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10/28/75

Option A

After default, it may be necessary, if State and local officials continue to refuse to accept responsibility for managing the affairs of the City, to work with the courts to maintain the protection of life and property for the citizens of New York City. I believe we have to make a distinction between bailing out the bond holders and politicians on the one hand, and on the other, protecting the people of New York City from the consequences of the lack of courage which may be exhibited by their office holders.

Option B

After default, we will work with all of the appropriate agencies of government to insure the protection of life and property for the citizens of New York City.

Option C

The real victims of the default caused by mismanagement of the affairs of the City by its leaders, are the eight million citizens of New York City who have paid their taxes but have been hurt by this fiscal tragedy. I wish to assure them that I will work with the appropriate governmental agencies to insure the protection of life and property.

Option D

In the event of default, the Federal Government will work with the Court to assure that police, fire and other essential services for the protection of citizens are maintained.



NYC
Cavanaugh

FOR IMMEDIATE RELEASE

OCTOBER 29, 1975

OFFICE OF THE WHITE HOUSE PRESS SECRETARY

**THE WHITE HOUSE
REMARKS OF THE PRESIDENT
AND
QUESTION AND ANSWER SESSION**

THE NATIONAL PRESS CLUB
12:02 P.M. EST

THE PRESIDENT: Mr. President, fellow members of the Press Club, ladies and gentlemen, guests:

I am deeply grateful for the opportunity to join you today and talk to you about a matter of very deep concern to all Americans.

New York City, where one out of every 25 Americans lives, through whose "Golden Door" untold millions have entered this land of liberty, faces a financial showdown.

The time has come for straight talk -- to these eight million Americans and to the other 206 million Americans to whom I owe the duty of stating my convictions and my conclusions, and to you, whose job it is to carry them throughout the world, as well as the United States.

The time has come to sort facts and figures from fiction and fear-mongering in this terribly complex situation. The time has come to say what solutions will work and which should be cast aside.

The time has come for all Americans to consider how the problems of New York and the hard decisions they demand, foreshadow and focus upon potential problems for all Governments -- Federal, State and local -- problems which demand equally hard decisions for them.

One week ago, New York City tottered on the brink of financial default, which was deferred only at the eleventh hour.

The next day, Mayor Beame testified here in Washington that the financial resources of the City and the State of New York were exhausted. Governor Carey agreed.

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(OVER)



They said it is now up to Washington and unless the Federal Government intervenes, New York City, within a short time, will no longer be able to pay its bills.

The message was clear: Responsibility for New York City's financial problems is being left on the front doorstep of the Federal Government -- unwanted and abandoned by its real parents.

Many explanations have been offered about what led New York City deeper and deeper into this quagmire. Some contend it was long-range economic factors such as the flight to the suburbs of the City's more affluent citizens, the migration to the City of poorer people, and the departure of industry. Others argued that the big metropolitan city has become obsolescent, that decay and pollution have brought a deterioration in the quality of urban life, and New York's downfall could not be prevented.

Let's face one simple fact: Most other cities in America have faced these very same challenges, and they are still financially healthy today. They have not been luckier than New York; they simply have been better managed.

There is an old saying, "The harder you try, the luckier you get," and I kind of like that definition of "luck."

During the last decade the officials of New York City have allowed its budget to triple. No city can expect to remain solvent if it allows its expenses to increase by an average of 12 percent every year, while its tax revenues are increasing by only 4 to 5 percent per year.

As Al Smith, a great Governor of New York who came from the sidewalks of New York City, used to say: "Let's look at the record."

The record shows that New York City's wages and salaries are the highest in the United States. A sanitation worker with three years experience now receives a base salary of nearly \$15,000 a year. Fringe benefits and retirement costs average more than 50 percent of base pay. There are four-week paid vacations and unlimited sick leave after only one year on the job.

The record shows that in most cities, municipal employees have to pay 50 percent or more of the cost of their pensions. New York City is the only major city in the country that makes up the entire burden. The record shows that when New York's municipal employees retire, they often retire much earlier than in most cities and at pensions considerably higher than sound retirement plans permit. The record shows New York City has 18 municipal hospitals; yet, on an average day, 25 percent of the hospital beds are empty.

Meanwhile, the city spends millions more to pay the hospital expenses of those who use private hospitals. The record shows New York City operates one of the largest universities in the world, free of tuition for any high school graduate, rich or poor, who wants to attend. As for New York's much-discussed welfare burden, the record shows more than one current welfare recipient in ten may be legally ineligible for welfare assistance.

Certainly, I do not blame all the good people of New York City for their generous instincts or for their present plight. I do blame those who have misled the people of New York about the inevitable consequences of what they are doing or were doing over the last ten years.

The consequences have been a steady stream of unbalanced budgets; massive growth in the city's debt; extraordinary increases in public employee contracts; and total disregard of independent experts who warned again and again that the city was courting disaster.

There can be no doubt where the real responsibility lies, and when New York City now asks the rest of the country to guarantee its bills, it can be no surprise that many other Americans ask why.

Why, they ask, should they support advantages in New York that they have not been able to afford for their own communities. Why, they ask, should all the working people of this country be forced to rescue those who bankrolled New York City's policies for so long -- the large investors and big banks?

In my judgment, no one has yet given these questions a satisfactory answer. Instead, Americans are being told that unless the rest of the country bails out New York City, there will be catastrophe for the United States, and perhaps for the world.

Is this scare story true? Of course, there are risks that default could cause temporary fluctuations in the financial markets. But, these markets have already made a substantial adjustment in anticipation of a possible default by New York City.

Claims are made that because of New York City's troubles, other municipalities will have grave difficulty selling their bonds. I know that this troubles many thoughtful citizens.

But, the New York City record of bad financial management is unique among municipalities throughout the United States. Other communities have a solid reputation for living within their means. In recent days and weeks, other local Governments have gone to investors with clean records of fiscal responsibility and have had no difficulty raising funds.

The greater risk is that any attempt to provide a Federal blank check for the leaders of New York City would insure that no long run solution to the city's problems will ever occur.

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I can understand the concern of many citizens in New York, and elsewhere. I understand because I am also concerned. What I cannot understand -- and what nobody should condone -- is the blatant attempt in some quarters to frighten the American people and their representatives in Congress into panicky support of patently bad policy.

The people of this country will not be stampeded. They will not panic when a few desperate New York City officials and bankers try to scare New York's mortgage payments out of them.

We have heard enough scare talk. What we need now is a calm, rational decision as to what is the right solution, the solution that is best for the people of New York and best for all Americans.

To be effective, the right solution must meet three basic tests: It must maintain essential public services for the people of New York City. It must protect the innocent victims of this tragedy. There must be policemen on the beat, firemen in the station, nurses in emergency wards.

Second, the solution must assure that New York City can and will achieve and maintain a balanced budget in the years ahead.

Third, the right solution must guarantee that neither New York City nor any other American city ever becomes a ward of the Federal Government.

Let me digress a minute to remind you that under our Constitutional system, both the cities and the Federal Government were the creatures of the States. The States delegated certain of their sovereign powers -- the power to tax, police powers and the like -- to local units of self-government, and they can take these powers back if they are abused.

The States also relinquished certain sovereign powers to the Federal Government -- some altogether and some to be shared. In return, the Federal Government has certain obligations to the States.

I see a serious threat to the legal relationships among our Federal, State and local Governments in any Congressional action which could lead to disruption of this traditional balance. Our largest city is no different in this respect than our smallest town. If Mayor Beame doesn't want Governor Carey to run his city, does he want the President of the United States to be acting mayor of New York City?

What is the solution to New York's dilemma. There are at least eight different proposals under consideration by the Congress, intended to prevent default. They are all variations of one basic theme: That the Federal Government should or would guarantee the availability of funds to New York City. I can tell you, and tell you now, that I am prepared to veto any bill that has as its purpose a Federal bailout of New York City to prevent a default.

I am fundamentally opposed to this so-called solution, and I will tell you why. Basically, it is a mirage. By giving a Federal guarantee we would be reducing rather than increasing the prospects that the City's budget will ever be balanced. New York City officials have proved in the past that they will not face up to the City's massive network of pressure groups as long as any other alternative is available. If they can scare the whole country into providing that alternative now, why shouldn't they be confident they can scare us again into providing it three years from now?

In short, it encourages the continuation of "politics as usual" in New York -- which is precisely not the way to solve the problem.

Such a step would be a terrible precedent for the rest of the Nation. It would promise immediate rewards and eventual rescue to every other city that follows the tragic example of our largest city. What restraint would be left on the spending of other local and State Governments once it becomes clear that there is a Federal rescue squad that will always arrive in the nick of time?

Finally, we must all recognize who the primary beneficiaries of a Federal guarantee program would be. The beneficiaries would not be those who live and work in New York City because the really essential public services must and will continue.

