The original documents are located in Box C29, folder “Presidential Handwriting, 10/15/1975” of the Presidential Handwriting File at the Gerald R. Ford Presidential Library.

THE WHITE HOUSE

WASHINGTON

October 15, 1975

ADMINISTRATIVELY CONFIDENTIAL

MEMORANDUM FOR: L. WILLIAM SEIDMAN

FROM: JAMES E. CONNOR JEC

The attached letter was returned in the President's outbox. It is forwarded to you for preparation of an appropriate response.

cc: Don Rumsfeld

Attachment

Letter of October 7, 1975 from Charls E. Walker re New York City Financial Problem

THE WHITE HOUSE
WASHINGTON

Jim -

This came in a strange way - in mail to me with this note on it -- looked like it came from DR's office.

How should this be acknowledged?

By Seidman?

Trudy

The President has seen

MEMORANDUM FROM

CHARLS E. WALKER

DATE 10/7/75

Dear Mr. President:

(1) Some thoughts on the NYC problem.

(2) I think your "tax-spending ceiling" package is great!

C

THE PRESIDENT HAS SEEN....

October 7, 1975

MEMORANDUM FOR THE PRESIDENT

I am getting very, very worried about the New York City financial problem.

Bill Simon may be right about the minimal impact of default, but I personally believe that there's simply no way of knowing in advance just what the economic and financial fallout would be. I am convinced that it would be much more than the "ripple effect" that the press talks about. And in a recovery period that has to be handled with much T.L.C., the impact on confidence in an economy in which many, many things are still "out of whack" could be very damaging.

Politically, there seems to me to be real dynamite here. My conversations on the Hill indicate that the odds of Congressional action are growing. I can therefore envisage your having on your desk by Christmas a bad bill (Lud would handle in the House, but Prox could really foul it up in the Senate). Then, if you vetoed it in the public interest, NYC defaulted, and the roof fell in -- I don't like to think about all of that happening at the beginning of a Presidential election year.

I have discussed this at some length with Governor Connally and I think he agrees with me (but I'm sending him, and Simon, a copy of this, and the Governor can speak for himself). I also think he agrees that the approach outlined in copy I've prepared for my next newsletter represents the safest approach (i.e., gets the job done without tying Uncle Sam into long run municipal fiscal support) and also one perhaps most acceptable to the Congress.

There are false rumors circulating that I have agreed to take on a massive lobbying job for the mayors and bankers on this issue. Those rumors are false. I've talked to Hugh Carey about the problem. And I was approached by a representative of the mayors (but no bankers), made no commitment whatsoever, but did outline the thoughts in the enclosed copy. Bill Simon called me about the rumors and I pledged to him that I would not commit our firm to any such project without further discussion with him and The White House. I repeat that pledge.

I think this needs your early and earnest attention. A bad bill to save NYC on your desk around December 25 would be a lousy Christmas present.

As always, yours to count on.

Charly

cc:
The Honorable John B. Connally
The Honorable William E. Simon

P.S.-Almost forgot to mention that a simple amendment to the Securities Act of 1933, requiring State and local governments to disclose information in the same manner as business would (according to a leading accountant) prevent fiascos of the NYC type.

NEW YORK CITY: PART II

In our last issue we suggested that the financial problems of New York City will not disappear (and in fact, they have worsened); that the problem is not confined to Fun City but is national in scope; that the proposals now before the Congress are not likely to be enacted ("Super Mac" or Federal guarantees of municipal securities); and that there was a chance--but only a chance--that legislation could be fashioned which would draw the support of "people in Paducah, Podunk and Pocatello," a euphemism for all those voters "out yonder" who believe that the Big Apple is getting just what it deserves. Not surprisingly, our statements that existing legislative proposals wouldn't fly prompted queries as to what might get off the ground. And, having been consulted by some interested people on this matter, the fact is that we do have some ideas on what Congress might be willing to do. In fact, a variation of our suggestions was presented by the executive committee of the Conference of Mayors to President Ford two weeks ago.

Reports last week that Secretary of the Treasury William E. Simon was softening in his opposition to helping NYC were promptly knocked down by the White House. However, the statement by highly respected Dr. Arthur F. Burns that a NYC default could impede recovery--beyond which he refused to elaborate--bolstered the hopes of New York officials and their supporters in Congress that something might well be done. To this end, both the Senate and House Banking Committees are gearing up for hearings on the issue.

An RFC for Cities? If Congress and the Administration feel compelled to do something about municipal financing problems in general and NYC's in particular, then an adequately funded, toughly managed, 1975-model RFC appears to be the preferable approach (let's call it a "Municipal RFC," or "MRFC"). What follows is not a specific plan, but some of the major considerations that would have to be dealt with in mounting any such approach.

First, without doubt, the authority of MRFC should be "generic"--that is, its aid should be available to any eligible city, county, or State local assistance authority that is able and willing to meet its terms and conditions. The chances of getting legislation through that zeroes in on the NYC problem alone is, in our view, next to nothing.

Second, an MRFC should provide assistance only through lending cold cash--every effort should be made to make certain that it has no guarantee authority, however circumscribed, that might be twisted around as a back-up for State and local securities. This provision would answer the Treasury's major objection to direct Federal guarantees (that these would create securities as good or better than U.S. obligations).

