The original documents are located in Box C30, folder "Presidential Handwriting, 11/3/1975 (2)" of the Presidential Handwriting File at the Gerald R. Ford Presidential Library.

THE WHITE HOUSE

WASHINGTON

November 3, 1975

ADMINISTRATIVELY CONFIDENTIAL

MEMORANDUM FOR: RON NESSEN

FROM: JIM CONNOR JEC

SUBJECT: The President's New York Speech Initial Reaction

The President returned your memorandum of October 31 and black binder with the following notation:

"Excellent"

cc: Don Rumsfeld

THE WHITE HOUSE

WASHINGTON

October 31, 1975

THE PRESIDENT HAS SEEN....

Mr. President:

Here is a compilation of newspaper articles, editorials, and cartoons through Thursday night, which resulted from your National Press Club speech on New York City.

RN

Ron Nessen

Excellent

GRF

THE PRESIDENT HAS SEEN....

THE PRESIDENT'S NEW YORK SPEECH:
INITIAL REACTION

OCTOBER 30,1975

TAB A	NEWS STORIES
TAB B	EDITORIALS AND CARTOONS

(Complied by the News Summary Office)

A

New York Times,

10/30/75

'BAILOUT' BARRED

President's Plan Has Provision for Safety in Event of Default

By MARTIN TOLCHIN

Special to The New York Times

WASHINGTON, Oct. 29—President Ford said today that he was "prepared to veto" any bill that would rescue New York City by having the Federal Government guarantee the availability of funds to prevent a default.

"I can tell you—and tell you now—that I am prepared to veto any bill that has as its

Text of President's speech is printed on Page 46.

purpose a Federal bailout of New York City to prevent default," the President said.

Mr. Ford sent to the Congress, as an alternative, legislation to enable the city to file for bankruptcy and maintain essential services.

Congressional Democratic leaders indicated, however, that they would continue to pursue loan-guarantee legislation, which is expected to be reported out of the Senate Banking Committee tomorrow and the House Banking Committee within a week. House Democratic leaders met this afternoon to explore methods of linking the President's legislation to a loan-guarantee bill.

Officials Castigated

The President, who spoke slowly and deliberately, spent more than half of his 40-minute address at the National Press Club castigating the management and tactics of New York City and State officials. Even so, he hinted that Federal funds might be forthcoming if needed by the city after a default.

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

L. William Seidman, one of the President's top economic advisrs, who met with reporters before the speech, was asked if Federal cooperation with the courts could include financing.

"It could include money," Mr. Seidman said. "We don't foresee that possibility, but we don't preclude it."

Decries 'Scare Talk'

The President decried as "scare talk" warnings by city and state officials and some bankers and economists who, he said, had predicted that a default by New York City could touch off a national and international "catastrophe." He added that New Yorkers themselves would suffer only "temporary inconveniences."

The President also said that the city had the capacity to avoid a default. "I don't as-

Continued on Page 47, Column 1

Continued From Page 1, Col. 8

sur[illegible]hat the city will default," he [illegible] in response to a question, "because I think the capacity of city and state is there to avoid default."

Mr. Seidman, asked to explain, said that the President was referring to the ability of both the city and state to invest $12 billion in pension funds in New York City obligations, the ability of the state to raise new taxes and earmark new reevnues, and the ability of the city to reduce expenses.

Ford Sees No U. S. Loss

Mr. Ford responded to 10 minutes of questions submitted in writing, as is the National Press Club's custom. He thereby became the first President in memory to hold a news conference at the club.

Asked what a New York City default would cost the Federal Government, the President replied that "I foresee no loss to the Federal Government whatsoever."

Senator William Proxmire, Democrat of Wisconsin and chairman of the Senate banking committee, has said that a default would cost the Federal Government billions of dollars in [illegible]g-term aid.

The President's promised veto contrasted with his statement at a news conference on Oct. 9, when he said that "I always consider any legislation passed by the congress, but I certainly have to look at the small print on any legislation that is aimed at bailing New York City out when their financial or fiscal record has not been a good one."

Ten days ago, a high Administration official told The New York Times that the President would reluctantly approve legislation to ease the city's fiscal crisis, provided that it contained the stringent restrictions that Congress was likely to impose. In addition, Vice President Rockefeller also has been urging legislation to avert a New York default.

The President's bankruptcy plan is similar to legislation now before the House Judiciary Committee, where it is stalled because the committee has been waiting for the approval of Mayor Beame.

The city, with state approval, would be authorized to file a petition with the Federal District Court in New York under a proposed new Chapter 15 of the Bankruptcy Act. Such a petition would not require the consent of a majority of the city's creditors, a provision of the present law, which is contained in Chapter 9.

The petition would state that the city was unable to pay its debts as they matured, and would be accompanied by a proposed way to work out an adjustment of its debts with its creditors.

The petition would lead to an automatic stay of suits by creditors so that the city's essential functions would not be disrupted. This would provide time for the city to work out arrangements with its creditors.

"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," the President said.

The court would then determine if the city's plan was satisfactory — how many policemen, firemen and teachers the city needed and how much they should be paid—and would approve or disapprove each of these elements in the city's plan.

The President also said that "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."

Asked who would purchase the bonds of a defaulted city, Mr. Ford said that these certificates would have "top priority" and that "every other creditor stands in line."

Mr. Seidman, asked if it was contemplated that the Federal Government would be the purchaser of last resort of these debt certimicates, replied that that had never been discused and was not foreseen.

"I don't want anybody misled," the President said. "This proposed legislation will not, by itseuf, 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 sould financial position.

"Careful examination has convinced me that those measures are neither beyond the realm of possibility nor beyond the demands of reason," he continued. "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."

On Capitol Hill, however, some disagreed with his assessment. Speaker Carl Albert, Democrat of Oklahoma, said that he even doubted that the President would, in fact, veto loan-guarantee legislation.

"That might hurt him," Mr. Albert said. He said that although he had not studied the President's bankruptcy plan, "it is not enough."

Senator Mike Mansfield, Montana Democrat and Senate majority leader, said that a New York default "for one might prove the domino theory" because other cities were in deen financial trouble, but he said that he had not yet decided how to vote on any aid bill.

Senator Proxmire said that "in simple proposing to make

What President Calls 'Bailout' Angers Carey

President Ford and Governor Carey have a running disagreement over semantics and in particulary over the use of a single, emotion-laden word—"bailout."

In rejecting the course of Federal assistance to stave off default by the city, the President said he was "prepared to veto any bill that has as its purpose a Federal bailout of New York."

This brought a retort from the Governor, who said, "I suggest that he do just that. Because we don't want a bailout, and I would welcome that kind of a veto."

The difference stems from the fact that the Governor and Mayor Beame are not asking for direct cash aid from Washington, but for Federal backing of securities, which they assert will not cost Washington any money. The President calls that "a bailout." Both the Governor and the Mayor have said that the word "bailout" is misleading in that it implies that the rest of the country will assume part of the city:s debt.

it easier for New York City to go bankrupt, the President has chosen a course that would shove New York into a tin-cup status and onto the Federal Government's back for years to come."

Senator Hubert H. Humphrey, Minnesota Democrat and chairman of the Joint Economic Committee, said that the President's proposal "is nothing more or less than political quackery for a financial disease that goes far beyond New York City's boundaries."

Senator Hugh Scott, Republican of Pennsylvania and Senate minority leader, supported the President's proposal but said that he was maintaining "an absolutely open mind" on Federal loans or loan guarantees to aid New York City. "If more is needed, I would be prepared to judge it on the basis of what is fair and just," he said.

The Pesident concluded his speech by noting that Washington, like New York, was providing more benefits and services than it could afford. He said that if the practice continued "a day of reconing will come to Washington and the whole country just as it has to New York."

"When the day of reckoning comes, who will bail out the United States of America?" He asked.

New York Times,

10/30/75

President Is Commended And Assailed on Stand

By RICHARD L. MADDEN

Special to The New York Times

WASHINGTON, Oct. 29—President Ford's speech today announcing that he opposed any bill to "bail out" New York City—and thus prevent a default—touched off a new round of debate in the Congress, where speeches about New York now outnumber those on energy legislation.