The primary beneficiaries would be the New York officials who would use the escape responsibility for their past follies and be further excused from making the hard decisions required now to restore the city's fiscal integrity.

The secondary beneficiaries would be the large investors and financial institutions who purchased these securities anticipating a high rate of tax-free return.

Does this mean there is no solution? Not at all. There is a fair and sensible way to resolve this issue, and this is the way to do it.

If the city is unable to act to provide a means of meeting its obligations, a new law is required to assure an orderly and fair means of handling the situation.

As you know, the Constitution empowers the Congress to enact uniform bankruptcy laws. Therefore, I will submit to the Congress special legislation providing the Federal Courts with sufficient authority to preside over an orderly reorganization of New York City's financial affairs -- should that become necessary.

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How would this work? The City, with State approval, would file a petition with the Federal District Court in New York under a proposed new chapter XVI of the Bankruptcy Act. The petition would state that New York City is unable to pay its debts as they mature and would be accompanied by a proposed way to work out an adjustment of its debts with its creditors.

The Federal Court would then be authorized to accept jurisdiction of the case. There would be an automatic stay of suits by creditors so that the essential functions of the City would not be disrupted. This would enable an orderly plan to be developed so that the City could work out arrangements with its creditors. While New York City works out a compromise with its creditors the essential Government functions of the City would continue. In the event of default, the Federal Government will work with the Court to assure that police and fire and other essential services for the protection of life and property in New York are maintained.

The proposed legislation will include a provision that as a condition of New York City petitioning the Court, the City must not only file a good faith plan for payments to its creditors but must also present a program for placing the fiscal affairs of the City on a sound basis.

In order to meet the short-term needs of New York City the Court would be empowered to authorize debt certificates covering new loans to the City, which would be paid out of future revenues ahead of other creditors. Thus, the legislation I am proposing will do three essential things:

First, it will prevent, in the event of a default, all New York City funds from being tied up in lawsuits.

Second, it will provide the conditions for an orderly plan to be developed for payments to New York City's creditors over a long-term.

Third, it will provide a way for new borrowing to be secured by pledging future revenues.

I don't want anybody misled. This proposed legislation will not, by itself, put the affairs of New York City in order. Some hard measures must be taken by the officials of New York City and New York State. They must either increase revenues or cut expenditures or devise some combination that will bring them to a sound financial position.

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Careful examination has convinced me that those measures are neither beyond the realm of possibility nor beyond the demands of reason. If they are taken, New York City will, with the assistance of the legislation I am proposing, be able to restore itself as a fully solvent operation.

To summarize, the approach I am recommending is this: If New York fails to act in its own behalf, orderly proceedings would then be supervised by a Federal Court.

The ones who would be most affected by this course of action would be those who are now fighting tooth and nail to protect their authority and to protect their investments -- New York City officials and the City's creditors. The creditors will not be wiped out; how much they will be hurt will depend upon the future conduct of the City's leaders.

For the people of New York, this plan will mean that essential services will continue. There may be some temporary inconveniences but that will be true of any solution that is adopted.

For the financial community, the default may bring some temporary difficulties but the repercussions should not be large or longstanding.

Finally, for the people of the United States, this means that they will not be asked to assume a burden that is not of their own making and should not become their responsibility. This is a fair and sensible way to proceed.

There is a profound lesson for all Americans in the financial experience of our biggest and our richest city. Though we are the richest Nation, the richest Nation in the world, there is a practical limit to our public bounty, just as there is to New York City's.

Other cities, other States, as well as the Federal Government, are not immune to the insidious disease from which New York City is suffering. This sickness is brought on by years and years of higher spending, higher deficits, more inflation and more borrowing to pay for higher spending, higher deficits and so on, and so on, and so on. It is a progressive disease and there is no painless cure.

Those who have been treating New York's financial sickness have been prescribing larger and larger doses of the same political stimulant that has proved so popular and so successful in Washington for so many years.

None of us can point a completely guiltless finger at New York City. None of us should now derive comfort or pleasure from New York's anguish. But neither can we let that contagion spread.

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As we work with the wonderful people of New York to overcome their difficulties -- and they will -- we must never forget what brought this great center of human civilization to the brink. If we go on spending more than we have, providing more benefits and more services than we can pay for, then a day of reckoning will come to Washington and the whole country just as it has to New York City.

So let me conclude with one question of my own: When that day of reckoning comes, who will bail out the United States of America?

Thank you very much.

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Q. Now we have time for just a few questions, haven't we, Mr. President? The first one asks, "Mr. President, you say that in the event of a default the Federal Government is prepared to work with the courts to assure that the City can continue to maintain its essential services such as police and fire protection. Does this mean the Federal Government will provide cash or guarantees or Federal troops?"

THE PRESIDENT: Of course, I don't assume that the City will default because I think the capacity in the City and the capacity in the State is there to avoid default; but in the eventuality that those in control of the City and State refuse to step up to that responsibility and that capability, then the court will have to go through the default process.

I can only say that the Federal Government will work with the Court. I do not want to prescribe precisely the means or method but I can say that in working with the Court after the refusal of local and state people to assume their responsibility, this Federal Government will see to it that essential services are maintained.

Q. If it comes to default, how much do you estimate it will cost the United States Government at a minimum?

THE PRESIDENT: Again I do not assume that default is absolutely certain for the reasons that I, a few moments ago, said. It is my judgment that the Federal court under the default procedure and the jurisdiction that the Court has, that it can issue on behalf of the City and/or the State certificates that will have a prior lien on any revenue that comes in while other creditors are held off from getting any benefits in the interim period, so I foresee no loss to the Federal Government whatsoever.

Q. Mr. President, this next question has been asked in about fifteen different ways and I have chosen this version: The questioner asks, what is the difference between the Federal Government's bailing out Lockheed and bailing out New York City?

THE PRESIDENT: Well, in retrospect we may have made a mistake in bailing out Lockheed and yet I think you can draw a distinction. In the case of Lockheed the Federal Government contributes in defense contracts a very substantial portion of the revenue that comes to the company -- I have forgotten the exact percentage but it is 75 or 80 percent or perhaps even more -- and the Federal Government as a result of that tremendous control over funding had a capability of maintaining control precisely without other public officials being involved.

I think that is a fair distinction but in retro-



spect, as I said at the outset, I am not sure we didn't make a mistake.

Q. Thank you, sir. Another questioner asks: In order to insure a continued flow of private funds to public related entities, how does the administration intend to assure future investors that their interests will also be protected when financial difficulties arise?

THE PRESIDENT: The best way for that to occur, Mr. President, is to say that in the case of New York City where there is mismanagement as there has been, the city must go into court in bankruptcy, in default, and when that happens as every investor knows, their obligations which they bought in the free market, hoping for a good return on a tax-free basis, was not a good investment.

I think investors will be more discerning. They will be much more discerning and they will insist that municipal and state officials manage their affairs in a way that will assure credibility to the investor.

I think this course of action that I am suggesting is the greatest deterrent to mis-management of municipal and state action and it is the greatest assurance to future investors that when they buy municipal securities they are making a good investment. I think that will be the end result.

Q. Another questioner wonders why will the people buy the debt certificates that you propose when they would not buy Big Mac bonds which also were backed by assured revenues?

THE PRESIDENT: The legislation would provide that the court cooperate in the issuance of these certificates with those certificates having the highest priority on any revenues that come into the city -- priority above any other -- which means that revenues from taxes, revenues which might come from the Federal Government under revenue sharing or otherwise, would be earmarked for precisely those court-backed certificates.

Every other creditor stands in line and, as I understand it, this current problem that may come in the middle of November, certainly in December, is more of a short-term cash flow problem providing the local officials and the State officials face up to the long-range difficulty.

Q. Another questioner says your prescription for New York City sounds fine but would it work for management of the Federal establishment?

THE PRESIDENT: Well, we have a little different situation here but I think the basic problem, as I said in my remarks, is exactly the same. And if we don't start getting a handle on these long-range commitments in a wide variety of cases, both in our domestic programs as well as our defense, we are going to be faced in a relatively short period of time in the history of this country with the same problem that the City of New York faces today.

We have a different power than New York City has, that we can print money, in effect, but that is not an honest decision or an honest course of action for the American people or the country.

Q. Mr. President, before we go to the final question, I would like to give you the traditional gift that we give all of the proper speakers. This is a National Press Club tie and it is as close as we can get to the maize and blue of an arbor, and also with it goes the certificate from us for appreciation, awarded in recognition of your appearance as guest speaker here today.

Now we have one final question: Do you think you will carry New York City in the next election? (Laughter)

THE PRESIDENT: I will take my chances on New York City because I think there is a substantial number of people in New York City who have known for a long period of time that their great city was being misled and they are now ripe for some straight answers, some straight talk, and I am confident that we can solve the problem, and when we do it, and do it right, I think I will have a friend or two in New York City.

