri autoworkers was questionable. When he made his speech, 24,800 automobile workers remained on indefinite lay-off and automobile factories which had once provided hundreds of thousands of Americans with well-paid employment were shut down or in the process of being demolished. Not only was Reagan's sunny assessment of the automobile industry's vitality overly optimistic, but his assessment of the power sources of the comeback was also faulty. The automobile industry's revival was not simply the result of a *laissez-faire* approach by the federal government, the 'determination, dedication, and hard work' of the UAW and the Big Three's executives, or the 'spirit of enterprise.' Indeed, as this chapter has illustrated,

519 Hyde, *Riding the Rollercoaster*, p.258.
520 Ingrassia and White, *Comeback*, p.135.
521 'GM Cuts Estimate on Profit Sharing', *New York Times*, January 9 1984.
522 Ronald Reagan, 'Remarks at the Ford Claycomo Assembly Plant in Kansas City, Missouri,' April 11 1984, *The American Presidency Project*, http://www.presidency.ucsb.edu/ws/index.php?pid=39755 [accessed 1 April 2018].
523 *Ibid.*

the public sector was directly involved in bringing about the U.S automobile industry's mid-1980s resurgence and at least partially responsible for transforming the geography of the global automobile industry.

In effect, Chrysler was a partially nationalised corporation between 1979 and 1983. The firm was provided with $1.2 billion in federally guaranteed loans and the promise of assistance from Washington was used to leverage further aid from organised labour, state governments, and the financial industry. In the short-term, this substantial market intervention saved Chrysler from bankruptcy and in the longer-term wage and benefit concessions were also key to helping the firm reduce its break-even point and operating costs. However, the federal government did far more than simply preventing the Big Three from becoming the Big Two. While the federal government allowed Lee Iacocca and the firm's top executives to run Chrysler and develop new cars, through the Loan Guarantee Board, it closely scrutinised the firm's balance sheets, compelled it to reopen its contract with the UAW, forced it to downsize, and pressured the firm to change its management. Without the involvement of the federal government, therefore, it seems likely that there would have been no record profits, no Dodge Caravan and Plymouth Voyager (the first minivans), and no talk of Lee Iacocca as a presidential candidate.

On a philosophical level, the Reagan administration *did* oppose direct federal intervention in the automobile sector. However, in the face of acute national economic instability, both the White House and the business community were sceptical of the idea that tax cuts and deregulation would provide America's domestic producers with the financial 'relief' that they urgently needed. Desperate to 'save' the American automobile industry, but also to preserve the illusion of its fidelity to free enterprise and small government principles, the Reagan administration used the tools at its disposal to conceal the role it played in helping Chrysler receive another round of loan guarantees and negotiating a voluntary restraint agreement with the Japanese (an arrangement that even members of the administration admitted was a 'euphemism' for a quota).[524]

If anything, this intervention was more important in reshaping the global automobile industry than Chrysler's loan guarantees. The restraints on Japanese imports that the Reagan administration 'negotiated' protected the market share of the Big Three and allowed them to end their rebate programmes, raise their prices, and increase their profits. For producers this was a

[524] William E. Barreda to David Pickford, 6 March 1981, DTR Papers

beneficial intervention; for most ordinary Americans it was not. Indeed, import restraints were costly to U.S. consumers (a Brookings Institution study estimated that U.S. domestic car prices were $750 to $1,000 higher in 1984-1985 as a result).[525] However, they significantly enhanced the profits of the Big Three and allowed them to obtain more favourable financing terms for their investment programme: money which they ploughed into research and development programmes. Just as importantly, the rising political pressure for import restrictions and domestic content legislation was also a major factor behind the explosion of investment by Japanese automobile producers in United States production facilities. Had the Reagan administration decided not to 'negotiate' import restrictions and had members of Congress not thrown their support behind domestic content legislation, the U.S. automobile industry would have looked quite different.

Despite the key role they played in shaping and changing the domestic automobile market, policymakers consistently downplayed state involvement and played up the contributions of private sector actors. In responding to the automobile crisis, elected officials, and business leaders repeatedly used the market as a rhetorical tool to justify and legitimise their actions. The Carter administration, for example, publicly presented loan guarantees as a means of giving Chrysler temporary breathing space and argued that its approach was rooted in marketplace and business logics. In a similar vein, the Reagan administration went to great lengths to mask its interventions and perpetuate the idea that it believed that the automobile industry needed to be freed from government interference and to stress that any resurgence would be the product of its *laissez-faire* and deregulatory policies.

This framing had significant consequences. By describing their interventions in the automobile sector with market-orientated language, and by portraying import restrictions and guaranteed loans as distasteful short-term measures that were only necessary because of extraordinary sectoral circumstances, policymakers rhetorically affirmed their broader commitment to *laissez-faire* principles. Paradoxically, therefore, in providing aid to the domestic automobile industry, policymakers and business leaders managed to craft a free-market and private enterprise narrative of the automobile's — and by extension America's — economic comeback. This framing ensured that the deep ironies and falsehoods within Ronald Reagan's Missouri speech could go largely unnoticed. However, not everyone was taken in. In fact, as we will see in the

[525] Robert W. Crandall, 'The Effects of U.S. Trade Protection for Autos and Steel,' *Brookings Papers on Economic Activity*, 1:1987, p.276. See also, Steven Berry, James Levinsohn and Ariel Pakes, 'Voluntary Export Restraints on Automobiles: Evaluating a Trade Policy,' *The American Economic Review* (1999), Volume 89 (3), pp. 400-30.

next chapter, when the U.S. economy nose-dived in the early 1980s, many influential organisations and individuals suggested that America should respond to the overlapping industrial and economic crises it was confronted with by implementing the New York and Chrysler model across the wider economy.

Chapter Three

Free Market Scepticism:
The Industrial Policy Debate and the Reindustrialisation Movement

'If we simply watch while the rest of the world pursues active industrial policies, we will wind up making what Japan and West Germany leave over.' [526]
– Arnold H. Packer, Assistant Secretary of Labor, 1980 –

'America's competitive decline has more to do with the strategic failures of business and U.S. industrial policy than with excessive government deficits or overzealous environmental regulations." [527]
– Ira C. Magaziner and Robert Reich, 1982 –

'[I]ndustrial policy need not be a four-letter word. In fact, its 16 letters can be used without offending the basic principles of the American enterprise system.' [528]
– Senator John Heinz (R-PA), 1984 –

Four months before the 1980 elections, *Business Week* created quite a stir. Declaring that the 'U.S. industry's loss of competitiveness over the last two decades has been nothing short of an economic disaster,' the magazine warned that 'the U.S. economy must undergo a fundamental change if it is to maintain a measure of vitality let alone leadership'.[529] Despite the timing and tone, this was not the opening to an editorial endorsing Ronald Reagan.[530] Instead, it was the introduction to an 80-page special issue in which *Business Week's* editors argued in support of centralised economic planning and called for the creation of a 'national policy for industry and for stimulating investment and exports'.[531] Put simply, the editors of America's best-selling business magazine thought that neither market forces nor conventional fiscal and monetary policies could reinvigorate the ailing U.S. economy. Rather, they believed what was needed were 'sweeping changes in basic institutions, in the frame work of economic policymaking, and in the way that major actors on the economic scene...think about what they put into the economy and what they get out of it.'[532]

Business Week's 'Reindustrialization of America' issue attracted a great deal of attention. Not only did it sell more copies than any other in the magazine's 51-year history, but the editors were

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526 Quoted in 'Revitalizing the American Economy', *Business Week*, 30 June 1980, p.56-7.
527 Ira C. Magaziner and Robert B. Reich, *Minding America's Business: The Decline and Rise of the American Economy* (New York, 1982), p.329.
528 John Heinz, 'President's Commission on Industrial Competitiveness,' 2 February 1984, Pittsburgh Pennsylvania, Box 431, JH Papers.
529 'Revitalizing the American Economy,' *Business Week*, 30 June 1980, p.58 and 56.
530 *Business Week's* editors had actually voiced their opposition to Ronald Reagan's economic policy proposals in the magazine's June issue. See 'The Impact of a Reagan-Style Tax Cut,' *Business Week*, 9 June 1980.
531 'The Reindustrialization of America,' *Business Week*, 30 June 1980, quote p.55.
532 *Ibid.*, pp.55-136.

deluged with reader letters alongside reprint requests.[533] Even more remarkably, the special issue's call to re-think the relationship between the public and private sector captured the imagination of America's political and economic elite and sparked an intense policy debate.[534] Some dismissed the industrial policy that *Businessweek* proposed as 'merely a buzzword' or 'a rubric in search of a definition'.[535] Many others, however, were won over. Between 1980 and 1984, academics and think-tanks rushed to publish papers and books examining how other nations used subsidies and regulatory and trade policies to influence sectoral development. Similarly enthused, organised labour and powerful business groups poured a great deal of time and money into devising their own industrial policy proposals, while members of Congress hurried to schedule committee hearings and draft legislation.

Despite the prominent place it occupied in elite discourse, the industrial policy movement of the 1980s has not received much scholarly attention. During the 1990s (at the height of the culture wars), Otis Graham's *Losing Time* examined how proponents and opponents of industrial policy invoked history to bolster their arguments.[536] Although Graham did not connect his narrative to larger themes in political and economic history, it remains the only detailed historical account of the industrial policy movement.[537] Indeed, as the historian Benjamin Waterhouse astutely notes, the movement has largely 'failed to hold the attention' of 'subsequent political historians.'[538] Those who do mention it tend to do so only in passing and to dismiss it as a political response to an economic predicament which lacked widespread support. Judith Stein, for example, argues that industrial policy only rose to prominence because the Carter administration was 'groping for an economic policy and a strategy for re-election', while John Ehrman states that 'prominent

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533 Seymour Zucker et al., *The Reindustrialization of America* (New York, 1982), p.1.

534 Seeking to capitalise on renewed interest in industrial policy, in 1982, a team of six *Business Week* contributors transformed the original 'Reindustrialization of America articles into a full-length book. *Ibid.*

535 Neal Peirce and Carol Steinbach, 'Reindustrialization — A Foreign Word to Hard-Pressed American Workers,' *National Journal*, 10 October 1980, p.1784; Edward Cowan, 'Carter Economic Renewal Plan,' *NYT*, 22 August 1980. Industrial policy is a notoriously slippery concept. However, those who used the term industrial policy during the early 1980s were referring to proposals for America to establish economic planning institutions and sectoral policies that resembled those already in place in Europe and Japan. Under this system, the federal government would provide legal, financial, or political assistance in an effort to improve the growth, performance, and competitiveness of particular firms and specific sectors of the economy. In short, government would increase its role in overseeing and guiding industry and economic development.

536 Otis Graham, *Losing Time: The Industrial Policy Debate* (Cambridge, MA, 1992).

537More recent overviews of U.S. industrial policy by social scientists and business scholars have relied heavily on Graham's account. See, for example, Richard D. Bingham, *Industrial Policy American Style: from Hamilton to HDTV*, (New York, 1998); Nick Paretsky. 'Policy-Planning Organizations and Capitalist Support for Industrial Policy', 1970-1984', *PHD Dissertation University of Missouri* (2003); Marco R. Di Tommaso and Stuart O. Schweitzer, *Industrial Policy in America: Breaking the Taboo* (Massachusetts, 2013).

538 Waterhouse, *Lobbying America*, p.241. While he observes that historians have not analysed the industrial policy movement in any great depth, Waterhouse examination of the subject is very surgical and brief.

Democrats saw industrial policy as a powerful idea, if only because it offered something to the party's main constituencies.'[539]

This judgement of the industrial policy movement has stuck largely because it helps reinforce broader ideas about transformations in America's political economy during the 1970s. According to this interpretation, the confounding phenomenon of stagflation shattered the Keynesian consensus of the 1950s and 1960s, while the lack of alternative economic ideas opened a door that allowed the conservative counter-establishment to make the case for the free-market, anti-statist ideas that they had long championed.[540] At the summit of this tale of ideological ascendance is the deregulation movement, the election of Ronald Reagan, and the deep tax and spending cuts of 1981. There is little room for the industrial policy movement of the 1980s within this narrative. After all, calls for industrial policy reached their height in 1982 and 1983 (the reputed high tide of the Reagan revolution) and its supporters called for *more*, rather than less, federal government involvement in the marketplace. However, by depicting the industrial policy movement as an inconsequential, anti-Reagan policy trend, historians have overcome this particular interpretative hurdle.

For those determined to construct a linear rise of modern conservatism tale, the national industrial policy movement might seem like an unimportant footnote to 1980s history. Yet, this was not how it was perceived at the time. In fact, between 1979 and 1980 support for policies that extended the level and scope of federal government involvement in sectoral affairs and established centralised economic planning agencies was stronger and more diverse than support for *laissez-faire* prescriptions for growth. When the national economy slumped during the early 1980s, backing for industrial policy swelled. On the eve of the 1984 elections, many predicted that a formal national industrial policy was just around the corner. This did not come to pass. But failure does not mean that the industrial policy movement was simply historical background noise. In fact, as I argue in this chapter, examining the political economy of the 1970s and 1980s without paying attention to the industrial policy movement is akin to discussing the political economy of the 1950s and 1960s without mentioning Friedrich Hayek or Milton Friedman.

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[539] Judith Stein, *Running Steel, Running America: Race, Economic Policy, and the Decline of Liberalism* (Chapel Hill, 1998), p.268. John Ehrman, *The Eighties*: *America in the Age of Reagan* (Connecticut, 2005), p.80. For similar interpretations, see Stein, *Pivotal Decade*, p.244-51; Judith Stein, 'The Locomotive Loses Power: The Trade and Industrial Policies of Jimmy Carter', in Hugh D. Graham and Gary Fink, eds, *The Carter Presidency*, (Kansas, 1998), pp.82-86; David Greenberg, 'The Reorientation of Liberalism in the 1980s,' in Gil Troy and Vincent Cannato, *Living in the Eighties* (Oxford, 2009), p.56.

This chapter traces the rise and fall of the national industrial policy movement.[541] Whereas previous chapters have concentrated on the fate of specific cities or industries, my focus here is on the U.S. economy as a whole and the policy ideas that emerged at the nadir of the long economic crisis. In doing so, I seek to show how the potent cocktail of macroeconomic economic turbulence, the overlapping crises in the automobile industries and the nation's largest cities, and the economic success of other countries created a sense of collective national crisis. Gripped by fears about the long-term implications of this development, elected officials, members of the business community, labour leaders, and academics called for policies that would have dramatically expanded the federal government's involvement in economic life. Many of the chapter's key scenes therefore have a Washington backdrop. However, in order to understand why industrial policy ideas captured the attention of so many, it is first necessary to examine the fraught economic and political environment of 1980.

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The Productivity Crisis

At the same time as *Business Week's* editors were compiling the 'Reindustrialization of America' special issue, America's major newspapers and magazines were filled with grim economic news. After a two-year period of tepid economic recovery, in 1978 stagflation returned with a vengeance. For the rest of the decade, inflation and unemployment rates soared and the Carter administration released new or updated anti-inflation programmes virtually on a monthly basis.[542] This well-known story is chronicled, at length, in nearly every major work on the 1970s.[543] Yet what these stagflation-obsessed narratives usually overlook is that unemployment and inflation rates were not the only basic economic indicators that were keeping politicians, corporate executives, and economists awake at night. Indeed, by 1979, the readers of the economic and business pages of America's major newspapers were just as concerned by America's flagging productivity rate as they were by the Consumer Price Index and unemployment figures.[544]

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[541] A Google n-gram search for 'industrial policy' and 'reindustrialization' provides a vivid illustration of the rise and fall of national and global interest in industrial policy and reindustrialization. http://books.google.com/ngrams.

[542] On the Carter administration's economic policy vacillation, see Carl W. Biven, *Jimmy Carter's Economy: Policy in an Age of Limits* (Chapel Hill, 2002).

[543] See, for example, Schulman, *The Seventies*, pp.121-43; Yanek Mieczkowski, *Gerald Ford and the Challenges of the of the 1970s* (Lexington, 2005), pp.95-194; Kim Phillips-Fein, 'The Rebirth of the Free Market,' in Cannato and Troy, *Living in the Eighties*, pp.125-39; Collins, *More*, pp.152-9.

[544] In 1978, the former chairman of the Council of Economic Advisers, Alan Greenspan told a group of Republican senators that the 'deterioration of U.S. productivity' was 'the most critical question for U.S. economic policy' in the years ahead. Meeting Minutes, Republican Policy Committee, 6 September 1978, Legislative Subject Files — 1975-1991, *JH Papers*.

Prior to 1979, the national productivity rate was not a political issue.[545] Technocratic business leaders, such as Ford president, Robert McNamara, did closely monitor their firm's productivity (along with scores of other economic and financial statistics).[546] At a national level, though, productivity growth was regarded as normal and dependable. Bemused by the fascination of Soviet policymakers with America's productivity rate, one Harvard sociologist declared in the mid-1960s, 'productivity [growth] is like sunshine; we just have it, that's all. It's just there.'[547] This nonchalance was understandable. After all, as the economist Robert J. Gordon has recently highlighted, for a fifty year period from 1920, America enjoyed a historically unprecedented period of rapid productivity growth.[548] Between 1949 and 1973 (the fastest period of this productivity surge), output per worker increased by more than three percent per year.[549] From the vantage point of the early 1970s, it was therefore perfectly reasonable to assume that America's extraordinary productivity growth would continue in the decades ahead.[550] But by the mid-1970s, it would have been very difficult to find anyone who thought that productivity growth was something that America 'just ha[d].' [551]

This era of strong and stable U.S. productivity growth came to an abrupt end with the 1973 OPEC oil embargo. Between 1974 and 1978, national productivity growth slowed to less than one percent and in 1979 it declined by two percent.[552] At first, this did not provoke much concern. Most policymakers assumed that U.S. productivity growth would rebound as soon as the energy crisis ended and fixed their sights on trying to restrain — or 'whip' — inflation. Yet,

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[545] Productivity is an economic indicator that compares the amount of goods and services produced (output) with the amount of inputs used to produce those goods and services. Productivity increases indicate that businesses are able to produce more with fewer inputs and thus lower their costs. Working under the assumption that corporations respond to cost-savings by increasing wages, investing in new technology, providing shareholders with dividends, or reducing prices, most economists view productivity rates as an important measure of national economic well-being. For a basic, but accessible, discussion of how and why national productivity rates are measured, see Bureau of Labor Statistics, 'Productivity 101,' https://www.bls.gov/k12/productivity-101/home.htm [accessed 4 January 2018]. For a more detailed discussion of productivity rates, see Robert J. Gordon and Robert M. Solow, *Productivity Growth, Inflation, and Unemployment: The Collected Essays of Robert J. Gordon* (Cambridge, 2003), pp.7-10.

[546] David Halberstam, *The Best and the Brightest* (London, 1972), p.222.

[547] Quoted in Graham, *Losing Time*, p.17.

[548] Robert J. Gordon, *The Rise and Fall of American Growth: The U.S. Standard of Living Since the Civil War* (New Jersey, 2016).

[549] Barry Bluestone, 'Foreword', in Jefferson Cowie and Joseph Heathcott (eds), *Beyond the Ruins: The Meanings of Deindustrialization* (New York, 2003), p.viii.

[550] At the height of American productivity boom, Alvin Toffler's *Future Shock* and Charles Reich's *The Greening of America* became best-sellers. Making the assumption that post-Second World War growth would continue, Reich and Toffler explored the challenges and opportunities that would be created by prolonged periods of economic expansion. Alvin Toffler, *Future Shock* (London, 1970); Charles Reich, *The Greening of America* (New York, 1970).

[551] *Newsweek* voiced concern about waning American productivity in 1972. However, fears and coverage of the issue did not become widespread until the second half of the decade. See Natasha Zaretsky, *No Direction Home: The American Family and the Fear of National Decline, 1968-1980* (Chapel Hill, 2007), p.107.

[552] Iwan Morgan, 'Jimmy Carter, Bill Clinton, and the New Democratic Economics,' *The Historical Journal* (2004), Volume 47 (4), p.1022; Graham, *Losing Time*, p.17.

five years after the OPEC oil embargo, American productivity remained stubbornly low, while Japanese and West German rates had recovered from the oil shock.[553] Alarmed by the potential ramifications of this development, journalists and politicians looked to economists for explanations and solutions.[554]

Within the economics profession, America's sudden productivity slowdown was much debated. But, just as with stagflation, the leading economists were baffled as to the cause. In 1973 and 1974 it was widely presumed that the global productivity slump was solely a consequence of the supply shock created by the OPEC oil embargo.[555] Economists were quickly forced to revise this assessment. Indeed, by the late-1970s, most economists shared Edward Fulton Denison's view that America's productivity slump was not a 'transient development' but a 'fundamental change likely to last for some time.'[556] Maintaining that the 1973 oil embargo had seriously dented the national productivity rate, economists now debated among themselves the other factors — weakening capital investment, falling educational standards, lack of technological innovation, the changing demographics of the American workforce, and federal taxation and regulatory policies — that might have been responsible for prolonging the productivity slowdown.[557] Unable to agree about the cause of the slowdown, the same economists who had voiced extraordinary confidence in their ability to manage the business cycle and produce prosperity during the 1950s and 1960s, provided policymakers with no clear advice on how to remedy the U.S. productivity slump.

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553 In 1950, labour productivity in the United States was double that of Western Europe. By the late-1970s, this productivity gap had diminished considerably and Japan and West Germany were enjoying much higher rates of productivity growth than America. Gordon, *The Rise and Fall of American Growth*, p.19; Bruce R. Scott, 'U.S. Competitiveness: Concepts, Performance, and Implications,' in Bruce R. Scott and George C. Lodge (eds), *U.S. Competitiveness in the World Economy* (Cambridge, MA, 1985), p.33.

554 For insight into the growing level of concern about America's productivity slump, see Bradley Graham, 'U.S. Productivity: Golden Days Over,' *WP*, 10 September 1978; Steven Rattner, 'Productivity Rate Causes Worry,' *NYT*, 8 May 1979; William K. Tabb, "Birth of a Buzzword: Playing 'Productivity' Politics," *The Nation*, 5 January 1980.

555 See, for example Edward A. Hudson and Dale W. Jorgenson, 'U.S. Energy Policy and Economic Growth, 1975-2000,' *Bell Journal of Economics and Management Science* (Autumn 1974), pp.461-514.

556 Edward F. Denison, 'The Puzzling Setback to Productivity Growth,' *Challenge* (1980), Volume 23 (8), p.8.

557 Michael L. Dertouzos et al., *Made in America: Regaining the Productive Edge* (Cambridge, MA, 1989), pp.26-45; Zaretsky, *No Direction Home*, pp.111-12 . For contemporaneous discussions about the possible causes and solutions to the productivity slowdown, see Michael R. Darby, 'The U.S. Productivity Slowdown: A Case of Statistical Myopia,' *American Economic Review* (1984), Volume 74, pp.301-22; Peter K. Clark, 'Capital Formation and the Recent Productivity Slowdown,' *Journal of Finance* (1978), Volume 33, pp. 965-75; Robert J. Samuelson, 'The Productivity Enigma,' *National Journal*, 9 December 1979; Burton G. Malkiel, 'Productivity — the problem behind the headlines,' *Harvard Business Review*, May/June 1979; J. R. Norsworthy and Michael J. Harper, 'The Role of Capital Formation in the Recent Productivity Growth Slowdown,' Working Paper 87 (Bureau of Labor Statistics, January 1979); Martin Neil Baily, 'Productivity and the Services of Capital and Labor,' *Brookings Papers on Economic Activity*, 1, 1981; Edward F. Denison, *Accounting for Slower Economic Growth: The United States in the 1970s* (Brookings Institution, 1979). See, also Paul Krugman, *Peddling Prosperity: Economic Sense and Nonsense in the Age of Diminished Expectations* (New York, 1994), pp.56-75; Martin Neil Baily and Alok K. Chakrabarti, *Innovation and the Productivity Crisis* (Washington D.C., 1988), pp.13-45.

Not everyone was puzzled when America's half-century of rapid productivity growth ended. For a group of free-market policy entrepreneurs, members of the business community, intellectuals, and economists, the cause of America's productivity slowdown was obvious: government interference in the marketplace. Ideologically committed to *laissez-faire* doctrines, this group believed that America's poor economic performance was the inevitable by-product of high taxes and burdensome government regulations. Convinced that government policies were responsible for discouraging entrepreneurs, investors, and corporations from making the business investments that were required to increase productivity rates, this group argued that curing America's productivity problem was simply a matter of lowering taxes, strengthening intellectual property rights, and shrinking the size of the regulatory state.[558]

This argument represented a rejection of the economic policy orthodoxy of the post-Second World War period. Between 1920 and 1930 an influential group of politicians and businessmen had embraced the idea that consumption — and by extension the consumer — spurred economic activity and growth. Over time, this became the dominant view and most mainstream economists and policymakers came to regard the producer-orientated (or supply-side) economic policies peddled by free-market ideologues as an archaic relic of the early twentieth-century.[559] Reflecting this, during the post-Second World War period, economic stimulus proposals were geared towards boosting consumer demand (not increasing production).[560] This demand-side faith was easy to maintain while American producers were dominant, national productivity growth was rapid, and the industrial capacity of other industrial nations was being rebuilt. But, as U.S. productivity growth slowed and its industrial pre-eminence ebbed, a general feeling developed that these New Deal era demand-side nostrums were inadequate and that new producer orientated public policies were needed.[561] With commitment to post-New Deal

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[558] Irving Kristol, "Towards a 'New' Economics," *WSJ*, 9 May 1977; Sidney Blumenthal, 'Defining "Reaganomics"', 2 November 1980, *Boston Globe*.

[559] In the nineteenth century and early twentieth century, U.S. economists and policymakers focused on the producer and maximising production. During the Great Depression and New Deal years this slowly changed and intellectuals and policymakers paid greater attention to consumption and consumers and formulated consumer-orientated policies. For a detailed discussion of this shift, see Kathleen G. Donohue, *Freedom from Want: American Liberalism and the Idea of the Consumer* (Baltimore, 2003).

[560] On the demand management policies of the post-Second World War period, see Jones, *Masters of the Universe*, pp.182-189.

[561] During the early years of the long economic crisis, economists and policymakers almost reflexively suggested Keynesian and demand-side policies as a means of addressing America's economic maladies. Both Ford and Carter, for example, proposed consumer-orientated tax cuts as measures to pull the national economy out of its nosedive. See Kalman, *Right Star Rising*, pp.50-54; Biven, *Jimmy Carter's Economy*, pp.61-95.

economic ideas waning in the late-1970s, elected officials from across the political spectrum embraced a new economic mistress: supply-side economics.[562]

Today, the phrase 'supply-side economics' is often used as a short-hand for the *laissez-faire* fiscal policy regime that the Reagan administration publicly championed. However, this has not always been the case. A year before the 1980 elections, so many elected officials shared a belief in the need for a business-orientated, supply-side economic stimulus that House Republicans worried that voters 'wouldn't identify "supply-side economics" as a Republican approach.'[563] They were right to be concerned. Against the backdrop of a deep crisis within many manufacturing industries and a national productivity slow down, Republicans and Democrats alike believed that America's largest industrial corporations desperately needed to invest billions of dollars in research and development and new equipment. Determined to provide assistance to struggling producers, many policy makers sought to move economic policy in a supply-side (or producer-orientated) direction.[564] As one journalist neatly summarised in 1980, 'concern about lagging productivity, undercutting American competition in world markets' has created an 'embryonic new consensus' about the need to 'cut taxes to stimulate growth, limit government spending to give the private sector greater scope in its endeavors, encourage accumulation of capital for investment...[and] remove from the books government regulations that inhibit free enterprise.'[565]

This shift in economic thinking was not indicative that Washington political culture had veered sharply rightwards. In most cases, it was concern about the ramifications of a prolonged period of stagnant productivity growth, rather than ideological fervour, that drove calls for producer-orientated policies. To be sure, the most vocal group that called for a supply-side stimulus in 1980 were anti-government zealots who rhapsodised about the effects of 'dismantling of state-erected barriers to economic activity'.[566] However, the majority of America's political and economic elite were sceptical about these ideas. Some, including George Bush, and the business

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562 On the fiscal policy consensus of the 1930s, 1940s, 1950s, and 1960s, see Herbert Stein *The Fiscal Revolution in America* (Chicago, 1969).

563 Cebul, *Illusions of Progress: Business, Poverty, and Development in the American Century* (Philadelphia, forthcoming).

564 This shift occurred even among previously strong advocates of the New Deal order. In March 1979, for example, members of the congressional Joint Economic Committee — a group that included George McGovern, Edward Kennedy, and Jacob Javits — unanimously endorsed measures designed to 'improve the supply side of the economy.' Art Pine, 'Economic Policy Agreement: Anti-Inflation, Pro Business,' *WP*, 19 March 1979.

565 Blumenthal, 'Defining "Reaganomics."'

566 David Stockman, *The Triumph of Politics,* p.41. For detailed — but highly sympathetic — examinations of the *laissez-faire* supply-side movement, see Brian Domitrovic, *Econoclasts: The Rebels Who Sparked the Supply-Side Revolution and Restored American Prosperity* (Delaware, 2009); Robert L. Bartley, *The Seven Fat Years: And How to Do it Again* (New York, 1995), pp.25-101. For a recent — and less ideologically charged — account, see Monica Prasad, *Starving the Beast: Ronald Reagan and the Tax Cut Revolution* (New York, 2018), pp.19-54.

community regarded proposals for large tax cuts as fiscally irresponsible.[567] Others believed that the productivity crisis required supply, not demand solutions, but thought that *laissez-faire* producer-orientated policies would not restore national economic growth. Maintaining that a supply-side stimulus consisting purely of tax cuts and regulatory rollbacks would do little to re-establish the rapid productivity growth of the 1950s and 1960s, this second group argued that America needed to both respond to and emulate its closest economic and industrial rival: Japan.

Japanophobia: Japan as a Threat

In the late-1970s, U.S. policymakers, academics, and corporate executives were obsessed with Japan. This interest was not entirely new. After the Second World War, America had set out to transform Japan into a 'bulwark against Chinese communism' and a 'thriving center for Asian capitalism'.[568] In order to achieve this, the U.S. occupation authority ordered the defeated Japanese government to form labour unions and implement sweeping agricultural reforms, and provided the country with $2.2 billion in loans and grants.[569] This attempt to rebuild Japan also shaped American trade policy. Indeed, as the historian Judith Stein has illustrated, the U.S. also sought to aid the country's economic recovery and industrial reconstruction by removing or lowering its own import barriers.[570] These policies were motivated by a large amount of self-interest. In the 1950s and 1960s most Americans assumed that Japan would remain the junior partner to the United States and did not consider it an economic competitor. Instead, they viewed the country as a powerful diplomatic ally and an important future market for American manufactured goods. However, these attitudes changed as soon as it became clear that the economic relationship between the two countries was shifting.

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[567] During the 1980 Republican primaries, Bush famously derided Reagan's economic policy proposals as 'voodoo economics' and 'economic madness.' Though it did not attract the same media attention as Bush's denouncement, major business associations and top corporate leaders also voiced similar sentiments. *William J. Mitchell*, 'Goodbye, image; hello, issues: Bush switches campaign tactics,' *DFP*, 15 April 1980; Monica Prasad, 'The Popular Origins of Neoliberalism in the Reagan Tax Cut of 1981,' *Journal of Policy History* (2012), Volume 24 (3), pp.366-7; Waterhouse, *Lobbying America*, pp.210-2.

[568] Shigeto Tsuru, *Japan's Capitalism: Creative Defeat and Beyond* (Cambridge, 1993), p.17; Michael E. Latham, *The Right Kind of Revolution: Modernization, Development, And U.S. Foreign Policy from the Cold War to the Present* (New York, 2011), p.30.

[569] *Ibid.*; Nina Serafino, Curt Tarnoff, and Dick K. Nanto, 'U.S. Occupation Assistance: Iraq, Germany and Japan Compared,' 23 March 2006, *Congressional Research Service*, https://fas.org/sgp/crs/natsec/RL33331.pdf [accessed 12 December 2017]. For a more detailed discussion of U.S. reforms during the Allied occupation, see Grant Madsen, *Sovereign Soldiers: How the U.S. Military Transformed the Global Economy After World War II* (Philadelphia, 2018).