Opponents of aid to New York City, such as Senators John G. Tower of Texas and Roman L. Hruska of Nebraska, both Republicans, commended Mr. Ford's stand.

Mr. Tower said the Federal Government "should make certain there is no lapse in

The Senator, in New York City for a speech at the Waldorf-Astoria Hotel, told reporters that, in suggesting a plan of his own, President Ford was playing "right-wing politics."

Would this have happened, an interviewer asked, if the state had a Republican Governor and the city a Republican Mayor?

Mr. Stevenson looked astonished at the question. "Well, that's how it did happen," he said. Mr. Rockefeller still was a Republican, he noted, and Mr. Lindsay used to be one.

"The best solution for your problems," he advised New Yorkers, "would be the loan of Richard J. Daley."

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At the weekly breakfast that the Nebraska Congressional delegation has with constituents who happen to be in town, Representati Charles Tone, a Repnblican, asked the group of abont 60 gathered yesterday in a senate dining room:

"How many of yon wonld would favor bailing out New York City?"

Not a hand went up.

"That's what we've been hearing from home," Mr. Thone remarked to a New York reporter.

Indeed if some members of Congress from around the country listened to the views of the home folk the prospect for passage of any legislation to aid New York would seem to be bleaker than it already is.

For example, The Charleston (S.C.) News and Conrier and Evening Post published the resnlts of a mail poll last Saturday on whether their readers favored Federal aid for New York City to help the city through its financial crisis.

Of 7,867 readers who responded, 7,604 voted no, and the newspaper's account expressed amazement at the size and vehemence of the response.

A spokesman for Representative Mendel J. Davis, a South Carolina Democrat who represents the Charleston area, acknowledged that incoming mail was reflecting a similar view.

Senator Russell B. Long, Democrat of Louisiana and chairman of the Senate Finance Committee, said that of all the mail he had received on New York's financial problems only one letter expressed support for a Federal guarantee of the city's loans.

Mr. Long said that letter had come from a Boy Scout in rural Louisiana. "That mnst have been his good deed for the day," the Senator said.

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One explanation of the attitude in Congress and elsewhere about New York City came last night from Representative Edward I. Koch, Democrat of Manhattan, as he and other New Yorkers conducted a long colloquy on the city:s fiscal plight in a nearly empty House chamber.

"This Congress reflects the country," Mr. Koch said, "and there has always been in a sense a kind of love-hate relationship vis-a-vis the City of New York. I do not know how to analyze that other than to say very rarely do we find someone who comes from another area that does not say, 'Great place to visit; would not want to live there.'

"I must say, that is exactly what everybody in the country feels about his or her own hometown. I happen to love the city of New York."

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In the daily ritual known as "dugout chatter" where Congressional leaders chat with reporters just before the Senate and House convene each day, the speaker of the House, Carl Albert of Oklahoma, repeatedly advocated some legislation to "save" New York, even though he acknowledged that the polls and his mail were running "about 8-to-1 the other direction."

But Senator Mike Mansfield, Democrat of Montana, the senate majorit leader, has the senate majorit leader, has been more cautious, insisting that he was keeping an "open mind" on the specific terms of any legislation to aid New York. Reminded the other day that he had been born in Greenwich Village, Mr. Mansfield said with a smile: "That's where my mother and father emigraged from Ireland. They got me out quickly."

vital services in New York. But it would be wrong to bail out the city. To do so would encourage financial irresponsibility."

Mr. Hruska said: "The people of the United States are not about to pay for the irresponsibility of New York's leaders—th government and union—which has [illegible] to the current problems."

New Yorkers who have been struggling to convince their colleagues in Congress of the need for some Federal legislation to ease the city's crisis expressed dismay.

"The President's statement is in grave error," said Senator Jacob K. Javits, Republican-Liberal of New York. "It is simply a continuance in harsher terms of his ongoing 'flinty' policy toward New York."

Representative Bella S. Abzug, Democrat of Manhattan, said Mr. Ford "has branded New York as diseased and now he wants to pull the plug on our city."

Senator Edward W. Brooke, Republican of Massachusetts and a member of the Senate Banking Committee, which has been trying to write a loan-guarantee bill, added: "We might just be engaging in an exercise in futility."

Senator Adlai Stevenson 3d, Democrat of Illinois, a key factor in designing the bill to stave off a New York City default that is now be[illegible] the Senate Banking [illegible]mittee, said yesterday that former Gov. Nelson A. Rockefeller and former Mayor John V. Lindsay were to blame for the city's fiscal troubles.

New York Times
10/30/75

Constitutional Questions And Guarantees at Issue

By STEVEN R. WEISMAN
Special to The New York Times

WASHINGTON, Oct. 29—The municipal bankruptcy bill that President Ford proposed yesterday for New York City is nearly identical to the one put together by the House Judiciary Committee, which has been working quietly on such a measure with lawyers sent there by Mayor Beame.

But the lawyers involved in the complex of legislation concede that the Ford Administration bill, or any such bill, would create a tangle of procedural, constitutional and legal problems that might take as much as a decade or more to resolve in Federal Court.

The bills would permit the city to petition for bankruptcy under Chapter IX of the Chandler Act—something the city cannot do now because it would need permission first from 51 per cent of the estimated 160,000 creditors who are thought to be scattered around the country.

They would also add a provision that Federal Court could stay any claims to revenues or assets by these or other creditors while a plan for "reorganization" of the city's $13 billion in debts, and a possible readjustment of its contracts was being worked out under the court's asupices.

Borrowing After Default

But the most important proposed change in the Federal bankruptcy law, from the city's point of view, is the provision that the city could issue new certificates of indebtedness, following a default, so that it could borrow the money to meet expenses and keep its vital operations going.

The city Controller, Harrison J. Goldin, has projected that, if the city defaults after the beginning of December—that is, if it stops payment for all debt obligations that come due—it will still have a "cash shortfall" of $1.2-billion within the next four months. That is, it will need to borrow that much to meet payrolls, payments to contractors, welfare and other items.

Corporations in bankruptcy, under chapters X or XI of the same Federal law, have long been permitted to avail themselves of such certificates. Nevertheless, legal experts who have sought to allow the city to issue them when in default said yesterday that their issuance would lead to some problems.

For instance, there is the question whether anyone would buy them, no matter how ironclad the guarantees for repayment. (Their guarantees for repayment would be negotiated by the city and its lenders.) But one lawyer who helped draft the Judiciary Committee's bill said yesterday that if the certificates had a "first lien" on available revenues, bondholders or noteholders would probably challenge them, contending that the State Constitution gave their own securities such a guarantee.

Demand for Guarantee

It might tur nout, the lawyer said, that creditors would demand a Federal guarantee for repayment on them—the very sort of guarantee President Ford has ruled out as a way of averting a default.

In any case, he said, the market for the certificates would have shrunk severely simply because most states prohibit banks, insurance companies and trustees of investment funds from buying securities issued by municipalities in default.

A bankruptcy proceedings would be inherently difficult because of the number of creditors to whom the city owes money—and the sheer impossibility of assembling them so that thety might approve a plan for the stretching out or curtailment of their debts.

The bills proposed by both President Ford and the Judiciary Committee require that any plan meet with the final approval of two-thirds of each class of creditor—contractors, workers, bondholders, noteholders—in terms of the amount of money each is owed.

Such approval would seem impossible to get, but there would be a catch in the bills under consideration here. This has to do with the ability of the judge overseeing the bankruptcy to "cram down" the repayment when creditors are recalcitrant.

This "cram-down" provision is a long-standing device in corporate bankruptcies. It does not exist in the current Chapter IX. And it would have to exist because otherwise creditors would be able to sue the city for unconstitutional expropriation of their property, the lawyers said.

Creditors would undoubtedly sue to recover their money on such grounds, among others—particularly bondholders, who would argue that they are "secured creditors" with a priority on the city's revenues.

The general importance of a Federal bankruptcy law that could apply to the city, in the opinion of virtually all lawyers working on the subject, is that neither the city nor the state has the right unilaterally to impair any contracts.

The prohibition against the impairment of contracts is in the United States Constitution and has been reiterated by the Supreme Court since the Dartmouth College case in the days of Chief Justice John Marshall. This prohibition is the reason why states cannot enact bankruptcy statutes.

