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“Fear City” Explores How Donald Trump Exploited the New York Debt Crisis to Boost His Own Fortune

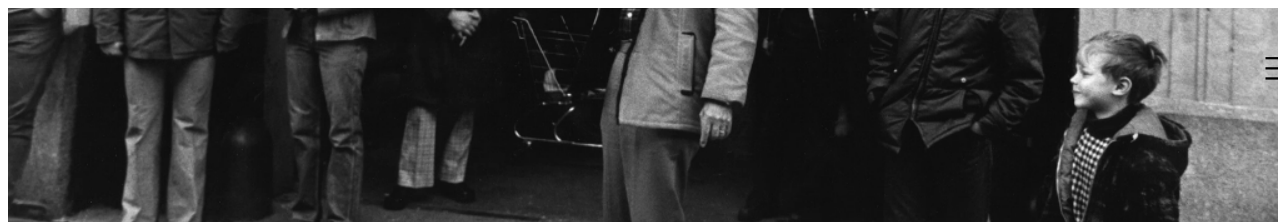
Kim Phillips-Fein’s “Fear City” documents how the remaking of New York City in the 1970s was a prelude to what would become a global ideological tidal wave.

Naomi Klein

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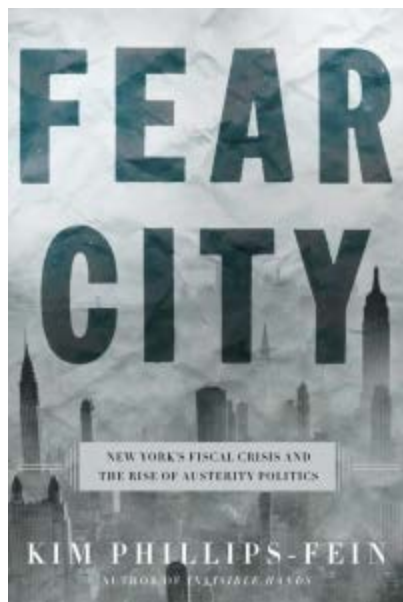
People stand outside the People's Firehouse, Engine Co. 212 in North Williamsburg, which was threatened with closure during the fiscal crisis. A neighborhood mobilization which included occupying and sleeping in the fire station for 16 months saved the fire service. Photo: Janie Eisenberg

WHEN I PUBLISHED "The Shock Doctrine" a decade ago, a few people told me that it was missing a key chapter in the evolution of the tactic I was reporting on. That tactic involved using periods of crisis to impose a radical pro-corporate agenda. They said that in the United States that story doesn't start with Reagan in the 1980s, as I had told it, but rather in New York City in the mid-1970s. That's when the city's very near brush with all-out bankruptcy was used to dramatically remake the metropolis. Massive and brutal austerity, sweetheart deals for the rich, privatizations. In classic Shock Doctrine style, under cover of crisis, New York changed from being a place with some of the most generous public services in the country, engaged in some cutting-edge attempts at racial and economic integration, to the temple of nonstop commerce and gentrification that we all know and still love today.

Listen to Naomi Klein's interview with Kim Phillips-Fein.

New York's debt crisis is an incredibly important and little understood chapter in the evolution of what Nobel Prize-winning economist Joseph Stiglitz calls market fundamentalism, a process the

Trump administration is in the process of rapidly accelerating, which is why I was so happy to receive Kim Phillips-Fein's remarkable new book, "Fear City." In it, she meticulously documents how the remaking of New York City in the '70s was a prelude to what would become a global ideological tidal wave, one that has left the world brutally divided between the 1 percent and the rest. She helps us to understand many of the forces that Trump exploited to win the White House, from economic insecurity to crumbling public infrastructure to fearmongering about black crime, all amid previously unimaginable private wealth.



"Fear City" by Kim Phillips-Fein

But one of the things that really stood out for me in the book is what it reveals about Trump himself. "Fear City" tells the story of how a brash 29-year-old real estate developer seized on the city's misfortune to boost his own fortune, extracting predatory terms from a community in crisis.