[570] Stein, *Pivotal Decade,* particularly pp.6-8

During the immediate post-Second World War period, Japan's economic growth radically outstripped that of other major industrialised countries.[571] In the 1960s, as America's productivity growth began to slow, Japanese productivity increased by more than 10 percent per year and in 1968 it became the second largest economy in the capitalist world (overtaking West Germany).[572] When the 1973 oil shock reduced economic growth throughout the industrialised world, Japanese productivity dipped, but after a short period, returned to robust levels.[573] With the American economy showing few signs of rebounding from the long economic crisis and Japanese produced goods flooding into U.S. markets, many began to worry that Japan would soon overtake America as the world's leading capitalist economic superpower. Almost overnight, U.S.-Japanese relations became much more adversarial.[574]

In the second half of the 1970s, trade created much friction between the U.S. and Japan. During the 1960s, America maintained an annual trade surplus of between $2 billion and $6 billion.[575] But in 1976, for the first time in the post-Second World War era, the U.S. imported more goods and services than it exported. Though the 1976 trade deficit was relatively minor, in the ensuing years it steadily increased and concern over the 'trade gap' swelled.[576] Of course, imported goods from many different countries were sold in America. However, the U.S. trade deficit with Japan was larger than any other individual country and many of the products imported from Japan were the manufactured goods that had powered America's phenomenal late nineteenth and early twentieth century economic growth.[577] Worried that the rise of Japan might lead to a shift in global geo-economic power and the diminution of national living standards, U.S. elected officials and corporate executives began to think of the country as an economic rival and a threat.[578]

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[571] For more on Japanese productivity growth, see Charles R. Hulten, 'Introduction,' in Charles R. Hulten (ed.), *Productivity Growth in Japan and the United States* (Chicago, 2014), pp.1-27.
[572] Dale W. Jorgenson, 'Productivity and Economic Growth in Japan and the United States,' *The American Economic Review* (1988), Volume 78 (2), p.217.
[573] Dale W. Jorgensen and Masashiro Kuroda, 'Productivity and International Competitiveness in Japan and the United States, 1960-1985,' in Hulten (ed.), *Productivity Growth in Japan and the United States*, p.51.
[574] On the history of U.S.-Japanese relations, see Walter LaFeber, *The Clash: U.S.-Japanese Relations throughout History* (New York, 1998); Kenneth B. Pyle, *Japan in the American Century* (New York, 2018).
[575] McKevitt, *Consuming Japan*, p.25.
[576] Between 1977 and 1981, the U.S. trade deficit with Japan grew from $1.87 billion to around $10 billion. Clyde H. Farnsworth, 'U.S. Trade Deficit Widens to Record $1.87 Billion,' *NYT*, 29 March 1977; M.J. Heale, 'Anatomy of a Scare: Yellow Peril Politics in America, 1980–1993,' *Journal of American Studies* (2009), Volume 43, p.25. On concerns about the broader ramifications of the growing trade gap, see James C. Abegglen and Thomas M. Hout, 'Facing Up to the Trade Gap with Japan,' *Foreign Affairs*, Fall 1978.
[577] Around fifty percent of U.S. import growth during the 1970s stemmed from manufactured goods. Bruce R. Scott, 'U.S. Competitiveness: Concepts, Performance, and Implications,' in in Bruce R. Scott and George C. Lodge (eds), *U.S. Competitiveness in the World Economy* (Cambridge, MA, 1985), p.18.
[578] Concern about Japan's economic growth became widespread in the late-1970s, peaked in the mid-1980s, and faded when Japan's economic growth slowed in the early 1990s. For insight into how attitudes about Japan changed during this period, see Theodore H. White, 'The Danger from Japan,' *NYT*, 28 July 1985; Chalmers Johnson, 'How

In Washington, labour union halls, and corporate boardrooms, the rise of Japan and the decline of American industry led to a reconsideration of attitudes towards trade. As we have already seen, in the late-1970s American automobile corporations allied together with labour unions and vigorously campaigned for protection from Japanese imports. These lobbying campaigns were partially successful, and for much of the late-1970s and 1980s Japanese automobile producers could not freely export cars to America. Though historians and other scholars have seldom drawn attention to it, this was not a particularly rare turn of events during the long economic crisis. Despite both the Carter and Reagan administrations having consistently extolled the virtues of free trade and called for other countries to lower their trade barriers, during the long economic crisis protectionism frequently triumphed over free trade. Between 1976 and 1984, the steel, textile and apparel, ball-bearing, colour television, footwear, and motorcycle industries all benefitted from some form of federal government protection.[579]

At the same time as they were calling for restrictions on Japanese imports, two of America's largest labour unions were also waging 'Buy American' campaigns. Initially, these were low-key affairs. In 1971, the International Ladies Garment Workers Union (ILGWU) added a 'Made in the U.S.A.' label to every garment produced in union factories, while a few years later the UAW launched an advertising campaign that highlighted the broader economic ramifications of buying American-made cars.[580] But, within a short time, the tone of these campaigns changed. In 1972, the ILGWU placed full-page posters in New York City subway trains depicting huge American flags, a giant 'Made in Japan' slogan, and, in smaller type, the question 'has your job been exported to Japan yet?'[581] The subway advertising campaign was widely condemned. However, less than a decade later (at the height of the U.S. automobile crisis), the UAW filled America's major newspapers with advertisements proclaiming 'every ship bringing foreign-made cars to

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to think about Economic Competition from Japan,' *The Journal of Japanese Studies* (1987), Volume 13 (2)*;* Robert J. Crawford, 'Reinterpreting the Japanese Economic Miracle,' *Harvard Business Review*, 1 January 1998.

[579] Gary Clyde Hufbauer, Diane T. Berliner and Kimberly Ann Elliot, *Trade Protection in the United States: 31 Case Studies* (Washington D.C., 1986), pp.9-11. One study estimates that these restrictive trade policies reduced imports by $44 billion in 1984 alone. *Ibid.*, p.20. See also I.M. Destler, *American Trade Policies* (Washington, DC, 1995, 3rd Edition), pp.139-73. For contemporary discussions about America's increasingly protectionist trade policies, see Bruce Stokes, 'Debunking Free Trade', *National Journal*, 29 September 1984, p.1831.

[580] Dana Frank, *Buy American: The Untold Story of Economic Nationalism* (Boston, 1999)*,* pp.136-7.

[581] Frank Ching, 'I.L.G.W.U. Poster Opposed as Racist,' *NYT*, 26 October 1972. The textile industry's 'Buy American' campaign did not end in the 1970s. In 1984, the Crafted with Pride in the U.S.A Council (an organisation funded by a textile magnate), launched a seven-year, $100 million 'Buy American' campaign. See Timothy Minchin, *Empty Mills: The Fight Against Imports and the Decline of the U.S. Textile Industry* (Maryland, 2013), pp.160-84.

America carries a hidden cargo' and printed bumper stickers with slogans including 'Hungry? Eat a Foreign Car' and 'Unemployment: Made in Japan.'[582]

In addition to stoking economic nationalist sentiments, Japan's industrial rise, also led to a surge in anti-Asian and anti-Japanese racial nationalism.[583] The most notorious episode of nativism during this period occurred in the summer of 1982. In late June, Vincent Chin, a 27-year-old Chinese American, and a group of his friends were celebrating Chin's upcoming wedding at a topless bar in suburban Detroit. During the course of the evening, two white autoworkers loudly referred to Chin and his friends as 'Chink[s]' and 'Nipp[s].' Escalating the abuse, one customer, Ronald Ebens, remarked: 'it's because of you little motherfuckers that we're out of work.'[584] After chairs were thrown, both parties were ejected and Chin fled (on foot). However, the still incensed, Ebens proceeded to search for him and after half an hour he discovered Chin outside a nearby McDonalds. With a crowd of onlookers, Ebens repeatedly struck him with a baseball bat.[585] After being taken to the hospital, the severely injured Chin slipped into a coma. Four days after the attack — and a day before he was due to be married — Chin's life support machine was switched off.[586]

While Vincent Chin's death was a shockingly violent event, it was not an anomaly. In manufacturing communities in particular, Asian Americans were often subject to threats, violence, or verbal abuse during the 1980s.[587] In Michigan, Japanese Americans reported that they were afraid to drive imported cars, and it was common to see Nissans and Toyotas with punctured tyres and smashed windscreens. At union picnics, UAW members took turns to smash Toyotas with sledgehammers, while signs were hung at union parking lots declaring 'No Japanese Cars Allowed' and 'Park Your Imports in Japan.'[588] To be sure, Japan-bashing was not ubiquitous among the UAW's rank-and-file and it was not openly endorsed by the union's leadership.[589] But it was also not uncommon or clandestine. Moreover, while the UAW's

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[582]Jay Mathews, 'Economic Invasion by Japan Revives Worry about Racism', *WP*, 14 May 1982.
[583] This was not a case of the UAW making peace with American automobile companies and waging war with Japanese automobile firms. During the 1970s, UAW leaders travelled to Japan on multiple occasions and urged Japanese automobile producers to build manufacturing plants in the United States. As Andrew McKevitt argues, for the UAW's leadership, 'the prospect of Japanese automakers employing tens of thousands of Americans far outweighed any cheap nationalist sentiments.' McKevitt, *Consuming Japan*, p.112.
[584] Frank H. Wu, 'Why Vincent Chin Still Matters', *NYT*, 22 June 2012.
[585] This account of Chin's death is drawn from United States v. Ronald Ebens, 800 F.2d 1422, (6 Cir. 1986).
[586] Vincent Canby, "'Who Killed Vincent Chin": Answer is Complex?', *NYT*, 11 March 1988.
[587] On anti-Asian hostilities and their place within American political culture, see Heale, 'Anatomy of a Scare,' *Journal of American Studies*, p.21; Cumings, 'The Conjurings of Japan,' 13 February 1982, *The Nation*, pp.179-80.
[588] Heale, 'Anatomy of a Scare,' p.21; Frank, *Buy American*, pp.160-4.
[589] McKevitt, *Consuming Japan*, pp.115-6.

leadership purposefully avoided making statements that could be portrayed as xenophobic or racist, it did little to stamp out private Japan-bashing and did not condemn the more public forms that occurred at a local level.

Verbal Japan-bashing also occurred among elected officials. Throughout this period, references to Pearl Harbor were a staple in most major policy debates involving Japan and a small number of politicians also sought to use the wave of anti-Japanese xenophobia for personal political gain. In his 1979 Republican presidential primary campaign speeches, John Connally, for example, liked to ask 'don't they [Japan] remember who won the war?', while Representative John Dingell (D-MI) seldom missed an opportunity to publicly refer to Japanese automakers as 'little yellow people.'[590] Much like the UAW, Connally and Dingell's political colleagues voiced only very tepid criticism of their anti-Japanese statements. Furthermore, though they distanced themselves from the most xenophobic anti-Japanese rhetoric comments, many elected officials campaigned for office or re-election by promising that they would 'get tough' with Japan. With mainstream politicians openly espousing anti-Asian racial stereotypes, labour unions supporting anti-Japanese import campaigns, racially motivated hate-crimes increasing, and imports from the country strictly controlled, it seemed to many that the United States was once again at war with Japan.

Japanophilia: Japan as a Model

Not every American regarded Japan as an enemy or believed that protectionist policies and consumer-orientated 'Buy American' campaigns could resolve the United States' economic woes. In fact, many took an altogether different approach and looked to learn from Japan's example. Reflecting this, in addition to being an era of rampant 'Japanophobia', the late-1970s and early 1980s was also a period of rising 'Japanophilia.' For some, interest in Japan stemmed from a desire to learn more about a politically and economically powerful country whose culture seemed alien and exotic; for others though, the stakes were much higher.[591] Convinced that the U.S. might be able to learn important economic lessons from Japan, in 1979 and 1980, America's economic and political elite pored over information about Japan's economy and society. It was this group that would later become the vanguard of the industrial policy movement and shape the debates that are the primary subject of this chapter.

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[590] Cumings, 'The Conjurings of Japan,' p.181; Francis X Clines and Warren Weaver Jr., 'Washington Talk: Briefing,' *NYT*, 16 March 1982.

[591] For examples of the growing interest in Japanese culture and its influence on American culture, see Christopher Byron, 'How Japan Does It', 30 March 1981, *Time*; Leslie Bennets, 'Culture of Japan Blossoming in America', *NYT*, 7 August 1982.

Those looking to educate themselves about Japan had much to learn. While the U.S. was heavily involved in Japan's post-Second World War reconstruction, the two countries possessed very different economic systems. To American eyes, the most striking feature of Japanese capitalism was the activist role that the state played in sectoral affairs and in economic planning. Whereas the U.S. largely turned its back on economic planning at a national level after a brief period of experimentation during the New Deal, Japan (and Europe) did not.[592] In fact, through government institutions such as the Japanese Reconstruction Finance Bank, the Export-Import Bank, the Economic Planning Agency and the Ministry of International Trade and Industry (MITI) the Japanese state was heavily involved in planning and directing the country's economic reconstruction. Guided by the medium and long-term 'economic visions' produced by MITI and the Economic Planning Agency, government agencies sought to shape the country's industrial and economic structure through the provision of state-subsidised long-term loans, specially formulated tax incentives, artificially low interest rates, sector-specific import quotas and tariffs, and funding for commercially-orientated research and development projects.[593]

Japanese state involvement in the marketplace was not just restricted to nurturing sectors of the economy deemed important for future growth (steel, automobiles, electronics, shipping, chemicals, and other capital-intensive manufacturing industries).[594] In an effort to ensure general economic stability, it was also actively involved in trying to reduce the impact of economic slumps. In order to achieve these aims, the Japanese government provided direct financial assistance to help industries that it deemed 'permanently depressed.' Worried that 'excessive competition' would leave large companies unable to invest in new equipment and technology, the Japanese government also allowed companies to form informal and formal cartels, and trade associations which were permitted to set minimum prices, output quotas, set design and quality regulations, and provide common marketing services.[595]

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[592] On the rise and fall of New Deal economic planning, see Ira Katznelson, *Fear Itself: The New Deal and the Origins of Our Time* (New York, 2013), pp.227-275; Alan Brinkley, *The End of Reform: New Deal Liberalism in Recession and War* (New York, 1995), pp.31-106. On various attempts to establish national economic planning institutions in the post-Second World War period, see Otis L. Graham, Jr., *Toward a Planned Society: From Roosevelt to Nixon* (New York, 1976).

[593] Ulrike Schaede, 'What Happened to the Japanese Model?', *Review of International Economics* (2004), Volume 12 *(2),* pp.280-3

[594] Richard Beason and David E. Weinstein, 'Growth, Economies of Scale, and Targeting in Japan (1955-1990)', *The Review of Economics and Statistics* (1996), Volume 78 (2), pp.286-95.

[595] David Weinstein, 'Evaluating administrative guidance and cartels in Japan (1957–1988)', *Journal of Japanese and International Economies* (1995), Volume 9, pp.200–223; Andrew Dick, 'The Competitive Consequences of Japan's Export Cartel Associations', *Journal of Japanese International Economy* (1992), Volume 6, pp.275-98; Jeffrey R. Bernstein, 'Japanese Capitalism', in Thomas K. McCraw (ed.), *Creating Modern Capitalism: How Entrepreneurs, Companies, and Countries Triumphed in Three Industrial Revolutions* (Cambridge, MA, 2000), pp.467-70; Robert L. Cutts, 'Capitalism in Japan: Cartels and Keiretsu', *Harvard Business Review,* July 1992, pp.48-55.

Another distinctive feature of Japanese capitalism was the cooperative relationship that existed between the state bureaucracy and the private sector. In Japan, the lines between the public and private sector were often very indistinct. For example, it was conventional for civil servants to find high-ranking private-sector jobs for senior Japanese bureaucrats and politicians when they left public office.[596] This was (and remains) a controversial arrangement. But, in the 1950s and 1960s, it was supported by both the private and the public sectors because it was believed to provide the business community with top-ranking executives that had both the public policy expertise and close personal relationships with key policymakers — skills and qualities that it was thought could help the business community succeed.[597] On a more formal basis, lines of communication between government and business were also sustained through Japan's more than 200 governmental advisory commissions.[598] Containing representatives from business, academia, and government, these permanent and ad-hoc advisory commissions provided policymakers with expert advice and policy recommendations.

Went it came to economic and industrial development, the Japanese state was anything but *laissez-faire*. Not only did the Japanese government actively (and very visibly) attempt to promote the growth of capital-intensive industries and large firms, but it also used regulations to tightly control foreign and domestic competition. As such, throughout the 1950s and 1960s, Japan's corporations relied heavily upon the assistance, support, and supervision provided by the country's developmental state — a state that saw no problem with intervening in industrial affairs and using trade restrictions to protect powerful companies and industries. Though academics, economists, and commentators spent much of the 1980s (and 1990s) arguing about the effect that state involvement in sectoral affairs had on Japan's economic success, no-one doubted that the Japanese government was much more directly involved in economic and industrial development than was that of the United States.[599]

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[596] This practice goes by the name of *Amakudari* ("descent from heaven"). On *Amakudari's* history, see Richard A. Colignon and Chikako Usui, *Amakudari: The Hidden Fabric of Japan's Economy* (New York, 2003); Tuvia Blumenthal, 'The Practice of Amakudari within the Japanese Employment System', *Asian Survey* (1985), Volume 25 (3), pp.310–321; Chalmers Johnson, 'The Reemployment of Retired Government Bureaucrats in Japanese Big Business', *Asian Survey* (1974), Volume 14 (11), pp. 953-965.

[597] Firms and sectors especially favoured by the Japanese state employed large numbers of former high-ranking bureaucrats and civil servants. In the mid-1970s, for instance, two of Japan's largest steel firms appointed ex-bureaucrats as their presidents. *Ibid.* p.962.

[598] See Frank J. Schwartz, *Advice and Consent: The Politics of Consultation in Japan.* (Cambridge, 1998); Gerald L. Curtis, 'Big Business and Political Influence', in Ezra F. Vogel, *Modern Japanese Organisation and Decision-making* (California, 1975), pp.43-5; Yung Ho Park, 'The Governmental Advisory Commission System in Japan', *Administration and Society* (1972), Volume 4 (3).

[599] For a detailed — if polemical — review of discussions about Japanese and Asian developmental states during the 1980s and 1990s, see Chalmers Johnson, 'The Developmental State: Odyssey of a Concept', in M. Woo-Cummings (ed.), *The Developmental State* (New York, 1999), pp.32-60.

In the United States, Japan's 'big government' approach to economic and industrial development was not something that committed market fundamentalists felt comfortable with; in fact they spent much of the 1970s and 1980s arguing that selective assistance perverted free-markets and railing against the 'unfair competition' that Japan's policies produced.[600] But this was not a universal response. For those who believed that new producer-orientated policies were needed, but who were sceptical of *laissez-faire* prescriptions for economic growth, the Japanese model was attractive. After all, the Japanese state was undeniably friendly to business and its economic policies were focussed on the supply-side of the economy. Moreover, given Japan's remarkable growth and exceptional productivity rates, it also seemed to be doing something right. Won over, in 1980 many of America's economic and political elite argued that America should establish its own industrial policy. First, however, they needed to learn about Japan's alternative approach.

In 1979 and 1980, most of what Americans knew about Japan's developmental state came from Harvard sociologist, Ezra Vogel.[601] By the mid-1970s, Vogel had published two books on Japan and become the chair of Harvard's East Asian Study Center.[602] He was not, however, a public intellectual and was not widely known outside of his disciplinary field. That situation changed very quickly with the publication of his 1979 book, *Japan as Number One: Lessons for America*. Convinced that the U.S. should 'respond to Japan's rapid growth by learning from it rather than complaining and launching trade wars,' Vogel began his book by claiming 'Japan ha[d] dealt more successfully with more of the basic problems of post-industrial society than any other country'.[603] Having credited Japan's 'superior competitiveness' to its 'specific organizational structures, policy programs, and conscious planning', Vogel spent most of the book detailing what he saw as 'Japan's Successes.'[604] After discussing the country's distinctive approach to business as well as its unique socio-economic and political institutions, Vogel concluded his final chapter, 'American Response', by arguing that if it wanted to stay 'number one,' the U.S. needed to formulate its own 'economic visions' and establish a national industrial policy.

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600 On market fundamentalism, see Block and. Somers, *The Power of Market Fundamentalism* (Cambridge, MA, 2014), pp.2-4.

601 By 1982, those keen to learn about Japan's developmental state could also read Chalmers Johnson's *MITI and the Japanese Miracle*. Johnson, a political scientist at Berkeley, believed (even more vehemently than Vogel) that Japan's economic success was down to its unique economic system and was responsible for coining the term 'capitalist developmental state.' Chalmers Johnson, *MITI and the Japanese Miracle: The Growth of Industrial Policy, 1925-1975* (California, 1982).

602 Ezra F. Vogel, *Japan's New Middle Class: The Salary Man and His Family in a Tokyo Suburb* (California, 1963); Vogel, *Modern Japanese Organization and Decision-making*.

603 Ezra F. Vogel, 'Why Japanese Life is Good,' *WP*, 14 December 2012; Ezra Vogel, *Japan as Number One: Lessons for America* (Cambridge, MA, 1979), p.ix.

604 *Ibid.,* pp.225 and ix.

Japan as Number One quickly became a best-seller. Widely reviewed, in 1979, it attracted more public attention than anything written by Jude Wanniski, Arthur Laffer, or Robert Mundell (the founders of the *laissez-faire* supply-side movement).[605] Building on Vogel's work, in 1980 journalists and intellectuals rushed to publish additional information about Japan's industrial policies. In most cases, the country's developmental state was described in admiring terms.[606] The *New York Times,* for example, talked about the 'skilful long term planning' of the Japanese in a five-part series on reviving U.S. industries; *Business Week* enthused about the 'economic plans of other nations' and declared that 'the U.S. has no real option, but to develop an industrial policy to avoid falling behind'; while Gail Garfield Schwartz and Pat Choate argued in *Being Number One* that America should emulate the 'market-developing and market-maintaining practices' of the Japanese.[607] As a result, in addition to America's productivity slump and the burgeoning trade deficit, in 1979 and 1980, the readers of the business, economic, and book review sections of America's major newspapers and magazines also knew a great deal about Japan's approach to economic and industrial development.

It was not coincidental that interest in Japan's industrial and economic policies surged at the end of the 1970s. While the automobile industry's travails provoked sectoral policy responses, the decline of the national productivity rate inspired panic and suggested that America's economic problems were not confined to a few specific industries. Viewed through this lens, the crises hitting New York City and American automobile producers could appear to be interconnected events that exposed structural deficiencies at the heart of U.S. capitalism. Voicing the thoughts of many, in February 1980, a Wall Street economist declared 'we are lurching toward a national economic emergency' and 'there is nothing in income, fiscal or monetary policies to suggest a way out.'[608] For those who shared this view, the economic development policies of the world's second largest capitalist economy seemed like an obvious alternative — one that was also

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[605] For sales statistics see, Ezra Vogel, *Is Japan Still Number One* (Malaysia, 2000), p.41; Most major newspaper and magazines reviewed the book positively. See, for example: Ronald Dore, 'The Yen to Be Number One,' *WP* 20 May 1979; Gibney, 'Success Story: Japan', *NYT*, 10 June 1979; Donald S. Zagoria, 'Japan as Number One,' *Foreign Affairs*, Summer 1979. In academic journals, however, it was often reviewed negatively. See, for example, Edward Seidensticker, Donald C. Hellmann, and Saito Takashi. 'Views of Japan as Number One', *Journal of Japanese Studies* (1980), Volume 6 (2); Nobutaka Ike, *The American Political Science Review* (1980), Volume 74 (1), pp.280-81.

[606] Admiration for Japan and its developmental state was short-lived. During the 1990s, scholars and journalists, voiced critiques of the idea that Japan's cultural and economic distinctiveness explained its rapid economic growth. However, in the period covered by this chapter, this critique was not yet mainstream and Johnson and Vogel's ideas were widely accepted. On this shift see Laura E. Hein, 'Free-Floating Anxieties on the Pacific: Japan and the West Revisited', *Diplomatic History* (1996), Volume 20 (3), pp.411–38

[607] Henry Scott Stokes, 'Can Japan's Aid to Its Industry Guide the U.S.', *NYT*, 21 August 1980; 'Industries-To Push or to Prune', *Business Week*, 30 June 1980, p.120; Gail Garfield Schwartz and Pat Choate, *Being Number One: Rebuilding the U.S. Economy* (Massachusetts, 1980), p.41.

[608] Henry Kaufman, quoted in John M. Berry, 'Economists Voice Despair,' *WP*, 24 February 1980.

preferable to the untested ideas of the anti-statist right. Convinced by Vogel and others that Japan's activist state (often referred to as 'Japan Inc.') was a key ingredient to its economic success, in the second half of the 1980s, influential Democratic Party officials, members of the business community, and union leaders put together their own industrial policy proposals.

Industrial Policy and the 1980 Elections

At the same time as Ronald Reagan was loudly proclaiming that 'this once powerful industrial giant' had a 'lower rate of productivity that any of the other industrial nations' and arguing that a change to 'federal regulations in tax structure' would restore growth, a different — but still producer-orientated — approach was gathering support within the Democratic Party.[609] In May 1980, Edward Kennedy (in his campaign for his party's presidential nomination) called for a 'Marshall Plan for America' and announced that he would, if elected, create a public-private 'American reindustrialization corporation.'[610] Calling for a similar approach, three months later, a Senate Democratic Party task force also recommended the establishment of a government-owned Industrial Development Bank and called for a 'renewed [federal government] commitment...to develop new transportation, steel production, energy and machine tool technologies, to maintain our leadership in microelectronics, biotechnologies, and space applications.' [611] Though they could not agree on whether it should help troubled industries or provide assistance to emerging industries, by the summer of 1980 influential members of the Democratic Party were not pressing for *laissez-faire* tax cuts, but instead were pushing for a national industrial policy.

It was not just members of the Democratic Party who spent the summer of 1980 arguing that a national industrial policy would breathe new life into America's industrial economy. In July 1980 — the same month that *Businessweek* published its 'Reindustrialization of America' issue — the president of the National Association of Manufacturers (NAM) and the chairman of Bethlehem

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609 These quotes are taken from Ronald Reagan's notorious 'states' rights' campaign speech at the Neshoba County Fair in Mississippi. While particular sections of the speech subsequently attracted a great deal of attention, newspapers did not print full transcripts and the speech was not professionally recorded. In 2007, an amateur recording of the speech emerged. For this recording, see '1980, August 3 - Ronald Reagan - Neshoba County Fair – states' rights speech - closed captioned', *YouTube*, www.youtube.com/watch?v=450DA4AZG6U [accessed 12 September 2019]. For a transcript, see 'Transcript of Ronald Reagan's 1980 Neshoba County Fair speech,' *The Neshoba Democrat*, 15 November 2007, www.neshobademocrat.com/Content/NEWS/News/Article/Transcript-of-Ronald-Reagan-s-1980-Neshoba-County-Fair-speech/2/297/15599 [accessed 12 September 2019].

610 The reindustrialisation corporation that Kennedy proposed was a public-private agency with public and private sector board members. Provided with $1 billion of public-sector seed funding, Kennedy envisaged that the corporation would provide loan guarantees and grants to foster economic development. Bill Stall, 'Sen. Kennedy Calls for a New Partnership,' *LA Times*, 21 May 1980.

611 Peter Behr, 'Senate Tells Congress Positive Industrial Policy a Must', 8 August 1980, *WP*.

Steel, lent their support to a 'competitive industrial strategy,' while Ford chairman, Phillip Caldwell, told the *Harvard Business Review* that he believed that 'management, labor, and government should combine to support a coherent national industrial policy.'[612] America's leading business groups and labour unions went one step further. In the summer of 1980, the U.S. Chamber of Commerce and the National Association of Manufacturers developed their own industrial policy packages. Seeking to publicise their revitalisation programmes, the NAM and Chamber of Commerce distributed promotional material to 'opinion molders' as well as pushing them at both the Democratic and Republican Party National Conventions.[613] Adopting a similar position, but calling for more directly interventionist public policies, in August 1980 the AFL-CIO issued a statement outlining its own reindustrialisation programme.[614]

There was no need to heap pressure on the White House. By 1980 many members of the Carter administration had concluded that the crisis-management approach adopted in response to New York City and Chrysler's problems was insufficient. Believing that these crises were indicative of endemic problems that were affecting the whole of the American economy, in the summer of 1979, Patrick Caddell, the president's chief pollster, advised Jimmy Carter that 'the growth and productivity needed [to] sustain the U.S. and its standard of living are not possible without massive capital formation.'[615] Warning that 'America is doomed if productivity growth continues to be negative,' Caddell urged Carter to 'look to Japan and Germany for the success that labor-business cooperation has wrought', to take action to 'spur technological innovation', and to 'set up committees of leading private elites and public officials to recommend strategies and trade-offs on particular problems.'[616] While the terms 'reindustrialisation' and 'industrial policy' had yet to enter the Washington vernacular, Caddell was essentially calling for the same approach.[617]

Initially, the Carter administration did not act on Caddell's recommendations. In December

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612 Otis Graham, *Losing Time*, p.47; Malcolm S. Salter, 'The Automobile Crisis and Public Policy: An Interview with Phillip Caldwell,' *HBR*.

613 Waterhouse, *Lobbying America*, pp. 239-240.

614 At the centre of this plan was a National Reindustrialization Board, consisting of representatives from government, organised labour, and the business community, as well as a public-private Reindustrialization Financing Corporation, charged with providing direct or guaranteed loans to reindustrialization projects approved by the National Reindustrialization Board. 'Statement by the AFL-CIO Executive Council on Reindustrialization', August 1980, Industrial Policy [1], Container 43, Records of the Council of Economic Advisors, JCPL.

615 Patrick Caddell, 'What is to be Done?', 17 June 1979, Box 36, Susan Clough Papers, JCPL.

616 *Ibid.*

617 The sociologist Amitai Etzioni claims that he coined the term reindustrialization in 1978 when he was a visiting scholar at the Brookings Institution. Amitai Etzioni, 'Choose We Must', in Carl A. Bramlette Jr. and Michael H. Mescon (eds), *The Individual and Future of Organizations*, Volume 9, 1978, pp.25-40; Amitai Etzioni, *My Brother's Keeper: A Memoir and a Message* (Maryland, 2003), pp.139-140. Though it was commonly used in Japan and Europe throughout the post-Second World War period, in the U.S. the term 'industrial policy' only became widely used in the 1980s. Sidney Blumenthal, 'Drafting a Democratic Industrial Plan', *NYT*, 28 August 1982.

1979, Carter and his chief domestic policy advisor took the decision to pursue a 'modest package of human and economic capital development incentives to address long-term productivity problems', but decided against proposing a major supply-side stimulus package until congressional opinion changed or the economy worsened.[618] But as the U.S. economy slipped into recession and the Democratic Party's primary season approached, the Carter administration reconsidered and began searching for new long-term economic policies that would 'promote industrial investment and growth, to enhance productivity'.[619] Persuaded that it had found a 'political economic strategy that could neutralize the economic issue this Fall,' in February 1980 the White House asked a special taskforce to examine 'the question of developing a coherent industrial policy for different sectors of the economy'.[620]

The industrial policy task force's job was not straightforward. Within the Carter administration, there were many opinions about the form a national industrial policy should take. Accordingly, members of the task force frequently received long, often contradictory, suggestions from their White House colleagues. Debating issues that would continue to divide industrial policy proponents throughout the 1980s, the Assistant Secretary of Labor, for example, recommended that the federal government should establish a bank to support high growth industries, while a member of the Treasury made clear that he explicitly opposed an industrial policy in which the government 'pick[ed] or fund[ed] winners.'[621] Beset with recommendations and extremely detailed State Department studies of the French, German, Swedish and Japanese approach to industrial policy, the taskforce advised Carter's chief domestic policy advisor that it was unlikely to complete its study until the autumn.[622]

Though the industrial policy taskforce wanted more time to consider the issues, because of intraparty political pressure, the White House did not want to delay the release of its industrial policy programme. In June, Edward Kennedy announced that he would see the Democratic Party presidential nomination race through to the party's convention and would vigorously lobby to make sure that his major economic proposals were incorporated into the party's platform.[623]

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618 Stuart Eizenstat to Jimmy Carter, 11 December 1979, Office of Staff Secretary; Series: Presidential Files; Folder: 12/17/79 [2], container 142, JCPL.
619 G. William Miller to JC, 30 July 1980, 'Background for Meeting With Economic Advisors' Collection: Office of Staff Secretary; Series: Presidential Files; Folder: 7/31/80 [2]; Container 170, JCPL.
620 Stein, 'The Locomotive Loses Power,' p.85; G. William Miller to Jimmy Carter, 15 February 1980, Records of the Council of Economic Advisors, Charles Schultze, Subject Files, *JCPL,* Box 80.
621 Peter Soloman to William Miller, 15 July 1980, Records of the Council of Economic Advisors, Charles Schultze, Subject Files, Box 80, JCPL,
622 Stuart Eizenstat to Jimmy Carter, 14 June, 1980, *Ibid.*
623 'Kennedy Backers Set For Dem Platform Fight,' *The Pittsburgh Press*, 21 June 1980.

The chances of Kennedy securing the nomination were slim. But, there was a strong possibility that a divisive convention would create lasting splits among key party factions and would damage Carter's subsequent campaign.[624] Desperate to unify the party and win-over disillusioned constituencies, at the beginning of August (just days before the Democratic National Convention), Carter announced in a speech to the National Urban League that he would soon unveil a new, long-term, economic recovery plan.[625]

The Carter administration's announcement came at the end of August 1980. Declaring that 'increasing productivity is the foremost economic challenge of the 1980s,' Carter outlined a complex package of policies, which included a $15.2 billion tax cut for businesses (linked to capital investment), a $12.4 billion income tax cut for low earners, $3.6 billion in aid for financially distressed communities, additional federal funds for scientific research and technological development, as well as tax changes designed to help 'small businesses and new industries'.[626] However, there was more to Carter's economic renewal plan than just new fiscal policies. Embracing the sector specific policies championed by his political rivals, organised labour, and the business community, the package also promised to 'create a forward-looking partnership between government and the private sector' through a new 'Economic Revitalization Board,' an 'industrial development authority,' and to establish new tripartite committees for major industries, in which representatives from government, organised labour, and the business community would come together and devise solutions to problems afflicting particular industries.[627]

Carter's long-term economic revitalisation programme helps confirm the idea that the administration was 'slouching towards the supply-side' in 1979 and 1980.[628] But, contrary to what

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[624] Organised labour had never been particularly keen on Carter and by 1980 the leaders of America's most powerful labour unions were dissatisfied with the president and his economic policies. Some, like the UAW's Douglas Fraser, expressed their discontent with the administration by endorsing Edward Kennedy. Others, like the AFL CIO's Lane Kirkland, supported Carter but spent the spring of 1980 repeatedly urging the President to 'steal a theme' from his rivals and make the 'reindustrialization of America' a central theme in his campaign.' Timothy Stanley, *Kennedy Vs. Carter: The 1980 Battle for the Democratic Party's Soul* (Lawrence, 2010), p.66; Landon Butler to Jimmy Carter, 9 May 1980, Records of the Council of Economic Advisors, Charles Schultze, Subject Files, JCPL, Box 80.

[625] Edward Walsh, "Carter Calls GOP Tax Plan 'Poison,'" *WP*, 7 August 1980.

[626] John M. Berry, 'President Introduces Economic Revival Plan,' *WP*, 29 August 1980.
For a detailed breakdown of the Carter administration's economic renewal plan, see 'White House Fact Sheet on Carter's Economic Program for the 80's,' *NYT*, 29 August 1980.

[627] Jimmy Carter, 'Economic Renewal Program Remarks,' 28 August 1980, *Public Papers of the Presidents of the United States: Jimmy Carter 1980-1981 II*, p.1587.