Financial Control Act

The New York State Legislature did enact a pre-bankruptcy when it passed the Emergency Financial Control Act last month. This act said that, in the event of default, the city would file a petition in State Supreme Court for a stay against cliams by creditors, and would begin negotiating a "repayment plan" with its creditors.

But legal experts said that, because the state cannot impair contracts, virtually 100 per cent of the creditors would have to agree to such a plan for its to be effective.

President Ford and some lawyers made it clear that a bankruptcy proceeding would not lead to any sort of Federal receivership or trusteeship for the city. Such an arrangement, the lawyers said, would violate the 10th Amendment—which reserves powers to the states—and the bill proposed by President Ford states that "nothing contained in this chapter shall be constructed to limit or impair the power of any state to control, by legislation or otherwise, any political subdivision o fthe state in the exercise of its political or governmental powers, including expenditure therefor."

It was unclear whether, in the event of a bankruptcy, the city or the state's Emergency Financial Control Board would serve as the negotiator on the plan to scale down the city's debts.

The state law says that the control board would perform such a role. But Representative Herman Badillo, Bronx Democrat, who is a member of the House Judiciary Committee, said the city would retain its autonomy even in bankruptcy.

New York Times
10/30/75

BEAME AND CAREY DECRY FORD PLAN

Proposal Called 'Simplistic' by Governor—Mayor Says It Is Nationally Divisive

By FRANCIS X. CLINES

Mayor Beame denounced President Ford's proposal for the city fiscal crisis yesterday as "a default of Presidential leadership" that could revive the national divisions of the Civil War era and prove costly far beyond the city's boundaries.

The President's speech was quickly denounced by leading New York Democrats and some Republicans, too, with Governor Carey terming it a "simplistic, self-defeating" plan designed more to appease the Republican party's Reagan wing than to help New Yorkers.

'Perilous at Best'

"The Ford formula deliberately unravels every step we have taken to solve our own problems," said Mr. Carey. "At a cost of perhaps billions to Washington."

Mayor Beame, terming the proposal "perilous at best," found nothing of practical value for the city in the plan and urged passage of a Congression rescue bill.

Before an array of cameras and reporters at City Hall, the Mayor declared:

"In the name of the people of this city, I challenge the President to square his forceful pursuit of détente abroad with his prosecution of a cold war

Continued From Page 1, Col. 7

on the domestic front."

Within the President's own Republican party, General Louis J. Lefkowitz offered strong criticism of Mr. Ford.

"His back-of-the-hand treatment of the city's crisis cannot be excused by refusing to face the problem squarely and instead attributing fault to those who may be charged with the responsibility for the problems," Mr. Lefkowitz said of the President. "What New York City needs is positive thinking, not caviling with the past."

Suburban Criticism

And from a Republican stronghold in the suburbs, Nassau County Executive Ralph G. Caso termed the President's proposal "ill-advised, to say the least."

"It would, in effect, destroy the notion of full faith and credit that a municipality puts behind its bonds, said Mr. Caso, the G.O.P. candidate last year for Lieutenant Governor. "Therefore, the President's plan could serve only to erode investor confidence in the municipal bond market."

But after the expected public Democratic politicians, the Mayor and the rest of the Board of Estimate went into a private session and reports later indicated that default, and its increased likelihood because of the President's speech, was the major topic.

One version circulated later by aides reported that a point of emphasis was that the city now should press to retain as much of its own self-control as possible under default.

Consequently, there was talk circulating in City Hall of trying to get favorable modification of the Federal default legislation so thatt the city might choose to pay vendors 80 cents on the dollar or furlough tens of thousands of employees rather than be totally subject to a Federal referee. Politicians said such steps merely were land on the table for discussion and not for immediate adoption. But they were another measure of the city's officials casting about in the face of a deteriorating situation.

Invitation to Bankruptcy

The Governor first denounced the President's proposal in a statement, terming it "an open invitation to public bankruptcy" that overlooked various vital needs beyond police and fire protection, such as schools and sanitation.

"Such a law would almost certainly destroy investor confidence across America," the Governor contended. "For who would risk his funds knowing that a government could avoid payment simply by slipping into bankruptcy?"

Then, in response to questions, Mr. Carey described the politics he saw at work, emphasizing that Mr. Ford was never elected to his job and was already running in the 1976 Presidential campaign.

"I'd say the President spoke out to the hinterlands and tried to reach a certain audience, and he's very mindful of an apparition called Ronald Reagan who somewhere beclouds his future," Mr. Carey contended. "Evidently when he speaks of the conduct of past officials of New York State, he's unmindful of Vice President Rockefeller."

City Council President Paul O'Dwyer contended that Mr. Ford's statement was "an irresponsible diatribe that Richard Nixon, at his worst, would never have uttered." "In retrospect," he said, "it makes one wonder whether the impeachment was really such a good idea."

Richard Rosenbaum, the state Republican chairman, said that Mr. Ford had delivered "a good speech" because it reassured New Yorkers against the "irresponsible antics" of the Governor that there might be tyranny in the event of default.

The proposal has "some merit," said Mr. Rosenbaum. When asked whether he supported it, he replied: "Let me put it this way. I don't oppose it. I could support other plans such as a Federal guarantee of bonds."

New York Times, 10/30/75

Unanswered Bankruptcy Questions

Ford's Plan Poses Problems on Who Controls the City

By DAVID E. ROSENBAUM
Special to The New York Times

WASHINGTON, Oct. 29—If President Ford or Congress finally deal with the New York fiscal crisis—an event that appears increasingly likely—the Federal Government will be put into the position of making basic decisions that are traditionally in the purview of state and local officials.

News Analysis

That will be the case whether legislation is enacted guaranteeing the city's loans or whether machinery is created under which the city can petition for bankruptcy.

Under the loan guarantee measures now before the Senate and House Banking Committees, the city's affairs would be controlled by a board headed by William E. Simon, the Secretary of the Treasury.

Under the bankruptcy plan outlined today by the President, the city would be managed by a Federal judge until its financial problems were straightened out.

Who's in Control?

In either event, according to political scientists and government officials, there are enormous implications for the two-tiered Federal system that was established by the Constitution and under which the United States has ben governed for nearly two centuries.

New York State has already moed in to exercise control over the city with the Emergency Financial Control Board.

And on the Federal level, the constitutional precept that local affairs should be run by local officials and that the Federal Government should intervene only in matters beyond any single state's jurisdiction will have been abrogated.

No one can say now how deeply the Federal Government will become involved oer th city's lif.

At one extreme, no one expects Federal officals to make decisions on parking regulations or building permits, for instance.

At the other extreme, it is quite clear that Federal control guad under Mr. Simon or a Federal judge in bankruptcy would eiew the city's expenditures and revenues lin by line.

Essential Services Guaranteed

President Ford declared today that, unde his proposal, "the Federal Government will work with the court to assure that police, fire and other essential sevices for the protection of life and property in New York are maintained.

But what are essential services? Are welfare payments essential? Are teachers' salaries? Are garbage collections?

Those are the kinds of decisions that have always been made by elected officials in City Hall and apparently now would be made by unelected officials in Washington or in the courthouse in Foley Square.

The erosion of the percept of local control over local affairs has been going on for decades.

The institution of the Federal income tax early in this century meant that vast sources of revenue became available to the Federal Government and denied to states and municipalities.

Courts Have a Say

Beginning with the New Deal and extending through the era of the Great Society, cities and states turned increasingly to Washington for help in solving their problems. And with the Government money came fore and more regulation from Washington. If Congress was going to vote funds for highways and schools and housing, it wanted some say in where the highways were located and what was taught in the schools and how the houses were built.

The United States Supreme Court, too, moved into what had always been local prerogatives. It ordered states to redraw their legislative boundaries and schools to integrate their classrooms.

"Because of all the guidelines and rules from Washington, I often felt like a manager for the Federal Government and not the Mayor of a great city." said Senator Jake Garn, Republican of Utah, who was Mayor of Salt Lake City before he went to the Senate this year.