Q. Mr. President, we will get a chance for a reaction to that question next Wednesday when Mayor Beame speaks to this audience.



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THE WHITE HOUSE

TEXT OF REMARKS BY THE PRESIDENT
TO BE DELIVERED AT
THE NATIONAL PRESS CLUB
WASHINGTON, D.C.
October 29, 1975

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The next day Mayor Beame testified here in Washington that the financial resources of the city and state of New York were exhausted. Governor Carey agreed.

It's now up to Washington, they said, and unless the Federal Government intervenes, New York City within a short time will no longer be able to pay its bills.

The message was clear: Responsibility for New York City's financial problems is being left on the front doorstep of the Federal Government -- unwanted and abandoned by its real parents.

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The consequences have been:

- a steady stream of unbalanced budgets;
- massive growth in the city's debt;
- extraordinary increases in public employee contracts;
- and total disregard of independent experts who warned again and again that the city was courting disaster.

There can be no doubt where the real responsibility lies. And when New York City now asks the rest of the country to guarantee its bills, it can be no surprise that many other Americans ask why.

Why, they ask, should they support advantages in New York that they have not been able to afford for their own communities?

Why, they ask, should all the working people of this country be forced to rescue those who bankrolled New York City's policies for so long -- the large investors and big banks?

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-- It must maintain essential public services for the people of New York City. It must protect the innocent victims of this tragedy. There must be policemen on the beat, firemen in the station, nurses in the emergency wards.

-- Second, the solution must assure that New York City can and will achieve and maintain a balanced budget in the years ahead.

-- And third, the right solution must guarantee that neither New York City nor any other American city ever becomes a ward of the Federal Government.

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Second, it will provide the conditions for an orderly plan to be developed for payments to New York's creditors over the long term.

Third, it will provide a way for new borrowing to be secured by pledging future revenues.

I don't want anybody misled. This proposed legislation will not, by itself, put the affairs of New York City in order. Some hard measures must be taken by the officials of New York City and New York State. They must either increase revenues or cut expenditures or devise some combination that will bring them to a sound financial position. Careful examination has convinced me that those measures are neither beyond the realm of possibility nor beyond the demands of reason. If they are taken, New York City will, with the assistance of the legislation I am proposing, be able to restore itself as a fully solvent operation.

To summarize, the approach I am recommending is this: If New York fails to act in its own behalf, orderly proceedings would then be supervised by a Federal Court.

The ones who would be most affected by this course would be those who are now fighting tooth and nail to protect their authority and their investments: New York officials and the city's creditors. The creditors will not be wiped out; how much they will be hurt will depend upon the future conduct of the city's leaders.

For the people of New York, this plan will mean that essential services will continue. There may be some temporary inconveniences, but that will be true of any solution that is adopted.

more



For the financial community, the default may bring some temporary difficulties but the repercussions should not be large or long-lasting.

Finally, for the people of the United States, this means that they will not be asked to assume a burden that is not of their own making and should not become their responsibility. This is a fair and sensible way to proceed.

There is a profound lesson for all Americans in the financial experience of our biggest and richest city.

Though we are the richest Nation in the world, there is a practical limit to our public bounty, just as there is to New York's.

Other cities, other States as well as the Federal Government are not immune to the insidious disease from which New York is suffering. This sickness is brought on by years and years of higher spending, higher deficits, more inflation and more borrowing to pay for higher spending, higher deficits and on and on.

It is a progressive disease and there is no painless cure.

Those who have been treating New York's financial sickness have been prescribing larger and larger doses of the same political stimulants that has proved so popular and successful in Washington for so many years.

None of us can point a completely guiltless finger at New York. None of us should now derive comfort or pleasure from New York's anguish.

But neither can we let the contagion spread.

As we work with the people of New York to overcome their difficulties -- and they will -- we must never forget what brought this great center of human civilization to the brink.

If we go on spending more than we have, providing more benefits and services than we can pay for, then a day of reckoning will come to Washington and the whole country just as it has to New York.

Let me conclude with one question of my own:

When that day of reckoning comes, who will bail out the United States of America?

Thank you.

#



Brooke specifically questioned whether the city's municipal unions would accept reductions in pension coverage. Stevenson countered that if the unions were not willing to make this sacrifice then the city would just default.

Tower opposed federal guarantees of tax-exempt bonds, arguing that they would undercut the market for other non-guaranteed (but tax-exempt) municipal bonds. The consensus favored making the bonds taxable, but the committee did not have jurisdiction over tax laws.

To avoid sending the bill to the Finance Committee, which did have jurisdiction, the committee approved another way to reduce the return on the bonds. The federal government would charge a fee of up to 3½ per cent to guarantee a bond; the fee, in effect, would be passed on to bond purchasers. Proxmire also was confident that the tax-writing House Ways and Means and Senate Finance Committees would approve legislation soon to tax the bonds, but insisted that New York could not wait for these committees to act.

Brooke Substitute

The day after the President's speech, Tower and Brooke continued to oppose the Stevenson bill on practical grounds. "The fact of the matter is there ain't going to be any loan guarantee legislation," Tower insisted, in light of the promised veto.

"It's foolish and folly to go charging up to the Senate floor with legislation we know cannot pass," Brooke agreed.

"All we want is a chance," Proxmire told Tower. "When I talk to people and explain the stringent measures of this legislation...their attitudes change."

Urging the committee to look at the "art of the possible," Brooke proposed a substitute for the Stevenson plan that would have made direct loans available to the city on a standby basis after a default and provided assistance to cities and states that could not market their bonds because of the New York default. Democrats countered that the proposal could cost the federal government more than the Stevenson bill. The substitute was rejected 6-7 with all of the Democrats except Morgan opposed.

By a 4-9 vote, the committee also rejected an amendment to the Stevenson bill that would have eliminated bond guarantees before default, but allowed federal guarantees of debt certificates after default. Stevenson and Brooke generally agreed that the debt certificates proposed in the

President's plan probably would be unmarketable without a federal guarantee.

Proxmire said after the vote to approve the Stevenson bill that the committee planned to file a formal report Nov. 3 and that the Democratic leadership would meet Nov. 4 to consider when to schedule it for floor action.

The filibuster against the measure was likely to be lengthy. Its leaders, Harry F. Byrd Jr. (Ind Va.) and James B. Allen (D Ala.), already had engaged in almost daily floor discussions detailing their arguments against the bill. Byrd also had continued to object to the Banking Committee's meeting to markup the bill when the Senate was in session.

House Action

Moving swiftly after the Senate committee acted, the House Banking Subcommittee on Economic Stabilization Oct. 31 agreed, by a 10-6 vote, to send its own bond guarantee proposal to the full committee. The full committee planned to consider the bill on Nov. 3.

Two Democrats and all of the subcommittee's Republicans except Stewart B. McKinney (R Conn.) opposed the bill.

The subcommittee proposal was based on a plan drafted by Thomas L. Ashley (D Ohio), subcommittee chairman. It would provide up to \$7-billion in federal guarantees if the city met certain conditions. In general, these conditions were not as stiff as those spelled out in the Senate committee's bill, but McKinney pressed the subcommittee to tighten up some of them.

McKinney, a strong supporter of aid to New York, argued that stricter requirements would help make the bill more acceptable to the House. In another effort to expand support, Ashley said that the Banking Committee probably would agree to send its bill to the House Judiciary Committee so that bankruptcy amendments like those proposed by Ford could be added to the measure. This strategy might make it harder for the President to veto the bill because use of the guarantees would be left up to a board chaired by Simon.

Also trying to prepare a more favorable climate for the legislation, members of the New York state delegation took over the House floor for several hours on Oct. 28 to discuss the city's problems.

—By Elizabeth Bowman

New York City

TEXT OF FORD'S SPEECH

Following is the White House text of President Ford's Oct. 29 speech to the National Press Club on New York City's financial crisis.

Today I want to talk to you about a matter of concern to all Americans.

New York City, where one out of every 25 Americans lives, through whose "Golden Door" untold millions have entered this land of liberty, faces a financial showdown.

The time has come for straight talk—to these eight million Americans and to the other 206 million Americans to

whom I owe the duty of stating my convictions and conclusions, and to you, whose job it is to carry them throughout the Nation and around the world.

The time has come to sort facts and figures from fiction and fear-mongering in this terribly complex situation. The time has come to say what solutions will work and which should be cast aside.

And the time has come for all Americans to consider how the problems of New York and the hard decisions they demand, foreshadow and focus upon potential problems for all Federal, State and local governments—problems which demand equally hard decisions from them.

One week ago New York City tottered upon the brink of financial default which was deferred only at the eleventh hour.

The next day Mayor Beame testified here in Washington that the financial resources of the city and state of New York were exhausted. Governor Carey agreed.

It's now up to Washington, they said, and unless the Federal Government intervenes, New York City within a short time will no longer be able to pay its bills.