[628] A number of scholars have argued that many of the Reagan administration's market-orientated, *laissez-faire* policies originated with the Carter administration. As Chapter 1 illustrated, there are elements of truth to this narrative, particularly with regards to urban policy. However, those who have made this argument in relation to

some scholars have implied, there was nothing conservative about this slouch. Indeed, the policies that Carter proposed were more akin to the 'big government', producer-orientated policies of Japan than they were to anything proposed by anti-government economists and policy entrepreneurs. Unlike Reagan and his aides, for example, the Carter administration did not believe that the business community would automatically use tax savings to make capital investments. Attempting to channel public and private money into areas that would increase productivity and international competitiveness, the revitalisation programme included significant tax incentives for capital investments, increased federal aid for scientific research and technological development as well as promises of further resources for the new public-private industrial development authority.[629] Instead of shrinking the state's role in economic and industrial affairs, through its Economic Renewal Program the Carter administration was proposing an expansion of the federal government's ability to direct economic and industrial development, while also establishing closer formal links and lines of communication between government, business, and labour.

Immediate responses to Carter's industrial policy proposals were fairly positive. The day after the president's speech, the *New York Times* described the proposed initiatives as having 'great potential' and commended Carter for 'reject[ing] a narrow big business approach,' while the *Washington Post* printed details of the plan on its front page.[630] Just as importantly, the programme also won the support of important political and geographical constituencies. The Governor of New York, for example, compared the proposals to Franklin Roosevelt's response to the Great Depression, Edward Kennedy called it a 'step in the right direction,' the chair of the U.S. Conference of Mayors described it as the 'first step towards the kind of national investment policy our cities need and our economy demands,' the president of the NAM announced that he was 'pleased with the thrust of a program,' and the president of the AFL-CIO observed that it was a 'significant improvement' upon the alternatives offered by Carter's rivals.[631] At this early stage therefore, the White House's Economic Revitalization Program seemed to have achieved its primary goal of 'impart[ing] new vitality to Jimmy Carter's campaign for a second term'.[632]

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economic policy have tended to conflate the supply-side policies of the two administrations under one banner. See, especially, Bruce Schulman, 'Slouching Toward the Supply Side.'

629 Edward Cowan, 'Carter Outlines Economic Plan,' 29 August 1980, *NYT*.

630 Steven Rattner, 'Bid to Widen Voter Support', *NYT,* 29 August 1980. Lee Lescaze, '$27.6 Billlion in '81 Tax Cuts Would Boost Deficit,' 29 August 1980, *WP*.

631 'Leftovers or Another New Deal,' *Indianapolis Star*, 29 August 1980.

632 Cowan, 'Carter Economic Renewal Plan,' *NYT*.

The media attention that various industrial policy proposals received during the summer of 1980 caused concern in the Reagan presidential camp. After Carter's proposals were unveiled, Ronald Reagan publicly heaped scorn on the initiative, describing it as a 'short-term political quick fix.'[633] Behind the scenes though, Reagan's, campaign team were worried. The Vice Chairman of the Reagan advertising campaign, in particular, believed that a 'foreward [*sic.*] looking' industrial policy or 'reindustrialization scheme' could 'generat[e] a great deal of excitement and enthusiasm' on the campaign trail.[634] Concerned that voters might come to view the Democratic Party, rather than the Republican Party, as the party of economic ideas, in the summer of 1980 Reagan's campaign team drafted a set of industrial policy initiatives and developed summaries of these proposals so that details could be incorporated into pre-existing stump speeches and inserted into television advertisements.[635]

Reagan's campaign team need not have been so concerned. After the media fanfare that greeted its announcement, there was very little public discussion of the Carter administration's programme in the final months of the 1980 presidential campaign.[636] In part, this suited Carter. Attempting to deflect media attention from the disastrous economic developments of the previous years, Carter's campaign team produced speeches that concentrated on 'Reagan's liabilities' and skirted over what Carter 'was going to do for the next four years.'[637] Even on those rare occasions when members of the administration tried to explain its economic policy vision, the sheer complexity of the revitalisation programme ensured that it did not become a hot topic of conversation.[638] These factors, in addition to the fact that Carter made little attempt to implement its key initiatives before the election, ensured that nothing came of the

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633 Cowan, 'Carter Outlines Economic Plan.'
634 Phil Joanou to Bill Casey, 9 July 1980, William J. Casey Papers, Box 286, Hoover Institution.
635 The speech inserts contained some standard *laissez-faire* initiatives such as proposals for large tax reductions and deregulation. However, they also contained policies which were designed to help channel targeted aid to 'high-technology industries critical to [America's] future industrial development.' See 'Speech Inserts', William J. Casey Papers, Box 286, Hoover Institution.
636 In many historical narratives of the Carter administration, no mention is made of the economic revitalization programme. Although he was heavily involved in publicising the plan at the time, in his recent history of the administration, Stuart Eizenstat makes no mention of the administration's industrial policy programme. Instead, in talking about the 1980 campaign he repeats the conventional wisdom that Carter 'presented no attractive new [Economic policy] alternative, only thin gruel and more of the same.' Stuart Eizenstat, *President Carter: The White House Years* (New York, 2018), p.876.
637 Stuart Eizenstat, Exit Interview, 10 January 1981, p.6, JCPL, www.jimmycarterlibrary.gov/assets/documents/oral_histories/exit_interviews/Eizenstat.pdf [accessed 15 February 2018]; For a characteristic example of this approach, see Jimmy Carter, 'National Press Club Address,' 14 October 1980, www.loc.gov/rr/record/pressclub/carter.html [accessed 19 February 2018]
638 During a meeting with the National Cable Television Association, Jimmy Carter's chief domestic policy advisor spent more than 20 minutes trying to explain the Carter administration's Economic Revitalization Program. Stuart Eizenstat, 'National Cable Television Association,' *CSPAN*, 1980, electronic copy in author's possession.

administration's 'tentative step towards a national industrial policy.'[639] With industrial policy failing to gain traction among the voting public, the Reagan campaign quietly shelved its proposals.

The Carter administration's commitment to its economic revitalisation programme is difficult to gauge. After all, the programme was unveiled at the height of the 1980 campaign, and was designed to be implemented only after the election. It is reasonable to assume, therefore, that electoral and partisan — rather than economic — considerations were behind the administration's embrace of industrial policy. There can be little doubt that immediate political realities helped determine the timing of Carter's unveiling of the programme. However, this does not mean that the administration's embrace of a 'sector specific, microeconomic approach' was purely the product of political expediency.[640] If one looks closely at how the administration tried to resolve the automobile crisis and at internal discussions about how to boost national productivity rates, it becomes clear that Carter's economic revitalisation proposals represented only a modest extension of policies already in place. Given the economic nose-dive that was about to occur, it does not require much imagination to think that the Carter administration would have pushed ahead with its Economic Revitalization Programme during a second term. This was not something that could be said of Carter's successor, however.

Revolution and Recession

Ronald Reagan's election victory represented a significant blow to those who believed that America needed a national industrial policy. Not only did the victorious Reagan see no need for more coordinated microeconomic policies or centralised economic and industrial planning, but he also arrived in Washington with a very clear economic policy script.[641] There was little room for an activist industrial policy in this agenda. Indeed, according to the brand of anti-statist supply-side logic that Reagan and his closest advisors embraced with religious-like fervour, restoring national productivity and boosting the international competitiveness of U.S. firms was simply a matter of shrinking the state and allowing the market to operate unhindered. Or, as

[639] 'A leaf out of Europe's Industrial Book.' *The Economist*, 9 August 1980. Though Carter announced that the president of the AFL-CIO, and the CEO of the chemical research company DuPont, would chair the Economic Revitalization Board, the body never met. Similarly, the administration never translated any of its economic revitalisation proposals into legislation.
[640] Collins, *More*, p.173.
[641] See George J. Church, 'Nation: Conservative Conservatism', 22 September 1980, *Time*.

Reagan succinctly put it in his inauguration address, 'in this present crisis, government is not the solution to our problem; government is the problem.'[642]

The already dim hopes of industrial policy advocates darkened further during the Reagan administration's first six months. Desperate to make the most of its presidential honeymoon, within his first fifty days in office, the Reagan administration delivered to Congress a budget containing deep spending reductions, and unveiled a detailed economic plan that spelled out the cocktail of regulatory, monetary, and fiscal policies that formed the bedrock of the administration's 'program for economic recovery.'[643] Since the Democratic Party had a congressional majority, approval of this programme was by no means guaranteed. However, the new administration, devoted prodigious amounts of time and energy trying to sell the programme. Indeed, in the winter of 1980 and the early months of 1981, Reagan and his closest aides briefed almost every possible constituency or interest group on its economic plans and struck deals with a number of southern Democrats.[644] As a result of this intense lobbying effort and its willingness to adapt the legislation to win over important political constituencies, in the summer of 1981 the Reagan administration was able to push the two key pillars — tax and spending cuts — of its *laissez-faire*, supply-side economic programme through Congress.[645]

When Ronald Reagan signed tax and spending cuts into law in August 1981, the new administration could reasonably claim that it had managed to implement the bulk of its sweeping economic agenda in just nine months. A remarkable amount had certainly been achieved. Between his inauguration and the autumn of 1981, Reagan issued executive orders repealing dozens of government regulations, imposed a federal hiring freeze, secured congressional approval for the largest tax cut in American history, and signed into law the biggest-ever single-

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642 Ronald Reagan, 'Inaugural Address', January 20, 1981. Online by Gerhard Peters and John T. Woolley, *The American Presidency Project*. http://www.presidency.ucsb.edu/ws/?pid=43130 [accessed 2 March 2018].

643 Steven R. Weisman, 'Reagan's First 100 Days,' *NYT*, 26 April 1981; 'America's New Beginning a Program for Economic Recovery,' 18 February 1981, www.fraser.stlouisfed.org/files/docs/meltzer/reagan_americas_new_beginning_19810218.pdf [accessed 13 March 2018].

644 The president concentrated his attention on members of Congress and the American public. Between the November election and the inauguration, Reagan courted legislators in three separate trips to Washington. Selling the same vision to the public, 16 days after his inauguration, Reagan made a televised, prime-time address on the economy. For smaller, more specialised constituencies, key aides were dispatched. A Treasury official, for example, estimated that the Treasury Secretary, Donald Regan, spent 'at least 60 hours' in April 1980 'promoting the President's Economic Program.' John F. Kelly to Donald Regan, 30 April 1981, Box 138, DTR Papers. Morgan, *Reagan*, p.177; Ronald Reagan: 'Address to the Nation on the Economy', 5 February, 1981. Gerhard Peters and John T. Woolley, *The American Presidency Project*. www.presidency.ucsb.edu/ws/?pid=43132.

645 For more on the political deal-making that led to the enactment of these bills, see Ellie McGrath, 'Tracking the Great Persuader,' *Time* 10 August 1981; Walter Isaacson, 'Yeas 238-Nays 195, *Time*, 10 August 1981; Prasad, *Starving the Beast*, pp.108-21.

year cut in non-military spending.[646] For a small number of anti-government ideologues — including Reagan — this was cause for celebration. But, just as in 1980, very few shared this view. Indeed, when it became clear that the 1981 tax cut would not provide 'the painless quick fix that the President promised during his campaign and the early weeks of the Administration', the national mood changed.[647] For the White House, this was terrible news; for industrial policy advocates, it opened a new window of political opportunity.

Before Reagan signed the tax cuts into law, the American economy slipped into recession. This brought to an end the shortest period of economic expansion in post-Second World War history. Although inflation rates began to fall in the autumn of 1981, unemployment climbed to double figures in September 1982 and stubbornly remained there for the next 10 months.[648] Making matters worse, near-record high interest rates paralysed financial markets and heaped further economic pain on the already struggling automobile, steel, and home-building industries. In 1982 alone, 25,346 businesses went bankrupt, a figure larger than in any year since the Great Depression, while virtually every major industry laid-off workers.[649] To be sure, the picture was not uniformly grim. In fact, increases in military spending and soaring oil prices helped create localised booms in a small number of southern cities including Houston.[650] But these pockets of prosperity were the exceptions not the rule. In 1982, there were considerably more Youngstowns than there were Houstons.[651]

In spite of the steep recession, the Reagan administration was determined to 'stand firm' behind its economic recovery programme and unwilling to use fiscal or monetary policy levers to provide a short-term economic stimulus.[652] This dogmatic approach was one that free-market intellectuals celebrated. However, it was not a popular position among the majority of the American public. Indeed, as the national economy once again slipped into recession, support for Reagan and his economic policies fell sharply.[653] In March 1982 a *New York Times*/CBS News

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646 Weisman, 'Reagan's First 100 Days,' *NYT*; Morgan, *Reagan*, pp.180-1.
647 Charles Alexander, 'Making it Work', *Time*, 21 September 1981.
648 Rossinow, *The Reagan Era*, p.90.
649 Charles Alexander, 'The New Economy', 30 March 1983, *Time*; John M. Berry, 'Report Bleak on Recovery', *WP*, 4 December 1982.
650 Charles Alexander, 'Making it Work', *Time*, 21 September 1981; Gavin Benke, *Risk and Ruin: Enron and the Culture of American Capitalism* (Pennsylvania, 2018), pp.22-30.
651 With nearly 30 percent of its residents out of work, in October 1984, Youngstown had the highest unemployment rate in the country. Mark Shields, 'The Pain of Youngstown', *WP*, 26 October 1984.
652 Denis S. Karnosky to Donald Regan, 'Source of the Economic Recession', 2 November 1981, Box 114, Folder 3, DTR Papers, Library of Congress; Office of the Treasury Secretary, 'State of the Economy', Box 158, Folder 1, *Ibid.*
653 In March 1982 Reagan's approval rating was lower than Jimmy Carter's had been after a similar period in office. Adam Clymer, 'Reagan Evoking Rising Concern, New Poll Shows', *NYT*, 19 March 1982.

Poll indicated that 53 percent of Americans supported the elimination of the last 10 percent installment of the massive tax cut (32 percent opposed).[654] At the same time, other opinion polls also revealed rising support for alternative economic approaches. A *Businessweek* poll taken in early 1983, for example, found that 62 percent of respondents were more likely to vote for a Democratic Party presidential candidate who favoured 'new and non-traditional approaches' to economic policy than they were to support Ronald Reagan and his *laissez-faire* supply-side economic policies.[655] The new administration's honeymoon period was well and truly over.

Many of America's blue-collar workers were unwilling to wait until the 1984 presidential election for a change of economic course. Horrified by the plant closures that were sweeping the nation, the deep federal budget cuts, and Ronald Reagan's decision to fire 11,000 striking air traffic controllers, the nation's largest labour union, the AFL-CIO mobilised. Bringing together a diverse coalition of unions and civil rights, religious, and civic groups, in September 1981 the union staged a mass protest event in Washington designed to highlight opposition to the Reagan administration's economic policies. The resulting event, Solidarity Day, rivalled any protest march staged by the major social movements of the 1960s. With somewhere between 260,000-500,000 people in attendance (estimates vary), not only did more people come to Washington for Solidarity Day than the 1963 March on Washington or the 1967 March on the Pentagon, but it was also the largest U.S. labour march ever held.[656] In the autumn of 1981, the labour movement and the liberal-labour coalition was anything but moribund and 'Reaganomics' had many more vociferous opponents than supporters.

Solidarity Day was more than just a 'political rally, strike meeting, religious revival, and outdoor picnic, under chilly skies.'[657] The event provided a highly visible demonstration of the labour movement's continued ability to unite an array of unions, women's groups, and civil rights

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654 *Ibid.*

655 Business Week/Harris Poll, December, 1982, *IPoll Database*, [accessed 26 March 2015]. Less specific presidential election trial polls also demonstrated growing disenchantment with the administration's performance. In December 1982, for example, 52 percent of respondents to a Gallup Poll declared that they 'would like to see' Senator John Glenn or Carter's Vice-President Walter Mondale win the 1984 presidential election. By contrast, fewer than 40 percent of respondents (36 percent when Mondale was Reagan's opponent and 35 percent when Glenn was his opponent) said that they would like Ronald Reagan to win the election. Gallup Poll, December 1982, *IPoll Database*, [accessed 8 June 2018].

656 In support of the PATCO strike, many of the AFL-CIO supporters who attended Solidarity Day boycotted domestic air travel. As a result, many of Solidarity Day's attendees travelled hundreds of thousands of miles by car, bus, or train to be at the event. Warren Brown, 'Solidarity Day May Fall Prey to Air, Hotel Union Strikes', *WP*, 7 September 1981. This account relies heavily on Timothy Minchin and Lane Windham's research. See, Timothy J. Minchin, "Together We Shall Be Heard: Exploring the 1981 'Solidarity Day' Mass March", *Labor: Studies in Working-Class History of the Americas* 12 (September 2015), pp.75-96; Timothy J. Minchin, *Labor Under Fire: A History of the AFL-CIO Since 1979* (North Carolina, 2017), pp.73-100; Windham, *Knocking on Labor's Door*, pp.178-181.

657 Richard L. Strout, quoted in *Ibid*, p.88.

groups in a period which is usually portrayed as one of decline, fragmentation and rising individualism for working-class Americans.[658] Making use of the political networks that had been established, in 1982, 1983, and 1984, the AFL-CIO arranged repeat marches. More immediately, as the AFL-CIO organisers had hoped, discontent with America's economic trajectory translated into electoral gains for the Democratic Party. In the November mid-terms, Democrats gained six governorships, 27 House of Representatives seats, and one Senate seat.[659] Emboldened by these political successes, labour organisations and members of Congress set about devising detailed economic policy proposals for the 1984 elections. It was in this context that industrial policy made an unlikely return to centre stage.

The Resurgence of the Industrial Policy Movement

For many elected officials, labour leaders, and members of the business community, developments in 1981 reinforced the case for a national industrial policy. Slack consumer demand made it very difficult for many of America's largest corporations to turn a profit, while high interest rates made borrowing on financial markets either impossible or prohibitively expensive. The nation's largest corporations were now faced with the same problems that America's largest cities had faced half a decade earlier. In 1981 and 1982, plant closures and job layoff announcements came thick and fast. Though the White House was determined to hold its course, many were concerned that the deep recession would inflict lasting damage upon America's largest industries and companies, leaving them unable to make the capital investments necessary to improve their products and productivity. Some, such as the *New York Times*, went further and predicted that the deep recession was on the verge of spiralling into a depression.[660] In such an environment, even those who would normally have been vehement critics of government intervention in the marketplace believed a dramatic public policy rethink was required.

In 1980, industrial policy enthusiasts could read a great deal about Japan's developmental state. However, most academics remained distant from political discussions about the establishment of an American industrial policy, at least until the summer of that year. By this time elected officials,

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[658] For declension centred narratives of organised labour during the 1970s, see Cowie, *Stayin' Alive*; Kim Moody, *An Injury to All: The Decline of American Unionism* (London, 1988).

[659] David S. Broder, 'Elections Boost Democratic Strength', *WP*, 3 November 1982. In one December 1982 poll, 25 percent of respondents who voted for Democratic Party congressional candidates in the mid-term elections stated that they believed that the Reagan administration's 'policies have gone too far in cutting spending and taxes'; 15 percent of the respondents also said that they believed the Reagan administration 'ha[d] no real understanding of economic problems.' Garth Analysis Poll, December 1982, *IPoll Database*, [accessed 8 June 2018].

[660] 'There's a Word for a Moribund Economy', 21 March 1982, *NYT*.

business organisations, and labour unions had already devised their own proposals. As a result, the handful of intellectuals who wrote books or articles proposing an American industrial policy exerted little influence over discussions at the start of the decade. Two years later however, there was a plethora of different books and articles which specifically addressed the question of what an American industrial policy should look like. Perhaps more importantly, the authors of these works had no reservations about interacting with elected officials and policymakers. While Ezra Vogel and *Businessweek* had helped to kick-start discussions about industrial policy, in 1982 a new group of policy entrepreneurs and academics helped restart the conversation and provided advice and guidance to interested policymakers.

The thinkers who were the most influential in the resurgent industrial policy movement were Robert Reich, a public policy professor at Harvard's Kennedy School of Government, Lester Thurow, a professor of management and business at the Massachusetts Institute of Technology, and Felix Rohatyn, the Manhattan investment banker who had risen to public prominence during the New York City fiscal crisis. As we will see Reich, Thurow, and Rohatyn disagreed on a number of specific issues. But, in their speeches, articles and books, all three advocated broadly similar activist economic policy prescriptions for restoring growth and forcefully argued in favour of greater federal government involvement in sectoral affairs. In 1980, industrial policy had been propelled forward by labour unions, trade associations, and the Carter administration; in 1982, it was these three that did the most to shape calls for a national industrial policy.

The first of these thinkers to come out in support of industrial policy was Lester Thurow. As an economic advisor to George McGovern and Jimmy Carter, Thurow had helped to co-author several income and wealth redistribution plans and become a national figure in the process. As the national economy deteriorated, he began to incorporate discussions of productivity rates, Japan's developmental state, and industrial policy into his work. Building on the writings of Ezra Vogel, in his 1980 book, *The Zero-Sum Society*, Thurow maintained that 'major investment decisions have become too important to be left to the private market' and argued that 'Japan Inc. needs to be met with U.S.A. Inc.'[661] Though he did not precisely spell out his vision of an American industrial policy, in *The Zero-Sum Society,* Thurow did make it clear that he did not believe that America should help permanently depressed industries in the way that Japan did.[662]

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661 Lester Thurow, *The Zero-Sum Society: Distribution and the Possibilities of Economic Change* (New York, 1980), p.192.
662 Thurow outlined his vision of an American industrial policy most clearly in a 1984 speech. See Lester C. Thurow, 'The Need for Industrial Policies: The Case for the U.S.A.', *Annals of Public and Cooperative Economics* (1984), Volume 55 (1), pp.3-32.

Indeed in passages that would have made depressing reading for residents in manufacturing communities, Thurow firmly recommended that the U.S. state should take actions to increase investment in growing (or sunrise) industries and decrease investment in declining (or sunset) industries.[663] Seeking to contribute to and shape public policy debates, in 1981 and 1982, Thurow wrote a number of articles for the *New York Times* critiquing the economic policy ideas of the Reagan administration and detailing his own industrial policy vision.[664]

Although he had not held advisory positions on presidential campaigns, Felix Rohatyn's support for greater federal government involvement in the marketplace and microeconomic affairs went back even further than Thurow's. During the 1973-75 recession, Rohatyn had written a lengthy *New York Times* column calling for the revival of the New Deal-era Reconstruction Finance Corporation (RFC). Arguing that a 'major bankruptcy either in the industrial or financial sector is to be avoided at all costs', Rohatyn made the case that a new RFC could step in to prevent major bankruptcies as well as provide targeted assistance to stimulate the growth of certain sectors of the economy.[665] The tepid economic recovery of the mid-1970s ensured that the call for a new RFC came to nothing. However, Rohatyn did not change his opinions. Indeed, his first-hand experience of the New York City's fiscal crisis only helped to strengthen his views. Making the most of the public platform created by his growing fame as the 'saviour' of New York, between 1980 and 1983, Rohatyn (alongside providing advice on fiscal reform to many cities) delivered public speeches and wrote articles in major publications, in which he repeated his call for a new RFC.[666]

Rohatyn's vision of a national industrial policy was very different from Thurow's. Perhaps unsurprisingly given his experience in New York City, Rohatyn believed that a national industrial

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[663]Thurow, *The Zero-Sum Society*, pp.86-7. *The Zero-Sum Society's* call for a national industrial policy has been missed by most historians. In his influential *Age of Fracture*, Daniel Rodgers overlooks the specific nuances of Thurow's policy prescriptions and examines only on the pessimism of his general outlook. In his overview on the 1970s, Edward Berkowitz is more alert to the specifics behind Thurow's ideas. Despite this, Berkowitz does not dwell on the industrial policy movement and follows the lead of other historians by dismissing industrial policy as a 'popular bandwagon among liberals.' Rodgers, *Age of Fracture*, pp.69-70; Berkowitz, *Something Happened*, p.164.

[664] See, for example, Lester C. Thurow, 'Economic Affairs: Other Countries Are as Smart as We Are', 5 April 1981, *NYT*; Lester C. Thurow, 'Economic Affairs: Japan has a Better Way', *NYT*, 8 February 1981; Lester Thurow, 'Economics First', 15 November 1982.

[665] Felix G. Rohatyn, 'A New R.F.C. Is Proposed For Business', *NYT*, 1 December 1974.

[666] At the time, there was much speculation that Rohatyn was trying to position himself as Secretary of the Treasury in a future Democratic Party presidential administration. Felix G. Rohatyn, 'An R.F.C. Could Help New York City Transit', *NYT*, 29 June 1981; Felix G. Rohatyn, 'Alternatives to Reaganomics', *NYT*, 5 December 1982; Felix G. Rohatyn, 'The State of the Nation's Industry — All Talk and No Action', *WP*, 20 July 1980; Felix G. Rohatyn, 'The Coming Emergency and What Can Be Done About It', *New York Review of Books*, 4 December 1980; Felix G. Rohatyn, 'The Older America: Can it Survive?', *New York Review of Books*, 22 January 1981. In 1983, Rohatyn's *New York Review of Books*' essays were compiled into a book. See Felix Rohatyn, *The Twenty-Year Century: Essays on Economics and Public Finance* (New York, 1983).

policy should be geared towards reinvigorating the regions and sectors that had fallen the furthest since the mid-1970s. Modelled around New York City's Municipal Assistance Corporation ,the resurrected RFC that Rohatyn proposed would be capitalised with $5 billion from the U.S. Treasury and authorised to sell up to $25 billion of federally guaranteed bonds.[667] With a board composed of representatives from government, business, and labour, Rohatyn envisaged that the RFC would provide low interest loans with strict conditions to floundering industries and cities. Just like the MAC or the Chrysler Loan Guarantee Board, the new RFC would closely scrutinise financial and operating plans and provide loans on terms that would compel cities and companies to restructure and change their operations.[668] In other words, Rohatyn did not intend that a new RFC would simply be a passive 'bail-out' machine; he expected that it would provide cash infusions that would provide America's largest cities and industries with the time needed to implement the fixes that his public-private agency had devised.

While Rohatyn and Thurow's ideas were widely known, the most influential and prolific industrial policy writer of the 1980s was Robert Reich. Before joining Harvard's Kennedy School, Reich (fresh from Yale Law School) had been Policy Planning Director at the Federal Trade Commission. In the months before he left this federal government post, Reich wrote articles for *The Nation* and *The New Republic* arguing in favour of a national industrial policy.[669] During his first years in Cambridge, Reich expanded upon these arguments in two full-length books — *Minding America's Business* (co-authored with Ira Magaziner) and *The Next American Frontier*.[670] At the centre of both books was Reich's concept of 'paper entrepreneurialism.' Directly critiquing American capitalism, Reich argued that the nation's business leaders had become overly fixated on boosting their firm's quarterly results and stock prices. As a result, he asserted that private sector actors devoted insufficient time and resources to product development and technological innovation. Convinced that a 'laissez-faire approach is both naïve and dangerous for a national economy with slow growth' and that 'paper entrepreneurialism' was a key source of America's economic woes (including the productivity slump), Reich argued that

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667 If created, Rohatyn's RFC would have become one of America's ten largest banks.
668 For a sceptical assessment of Rohatyn's RFC proposal, see Michael Kinsley, 'The Double Felix', *The New Republic*, 26 March 1984. For a more neutral take, see Randall Rothenberg, 'An RFC. For Today: A Capital Idea', *INC. Magazine*, 1 January 1983.
669 Robert B. Reich, 'The True Road to Industrial Renewal', *The Nation*, 7 March 1981; Robert B. Reich, 'Industries in Distress', *TNR*, 9 May 1981; Robert B. Reich, 'The Liberal Promise of Prosperity', *TNR*, 21 February 1981.
670 Ira C. Magaziner and Robert B. Reich, *Minding America's Business: The Decline and Rise of the American Economy* (New York, 1982); Robert B. Reich, *The Next American Frontier* (New York, 1983). Reich also published a number of additional articles. See, Robert B Reich, 'Why the U.S. Needs an Industrial Policy', *Harvard Business Review*, January 1982; Robert B. Reich, 'Beyond Reaganomics', *TNR*, 18 November 1981.

the public-sector needed to intervene.[671] In short, while *laissez-faire* supply-siders insisted that there were too many federal government shackles on the market, Reich believed that there too few.

Reich's vision of a national industrial policy did not just consist of new regulations designed to discourage 'paper entrepreneurship.' Much like Felix Rohatyn and Lester Thurow, he believed that new centralised planning bodies were needed and that public sector funding should be dedicated to stimulating further private sector investment. However, in Reich's view, there was no need for a national industrial policy to make a choice between supporting 'winners' or 'losers.' Instead he believed that a national industrial policy could help all industries and regions adjust to the changed global economic environment of the 1980s. Keen to make clear that he did not believe that declining industries were doomed to failure, Reich argued that a national industrial policy should help struggling companies find new, more profitable market niches and provide assistance to small and large companies with expansion potential. To achieve these aims, Reich proposed that the federal government establish publicly-funded job training programmes, provide low interest, long-term loans for promising businesses, and provide more funding for non-military research and development.[672] To oversee these policies he called for the creation of a national industrial board that would closely monitor the impact of government programmes on the supply-side of the economy.[673]

Within the Democratic Party, Reich's ideas won high-profile support. Gary Hart, a front-runner for the Democratic Party's presidential nomination, described the *Next American Frontier* as one of the 'few books on economics [that] are bold enough to capture one's imagination.'[674] Going even further, former Vice President Walter Mondale, proclaimed that the book was one of the 'most important works of the decade.'[675] Mondale and Hart were not the only supporters of industrial policy. In 1983, all but one Democratic Party candidate for the presidency announced their support for some kind of industrial policy. Although he had already announced that he would not seek the presidency, Edward Kennedy — who met several times with Robert Reich and Lester Thurow in 1981 — was also a strong supporter and declared that industrial policy was an 'exciting, important,…alternative to the schizophrenic, non-economic policy of the

671 Reich and Magaziner, *Minding America's Business*, pp.331.
672 Stuart Auerbach, 'Democrats Seek a Definition: "Industrial Policy" Newest Buzzword', *WP*, 10 June 1983.
673 Robert B. Reich, 'Adjust to Compete', *NYT,* 8 April 1982.
674 Quoted in Charles P. Alexander, 'A Fresh Challenge to Reaganomics', *Time*, 2 May 1983.
675 Quoted in, Ronald Brownstein, 'A Big Idea is Back', *National Journal,* 29 September 1984, p.1829

president'.[676] In an age in which the Republican Party was supposedly the 'party of ideas', it was the Democratic Party that was offering new solutions and proposing bold policy departures.

Although many high-profile members of the party endorsed Robert Reich's ideas, among the Democratic Party's mainstream there were divisions. Some, like Gary Hart, believed that a national industrial policy should concentrate on promoting a 'hi-tech revolution' in the development of advanced technology industries; others, like Edward Kennedy, believed that a national industrial policy should help preserve America's ailing manufacturing industries.[677] These differing visions about the country's economic future, would prove to be fundamental points of contention within the industrial policy movement's second wave. This was far from an ideal situation. To pass legislation, industrial policy advocates would have to devise a set of proposals that all parties were prepared to endorse. In 1983, during the policy formulation stage, though, this had not yet become a stumbling block.

At the same moment as Reich, Thurow, and Rohatyn were publicising their industrial policy vision in op-eds, articles, and books, America's largest labour unions were also developing industrial policy programmes. In 1981, the UAW's leadership energies were focused on pushing for domestic content legislation, while the AFL-CIO's leadership was concentrated on organising Solidarity Day. Behind the scenes however, both unions had also begun formulating their own industrial policy proposals. The UAW's president, Douglas Fraser, was particularly determined to ensure that his union would not become a 'single issue' organisation and believed that 'industrial policy is very, very, very important because this goddamn free market system doesn't work any longer.'[678] Seeking guidance, the UAW invited a number of major industrial policy intellectuals (including Lester Thurow) to its Detroit headquarters. Equally, as co-chair of the Centre for National Policy's bipartisan Industrial Policy Study Group, the AFL-CIO president, Lane Kirkland, had frequent opportunities to talk with both Felix Rohatyn (one of his co-chairs) and Lester Thurow and was therefore well acquainted with their industrial policy ideas.[679]

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[676] Blumenthal, 'Drafting a Democratic Industrial Plan'; Edward Kennedy quoted in 'Democrats Seek a Definition', *WP*, 10 June 1983.

[677] Blumenthal, 'Drafting a Democratic Industrial Plan.' In the early 1980s, Hart was often described by journalists as an 'Atari Democrat' (after the arcade and home video game company) or a 'neoliberal' — terms that were also applied to a number of other young Democrats who insisted that high-tech industry represented the future of the American economy. See: Thomas B. Edsall, '"Atari Democrats" Join Party Conflict Revived by Gains', *WP*, 7 November 1982; Leslie Wayne, 'Designing a New Economics for the "Atari Democrats"', *NYT*, 26 September 1982; Charles Peters, 'A Neoliberal's Manifesto', *The Washington Monthly*, May 1983; William E. Farrell, '"Neoliberals" In Need of Constituents', *NYT*, 24 October 1983.

[678] *Ibid.*

[679] On the Industrial Policy Study Group, see Paretsky, 'Policy Planning Organizations', pp.94-110.