But, with all its money, with all its laws and regulations, the Federal Government has never accepted the concept that the masses of poor citizens in the nation's cities are a national, and not a local, problem.

One expert in urban affairs noted that when the Mississippi River flooded and inflicted heavy damage on Greenville, Miss., Washington quickly decided that it was a national problem, because the flood waters had originated upstream and out of state.

But the Federal Government never fully tackled the damage to cities caused by the flood of poor people who poured from elsewhere into the municipal slums.

'The Hinge of History'

"In New York," said Peter C. Goldmark Jr., Budget Director of New York State, "we are now living on the hinge of history."

The population movement, the welfare crisis and other afflictions of urban society have converged on New York City, Mr. Goldmark said, and "this city and this state are now bearing the whole pressure of the changes that are going to have to be worked through all of American life."

In the short term, according to Herbert Kaufman, an expert in city government and now a senior fellow at the Brookings Institution here, there may be an advantage to New York City in having a remote, unelected official making the tough decisions of managing the city.

Such an official, in Mr. Kaufman's view, would not "be subject to the pressures that pushed the local government into the box it's now in." He might, Mr. Kaufman reasons, be better able than an elected politician to negotiate with public employees or to tackle such politically sensitive issues as rent control.

But such a short-term solution is not democratic, Mr. Kaufman notes, and he predicts that sooner or later New Yorkers will find it onerous to be governed by a person who is not accountable to them.

What will they do then? "They'll rise up and demand some kind of change in our institutions of government," Mr. Kaufman replied.

And what will that change be? "I don't know," he said. "I just don't know."

New York Times, 10/30/75

FORD'S DECISION NO BIG SURPRISE

Stand on Aid to New York Is Consistent With His Views of Government

By PHILIP SHABECOFF
Special to The New York Times

WASHINGTON, Oct. 29—Over the last two weeks, President Ford's advisers presented him with a series of options for dealing with New YOrk City's plight, ranging from undertaking a complete financial rescue operation to doing nothing.

The decision the President announced today—doing nothing beyond helping prepare an orderly bankruptcy process—was entirely consisted with his economic policies, with his view of the role and responsibilities of the Federal Government, had with the conservative ideology of a professional Republican from Grand Rapids, Mich.

It was also completely in step with Mr. Ford's political strategy to win the Republican Presidential nomination next year.

With Ronald Reagan the only serious obstacle to his nomination, Mr. Ford has been cultivating the right wing of the Republican party, both in his oratory and his policies. Despite the protests of moderates in his party, he has pursued a steady course of economic conservatism and has recently been making a series of appointments to Federal office of Republicans pleasing to the Southern wing of the party.

Action Was Debated

There were some differences among President Ford's top advisers on precisely what the White House should do in the face of New York's impending financial collapse, The president himself, by all accounts, was rigidly opposed to any Federal rescue of the city right from the beginning.

"I never once saw the President waver," said one aide who attended many of the meetings at which Mr. Ford and his staff discussed the New York situation.

Because of the President's firm position, there was never a vote among his top advisers, as there often is on key policy decisions. Even Presidential assistants with close ties to the New York financial community, including Secretary of the Treasury William E. Simon; Alan Greenspan, chairman of the Council of Economic Advisers, and L. William Seidman, Assistant to the President for Economic Affairs, seconded the President's determination to avoid any rescue operation.

For Mr. Ford to have recommended Federal action to prevent default by the city would have been a deviation from his policies and philosophy as President.

As President, Mr. Ford has repeatedly sought to portray himself as an apostle of fiscal responsibility. He is now putting heavy pressure—as he has throughout his Administration—on Congress to reduce spending. He has set the goal of balancing the Federal budget in three years.

He has also repeatedly stressed his belief in states' rights and local self-determination. He has supported an extension of revenue-sharing and bloc grants to states and cities as a way to get fiscal decisions back to state and local governments.

Even more significant, Mr. Ford has reiterated his conviction that the Federal Government is already too deeply involved in the lives, particularly the economic lives, of Americans. A statement that has cropped up indozen of his speeches is:

"A government that is big enough to give you everything that you want is a government big enough to take from you everything that you have."

President Ford has been trying to reverse the long rend of increasing governmental responsibility for individual citizens. He has tried to cut back on the food stamp program, on Federal aid to education on Social Security increases, on health programs in a variety of other areas where the Government supports the needs of individuals, particularl the poor.

Rights Encroachment Feared

This philosophy is at the root of the President's refusal to help New York avoid bankruptcy. He believes, according to White House officia who are close to him, that a Federal rescue of New York now will enmesh the Government in a new fiscal responsibility that will enciroach even more on the rights of individuals as well as locan government. If New York is rescued, then the entire $60-billion or so in outstanding municipal debt would become Washington's responsibility, the President reportedly fears.

There is also a strong moralistic tone to the President's rationale for refnGing to help New York. In today's speech he made it clear that he regarded snch things as free university education, vacant hospital sEace and high pay for sanitation workers as self-indulgent luxuries.

Today, and in previous pnblic statements by himself and his spokesman, he has made it clear that he thinks it proper for New York to pay for its past sins. Last week his press secretary, Ron Nessen, compared New York to "a wayward daughter hooked on heroin."

"You don't give her $100 a day to support her habit," Mr. Nessen said at the time. "Yon make her go cold turkey."

The President is convinced, according tone of his closest advisers, that by refusing to step in to prevent defanlt, he actually is helping New York solve its long-range problems. He believes, this aide said, that if the Government guarantees the city's debt now, the imbalance in the city's bndget would continue to widen.

Only if New York is forced to face at this time the consequences of what is described as its "irresponsibility" will it be able to restore its stability, the President believes. In other words, Mr. Ford is described by his aides as believing that bankruptcy will be salutory for the city.

As for the consequences of bankruptcy, the President fears no substantial impact on the national economy. New Yorkers themselves, the President said, would experience only "some temporary . inconveniences.

What these inconveniences would be the President did not say.

New York Times
10/30/75

Pension Funds Near Pact On Backing Loans to City

By FRED FERRETTI

A plan to borrow $4-billion against municipal union pension funds to avoid default by the city in December and meet its cash need in the rest of the fiscal year and possibly for two more years is expected to be put into final form soon, perhaps as early as this weekend.

Participants confirmed to The New York Times yesterday that under the proposal the $8.5-billion in assets of the funds would be used to guarantee loans that through M.A.C. bond purchases would convert the city's short-term debt into long term, eliminating most of the recurring cash flow crises of the city. The proposal was negotiated for more than a month by Herbert Elish, executive director of the Municipal Assistance Corporation and Jack Bigel, a consultant to the city's largest pension funds.

The negotiations have been conducted quietly because of the possibility that any disclosure might thwart Congressional consideration of legislation to deal with the default of the city. Even as the talks went on, Governor Carey and Mayor Beame consistently said that the city's fiscal salvation lay with the Federal Government.

The use of the funds' holdings as collateral is seen as a way to avoid possible legal challenges. Courts have held that the pension funds may have no more than 5 per cent of their portfolios in one investment. Under the plan there would be no outright purchase of M.A.C. bonds by liquidating other assets.

However, there is a possibility that a legal challenge could be made in any event, based on the fiduciary responsibilities of the pension trustees who are generally required to make "prudent" investments.

Another possible obstacle to the plan is that securities that bear the name "New York" are not necessarily regarded as good risks at any price in the current investment climate.

Still another reservation, according to a participant in the negotiations, is: What would happen if the plan was operating and a later default occurred?

Also under discussion is the question of the constant fluctuation of the pension funds' holdings and whether they remain a constant guarantee. Still another open question is what will th banks do. They have not been involved in the discussions thus far because the plan is still tentative.

Yet, though the participants stress these reservations, several of them are cautiously optimistic that the use of the pension funds will erase the possibility of the default that to some appears inevitable in the first week of December.

Victor Gotbaum, executive director of District Council 37 of the State, County and Municipal Employes Union, one of athe parties to the negotiations, said yesterday, "I know default can be avoided."

The existence of the plan was seen as similar to what may have been a fall-back position by the city on Oct. 17, the day that default almost became a reality. Mayor Beame and his advisers are convinced that the city would not have defauted because Mr. Gatbaum's union pension fund would have committed itself to the $150-million necessary. The money was eventually given by the Teachers Retirement System.

