Current Scholarship

The Frail Bonds of Liberalism: Pensions, Schools, and the Unraveling of Fiscal Mutualism in Postwar New York

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Between 1940 and 1965, state-level officials changed the relationship between two pillars of the postwar social contract: secure retirement and modern public schools. In the early twentieth-century United States, state pension managers, following an investment regime we call “fiscal mutualism,” funneled the savings of government workers into government securities. By purchasing municipal bonds, pension officials lowered the borrowing costs for local governments. We analyze this regime through a close examination of New York State’s pension fund. During the 1950s, the comptrollers who managed the New York State Employee Retirement System (NYSERS), the nation’s largest state pension, subsidized suburban school construction by purchasing the bond issues of local school districts. But as changes in the financial landscape made this arrangement less viable, New York Comptroller Arthur Levitt Sr. began lobbying for the liberalization of the pension’s investment powers. After state lawmakers approved the regulatory changes, Levitt disinvested from municipal bonds in favor of higher-yielding corporate securities. Pension liberalization secured higher returns for state retirees, but it also left school districts to navigate bond markets without the backstop of fiscal mutualism. As school budgets, and the property taxes supporting them, soared to repay the interest costs, tax revolts became a permanent response to the fiscal volatility. These transformations, we argue, stemmed from postwar liberalism’s dependence on financial markets to deliver retirement security, public education, and other social benefits.

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