Although the AFL-CIO and UAW talked to a number of industrial policy intellectuals between 1981 and 1983, the two economists most responsible for shaping the industrial policy programmes of America's most powerful labour unions were Barry Bluestone and Bennet Harrison. In the autumn of 1982, Bluestone and Harrison had published *The Deindustrialization of America: Plant Closings, Community Abandonment, and the Dismantling of Basic Industry*.[680] The book was based upon research commissioned by a short-lived coalition of major labour unions, and it examined the causes and consequences of plant closures and job relocations. As such, it was filled with grim statistics about the human and economic costs of the long economic crisis. It was not, however, just a quantitative analysis of recent American industrial history, however. Laying out a vague programme that they described as 'reindustrialization with a human face', in the book's conclusion, Bluestone and Harrison called on the federal government to develop a more coherent corporate and sectoral 'bail-out strategy', provide greater support for community and worker ownership, and implement new plant-closure legislation.[681]

In the spring of 1983, the UAW unveiled its 'Blueprint for a Working America' national industrial policy programme.[682] Using Japan and Chrysler as models, the UAW called for the establishment of a 'National Strategic Planning Board,' the formation of industry-specific 'Strategy Committees,' and the creation of new public development banks.[683] According to the UAW's vision, the union leaders, business executives, and government officials on the 'Strategy Committees' would draft industry specific retooling and restructuring plans which they would send to the National Strategic Planning Board. This board would then recommend changes or approve the rejuvenation plans in their original form. After this, the new public-development banks would provide long-term, low interest loans and other forms of financial assistance to help the industries achieve their goals.[684] In effect, the UAW's vision of industrial policy looked a lot like Felix Rohatyn's. Crucially, however, by suggesting that developmental plans would be

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[680]The study was originally published in 1980 as *Capital and Communities: The Causes and Consequences of Private Disinvestment*. *The Deindustrialization of America* was a condensed and simplified version of this original report that Bluestone and Harrison rewrote in 1982 so that could reach a wider audience. Barry Bluestone and Bennet Harrison, *The Deindustrialization of America: Plant Closings Community Abandonment, and the Dismantling of Basic Industry* (New York, 1982); Barry Bluestone and Bennett Harrison, *Capital and Communities: The Causes and Consequences of Private Disinvestment* (Washington D.C., 1980). For more on the activities and the membership of the coalition that sponsored the report, see Andrew Battista, *The Revival of Labor Liberalism* (Urbana, 2008), pp.85-102.

[681] Bluestone and Harrison, *The Deindustrialization of America*, pp.231-65.

[682] Owen Bieber to John Heinz, 6 June 1983, Box 107, JH Papers.

[683]Steve Babson, *Working Detroit: The Making of a Union Town* (Michigan, 1984), pp.236-9.

[684] *Ibid.*

shaped by social as well as national economic considerations, the UAW's 'Blueprint for a Working America' also incorporated elements of Bluestone and Harrison's ideas.

The AFL-CIO did not release its national industrial policy programme, 'Rebuilding America', until the autumn of 1983. Much like the UAW, the AFL-CIO believed that the U.S.' economic problems stemmed from its failure to adopt Japan's approach to economic planning, industrial development, and trade. Seeking to remedy this situation, the union called for the establishment of a National Industrial Policy Board, which included representatives from organised labour, management, and the federal government, and the creation of a National Development Bank.[685] Taking a lead role, the Industrial Policy Board would identify industries that could benefit from new investment. At this point, the National Development Bank would step in and provide loans or loan guarantees to the industries in question or recommend federal assistance in the form of tax or trade relief.[686] At first glance, the AFL-CIO's proposals were very similar to the UAW's. However, the UAW's national industrial policies were predominantly geared towards large manufacturing industries, whereas the AFL-CIO proposals would also have provided assistance to foster the growth of emerging industries.

As in 1980, during Reagan's first term, prominent segments of the business community also developed their own industrial policy proposals. The National Association of Manufacturers (NAM) once again argued that more needed to be done to resolve 'longer-term industrial problems' and restore the 'high industrial productivity' of the 1960s.[687] Formulating its own 'Regaining America's Industrial Initiative' plan, the NAM called for sectoral specific incentives to encourage capital investment (tax cuts), increased deregulation, reform of antitrust and patent legislation, defense spending cuts, and deficit reduction. With no mention of the need for new government institutions or national development banks, the NAM's proposals differed from those put forward by the nation's leading labour unions. But, in spite of these differences, the 'Regaining Americas' Industrial Initiative Plan' was much closer to the AFL-CIO's 'Rebuilding America Plan' or the UAW's 'Blueprint for a Working America', than it was to the Reagan administration's policies. After all, at a basic level, all three organisations were in favour of targeted and selective assistance to specific industries or municipalities and believed that macroeconomic policies would not reinvigorate the economy.

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685 Hobart Rowen, 'Labor's Bad Idea', *WP*, 6 October 1983.
686 Joseph L. Badaracco, Jr. and David B. Yoffie, '"Industrial Policy": It Can't Happen Here', *Harvard Business Review*, November 1983.
687 National Association of Manufacturers, 'Regaining America's Industrial Initiative: Policies for the Eighties', 1983, National Association of Manufacturers Records, Box 122B, Hagley Library.

The NAM was not the only business organisation that spent the early 1980s advocating industrial policy. In 1983, the Labor-Industry Coalition for International Trade (a group that included the United Steel Workers, the International Association of Machinists and Aerospace Workers, Bethlehem Steel, BF Goodrich, and Westinghouse) announced that the 'industrial policy gap' between the U.S. and other advanced economies left 'American industry at a systematic disadvantage' and called for federal government funding for investment and restructuring as well as 'selective federal government funding of theoretical and applied industrial research, and direct government-sponsored research in universities.'[688] Adopting a similar position, the Aerospace Industries Association recommended the establishment of a 'long-term national R&D policy' and pushed for 'increases in the Export-Import Bank [of the United States'] lending and guarantee authority so that it can provide assistance to exporters consistent with the terms and interest rates offered by foreign governments.'[689]

Many high-profile business leaders also advanced their own industrial policy proposals. In 1982, Henry Ford II (a long-time proponent of economic planning) publicly praised the close relationship that existed between business and government in Japan and argued that there was an 'urgent need for a strategic planning institution with Cabinet responsibilities.'[690] A year after this speech, the managing director and vice president of the investment bank, Lehman Brothers, wrote two columns in the *New York Times* calling for the establishment of a national development bank to support the growth of high-tech sectors of the economy.[691] Convinced that education and research were the secret to economic growth, in 1983 the president of BankAmerica argued in favour of centralised economic planning, government funding of theoretical and applied industrial research, and direct government-sponsored research in universities.'[692] Among America's corporate and financial elite, the Reagan administration's deregulatory push and its tax cuts had not brought to an end calls for economic policy reform.

Though many leading individuals and organisations from the business community voiced support for industrial policy between 1981 and 1984, the most prominent proponent of industrial policy from the business community was Lee Iacocca. Chrysler's boss does not fit the

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688 Paretsky, 'Policy Planning Organizations', p148.
689 Aerospace Industries Association of America, 'The Challenge of Foreign Competition', December 1981, copy in author's possession, p.9.
690 Paretsky, 'Policy Planning Organizations', pp.136-7.
691 Roger C. Altman and Jeffrey E. Gartman, 'Forum: Misinterpreting Chrysler and New York', *NYT*, 9 October 1983; Roger C. Altman and Jeffrey E. Gartman, 'Forum: Why the U.S. Needs a Development Bank', *NYT*, 16 October 1983.
692 In 1998, BankAmerica was bought by NationsBank and Bank of America was formed. Paretsky, 'Policy Planning Organizations', p.145.

historiographical stereotype of an industrial policy advocate. A registered Republican he had spent much of his time at Ford criticising the financial costs imposed on automobile manufacturers by federal emissions, safety, and fuel-economy standards.[693]Nevertheless, he had no sympathy for the Reagan administration's view that 'the free market will take care of the problem' and believed its economic policies were 'old-fashioned.'[694] Instead, Iacocca envisioned a producer-orientated public sector that was focussed on solving the economic and industrial problems that America faced. According to this vision, the state would play an important role in assisting industries and corporations ameliorate their problems and boost their international competitiveness without interfering in their operations.[695] Reflecting this, in 1982 and 1983, Iacocca repeatedly criticised the Reagan administration's policies and called for the establishment of a limited national industrial policy.

In 1984 and 1985, it was possible to read about Iacocca's vision of a national industrial policy in practically every major bookstore. Indeed, the 'Make America Great Again' chapter of his best-selling autobiography was entirely devoted to detailing his ideas about how the federal government could help revitalise American industry. After arguing that the federal government needed to 'become more active in helping America meet the challenge of foreign competition and a changing world', Iacocca autobiography laid out his six point plan for a 'rational industrial policy'.[696] The plan itself was eclectic. In addition to proposing heavy taxation on foreign-produced energy and short-term import restrictions on Japanese goods, Iacocca also called for reductions in federal spending on social programmes, new grants and loans for those taking science and engineering courses, and a massive public-infrastructure building programme. To coordinate this cocktail of policies, Iacocca proposed the establishment of a new tripartite, public-private agency, called the Critical Industries Commission (a national economic planning board).[697] Incorporating protectionist, *laissez-faire*, and interventionist policies, Iacocca's vision of a national industrial policy was effectively a hybrid of many of the other proposals tabled between 1981 and 1984.

Discussion of a small number of the different proposals in circulation in the first half of the 1980s illustrates the broad-base of support that industrial policy enjoyed in 1982, 1983 and even

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693 Lois Romano, 'Is Lee Iacocca a Driven Man?', *WP*, 3 September 1985.
694 Iacocca quoted in Blumenthal 'Drafting a Democratic Industrial Plan.'
695 As one of the members of the Industrial Policy Study Group, Iacocca was well acquainted with industrial policy proposals.
696 Iacocca with Novak, *Iacocca*, p.346.
697 *Ibid.*, pp.348-52.

1984. This support crossed traditional political boundaries and defies easy ideological categorisation. However, it also demonstrates the coexistence of widely different approaches and visions of industrial policy. Even after three years of discussion, and countless articles, books, and studies, industrial policy was an ill-defined idea that could involve very different policies and approaches. Those pushing for a national industrial policy agreed that existing policies were inadequate and that new federal government policies were needed to help America's producers improve their international competitiveness and productivity. Beyond this basic area of agreement (a consensus unchanged from 1980), industrial policy advocates could find few areas of unity. With the existence of detailed plans, in 1983 and 1984 industrial policy advocates did not struggle to translate their ideas into legislation; they would, however, struggle to speak with one voice.

Industrial Policy Legislation

In the summer and autumn of 1983, most congressional discussions of industrial policy took place in committee rooms. Although hearings were held in several committees in both houses of Congress, it was the Subcommittee on Economic Stablization of the House Banking Committee that discussed the issue for the longest. Convinced that industrial policy 'ought to be the leading issue for 1984', but unwilling to rush deliberations, the committee chair, Representative John La Falce (D-NY) presided over five months of hearings. During the course of these hearings, virtually every major academic, consultant, business leader, or labour union leader who had ever expressed an opinion on industrial policy was summoned to Washington to speak before the subcommittee.[698] With Ronald Reagan in the White House, members of Congress were in no hurry to formulate new industrial policy proposals.

While the Economic Stabilization Subcommittee was still holding hearings, other members of Congress were giving legislative form to industrial policy ideas. Throughout 1983, a large number of industrial policy bills were in circulation. At times, multiple bills were introduced in the same week. At the end of January, for example, Representative Stanley Lundine (D-NY) introduced the National Industrial Development Act, a bill that would have created a 32-member National Industrial Development Board charged with scrutinising economic data and formulating economic development strategies. Not to be outdone, the following day, Senator Ernest Hollings (D-SC) introduced legislation that would have re-established the Reconstruction Finance Corporation along the lines set out by Felix Rohatyn. In the months that followed even more

[698] Richard Corrigan, 'Democrats Seek an Industrial Policy In Time for the Next Election Campaign', 11 June 1983, *National Journal*, p.1221; Graham, *Losing Time*, p.111.

bills were introduced and by November 1983, 17 bills proposing national development boards or commissions on competitiveness were being considered by Congress (nine of which would have established a new national development bank).[699]

The content of these bills varied significantly. Reflecting wider disagreements within the industrial policy movement, in 1983 and 1984 there was a broad range of opinions in Congress about what a national industrial policy should do and the role that the state should play in sectoral affairs. At one end of the spectrum was Stanley Lundine (D-NY) and David Bonior's (D-MI) National Industrial Strategy Act. Drafted with the assistance of Ira Magaziner and Robert Reich, the bill called for the creation of an Economic Cooperative Council and a National Industrial Development Bank.[700] Although it had gathered 60 co-sponsors by the beginning of the autumn, some supporters of industrial policy ideas were unhappy with Lundine and Bonior's proposal. In particular, many shared Representative Tim Wirth's (D-CO) view that a national development bank would encourage struggling cities and industries to 'back their wagons up to the Treasury.'[701] Putting forward their own minimalist alternative, Wirth and Richard Gephardt (D-MO) introduced a bill that included a nine-member national development council, but no development bank.[702]

In the Republican-controlled Senate, industrial policy was not as widely discussed or debated as it was in the House. Nevertheless, a number of senators did prepare industrial policy legislation. The Senate's most committed industrial policy proselytiser, Edward Kennedy, persuaded the Senate minority leader to establish a Democratic Task Force on Industrial Policy. By taking this approach, Kennedy hoped that a consensus would form among Senate Democrats and that at this point an industrial policy legislation could be put forward. Senator John Heinz (R-PA) took the opposite approach. Having drafted the Industrial Revitalization Act, his own 'free-market approach to industrial policy,' Heinz spent the second half of 1983 and early months of 1984 trying to sell the legislation to influential politicians and members of the business community.[703]

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699 *Ibid.*.
700 Wirth quoted in Blumenthal, 'Drafting a Democratic Industrial Plan'.
701 *Ibid.*
702 'Enhancing Government Role', *CQWR*, 20 August 1983, pp.1679-80.
703 Under Heinz's proposed legislation, struggling industries would be able to ask the federal government for tax incentives and temporary protection from imports. In exchange, industries would be forced to develop and implement an adjustment plan, which both organised labour and the federal government would have to accept. In effect, Heinz was proposing that America's beleaguered industries should be helped in a similar way to Chrysler. 'Dear Editor Letter', 1983, Box 345, JH Papers; 'Request for Additional Information on Industrial Revitalization Act Memorandum', 18 April 1983, Box 401, JH Papers; Martha Lester to Lowell Briggs, 1 June 1983, Box 430, JH Papers.

Although none of these industrial policy proposals made much legislative progress in 1983, supporters hoped that their proposals would gain more traction the following year.[704] Events at the start of 1984 certainly provided cause for optimism. In January, the Industrial Policy Study Group issued its industrial policy blueprint and the following month the Subcommittee on Economic Stabilization of the House Banking Committee approved industrial policy legislation.[705] Both packages included national development banks and both had been drafted after hours of consideration and expert testimony. As a result, supporters hoped that they would garner widespread support and help bridge the divisions among industrial policy advocates. By May, the industrial policy legislation drafted by the Subcommittee on Economic Stabilization was ready for floor action.[706] This appeared to be the legislation most likely to create a consensus. For the bill to become a reality, however, industrial policy advocates would need to find ways to clear a number of political hurdles.

Opposition

The rising levels of support in Washington for industrial policy legislation provoked much comment. After surveying this growing support, as well as a cross-section of the scholarly and popular literature recently published on the subject, in the summer of 1983, the *Nation* described industrial policy as 'the principal mainstream alternative to monetarism and supply-side economics'.[707] A month later, *Businessweek* came to a similar conclusion. Though acknowledging that 'most of the industrial policy schemes will not be passed or implemented soon, certainly not during the Reagan Administration', in July 1983, the magazine's editors announced that the outcome of the debate over industrial policy was difficult to predict. Commenting that 'more and more Republicans are joining Democrats in proposing IP-style strategies', the magazine declared that the 'Kemp-Roth tax bill had the same vague look of wishful — and to some dangerous — thinking when it was first introduced in 1978.'[708]

As *Business Week* made clear, supporters of the Reagan administration's policies did not welcome the resurgence of support for industrial policy. Unsurprisingly, America's leading free-market

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704 'Partisanship Dominated Congressional Year,' *CQA 1983* (Washington D.C., 1984), p.18.
705 'Weekly Checklist of Major Issues', 21 January 1984, *National Journal*, p.133; Richard Corrigan, 'Democrats Weigh Options on Industrial Bank Plan', 18 February 1984, *National Journal*, p.337.
706 Richard Corrigan, 'Democrats May Set Trap for Themselves with Industrial Policy Package', *National Journal*, 26 May 1984, p.1039.
707 Samuel Bowles, David M. Gordon and Thomas E. Weisskopf, 'Democratic Centrism: Industrial Policy, Now for the Bad News', *The Nation*, 4 June 1983.
708 'Industrial Policy: Is it the Answer?', *Business Week*, 4 July 1983, p.57.

advocates staunchly opposed Reich, Thurow, and Rohatyn's ideas. In 1983, the Reagan administration's favourite economist, George Gilder, reviewed Robert Reich's books in the *Public Interest*.[709] The review began in a positive fashion, with Gilder praising Reich's call for 'production policies.'[710] However, after identifying this one area of broad agreement, he turned his attention to their disagreements. Making the case that a 'greater politicization of economic life' would be an 'obstacle to progress,' Gilder challenged the assertion that 'paper entrepreneurialism' was the result of unshackled *laissez-faire* capitalism, arguing instead that it was the inevitable by-product of an 'exorbitant tax rate.'[711] Put simply, Gilder believed that Reich had correctly diagnosed America's economic ills, but believed that he had prescribed the wrong remedies.

Members of the White House shared this view. In speeches that came to the attention of the Treasury Secretary, Edwin L. Harper, the assistant to the President for policy development attacked industrial policy and argued that the Reagan administration's fiscal and monetary policies would restore the economy with 'less economic cost' and 'less disruption to the individual'.[712] Voicing his own opinion on what he called a 'national industrial policy planned and supervised by the Federal Government,' Ronald Reagan obliquely stated at a public function that 'government intervention would never offer the same opportunity as economic freedom.'[713] Others were much more explicit about the reasons behind their opposition. Devoting an entire speech to attacking the calls for a national industrial policy, in October 1983, Treasury Secretary Donald Regan, declared that industrial policy proposals could not 'stand the test of reality' and argued that '230 million Americans acting in the free market place' could make better economic allocation decisions than '20 or 30 Government planners acting collectively.'[714]

It was not just staunch free-market advocates who voiced strong criticisms of the national industrial policy movement. In 1983, the Brookings Institution economist and former chairman of the Council of Economic Advisors, Charles Schultze, wrote an editorial for the *Washington Post*

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[709] On Gilder relationship with the Reagan White House, see Henry Allen, 'George Gilder and the Capitalist's Creed', *WP*, 18 February 1981.
[710] George Gilder, 'A Supply-Side Economics of the Left', *The Public Interest*, Summer 1983, p.34. For Reich's rebuttal, see Robert B. Reich, 'An Industrial Policy of the Right', *The Public Interest*, Winter 1983.
[711] Gilder, 'A Supply-Side Economics of the Left', p.41.
[712] Donald T. Regan to Edwin L. Harper, 11 July 1983, Box 187, Folder 2, DTR Papers, Library of Congress. Although Harper left the White House in the summer of 1983, he remained a staunch critic of industrial policy. See Edwin L. Harper & Lehmann K. Li Jr., 'Industrial Policy: Diverting Resources from the Winners', 6 *Mich. J. Int'l L.* 3 (1984); Edwin Harper Interview, *Ronald Reagan Oral History Project*, Miller Centre, 13 August 2002, pp.50-2.
[713] Ronald Reagan, 'Remarks at a White House Luncheon Marking the Observance of American Business Women's Day', 22 September 1983, www.reaganlibrary.gov/sites/default/files/archives/speeches/1983/92283d.htm [accessed 28 May 2018]
[714] Treasury Department Press Release, 'Address by Donald T. Regan Before the University of Kansas', 14 October 1983, Folder 12, Box 216, JH Papers.

under the title 'The Wrong Cure for the Wrong Illness: Why We Should Forget About an Industrial Policy.' Schultze was not a newcomer to the industrial policy debate. During the Carter White House's 1980 deliberations he had been a vocal critic of industrial policy proposals.[715] Three years later he insisted that 'even if industrial policy were designed to address a real, rather than imaginary problem, our political practices would not permit an effective policy of that kind to be carried out.' [716] Continuing, he argued that 'the one thing that our political system cannot do well at all is to choose among particular firms, industries and regions...which shall wither and which shall prosper.'[717]

While Schultze was the most outspoken critic of industrial policy, he was not the only mainstream economist to argue that industrial policy was a 'solution in search of a problem'.[718] In the midst of the plant closure epidemic of the early 1980s, few economists were prepared to endorse Schultze's view that deindustrialisation was a myth, but, they were prepared to question other ideas at the heart of industrial policy proposals and to distance themselves from Reich and Thurow. The *National Journal* and *Washington Post* columnist, Robert J. Samuelson, questioned whether Japan's strong industrial economy could be attributed to the country's producer-orientated policies — thoughts that the Brookings Institution's Phillip H. Trevize, and MIT economics professor, Paul Krugman, also echoed.[719] Picking up on a different theme, the sociologist Amitai Etzioni claimed that it would be impossible to insulate American economic planning and industrial policy institutions from political pressure and pork barrel politics.[720] Rejecting the prescriptions for growth pushed by both industrial policy and *laissez-faire* advocates, Etzioni called for an 'industrial policy II' in which the federal government provided 'economic incentives and broad-gauged signaling of priorities', but shied away from national planning and sectoral management.[721]

These criticisms are revealing. On the one hand, the strong opposition to industrial policy ideas indicated that industrial policy advocates' opinions were not the dominant view in Washington or in the economics departments of America's major universities and think-tanks. On the other

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[715] Graham, Losing Time, p.38.
[716] Charles Schultze, 'The Wrong Cure for the Wrong Illness', *WP*, 12 October 1983.
[717] *Ibid.*
[718] Charles Schultze, 'Industrial Policy: A Solution In Search of a Problem', *California Management Review*, 25:4 (Summer 1983), pp.5-15.
[719] Robert J. Samuelson, 'The Policy Peddlers', *Harpers*, June 1983; Philip Trezise, 'Industrial Policy Is Not the Major Reason for Japan's Success', *The Brookings Review* 1, no. 3 (1983), pp.13-18; Karen W. Arenson, 'Direct Aid to Industry is Debated', *NYT*, 29 August 1983.
[720] Amitai Etzioni, 'The MITIzation of America', *The Public Interest*, Winter 19.
[721] *Ibid.*, p.51 and 83.

hand, industrial policy ideas were not being ridiculed or completely dismissed. In fact, within the White House precisely the opposite was occurring. In 1983, the Reagan administration was very concerned about the industrial policy movement. The White House Chief of Staff, for example, closely monitored the status of industrial policy legislation in Congress, while the Treasury Secretary coached other White House aides on how best to publicly detail 'the pitfalls of industrial policy.' Though everyone was concerned by rising calls for a national industrial policy, not everyone believed that industrial policy was an idea that could or should be killed. Indeed, key members of the administration such as the Deputy Attorney General privately urged the Chief of Staff to conduct a 'systematic' examination of industrial policy proposals 'in order to develop a well-thought-out, coordinated Republican response' and a 'market-orientated version of industrial policy'.[722] Just as in 1980, those close to Ronald Reagan were worried that industrial policy ideas might hand members of the Democratic an effective political and electoral weapon.

Though the Reagan administration never explicitly developed a market-orientated industrial policy, in the summer of 1983 it did announce the establishment of an advisory committee on industrial competitiveness. The committee was officially designated with examining 'means of increasing the long-term competitiveness of United States industries at home and abroad, with particular emphasis on high technology.'[723] Smelling conspiracy, Representative John La Falce (D-NY) told a reporter from *Business Week*, that he feared the White House would use the new committee to 'co-opt any initiatives Congress wants to take by saying they're studying the issue and then, if the issue looks hot, come in before election day and say they've got their own plan.'[724] La Falce's worry was misplaced. As journalists recognised, the international competitiveness committee was no more than a 'preemptive strike' designed to relieve the mounting political pressure for tighter trade legislation and a national industrial policy.[725] Determined to give the impression that it was doing something, but also to ensure that the committee did not issue a report that contradicted its economic approach, the Reagan administration appointed as chair a corporate executive with unimpeachable free-market convictions.

[722] Edward C. Schmults to James A. Baker III, 13 September 1983, James W. Cicconi Files, Box 10, RRPL.
[723] Ronald Reagan, 'Executive Order 12428 — President's Commission on Industrial Competitiveness,' 28 June 1983, *The American Presidency Project*. http://www.presidency.ucsb.edu/ws/?pid=41529 [accessed 27 August 2018].
[724] La Falce quoted in Juan Williams and Michael Schrage, 'Reagan Names Commission on Industrial Competition', *WP*, 5 August 1983.
[725] 'Industrial Policy: Is it the Answer?', *Business Week*, 4 July 1983, p.55.

Demise

By the time the President's Commission on Industrial Competitiveness issued its final report in the spring of 1985, debates over a national industrial policy had faded almost entirely from the public view.[726] The previous year, Ronald Reagan had won a crushing victory in the 1984 presidential election and the Republican Party picked up 16 seats in the House and retained its majority in the Senate. This undoubtedly helped to dampen enthusiasm for industrial policy in Congress. After all, it was during 1982 and 1983, in the period between the mid-term elections and the 1984 elections, that the industrial policy movement gathered political momentum. Since the Reagan administration had made its opposition clear and Congress was divided on the issue, after November 1984 even the most optimistic industrial policy advocates did not entertain the idea that they could build a large enough coalition to overturn a presidential veto.

Though this election-centred explanation of the industrial policy movement's demise is enticing in its simplicity, it is not entirely true. Among many Democrats, enthusiasm for industrial policy actually waned in the months before November 1984. Accordingly, industrial policy was hardly mentioned during the 1984 presidential campaign. Much like Jimmy Carter four years earlier, the Democratic Party's 1984 presidential nominee Walter Mondale did not incorporate it into his stump speeches, campaign literature, or mention it in the televised presidential debates. Instead, he chose to make deficit reduction and fiscal responsibility the core themes of his economic policy platform.[727] This represented an abrupt policy U-turn. Walter Mondale had approved of — and attempted to shape — the Carter administration's industrial policy programme.[728] Furthermore, he had frequently reiterated his support for a national industrial policy during the Democratic primary campaign and in November 1983 one of his key aides had privately suggested that Mondale should 'give additional specificity' to his industrial policy agenda.[729] However, while Mondale continued to talk about it during the primary campaign, he never developed his proposals and dropped the issue entirely once the presidential campaign started.

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[726] Ironically, the commission's diagnosis of America's economic maladies — weak productivity gains, slow per capita income growth, and declining international competitiveness — essentially mirrored those voiced by industrial policy advocates.

[727] Steven M. Gillon, *The Democrats' Dilemma: Walter F. Mondale and the Liberal Legacy* (New York, 1992), pp.362-3; 'Mondale on Deficits', Republican National Committee Opposition Research Group records, Box 37, Hoover Institution Archives.

[728] Walter F. Mondale to Charles Schultze, 1 August 1980, Industrial Policy [1], Container 43, Records of the Council of Economic Advisors, *JCPL*.

[729] 'Industrial Strategy', Position Paper, n.d., Walter Mondale Papers, Box 143; Bill Galston to Walter Mondale, 'Industrial Policy' 23 November 1983, Walter Mondale Papers, Box 146. See also, 'Mondale on Industrial Policy', Republican National Committee Opposition Research Group records, Box 37, Hoover Institution Archives.

Something similar happened in Congress. Although industrial policy legislation was ready for floor action, the Democratic Party's leadership feared that a full House debate would open divisions within the party. This view was not without foundation. By 1984, there were still areas of division among industrial policy supporters.[730] Reindustrialisation proposals, in which the federal government provided assistance to rebuild ailing regions and industries, appealed to members of Congress from the Northeast and Midwest. But, they did not play well with those from outside these areas. In a similar vein, proposals that called for governmental assistance to be targeted towards 'sunrise' industries were popular with those from Sunbelt and western states, but were not well received in electorally important manufacturing states. Moreover, there were also differences among the Democratic Party's leading intellectuals about the effectiveness of a national industrial policy.[731] Seeking to preserve unity, key members of the Democratic Party persuaded the House Rules Committee to delay consideration of industrial policy bills until after the election.[732] Though one journalist predicted that there would be a 'new debate over an industrial policy' after the 1984 elections, this debate never materialised.[733]

While political considerations might have determined the precise timing of industrial policy's demise, it was the national economic rebound of the mid-1980s that really took the wind out of the movement's sails. The speed of this recovery was really quite remarkable. From a high of ten percent at the start of 1981, inflation fell to three percent at the beginning of 1983.[734] In this same two-year period, oil prices halved, interest rates fell, and the national unemployment rate also began to decrease.[735] As we have already seen, the performance of some of America's largest industries also improved markedly. By 1984, America's Big Three automobile firms were reporting record profits and other manufacturing firms also seemed to have developed a new formula for success. With the U.S. economy growing at an average of 8.8 percent and other countries recovering much more sluggishly from the global recession, in 1984 there was plenty of evidence to suggest that America remained number one.[736] Indeed, though the national productivity rate would remain lacklustre until 1995, the resurgence of industries that had been most affected by Japanese competition combined with the rapid expansion of the U.S. economy

730 On continued divisions, see Corrigan, 'Democrats May Set Trap for Themselves', pp.1039-41.
731 These disputes came to a head in August 1983 at the Federal Reserve Bank of Kansas City's annual conference in Jackson Hole, Wyoming. Krugman, *Peddling Prosperity*, pp.254-6.
732 Brownstein, 'A Big Idea is Back', *National Journal.*
733 Peter Behr, 'Democrats Face New Debate Over Industrial Policy', *WP*, 11 November 1983.
734 Stein, *Pivotal Decade*, p.266.
735 *Ibid.*
736 Charles P. Alexander, 'The Recovery Rolls On', 24 September 1984, *Time.*

helped to shift discussion of America's productivity slump from newspapers to economic journals.

For the leading industrial policy advocates, this recovery posed an intellectual challenge. Attempting to explain the sudden reversal in America's economic fortunes in a way that did not disprove his previous diagnosis, in 1984 Lester Thurow claimed that America's recovery was the product of a gigantic financial bubble (which he compared to 17th century Tulip mania).[737] Making similar claims, Felix Rohatyn asserted that 'by allowing the rapid industrial adjustment that is occurring now to take place without the slightest attempt to guide its direction or to dampen its shocks' the federal government was 'playing Russian Roulette with the economy.'[738] However, since neither Rohatyn or Thurow could present compelling evidence to illustrate that this bubble was deflating or about to burst, their arguments won favour only among the most strident advocates of industrial policy.

In the second half of the 1980s — an era of huge profits, renewed economic growth, in which American firms appeared to be out competing their international rivals — the private sector appeared to require little assistance from the public sector. Without conditions of economic and industrial emergency, America's economic and political elite were increasingly reluctant about the idea of fundamentally reshaping America's economic system and augmenting the state's role in economic and industrial affairs. At a national level, the industrial policy's moment was over.

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During the first half of the 1980s, America's political and economic elite engaged in fierce debates about industrial policy. Though support transcended straightforward left-right divisions, there were many very different visions of what a national industrial policy should look like. Some proponents pushed for protectionist policies and the loosening of government regulations; others called for the establishment of public-private economic planning agencies and publicly-funded development banks. However, all advocates shared the view that America's economic and industrial maladies were too severe for conventional Keynesian or *laissez-faire* macroeconomic remedies to be effective. Convinced that America was doomed to become an uncompetitive, second-rate economic and industrial power if the federal government refused to provide greater assistance to specific industries and localities, various interest groups and individuals pressed for the introduction of a formalised national industrial policy.

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737 *Ibid.*

738 Felix G. Rohatyn, 'American Roulette', *New York Review of Books*, 29 March 1984,

For a time, it looked like these calls might come to fruition. Speaking in the summer of 1983, the economist Paul Krugman predicted that 'at some point in the next decade, the U.S. will probably adopt a more explicit industrial policy.'[739] Yet, soon after it became one of the major discussion topics among economic and political elites, the industrial policy movement suddenly floundered. A national economic recovery, Ronald Reagan's re-election, and the failure of its advocates to resolve their differences killed the national debate over industrial policy. However, this does not mean that the movement was inconsequential. The very fact that industrial policy rose to such prominence, and commanded such widespread and diverse support, challenges the idea that *laissez-faire* capitalism had become the reigning orthodoxy by the 1980s. Indeed in the dark depths of the long economic crisis, many of the supposed champions of free-market economics believed that the market was the problem and government the solution.

While industrial policy advocates never managed to advance their policy agenda in the way that they wanted, this did not mean that the market drove economic and industrial development during the 1980s. As industrial policy advocates frequently argued, in many respects America already possessed a patchwork, *de facto* national industrial policy. The federal government purposefully intervened in order to 'save' Chrysler and New York City, preventing their collapse, but also aiding their recovery. In both cases, development banks and a development board were established and the federal government provided financial and technical aid and helped formulate long-term development plans. At a national level therefore, during the long economic crisis, an uncoordinated and temporary industrial policy prevailed and the industrial policy movement was by no means an abject failure.

Similarly, it would also be a mistake to assume that the industrial policy debate ended in 1984. The leading advocates of industrial policy did not abandon their beliefs about the structural deficiencies of American capitalism and continued to churn out books, articles and to deliver public speeches arguing for policy overhauls. At various points during the next thirty years, industrial policy ideas were repackaged and rebranded.[740] As such, the idea lived on at a national level, standing ready for those who believed that producer-orientated policies were needed, but had little faith in the anti-statist producer-orientated policies peddled by leading members of the conservative movement.

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[739]Paul R. Krugman, 'Targeted Industrial Policies: Theory and Evidence', *Industrial Change and Public Policy*, August 24-26, 1983, p.123.

[740] For more on the afterlife of the industrial policy movement, see my Epilogue.

At a local and regional level, however, industrial policy proved to be much more than just a theoretical alternative to *laissez-faire* capitalism. Indeed, as we will see in the next chapter, diverse constituencies regarded government intervention in sectoral affairs and long-term economic planning as an acceptable and even desirable way to encourage economic revitalisation and growth. As a result, in the wake of the long economic crisis, at a state level America did adopt industrial policies.