Reading this, it struck me how Trump's entire career has been shaped

by the exploitation of crisis. And that's relevant stuff for what it tells us about what we can expect from his administration in the months and years to come. So I'm very happy to be joined by Kim Phillips-Fein, a historian of the first order, in The Intercept studios.

Naomi Klein: Before we get into Trump and what he was doing in the mid-1970s, can you set the scene for just how bad New York's debt crisis was in this period? What did it look like? What was happening in the city?

Kim Philipps-Fein: For the context of the fiscal crisis, and for Trump's emergence, I think the first thing that's important to understand is that New York City in the post-war years was really an outlier in terms of what the city government did and was trying to do and was trying to provide to its citizens. New York City takes some of the elements of New Deal liberalism and pushes them further than they've been pushed anywhere else in the country. The city has a network of more than 20, at its peak, municipal hospitals, and many more primary care centers, child centers. It has a vast range of libraries and a free public university system, which is growing over the post-war years.

This is in addition to the kind of basic urban amenities that are far more developed in New York, such as mass transit, than in really any other American city. This network, this public sector, in certain ways becomes even more ambitious during the 1960s, during the War on Poverty years, when a lot of new federal money comes into the city to expand social services in a variety of different ways. In the early 1970s, the entire public sector enters into a period of crisis because – because of a slowed increase in the amount of money that's coming from the federal and state governments, and also because of the recession of the early '70s, which throws the city's economy into a

spiral.



And the result is a growing gap between revenues and expenses, so that the city really isn't bringing in the amount of money that it needs any longer to pay for these public services.

NK: It wasn't just that New York was overspending. I mean, this was a global debt crisis. And there was this sense, reading your book, that there was a desire to really teach New York a lesson. And to set an example. Because if you're willing to let the biggest city in the United States go bankrupt, you're really willing to do anything. And there's this famous headline in the Daily News, Ford – that being President Ford – “Ford to City: Drop Dead.” Can you talk about this sense of setting an example?

KPF: The fiscal crisis was both real and ideological, and there were a variety of ways that it could have been approached. One example that I bring up in the book is that of Medicaid spending. New York City bore a quarter of its bill for Medicaid, which is higher than anywhere else in the country. That's because of the way that New York State divides spending on Medicaid, and on welfare as well, and Aid for Families with Dependent Children, as it was then. Had that split been changed, the city's financial picture would have looked very different. There were a variety of ways that the city's fiscal crisis could have been approached.

However, President Gerald Ford, who counted among his advisers people like Alan Greenspan, the chair of his Council of Economic Advisers, and William Simon, his secretary of treasury, who came out of the world of municipal bond trading in New York. These people were fiercely opposed to providing any kind of federal aid for the city that would have enabled it to ride out the crisis and get back on its feet.



Two New York City dailies and the New York Times are seen with headlines on President Ford's refusal to aid the city during its fiscal crisis, on Oct. 30, 1975. Photo: AP

NK: In this period, Alan Greenspan would have been at the height of his Ayn Randian obsession.

KPF: Yes, he was kind of moving into public life. This is obviously before he's at the Federal Reserve. And he had just recently moved out of her real inner circle and into a broader public role.

And yeah, they have been opposed for a long time to the kind of public sector New York has. And they feel that there was nothing positive, nothing important, nothing to be respected or admired in what the city was trying to do.

NK: Were they worried about the model spreading beyond the city? ≡

KPF: I'm not sure they were exactly worried about that at that moment, but certainly they feel that this kind of system is the problem that the entire Western world faces – this broader public sector and a kind of mixed economy, which you might say New York embodied was a threat to freedom and prosperity the world over.

Whether or not they actually were worried about other cities or it moving out of New York in some immediate way, I think they thought the approach was fundamentally flawed. They were not surprised that New York was in crisis, and they thought that the only real solution was to force a set of cuts. And that would really prevent any other city from again going down the path New York had followed.

NK: But at the last minute, New York doesn't go into full bankruptcy. The way this structure is set up reminds me of the emergency managers that in recent years have been imposed on Flint and Detroit, where a lot of power, local democracy, is lost. Can you talk about that structure?