The message was clear: Responsibility for New York City's financial problems is being left on the front doorstep of the Federal Government—unwanted and abandoned by its real parents.

Many explanations have been offered about what led New York City deeper and deeper into this quagmire.

Some contend it was long-range economic factors such as the flight to the suburbs, of the city's more affluent citizens,

the migration to the city of poorer people, and the departure of industry.

Others argue that the big metropolitan city has become obsolescent, that decay and pollution have brought a deterioration in the quality of urban life, and that New York's downfall could not be prevented.

Let's face one simple fact: most other cities in America have faced these same challenges, and they are still financially healthy today. They have not been luckier than New York; they simply have been better managed.

There is an old saying: "The harder you try, the luckier you get." I like that definition of "luck".

During the last decade, the officials of New York City have allowed its budget to triple. No city can expect to remain solvent if it allows its expenses to increase by an average of 12 percent every year, while its tax revenues are increasing by only 4 to 5 percent a year.

The Record

As Al Smith, a great Governor who came from the sidewalks of New York, used to say: "Let's look at the record."

The record shows that New York City's wages and salaries are the highest in the United States. A sanitation worker with three years experience now receives a base salary of nearly \$15,000 a year. Fringe benefits and retirement costs average more than 50 percent of base pay. Four-week paid vacations and unlimited sick leave after only one year on the job.

The record shows that in most cities, municipal employees have to pay 50 percent or more of the cost of their pensions.

New York City is the only major city in the country that picks up the entire burden.

The record shows that when New York's municipal employees retire they often retire much earlier than in most cities and at pensions considerably higher than sound retirement plans permit.

The record shows New York City has 18 municipal hospitals; yet, on an average day, 25 percent of the hospital beds are empty. Meanwhile, the city spends millions more to pay the hospital expenses of those who use private hospitals.

The record shows New York City operates one of the largest universities in the world, free of tuition for any high school graduate, rich or poor, who wants to attend.

As for New York's much-discussed welfare burden, the record shows more than one current welfare recipient in ten may be legally ineligible for welfare assistance.

Certainly I do not blame all the good people of New York City for their generous instincts or for their present plight. I do blame those who have misled the people of New York City about the inevitable consequences of what they were doing over the last 10 years.

The consequences have been:

- a steady stream of unbalanced budgets;
- massive growth in the city's debt;
- extraordinary increases in public employee contracts;
- and total disregard of independent experts who warned again and again that the city was courting disaster.

There can be no doubt where the real responsibility lies. And when New York City now asks the rest of the country to guarantee its bills, it can be no surprise that many other Americans ask why.

Why, they ask, should they support advantages in New York that they have not been able to afford for their own communities?

Why, they ask, should all the working people of this country be forced to rescue those who bankrolled New York City's policies for so long—the large investors and big banks?

In my judgment, no one has yet given these questions a satisfactory answer.

'Scare Story'

Instead, Americans are being told that unless the rest of the country bails out New York, there will be catastrophe for the United States and perhaps for the world.

Is this scare story true?

Of course there are risks that default could cause temporary fluctuations in the financial markets. But these markets have already made a substantial adjustment in anticipation of a possible default by New York City.

Claims also are made that because of New York City's troubles, other municipalities will have grave difficulty selling their bonds. I know this troubles many thoughtful citizens.

But, the New York City record of bad financial management is unique among municipalities. Other communities have a solid reputation for living within their means. In recent days and weeks, other local governments have gone to investors with clean records of fiscal responsibility and have had no difficulty raising funds.

The greater risk is that any attempt to provide a Federal blank check for the leaders of New York City would ensure that no long-run solution to the city's problems will ever occur.

I can understand the concern of many citizens in New York and elsewhere. I understand because I am also concerned.

What I cannot understand—and what nobody should condone—is the blatant attempt in some quarters to frighten the American people and their representatives in Congress into panicky support of patently bad policy. The people of this country will not be stampeded; they will not panic when a few desperate New York officials and bankers try to scare New York's mortgage payments out of them. We have heard enough scare talk.

Solution

What we need now is a calm, rational decision as to what the right solution is—the solution that is best for the people of New York and best for all Americans.

To be effective, the right solution must meet three basic tests:

- It must maintain essential public services for the people of New York City. It must protect the innocent victims of this tragedy. There must be policemen on the beat, firemen in the station, nurses in the emergency wards.
- Second, the solution must assure that New York City can and will achieve and maintain a balanced budget in the years ahead.
- And third, the right solution must guarantee that neither New York City nor any other American city ever becomes a ward of the Federal Government.

Let me digress a minute to remind you that under our constitutional system, both the cities and the Federal Government were the creatures of the States. The States delegated certain of their sovereign powers—the power to tax, police powers and the like—to local units of self-government. And they can take these powers back if they are abused.

The States also relinquished certain sovereign powers to the Federal Government—some altogether and some to be shared. In return the Federal Government has certain obligations to the States.

I see a serious threat to the legal relationships among our Federal, State and local governments in any congressional action which could lead to disruption of this traditional balance. Our largest city is no different in this respect than our smallest town. If Mayor Beame doesn't want Governor Carey to run his city, does he want the President of the United States to be acting Mayor of New York?



Now, what is the solution to New York's dilemma?

There are at least eight different proposals under consideration by the Congress intended to prevent default. They are all variations of one basic theme: that the Federal Government would guarantee the availability of funds to New York City.

Veto

I can tell you now that I am prepared to veto any bill that has as its purpose a Federal bail-out of New York City to prevent a default.

I am fundamentally opposed to this so-called solution, and I will tell you why.

Basically, it is a mirage. By giving a Federal guarantee we would be reducing rather than increasing the prospect that the city's budget will ever be balanced. New York City's officials have proved in the past that they will not face up to the city's massive network of pressure groups as long as any alternative is available. If they can scare the whole country into providing that alternative now, why shouldn't they be confident they can scare us again into providing it three years from now? In short, it encourages the continuation of "politics as usual" in New York—which is precisely not the way to solve the problem.

Such a step would set a terrible precedent for the rest of the Nation. It would promise immediate rewards and eventual rescue to every other city that follows the tragic example of our largest city. What restraint would be left on the spending of other local and state governments once it becomes clear that there is a Federal rescue squad that will always arrive in the nick of time?

Finally, we must all recognize who the primary beneficiaries of a Federal guarantee program would be. The beneficiaries would not be those who live and work in New York City because the really essential public services must and will continue.

The primary beneficiaries would be the New York officials who would thus escape responsibility for their past follies and be further excused from making the hard decisions required now to restore the city's fiscal integrity.

The secondary beneficiaries would be the large investors and financial institutions who purchased these securities anticipating a high rate of tax-free return.

New Law

Does this mean there is no solution? Not at all. There is a fair and sensible way to resolve this issue, and this is the way to do it:

If the city is unable to act to provide a means of meeting its obligations, a *new law* is required to assure an orderly and fair means of handling the situation.

As you know, the Constitution empowers the Congress to enact uniform bankruptcy laws. Therefore, I will submit to the Congress special legislation providing the Federal courts with sufficient authority to preside over an orderly

reorganization of New York City's financial affairs—should that become necessary.

How would this work? The city, with State approval, would file a petition with the Federal District Court in New York under a proposed new chapter XVI of the Bankruptcy Act. The petition would state that New York City is unable to pay its debts as they mature and would be accompanied by a proposed way to work out an adjustment of its debts with its creditors.

The Federal Court would then be authorized to accept jurisdiction of the case. Then there would be an automatic stay of suits by creditors so that the essential functions of New York City would not be disrupted.

It would provide a breathing space for an orderly plan to be developed so that the city could work out arrangements with its creditors.

While New York City works out a compromise with its creditors the essential governmental functions of the city would continue.

In the event of default, the Federal Government will work with the court to assure that police, fire and other essential services for the protection of life and property in New York are maintained.

The proposed legislation will include provision that as a condition of New York City petitioning the court, the city must not only file a good faith plan for payments to its creditors but must also present a program for placing the fiscal affairs of the city on a sound basis.

In order to meet the short term needs of New York City the court would be empowered to authorize debt certificates covering new loans to the city which would be paid out of future revenues ahead of other creditors.

Thus, the legislation I am proposing will do three essential things.

First, it will prevent, in the event of a default, all New York City funds from being tied up by lawsuits.

Second, it will provide the conditions for an orderly plan to be developed for payments to New York's creditors over the long term.

Third, it will provide a way for new borrowing to be secured by pledging future revenues.

I don't want anybody misled. This proposed legislation will not, by itself, put the affairs of New York City in order. Some hard measures must be taken by the officials of New York City and New York State. They must either increase revenues or cut expenditures or devise some combination that will bring them to a sound financial position. Careful examination has convinced me that those measures are neither beyond the realm of possibility nor beyond the demands of reason. If they are taken, New York City will, with the assistance of the legislation I am proposing, be able to restore itself as a fully solvent operation.