Third, although some sort of public/private board might have overall responsibility for the policies of MRFC, it should be run by a hard-nosed, take-charge financial type accustomed to driving hard bargains and making them stick. The chairman of the board might well be the Secretary of the Treasury, but the president and chief operating officer--the hard-nosed manager--would be in charge of making and enforcing the deals, and we do mean deals, with supplicant governments. To help guard against the danger that a politically-oriented operating officer might sooner or later come to head MRFC, the policy board should contain no elected officials, but perhaps be patterned after the Emergency Loan Guarantee Board which has done an excellent job in monitoring the Lockheed loan guarantee. That board is chaired by the Secretary of the Treasury, and includes the chairmen of the Federal Reserve Board and the

Securities and Exchange Commission. Also, the Congressional mandate for MRFC should specify that its president and chief operating officer be an individual with impeccable credentials in financial and fiscal matters.

Fourth, rather than providing MRFC with authority for either "on-" or "off-budget" financing on its part, it should simply be able to "tap" the Treasury for an amount specified by Congress. If the full faith and credit of the U.S. backs up MRFC, then there is no reason to go through the charade of providing it with its own financing authority. Moreover, this approach, through the appropriations process, would show the Congress and the people just what the effort costs. This is in contrast to so many loan or guarantee programs whose real economic impact is difficult to determine.

Fifth, although the grant of Congressional authority to MRFC should be relatively broad, there should be the strongest of statements concerning the strict terms on which MRFC assistance is to be provided. Those terms (including fully competitive interest rates) should be tough, tough, tough! In essence, any applicant should be forced to relinquish its "sovereignty" to MRFC in exchange for emergency financing.

The reasons for this are obvious. New York and some other cities are in trouble because they've been living far beyond their means. (Uncle Sam would have been in deep trouble long ago but for one important distinction. The Federal Government has the power to print money, while States and localities do not.) In the absence of unlimited credit and/or money-creating powers, a family, business or governmental unit can eat too high on the hog for only so long--then the time comes to pay the butcher.

Although it is unfair to point to the militant New York City unions as the sole culprit (many other factors are important, some of which, such as a heavy welfare load, are perhaps beyond the city's control), their demands and power illustrate the point. Their political and economic power (including that of endangering the safety and health of the city's inhabitants) is so great that no elected mayor or city council can stand up to them. Thus the logic of transferring some degree of sovereignty from NYC to the State (through Big Mac) is apparent. But NYC's problems are now so huge that, as noted, the State may be pulled down with it.

Objection will be raised that the MRFC would be in no position to monitor and enforce these necessary tough conditions relating to taxes and spending in general, and services and payrolls in particular. Not so. Our hard-nosed financial type, the chief operating officer, should be so severe in drawing up what is essentially a "trust indenture" with the supplicant city that any elected official who approaches MRFC would be committing political suicide. As a result, the number of applicants should be few indeed and the "enforcement" problem easily manageable. Indeed, the function could probably be handled by a relatively small group of retired city controllers and bankers with a reputation for skill and toughmindedness.

A final consideration relating to operations of MRFC involves the maturity of the loans a president is authorized to make. Although he should be given some latitude in this respect, generally the loans should be of very short term, perhaps for no more than a year. The purpose of such short maturities would be to keep a leash on the local politicians and city power brokers and blocks. MRFC would be saying, in effect, you must get on the fiscal straight and narrow not only to get the loan, but stay on that path or your credit line will be revoked. In addition, short-term loans would reduce the danger of Uncle Sam coming to play a long-run role in bolstering the fiscal positions of a large number of cities. In other words, the loans from MRFC would be for the sole purpose of "bridging the gap" while the city took the bitter medicine necessary to put its fiscal affairs in order.

Businessmen who have got into financial trouble and have had to scramble for emergency bank credit will recognize the considerations as having almost their exact counterpart in the non-governmental sector. When a corporation is in trouble, extension of bank lines of credit are frequently so laden with restrictions on management that it's not much of an exaggeration to say that the head of the company can't even go to the wash room without his banker's permission.

We submit that, if Uncle Sam is going to do something about NYC, that type of arrangement represents the most desirable approach--and one that might well be sold to a majority in the Congress.

Some Political Problems. First, it will be objected that MRFC is not really generic, but only a thinly veiled effort to bail out the Big Apple. Answer: Both the level of funding and directives to management should provide strong indications that any distressed city could qualify for help--provided its leaders were to lay certain "sovereign" powers on the line.

Second, some will argue that the nation's governors would never support such an approach, because cities are creatures of the state, and the MRFC would by-pass State Capitals. Answer: This objection, if valid, could easily be handled by bringing the governor of the particular state into the action through a certifying and auditing role, etc. But is it really a problem? Do the governors want to be the financial court of last resort for their cities? We don't think so.

Third, others may maintain that with many small businesses and homeowners in distress, Congress will refuse to enact what is likely to be viewed as "bail-out" legislation for some profligate cities while their individual and business constituents suffer. Answer: If so, an additional title (or titles) can be added to provide assistance--but still on tough terms--for distressed businesses and/or homeowners. There is considerable support for this idea on Capitol Hill.

Fourth, many believe that the Ford Administration is set in concrete on this issue and is not about to accept any legislation along these lines, even if it applies across-the-board to all cities. Answer: Maybe so. But a tightly drawn bill, to meet legitimate and pressing city problems at a time of overall economic and financial malaise, would be very hard to veto. Any such veto, if followed by near-calamitous developments in the financial affairs of a number of major cities, would have a strong negative political impact on The White House.

Conclusion. The point of all the preceding discussion is not to lay out in specific terms a legislative proposal. It is instead to recognize that legislation to help New York and other cities may pass the Congress. And, if that be the case, it should be drafted with extreme care. Given all our other pressing economic and financial problems, this is no time to throw the vaults at Treasury wide open to New York or any other hard-pressed city.