Chapter Four

Bringing the States Back In: Subnational Economic Development and the Visible Hand of Government

'True leadership out of the many crises in which we find ourselves today will not come in a burst of federal programs…but only from people themselves, only from thousands of smaller, quieter decisions at the state, county, city and personal levels in every corner of the country.'[741]
– Governor Richard Thornburgh (R-PA), 1981–

'The challenge we face in the 1980s and beyond…depends on our success in applying the full measure of this State's scientific and technological resources to the entire chain of what it takes to be competitive.'[742]
– Governor Richard Celeste (D-OH), 1984 –

'Just as all politics is local so is all economic development.'[743]
– Governor James Blanchard (D-MI), 1988 –

In 1983, Raymond Kralovic, a microbiologist working at a Pennsylvania healthcare company, devised a process for sterilising medical equipment that did not involve steam or heat. At that moment in time, there was significant demand from the medical industry for new low temperature methods of sterilisation.[744] Yet, when Kravolic presented his idea to his employers, he was told by management that it would be too expensive and risky to pursue it further. Convinced that it had potential, Kralovic tried repeatedly, over the next two years, to persuade his firm to fund research into the liquid-chemical sterilisation process that he had devised. Though constantly rebuffed, Kralovic persevered. But after a high-ranking executive firmly rejected his idea at the 1985 company picnic, he changed his approach. Still committed to his idea, but now convinced that his employer would not provide assistance, Kralovic handed in his notice so that he could develop the idea independently.

After leaving his job, Kralovic relocated to a Cleveland suburb and co-founded Innovative Medical Technologies Corporation with a mechanical engineer. In 1985, the two men invested $30,000 of their own money into the company and a medical investment group invested a

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[741] Dick Thornburgh, 'States Have Responsibility in Partnerships for Progress', *National Civic Review* (1981), Volume 70 (1), p.11.
[742] Industrial Technology and Enterprise Advisory Board Minutes, 9 July 1984, Thomas Alva Edison Partnership Program files, 1983-1986, Binder 1, Ohio History Connection.
[743] Speech Transcript, James Blanchard, 'Economic Forums Address', April 1988, Box 247, James J. Blanchard Papers, Bentley Historical Library, University of Michigan.
[744] During the 1980s, various medical and scientific breakthroughs led to the growth of minimally invasive surgeries (popularly known as key-hole surgery). However, the high temperatures involved in steam sterilization—the traditional method of sterilising medical equipment—often damaged the lenses in the equipment used in these new procedures. Although the expensive pieces of equipment in question could be sterilised using a low temperature gas sterilisation process, this was a time consuming procedure. As a result, during the first half of the decade, hospitals were forced to limit the number of minimally invasive surgeries that they carried out. 'Dr. Ray Kralovic, co-founder of Steris on being a Reluctant Entrepreneur', www.youtube.com/watch?v=VLVcKpZPeik [accessed 8 September 2016].

further $80,000.[745] But, because of the large research costs involved, this money soon ran out. By 1986 the five-employee firm desperately needed to find additional capital to fund research. Since Innovative Medical Technologies did not yet have a marketable product, it was of little interest to private venture capital funds. Looking beyond the private sector to less conventional investment sources, the company applied for — and received — an applied research grant from the Ohio State-operated and financed Thomas Edison Program.[746]

Innovation Medical Solutions benefitted greatly from the $43,000 that it received from the State of Ohio. It was able to prove the viability of its product at Case Western Reserve University, and subsequently received $1.2 million in capital financing from an Ohio-based private equity partnership. After this, the company (renamed STERIS in 1987) grew rapidly. By 1989, STERIS had 50 employees and announced its intention to double in size over the next two years.[747] Seeking to raise additional capital, the company went public in 1992.[748] A year later, STERIS hired its 200th employee and concluded a second successful public fundraise. Determined to continue expanding, STERIS acquired a number of other medical sterilisation companies in the second half of the 1990s. As a result, by 2014, the company, which was still headquartered in Ohio, employed 6000 people and operated in 60 different countries.[749]

A more concise overview of the history of STERIS might help to confirm much of the conventional and scholarly wisdom about the defining features of the 1980s and the advanced technology boom of the early 1990s. After all, the development of this archetypal post-industrial firm owed much to the creativity of a high-tech inventor-entrepreneur and the actions of newly important players in the U.S. financial industry. It would be easy to argue, therefore, that Innovative Medical Technologies Corporation was able to grow during its early years purely because of free-markets, individual entrepreneurial initiative, and the actions of non-governmental actors. Sustaining this narrative, however, requires overlooking the important role that the public sector played in helping STERIS bring its product to market.

Although it achieved impressive commercial success during the 1990s and the 2000s, STERIS'

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745 'The History of STERIS: 1987 to 2013', www.steris.com/media/PDF/history/Web-History-Timeline-Dec-13.pdf, [accessed 27 July 2016].
746 Joan C. Szabo, 'State Funds for Start-Ups', N*ation's Business*, June 1989, p.42.
747 *Ibid.*
748 Ohio Venture Association, 'Ohio Venture Report 2013', p.24, www.ohioventure.org/VentureReport-2013/html/index.html [accessed 15 October 2016].
749 Steris Corporation Annual Report, 2014, http://phx.corporate-ir.net/phoenix.zhtml?c=68786&p=irol-reportsannual [accessed 27 July 2016].

story of public sector support was not unique. During the 1980s, state-funded economic development agencies provided early-stage financing to hundreds of small, home-grown advanced technology businesses. In this respect, STERIS was founded at precisely the right moment in time. Indeed, it was only during the second half of the 1980s — at the same moment that the Reagan administration was dramatically reducing aid for economic development, and America's largest manufacturing corporations were asking for financial aid in the form of regulatory relief — that state governments broadened their activities and took on economic and financial roles that had previously been the preserve of the private sector. Pouring hundreds of millions of dollars into large public investment programmes, state governments sought to help launch new companies, to improve the productivity and international competitiveness of older industries, and to create new jobs in the advanced technology and small business sectors.[750] In the process, states developed their own industrial policies, established economic planning agencies, and actively shaped and created markets.[751] At a national level, the industrial policy movement may have floundered, but at a state level it achieved great success.

These developments have attracted little scholarly notice. During the late-1980s and early 1990s, a small group of astute journalists and political scientists did draw attention to the new activist, supply-side economic development programmes that had been established at a state level.[752] Yet, in the decades since, historians have largely missed or attached no significance to these developments.[753] This is hardly a surprise. After all, over the last twenty years historians and scholars of the twentieth century have dedicated themselves to studying the development of modern conservatism, the rise of the Sunbelt, and the political activities of America's business

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[750] Between 1980 and 1985, federal aid to states for employment and job training programmes was cut in half and funding for community and regional development was reduced by a third. Joel Kotkin and Greg Critser, 'Capitol Ideas', *INC. Magazine*, 1 October 1985.

[751] For a work that draws attention to a similar story in Philadelphia during a slightly earlier period, see Guian A. McKee, *The Problem of Jobs: Liberalism, Race, and Deindustrialization in Philadelphia* (Chicago, 2008).

[752] Peter K. Eisinger, *The Rise of the Entrepreneurial State: State and Local Economic Development Policy in the United States* (Wisconsin, 1988); R. Scott Fosler, *The New Economic Role of American States: Strategies in a Competitive World Economy* (New York, 1991); David Osborne, *Laboratories of Democracy: New Breed of Governors Creates Models for National Growth* (Massachusetts 1988); Paul Brace, *State Government and Economic Performance* (London, 1993). For a notable (very) recent exception that locates these developments in a longer national declension framework (and focuses mostly on Georgia and Massachusetts), see Brent Cebul, 'Supply-Side Liberalism: Fiscal Crisis, Post-Industrial Policy, and the Rise of the New Democrats', *Modern American History 2:2*, 2019.

[753] In his Washington-centered overview of the 1980s, John Ehrman argues that Rhode Island's rejection of the Greenhouse Compact — an industrial redevelopment plan authored by Ira Magaziner — 'reveal[s] much about politics in Reagan's America' and demonstrates the political weaknesses of industrial policy ideas. However, Ehrman overlooks the comprehensive industrial policies that other states adopted during this period and does not consider specific local factors which may have led to Rhode Island voters to reject the proposal. John Ehrman, *The Eighties*, pp.79-80. For discussion of the reasons why the Greenhouse Compact received little grassroots support, see 'A 'Shattered Greenhouse', *INC,* 1 October 1984; Tamar Lewin, 'Cynicism Cited in Plan's Loss', 14 June 1984, *NYT*.

elite.[754] Those who have studied subnational economic development have focused on efforts by local businessmen and politicians to 'sell the South' to outside investors, as well as high-profile campaigns to attract large manufacturing plants and improve business climates. [755] In so doing, they have suggested that since the 1940s states have largely sought to cure their economic ills by offering financial subsidies to corporations, waging national and international promotional campaigns, and taking actions designed to make themselves more 'business friendly.' There are grains of truth to this analysis, particularly with regards to the immediate post-Second World War period. But, as this chapter shows, during the 1980s, this was not the entire story.

In this chapter, I examine the economic development policies that Michigan, Ohio, and Pennsylvania adopted in an attempt to rebuild their states' economies as the long economic crisis of the 1980s began to abate at a national level. Although the chapter examines the economic development strategies of three manufacturing states, it is not intended to be a comparative piece. Instead, the analysis is designed to reveal how economic and financial instability led politicians in all three states to act in ways that were fundamentally similar and, in the process, to tell a national story. Since one of the central contentions of this chapter is that the economic instability of the 1980s played a pivotal role in leading state governments to embrace new ideas about the sources of economic growth and take a more active stance in economic development, most of the analysis is focused on the late-1970s and early 1980s.[756] However, to fully appreciate the historical significance of the transformation that took place it is necessary to first understand how and why state economic development policy evolved and changed during the course of the twentieth century.

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[754] For more on historiography, see my Introduction.

[755] Shermer, *Sunbelt Capitalism*; James C. Cobb, *The Selling of the South: The Southern Crusade for Industrial Development*, 1936-1990 (Urbana, 2nd ed. 1993); Jon C. Teaford, *The Rise of the States: Evolution of American Government* (Baltimore, 2002); Katherine Rye Jewell, *Dollars for Dixie: Business and the Transformation of Conservatism in the Twentieth Century* (Cambridge,2017). Most other narratives of subnational or regional economic development during the twentieth century examine the impact of federal programmes or defense spending on the development of the South during the New Deal or immediate post-Second World War era. See, for example: Bruce Schulman, *From Cotton Belt to Sunbelt: Federal Policy, Economic Development, and the Transformation of the South, 1938-1980* (Chapel Hill, 2nd ed. 1994); James T. Patterson, *The New Deal and the States: Federalism in Transition.* (New Jersey, 1969); Jason Scott-Smith, *Building New Deal Liberalism: The Political Economy of Public Works*, 1933-1956 (New York, 2006); Gavin Wright, 'The New Deal and the Modernization of the South', *Federal History 2* (2010); Kari Frederickson, *Cold War Dixie: Militarization and Modernization in the American South* (Athens, 2013).

[756] This chapter focusses on state government policies that were explicitly designed to directly stimulate economic growth by nurturing the development of the small business and advanced technology sectors of the economy. Though 'human capital' development also became an important facet of subnational economic development strategies during this period, I do not explore these more indirect economic development efforts. For work that does focus on this theme, see William Goldsmith, 'Kids, the New Cash Crop: The Promise and Limits of Educating for Economic Development in the New South,' Ph.D dissertation, Duke University, 2018.

Industrial Recruitment in an Era of Prosperity

State level involvement in economic development was not a phenomenon peculiar to the long economic crisis. During the New Deal era, a number of states had taken on a much more active and visible role in trying to stimulate industrial development. The state that was responsible for leading this development was Mississippi.[757] In 1935, the former lumber magnate and industrialist, Hugh L. White, campaigned successfully for governor by promising to bring about the 'greatest industrialization in this state that has ever been known.' Convinced that the state would not prosper economically until it 'balance[d] industry with agriculture,' White steered legislation through the state legislature that provided the local communities with the ability to issue bonds to fund the construction of buildings and the acquisition of land for industrial and manufacturing firms.[758] Following Mississippi's lead, after the Second World War, a number of other southern states authorised the use of industrial revenue bonds.[759] As a consequence, while New York City spent the 1950s and 1960s borrowing money to cover its operating expenses, debts, and social welfare expenditures, in the South, many local communities and states were using bond markets as a means of financing corporate welfare policies.

These developments did not go unnoticed. At a national level a number of efforts were made to curtail the use of these industrial revenue bonds and prevent the flight of capital to the South.[760] In 1952, for example, Representative George M. Rhodes (D-PA) introduced a bill to restrict the use of industrial revenue bonds. However, strong opposition from the powerful southern delegation defeated Rhodes' bill as well as similar pieces of legislation. With no restrictions in place to prevent the issue of industrial revenue bonds, most states took defensive measures and authorised their use in the 1950s and 1960s.[761]

As the number of states offering industrial revenue bonds increased, an economic development arms race developed among states and municipalities. Over time, states and cities offered an ever-larger array of financial incentives to companies that were looking to expand, or to create

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[757] At the time Mississippi's per capita income was just over a third of the national average.
[758] For more on the Balance Agriculture with Industry scheme see, Ernest Hopkins, *Mississippi's BAWI Plan: An Experiment in Industrial Subsidization* (Atlanta, 1944); Cobb, *The Selling of the South*.
[759] For case studies of capital flight and the inducements offered to lure firms southward, see: Tami J. Friedman, 'Exploiting the North-South Differential: Corporate Power, Southern Politics and the Decline of Organized Labor after World War II', *Journal of American History* (September, 2008); Jefferson Cowie, *Capital Moves: RCA's Seventy-Year Quest for Cheap Labor*' (New York, 1999), pp.73-100.
[760] On efforts to curtail the use of industrial revenue bonds see, Cobb, *The Selling of the South*, p.43.
[761] By 1960 seventeen states permitted the use of tax-exempt industrial-revenue bonds. Over the next eight years an additional 30 states authorised industrial revenue bonds. Congressional Budget Office, 'Small Issue Industry Revenue Bonds', September 1981, p.7; Cobb, *The Selling of the South*, p.36.

new industrial facilities within their borders.[762] Indeed, by the late-1960s a number of states also offered capital and tax subsidies in the form of direct loans, loan guarantees, revenue bonds, tax abatements, tax exemptions on inventory and equipment purchases, sale tax exemptions, and job creation tax credits.[763] As a result, at the start of the 1970s industrial revenue bonds were only one element of the sophisticated (and costly) arsenal of financial incentives that southern states were using in their efforts to capture private investment, encourage economic diversification, and bring in jobs. In an era of low national unemployment, state economic development strategies centered upon enticing existing employers and industries to their regions or localities.

Not only did southern states use a variety of financial incentives in an effort to draw industry southwards, but Governors also began to travel widely as boosters and salespeople during the immediate post-Second World War period. Unwilling to wait for large corporations to contact them, governors who were avid industrial recruiters such as Luther Hodges (NC), Farris Bryant (FL) and George Wallace (AL) aggressively marketed their state's pro-business stance, low taxes, low living costs, climatic advantages and right to work laws in 'industry hunting' trips to New York, Chicago, and other large industrial cities.[764] Remarking on these developments, the executive director of the Southern Regional Council declared, in 1964, that 'Southern governors have become *de facto* executive directors of their state chambers of commerce, and spend their time competing with each other as supplicants for new plants.'[765]

These widely publicised gubernatorial trips provoked much anger among some elected officials who felt that a concerted campaign was being made to lure industry away from their states. Infuriated by a wave of visits from southern development executives that took place in the wake of a series of floods, Governor Abraham Ribicoff (D-CT) announced in 1955 that economic development officials were not welcome in his state.[766] This anger changed little, however, and southern governors paid little heed to the rebukes that they received and continued to make industry-prospecting trips throughout the 1950s and 1960s.

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[762] Between 1960 and 1968 annual sales of industrial revenue bonds increase from $100 million to $1.8 billion. Similarly, between 1957 and 1967, the average size of individual industrial revenue bond issues also increased from $366,000 to $7.8 million. CBO, 'Small Issue Industry Revenue Bonds', pp.8-9.

[763] Kevin T. Leicht and J. Craig Jenkins, 'Three Strategies of State Economic Development: Entrepreneurial, Industrial Recruitment and Deregulation Policies in the American States, *Economic Development Quarterly,* Vol. 8 No. 3, August 1994, pp.258-9.

[764] Teaford, *The Rise of the States,* pp.189-190; Jon C. Teaford, 'Governors and Economic Development', in Ethan G. Sribnick (ed), *A Legacy of Innovation* (Philadelphia, 2009), p.113; Cobb, *The Selling of the South*, pp.74-5.

[765] Leslie W, Dunbar, 'The Changing Mind of the South: The Exposed Nerve', *Journal of Politics 26* (February 1964), p.20.

[766] Cobb, *The Selling of the South*, p.76.

Industrial recruitment-based economic development strategies spread across America in the 1950s and 1960s, in part because of several high-profile North-South factory relocations and because the economic fortunes of the states that committed themselves to industrial recruitment changed dramatically. [767] Between 1950 and 1975, the rate of economic expansion in the South averaged 4.4 percent annually, while the rest of the U.S. expanded at an average annual rate of 3.4 percent. During the same period, the Sunbelt's population rose by 60 percentage points, while the population of the rest of the U.S. increased by only 32 percentage points.[768] For many, the South's rise was something to be admired. In 1976, for example, *Time* declared that 'after decades of growth, the South is in the midst of an epic transformation into a diversified modern economy.'[769] Rejoicing in the political ramifications of these developments, Kevin Phillips (a political strategist who worked on Richard Nixon's 1968 presidential campaign) predicted that the growth of the South and the West would usher in a new Republican majority.[770] However, not everyone was celebrating the emergence of the 'New South.[771] Indeed, amid the economic turbulence of the 1970s, many politicians from the Northeast and Midwest began to think of the Sunbelt as an economic rival and to ask questions about the equity of the geographic distribution of federal aid. In the wake of the New York City fiscal crisis, this would prove to be one of the 'biggest issue[s]' of debate within Congress.[772]

Fighting for the Federal Government's Affection

From the vantage point of the mid 1970s the nation's number one economic problem was not the South, but the region that later became known as the 'Rustbelt.'[773] As we have seen in

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[767]Analysts of economic development policy have convincingly shown that locational factors such as access to labour, transportation, access to markets and raw materials, average wage rate and union strength were much more likely to influence a firm's location decision than local and state tax systems or industrial revenue bonds. However, governors paid little heed to these studies and continued to pursue highly visible industrial recruitment campaigns in an effort to bolster their personal political standing. 'The Economic Consequences of BAWI', *Business Week,* 26 April 1952; Hopkins, *Mississippi's BAWI Plan*; John F. Due, 'Studies of State-Local Tax Influences on Location of Industry', *National Tax Journal* (1961), Volume 14:1. For more recent studies see Robert C. Turner, 'The Political Economy of Gubernatorial Smokestack Chasing: Bad Policy and Bad Politics?,' *Economic Development Quarterly,* 3 (2003); John P. Blair and Robert Premus, 'Major Factors in Industrial Location: A Review', *Economic Development Quarterly* 1 (1987), pp.72-85; Alan Peters and Peter Fisher, 'The Failures of Economic Development Incentives', *Journal of the American Planning Association* 70:1 (2004), pp.27-37.

[768] 'The Boom: Surging to Prosperity', *Time*, 27 September 1976; 'Sunbelt Region Leads Nation in Growth of Population', *NYT,* 8 February 1976.

[769] 'The Boom: Surging to Prosperity', *Time*, 27 September 1976.

[770] Kevin Phillips, *The Emerging Republican Majority* (New York, 1969).

[771] *Ibid.*

[772] 'Frostbelt vs Sunbelt Biggest Issue in Congress', *Lubbock-Avalanche Journal*, 15 July 1977, p.29.

[773] In 1938, Franklin D. Roosevelt declared that the South was the number one economic problem and pledged that the federal government would do all that it could to right this problem. 'Message to the Conference on Economic Conditions of the South', 4 July 1938, *The American Presidency Project*. www.presidency.ucsb.edu/ws/?pid=15670 [accessed 30 June 2016]. In 1982, *Time* magazine referred to the economically devastated region that stretched from

previous chapters, by the middle of the decade many of the cities and industries that had been the cornerstones of America's economic success in the first half of the twentieth century were mired in a deep depression. While a number of long, medium and short-term factors were responsible for causing these problems, at the time, many elected officials and journalists blamed the South for stealing industry and businesses from the North and argued that the newly prosperous states of the Southwest were receiving a disproportionately large proportion of aid from the federal government. The result was a fierce inter-regional debate over federal transfer payments.

In 1976, two widely-discussed magazine articles helped bring long simmering regional tensions to the boil. In May, *Business Week* published a special report that it provocatively titled 'The Second War Between the States.' Drawing attention to the predatory industrial recruitment tactics of southern states, *Business Week's* editors argued that the North and Midwest were losing the 'bitter and divisive struggle for income, jobs, people, and capital.'[774] Invoking the Civil War, the article warned of the possibility of sectional conflict if current trends continued. One month later, the *National Journal* fanned the flames further by revealing that in 1975, the ten Midwestern and Mid-Atlantic states paid $10 billion more in federal taxes than they received in federal spending, while in the same year the 16 states of the South received $11.5 billion more in federal spending than they paid in federal taxes.[775]

In the wake of *Business Week* and the *National Journal's* articles, regional and national newspapers rushed to provide further details about the regional distribution of federal taxation and spending.[776] Seizing on this publicity, a number of elected officials from the Northeast and Midwest — who had long maintained that discriminatory federal spending practices and southern industrial recruitment strategies were heightening the Northeast and Midwest's economic distress — formed the Coalition of Northeastern Governors, the Council for Northeast Economic Action, the Northeast-Midwest Research Institute and the Northeast-

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New York to Chicago as the Rust Bowl. Although the term 'Rust Bowl' did not stick, in the years that followed, journalists and politicians continued to identify the former manufacturing areas of the Northeast and Midwest as a distinctive region. After also experimenting with the terms 'Frostbelt' and 'Snowbelt', in the second half of the 1980s, the media settled on the label 'Rustbelt.' Christopher Byron, 'Booms, Busts and Birth of a Rust Bowl', 27 December 1982, *Time*. See also Steven High, *Industrial Sunset: The Making of North America's Rust Belt, 1969-1984* (Toronto, 2003), pp.21-33.

774 'The Second War Between the States', *Business Week,* 17 May, 1976.

775 'Federal Spending: The North's Loss is the Sunbelt's Gain', *National Journal*, 26 June, 1976, p.876.

776 See, for example Carol Oppenheim, 'U.S. Aid Lopsided: Walker', *Chicago Tribune*, 15 December 1976; 'Frost Belt vs. Sunbelt — War for Defense Funds', *U.S. News and World Report*, 6 February 1978; Edward C. Burks, 'New York State is Shortchanged on Federal Aid, New Study Finds', *NYT*, 4 July 1977.

Midwest Economic Advancement Coalition.[777] Convinced that they would not win a larger share of federal dollars without a fight, elected officials from the Northeast and Midwest agreed to become members and sponsors of these new regional lobby and research groups.[778]

Members of the new Northeast and Midwest lobby wasted no time in trying to change federal legislation in their favour. Working as specific federal aid programmes came up for renewal, the regional coalition developed new federal aid distribution formulas that were designed to increase the revenue that the Northeast and Midwest received from Washington. In their early years, this new regional alliance won several important victories. Indeed, in 1977 the 'well-oiled, bipartisan lobbying machine' managed (after fierce legislative battles) to change federal funding formulas for food stamp and community development block grant allocation in ways that favoured the states of the Northeast and Midwest.[779] Promising to build on these successes, the leaders of the Northeast-Midwest coalition vowed that, in the years ahead, they would expand their fight to include defense and welfare spending.[780]

It did not take long for southern and western states to respond. Frustrated by their inability to block changes to the community development block grant and food stamp allocation formulas (despite the vigorous efforts of a number of individual lawmakers), elected officials and business leaders from the South launched their own counter offensive. In November 1977, Congressman Mark Hannaford (D-CA) announced that he was forming a congressional coalition to rival the Northeast-Midwest Economic Advancement Coalition.[781] Calling on the Carter administration to support 'legislation that is balanced nationally, not northerly, that reflects need, not greed', the Southern Growth Policy Board — a 13 state economic development think-tank established in 1971 — also strengthened its activities by hiring new researchers and a dedicated Washington lobbyist.[782] After some initial skirmishes, both sides were now prepared to mobilise for a more sustained battle.

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[777] Richard Lyons, 'House Group Wants to Stem Sunbelt Flow', *WP*, 2 September 1976; Neal R. Peirce, 'Northeast Governors Map Battle Plan for Fight Over Federal Funds Flow', *National Journal*, 27 November 1976, p.1695; 'Council for Northeast Economic Action Created', *Nashua Telegraph*, 7 October 1976.

[778] By December 1977, 204 Congressmen had joined the Northeast-Midwest Economic Advancement Coalition. Inspired by the work of this congressional coalition a bipartisan group of U.S. Senators formed the Northeast-Midwest Senate Coalition in April 1977. Howard Metzenbaum and John Chafee, 'Northeast-Midwest Coalition Progress Report', 14 November 1977, *Howard Metzenbaum Papers,* Box 170; 'Fact Sheet on the Northeast Midwest Congressional Coalition', N.D., *JH Papers.*

[779] Joel Havemann and Rochelle L. Stanfield, 'A Year Later, the Frostbelt Strikes Back', *National Journal*, 2 July 1977, p.1028; Mary Russell, 'Northeast, Midwest Win, Hill Fight on Housing Aid', *WP*, 11 May 1977.

[780] For detail of the agenda of these regional alliances, see 'Rescuing the Region', *NYT*, 1 July 1977.

[781] Horace Sutton, 'Sunbelt VS. Frostbelt: A Second Civil War', *Saturday Review*, 15 April 1978, p.37.

[782] The Pork-Barrel War Between the States', *U.S. News and World Report*, 5 December 1977. For further discussion of the Southern Growth Policies Board and its agenda, see Goldsmith, 'Kids, the New Cash Crop', pp.235-312.

Although they managed to achieve a number of policy victories in 1977, the leaders of the Midwest and Northeast lobby quickly developed more ambitious objectives. Individuals such as Representatives Frank Horton (R-NY) and Michael Harrington (D-MA) demanded much more expansive federally-funded public works programmes that 'channeled investment and capital back into the sagging industrial tier' in order to help revive economically distressed areas in the Northeast and Midwest.[783] However, the Carter administration — which, by 1977, was focused on fighting inflation — was about as enthusiastic about these regional revitalisation proposals as it was proposals for sweeping urban policy overhauls, and made clear that it would not support major new regional public works programmes. Accepting defeat in the battle to convince the White House to back a Tennessee Valley Association for the North, the leaders of the powerful Northeast-Midwest coalition spent the rest of the 1970s and early 1980s trying to highlight regional inequities in federal funding formulas and lobbying for legislative change on a policy-by-policy basis. Jettisoning the idea that it could play a significant role in reshaping national policy, the coalition returned to focusing on revising existing policies.

While the leaders of the Northeast and Midwest coalition did not accomplish all of their objectives, they did achieve a number of significant policy victories. Furthermore, even in failure, the existence of this cohesive place-based economic development coalition testified to the powerful solidarity that emerged among the states of the Northeast and Midwest during the economic turbulence of the 1970s and 1980s.[784] Maintaining regional unity sometimes required compromise. Indeed, in their efforts to wrest federal funds away from the South and the West, congressional members of the Northeast and Midwest alliance agreed that they would not support legislation that would benefit their own states but disadvantage their allies.[785] This pact was not always respected. In 1977, for example, Senator John Heinz (R-PA) proposed a federal funding formula change that would have benefitted his state but hurt New York, Connecticut and New Jersey.[786] However, Heinz's proposal was roundly denounced by other members of Northeast Midwest Coalition (including the Governor of Pennsylvania) and regional groups continued to be important vehicles for research and lobbying throughout the 1980s. Thus, when it came to federal spending, regionalism trumped localism during the 1970s. However, as we will

[783] 'Rescuing the Region', *NYT*, 1 July 1977; See also Agis Salpukas, 'The Northeast Vows that it Will Rise Again,' 9 January 1977, *NYT*.
[784] For insight into the Northeast and Midwest lobby's agenda during the early 1980s, see Frank Horton, 'More defense contracts should aid NE's jobless', *Democrat and Chronicle*, 6 August 1980.
[785] Michael D. Greene, 'After One Year, Heinz Still Defies Political Labelling', *The Daily Item*, 1 January 1978, Series: Press Secretary 1977-1991, *JH Papers*.
[786] *Ibid.*

see, with regards to industrial recruitment, localism continued to reign supreme during the long economic crisis.

Courting Heavy Industry in an Era of Economic Turmoil

During the 1970s and 1980s, competition among the states for industry escalated. As unemployment rates spiralled, and the steel and automobile industries laid off workers and closed factories, economic development became a major policy concern for virtually every governor. Under intense pressure to do something to create or maintain well paid blue-collar jobs, state economic development agencies expended a great deal of energy and resources into industrial recruitment during the 1970s and 1980s. However, unlike the 1950s and 1960s, few *Fortune 500* firms were looking to expand, relocate, or build new facilities. Competing for industry in this new charged economic atmosphere, state economic development agencies offered a wide array of incentives to manufacturing firms and spent months tailoring their sales pitches. As a result, during the 1970s and the first half of the 1980s, there were a series of intense economic development battles between states to secure new automobile manufacturing plants.

The first of these skirmishes took place in 1975, while the finances of America's largest city were rapidly deteriorating. In the summer the *New York Times* revealed that Volkswagen was looking to construct its fast-selling small car, the Rabbit, in America.[787] In the wake of this announcement, Governors and mayors from across the United States rushed to market their states and cities to the West German firm.[788] In selling themselves, some made it clear that they were prepared to offer very large financial subsidies in order to secure the 5,000-employee manufacturing plant. The city of Baltimore, for example, took out a full-page advertisement in the *Wall Street Journal* declaring that it was prepared to let the car company write its own terms.[789] This appeal did not prove successful. Indeed, by the time Baltimore made its offer, Volkswagen, which was keen to begin producing the car as soon as possible, had already narrowed the field down to three sites in Michigan, Pennsylvania, and Ohio.[790]

During the spring of 1976 the bidding war for the Volkswagen plant entered its final phase. Desperate to secure the plant, Ohio's Governor led a delegation of fifty state, private and local

[787] Agis Salpukas, 'VW checks plants in U.S. to begin making rabbit', *NYT,* 25 June 1975.
[788] In total 48 states made overtures to the German firm. Ron Chernow, 'The Rabbit that Ate Pennsylvania', *Mother Jones*, January 1978, p.20.
[789] *Ibid.*
[790] All three states could offer the German automotive firm sites which contained pre-existing manufacturing plants that could easily be adapted to fit VW's needs.

officials to Wolfsburg to talk with the automobile company's board.[791] Ultimately though, Volkswagen chose a site in Pennsylvania. This victory came at a price, however. During its direct negotiations with the automobile manufacturer, in Germany, Pennsylvania governor, Milton Shapp offered a multimillion-dollar subsidy package that included the promise of job training programmes, low interest state development loans, tax abatements, and transport link improvements. Committing itself to the largest industrial development project in its history, Pennsylvania promised to provide Volkswagen with around $70 million in direct aid and a further $180 in indirect aid.[792]

In a period when economic news was overwhelmingly negative, many governors were envious of the local and national media attention that Shapp received for bringing thousands of high-paying jobs to Pennsylvania.[793] After losing the winner-take-all duel for Volkswagen, James A. Rhodes, the governor of Ohio, was desperate to bring other manufacturing investment to his state. Rhodes did not have long to wait for another chance; less than a year after Ohio lost the battle for the Volkswagen plant, Honda's Vice President approached Rhodes and Ohio's Director of Economic Development and asked if the state of Ohio could supply a site for a motorcycle manufacturing plant.[794] Determined that it would not be outbid for another major manufacturing plant, Ohio representatives offered the firm a range of subsidies and arranged tours of 55 potential sites. These overtures were successful and in October 1977, Rhodes appeared alongside Honda's executives and announced that Ohio had beaten 18 other states and secured Honda's new motorcycle plant.[795]

The nationwide competition that took place amongst the states for Volkswagen's Rabbit plant and Honda's motorcycle plant were not events peculiar to the late-1970s. During the 1980s — at the very moment when a number of historians have suggested that public officials had accepted

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[791] Craig R. Whitney, '4 U.S. Cities Contending for VW Assembly Plant', *NYT*, 12 March 1976.
[792] 'Pennsylvania Outlines Aid for VW Site', *WP*, 3 June 1976.
[793] On the fortunes of domestic automobile companies, see Chapter 3.
[794] Rhodes first met with Honda executives during the governor's April 1976 trade trip to Japan. The five-day long trip had been organised in part, because rumours were circulating that a number of Japanese manufacturing firms were exploring the possibility of building assembly plants in the U.S. as a hedge against possible trade restrictions. See David Gelsanliter, *Jump Start: Japan Comes to the Heartland,* (New York, 1992); '25 Years of Honda in the U.S.A', *Automotive News*, 6 September 2004, www.autonews.com/article/20040906/SUB/409060742/25-years-of-honda-in-the-u.s.a.:-the-road-to-marysville-was-long-and [accessed 21 August 2016].
[795] Ohio secured the plant with a deal that included a 15-year tax abatement, a pledge to spend $2.5 million on infrastructure improvements and a promise that Honda would be able to acquire the land it needed at a price lower than market value. In 1980, the state provided with additional subsidies when Honda built a $200 million automobile assembly plant on adjacent land. Douglas Smock, 'Honda to Build Cycle Plant Near Columbus', *Pittsburgh Post-Gazette*, 12 October 1977; A.J. Jacobs, *The New Domestic Automakers in the United States and Canada: History, Impacts and Prospects* (London, 2016), pp. 85-6.

the need to swap factories for finance and embraced a non-industrial vision of their state's future — interstate rivalry for new, capital-intensive automobile manufacturing plants was fiercer across the country than it had been at any point previously in the twentieth-century.[796] Adopting approaches pioneered in the 1930s and 1940s, states dangled many financial incentives in front of large corporations. Viewed from this vantage point, state approaches to economic development during the early years of the 'Age of Reagan' represented little more than an extension of the economic development strategies that had emerged in the South during the early years of the New Deal order.