Early that morning Mr. Beame phoned Mr. Gotbaum and asked for the money and Mr. Gotbaum replied, "Let it go down to the wire and then we'll talk about it."

One of the reasons given for not abandoning the effort to get the teachers' money and to concentrate on Mr. Gotbaum's semi-offer, was that Mr. Beame was at the same time asking President Ford for aid, and to the Mayor and his closest advisers it would have appeared that they were asking for aid while they really did not need it.

Conversations concerning the use of the pensions' money, it was learned, have been held at various times during the last month among Governor Carey, Mayor Beame, City Controller Harrison J. Goldin, Mr. Gotbaum, Barry Feinstein, president of Teamsters Local 237, Felix Rohatyn, chairman of M.A.C. and other union officials.

In addition, according to participants in the negotiations, several attempts have been made to put pressure on State Controller Arthur Levitt to commit portions of the $6.4-million in state pension money to the proposal. Mr. Levitt has consistently opposed using state funds to purchase M.A.C. bonds and as a gesture has bought only $25-million worth with state pension money.

But with the President saying yesterday that he would veto such legislation, and proposing instead a form of bankruptcy reorganization for the city, the plan has assumed renewed importance. Mr. Ford also said that he believed default could be avoided.

It was pointed out by one party to the negotiations that under default legislation a refunding of the city's pension funds was a possibility with contributions putting more money in and receiving fewer benefits.

To the unions involved, the use of their pension funds is preferable to having the funds restructured immediately, although the possibility of restructuring has been suggsted by Governor Carey, and is being investigated by Mayor Beame's Management Advisory Board.

New York Times,
10/30/75

Ford's Stance Criticized By 8 of 10 Financial Men

By MICHAEL C. JENSEN

Eight leading bankers and securities executives, representing a wide cross section of the financial community, criticized parts of President Ford's newly stated position on Federal aid for New York City yesterday. Two financial executives said they supported the President.

Some of them said they had no clear indication of whether the "debt certificates" that Mr. Ford said would provide revenue for the city in the event of a bankruptcy would have Federal guarantees, or whether they would be attractive to investors.

Others said the President's promise to veto legislation to "bail out" the city made almost certain.

Robert H. B. Baldwin, president of Morgan Stanley & Co., an investment banking house, said: "It seems to me that this kills any chance of legislation in Congress going through, and we're faced with the very high chance of the city going into default."

Stock Prices Fall

Stock prices on the New York Stock Exchange declined fairly sharply, with the Dow Jones industrials average closing at 838.63, down 12.83 from its close Tuesday. It was the largest decline in a month. On Tuesday the Dow had gained almost exactly the amount it fell yesterday.

Trading activity yesterday totaled slightly over 16 million shares, down from more than 17 million shares on Tuesday.

Municipal-bond prices fell in the morning, some of them sharply, but trading was light as the day progressed. Elsewhere in the money markets, prices were stable or slightly ahead for the day.

Moody's Investors Service gave its assessment of the day's events by lowering the rating on New York City's general-obligation bonds from BA to CAA. Moody's describes bonds rated CAA as of "poor standing" and says they "may be in default, or there may be present elements of danger with respect to principal or interest."

Sources Disappear

Explaining its action, the rating service said the chances that the city would default on maturing debt now predominate. It added that sources of financial support for city bonds had all but disappeared along with chances of a Federal guarantee and that prospects of at least a temporary seting aside of bond holders' constitutional first lien now appeared possible.

Some members of the financial community seemed upset that the President had been critical of their role in the city's fiscal affairs. Mr. Ford had questioned why the working people of America should be forced to rescue the large investors and the big banks.

"I am disappointed," said Gabriel Hauge, chairman of Manufacturers Hanover Trust Company, "that the President took no note in his speech of the very considerable effort involving both the public and the private sectors that has been mounted to square away the fiscal situation in New York City."

One banker who reacted positively to Mr. Ford's proposals was Walter B. Wriston, chairman of First National City Bank. He characterized the President's recommendation on bankruptcy legislation as a "responsible fall-back position."

'A Very Serious Matter'

A more typical comment however, came from Donald E. Woolley, a vice president of Bankers Trust Company, who said "contrary to what the President said, default is a very serious matter and should be avoided."

Mr. Wooley said default would "create many more problems, including further disruption of the municipal markets that could carry over to the corporate markets."

William J. Beaham, president of Lebenthal & Co., a municipal-bond house, took a similar approach. "I'm flabbergasted," he said, "at the apparent lack of realization that they're hurting the thousands of smaller investors who have acted in good faith over the years as much as they're hurting the banks and the millionaires."

'Highly Questionable'

On the question of whether there would be a public market for "debt certificates," which would be issued after a bankruptcy proceeding, the head of the bond department of a major Wall Street firm, said he thought it "highly questionable" whether such a market would exist. "I certainly wouldn't have any interest in buying them," he said.

Although many of the bankers and financial executives who were interviewed said they now thought default was inevitable, William R. Salomon, head of the Wall Street firm of Salomon Brothers, disagreed. "I think there is still a chance that the city can avoid default," he said.

Several brokerage officials said their major concern was that investor confidence in municipal securities would spread across the nation. Such an erosion of confidence, they said, had already begun, even though some states and municipalities still were marketing their bonds at favorable rates.

"My main concern is that you are able to contain the spread of any hysteria that might come up," said Alan N. Weeden, president of the Weeden Holding Corporation. "In New York state and its agencies, we've seen that the poison has already spread to good flesh."

Belt-Tightening Backed

Mr. Weeden said he did not favor the president's position on a veto of legislation to give financial aid to New York City.

The head of another firm thatspec ializes in municipal notes also said he disagreed with Mr. Ford's decision not to give financial backing to the city. He said he favored continued belt-tightening by the city, however, and believed that default could be avoided if sufficient savings were made.

How Talks Began

The negotiations — disclosed initially in The New York Times on Oct. 2—began when Mr. Rohatyn approached Mr. Gotbaum and Mr. Bigel with the possibility of buying more M.A.C. bonds than the $500-million worth the city union had committed themselves to. The estimates ranged from $2.5-billion to $4-billion.

The talks continued throughout the month "interruptedly," according to a member of Governor Cary's staff. But the tempo picked up in the last two weeks as the default debate in Congress intensified, and as the probability of President Ford's resistance became more real.

At this point the talks concern themselves with allocation of the $4-billion if the plan should be adopted. Would it go to retire all of the short-term debt immediately or would it be stretched out of the rest of the current budget year—which ends June 30—and the two subsequent years, the period covered by the financial plan drafted by the Emergency Financial Control Board?

Nevertheless, one of the principals involved said yesterday that he expected the plan to "be in place" by this weekend.

Mr. Rohatyn, Mr. Bigel, a spokesman for Mr. Elish, and Mr. Gotbaum acknowledged yesterday that negotiations had been underway for some time, but, except for Mr. Gotbaum, they declined specifics.

The union leader said, "I've been talking to everybody. I no longer have any enemies." He said that he had spoken to Governor Carey about the possibility of the use of pension money as well as to Mr. Rohaytn and Mr. Elish, and added that the talks had also concerned themselves with possible state takeovers of city functions, accelerated attritions to avoid layoffs and "stretchouts" of money owed to the banks by the city.

Although the Governor and Mayor Beame continued yesterday to say that default was virtually inevitable unless the Federal Government aided the city, they acknowledged that the use of pension funds might be a way out.

The Governor, asked at his news conference if pension fund were a possible alternative to default said, "Yes, pension funds could be involved." He added that the final decision would rest with the funds' trustees, but although "We cannot reckon with those,' we'll negotiate with anyone."

Mayor Beame said: "There are various problems involved in the pension fund route. They've already bought a substantial amount of securities from MAC and the city."

5 Pension Systems

The five city retirement systems are committed by state mandate to buy $500-million in M.A.C. bonds through November. Thus far they have bought $178-million. On Oct. 17, the Teachers Retirement Fund agreed to purchase $150-million in M.A.C. bonds it said earlier it would not do, and thus saved the city from the possibility of default.