KPF: Right. The city ultimately did not go bankrupt because the banks and the unions – and the city's unions were very important here – were willing to buy enough of the city's debt that it didn't actually have to go bankrupt. And the federal government also did eventually come forward with the set of short-term loans. In return, they created this agency called the Emergency Financial Control Board, which I think is the model for the kinds of city managers that we see today, or what we see in Puerto Rico. And the Emergency Financial Control Board was a state agency that was granted final control over the city's budget.

And this was important both because the Emergency Financial Control Board did occasionally come in to actually turn back contracts that it thought were too generous, but it also provided – and I think this is very important for thinking about Trump – a way for the mayor to say, listen, I have no choice but to make these cuts because the Emergency Financial Control Board is enforcing this plan that mandates the cuts. And the federal aid in turn was contingent upon the city making a set of cuts within a certain period of time, arriving at a balanced budget in a certain – in a three-year time frame.

NK: So it's 1976. Donald Trump is just 29 years old. This is not the Trump that we know from "The Apprentice." He's not even the Trump of the '80s when he was in the tabloids with his soap opera of Ivana versus Marla Maples. Who is he at this stage in his career?

KPF: Well, he's really emerging out of the shadow of his father, who was a developer and landlord in the outer boroughs. He's emerging out of a milieu of a kind of embittered lower middle class white ethnic population in the city's outer boroughs. Not that Trump himself was lower middle class. He wasn't. But those were the people who lived in his father's buildings, and those were the people who I think really shaped his worldview.

And they're also the people who really blame – this is obviously not universally true of the city's white working class at this time – African-Americans and Latinos, especially Puerto Ricans, for bringing the city to the edge of bankruptcy; a sense that they were the people who were using the public services, and that they were the ones who kind of pushed things too far and brought it into the fiscal crisis.

NK: And that, by the way, is incredibly important in terms of understanding the intersection of racism, of racial politics, creating

the justification for a tax on the public's fear, which I think we're seeing more and more of. That's really key in this period. So how does Trump take advantage of the city's desperation in this period? Tell me about the Commodore Hotel.

KPF: Well, so Trump is very ambitious, and he wants very much to break out of the outer boroughs and come into Manhattan and make it big there. A lot of people have observed this about Trump at this moment, but I think he views Manhattan as this aspirational space, and he is eager to transcend his Brooklyn-Queens past and get into what he sees as the big-time. And his idea is to redevelop the Commodore Hotel. So the Commodore Hotel was a previously very fancy hotel from the early 20th century. I think it opens in 1919 at 42nd Street and Lexington Avenue. And it's owned by the Penn Central Railroad. And the hotel kind of falls into disrepair and near collapse after Penn Central itself goes bankrupt in 1970. Its management has stopped paying property taxes and is very eager to unload the property. Trump sees this as an opportunity at the same time as the city government sees it as a potential disaster. The city is terrified that if the Commodore Hotel goes into collapse, the blight of Times Square will spread east and to the area around Grand Central Terminal. And so, the plan that they hatch is that Trump can purchase the Commodore Hotel.

What he actually wants to do is buy it and sell it to a state agency, the Urban Development Corporation, which has its own interesting story. And then the UDC will lease it back to Trump, working with the Hyatt organization. And I think it's also important to remember, it's not Trump acting alone. He's actually working with this hotel chain.

NK: And this is before he has started splashing his name in gold on the fronts of buildings. But this is his first Manhattan jewel.

KPF: This is his first big Manhattan deal. They'll lease it back to Trump and Hyatt. And this arrangement where they're not actually owning the property will enable them to pay property taxes that are lower than the normal rate for many years to come. The New York Times reported that as of 2016, this tax arrangement with the Hyatt had cost New York City about \$360 million in uncollected taxes in the years since the development.

NK: So I just want to pause there, because what you're saying is Trump put down – or Trump and the Hyatt put down \$9.5 million for this incredible property. They come up with this elaborate arrangement, that sweetheart deal, a tax dodge. And that \$9.5 million outlay translates back into roughly \$360 million in tax savings and money deprived from the city.