In the Thrall of Saturn

No case better demonstrates the time and resources that subnational political leaders were prepared to devote to industrial recruitment in the first half of the 1980s than the race to secure General Motors' Saturn assembly and manufacturing plant.[797] In January 1985, General Motors announced that it was looking for a location 'not too close, but not too far away from Detroit' to build the new 'extremely competitive' Saturn four-door subcompact it was developing.[798] This announcement triggered a bidding war among U.S. states. Enticed by the promise of 6,000 well-paid manufacturing jobs, as well as 15,000 additional jobs in related industries, state economic development agencies and governors rushed to prepare detailed sales pitches and site proposals.[799] The race was on.

Within three months of GM's announcement 24 governors had contacted the automobile firm's land-buying office and 20 governors had made personal pilgrimages to Michigan. Some of these sales pitches were more memorable than others. New York Governor Mario Cuomo, for example, presented GM's directors with a New York State number plate bearing the name SATURN 1 on his trip to GM's Technical Center in Warren, Michigan.[800] Ohio sent a high school marching band from the economically distressed city of Youngstown to march in a

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[796] See for example: Stein, *Pivotal Decade;* Tracy Neumann, *Remaking the Rustbelt: The Postindustrial Transformation of North America* (Philadelphia, 2016).

[797] During the 1980s, similar (but less high-profile) interstate competitions for investment took place over Mazda, Nissan, and Mitsubishi assembly plants.

[798] John S. Demott, 'Saturn Makes Its Debut At G.M.', *Time*, 21 January 1985; Warren Brown, 'GM Will Spend $5 Billion On New Subcompact Line', *WP*, 9 January 1985. General Motors unveiled the car to the press and public in 1983. However, the firm conducted two years of research and development before beginning the search for factory sites.

[799] Marcia Stepanek, 'Battle for Saturn is Underway', *DFP*, 11 January 1985. For a characteristic example of these gubernatorial sales pitches, see Richard Thornburgh to William E. Hoglund, 19 February 1985, Allegheny Conference HSWP Archives, Series II, Box 184.

[800] 'Autos: Revving Up for a Race', *Time*, 25 March 1985.

Detroit parade'; Missouri placed a billboard in Detroit emblazoned with the slogan: 'Saturn, Give us a Ring'; and Pennsylvania bought advertising slots on Michigan local radio.[801]

Although these campaigns attracted the attention of reporters, none of these headline-grabbing sales pitches swayed General Motors. Tennessee, the eventual winner of the 38-state competition for the Saturn plant, adopted a fairly conventional approach to industrial recruitment. As soon as General Motors announced its plan, the state's Commissioner of Economic and Community Development established a special Saturn operations center in an office in downtown Nashville. Working with the utmost secrecy, its small staff hand-delivered information about the labour force, taxes, and infrastructure of different Tennessee communities to GM's land-buying office on a weekly basis.[802] However, in the case of Saturn it did not appear that the nation's largest automaker was swayed by subsidies or by gubernatorial activism. Tennessee's governor did not visit Michigan and the state itself offered smaller financial incentives than those offered by other states.[803] Instead, Tennessee's central location, which provided inexpensive access to the American markets that General Motors was trying to capture with its new brand, seemed to have been a more important factor in influencing the firm's decision.[804]

In the late-1970s and early 1980s states and communities offered ever larger financial incentives in an effort to convince existing manufacturing firms to relocate or expand in their states. As such, the economic turbulence of the 1970s did not fundamentally alter subnational economic development strategies; it simply increased the stakes of competition and widened pre-existing sectional and inter-state economic rivalries. However, as economic conditions deteriorated further, several governors and other state public officials concluded that they could not rebuild the economies of their states simply by winning high-visibility interstate competitions for federal funds and manufacturing plants. Though competition for these plants remained fierce, some states sought to broaden their strategies. Convinced that industrial recruitment and lobbying for a greater share of federal investment were unlikely to be effective economic development

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[801] Joe Sherman, *In the Rings of Saturn* (New York, 1994), p.102. See also 'States Woo GM for Saturn Plant Site', *WP,* 12 January 1985.
[802] *Ibid.*
[803] Tennessee offered to construct an interstate quality road to the site of Saturn's plant and to fund industrial job training. In addition, local officials also provided assurances to GM that Saturn would not be expected to pay full taxes. Ed Bean, 'William Long's Direct Style Helped Sway GM to Tennessee Site for Saturn', *WSJ*, 02 August 1985; Stuart C. Hall, 'Observations on the Saturn project: Site selection, Financial Incentives, and Impact', *Economic Development Review*, Fall 1994, p.35.
[804] James Risen, 'GM Picks Tennessee Town for Saturn Assembly Plant', *LA Times,* 27 July 1985; James Mateja, 'How Saturn Plant Landed in Tennessee', *Chicago Tribune,* 31 July 1985.

weapons, a number of newly elected politicians from the industrial states of the Northeast and Midwest sought to kickstart their states' stalled economies with a new set of strategies.

Gubernatorial Elections and Opposition to Reaganomics

In the late-1970s and early 1980s, the economy was the number one issue in many gubernatorial elections. During the 1981-82 recession, states such as Michigan, Ohio, and Pennsylvania had double-digit unemployment rates. Seizing on the political opportunities that this economic turmoil created, a number of candidates for state-office promised to overhaul economic development strategies. In 1978 Richard Thornburgh, Republican candidate for Governor of Pennsylvania, announced that he would 'increase job opportunities' and provide loan guarantees to small businesses if elected.[805] Adopting a similar economic focus, James Blanchard, the Democratic Party's candidate for Governor of Michigan, declared in his 1982 campaign that if he were elected, his top three priorities would be 'Jobs, Jobs, Jobs'.[806] Criticising the federal government's economic policies much more directly, the Democratic Party's candidate for the Ohio State House, Richard Celeste, derided his 1982 opponent as a 'cheerleader for Reaganomics' and stressed that, if elected, he would adopt much more interventionist economic policies.[807]

During a period of profound economic insecurity, Blanchard, Celeste and Thornburgh's promises of gubernatorial activism in the realm of economic development appealed to voters. In 1978, Thornburgh was elected in an upset election, defeating his much better known, but fiscally conservative, Democratic Party opponent. Four years later in two elections that *Time* described as 'a grim signal to Ronald Reagan and his economic programs,' Blanchard and Celeste easily secured victories in Ohio and Pennsylvania, succeeding retiring Republican Party governors.[808] Not only was there decidedly no Reagan Revolution at a state level, but there were also few who were prepared to act as proselytizers for *laissez-faire* doctrines. Yet, for all of their activist ambitions, before they could alter their state's economic development strategies and implement new long-term job creation policies, the Thornburgh, Celeste, and Blanchard administrations all had to spend a great deal of time resolving their states' acute financial problems and fending off opposition from their political opponents.

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805 Press Release, 'Thornburgh Announces his 12-point plan for keeping existing jobs and attracting new jobs in PA', 5 September 1978, Series IX, Box 56, Richard Thornburgh Papers.
806 Osbourne, *Laboratories of Democracy*, p.147.
807 Michael Barone, 'Brown v. Celeste: As Ohio Goes . . .', *WP*, 7 September 1982; Kurt Andersen, 'Election '82: Fresh Faces in the Mansion', *Time,* 15 November 1982.
808 'Altered States', *Time,* 12 September, 1983,

Negotiating Rocky Financial Waters

When James Blanchard took over as governor of Michigan, the state had an unemployment rate of 17 percent, the highest rate of bankruptcies in America, and the worst credit rating in the nation.[809] As a result, in 1983, Michigan could not even borrow enough on a short-term basis to make quarterly payments to school districts or local governments.[810] Although these financial issues needed to be resolved, perhaps the most urgent economic problem Blanchard faced was Michigan's $900,000 budget deficit.[811] The state constitution required the governor to submit a balanced budget to the state legislature at the start of every fiscal year. As a result, the Blanchard administration would need to address the 1983 deficit before it could submit its 1984 budget or propose any new economic development programmes. However, the independent auditors that Blanchard appointed in 1983 discovered that the state's financial problems were much more serious than anyone, except members of the outgoing Milliken administration, knew.

Between 1980 and 1983 — as a result of changes in federal policies, decreased automobile sales, and two steep and nearly consecutive national recessions — Michigan's unemployment rate soared. Consequently, demands for public assistance rose and the state's tax revenues fell.[812] However, the deep spending reductions and income tax increases that Milliken's administration initiated in response to these developments, did not balance the state's budget. Forced by law to present balanced budgets to the state legislature, but unwilling to propose more extensive budget cuts and sceptical of his ability to convince Republicans within the state legislature to approve another tax rise, Milliken borrowed money from Japan and engaged in creative accounting.[813] On the surface, therefore, the only debts that Michigan possessed when Blanchard was elected in November were those that had been accumulated in 1982. But, in reality, Michigan possessed an accumulated deficit of $1.7 billion (nearly double the anticipated 1982 deficit). In 1983, Michigan's financial situation was akin to Detroit's two years earlier.

Before the true magnitude of Michigan's fiscal and budgetary problems became clear, the Blanchard administration had concluded that 'circumstances allow[ed] no time for delay' in

[809] Kathy Lewand to Governor Blanchard, 'Re: Michigan County Clerk Magazine Article', 20 December 1982, Box 4, JB Papers; James Blanchard, telephone interview, 12 December 2016. Transcript in author's possession.
[810] Sample Speech on Economic Recovery Strategy with Report on Progress to Date, 13 December 1983, Box 4, JB Papers.
[811] James Blanchard to James A. Ebben, 1 March 1984, Box 4, JB Papers.
[812] New Detroit, Inc., 'Special Meeting Agenda', 22 March 1982, Coleman Young Papers, Box 187.
[813] In 1982 the Michigan Senate twice rejected the Milliken administrations income tax proposals. Money was borrowed from Japanese financiers because American firms refused to underwrite Michigan's bonds. Osbourne, *Laboratories of Democracy*, p.146.

tackling the state's deficit.[814] As a result, within weeks of taking office the administration unveiled plans — which it had devised during the transition — to reduce the budget deficit. Armed with grim reports produced by independent bodies, which suggested that Michigan would face a severe cash shortfall if immediate action was not taken to tackle its massive accumulated deficit, the Blanchard administration instigated a state hiring freeze, established an early retirement plan and eliminated various state-funded boards and programmes. In total, these cuts would reduce Michigan's spending by $225 million per year.[815] However, the Blanchard administration was unprepared to balance the budget by making more severe retrenchments. Making the case that deeper budget reductions would 'cut a path of devastation through Michigan — for middle class families as well as the unemployed and the poor,' the Blanchard administration asked the state legislature to approve a temporary 38 percent increase in the state's income tax.[816]

The Blanchard administration's tax proposal was passed by the state legislature in a straightforwardly partisan vote. However, outside of the state legislature an opposition movement emerged.[817] In March 1983, a GM engineer, sent 'the shirt off his back' to the Michigan statehouse to protest the increase.[818] This gesture inspired political opponents of the Blanchard administration to create a recall movement, and within weeks, petitions were circulating to force a recall election of Blanchard. This tax-revolt movement managed to acquire enough support to force two Democratic Party State Senators out of office. But, despite these successes it did not gather widespread state-wide support and was not able to achieve its ultimate goal of removing Blanchard from office.[819] In Michigan, (unlike California and Massachusetts) the tax revolt never really got off the ground.

During his first year in office, Richard Celeste also raised taxes. This was not a policy upon which he had campaigned. In fact, when asked on the campaign trail, Celeste promised that he would raise Ohio's sales and excise taxes, and close various tax loopholes before he considered increasing personal income taxes.[820] However once in office, Celeste publicly admitted that he could not hope to tackle the state's $528 million deficit without raising personal income taxes.

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[814] Lawrence D. Owen to Governor-Elect Blanchard, Tom Lewand and Phil Jourdan, 14 December 1982, Box 248, JB Papers; Walter J. McCarthy Jr to James J. Blanchard, 7 January 1983, Box 248, JB Papers.
[815] James Blanchard to Department Directors, 'State Employment', 1983, Box 4, JB Papers
[816] 'Fact Sheet: $900 million executive order budget reduction', 28 March 1983, Box 4, JB Papers.
[817] The House of Representatives which had a large Democratic Party majority approved the tax rise by a wide margin. In the state Senate, where majorities were slimmer, the tax rise was approved by a one vote margin (one Republican supported the increase). John Lauve to James Blanchard, 10 May 1983, Box 4, JB Papers.
[818] 'Altered States', *Time*, 12 September, 1983.
[819] 'Around The Nation; Michigan Voters Oust 2nd Legislator Over Taxes', *NYT*, 1 December 1983.
[820] David Shutt, 'Brown, Celeste Detail Plans to Promote Small Business', *Toledo Blade*, 13 August 1982.

Making the most of the political capital that he possessed during his gubernatorial honeymoon period, Celeste pushed for, and succeeded in raising, personal income taxes by 40 percent and made permanent a temporary 50 percent income tax surcharge passed by his predecessor.[821]

Just as in Michigan, a number of Ohio voters were incensed when the Celeste administration increased taxes. Doing what they could to get this massive tax increase repealed, a group called 'Stop Excessive Taxation' proposed amendments to the state constitution that would roll state taxes back to their June 1982 level and require all future state tax increases to be approved by a 60 percent vote in the Ohio State legislature.[822] Initially, this tax revolt movement gained some traction. By the summer of 1983 volunteers had collected more than 500,000 signatures for both proposals — 200,000 beyond what was needed to get the initiatives on the ballot.[823] However, just as in Michigan, many members of the public believed that the tax rises were necessary to put their state's fiscal house in order. As a result, neither of the constitutional amendments was approved when the question was put before Ohio's voters.

In Pennsylvania, Richard Thornburgh also devoted much time during his early years as Governor to resolving the financial and political mess that he had inherited from his predecessor. During the administration of Democratic Party Governor Milton Shapp (the man who lured Volkswagen to Pennsylvania), Pennsylvania's financial situation had deteriorated markedly. Not only did it have the lowest bond rating of any state, but its unemployment compensation fund ran up debts of nearly $1 billion.[824] Setting out to deal with these problems, Thornburgh froze state spending and hiring in his first year in office, kept state spending increases below the rate of inflation, and refused to offer an incentive package to General Motors for the Saturn plant.[825] Philosophically committed, in a way that Blanchard and Celeste were not, to policies of fiscal responsibility and low taxes, Thornburgh did not raise state income or sales taxes during his first term. However, unlike the Reagan White House, the Thornburgh administration was more committed to balancing budgets than it was to keeping taxes low.[826] As such, in 1983 when the state's revenues plummeted and its welfare rolls soared, the Thornburgh

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821 John Holusha, 'Ohio Governor Battles Tax Repeal Drive', *NYT*, 13 October 1983.
822 David Lawsky, 'Three cities vote on foreign policy issues', *United Press International*, 7 November 1983.
823 'Altered States', 12 September 1983, *Time.*
824 'Pennsylvania Department of Labor and Industry, Background: Pennsylvania's Unemployment Compensation Crisis', 27 March 1980, Series XI, Box 276, DT Papers.
825Press release, 'Temporary freeze on filling state job vacancies and new equipment purchases'
, January 23, 1979, Series XI, Box 162, DT Papers.
826 On the Reagan administration and the federal deficit, see Iwan Morgan, *The Age of Deficits: Presidents and Unbalanced Budgets from Jimmy Carter to George W. Bush* (Lawrence, 2009), pp.76-121.

administration bowed to political pressure from the state legislature and signed into law a bill that temporarily raised the state's income taxes.[827]

As a consequence of their states' perilous financial situations, the Blanchard, Thornburgh, and Celeste administrations lacked the revenues or the political capital necessary to launch expensive new economic development programmes. After all, in this period of high unemployment and low corporate profits, the three Governors had extremely limited financial resources at their disposal. Moreover, the political opponents of all three had illustrated that they were prepared to challenge policies that they did not agree with. However, somewhat surprisingly, the opposition movements that mobilised in reaction to the mayors' fiscal policies remained relatively silent when interventionist industrial and economic development policies were introduced.

Devising and Implementing New Economic Development Strategies

Once they had stabilised their states' perilous financial situations, the Blanchard, Thornburgh, and Celeste administrations set about planning their states' economic futures. All three Governors were convinced that their predecessors had been too fixated on the short-term and had as a result failed to develop a coherent long-term economic development strategy. Determined to do things differently, the Thornburgh administration asked a tripartite commission of organised labour, business and government representatives to write a 'long-term "game plan" for economic development.'[828] Adopting a similar approach, Michigan and Ohio also appointed commissions to draft strategic plans for economic development during this period. [829] The Blanchard administration commissioned a taskforce of nongovernmental economists to write a strategic policy, while Celeste asked a small group of key aides to compile Ohio's strategic plan. However, although the states' strategic plans were drawn up by individuals from slightly different backgrounds, the documents that these groups produced were remarkably similar.

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827 'Around the Nation: Thornburgh Signs Bill on Pennsylvania Budget', *NYT,* 23 July 1983; Press Release, 'Eleven more newspapers joined growing list of PA news organizations to endorse Thornburgh's reelection,' 3 February 1981, Series XI, Box 152, DT Papers.

828 'Nation's Republican governors (RGA) focused on Pa's highly praised economic development strategy', 14 November 1983, p.1, Series XI, Box 166, DT Papers.

829 In the private sector, strategic plans are widely used to set economic development goals and priorities and to identify the steps needed to attain these objectives. These plans, which are usually compiled by a committee are based on an internal audit, an external industry-wide audit, and an analysis of the opportunities and challenges that the corporation is likely to face in the longer term. Prior to the 1970s, the strategic planning process was not commonly used by governments. However, during the 1970s and 1980s many elected officials argued that they were an effective means of formulating public policy and developing medium and long-term economic plans.

On the surface, Michigan, Ohio and Pennsylvania's economic planning commissions arrived at rather obvious conclusions. All three reports called for policies to encourage economic diversification and argued that protectionist policies and industrial recruitment strategies were unlikely to be effective tools for stimulating economic growth in the years ahead.[830] Given the severe economic problems that America's large manufacturing corporations faced, Michigan, Ohio and Pennsylvania's politicians hardly needed to be convinced of the need for economic diversification. But the most significant contribution that these reports made was in urging Michigan, Ohio, and Pennsylvania's governors to use their states' limited economic development resources to support research and development, education and training initiatives, as well as research commercialisation and early-stage financing. In doing so, the drafters of these economic plans advised all three state governments to move away from spending public money on recruiting large industrial firms and instead to move towards an economic development strategy in which public money was invested in advanced technology and home-grown small businesses.[831] Embracing the spirit of these recommendations, all three states implemented policies designed to provide targeted support and assistance to these types of firms, which they believed would become the growth industries of the future.

Using Old Money to Support New Companies

At a state level, efforts to stimulate the expansion of small businesses began shortly before the long economic crisis reached its nadir. During the second half of the 1970s, federal and state governments sought to stimulate investment in the small business sector by loosening restrictions on venture capital financing. In the first half of the decade, many small businesses reported that they had very limited access to private capital. This was an accurate assessment. Between 1969 and 1975, venture capital investments in the United States fell from $170 million per year to just $10 million per year.[832] During the long economic crisis, private investors and commercial banks were unwilling to purchase stakes in small firms or to provide loans to new

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830 'Choices for Pennsylvanians: Final Report', September, 1981, Series XI Box 176, DT Papers; David Kelley Brown, 'A Review of State Economic Development Policies', 1984, Masters thesis (Massachusetts Institute of Technology); 'Opportunity: A Report Points the Way to a More Prosperous Michigan', *DFP*, 20 November 1984.
831 This shift in strategy was heavily influenced by MIT economist David Birch's 1979 report 'The Job Generation Process.' In this report, Birch used credit rating agency data to demonstrate that small businesses which employed less than 100 people, were responsible for creating more than 80 percent of the new jobs in America between 1969 and 1976. Though Birch's use of data was the subject of criticism from many academics, his conclusion was influential in policy-making circles. David Birch, *The Job Generation Process* (Cambridge, MA, 1979). See also, John Case, 'The Disciples of David Birch: A New Generation of Researchers is Out to Discover How the U.S. Economy Really Works', *INC*, January 1989, pp.39-45.
832 Cebul, 'Supply-Side Liberalism' p.7.

businesses during this period because of the perceived risk.[833] This situation improved somewhat in 1978, when federal capital gains taxes were reduced and regulatory changes allowed private pension companies to invest in venture capital partnerships.[834] These policy decisions had an immediate impact. Between 1977 and 1984, venture capital investments rose from $3 billion to $15.7 billion.[835] However, with the exception of the residents of Silicon Valley and the stakeholders of private venture capital firms, few were satisfied with these changes.

Although regulatory changes increased the size of the national venture capital market, they did little to widen the geographic distribution of investments. Indeed, even after federal regulatory changes, private venture capital firms — investing on behalf of insurance companies, pension funds, corporations or charitable foundations — continued to invest the vast majority of their capital in pre-existing high-technology enclaves and companies that offered a quick or high rate of return.[836]As a result, the leaders of small companies located in the Northeast and Midwest and those seeking investments that private venture capital companies considered too small to justify the administrative effort involved, reported that they were compelled to rely on friends, family, or their own personal funds for seed or early-stage financing. Convinced that the private investment industry's reluctance to provide venture or equity capital to the small business sector was not justified in economic terms and that the growth of many promising businesses was stunted as a result, state economic development institutions took action.

The first states to directly intervene in the venture capital market were Massachusetts and Connecticut.[837] In 1972, the Connecticut General Assembly approved a bond authorisation of $10 million to establish the Connecticut Product-Development Corporation.[838] Operating much like a private venture capital firm, this new public-private agency provided financial assistance to existing companies, which it deemed to have high growth potential, in return for a temporary

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833 Peter Eisinger, 'The State of State Venture Capitalism', *Economic Development Quarterly* (1991), Volume 5 (1), pp.64-76.
834 Chris Thompson, 'The Geography of Venture Capital', *Progress in Human Geography* (March 1989), Volume 3, p.69.
835 'Progress Report: Programs for Growth', *The Economic Development Review*, Volume 1(1), December 1985, p.4, Allegheny Conference HSWP Archives Series II, Box 215.
836 In 1985, Michigan firms received one percent of all venture capital funding in the United States., while California received 44 percent. A number of other states received no private venture investments at all. Paul A. Einstein, 'New Tools for Growth', *United States Banker*, November 1986, p.40. See also: Peter S. Fisher, 'State Venture Capital Funds as an Economic Development Strategy', *Journal of the American Planning Association* (Spring 1988), p.169; 'Progress Report: Programs for Growth', *The Economic Development Review*, Vol 1 Number 1, December 1985, p.4, Allegheny Conference HSWP Archives Series II Box 215.
837 See, Ronald Ferguson and Helen Ladd, 'Massachusetts: Pioneering State Economic Strategy', in *The New Economic Role of States*, Scott Fosler (ed.), pp.41-6.
838 Connecticut General Assembly, 'The State Budget for the 1972-73 Fiscal Year', p.45, www.cga.ct.gov/ofa/Documents/year/BB/1973BB-19720601_FY%2073%20Connecticut%20State%20Budget.pdf [accessed 18 November 2016].

sales royalty on any products that it helped develop. Taking a slightly different approach, Massachusetts created two public venture capital agencies in the second half of the 1970s — one that provided loans to small businesses located in economically depressed areas and another that supplied loans to technology-based start-up companies.[839]

While Massachusetts and Connecticut (two states closely associated with the U.S. textile industry) established public venture capital agencies in the 1970s, it was during the 1980s that the idea really caught on. In 1982, Michigan and Ohio enacted legislation that earmarked a percentage of their employee retirement funds for venture capital investments in local companies.[840] Confident that this would increase the flow of capital to the small business sector, both states lifted investment restrictions — which had previously limited pension fund managers to investing in large, publicly traded companies — and allowed the investment of up to five percent of public pension fund assets in any firm, provided that at least half of the firm's assets or employees were located in the state. Exhibiting a more cautious approach than either Ohio or Michigan, Pennsylvania's state legislature waited until 1984 before authorising its public pension funds to invest up to one percent of their assets in venture capital.[841]

In theory, Ohio, Michigan and Pennsylvania's efforts to encourage public state pension funds to invest in small home-grown companies dramatically increased the venture capital pool within the borders of all three states. In reality, though, those charged with the public pension funds were extremely risk averse. As a result, fund managers initially invested a much lower percentage of their trust funds in venture capital than permitted. Furthermore, relative to private investments, public sector investment in venture capital remained very small. However, this does not mean that these state-led efforts to shape markets and increase the availability of venture capital to local small businesses were inconsequential.

Although federal government policies increased the size of venture capital, state policies fundamentally reshaped the geographic distribution of venture capital. By 1987 Michigan had

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[839] Massachusetts Community Development Finance Corporation, *CDFC Handbook* 1978, http://hdl.handle.net/2452/49664 [accessed 18 October 2016]; State Science and Technology Institute, 'Massachusetts Technology Development Corporation', March 2000, http://ssti.org/report-archive/mtdc00.pdf [accessed 18 October 2016].

[840] National Association of State Development Agencies, *Directory of Incentives for Business Investment and Development in the United States* (Washington D.C. 1991), p.339; Small Business Administration, 'Capital Formation in the States.' (Washington DC, 1988), p.26.

[841] By this point in time Michigan's State Employees' Retirement fund had invested $27 million in various businesses and committed a further $42 million to limited partnership venture capital firms. Michael Schroeder, 'Golden Eggs?: Pa public pensions may be tapped to stimulate new jobs and business', *Pittsburgh Post-Gazette*, 26 June 1984.

directly invested more than $172 million in 31 companies and indirectly invested a further $120 million; Ohio's four public pension funds had invested $71 million, while Pennsylvania's much shorter running programme had invested $31 million.[842] As a result, between 1982 and 1986 the availability of seed and venture capital in Michigan, Ohio and Pennsylvania improved dramatically. The impact of these programmes did not end there. Indeed, as the political scientist Peter Eisinger and the political consultant David Osbourne have documented, Michigan and Pennsylvania's public venture capital programmes proved to private sector venture capital organisations that there were deals to be done in both states.[843] Consequently, in the wake of the introduction of state venture capital programmes, private venture capital flooded into Michigan and Pennsylvania. In the cases of Michigan and Pennsylvania, therefore, state government investment in the venture capital sector helped to stimulate the growth of private financial industries — a development that might not have happened had it been left to the market.

Falling in Love with Small Business

At the same time as Pennsylvania's state legislature was passing legislation to encourage the state's public pension fund managers to make venture finance investments, the Thornburgh administration was implementing policies designed to re-orient the state's overall economic development strategy towards small businesses already located in the state. Convinced that 'small business h[eld] the greatest promise for new jobs and diversifying our state's economic base', the Thornburgh administration cut small business taxes, established a Small Business Action Center to help new firms to deal with bureaucracy, and increased state funding for the Pennsylvania Minority Business Development Authority.[844] Perhaps the most significant thing that the Governor's office did to help Pennsylvania's small businesses between 1980 and 1982 (the reputed high tide of the Reagan Revolution), was to quadruple state funding for the Pennsylvania Industrial Development Authority (PIDA) and alter its lending powers. As a result, in 1981 the majority of the authority's low interest, long-term loans went to firms that had fewer than 100 employees.[845] This did not go unnoticed. Praising the state's pro-small business initiatives, in

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842 Eisinger, *The Rise of the Entrepreneurial State,* p.257; Small Business Administration, 'Capital Formation in the States', (Washington DC 1988), p.24.

843 In 1978, the total pool of venture capital in Michigan amounted to less than $6 million. Eight years later, $300 million had been invested (by both the public and private sector) in the state. Osbourne, *Laboratories of Economic Development*, p.155. Peter K. Eisinger, 'State Venture Capitalism, State Politics, and the World of High-Risk Investment', *Economic Development Quarterly* (1993), Volume 7 (2).

844 Press Release, 'INC Magazine rates PA number one in State support for small business', 21 September 1983, Series XI, Box 166, DT Papers.

845 The Pennsylvania Industrial Development Authority was established in 1956 to provide low-interest loans for manufacturing firms and heavy industry. During the 1960s and 1970s, it primarily provided assistance to large manufacturing corporations; Press Release, 'Small Business Week', 11 May 1980, Series XI, Box 573, DT Papers; Neumann, *Remaking the Rustbelt*, p.88.

1983, *INC.* magazine placed Pennsylvania at the top of its state rankings for small business assistance.[846]

Although the Thornburgh administration received national acclaim for the small business assistance programmes that it devised, the policies it adopted were not unique. In Michigan, the Blanchard administration also sought to make things easier for nascent businesses and remove barriers which it believed were stunting their growth. In order to do this, Blanchard signed legislation that drastically reduced the business taxes paid by small companies, lobbied for a 23 percent reduction in the cost of workers' compensation insurance, created a small business ombudsman to help Michigan firms navigate state bureaucracy, streamlined procedures involved in issuing securities and setting up franchises, and established 12 small-business assistance centres in various locations around the state.[847]

When he came into office, Richard Celeste was also determined to enlarge his state's commitment to small business. Sharing Thornburgh and Blanchard's belief that state bureaucracy was hampering the growth of this sector, Celeste increased the number of staff employed in the Office of Small Business, established a specifically focussed action center that was designed to reduce the accounting and legal costs incurred by nascent businesses, and established two public funds that provided loans to small businesses at highly favourable interest rates.[848] Convinced that it could adapt some of these market-centred economic development schemes to achieve some of its social objectives, top aides within the Celeste administration also seriously explored the possibility of creating a 'quasi-venture capital operation for minority business financing' in the second half of the 1980s.[849]

It is no coincidence that Governors became evangelists for small business and entrepreneurship during a period when large manufacturing firms were closing factories and laying-off thousands of blue-collar workers.[850] However, while they embraced the need for diversification, America's

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[846] INC. was a national publication orientated towards small high technology businesses. In 1983, it had a circulation of 450,000. 'INC Magazine rates PA number one,' DT Papers.
[847] Pete Plastrik to Ralph Gerson, 'Small Business Agenda', 27 February 1984, Box 4, JB Papers; James J. Blanchard to Cabinet Council on Jobs and Economic Development, 10 May 1984, Box 4, JB Papers.
[848] Richard Celeste, '1984 State of State Address', January 18, 1984, Box 2141, Thomas Alva Edison Partnership Program Files, Ohio History Connection; 'Celeste Stands Ready to Enact his Agenda', *Cincinnati Enquirer*, 3 November 1982, p.C4; Jeremy Gibson, 'State Offers Cheer to Small Business Woes', *Cincinnati Enquirer*, 27 June 1984, p.18.
[849] Mark Barbash to Paul Ryder, 12 February 1987, Box 2142, Thomas Alva Edison Partnership Program Files, Ohio History Connection.
[850] For detail on the restructuring efforts of the American automobile industries see, Chapter Two.

subnational elected officials had strong convictions about the type of jobs and industries that they wanted public-sector programmes to nurture and create. Believing that advanced technology and automated manufacturing would be the engines of economic growth in the final decades of the twentieth century, governors from economically struggling states set out to replicate the conditions which they believed were responsible for producing 'cities of knowledge' in places like Silicon Valley and the Route 128 corridor of Boston.[851] Altering pension regulations and establishing small business centres went someway to achieving this goal. However, Thornburgh, Celeste and Blanchard did not believe that a purely deregulatory approach would produce either the kind of economic growth that they desired or help existing firms adapt to the changed economic landscape. Convinced that the public sector could and should actively seek to connect academia, industry and entrepreneurs, as well as subsidise and support the growth of advanced technology enterprises, during the mid-1980s, all three states established large publicly-funded and supported investment banks.

Making Michigan the Centre of Complex Manufacturing

In Michigan, the Blanchard administration was particularly keen to encourage innovation and the development of new technologies, in both new sectors of the economy and in older manufacturing industries. Convinced that the domestic automobile industry's retooling process would create hundreds, if not thousands, of new jobs — in fields such as robotics, lasers and computer-based manufacturing — the Blanchard administration dedicated itself to 'us[ing] public policy and resources to help the people and businesses in Michigan succeed in the new tech-high skill world economy'.[852] However, it did not believe that Michigan would emerge as the centre of 'complex manufacturing' if it adopted the 'anti-business, market-management, outcomes guarantee [approach] advocated by some national liberals' as well as the 'laissez-faire "government's the problem" approach of the Reagan conservatives.'[853] Critical of conventional liberal or conservative economic development prescriptions, the Blanchard administration adopted an advanced technology development strategy in the mid-1980s that an aide privately described as a 'pragmatic third path that involves active government participation in the

[851] On Silicon Valley's development see, Margaret O'Mara, *Cities of Knowledge: Cold War Science and the Search for the Next Silicon Valley* (New Jersey, 2004), pp.97-141; Margaret O'Mara, *The Code: Silicon Valley and the Remaking of America* (New York, 2019).
On the development of Boston's Route 128 see, Lily Geismer, *Don't Blame Us: Suburban Liberals and the Transformation of the Democratic Party,* (Princeton, 2014), pp.19-42.
[852] *Ibid.*
[853] Douglas Ross to James Blanchard, 10 November 1987, Box 247, JB Papers.

economy in close cooperation with the private sector to assist both businesses and people to compete better in the new marketplace.'[854]

The institution charged with responsibility for crafting the state's advanced technology programme was the Michigan Strategic Fund (MSF). This public-private development agency grew out of Blanchard's 1982 promise that he would, if elected, create a major new development bank for the state to 'increase the supply of investment capital available to Michigan's businesses.'[855] In effect, Blanchard was proposing the sort of development bank that Felix Rohatyn and others had spent years proposing. Establishing this agency was not straightforward, however. Republicans in the Michigan Senate, emboldened by public support for the recall movement, allowed the legislation that would have created the investment bank to languish in committee for more than a year.[856] After losing patience with its political opponents, the Blanchard administration mobilised support for the MSF from influential and prominent members of Michigan society including Chrysler President, Lee Iacocca.[857] This tactic proved successful and the legislation was eventually approved by the state legislature. But, as a consequence of the stalling tactics of Blanchard's political opponents, the MSF did not become operational until the end of 1984.