Governor Carey has said that a special session of the Legislature could be called to consider proposals from Washington that required state action. The possibility was raised yesterday that the plan might require some sort of enabling legislation, some legislative effort to forestall legal challenges such as the 5 per cent fund limit.

"What does that mean, limitations?" Mr. Gotbaum asked, "In a special session what the Legislature did they can undo."

New York Times,
10/30/75

Ford Says City's Plight Is Unlike Lockheed's

President Ford drew a distinction at his news conference yesterday between the Federal Government's recue of the Lockheed Aircraft Corporation and its position on rescuing New York City.

Congress authorized a $250-million loan guarantee four years ago to save Lockheed from bankruptcy.

"I think you can draw a distinction Mr. Ford said, in which explaining why he would not authorize a special loan to avert the city's default,"But in retrospect . . . I'm not sure we didn't make a mistake."

Mr. Ford said that the Federal Government contributed, in defense contracts, a "substantial portion of the revenue that comes to the company . . . and as a result of that tremendous control over funding had a capability of maintaining control precisely without other public officials being involved."

"I think it is a fair distinction," Mr. Ford added. "But in retrospect, as I said at the outset, I'm not sure we didn't made a mistake."

Washington Post, 10/30/75

Ford Pledges Post-Default Aid to N.Y.C.

By Lou Cannon
Washington Post Staff Writer

President Ford yesterday promised for the first time that he would come to the aid of New York City if necessary to preserve essential city services after a default.

But he vowed, in a toughly worded speech, that he would veto any legislation "that has as its purpose a federal bail-out of New York City to prevent a default."

In a speech at the National Press Club the President retreated slightly from his earlier stance that the federal government should not assist New York City in any fashion.

However, he lashed out at city officials and bankers who have advocated that the federal government guarantee city debts. He said city officials were using "scare tactics" that would not work.

"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," the President said.

Answering questions after his speech, Mr. Ford said he thought that the city and state had the capacity to prevent default, and predicted that the plan he advocates for streamlining federal bankruptcy laws would prevent any loss of money by the federal government.

The legislation proposed by Mr. Ford calls for the city, with state approval, to file a petition with the U.S. District Court in New York saying that it is unable to pay its debts.

The petition would be accompanied by a proposed plan for ultimately paying off the debts and would, Mr. Ford said, "provide a breathing space for an orderly plan to be developed so that the city could work out arrangements with its creditors."

The President said that essential services of the city would be maintained while this "compromise" with creditors was being worked out.

"In the event of default," he said, "the federal government will work with the court to

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PRESIDENT, From A1

assure that police, fire and other essential services for the protection of life and property in New York are maintained."

The President said his proposal would:

—Prevent city funds from being tied up by lawsuits in the event of a default. Such lawsuits would have at least the potential of disrupting city services.

—Provide for an orderly plan to pay creditors over the long term.

—Provide a way for new borrowing to be secured by pledging future revenues.

The last point, although not emphasized by Mr. Ford in his speech, represented the most significant retreat by the President from his original insistence that the federal government not help out New York.

Vice President Rockefeller and various representatives of the New York financial community have been saying for some time that provision for additional borrowing is needed if New York solvency is to be restored.

Mr. Ford drew a sharp distinction between federal assistance to see that New York services were maintained after a default and federal guarantees designed to prevent a default from occurring.

"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," he said.

"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?

"Such a step would set a terrible precedent for the rest of the nation," the President said. "It would promise immediate rewards and eventual rescue to every other city that follows the tragic example of our largest city."

The President spent much of his speech criticizing New York's "bad financial management," which he said is "unique among municipalities."

"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," the President said.

"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?"

Mr. Ford made clear that the "orderly reorganization" he is calling for after a default would require a combination of either reduced services or increased revenues by the city so that its budget is balanced.

And he attempted to use the plight of New York City to demonstrate his own oft-stated political argument that the greatest danger facing the country is continuing deficit financing.

"Other cities, other states as well as the federal government are not immune to the insidious disease from which New York is suffering," the President said. "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."

The President predicted that this would lead to a "day of reckoning," and asked, rhetorically:

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

The President departed immediately after his speech for Andrews Air Force Base and a political trip to California, where he is to speak at Republican fund-raising affairs in Los Angeles and San Francisco.

He is to address another GOP fund-raiser in Milwaukee before returning to Washington early Friday.

Washington Post, 10/30/75

Ford 'Drift to Right' Alarms GOP Center

By David S. Broder
Washington Post Staff Writer

Progressive Republicans, alarmed by what they see as a "drift to the right" by President Ford in response to Ronald Reagan's challenge, are considering running a candidate of their own in next year's presidential primaries.

Sen. Charles McC. Mathias Jr. (R-Md.), one of those involved in the discussions, is expected to express his "deep concern" over Mr. Ford's becoming "a captive of the Reagan right" when he speaks at the National Press Club this noon.

Mathias reportedly was considering including a call for a challenger to Mr. Ford from the progressive side of the party in his talk, but has discarded it as "premature" at this time.

But Mathias and others among the dozen Republican senators who last month urged Mr. Ford to take a less conservative course in his campaign are privately alarmed at what they see as signs of a continuing rightward turn in his rhetoric.

The President's speech yesterday, bristling with criticism of New York City's "mismanagement," was the latest evidence of "Reagan-like rhetoric," in the eyes of the progressive Republicans. Mathias contended that "the President threw out an anchor to New York when they needed a lifeline."

The same concern was expressed last week by a prominent California Republican and former Washington official who asked a reporter, "Does Ford really think he can outdo Ronald Reagan in bidding for the anti-government vote?"

Since the defeat at the 1964 Republican convention, progressive Republicans have had increasing difficulty maintaining their influence on national GOP policy.

Many of them now express the fear that if the only challenge to Mr. Ford comes from Reagan, who is expected to announce his bid next month, they will be excluded from any voice on the party platform and ticket.

It is that belief that has provoked the discussion of entering a candidate from the progressive wing in New Hampshire and other early primary states, so that "we cover 180 degrees of the Republican spectrum, not just 20 degrees," as one official put it.

So far, that strategy has been blocked by advice from Vice President Rockefeller and others that the progressives "should not rock the boat."

But some of them fear that even if Mr. Ford turns back the Reagan challenge, the positions he is adopting in order to counter Reagan will jeopardize his chances in the general election and reduce the base of support for Republican candidates up and down the line.

An even greater concern to some of the progressives is the "vacuum" that would exist if Reagan should defeat Mr. Ford in the early primaries in New Hampshire and Florida.

Former Secretary of the Treasury John B. Connally, who will speak in New Hampshire on Monday, is reported by associates to be poised to jump into the Republican race against Reagan under those circumstances. But Connally is no more acceptable to the progressives in the GOP than is the former California governor.

Without a progressive candidate in the field or prepared to run, the progressives fear they would again find themselves blocked from any leverage on the national party ticket.

Washington Post, 10/30/75

N.Y. Leaders Assail Ford

By William Claiborne and John P. MacKenzie
Washington Post Staff Writers

New York political leaders bitterly denounced President Ford's proposed bankruptcy legislation yesterday and warned that his stance will lead to certain default for the city.

Congressional leaders divided along party lines on the merits of Mr. Ford's pledge to veto any New York City rescue bill that Congress passes and differed over what Congress should do in the face of the veto threat.

Mayor Abraham D. Beame said the President's speech has "created a climate of crisis and confusion which if unchanged will lead directly to a default."

Pointing to the impact of a New York City default on the national municipal bond market, Beame said, "In the name of the people of this city I challenge the President to square his forceful pursuit of detente abroad with his prosecution of a cold war on the domestic front."

Gov. Hugh L. Carey called Mr. Ford's speech a "simplistic, self-defeating and self-destructive view of New York's fiscal crisis" which, he said, amounts to an "invitation to fiscal chaos throughout municipal and state governments."

"After deliberately ignoring every painful step we have taken to undo the errors of the past, Mr. Ford suggests we could avoid default on our own. This is fiscal illiteracy," Carey said.

The governor said Mr. Ford's proposal was a political one, and added, "whether Mr. Ford is acting out of fear from the far right of his own party or out of simple misunderstanding of what his policies would do, I cannot say."