To summarize, the approach I am recommending is this: If New York fails to

act in its own behalf, orderly proceedings would then be supervised by a Federal Court.

The ones who would be most affected by this course would be those who are now fighting tooth and nail to protect their authority and their investments: New York officials and the city's creditors. The creditors will not be wiped out; how much they will be hurt will depend upon the future conduct of the city's leaders.

For the people of New York, this plan will mean that essential services will continue. There may be some temporary inconveniences, but that will be true of any solution that is adopted.

For the financial community, the default may bring some temporary difficulties but the repercussions should not be large or long-lasting.

Finally, for the people of the United States, this means that they will not be asked to assume a burden that is not of their own making and should not become their responsibility. This is a fair and sensible way to proceed.

Lesson

There is a profound lesson for all Americans in the financial experience of our biggest and richest city.

Though we are the richest Nation in the world, there is a practical limit to our public bounty, just as there is to New York's.

Other cities, other States as well as the Federal Government are not immune to the insidious disease from which New York is suffering. This sickness is brought on by years and years of higher spending, higher deficits, more inflation and more borrowing to pay for higher spending, higher deficits and on and on.

It is a progressive disease and there is no painless cure.

Those who have been treating New York's financial sickness have been prescribing larger and larger doses of the same political stimulants that has proved so popular and successful in Washington for so many years.

None of us can point a completely guiltless finger at New York. None of us should now derive comfort or pleasure from New York's anguish.

But neither can we let the contagion spread.

As we work with the people of New York to overcome their difficulties—and they will—we must never forget what brought this great center of human civilization to the brink.

If we go on spending more than we have, providing more benefits and services than we can pay for, then a day of reckoning will come to Washington and the whole country just as it has to New York.

Let me conclude with one question of my own:

When that day of reckoning comes, who will bail out the United States of America?

Thank you.



Since December 1973, Mr. Nardoza has been Acting Assistant Administrator of the Office of Regional Operations, Law Enforcement Assistance Administration, Department of Justice. He was Regional Administrator of the Law Enforcement Assistance Administration at the Department from 1971 to 1973. From 1969 to 1971, he was a Law Enforcement Program Specialist with LEAA.

During 1968-69, Mr. Nardoza was an associate intelligence analyst with the New York State Identification and Intelligence System in Albany, N.Y. From 1948 to 1968, he served with the New York City Police Department as a lieutenant.

Mr. Nardoza was born on September 16, 1919, and received his B.A. degree in 1960 and his M.A. in 1967 from the City University of New York.

Mr. Nardoza is married to the former Dorothy Donnelly, and they have three children.

United States Ambassador to Switzerland

Announcement of Intention To Nominate Nathaniel Davis. October 29, 1975

The President today announced his intention to nominate Nathaniel Davis, of Hoboken, N.J., to be Ambassador to Switzerland. He will succeed Peter Dominick, who has resigned.

Since April 1975, Ambassador Davis has been Assistant Secretary for African Affairs. He served as Director General of the Foreign Service from 1973 to 1975. He was Ambassador to Chile from 1971 to 1973, and was Ambassador to Guatemala from 1968 to 1971. From 1966 to 1968, he was on the National Security Council Staff at the White House. He was Minister to Bulgaria during 1965.

In 1962, Ambassador Davis joined the Peace Corps as Special Assistant to the Director of the Peace Corps and as Deputy Associate Director for Program Development and Operations, serving until 1965. He was Deputy Officer in Charge of Soviet Affairs at the Department of State from 1956 to 1960. He had assignments in Moscow (1954-56), Rome (1952-53), Florence (1949-52), and in Prague (1947-49).

Ambassador Davis was born on April 12, 1925, in Boston, Mass., and received his B.A. degree from Brown University and was a Phi Beta Kappa. He received his Ph.D. from the Fletcher School of Law and Diplomacy. He served in the United States Navy during World War II.

Ambassador Davis is married to the former Elizabeth Creese, and they have four children.

Deputy Counsel to the President

Announcement of Appointment of Edward C. Schmults. October 29, 1975

The President today announced the appointment of Edward C. Schmults as Deputy Counsel to the President, succeeding Roderick Hills, who was recently appointed Chairman of the Securities and Exchange Commission.

Prior to his appointment, Mr. Schmults had served as Under Secretary of the Treasury and earlier was General Counsel for the Department of the Treasury. In his new position, he will serve with Mr. Philip W. Buchen, Counsel to the President, in the Office of Legal Counsel.

Mr. Schmults was born on February 6, 1931, in Paterson, N.J., and received his undergraduate degree from Yale University in 1953. He was awarded an LL.B. degree from Harvard Law School in 1958. From 1953 to 1955, he served as an officer in the United States Marine Corps.

Upon graduation from law school, Mr. Schmults joined the law firm of White & Case, New York City, specializing in corporate and securities law, and became a partner in the firm in 1965. He was appointed General Counsel of the Department of Treasury in May 1973, and Under Secretary of the Treasury in June 1974.

Mr. Schmults is married to the former Diane Beers, and they have three children. They reside in Chevy Chase, Md.

New York City's Financial Situation

The President's Remarks and a Question-and-Answer Session at the National Press Club. October 29, 1975

THE PRESIDENT. *Mr. President, fellow members of the Press Club, ladies and gentlemen, guests:*

I am deeply grateful for the opportunity to join you today and talk to you about a matter of very deep concern to all Americans. New York City, where one out of every 25 Americans lives, through whose "Golden Door" untold millions have entered this land of liberty, faces a financial showdown.

The time has come for straight talk—to these eight million Americans and to the other 206 million Americans to whom I owe the duty of stating my convictions and my conclusions, and to you, whose job it is to carry them throughout the world as well as the United States.

The time has come to sort facts and figures from fiction and fear-mongering in this terribly complex situation. The time has come to say what solutions will work and which should be cast aside.

And the time has come for all Americans to consider how the problems of New York and the hard decisions

they demand foreshadow and focus upon potential problems for all governments—Federal, State, and local—problems which demand equally hard decisions for them.

One week ago, New York City tottered on the brink of financial default which was deferred only at the eleventh hour. The next day, Mayor Beame testified here in Washington that the financial resources of the city and the State of New York were exhausted. Governor Carey agreed.

They said it is now up to Washington, and unless the Federal Government intervenes, New York City within a short time will no longer be able to pay its bills.

The message was clear: Responsibility for New York City's financial problems is being left on the front doorstep of the Federal Government—unwanted and abandoned by its real parents.

Many explanations have been offered about what led New York City deeper and deeper into this quagmire. Some contend it was long-range economic factors such as the flight to the suburbs of the city's more affluent citizens, the migration to the city of poorer people, and the departure of industry.

Others argued that the big metropolitan city has become obsolescent, that decay and pollution have brought a deterioration in the quality of urban life and New York's downfall could not be prevented.

Let's face one simple fact: Most other cities in America have faced these very same challenges, and they are still financially healthy today. They have not been luckier than New York; they simply have been better managed. There is an old saying: "The harder you try, the luckier you get." And I kind of like that definition of luck.

During the last decade, the officials of New York City have allowed its budget to triple. No city can expect to remain solvent if it allows its expenses to increase by an average of 12 percent every year, while its tax revenues are increasing by only 4 to 5 percent per year.

As Al Smith, a great Governor of New York who came from the sidewalks of New York City, used to say: "Let's look at the record."

The record shows that New York City's wages and salaries are the highest in the United States. A sanitation worker with 3 years experience now receives a base salary of nearly \$15,000 a year. Fringe benefits and retirement costs average more than 50 percent of base pay. There are 4-week paid vacations and unlimited sick leave after only one year on the job.

The record shows that in most cities, municipal employees have to pay 50 percent or more of the cost of their pensions. New York City is the only major city in the country that picks up the entire burden.

The record shows that when New York's municipal employees retire, they often retire much earlier than in most cities and at pensions considerably higher than sound retirement plans permit.

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As for New York's much-discussed welfare burden, the record shows more than one current welfare recipient in ten may be legally ineligible for welfare assistance.

Certainly, I do not blame all the good people of New York City for their generous instincts or for their present plight. I do blame those who have misled the people of New York about the inevitable consequences of what they were doing over the last 10 years.

The consequences have been a steady stream of unbalanced budgets, massive growth in the city's debt, extraordinary increases in public employee contracts, and total disregard of independent experts who warned again and again that the city was courting disaster.

There can be no doubt where the real responsibility lies. And when New York City now asks the rest of the country to guarantee its bills, it can be no surprise that many other Americans ask why.

Why, they ask, should they support advantages in New York that they have not been able to afford for their own communities?

Why, they ask, should all the working people of this country be forced to rescue those who bankrolled New York City's policies for so long—the large investors and big banks?