In its first full year of operation, MSF concentrated on 'acting as a catalyst to expand the role of the financial community in funding new and existing business development' and influencing the behaviour of private financial institutions.[858] The nine political and civic leaders who sat on the board agreed that, in spite of the investments made by Michigan's public pension funds, there was a severe shortage of seed capital in Michigan.[859] Convinced that an infusion of government money into the seed-capital market could help change this situation, MSF provided four Michigan-based seed capital funds with loans of $2 million, provided that each seed capital fund raised an additional $1 million from private sources.[860] This attempt to use public money to leverage private investment was successful. Indeed, by April 1987, the seed-capital companies

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[854] *Ibid.*
[855] Robert Bowman and David Koss to Jim Blanchard, 'Strategic Investment Bank', 5 March 1983, Box 247, JB Papers; Fact Sheet, 'The Michigan Strategic Fund', ND, Box 248, JB Papers.
[856] James J. Blanchard to Charles Woodruff, 18 October 1984, JB Papers.
[857] Lee Iacocca to James J Blanchard, 18 December 1984, Box 255, JB Papers.
[858] Question and Answers: The Michigan Strategic Fund, Box 11, JB Papers.
[859] There is no universally accepted formal definition of seed capital. However, it was generally taken to mean the capital that entrepreneurs and small businesses needed to grow during their earliest stage of their development.
[860] Steven P. Galante, 'States Cultivating Seed Funds To Spur Early Stage Ventures', *WSJ*, 12 January 1987.

had received $6 million from the state, had persuaded wealthy individuals and large corporations to provide a further $4-6 million and had begun investing in Michigan entrepreneurs.[861]

Investments in seed-capital firms represented only one of the several ways that MSF sought to fill the 'gap financing' needs of small businesses and entrepreneurs during the 1980s. [862] Another initiative designed to help businesses deemed too risky for banks but not attractive enough for private venture capital firms was the Capital Access Program. Under the programme, the Michigan Strategic Fund provided loan guarantees to banks made to small businesses that were considered ineligible for loans from the private sector. Keen to target advanced technology industries with the Capital Access Program, the legislation that made the programme possible stipulated that only companies that were looking to expand their plants, invest in capital equipment, acquire intellectual property or technology, or hire new workers to satisfy new business opportunities, could qualify for assistance (specific provisions were also made so that most retail businesses would not be eligible).[863] While at a national level proponents of industrial policy could not agree on which industries should be nurtured and supported by the state, in Michigan, the public-private development bank had little problem selecting 'winners.'

In addition to shaping and creating markets in this way, the MSF also attempted to create a whole new industry of private financial institutions through its Business and Industrial Development Corporations Investment Program. Designed to provide small amounts of financial assistance to small companies, BIDCOs are financial institutions intended to specifically help medium sized companies with growth potential. Convinced that BIDCOs could play an important economic development role, in the spring of 1986 James Blanchard signed into law the BIDCO Act, which provided a system of regulation and licensing that was designed to encourage the formation of business and industrial development corporations in Michigan.[864] However, public-sector involvement in BIDCOs did not stop with the passage of legislation. Not content with simply enacting legislation that allowed BIDCOs to incorporate, the MSF attempted to encourage the emergence of these ventures by offering to make equity investments

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[861] Pete Plastrik to James J. Blanchard, 22 April 1987, Box 11, JB Papers.

[862] Doug Ross and Peter Plastrik to James Blanchard, 'Re MSF P.R. Opportunities', 22 April 1986, Box 233, JB Papers.

[863]Michigan Strategic Fund Act, Michigan Legislature, Act 270 of 1984, [accessed 21 July 2016] http://www.legislature.mi.gov/(S(evrsr0pcdvjktgq1jn2tm5fm))/mileg.aspx?page=GetObject&objectname=mcl-125-2088d. See also, Paul A. Einstein, 'New Tools for Growth', *United States Banker*, November 1986, p.40

[864] BIDCO's are private, for profit corporations chartered by a state to provide both equity and long- term debt capital to small-business owners. BIDCOs had existed in the U.S. since 1949. However, with the exception of California and Michigan, a state's only involvement was to pass legislation that permitted BIDCOs to incorporate. Szabo, 'State Funds For Start-Ups,' p.44.

of up to $2 million in each new BIDCO (on the condition that the organisers could raise a minimum of $2 in private equity for every $1 of MSF equity). Anticipating that the programme would take time to catch on, the MSF initially set aside $12 million to support BIDCOs.

The programmes that MSF initiated were very well received. By the time of MSF's second year anniversary the Capital Assistance Fund had assisted 30-40 banks in making loans to 50-60 businesses.[865] At the same time, the BIDCO programme also proved very popular. Indeed, by 1987 so many BIDCO groups had formed and met the terms set by MSF that the organisation had to double its original budget for the programme.[866] During this time, other MSF-operated programmes had provided small loans to 12 minority-owned firms and 150 entities had received tax-exempt or taxable bond issues.[867] Across the state, numerous companies benefitted from the new public-private investment vehicle established during the 1980s.

Through the Michigan Strategic Fund, Michigan demonstrated its commitment to using public money and activist public policies to help small businesses and entrepreneurs and leverage private sector investments. However, Michigan's economic development officials recognised that it would take more than just money to help the state's pre-existing corporations adapt to the changed economic landscape of the 1980s. Convinced that Michigan-based auto supplier firms could become high-growth firms and succeed in the new world of automated and computerised manufacturing if they made the transition from old to new technologies, the Blanchard administration also created the Michigan Modernisation Service in 1987.[868] A body established to provide a broad range of technical assistance to entrepreneurs and small businesses, the Michigan Modernization Service paid for professional engineers and business consultants from the private sector to advise companies on how to produce business plans, improve manufacturing methods and apply new technologies, train their workforces and management, improve their marketing strategies, and apply for state grants and low-interest loans.[869] Provided with a full time staff of 27, an annual budget of over $4 million and more than 30 field agents, the Michigan Modernization Service provided assistance to 179 small firms in its first full year of operation.

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865 The majority of these loans were to firms that did not possess the collateral required to take out a conventional bank loan. Pete Plastrik to James J. Blanchard, 22 April 1987, Box 11, JB Papers.
866 Steven P. Galante, 'With an Eye on '88 Election, Politicians Court Businessmen', *WSJ*, 28 September 1987
867 Pete Plastrik to James J. Blanchard, Box 11, 22 April 1987.
868 Studies revealed that the most successful small machine tool operators in Michigan were those that had installed CNC machines and embraced other forms of technology. Osborne, *Laboratories of Democracy*, p.165.
869 Tom Peters, "Businesses Saying `Yes` To Innovative Michigan"; Philip Shapira, 'Helping Small Manufacturers Modernize', *Issues in Science and Technology,* Vol. 7, No. 1 (Fall 1990), p.49.

As part of its broader strategy to encourage the commercialisation of innovative ideas and technologies, and help firms 'succeed in th[e] new high-tech setting' of the 1980s the Blanchard administration also provided funding to the Industrial Technology Institute in Ann Arbor.[870] An independent not-for-profit research and development organisation, the Michigan Industrial Technology Institute was designed to provide a bridge between the basic research on advanced technology, which took place at universities, and the applied research done by corporations. Rather than conducting purely scientific or technological projects, the Industrial Technology Institute was charged with carrying out 'industry research' for corporations and designing organisational systems aimed at improving the productivity and competitiveness of American corporations — especially those in the automotive industry. In practice this meant that rather than carrying out its own research, the Industrial Technological Institute worked on research contracts which came from the private sector.

In the beginning, the Industrial Technology Institute did not flourish. The organisation received contracts during its first five years of operation that were smaller in scale and scope than had been anticipated. Moreover, only a very small proportion of the work that the Institute conducted between 1982 and 1986 was for small firms.[871] Much of the research that the public-private partnership conducted during this period was for General Motors. Rather than withdrawing funding, in 1987, MSFF tried to overhaul the institute by provided a five-year grant that was conditional on the center fulfilling performance and other specific research conditions. Even though the center was not as transformative as its public and private backers had hoped, it did, with other publicly funded initiatives, help give the impression that Michigan was the hub for advanced machine tools research and development. Undoubtedly the state's reputation in this regard was one of the prime reasons why the federally-funded Advanced Research Projects Administration announced that it had decided to locate the National Center for Manufacturing Sciences — a centre that carried out research in manufacturing technology that was funded by a mixture of private and federal grants — in Ann Arbor in 1987.[872]

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[870] Funding for the Institute's state of the art headquarters in Ann Arbor and for its 100 staff came from the state of Michigan and various private foundations. However, it was envisaged that by 1992 the organisation would receive large enough research contracts from individual firms and consortium to become self-financing. Doug Ross to James Blanchard, 10 November 1987, Box 11, JB Papers.

[871] Osborne, *Laboratories of Democracy*, p.163.

[872] The consortium of U.S. manufacturers leading the search considered potential sites in Ohio, Texas, Michigan, and Connecticut. Gertha Coffee, 'State in Running for New Centre', *DFP*, 16 June 1987; George White, 'Ann Arbor Get New Computer Centre', *DFP*, 24 November 1987.

Transforming Pennsylvania into an Advanced Technology Hub

Pennsylvania implemented its advanced technology and entrepreneurial economic development strategy much more slowly than Michigan. Indeed, although Richard Thornburgh regarded economic development as one of his chief priorities as governor and campaigned on the issue, he was not initially vocal about his overall strategy. At the height of the 1980 recession it seemed as if the Governor was more interested in rebuilding roads and balancing the budget than in creating new jobs or helping the regions and groups that had suffered the most from the economic upheaval of the 1970s and 1980s. However, this stance did not prove permanent. Responding to the criticisms of its economic development policies that erupted in the build-up to the 1982 election, the Thornburgh administration unveiled a plethora of wide-ranging programmes and initiatives that were designed to provide immediate financial support to industries and firms which it believed had a bright economic future.

Irrespective of their partisan affiliation or ideological outlook, Pennsylvania's political and civic leaders were convinced that the state's economy was in transition and that the best way to ensure that the state emerged as prosperous in this new age was to build on Pennsylvania's strengths and areas of pre-existing expertise. However, they less convinced than the Blanchard administration that heavy industry would continue to play such a central role in their state's economy in future decades. Instead, Thornburgh and his chief aides were convinced that science, engineering and computer firms represented the 'best hope for future growth in jobs and productivity.'[873] Setting out to do what it could to help accelerate the growth of Pennsylvania's advanced technology sector, the Thornburgh administration devised programmes to provide equity, seed, venture and working capital to firms that were not *Fortune 500* companies.

Acknowledging that the investments it had made in seed-capital firms were unlikely to benefit small-established companies based in rural or small urban areas, the Thornburgh administration and the Pittsburgh General Assembly created the Capital Loan Fund. Supplied with initial funding of $5 million, this fund was designed to provide manufacturing, exporting, and industrial companies which had fewer than 50 employees (retail, commercial and local service businesses were not eligible) with loans that could be used to purchase equipment, buildings or land.[874] Qualifying businesses made full use of these small low interest loans, taking out 134 loans worth

[873] 'Governor's Press Release', 13 October 1982, Box 159, DT Papers

[874] Press Release, 'Lt. Governor Scranton: Start-up of new PA Capital Loan Fund', 14 September 1982, Box 165, DT Papers.

a total of $7.4 million between 1982 and 1985.[875] These investments altered the structure of the marketplace and directed state support to specific businesses and sectors which had been identified as the growth industries of the future. However, when compared to the Thornburgh administration's flagship technology-based long-term economic development strategy — the Benjamin Franklin Partnership — it was positively *laissez-faire*.

The Benjamin Franklin Partnership Challenge Grant Program for Technological Innovation (popularly known as the Benjamin Franklin Partnership) began life in the final months of 1982. The organisation was designed to help 'make traditional industry more competitive in the international marketplace and to spin off new, small businesses on the leading edge of technological innovation.' To achieve this, the Benjamin Franklin Partnership's board, which included representatives from the private sector, organised labour, education, labour, and the Pennsylvania General Assembly, sought to 'brin[g] together the expertise and resources of businesses, universities, and government.'[876] Modestly funded with an initial state appropriation of $1 million, the Thornburgh administration hoped that it could convince members of the private sector to support the BFP by matching the state of Pennsylvania's investment. If it proved successful, it was hoped that additional state and private sector funding would be provided in future years.

Although managed by a national board, the primary day-to-day activities of the Benjamin Franklin Partnership were conducted by four regional advanced technology centres.[877] Affiliated with the state's major research universities, these regional intermediary organisations supplied research grants in specified areas in an effort to ensure that technologies and innovations developed in universities reached the commercial marketplace.[878] However, these centres were not autonomous or free to allocate funds as they saw fit; strict conditions were placed on funding so that Advanced Technology Centres were compelled to focus on projects that were deemed of value to the business community. Before issuing grants, for example, they had to

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875 Frank Wright to Senator Edward P. Zemprelli, 're. PA Economic Revitalization Fund', 18 November 1985, Box 168, DT Papers.

876 Pennsylvania Department of Commerce, 'Advanced Technology Initiatives', Legislative Assistants' Files, *JH Papers*; 'Ben Franklin Partnership Challenge Grant Program for Technological Innovation: 48 Month Progress Report, March 1, 1983-February 28, 1987', May 1987, p.1, Box 705, DT Papers.

877 A board of representatives from higher education, the business community, economic development organizations and elected officials managed these regional centres. Each advanced technology centre had a full-time staff of 10-20.

878 The advanced technology centre focused on specific areas of research and development. These included robotics, biotechnology, advanced materials, CAD-CAM, and microelectronics. Pennsylvania Department of Commerce, 'Advanced Technology Initiatives', Legislative Assistants' Files, JH Papers.

provide evidence that the private sector had committed to matching the state's contribution. Advanced Technology Centres also had to submit annual research grant proposals to the Benjamin Franklin Fund Board. The BFFP board assessed these proposals based on factors such as potential commercial application, size of the private sector contribution, and the potential jobs created and awarded funding accordingly. The board was not afraid to reject proposals. Indeed, in 1983, after carefully scrutinising the proposals put before it, the BFP's board rejected Pennsylvania State University's application to become an Advanced Technology Centre because it considered the projects that Penn State proposed to fund unlikely to have commercial potential.

In addition to research challenge grants, BFP's Advanced Technology Centres also supplied challenge grants for various education and training programs and for entrepreneurial assistance services. A broad variety of different programmes were funded with these grants. Advanced Technology Centres ran programmes to help improve the computer literacy of teachers, helped establish small business incubator facilities for young, small technology firms, held bi-monthly conferences where small firms could talk to venture capitalists and provided financial support to seed new venture capital funds.[879] As a result, the four publicly-funded Advanced Technology Centres were responsible for establishing relationships among universities, businesses and economic development organisations that were new in both form and scale.

Pennsylvania's elected officials and the business community thought the BFP an important and valuable economic development initiative that was carrying out an important function. In the programme's second year of operation, the General Assembly approved the Thornburgh administration's request to increase BFP's funding to $10 million.[880] This number kept increasing and by 1988 Pennsylvania had provided the organisation with more than $100 million.[881] Universities and the business community also increased their contributions; by the 1986-7 programme year the ratio of private to state funds was more than 4:1.[882] In 1988, making use of its growing financial clout, the BFP spent $4 million supporting 26 small business incubators, $1.5 million assisting a seed venture capital fund, $3 million helping engineering schools acquire

[879] Osborne, *Laboratories of Democracy*, pp.51-6.
[880] Press Release, 'Additional $10 million in Ben Franklin Partnership grants', 11 August 1983, Box 166, DT Papers.
[881] Ben Franklin Partnership Challenge Grant Program for Technological Innovation: 48 Month Progress Report, March 1, 1983-February 28, 1987', May 1987, p.1, Box 705, DT Papers.
[882] Dianne Rahm and Thomas F. Luce, Jr, 'Issues in the Design of State Science and Technology-Based Economic Development Programs: The Case of Pennsylvania's Ben Franklin Partnership', *Economic Development Quarterly* (1992), Volume 6, p.41.

and upgrade their equipment and $28.5 million providing grants for science and technology research.[883]

Building Strategic Alliances for Innovation in Ohio

Ohio adopted a very similar economic development strategy to Pennsylvania. Much like Thornburgh and Blanchard, Celeste was convinced that developments during the 1970s and 1980s meant that 'scientific research and technology innovation' were likely to be the 'prime force for economic growth and the development of new jobs' in the decades ahead. [884] As a result, he believed that industrial recruitment had become an ineffective tool for economic development. Celeste, however, was not willing to leave the state's long-term economic future in the hands of private actors or trust that market forces would produce prosperity. Convinced that world-class science and technology research was likely to be the key determinant of economic success, in what the governor later referred to as 'the innovation economy' of the 1980s and 1990s, the Ohio state legislature voted in the summer of 1983 to establish a three-part economic development strategy which was named the Thomas Alva Edison Partnership Program (TAEPP).[885]

The component of the TAEPP that received the most media attention and state funding was the Advanced Technology Application Centers.[886] Built around the belief that 'cooperative research and development efforts, involving enterprises and educational institutions w[ould] lead to the creation of jobs' these centers were charged with providing businesses with access to cutting-edge technological research pioneered in research universities, supplying entrepreneurial development assistance for the creation and expansion of advanced technology firms, and improving the quality of pre-existing advanced technology training programmes and scientific education.[887] Unsurprisingly, Ohio's major research universities were keen to become Advanced Technology Application Centers and receive the associated new sources of funding. After considering 13 applications from different individuals and organisations a board of scientists and management experts working for Ohio's Department of Development approved $23.6 million in

[883] *Ibid.,* pp.41-2.
[884] Keith Schneider, 'Ohio Pins Economic Hopes on Innovative Industrial Program', *NYT*, 9 May 1987.
[885] Richard F. Celeste, 'Strategic alliances for innovation: Emerging models of technology-based twenty-first century economic development', *Economic Development Review* (1996), Volume 14 (1), p.5.
[886] Between 1984 and 1990 the advanced technology centres received 80 to 85 percent of the TEAPP's budget. National Research Council, *Ohio's Thomas Edison Centers: A 1990 Review* (Washington DC, 1990), p5.
[887] White House Health Care Task Force, Task Force on National Health Care, and Ira Magaziner, '[Mt. Auburn Associates: An Evaluation of Ohio's Thomas Edison Technology Centers]', *Clinton Digital Library*, http://clinton.presidentiallibraries.us/items/show/39659, p.2-1[accessed 20 November 2016].

the grants to seven Ohio Universities to establish six Advanced Technology Application Centers.[888]

Although broadly similar to the Benjamin Franklin Partnership's Advanced Technology Centres, the TAEPP's Advanced Technology Application Centers operated in a slightly different manner. In particular, the leaders of Ohio's nine advanced technology centres (three additional centres were provided with state funding in the summer of 1986) were supplied with a great deal more autonomy than BFP's Advanced Technology Research Centers and the Michigan Industrial Institute. Financed by the state and the dues of member companies, these centers were responsible for designing their own research projects and carrying out contract research for private sector firms. As a result, despite being created and partially financed by the State of Ohio, the Thomas Edison Program's technology centers were industry-based consortia judged by its public sector backers as performing their purpose as long as they retained industry backing.[889] As such, they lacked the comparable oversight to their Pennsylvania counterparts.

Provided with a much greater level of freedom than the state-based consortia established in Michigan and Pennsylvania, the various Advanced Technology Application Centers differed widely in the way that they carried out research, in the services that they offered and in their general organisation. For example, most of the members of the Edison Biotechnology Centre in Cleveland were small firms run by entrepreneurs. As a consequence, the center's staff spent a great deal of their time providing advice to members about regulatory paperwork, venture capital and management techniques. By contrast, the Institute of Advanced Manufacturing Sciences in Cincinnati had 200 members and offered advice to its members in the areas such as waste reduction and automated manufacturing processes.[890] Although the centers were quite different from one another in purpose, organisation, scale, and approach, during the 1980s all nine were perceived by their private sector backers to be performing a valuable role and having achieved their aim of using state resources to leverage private sector investment.[891]

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[888] Bob Paynter and Mary Grace Poidomani, 'Polymer Project Funded', 11 July 1984, *Akron Beach Journal.*

[889] I borrow the notion of state-based and industry-based consortia from Keith Franklin Ward. See Keith Franklin Ward, 'Evaluating the Effectiveness of State-Based R&D Centers: A Study of the Ohio Edison Technology Program', Ph.D. Dissertation, Ohio State University, 1997, pp.9-10.

[890] For more on the organisation and activities of individual centres see, National Research Council, *Ohio's Thomas Edison Centers: A 1990 Review* (Washington DC, 1990), pp.19-26.

[891] A 1990 assessment of the Thomas Edison Technology centres concluded that 'the centers have given good value for the state's investment.' *Ibid.*

In addition to the Advanced Technology Application Centers the Thomas Edison Partnership also provided research grants through the Edison Seed Development Fund. This fund provided matching grants to support collaborative university-industry research and helped businesses bring products to the market. Money was available in amounts up to $50,000 to demonstrate the commercial feasibility of a product or a production process and up to $250,000 to develop products or prototypes.[892] Just as in Michigan and Pennsylvania these grants proved popular. Indeed, between 1984 and 1987, the Edison Seed Development Fund provided 73 companies with 85 grants, which ranged in size from $50,000 to $250,000.[893]

The third and final component of the Thomas Edison Partnership were six university-based incubator centres. Attempting to improve the survival chances of newly formed, technology driven small businesses which were identified as having a high potential for growth, entrepreneurs received business, financial and technical assistance through these incubators. However, perhaps, the most important thing that these incubators did to improve the survival chances was to lower the cost of doing business by charging rents far below the market average.[894] Making use of former industrial buildings and other disused spaces, Edison incubators supported 67 companies. Although none of these companies thrived in the same way as STERIS did, there were some success stories. Indeed, by 1987, ten of the companies that the Edison incubators assisted during this period brought their products to market and moved to larger facilities outside the state-funded incubator.[895]

The 'Rustbelt' as a Laboratory for Economic Development

In the late-1980s, Michigan, Ohio and Pennsylvania's economies showed signs of improvement. Between 1982 and 1987 Michigan's unemployment rate dropped from 15.5 percent to 8.4 percent.[896] During the same period Ohio's unemployment rate halved and Pennsylvania's decreased by 7 percentage points.[897] However, reductions in unemployment figures did not simply reflect a return to the economic status quo of the 1960s and 1970s and the revival of the steel and automobile industry. Indeed, as state officials had predicted, the drivers of much of this

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[892] Beverley Jones, *State Technology Programs in the United States*, (Minnesota 1986), p.54.
[893]Dwight Woodward, 'Edison Project Pools Expertise to Aid Economy', *Akron Beach Journal*, 13 December 1987.
[894] Dean M. Prestegaard et al. 'An assessment of the Ohio Thomas Edison Program', 7 December 1997, p.8.
[895] Dwight Woodward, 'Edison Project Pools Expertise to Aid Economy', *Akron Beach Journal*, 13 December 1987.
[896] Robert Kleine, 'The Michigan Economy: On the Brink of Recession?', 17 September 1987*, Public Sector Reports.*
[897] During the same period the national unemployment rate fell from 9.7 to 6.2 percent. 'Ohio's Celeste Won't Run for President in 1988', *WP*, 25 August 1985, p.A4; Bureau of Labor Statistics, 'Local Area Unemployment Statistics (LAUS)', http://www.bls.gov/lau/home.htm [accessed 17 November 2016;
Bureau of Labor Statistics, 'Current Population Survey: Employment status of the population, 1940s to date', http://www.bls.gov/cps/cpsaat01.pdf [accessed 17 November 2016].

new wave of economic development were small advanced-technology firms, rather than *Fortune 500* companies. The 40-mile stretch between Ann Arbor and Detroit, for example, became the site of an advanced manufacturing area that *The Economist* described in 1987 as 'the fastest growing technology corridor in the entire United States of America.'[898]

Ohio and Pennsylvania experienced a similar process of economic renaissance with biotechnology and advanced research and development firms flourishing.[899] Reacting to these developments, as well as the region's economic development strategy, the Corporation for Enterprise Development declared in its 1990 *Development Report Card for the States* that 'the American "Rust Belt" [was] resurgent' and 'showing signs of its old muscle'.[900]

Although Michigan, Ohio, and Pennsylvania's economic problems had by no means been resolved, many other states copied the economic development strategies that the three industrial states pioneered. In fact, by 1990, the majority of states had introduced new policies that were designed to nurture the small business sector, encourage basic and applied research and build stronger connections between higher education institutes and the business community.[901] In 1986, 43 states specifically allocated funds within their budgets to advanced technology business and research development.[902] As part of their expenditures on programmes designed to nurture high-tech businesses, 10 states funded venture capital funds, 19 states supported business incubators, 27 states financed advanced technology or research centres, and 29 states provided research grants to joint university and private sector projects.

Perhaps for understandable reasons, the largest spenders on technology were the old industrial states of the Northeast and Midwest.[903] Pennsylvania, for example, spent nearly $100 million in financial year (FY) 1986 to promote technological innovation, while Illinois, Massachusetts,

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[898] 'Automation Alley', *The Economist*, 11 April 1987.
[899] For more on this development, see Elizabeth Popp Berman, *Creating the Market University: How Academic Science Became an Economic Engine* (Princeton, 2012); Charles E. Rosenberg, The Care of Strangers: The Rise of America's Hospital System (New York, 1987); Rosemary Stevens, In Sickness and in Wealth: American Hospitals in the Twentieth Century (New York, 1989); Andrew T. Simpson, 'Health and Renaissance: Academic Medicine and the Remaking of Modern Pittsburgh', *Journal of Urban History* (2015), Volume 41 (1).
[900] The Development Report Card for the States was launched in 1987. Critical of the way that the Alexander Grant and Company graded the business climate of states, the Corporation of Economic Development used three different metrics to provide an 'assessment of how a state's economy was doing' and how 'economically "fit" it [was] to face the future.' Corporation for Economic Development, *The 1990 Development Report Card for the States,* April 1990, p.4, 11.
[901] On Massachusetts' attempts to economically diversify and encourage the development of advanced technology industries, see Geismer, *Don't Blame Us*, pp.268-74.
[902] Only Alaska, Idaho, New Hampshire, South Dakota, Vermont, West Virginia and Wyoming did not fund their own advanced technology programs in FY 1986. Jones, *State Technology Programs in the United States*, p.8.
[903] *Ibid*., p.5.

Michigan and New Jersey each spent over $30 million.[904] However, every state that possessed an advanced technology programme made a multimillion-dollar financial commitment to their scheme. Indeed, the 37 other states that specifically funded advanced technology economic development initiatives spent an average of $10 million in FY 1986 on their programmes.[905] At a state level, therefore, the 1980s was not a decade in which economic policy was wholly dominated by tax and spending cuts. Instead, it was a period defined by new sectoral specific policies and tax raises designed to stimulate the growth of specific home-grown businesses.

These advanced technology programmes did not merely prove to be a short-lived policy fad. Indeed, throughout the second half of the 1980s, states broadened and increased the amount of funding allocated to their advanced technology economic development programmes. By 1988, public employee funds in 21 states had made venture capital investments of $500 million, 22 states operated or funded their own small business incubators and 29 states financed advanced technology centres.[906] Direct state spending on advanced technology business and research initiatives did decrease in the latter half of 1980s, once the various institutions had been established. However, this was more of an indication of the fact that these programmes were no longer in their infancy and did not need the same seed-funding, rather than being an indication of declining support. In fact, the overall expenditures of the public-private advanced technology developments institutions established by state continued to increase in the final years of the decade, as a consequence of increases in indirect contributions from the public sector and investments from the business community.[907] As a result, support from the private and public sector for advanced technology policies proved long-standing and did not dissipate once the turbulence and insecurity of the long economic crisis abated.

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When the national industrial policy and economic planning movement lost steam during the second half of the 1980s, it seemed that the private sector would take responsibility for directing the nation's recovery from the long economic crisis of the 1970s and 1980s. From a national perspective, this was largely true. The re-election of Ronald Reagan in 1984, the abrupt fading of

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[904] *Ibid.*, p.2.

[905] For a state-by-state breakdown of total as well as per capita expenditure on technology programmes, see *Ibid.*, pp.7-8.

[906]Office of Science and Technology, Minnesota Department of Trade and Economic Development, 'State technology programs in the United States' (1988).

[907]For insight into the evolution of state advanced technology programmes during the late-1980s and early 1990s, see Peter Eisinger, 'The State of State Venture Capitalism', *Economic Development Quarterly*, (1991), Volume 5 (1), pp.64-76; John Portz and Peter Eisinger, 'Biotechnology and Economic Development: The Role of the States', *Politics and the Life Sciences* (1991), Volume 9 (2), pp. 225-39; Stuart A. Rosenfeld, 'Sowing the Seeds for Growth: State Support for R&D in the South', *Economic Development Quarterly* (1987), Volume 1 (2), pp.136-148.

enthusiasm for industrial policy among members of the Democratic Party, and signs of national economic recovery brought to an end calls for governmental efforts to direct domestic economic development and steer industrial and technological innovation. However, as I have demonstrated in this chapter, at a state level, elected officials from across the ideological spectrum responded to the economic crisis of the early 1980s in a very different way from their Washington-based counterparts.

Amid the devastating economic and industrial crises of the 1970s and 1980s, Republicans and Democrats in Ohio, Michigan, and Pennsylvania embraced statist economic policies. Desperately searching for long-term solutions to their states' economic and financial problems, elected officials in all three states became enamoured with the idea that entrepreneurs and small businesses — particularly those that concentrated on science and technology — were keystones of economic growth and vital sources of innovation. However, they did not share the Reagan administration or the business communities' faith in the power of unregulated markets and low taxes to generate economic prosperity. Moreover, they also did not believe that the race to the bottom industrial recruitment strategies, which most states had adopted during the 1950s, 1960s, and 1970s, were likely to strengthen economic productivity in an age of stagnation and fierce international competition. Focussed on doing whatever they could to encourage technological and scientific innovation and the growth of small businesses, Ohio, Michigan and Pennsylvania developed remarkably similar economic development strategies during the mid 1980s.

Due to the dire economic and financial situation in which the industrial states of the Midwest found themselves, it is hardly surprising that political elites turned to statist solutions. After all, each state experienced a great deal of economic trauma during this period and there was a consensus that heavy industry would not be the engine of economic growth during the 1990s that it had once been. However, what is surprising is that these activist industrial policies and entrepreneurial economic development strategies spread across the nation. Indeed, by the 1990s even the prosperous states of the South and the Southwest were funding advanced technology research centres, small business incubators and subsidising other institutions which supplied early stage investment to small companies and entrepreneurs. In this instance, the states were not testing grounds for federal policy. However, as a result of the broad adoption of these initiatives and policies, the impact of the new economic development strategies introduced in the Northeast and Midwest during economic turbulence of the early 1980s extended nation-wide.

Ultimately, the decentralised industrial policies that emerged in the 1980s encouraged the growth of embryonic advanced technology sectors as well as the development of small high-technology and science-based businesses. State-level economic development policies played an important role in producing the U.S. knowledge economy of the 1990s and shaping contemporary attitudes about the sources of innovation and economic growth. Once again therefore, and perhaps in a more direct way than we see in the cases of the automobile industry and New York City, the decisions made and actions taken in response to local, regional, or sectoral crises were responsible for subtly, but significantly, shaping America's 'postindustrial' recovery and transforming the nation's economic landscape in the longer term.

Epilogue

Industrial Policy Redux

On the eve of the 1992 elections, the Republican political commentator Kevin Phillips was worried. In 1990, the former Nixon campaign strategist had written a book comparing the second half of the 1980s to the 1920s and 1890s and warned that a 'new political and economic outlook' was emerging.[908] Political developments over the next two years only strengthened this conviction. Writing in the *Harvard Business Review*, Phillips now argued that the 'political winds of the 1990s' had sparked an 'ideological sea change' and forged an 'interventionist consensus.'[909] He did not regard the rising belief of America's political and business elite in the need for 'less deregulation,' 'strategic thinking,' and 'more government activism' as a positive development. In fact, Phillips gloomily prophesised that the new consensus would translate into 'vague, confusing, politicized — and frequently ineffective' policies that were 'driven by special interests.' But, for all his pessimism Phillips did not see any alternative. This new political and economic order was, he felt, an inevitability which the presidential election result would not alter. Accordingly, Phillips ended his *Harvard Business Review* piece by advising the business community that they should 'learn how to live with an erratic and haphazard industrial policy.'[910]

To substantiate this argument, Phillips could highlight several recent developments. In 1988, after three years of discussion, Congress had overwhelmingly approved the Omnibus Trade and Competitiveness Act, requiring the federal government to name countries that engaged in 'unfair trade' practices and threaten them with 'retaliatory' sanctions. In addition, the bill created a 12-member public-private Competitiveness Policy Council, designed to help domestic producers to request import protection and other forms of state financial assistance.[911] At the same time, the legislation also included various initiatives designed to improve the international competitiveness of small businesses and catalyse the commercialisation of new technologies. Most noticeably, the bill provided funding for the establishment of regional Manufacturing Technology Centers, as well as a Manufacturing Extension Partnership Programme — public-private initiatives intended to provide businesses with various forms of technical assistance as well as information about

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[908] Kevin Phillips, *The Politics of Rich and Poor: Wealth and the American Electorate in the Reagan Aftermath* (New York, 1990).

[909] Kevin Phillips, 'U.S. Industrial Policy: Inevitable and Ineffective', *Harvard Business Review*, July-August 1992. Those that were not subscribers to the *Harvard Business Review*, could learn about Phillips's argument in a summary article published in the *Washington Post*. Daniel Sutherland, 'Boosting Business or a Boon for the Pork Barrel?', *WP*, 30 September 1992.

[910] Phillips, 'U.S. Industrial Policy'.