In a joint statement, three members of the Emergency Financial Control Board, a state-dominated unit that has taken over New York City's financial management, called the President's plan "economically destructive," and said it would be far more costly than a federal loan guarantee program.

Speaking for the three members, William M. Ellinghaus, president of the New York Telephone Co., said, "The President suggests that a default can be avoided. We know of no way, including increasing taxes and cutting expenditures, that will enable the city to meet its December and January cash requirements. Moreover, the President's position probably accelerated the timing of default."

State Controller Arthur Levitt said the President's speech "closed the possibility of avoiding default" because the prospect of possible federal assistance to the city as a means of reopening closed credit markets "is what had sustained us."

"Now that that's foreclosed I'm deeply concerned about the future," Levitt said. When asked whether New York State can come up with the $150 million needed by the city by Nov. 17, Levitt replied, "I doubt it."

The Ford speech was criticized by Sen. William Proxmire (D-Wis.), chairman of the Senate Banking Committee, which is dealing with bailout legislation.

"President Ford has chosen a course that would shove New York into a tin cup status and onto the federal government's back for years," Proxmire said.

However, a spokesman for Sen. John G. Tower (R-Tex.), the committee's ranking Republican, said Tower would support the President.

Senate Majority Leader Mike Mansfield (D-Mont.), saying he has not decided yet how he will vote, urged Congress to act despite the threatened veto. "If we make a move and he vetoes it, that's that," said Mansfield.

House Speaker Carl Albert (D-Okla.) said he still doubted Mr. Ford would go through with a veto. "Let's see what our committee comes up with," he said. "He may veto the best thing we could do. That might hurt him."

Baltimore Sun,
10/30/75

Ford to veto default aid to New York

By STEPHEN E. NORDLINGER
Washington Bureau of The Sun

Washington—President Ford, sternly chastising New York city officials for "bad financial management," said yesterday that he would veto any congressional action designed to prevent a city default.

In a tough speech at the National Press Club on the New York fiscal crisis, the President confined himself to proposing a change in the federal bankruptcy laws so that the essential services of police officers, firemen and sanitation workers are preserved following a default.

His comments, delivered before Mr. Ford resumed his political campaigning in California, appeared to have virtually ruled out the possibility that a bill to provide a federal guarantee of city loans will be enacted. Without such assistance, New York state and city officials have said, the city will be in default by December 1—and perhaps as early as November 14.

President Ford's speech caused "minimal reaction" to municipal bond prices.A11

Despite the veto threat, Democratic leaders on Capitol Hill said that Congress must face its responsibility to act on legislation to avert a default. The Senate Banking Committee will meet this morning to vote out a bill that would provide a $4 billion loan guarantee for the city and parallel legislation is pending before the House Banking Committee.

Senator William Proxmire (D., Wis.), chairman of the Senate committee, conceded that the difficulty of breaking an expected filibuster to win Senate passage of a loan-guarantee bill had increased in the wake of the Ford speech. Representative Thomas P. O'Neill, Jr. (D., Mass.), the House majority leader, said that he could not muster enough votes to override a veto.

As meetings occurred all over Capitol Hill after the President's speech in an effort to frame some kind of new rescue legislation, the two Senators from New York state publicly split over the Ford message.

Senator Jacob K. Javits (R., N.Y.) charged at a news conference that "the President's bankruptcy prescription will damn the city for at least a decade and by then its decline and fall could be irreversible."

In contrast, Senator James L. Buckley, Jr. (C.-R., N.Y.), who reportedly advised the President on the course to take, praised the speech as the "proper scenario" if the city is "to face reality."

In New York, Mayor Abraham D. Beame called the Ford proposal "nothing less than a declaration of default by the White House—a default of presidential leadership."

New York's Gov. Hugh L. Carey, said, "The Ford formula would make New York city a ward of a federal court, with an appointed judge acting as federal marshal, instead of Washington acting as a guarantor

See VETO, A6, Col. 4

Baltimore Sun, 10/30/75

Ford to veto default aid to New York

VETO, from A1

while the city and state repair its fiscal integrity."

After rejecting any form of a "federal bailout" of New York city to prevent a default, the President proposed what he described as an "orderly and fair means" to deal with the legal bankruptcy in the federal courts.

The legislation, which Mr. Ford said he would send to Congress, would allow New York or other municipalities in similar financial straits to petition for bankruptcy, thus staving off a host of lawsuits from creditors that could stymie essential city services.

A federal referee in bankruptcy would assume fiscal control over the city affairs and pay city workers before meeting the obligations to holders of city bonds.

The proposed legislation would require the city as a condition for filing for bankruptcy that it file a "good faith plan" for payments to its creditors and a program "for placing the fiscal affairs of the city on a sound basis" President Ford said.

At the heart of the Ford proposal was a recommendation that the federal referee be empowered to authorize the issuance of debt certificates to cover new loans which would be backed by future revenues to the city ahead of other obligations.

In his speech and in response to questions later, the President did not spell out how these certificates would attract investors or the federal role in assuring that the certificates could be marketed.

Mr. Ford said only that the government will work with the courts and that he could not prescribe the "means and method," although the government "will see to it that essential services are maintained."

He said that he foresaw "no loss to the federal government whatsoever" from his plan, but a presidential aide, L. William Seidman, did not rule out the possibility that some federal aid might have to be made available to the city if other revenues could not be found.

At his news conference, Senator Javits said that the "complete fallacy" of the Ford approach was the belief that these certificates could be marketed without a federal guarantee in view of the city's financial condition. Mr. Javits said that "only the United States will buy them anyhow."

An aide to the senator noted that the city in the three months after an expected default December 1 would face an operating deficit of $1.2 billion and that, without federal assistance, essential services would have to be reduced 35 to 50 per cent.

Senator Buckley talking to reporters on the Capitol steps said he will introduce legislation shortly to provide the "mechanism" for a federal role in assuring that the certificates can be sold. He declined to give details of his bill.

A Senate Judiciary Committee subcommittee announced that it will hold hearings tomorrow on the Ford proposal to revise the bankruptcy laws. Both Senate and House subcommittees have held extensive hearings on municipal bankruptcies and probably could report out a bill quickly.

There seems little opposition in Congress to dealing with this part of the problem but it will not prevent a default.

Occasionally shaking his finger and speaking in a stern voice, President Ford delivered almost a diatribe against past and present New York officials for their fiscal policies.

Saying that "the time has come for straight talk," Mr. Ford added that "no city can expect to remain solvent if it allows its expenses to increase by an average of 12 per cent every year, while its tax revenues are increasing by only 4 to 5 per cent a year."

"There can be no doubt where the real responsibility lies," he said. "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."

The President dismissed as "scare talk" warnings from city officials, bankers and other authorities that a New York default would have serious economic repercussions nationwide. He maintained that the financial markets had already made a "substantial adjustment" in anticipation of a default.

"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 President said. "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."

Mr. Ford at one point dismissed the possibility of a "catastrophe," a word recently used by Vice President Rockefeller to describe the possible impact of a New York default.

Ford Offers N.Y. Pledge On Services

The Philadelphia Inquirer, 10/30/75

Associated Press

WASHINGTON—President Ford asked Congress yesterday to approve legislation ensuring police and fire protection and other essential services if New York City defaults on its debts.

But Ford announced for the first time that he would veto any legislation to bail out New York through federal debt guarantees or other financial help.

"Why ... 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?" Ford asked in a speech to the National Press Club.

The President proposed amending federal bankruptcy laws to prevent New York City's creditors from tying up the city's finances in lawsuits if the city defaults.

He said such action would make it possible for the city to use what is left of its revenues, including federal revenue-sharing or special borrowing money, to provide police and fire protection and other services.

New York Mayor Abraham D. Beame called Ford's proposal "nothing less than a declaration of default by the White House — a default of presidential leadership."

Beame, a Democrat, said that Ford "has created a climate of crisis and confusion, which, if unchanged, would lead directly to a default."

New York's Democratic Gov. Hugh Carey also criticized the President's plan, saying, "The Ford formula would make New York City a ward of federal court, with an appointed judge acting as federal marshal, instead of Washington acting as a guarantor while the city and state repair its fiscal integrity." He said he would again ask Congress for help.