KPF: It was a very lucrative deal for them. You can make whatever arguments about how much revenue the economy activity associated with the Hyatt generated. But it is also the case that that is what the value of the tax is, had they developed it in some other way, that would have gone to the city and did not.

NK: So it's a sweetheart deal, but the city has no choice. Beggars can't be choosers, is the argument that's being made. Is that true? I mean, was it necessary to give it away on this scale?

KPF: Well, who knows whether there would have been a different purchaser for the Commodore? The railroad was very eager to sell it. Perhaps they would have done so on different terms had those been made available. I would just underscore that Trump viewed himself as a great genius for making this arrangement. And city government viewed this as a very positive development and an important one, and one that they wanted to make clear was a kind of way to the future for the business community.

I think it's potentially the case that you could have found another way to develop the property. But this is not just a one-time thing for the city. The city government views this as a model for the future, and as a signal to the broader business community that there has been a change in the city government's relationship to business. It's not just Trump acting alone. There actually is a context in which this kind of development is promoted and a sort of enabling community that allows it to happen. ≡

NK: So it sets the stage for the Helmsleys, and for a whole change in the city.

KPF: It sets the stage for the city's new receptiveness to certain kinds of luxury developments, to using different kinds of tax breaks to stimulate the development of properties that are really dedicated to the very rich. And more generally, I think, the various different kinds of corporate subsidies that went to Disney around Times Square.

NK: And I think when we look at Trump's career in the '80s, we see a continuation of him really enjoying this role as the guy who saves the city. And that very high-profile battle he had with Koch, with Mayor Koch, over the Central Park skating rink. That was really the moment when he solidified his celebrity. But I think you can see the straight line, really, from the Commodore to this skating rink to the presidential bid, right? You know, I'm not a politician. Washington is corrupt. I know how to do this better, right?

KPF: I think that's very important. These were the people who would be able to transcend the Democratic pressures that were pushing for more public services, a sense of businesspeople as the saviors of the city and of the country as a whole, ultimately. I think there, too, Trump really embodies that and takes that worldview and runs with it, and celebrates it, and exploits it in every possible way, but he's far

from the only person who has that sensibility. And in fact, many of the people within the city's mainstream Democratic political establishment also share that perspective, to some extent. ≡

A sense that the city has been too responsive to public pressure, and now has to buck up and ignore the protests that grow in response to the cutbacks of the era. And that ignoring protest is really a sign of your own integrity and courage. I think Trump also takes that a bit from the fiscal crisis moment – even the rhetoric about the paid protestors after the inauguration. I think that feeling owes much to the moment of the fiscal crisis and to the sense that even if people are angry, the only thing that anyone with any courage can do is ignore them.

NK: All right. Well, Kim, it's been great to talk. Is there anything else you want to share about what you learned about studying this chapter and Donald Trump's starring role in it?

KPF: I guess the last thing I would say is that the atmosphere of fear is incredibly important for understanding what happens in New York at this moment – that there's this deep level of fear about bankruptcy, fear of the future. And it's that kind of fear that really makes possible the cutbacks of the time, and also the sense that, you know, the city needs a savior in the first place. And I think that I've thought about that a lot over the past month and since November – the way that fear can make things that seem politically impossible suddenly feel as though they're the only alternative. And so I think that is one of the things that we need to fight at this moment, and to find ways to resist that sense of overwhelming fear and chaos, and to find forms of solidarity that can counter it.

Because it really is that context that makes it possible to wreak havoc, and the kinds of cuts that happened in New York in the '70s, and the

kind of broader reshaping of our country that we see taking place
now.



NK: Thank you so much for that, Kim. I think it is a really important message to leave people with, because we know these are pretty bad managers. I think we can expect all kinds of shocks and crises in the years to come, which will then be used as the rationale for breaking election promises like protecting Social Security and so on. So we have to be very, very wary of the exploitation of fear, of an atmosphere of crisis. We know from your book that Donald Trump's career and his fortune was really forged in a moment of exploiting economic crisis.

We know that he's surrounded by men who have done the same, including Steven Mnuchin using the crisis of the 2008 financial collapse to launch a bank that would specialize in throwing people out of their homes. So thanks for this little lesson in shock resistance.