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Claims are made that because of New York City's troubles, other municipalities will have grave difficulty selling their bonds. I know that this troubles many thoughtful citizens.

But the New York City record of bad financial management is unique among municipalities throughout the United States. Other communities have a solid reputation for living within their means. In recent days and weeks, other local governments have gone to investors with clean records of fiscal responsibility and have had no difficulty raising funds.

The greater risk is that any attempt to provide a Federal blank check for the leaders of New York City would ensure



that no long-run solution to the city's problems will ever occur.

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We have heard enough scare talk. What we need now is a calm, rational decision as to what is the right solution—the solution that is best for the people of New York and best for all Americans.

To be effective, the right solution must meet three basic tests:

—It must maintain essential public services for the people of New York City. It must protect the innocent victims of this tragedy. There must be policemen on the beat, firemen in the station, nurses in the emergency wards.

—Second, the solution must assure that New York City can and will achieve and maintain a balanced budget in the years ahead.

—And third, the right solution must guarantee that neither New York City nor any other American city ever becomes a ward of the Federal Government.

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What is the solution to New York's dilemma? There are at least eight different proposals under consideration by the Congress, intended to prevent default. They are all variations of one basic theme: that the Federal Gov-

ernment should or would guarantee the availability of funds to New York City.

I can tell you, and tell you now, that I am prepared to veto any bill that has as its purpose a Federal bail-out of New York City to prevent a default.

I am fundamentally opposed to this so-called solution, and I will tell you why. Basically, it is a mirage. By giving a Federal guarantee, we would be reducing rather than increasing the prospect that the city's budget will ever be balanced. New York City's officials have proved in the past that they will not face up to the city's massive network of pressure groups as long as any other alternative is available. If they can scare the whole country into providing that alternative now, why shouldn't they be confident they can scare us again into providing it 3 years from now? In short, it encourages the continuation of "politics as usual" in New York, which is precisely not the way to solve the problem.

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Finally, we must all recognize who the primary beneficiaries of a Federal guarantee program would be. The beneficiaries would not be those who live and work in New York City because the really essential public services must and will continue.

The primary beneficiaries would be the New York officials who would use the escape responsibility for their past follies and be further excused from making the hard decisions required now to restore the city's fiscal integrity.

The secondary beneficiaries would be the large investors and financial institutions who purchased these securities anticipating a high rate of tax-free return.

Does this mean there is no solution? Not at all. There is a fair and sensible way to resolve this issue, and this is the way to do it.

If the city is unable to act to provide a means of meeting its obligations, a new law is required to assure an orderly and fair means of handling the situation.

As you know, the Constitution empowers the Congress to enact uniform bankruptcy laws. Therefore, I will submit to the Congress special legislation providing the Federal courts with sufficient authority to preside over an orderly reorganization of New York City's financial affairs—should that become necessary.

How would this work? The city, with State approval, would file a petition with the Federal District Court in New York under a proposed new chapter XVI of the Bankruptcy Act. The petition would state that New York



City is unable to pay its debts as they mature and would be accompanied by a proposed way to work out an adjustment of its debts with its creditors.

The Federal court would then be authorized to accept jurisdiction of the case. There would be an automatic stay of suits by creditors so that the essential functions of the city would not be disrupted.

This would enable an orderly plan to be developed so that the city could work out arrangements with its creditors. While New York City works out a compromise with its creditors, the essential governmental functions of the city would continue. In the event of default, the Federal Government will work with the court to assure that police and fire and other essential services for the protection of life and property in New York are maintained.

The proposed legislation will include a provision that as a condition of New York City petitioning the court, the city must not only file a good faith plan for payment to its creditors but must also present a program for placing the fiscal affairs of the city on a sound basis.

In order to meet the short-term needs of New York City, the court would be empowered to authorize debt certificates covering new loans to the city, which would be paid out of future revenues ahead of other creditors.

Thus, the legislation I am proposing will do three essential things:

- First, it will prevent, in the event of default, all New York City funds from being tied up in lawsuits.
- Second, it will provide the conditions for an orderly plan to be developed for payments to New York City's creditors over a long term.
- Third, it will provide a way for new borrowing to be secured by pledging future revenues.

I don't want anybody misled. This proposed legislation will not, by itself, put the affairs of New York City in order. Some hard measures must be taken by the officials of New York City and New York State. They must either increase revenues or cut expenditures or devise some combination that will bring them to a sound financial position.

Careful examination has convinced me that those measures are neither beyond the realm of possibility nor beyond the demands of reason. If they are taken, New York City will, with the assistance of the legislation I am proposing, be able to restore itself as a fully solvent operation.

To summarize, the approach I am recommending is this: If New York fails to act in its own behalf, orderly proceedings would then be supervised by a Federal court.

The ones who would be most affected by this course of action would be those who are now fighting tooth and nail to protect their authority and to protect their investments—New York City's officials and the city's creditors. The creditors will not be wiped out; how much they will be hurt will depend upon the future conduct of the city's leaders.

For the people of New York, this plan will mean that essential services will continue. There may be some tempo-

rary inconveniences, but that will be true of any solution that is adopted.

For the financial community, the default may bring some temporary difficulties, but the repercussions should not be large or longstanding.

Finally, for the people of the United States, this means that they will not be asked to assume a burden that is not of their own making and should not become their responsibility. This is a fair and sensible way to proceed.

There is a profound lesson for all Americans in the financial experience of our biggest and our richest city. Though we are the richest Nation, the richest Nation in the world, there is a practical limit to our public bounty, just as there is to New York City's.

Other cities, other States, as well as the Federal Government are not immune to the insidious disease from which New York City is suffering. This sickness is brought on by years and years of higher spending, higher deficits, more inflation, and more borrowing to pay for higher spending, higher deficits, and so on, and so on, and so on. It is a progressive disease, and there is no painless cure.

Those who have been treating New York's financial sickness have been prescribing larger and larger doses of the same political stimulant that has proved so popular and so successful in Washington for so many years.

None of us can point a completely guiltless finger at New York City. None of us should now derive comfort or pleasure from New York's anguish. But neither can we let that contagion spread.

As we work with the wonderful people of New York to overcome their difficulties—and they will—we must never forget what brought this great center of human civilization to the brink.

If we go on spending more than we have, providing more benefits and more services than we can pay for, then a day of reckoning will come to Washington and the whole country just as it has to New York City.

And so, let me conclude with one question of my own: When that day of reckoning comes, who will bail out the United States of America?

Thank you very much.

QUESTIONS

MR. BROOM. Now we have time for just a few questions, haven't we, Mr. President? The first one asks, Mr. President, you say that in the event of a default the Federal Government is prepared to work with the courts to assure that the city can continue to maintain its essential services such as police and fire protection. Does this mean the Federal Government will provide cash or guarantees or Federal troops?

THE PRESIDENT. Well, of course, I don't assume that the city will default, because I think the capacity in the city and the capacity in the State is there to avoid default. But in the eventuality that those in control of the city and

State refuse to step up to that responsibility and that capability, then the court will have to go through the default process.

And I can only say that the Federal Government will work with the court. I do not want to prescribe precisely the means or methods, but I can say that in working with the court after the refusal of local and State people to assume their responsibility, this Federal Government will see to it that essential services are maintained.

MR. BROOM. If it comes to default, how much do you estimate it will cost the United States Government at a minimum?

THE PRESIDENT. Again I do not assume that default is absolutely certain for the reasons that I, a few moments ago, said. It is my judgment that the Federal court under the default procedure and the jurisdiction that the court has, that it can issue on behalf of the city and/or the State certificates that will have a prior lien on any revenue that comes in while other creditors are held off from getting any benefits in the interim period. So, I foresee no loss to the Federal Government whatsoever.

MR. BROOM. Mr. President, this next question has been asked in about 15 different ways, and I have chosen this version: The questioner asks, what is the difference between the Federal Government's bailing out Lockheed and bailing out New York City?

THE PRESIDENT. Well, in retrospect we may have made a mistake in bailing out Lockheed. And yet I think you can draw a distinction. In the case of Lockheed the Federal Government contributes in defense contracts a very substantial portion of the revenue that comes to the company—I have forgotten the exact percentage, but it is 75 or 80 percent or perhaps even more—and the Federal Government as a result of that tremendous control over funding had a capability of maintaining control precisely without other public officials being involved.

I think that is a fair distinction, but in retrospect, as I said at the outset, I am not sure we didn't make a mistake.

MR. BROOM. Thank you, sir. Another questioner asks: In order to ensure a continued flow of private funds to public-related entities, how does the Administration intend to assure future investors that their interests will also be protected when financial difficulties arise?

THE PRESIDENT. The best way for that to occur, Mr. President, is to say that in the case of New York City, that if there is mismanagement as there has been, the city must go into court in bankruptcy, in default. And when that happens as every investor knows, their obligations which they bought in the free market, hoping for a good return on a tax-free basis, was not a good investment.