[911] 'After Three Years, Trade Bill Finally Clears', in *CQA 1987* (Washington D.C., 1988), pp.209-222; Bruce Stokes, 'Testing the Law', *National Journal*, 13 August 1988, p.2126.

new technologies.[912] If Ronald Reagan and members of Congress had embraced *laissez-faire* doctrines, completely rejected industrial policy ideas, and accepted a multilateral approach to trade by the mid-1980s, they had a funny way of showing it.[913]

During the same period, fears that America was losing the high-technology race — and Japan was winning — also ensured that much federal financial support went to industries deemed critical to future American economic success. Nowhere was this more apparent than for the U.S. semiconductor industry. Throughout the 1960s and 1970s, America had led the way in the manufacturing and development of the micro-chips that powered supercomputers, spy satellites, missiles, space rockets, and many other expensive high technology devices.[914] During the mid-1980s, though, American manufacturers reported huge losses and rapidly lost market share to their Japanese counterparts.[915] This created much alarm, at a time when the civilian market for microchips was exploding.[916] Intervening to help domestic manufacturers, the federal government agreed to provide $100 million a year to fund the establishment of a new massive research and development consortium, the Semiconductor Manufacturing Technology Institute (or Sematech).[917] Just like the U.S. automobile industry, for certain information-age industries the 'Age of Reagan' was a period defined by state assistance and government-industry collaboration.

Much federal money was also spent during the early 1990s trying to improve the 'nationwide network of electronic "highways"' that would soon become known simply as 'the Internet."[918] By the final decade of the twentieth-century, America's network technology was thirty years old and showing its age.[919] To address various capacity and functional problems, experts called for a new massive infusion of state funds. In doing so, they often framed the decision facing federal

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[912] For more on these initiatives, see Paul M. Hallacher, *Why Policy Issue Networks Matter: The Advanced Technology Program and the Manufacturing Extension Partnership* (Oxford, 2005); National Research Council, *1992 Proposal Evaluation for the Manufacturing Technology Centers Program* (Washington D.C., 1992).

[913] Originally, the Reagan administration vetoed the bill because of its objections to plant-closing legislation within the package. However, the White House willingly signed a revised bill that did not include plant closing legislation.

[914] Hobart Rowen, 'Semiconductor Industry Growth is Spectacular,' *WP*, 16 March 1980.

[915] Silicon-based semiconductors (also known as integrated circuits or micro-chips) are essential components in advanced electronic devices. Because of various manufacturing and technological breakthroughs, semiconductors became more powerful, smaller, and less expensive during the course of the 1970s. As a result, a huge array of new electronic consumer goods — pocket calculators, personal computers, etc — were developed. Roger Altman and Gail Zauder, 'Rescuing the Semiconductor Industry,' *NYT*, 16 May 1987.

[916] For examples of this growing alarm, see 'What! Lose to the Japanese Again?', *NYT*, 18 May 1987; David E. Sanger, 'Japan's Lead in Computer Research Grows,' *NYT*, 21 February 1990.

[917] The foundation of Sematech was made possible by the 1984 National Cooperative Research Act. This legislation provided research and development joint ventures with partial exemption from existing antitrust laws. See Dennis Patrick Leyden and Albert N. Link, *Public Sector Entrepreneurship: U.S. Technology and Innovation Policy* (Oxford, 2015), pp.151-181.

[918] Daniel Greenberg, 'Al Gore for Technology Czar', *NYT*, 8 December 1992.

[919] On the history of the Internet, see O'Mara, *The Code*.

policymakers in zero-sum economic nationalist terms. In 1988, for example, the National Academies issued a report warning that 'our foreign competitors are busy at work with their own national research networks.'[920] Arguing that public money could 'dramatically improve the quality of output and productivity of the research community,' the report urged the federal government to fund an advanced national research network.[921] In response, Congress overwhelmingly approved the High-Performance Computing Act of 1991. Sponsored by Senator Albert Gore (D-TN) and supported by President George Bush as well as House Minority Whip Newt Gingrich (R-GA), this legislation authorised federal expenditures of $2 billion to build new supercomputers and a high-speed computer network.[922]

Despite its support for these policies, the George H.W. Bush administration vigorously denied allegations from Kevin Phillips and others that it had abandoned the *laissez-faire* doctrines and embraced industrial policy ideas. Defending the administration's approach, At the end of 1991, the White House Chief of Staff announced 'I don't know what to call it. But there are ways of getting federal support into systems in an efficient way in which financial and technological competitiveness are not stifled.'[923] Others within the White House went further. After telling a reporter 'don't call it industrial policy', another administration official offered his own label: 'George Bush's Incredibly Forward-Looking Applied Research-and-Development Initiatives.'[924] While the White House sought to deflect attention from public policies that were helping build and sustain America's high-technology industry, by the early 1990s, there was certainly plenty of evidence to substantiate Kevin Phillips' prediction that the political and economic order that had allegedly reigned supreme during the Reagan years was breaking down and a haphazard national industrial policy was emerging. The 1992 presidential election campaign only provided more evidence to support this argument.

Clinton's Brief Interventionist Tilt

When historians discuss the 1992 presidential election, they often explain the result and George H.W. Bush's poor post-Gulf War approval ratings by mentioning the slogan written on a whiteboard in Bill Clinton's campaign War Room — 'It's the Economy, Stupid.'[925] This is a useful analytical shorthand. Whereas the 1984 and 1988 elections took place during a period of

[920] National Research Council, *Toward a National Research Network* (Washington D.C., 1988), p.4.
[921] *Ibid.*
[922] 'Bill Enacted to Advance High-Speed Computing', *CQA 1991* (Washington, 1992), pp.244-5.
[923] Quoted in Michael Duffy, 'The Economy Now This Idea Is -- Shh! -- O.K.', *Time*, 23 December 1991.
[924] *Ibid.*
[925] George Stephanopoulos, *All too Human: A Political Education* (London, 1999), p.88.

economic growth in which America's gross domestic product was growing and inflation and unemployment rates were low, the 1992 election campaign occurred in the aftermath of a brief recession, with unemployment still high.[926] Furthermore, throughout the campaign, Bush was repeatedly hounded for having broken a 1988 'no new taxes' pledge. But these were not the only important economic issues during the campaign.[927] Also important, and often overlooked, were fears about America's future economic place in the world and concern about the economic 'threat' presented by the emergence of new capitalist economic superpowers.[928] Amid a national economic slowdown, discussions initiated during the long economic crisis became a major part of the national political conversation once again.

In 1992, all of the leading presidential candidates argued that urgent action was needed to prevent national economic decline and ensure that America was not left behind by its (supposed) economic rivals. For some, the solution was protectionism. Both Texas billionaire Ross Perot and former Nixon aide Patrick Buchanan, for example, campaigned by calling for the introduction of strict import restrictions (particularly on Japanese-produced goods) and announced that they opposed proposals for the establishment of a free trade zone with Mexico and Canada.[929] The eventual Republican and Democratic Party nominees, George H.W. Bush and Bill Clinton, did not share these views.[930] However, in their party acceptance speeches they did lend their support to activist federal government policies to preserve American economic power and corporate competitiveness. Bush in his address announced that he believed the 'defining challenge of the '90s' would be 'win[ning] the economic competition' and promised that he was committed to ensuring that America was both an 'economic superpower' and an 'export superpower.'[931] Pushing similar themes, Clinton attacked George Bush for not having a 'game plan to compete and win in the world economy' and urged American companies to

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926 On the 1980s economic boom, see Stein, *Pivotal Decade*, pp.267-7. On the 1990-91 recession, see David E. Rosenbaum, 'On the Economy, Bush Followed Reagan's Lead, Not His Success,' *NYT,* 29 June 1992; Wilentz, *Age of Reagan*, pp.303-10.

927 For historical accounts that only mention the recession and Bush's tax rise when discussing the election, see Collins, *Transforming America*, p.245; Ehrman, *The Eighties*, p.207. For an extended account that downplays the broader economic context, see Margaret O'Mara, *Pivotal Tuesdays: Four Elections that Shaped the Twentieth Century* (Philadelphia, 2015).

928 Throughout the late-1980s and early 1990s, Japan-bashing continued to be a staple of American popular culture. See, for example; *Gung Ho* (dir. Ron Howard), 1986; *Collison Course* (dir. Lewis Teague), 1989; *Black Rain* (dir. Ridley Scott), 1989; Michael Crichton, *Rising Sun* (London, 1992); Tom Clancy, *Debt of Honor* (New York, 1994).

929 These talks would lead to the North American Free Trade Agreement, or NAFTA. On Perot and Buchanan's trade positions, see: Waterhouse*, Lobbying America*, pp.243-7; Hobart Rowan, 'Perot Talks, Walks Like a Protectionist', *WP*, 21 June 1992; Josh Getlin, 'Buchanan Breaks All the Rules', *Los Angeles Times*, 6 February 1992.

930 Both supported the establishment of a North American free trade zone.

931 'Transcript of Bush Speech Accepting the Nomination for Another Four Years,' *NYT*, 21 August 1992.

'export products, not jobs.'[932] Although the Cold War may have ended, in 1992 there was little evidence to suggest that America's politicians believed that the world had become unipolar or that the era of geo-economic competition had ended.[933]

The candidate who presented the most extensive economic revitalisation programme during the campaign was Bill Clinton. As commentators at the time often highlighted, the Arkansas Governor's 1992 campaign was, by design, ideologically indistinct. At times, his emphasis on voluntarism, the limits of government, and personal responsibility made him sound like Ronald Reagan.[934] However, when talking about the policies that he believed were necessary to reinvigorate the economy, Clinton had few reservations about announcing 'departures from Reaganite thinking.'[935] Throughout 1992, he attacked Reagan and Bush's policies and made a great deal of the fact that 'America was the only major country in the world without an economic strategy.'[936] Laying out its economic policy alternative, the Clinton campaign released its 'national economic strategy for America' in the summer of 1992.[937] At the heart of this four-year programme was a pledge to spend $200 billion renovating transportation infrastructure, building a 'national information network', and improving schools and training programmes.[938] Where Bush campaigned by insisting that pro-business policies would stimulate private investment and create economic growth, Clinton argued that improving America's competitiveness, boosting productivity, and creating a 'high-wage, high-growth, and high opportunity society' required new federal programmes and spending.[939]

The fact that Clinton's economic programme sounded like as if it had been written by an early 1980s industrial policy advocate was not coincidental. Robert Reich was a long-time friend and advisor to Clinton (they first met as Rhodes Scholars) and he had helped draft the campaign's

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[932] '92 Democratic Convention: Clinton Text: 'I Still Believe in a Place Called Hope"', *LA Times*, 17 July 1992.
[933] These anxieties were articulated most clearly in *The Endangered American Dream*, a book by the political scientist Edward Luttwak. See Edward Luttwak, *The Endangered American Dream: How to Stop the United States from Becoming a Third World Country and How to Win the Geo-Economic Struggle for Industrial Supremacy* (New York, 1993).
[934] This was particularly true of Clinton's 1992 Democratic Party National Convention speech. During the address, he promised to create a 'leaner' government that provided Americans with 'more empowerment and less entitlement' and announced that 'there is not a government program for every problem.' '92 Democratic Convention: Clinton Text,' *LA Times*.
[936] Andrew Kopkind, 'The Manufactured Candidate', *The Nation*, 3 February 1992.
[937] Bill Clinton for President Committee, 'Putting People First: A National Economic Strategy for America', Dr. Edna Louise Saffy Collection, University of North Florida Special Collections, https://digitalcommons.unf.edu/saffy_text/418/ [accessed 24 September 2019].
[938] For media assessments of the programme see Kopkind, 'The Manufactured Candidate', *The Nation*; Steven Greenhouse, 'Clinton's Economic Plan has a Roosevelt Tone,' *NYT*, 9 July 1992; Hobart Rowen, 'Clinton's Economic Advisers Hint at Activist Government', *WP* 19 July 1992.
[939] Kopkind, 'The Manufactured Candidate.'

economic programme.[940] After the election, Reich was appointed to head Clinton's economic transition team and, in 1993, he became Secretary of Labor. During this period, two other industrial policy intellectuals were also key members of Clinton's inner circle.[941] The first was Reich's one-time co-author, Ira Magaziner (another of Clinton's Oxford friends). A senior advisor during the campaign, Magaziner was part of Reich's economic transition team and subsequently appointed a senior advisor for policy development in the Clinton White House. The second was the Berkeley economist Laura D'Andrea Tyson. While Tyson was not a prominent figure in the early 1980s national industrial policy debate, she had emerged as an outspoken advocate during the early 1990s.[942] Seeking to include a kindred spirit, Reich asked Tyson to serve on the transition team and a month later Clinton appointed her to head the Council of Economic Advisors.[943] Not only had industrial policy ideas returned to centre stage in Washington; this time, their leading proponents had access to the Oval Office, as well as roles in policy formation.

Although they had some differences, Reich, Tyson, and Magaziner shared the view that the federal government should play a more active role in economic development. In particular, all three believed that the state should set long-term economic goals, promote technological development and business government collaboration, and provide financial and other forms of assistance to help improve American industrial competitiveness. As a result, they viewed Clinton campaign's stimulus proposal as essential to improving the overall vitality of the U.S. economy. On the surface, this seemed like a relatively realistic and straightforward goal. Not only could the new Clinton administration plausibly argue that voters had approved its economic programme at the ballot box, but — with the Democratic Party controlling both chambers of Congress — partisan hurdles appeared few. After the election, there was plenty of evidence, therefore, to suggest that it was only a matter of time before Kevin Phillips's *Harvard Business Review* prediction came true.

The first month of 1993 was not kind to industrial policy advocates. During the transition, Clinton and his top advisors learned that the federal deficit was likely to be $50 billion larger

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940 Robert B. Reich, *Locked in the Cabinet* (New York, 1997), pp.3-33.
941 On Clinton's economic team, see 'Inventing Clintonomics', *WP*, 8 November 1992.
942 This was in part due to the attention that Tyson's 1992 book, *Who's Bashing Whom* received among America's political elite. See Laura D'Andrea Tyson, *Who's Bashing Whom: Trade Conflict in High-Technology Industries* (Washington D.C., 1992).
943 Laura Tyson interview for Commanding Heights, 23 July 2001, www.pbs.org/wgbh/commandingheights/shared/minitextlo/int_lauratyson.html [accessed 25 September 2019].

than they anticipated.[944] This news created a major economic policy headache for the incoming administration. In addition to his $200 billion economic stimulus programme, during the campaign, Clinton had also promised to cut taxes on middle class Americans, reform the American healthcare system, and put in place a modest set of deficit reduction measures. However, the unexpectedly large deficit made it less likely that the administration would fulfil all of its campaign promises. Within the Clinton administration's economic inner circle, there were strong disagreements about how to respond to this dilemma. Fierce deficit hawks such as the Secretary of the Treasury, Lloyd Bentsen, budget director, Leon Panetta, and Federal Reserve chair, Alan Greenspan, believed that higher taxes and deep spending cuts were necessary to reduce the deficit, keep bond markets happy, and ensure that America did not experience a New York-style fiscal crisis. Taking a different view, Robert Reich and Laura D'Andrea Tyson argued that the economic growth created by the proposed stimulus package would remove the need for tax rises or spending cuts.[945] Proposals that had formed an integral part of the campaign were now in peril.

Characteristically, Clinton chose to plot a middle course. To address the deficit, the administration decided to propose a combination of spending cuts and tax increases. But this did not mean that it had dropped its economic stimulus plan. On the contrary, the Clinton administration continued to call for federal expenditures of $150 billion over four years for what it referred to as its 'investment plan.' Presenting this revised economic programme to Congress, Clinton justified his economic stimulus proposals in the same way as he had during the campaign: vowing that his administration would 'shift our emphasis in public and private spending from consumption to investment', 'look beyond the current business cycle,' and make 'aggressive targeted attempts to create the high-wage jobs of the future.'[946] Laying out a set of policies to achieve these objectives, Clinton proposed new spending in the form of a $30 billion infrastructure construction and summer jobs programme, a $17 billion high-technology initiative, and $38 billion of additional education and training spending.[947] Though Clinton had made

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[944] Gwen Ifill, 'Economic Plan Grew Slowly Out of Marathon of Debate,' *NYT*, 21 February 1993.

[945] My discussion of this debate is based upon various newspaper reports and Bob Woodward's chronicle of the events (an account that several Clinton aides endorsed during oral history interviews with the University of Virginia's Miller Center). See Bob Woodward, *The Agenda: Inside the Clinton White House* (New York, 1994), pp.82-133.

[946] William J. Clinton, 'Address to the Nation on the Economic Program,' *American Presidency Project*, 15 February 1993, www.presidency.ucsb.edu/node/218163 [accessed 1 October 2019].

[947] The high-technology package included policies to promote joint research and development ventures between government and industry (akin to Sematech), various policies to help small and medium businesses, and new funding to help develop the Internet. 'Clinton's Economic Plan: The Details', *NYT*, 18 February 1993; John Markoff, 'Clinton Proposes Changes in Policy to Aid Technology', *NYT*, 23 February 1993.

deficit reduction a top priority, in the winter of 1993, he continued to publicly support — and loudly push for — the introduction of a formal national industrial policy.

In the spring of 1993, the Clinton administration again reconsidered its economic policy proposals. Convinced that its tax rise and spending cut proposals were likely to be the least politically palatable, in their sales pitches to the American public and Congress, Clinton and his cabinet concentrated on emphasising the importance of tackling the federal deficit.[948] If anything, this tactic worked too well. Within Congress many objected to the specific cuts proposed or tax increases proposed, but few questioned the overall need for a deficit reduction programme. The same could not be said for the administration's 'investment' programme, however. Amid a national economic recovery, many Republicans and Democrats argued that a stimulus package was no longer necessary and made the case that the money would be better spent cutting the deficit. Desperately seeking to salvage something, the Clinton administration repeatedly reduced the size of the stimulus. However, this was not enough to win over Senate Republicans who filibustered the bill. With its approval ratings sitting at below 40 percent, in the spring of 1993, the Clinton administration dropped the stimulus legislation.[949] Consequently, in the final budget passed in August 1993 only $7 billion was set aside for the stimulus programme (an amount Robert Reich described in his diary as a 'tiny morsel').[950]

The 1993 budget battle marked the end of the Clinton administration's push for a formal industrial policy. In 1994 and 1995, the Clinton White House sought to increase the funding of several existing advanced technology initiatives by nearly $400 million. But this too was met with fierce Republican Party opposition and the proposals were dramatically scaled back.[951] This spelled the end of the industrial policy movement's third wave. Besieged by an array of personal scandals, scarred by the failure of its healthcare reform initiative, and politically hamstrung by a Republican Party emboldened by its success in the 1994 mid-term elections, between 1995 and

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948 Richard L. Berke, 'Looking for Allies to Pass his Economic Plan, Clinton Courts Congress Non-Stop,' *NYT*, 8 March 1993; Sam Howe Verhovek, 'Pitching Clinton Program, the Cabinet Hits the Road to Talk of Better Times,' *NYT*, 19 February 1993.

949 In May 1993, Clinton's approval ratings fell to 36 percent (the lowest of his presidency). See 'Bill Clinton Presidential Approval', The Roper Center for Public Opinion, http://www.ropercenter.uconn.edu /presidential-approval/, [accessed 18 February 2020].
Michael Duffy, 'Now Comes Porklock,' *Time*, 26 April 1993.

950 Reich, *Locked in the Cabinet*, p.119.

951 Between 1993 and 1995, annual federal funding for the Manufacturer Extension Program increased from $18.6 million to $138 million. However, an attempt to radically increase the funding for Manufacturer Technology Centers, encountered fierce Republican opposition and was shelved. General Accounting Office, *Manufacturing Extension Programs: Manufacturers' Views of Services* (Washington D.C., 1995), p.12; Cebul, 'Supply-Side Liberalism,' p.25.

2001, the Clinton administration adopted a much more defensive political crouch.[952] Though Laura D'Andrea Tyson and Robert Reich remained within the Clinton administration until 1996, after the spring of 1993, they played a much more peripheral role in policymaking as political operatives and 'deficit hawks' gained the ear of the President.

Following the 1994 midterm elections, the Clinton administration's economic approach shifted. Setting out to achieve the same producer-orientated goals, but turning to entirely different methods, in the second half of the decade, the administration focused on doing all that it could to keep interest rates low, reduce public borrowing, and remove regulatory barriers that (it believed) might be preventing private sector investment.[953] It was not, however, simply the end of the Clinton administration's political honeymoon that brought the story of the industrial policy movement's third-wave to an end. Against the backdrop of extraordinary national economic growth and a deep recession in Japan, by the mid-1990s it was much more difficult to make the case that America's status as an economic superpower was under threat and that its major industries were in urgent need of assistance.[954] Just as it had done a decade earlier, in 1993, as a result of various political and economic developments, the industrial policy movement's window of political opportunity abruptly slammed shut.

Overturning an Era

The week after Bill Clinton signed the 1993 budget into law, *Time* printed a photograph of a smiling, but *upside-down*, Ronald Reagan on its front cover. Making clear that this was not a printing error, the magazine's editor emblazoned 'Overturning the Reagan Era' in bold yellow lettering across the former president's forehead. Expanding on this headline, in the accompanying article, *Time* reporter, Nancy Gibbs argued that Clinton's 1993 budget was the 'first real rejection of Reaganomics' and a 'return to the economic orthodoxy of balanced budgets.'[955] As the article predicted, the 1993 budget did represent the start of a prolonged period in which the White House dedicated itself to reducing the deficit and bringing down the federal government's borrowing. Between 1993 and 2001, the Clinton administration committed itself wholeheartedly to putting the federal government's financial house in order. The result was

[952] See Steven M. Gillon, *The Pact: Bill Clinton, Newt Gingrich, and the Rivalry that Defined a Generation* (Oxford, 2008).
[953] In the medium and longer-term, many of these policies were responsible for fuelling the financial volatility of the 2000s. See Joseph E. Stiglitz, *The Roaring Nineties*: *A New History of the World's Most Prosperous Decade* (New York, 2003); Adam Tooze, *Crashed: How a Decade of Financial Crises Changed the World* (London, 2018).
[954] On the 1990s boom, see Alan S. Blinder and Janet L. Yellen, *The Fabulous Decade: Macroeconomic Lessons from the 1990s* (New York, 2001); On Japan's 1990s economic travails, see Takeo Hoshi and Anil K. Kashyap, 'Japan's Financial Crisis and Economic Stagnation,' *The Journal of Economic Perspectives* 18, no. 1 (2004).
[955] Nancy Gibbs, 'The Low Road to Revolution,' *Time*, 16 August 1993.

the first federal budget surplus since 1969 and the first four years of consecutive surpluses since 1930.[956] This commitment to keeping deficits low did not outlast the Clinton administration. Nonetheless, it marked a significant — and relatively lengthy — departure from the tax (cut) and spend federal politics of the Reagan years.

While the deficit politics of the 1990s did represent a 'real rejection of Reaganomics,' in the late-1980s and early 1990s a much more sweeping transformation seemed possible. At the beginning of 1993, the federal government explicitly pushed for the type of producer-orientated economic revitalisation programme that industrial policy advocates had been proposing for more than a decade. Because of a combination of partisan politics and political miscalculations, this did not occur. But, failure does not scrub this moment from the historical record, nor render it unimportant. Just like the industrial policy movement of the late-1970s and early 1980s, these episodes help to draw our attention to a historical moment that conventional tales of free-market and free trade ascendancy cannot easily explain. For this brief moment in post-long economic crisis U.S. political history, the 'ideas, public policies, and political alliances' that we associate with the 'Age of Reagan' or neoliberalism had little sway. Instead, policymakers from across the political and ideological spectrum — both covertly and overtly — lent their support to policies that would have required the state to play a more active role in sectoral affairs and trade. If the late-1970s and early 1980s was a time in which there was a 'rediscovery of the market' (at a rhetorical level, at least), the late-1980s and early 1990s was a period in which many rediscovered, and championed, 'some kind of industrial policy.'[957]

In their *Time* and *Harvard Business Review* articles, Nancy Gibbs and Kevin Phillips pinpointed important political trends and offered plausible predictions about America's future economic and political outlook. However, they were both much more convincing fortune tellers than they were historians. Underpinning both Gibbs' and Phillips' arguments was a distorted narrative of the recent past. At the heart of Gibbs' *Time* article was an assumption that elected officials addressing deficits and seeking to balance budgets represented a radical departure from the Reagan era. This was not entirely false. Between 1980 and 1989, neither Congress nor the White House made a serious effort to address the ballooning federal deficit or rein in federal borrowing. Yet, the same could not be said of those who worked in America's city halls or state houses. During this period, many state and city governments were faced with fiscal crises and

[956] Morgan, *The Age of Deficits*, pp.196-197; Kruse and Zelizer, *Fault Lines*, p.210.
[957] Rodgers, *Age of Fracture*, p.41; Phillips, 'U.S. Industrial Policy.'

compelled to make spending cuts and raise taxes to balance their budgets. As we have seen, for Detroit, New York City, Ohio, Michigan, and Pennsylvania, the orthodoxy of the Reagan era was much closer to the federal government's 1990s fiscal policies than to the policies of the 1970s or 1980s.

In his otherwise perceptive article, Kevin Phillips also wrongly conflated 'Reaganomics' with the political economy of the 'Reagan Era.' The activist trade and sectoral policies of the late-1980s and early 1990s, were not — as Phillips implied — an anathema to the political and economic order of 1980s. In fact, in many respects, they represented simply a continuation and extension of the policies that were put in place *by* the federal government to help U.S. automobile producers and other basic manufacturing industries during the long economic crisis. Moreover, the Bush administration's attempt to publicly repudiate the extent of its involvement in the market place, was reminiscent of the Reagan administration's attempts to obscure the extent of the federal government's involvement in New York and the automobile industry. Even Clinton's proposals, would not have seemed like a radical departure for anyone familiar with the economic development policies that many state governments adopted during the mid-1980s. In this sense, 1992 and 1993 seem less of a novel moment and more of an evolution of ideas well-established at a subnational and sectoral level. If we are to fully understand the political economy of the 'Reagan Era', we need to acknowledge these sectoral, regional, and local stories and develop a master narrative in which these policies and approaches can be incorporated (not just dismissed as exceptions to general trends).

The Long Economic Crisis and the Producer Revolution

For the United States, the ten-year period between Watergate and Ronald Reagan's 1984 reelection was an era defined by crisis, hardship, and transformation. During this informal decade, the dominant subject of concern for policymakers, business executives, labour union leaders, and the broader American public was the economy. Much like the Great Depression, the long economic crisis of the 1970s and 1980s was national in scope and all-pervasive. In addition to the three recessions and two energy crises, people who lived through the long economic crisis also witnessed the boom industries and cities of the industrial age teeter on the brink of bankruptcy and the emergence of a new capitalist economic rival on the other side of the Pacific Ocean. In this environment, few had hope that the future would be bright or prosperous. Indeed, by the early years of the 1980s, many believed that the very foundations of the U.S. economy had become extremely unstable and that the American economic century was ending.

This atmosphere of full-scale panic took some time to mature, for at the beginning of the long economic crisis, many viewed its symptoms as a disconnected and temporary set of events. Developments in 1977 and 1978 helped reinforce this reading. With New York City on the long road to financial recovery, America's largest automobile producers reporting profits, and the national economy expanding, policymakers and business leaders could reassure themselves that the worst of the economic storm had passed and that the fundamentals were sound. This upbeat and hopeful mood did not last for long. In the late-1970s and early 1980s, the American economy slid again into recession and a number of its largest companies and most iconic companies were on the brink of collapse. This time, panic *did* set in. As the crises mounted and the post-Second World War boom became a more distant memory, many of America's political and economic elite concluded that the economic prosperity, stability, and supremacy of the United States could no longer be taken for granted. Thus, as the 1980s began, there was a fairly widespread agreement that something was seriously wrong with the U.S. economy — problems that neither the remedies of the 1950s and 1960s nor a renewed period of economic expansion would resolve.

In this crisis environment, the ideas and issues which would dominate virtually every major economic policy discussion for the next 15 years emerged. The somewhat abstract figures at the centre of all of these debates were the American corporation and entrepreneur. Though they did not always say so directly, at the nadir of the long economic crisis, the business community, labour movement, and elected officials were very concerned about the production side of the U.S. economy. In particular, they were worried about the ability of domestic industries to compete with their foreign counterparts and feared that a full national recovery from the long economic crisis would be impossible if America's producers continued to lose ground to their rivals in sales and in research and development. In short, policy change was required — and required fast. It was these ideas that helped to push the industrial policy movement, the *laissez-faire* supply-side movement, and the various calls for restrictive trade policies to the forefront of political life. Supporters of all three of these groups publicly maintained that the various economic problems that the U.S. faced stemmed from underinvestment and argued that the public policy decisions made during the early 1980s would be pivotal in determining America's long-term economic future.

Despite the consensus regarding the need to shift public policy in a producer-orientated direction, there was much disagreement about what new policies should be employed. During the early 1980s (and again during the early 1990s), industrial policy advocates maintained that free-market capitalism encouraged short-term thinking and discouraged the investments that were needed to maintain long-term profitability and competitiveness. To remedy this, they called on the public sector to play a much more active role in economic development. Using the producer-orientated policies of Japan and the federal government's response to Chrysler and New York City's problems as their models, industrial policy advocates argued that the federal government should provide targeted financial aid and other forms of assistance to promote the development or recovery of certain industries. Turning this logic almost on its head, the *laissez-faire* supply-side movement argued that the fiscal policy and regulatory regime of the post-Second World War era was responsible for depressing private sector investment. Boosting investment, therefore, was simply a matter of 'freeing' the market by removing regulations and lowering taxes. Adding another element to the equation, corporations and organised labour argued that the fortunes of American producers were being devastated by the unfair trade practices of other nations and called the federal government to 'level the playing field' or to provide the 'breathing space' required to make new investments.

When it came to public policy, no single one of these producer-orientated policy frameworks carried the day. Instead, at various moments and in response to different crises, elements of all three approaches were adopted. Although successive presidents sought to downplay their involvement and maintain that non-governmental actors had saved Chrysler and New York City, in both cases, the federal government was crucial in providing financial aid and plotting the course out of crisis. Moreover, at a state level, industrial policy ideas were adopted in a much more systematic manner across the nation. However, to provide assistance to an array of domestic manufacturers, the federal government also adopted restrictive trade policies during this period. Finally, and perhaps most obviously, this was also a period in which *laissez-faire* macroeconomic policies were adopted by the national government. Though the New Deal order was not replaced by a *laissez-faire* political order during the crisis years of the 1970s and 1980s, among America's political and business elite a new producer-centred world view did emerge.

From the vantage point of the twenty-first century, it is easy to interpret the decades after the 1960s as an era of conservatism in which *laissez-faire* doctrines reemerged and dominated the political conversation. As many historians have demonstrated, it is certainly the case that New

Right interest groups, conservative policy entrepreneurs, neoliberal businesspeople, and Republican Party elected officials *did* play an important role in shaping public policy during the 1970s and 1980s. And it is also the case that market-based rhetoric was ascendant, with the debate over Chrysler one case among many. However, for all of their public declarations in favour of free-markets, the Reagan administration did not rescind the interventionist and centralising policies of its predecessors with regards to New York City or Chrysler, and neither did it mount vigorous opposition to congressional calls for import quotas. Similarly, the business community sought to mould industrial policy proposals into their own image and did not actively mobilise against aiding Chrysler. In the face of a deep crisis that seemed to threaten America's future economic standing, support for *laissez-faire* ideas among elected officials and members of the business community was often more strategic and selective than principled and unflinching. Ideologically, the political order that emerged in the wake of the collapse of the New Deal order was much more inconsistent and contradictory than the historiographical orthodoxy and the era's anti-government rhetoric have led us to believe.

Close examination of policy at a sectoral and regional level during the 1970s and 1980s also forces us to rethink our understanding of the major forces driving the political and economic transformations and decision making during this period. In the longer-term, the 'Reagan Revolution' of 1981 certainly transformed the national political landscape. However, this reshaping did not occur immediately and for much of the early 1980s (as well as the early 1990s) a quite different political order seemed to be in the ascendancy. Similarly, in the episodes discussed in *Beyond Reaganomics*, Ronald Reagan and the wider conservative movement also played a far less significant role in shaping debates and determining the outcome of events than the deluge of literature on these subjects conditions us to expect. At the same time, other far less scrutinised groups, individuals, and factors were also hugely important in both influencing 1980s and 1990s policy and in constructing the broader economic and political landscape of the long economic crisis. Organised labour, state governments, and Congress, for example, were very important players in the long economic crisis — helping Chrysler and New York City to regain their financial health, and constituting important players in industrial policy discussions.[958] Moreover, so too were fears about shifting world economic power and the 'rise' of Japan. Portraying the rise of Ronald Reagan, the conservative movement, and return of *laissez-faire* as

[958] For a recent work that explores the influence of congressional Democrats during these years, see Patrick Andelic, *Donkey Work: Congressional Democrats in Conservative America, 1974-1994* (Lawrence, 2019).

the defining — and often sole — story of 1970s and 1980s U.S. history requires a great deal of historical flattening.

Amid the acute economic turbulence of the 1970s and 1980s, the New Deal order did collapse. But this did not occur on the morning of Tuesday, 1 January 1980 or with Ronald Reagan's inauguration slightly more than a year later. Instead, it was a gradual and uneven process in which belief in the consumer-focused ideas and public policies of the post-Second World War period slowly broke down. However, the dominant order of 'ideas, public policies, and political alliances' that emerged in its wake was not uniformly *laissez-faire* in character. Although they may have embraced market-orientated rhetoric, during the long economic crisis, most of the nation's political and economic elite were supportive or were at least prepared to tolerate government intervention in order to help or 'save' American producers. On the other hand, when it came to issues affecting workers and residents of cities, government activism was painted as either unaffordable or as likely to harm the production side of the economy. To correctly understand the political economy of post-1960s America, therefore, we must look beyond the narrow set of policies associated with 'Reaganomics' and the era's rising anti-statist rhetoric. Only then, can we begin to develop a full picture of the political and economic history of the decades after the 1960s.

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