I think investors will be more discerning. They will be much more discerning, and they will insist that municipi-

pal and State officials manage their affairs in a way that will assure credibility to the investor.

I think this course of action that I am suggesting is the greatest deterrent to mismanagement of municipal and State action, and it is the greatest assurance to future investors that when they buy municipal securities or State securities, they are making a good investment. I think that will be the end result.

MR. BROOM. Another questioner wonders, why will people buy the debt certificates that you propose when they would not buy "Big Mac" bonds which also were backed by assured revenues?

THE PRESIDENT. The legislation would provide that the court could cooperate in the issuance of these certificates with those certificates having the highest priority on any revenues that come into the city—priority above any other—which means that revenues from taxes, revenues that might come from the Federal Government under general revenue sharing or otherwise, would be earmarked for precisely those court-backed certificates.

Every other creditor stands in line, and, as I understand it, this current problem that may come in the middle of November, certainly in December, is more of a short-term cash flow problem providing the local officials and the State officials face up to the long-range difficulty.

MR. BROOM. Another questioner says your prescription for New York City sounds fine, but would it work for management of the Federal Establishment?

THE PRESIDENT. Well, we have a little different situation here, but I think the basic problem, as I said in my remarks, is exactly the same. And if we don't start getting a handle on these long-range commitments in a wide variety of cases, both in our domestic programs as well as our defense, we are going to be faced in a relatively short period of time in the history of this country with the same problem that the city of New York faces today.

We have a different power than New York City has, that we can print money, in effect, but that is not an honest decision or an honest course of action for the American people or the country.

MR. BROOM. Mr. President, before we go to the final question, I would like to give you the traditional gift that we give all of the proper speakers. It is a National Press Club tie, and it is as close as we could get to the maize and blue of Ann Arbor, and also with it goes a certificate from us for appreciation, awarded in recognition of your appearance as guest speaker here today.

And now we have one final question: Do you think you will carry New York City in the next election? [Laughter]

THE PRESIDENT. I will take my chances on New York City because I think there is a substantial number of people in New York City who have known for a long period of time that their great city was being misled, and they are



now ripe for some straight answers, some straight talk. And I am confident that we can solve the problem, and when we do it, and do it right, I think I will have a friend or two in New York City.

MR. BROOM. Mr. President, we will get a chance for a reaction to that question next Wednesday when Mayor Beame speaks to this audience.

NOTE: The President spoke at 12:02 p.m. at the National Press Building, after being introduced by William W. Broom, president of the National Press Club.

Municipal Bankruptcy Legislation

The President's Letter to the Speaker of the House and to the President of the Senate Transmitting Proposed Legislation Concerning Indebtedness of Major Municipalities. October 29, 1975

Dear Mr. Speaker: (Dear Mr. President:)

Enclosed for your consideration and appropriate reference is a legislative proposal to amend the Bankruptcy Act to add a new Chapter XVI dealing with the adjustment of debts of major municipalities.

This legislative recommendation is submitted because of the inadequacies of Chapter IX of the current Bankruptcy Act in its application to the problems of major municipalities. The attached draft legislative proposal would provide a desirable alternative to Chapter IX of the Bankruptcy Act.

A major concern of all of us is the need for meaningful action to bring into balance the revenues and expenditures of a city which may need to seek relief under the Bankruptcy Act. The attached legislative proposal will provide the incentives needed to force such a city to make the hard decisions required to achieve this important objective. The draft legislation will accomplish this without improper intrusion into the internal governmental affairs of any State.

We do not wish for any city to have to undergo bankruptcy. However, recent events remind us we cannot ignore the fact that there must be relief legislation ready and available in the event insolvency forces resort to relief under the Bankruptcy Act. I can assure you that the Executive Branch would be prepared to work with the bankruptcy court in a proceeding under the proposed Act.

Administration witnesses will be pleased to consult with and advise the Committee to which this legislation is assigned. This legislation is urgently needed. I respectfully urge its early consideration by the Congress.

Sincerely,

GERALD R. FORD

NOTE: For the President's remarks concerning the proposed legislation, see the preceding item.

United States Ambassador to Papua New Guinea

Announcement of Intention To Nominate Mary S. Olmsted. October 29, 1975

The President today announced his intention to nominate Mary S. Olmsted, of Signal Mountain, Tenn., to be Ambassador to Papua New Guinea. She will be the first United States Ambassador to Papua New Guinea.

Currently, Miss Olmsted is Chargé d'Affaires, ad interim, in Port Moresby, after serving as Consul General in Port Moresby during 1974-75. From 1972 to 1974, she was Deputy Director of Personnel for Policy, Classification, and Evaluation at the Department of State, after serving as Deputy Director for Personnel Management Services during 1971-72. She was detailed to the Office of Economic Opportunity from 1969 to 1971 and then served as a Supervisory Economic Officer at the department from 1966 to 1969. She attended a Senior Seminar in Foreign Policy at the Foreign Service Institute during 1965-66. From 1960 to 1965, she was an Economic Officer in New Delhi.

Miss Olmsted went to the Department of State in 1958 to serve as an International Economist until 1960. She was on detail to the Department of Commerce during 1957-58 and later became an Intelligence Research Specialist during 1956-57. She was an Economic Officer in Vienna, Austria, from 1951 to 1955. From 1949 to 1951, she was a Political Officer in Reykjavik, Iceland.

Miss Olmsted was born on September 28, 1919, in Duluth, Minn., and received her B.A. degree from Mount Holyoke College in 1941. She received her M.A. in 1945 from Columbia University. She was a statistician from 1941 to 1943 and later became a research assistant with the National Bureau of Economic Research in New York N.Y., from 1943 to 1945. She entered the Foreign Service in 1945.

Los Angeles, California

The President's Remarks at a Republican Fundraising Dinner. October 29, 1975

Chuck, I can't express deeply enough—and as deeply appreciative that I am—of those more than generous words. Let me add, if I might, my great gratitude for the tremendous turnout here tonight that expresses a faith, a conviction, a dedication to the principles and the things that all of us believe in as Republicans in effectuating what we seek and desire at the local, the State, and the Federal level.



THE WHITE HOUSE
WASHINGTON

October 29, 1975

MEMORANDUM FOR: JIM CANNON
FROM: JIM CAVANAUGH
SUBJECT: New York City Stories

WASHINGTON POST, PAGE 1, LOU CANNON

"Ford "Ford to Speak on N. Y. Crisis"

"President Ford is ^x expected today to emphasize his support for changes in federal bankruptcy statutes to insure that New York police and fire services are maintained if the city defaults.

"But White House spokesman Ron Nessen, who announced that the President will make 'an important speech' on New York City at the National Press Club, at the same time repeated earlier presidential declarations that Mr. Ford opposes any federal financial aid to prevent default.

"Instead, the President's speech to be delivered at noon, was described by two White House officials as representing his assessment of what would happen after a default. The White House has been under pressure from the financial community for the past two weeks to indicate that the federal government stands ready to respond after a default, now expected in December.

"Vice President Rockefeller, who met with Mr. Ford yesterday afternoon and discussed the New York City issue, has been saying that the federal government may have to guarantee city bonds for a three-year period until investor confidence returns.

"Mr. Ford was described by one aide as being unwilling to go this far but also as recognizing that it is important to allay the fears of New Yorkers that they will be without essential services if default occurs.

"In his speech Mr. Ford is expected to say that New York State has sufficient funds to make up a New York City shortfall in revenues over the next three months.



"If Congress changes the federal bankruptcy statutes so that the city's creditors would have to wait on their debt-service interest payments until salaries and welfare payments were made, New York City is still expected to need about \$1 billion in additional revenue from March through December to maintain essential services.

"Mr. Ford has received conflicting political counsel from his advisers on the wisdom of his New York strategy.

"On the one hand, he has been told that the public outside New York City is overwhelming opposed to aiding the city. This theme also has been emphasized by former Gov. Ronald Reagan of California, who is expected to announce his candidacy for the Republican presidential nomination soon.

"On the other hand Mr. Ford also is aware that he, rather than Congress, is likely to be blamed if the New York City default has an adverse effect on the municipal bond market elsewhere.

"Given this conflicting advice, a high-ranking White House aide insisted this week that the President was best off 'doing what he thinks is right' and that this means opposing federal aid to prevent a default."

NEW YORK TIMES, PAGE 1, JAMES M. NAUGHTON

"Ford to Propose Bill to Help City After a Default"

"It Would Assure Continuing Police and Fire Protection and Other Vital Services"

"Key is Federal Referee"

"He Would Take Over to Pay Uniformed Men Before Holders of City Notes"

"By James M. Naughton, Special to The New York Times, WASHINGTON, Oct. 28."

"President Ford will reportedly propose tomorrow that Congress enact legislation to assure the continuance of police and fire protection and other vital services if New York City defaults.



"Well-placed Administration officials said today that the President would outline, in a suddenly scheduled speech to the National Press Club, a plan to create what one official called 'a mechanism to manage default.'

"But the President will continue to oppose Federal assistance to prevent a default by the city, the officials said, and will make clear that he believes the city and New York State have the ability to avert a fiscal collapse.

"Senate Vote Put Off"

"The White House announcement that Mr. Ford would deliver a comprehensive policy statement on the city's fiscal situation caused the Senate Banking Committee to defer until Thursday a vote on a \$4-billion loan-guarantee bill for New York.

"Some Republicans on the committee said they wanted to hear Mr. Ford's statement before voting on the measure, prompting initial concern that the already narrow majority in favor of the bill might be eroded.

"But Senator William Proxmire, the Wisconsin Democrat who heads the Banking Committee, expressed confidence that there would be enough votes to get the bill at least to the full Senate, where its fate is in doubt.

"Powers of Referee"

"The heart of the proposals Mr. Ford will make was said to be legislation permitting New York or other major cities to petition for bankruptcy and surrender fiscal control to a Federal referee in bankruptcy.

"The referee would be empowered to pay the salaries of city police officers, firemen and sanitation workers before meeting obligations to holders of the city's bonds.

"Mr. Ford's proposal would represent a strategic--but sharply limited--retreat from his earlier adamant opposition to any Federal involvement in the city's fiscal crisis.

"The limited extent of the change in Mr. Ford's policy was heralded when Ron Nessen, the White House press secretary, reiterated this morning that the President

would 'do nothing to prevent a New York City default.'

"The President and his spokesmen have carefully refrained from announcing what action Mr. Ford might take if the Congress enacted a loan-guarantee measure or some other plan to head off a New York default. There was no suggestion tonight at the White House that Mr. Ford was ready to vow that he would veto such a measure."

FROM THIS MORNING'S WHITE HOUSE NEWS SUMMARY

"Ford to Deliver Speech On New York"

"President Ford will deliver 'an important speech' on NYC's financial crisis Wednesday, Press Secretary Ron Nessen announced Tuesday.

"White House aides indicated Ford would restate his position against federal assistance to the city. However, Nessen refused to comment on the issue.

"The financial debt of NYC is now viewed within the Administration as inevitable. And President Ford has prepared legislation to assist after a default. The President tomorrow will detail plans to alter the federal bankruptcy laws, making them apply to a municipal default,' Tom Jarriel (ABC) reported.

"Under the plan, a federal judge could permit available revenues to be earmarked specifically for vital city services, such as police and fire protection. Holders of NYC bonds and bankers of these bonds will suffer financial loss. But the eight million taxpayers of the city would still get basic services. This would permit the President to stand by his plan of no federal help before default. And that will protect him politically from appearing to be calloused toward the pride of the people," Jarriel added.

"At any rate, the White House spokesmen are emphasizing that this is not a plan to save New York from default. It is a plan, they say, to manage New York's default,' Tom Brokaw (NBC) reported.

"Members of the New York police and firemen's union told President Ford Tuesday that if a default disrupts essential services, there would be anarchy and riots in NYC.

"Sen. James Buckley (R, NY) said the President agreed such services must not be disrupted and he will propose specific steps Wednesday to keep them operating.

"Buckley said (on CBS film): 'He underscores what I think everyone has understood all along, and that is that no matter what particular technique you use in order to get NYC back on its feet, essential services must be continued to the eight million people who live there. And this is the bottom line on anyone's proposal, anyone's approach.'

"CBS has learned that Ford will propose an overhaul of the federal bankruptcy law. 'If a default does occur, creditors will not be able to file injunctions against the city to stop it from using what money it has to continue paying for police, fire and other essential services. These changes would allow the city to continue paying for its critical needs while the courts decide when and how much of its debt would be paid to the creditors. Otherwise, CBS News learns, Mr. Ford plans tomorrow to simply restate his position that the federal government has no business furnishing money to bail out New York,' Bob Schieffer (CBS) reported. -- AP;UPI; Networks.

Q&A'S

State Default

- A. Will the State of New York default if New York City defaults?
- A. There is no reason for New York State to default. Once appropriate action has been taken with respect to New York City, New York State should be able to handle any problems that arise if officials act in a responsible way.

Impact on Banks

- Q. How many banks will be placed in difficulty in the event of a New York City default? What are the names of the banks?
- A. The federal bank regulatory agencies have conducted an exhaustive review of holdings of New York City securities in our banking system and the potential impact on that system of a default by New York City. They have concluded that no major bank would be

be materially affected, as a direct consequence of a default by New York City.

While the impact on a handful of smaller banks could be more serious, the Federal Reserve and the FDIC have adequate mechanisms to protect bank depositors and the banking system.

Specific Cuts

- Q. What specific expenditure cuts do you propose that New York City make?
- A. As I mentioned, New York City expenditures appear out of line by comparison to expenditures of other cities. It is up to the appropriate New York State and City authorities to make specific decisions regarding cuts.

Credit Investments

- Q. Are the creditors going to lose their investments?
- A. Major states and cities have defaulted before--for example, Arkansas and Detroit--and in all these cases the creditors have received 100 cents on their dollar. Accordingly, if New York City acts responsibly, eventually all creditors could be paid if New York City officials act responsibly in handling the city's fiscal affairs.

Current Debt Situation

- Q. What is the current debt situation in New York and how much additional financing does the City need in order to avoid a default?
- A. According to the City's financial plan, the City will require \$4.055 billion between December 1, 1975 and June 30, 1976 to retire maturing short-term debt, to meet debt service obligations on long-term bonds, and to pay operating and capital expenses.

Due to seasonal cash flow patterns, the City will need close to \$1 billion to meet its obligations in December.



Timing of Speech

Q. Why did you give this speech now?

A. It was becoming increasingly likely that New York City might default because actions to prevent default were not forthcoming. Thus, I think it was important to provide for an orderly system for handling the situation should this occur.

Reuss Proposal

Q. What is your view of Henry Reuss' proposal to extend loan guarantees to the State of New York for the benefit of the City subject to the City's bringing its budget into balance, the GAO being empowered to audit the City to ensure a balanced budget, securing any Federal exposure by a first lien on all payments which the Federal Government may in the future owe the City or State, and acceptance by the large creditors of New York City of a stretch-out of their debt.

A. However clothed, the proposal basically involves the taxpayers of American financing the cumulative deficit of New York City, which I oppose. Moreover, the proposal involves a tremendous expansion of direct Federal control over the fiscal and financial affairs of State and local government.

Further, the practicality of handling the situation in this way is doubtful. Particularly, in dealing with small creditors, union contracts, and other obligations.

Is Default Definite?

Q. In your estimation is the New York City default a foregone conclusion?

A. City and State officials in recent Congressional testimony stated that the financial resources of the City and State will have been exhausted by December.

Accordingly, if the City and State continue to be unwilling to take the measures necessary to avoid a default, it seems likely that a New York City default will occur.



Other Cities Use the Legislation?

- Q. Do you expect cities other than New York to utilize the legislation you are proposing?
- A. Absolutely not. No other major city in the United States has engaged in consistent deficit spending and, therefore, no city has a cumulative deficit of any size, much less the size of New York's.

However, the statute applies to all cities over 1,000,000 population, not just to New York.

If New York City Can't Sell Securities?

- Q. Supposing they cannot sell securities or otherwise raise funds to pay for essential services?
- A. We have said we will work with the Court to assure essential police, fire and other services are maintained--whatever it takes to provide these will be done.

Fraud Prosecution

- Q. Do you expect there to be prosecutions in fraud resulting from a default of New York City?
- A. I am confident that the responsible agencies will take whatever action may be appropriate.

Loan Guarantees?

- Q. Would you consider any form of financial assistance to assist New York in financing its short term financial needs?
- A. Under our proposal, one of the ways in which the City can finance short term needs is by the issuance of certificates authorized by the Court. It must be remembered that in order to begin the judicial process, the City must submit a plan for balancing its budget. If that is done, they should be able to raise necessary funds.

Ripple Effect

- Q. What ripple effect do you expect on the financial community from a New York City default?
- A. There are two risks in any major financial reversal: financial and psychological.

We have carefully assessed the financial risk--the impact on the markets, and the impact on the banking system--and we believe these risks are manageable. Markets tend to discount future events and to some significant degree a potential default by New York City has already been discounted. These conclusions have been confirmed by many disinterested observers.

The psychological risks cannot be measured. However, it is clear that the dire predictions and alarmist rhetoric employed by those who seek to force a Federal bail out for New York City have enhanced the psychological risks. It remains of utmost importance that all who concern themselves with the affairs of New York City view the situation objectively.

In short, if all those concerned act responsibly, the ripple effect would be minimal.