Sen. William Proxmire (D., Wis.) said Ford's proposals would shove the city into "tin-cup status" and place it "on the federal government's back for years to come."

Proxmire is chairman of the Senate Banking Committee, considering federal loan guarantees for New York.

Moody's Investors Service reacted to Ford's speech by lowering its credit rating on New York City bonds to "CAA," one of the poorest possible ratings for any municipal bond.

Moody's defines a "CAA" bond as one which "may be in default" or one whose holders had no assurance they would get their money back.

In his tough-sounding speech, Ford blamed the city's problems on those who he said have misled the people of New York for the last 10 years. He said direct federal help would set "a terrible precedent."

"I can 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," Ford said.

Although city and state officials have said that New York City may be unable to pay its debts as early as Nov. 14, Ford said he thought it was still possible for action that could avert a default.

Ford said he foresaw "no loss to

(See NEW YORK on 4-A)

NEW YORK, From 1-A

the federal government whatsoever" from his plan.

But a presidential aide, L. William Seidman, did not rule out the possibility that some federal aid could be made available to the city in the event of a default if other revenues could not maintain essential services.

Ford's amendments would empower the U. S. District Court in New York to authorize special debt certificates to meet the city's short-term needs, in the event of default.

But to obtain this help, the city, with state approval, would have to file a plan to repay its creditors. The new debt certificates would be paid out of future revenues ahead of existing creditors.

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

Ford derided "scare talk" by some officials and bankers 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," he said.

DAILY NEWS
NEW YORK'S PICTURE NEWSPAPER®
15¢
Vol. 57. No. 109 New York, N.Y. 10017, Thursday, October 30, 1975★ Price 20c beyond 200 miles from N.Y.C.

FORD TO CITY: DROP DEAD

Vows He'll Veto Any Bail-out

Associated Press Wirephoto

Presi t Ford gives his message at Washington's National Press Club sterday.

Abe, Carey Rip Stand

Stocks Skid, Dow Down 12

Three pages of stories Begin on page 3; Full text Of Ford's speech on page 36

Ford to New York: Drop Dead

Vows He'll Veto Bail-Out In Speech Attacking City

Associated Press photo

Presid Ford as he spoke at the National Press Club.

By FRANK VAN RIPER

Washington, Oct. 29 (News Bureau)—President Ford declared flatly today that he would veto any bill calling for "a federal bail-out of New York City" and instead proposed legislation that would make it easier for the city to go into bankruptcy.

In a speech before the National Press Club, Ford coupled repeated attacks on the city's fiscal management with a promise that, if default came, the federal government would see to it that "essential public services for the people of New York City" would be maintained.

White House officials said privately, however, that Ford had no intention of committing federal money to maintain such services. They also conceded that as defined by the Ford administration, "essential services" may not include public schooling.

The ferocity of Ford's attack on the city's spending — he likened it to an "insidious disease — appeared to doom chances for passage of any congressional plan to help New York avert default through federal loan guarantees.

"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," the President said.

He sought to minimize the effect of such a default on the rest of the country and accused unnamed officials — [illegible]mably Mayor Beame and Gov [illegible]rey —

The New York Daily News, 10/30/75

Ford to New York: Drop Dead

'Stab in Back'

The News charged in an editorial today that President Ford's speech was a "stab in the back" and an act of "cheap politics" that threatens both New York City and the nation's economic recovery. (See page 67).

of indulging in "fiction and fear-mongering ... (to) frighten the American people and their representatives in Congress into panicky support of patently bad policey."

Questioned after his speech, Ford said that he was still not convinced that the city will have to default. He said the city "capacity" to prevent default still has the through additional budget cuts and more taxes.

The Dow Slumps

Beame and Carey reacted bitterly to Ford's remarks and the Dow-Jones industrial index fell 12.83 points in trading on the New York Stock Exchange.

Beame accused Ford of "writing off New York City in one speech" and insisted that there were remedies available in the Congress at "no cost to the American taxpayer."

Carey said that the consequences of default to other cities and states would be "far grimmer than Mr. Ford's complacent words suggest," and that Ford probably was motivated by political considerations.

"Sufficient Authority"

Ford said that his proposed revision of the federal bankruptcy law would provide "the federal courts with sufficient authority to preside over an orderly reorganization of New York City's financial affairs — should that become necessary."

However, Chairman William Proxmire (D-Wis.), whose Senate Banking Committee plans to vote on a proposed $4 billion loan guarantee plan for the city tomorrow, said that Ford had chosen "a course that would shove New York into tin-cup status and onto the federal government's back for years." Sen. Jacob K. Javits (R-N.Y.) agreed, saying that Ford's plan was a "grave error."

Sen. James L. Buckley (R-C-N.Y.) and most other Senate Republicans backed Ford's program as the only prudent way to force the city back into sound fiscal shape. New York "must face the reality that it no longer has the resources to meet its obligations,"

A New Chapter

Under the Ford plan, the city, with state approval, would file a bankruptcy petition under a proposed new Chapter 16 of the federal bankruptcy act. In order to take such action, the city would first have to state that it is unable to pay its maturing debts as well as present "a program for placing the fiscal affairs to the city on a sound basis."

The federal court then would be authorized to accept jurisdiction over the case, Ford said, resulting in "an automatic stay of suits by creditors so that the essential functions of New York City would not be disrupted."

Once this happens, the President went on, the court would be empowered to authorize debt certificates — a type of bond —

(Continued on page 37 col. 1)

(Continued from page 3)

covering new loans to the city. These bonds — which Ford maintained would be attractive to investors eventhough the municipal bond market has been closed tothe city for months — would be paid out of future city revenues before any other city creditors were paid.

"Hard Measures"

"I don't want anybody misled," Ford warned. "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 of cut expenditures of ee-vise some combination that will bring them into a sound financial position."

White House officials said that the Ford plan should be passed "as quickly as possible," particularly since the city's default deadline has now been moved up from Dec. 1 to mid-November.

They said that President's plan to revise the bankruptcy laws would apply only to New York City (and other strapped cities with a population of a million or more), but not to New York State. Gov. Carey has warned repeatedly that if the city is forced into default, the state may default shortly there-

"On the Beat"

Despite Ford's contention that the federal government would "work with the courts" after default to see that there are "policemen on the beat, firemen in the station and nurses in the emergency rooms," the officials noted that the administration "does not anticipate" that federal money will be used to pay for the continuation of these services. L. William Seidman, Ford's top economic adviser, was asked if the administration included the city's schools among "essential services."

"No," Seidman responded. He refused to elaborate.

During his 35-minute speech, which was televised in New York City on' and in a brief question perio. that followed,

Moody Chops Bond Rating

Stating that the chances that the city will avoid default "have all but disappeared," Moody's Investors Service announced yesterday that it had dropped its rating on New York City debt from "Ba" to "Caa." The "Caa" rating is used, a spokesman said, to identify issues of poor quality that have either already defaulted or are in danger of doing so.

Ford made no mention of the steps New York has taken to cut expenditures and raise revenues. Nor did he discuss the stringent restraints that would be imposed upon the city and state as preconditions to any of the federal loan-guarante plans now before the House and Senate Banking committees.

Instead, Ford argued that such guarantees would give the federal government an improper role in local affairs as well as provide "immediate rewards and eventual rescue to every other city that follows the tragic example of our largest city."

"When New York City now asks the rest of thecountry to guarantee its bills, it can be no surprise that many other Americans ask why," Ford said.

"NewYorkAdvantages"

"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?"

Without calling for specific changes or cutbacks, Ford noted that "New York City's wages and salaries are the highest ithe United States." He cited the $15,000 annual salary paid sanitation workers after three years. National surveys have shown, however, that this is the only category in which New York pays top dollar. Other cities were shown to pay higher salaries than New York to their policemen, firemen and teachers.

The New York Daily News, 10/30/75
Page 2

Gov Warns 'Unelected' Ford That State Might Fall Next

The New York Daily News, 10/30/75

By OWEN MORITZ

Gov. Carey, embittered to the point of denouncing President Ford in strong personal terms, called his default scheme "fiscal illiteracy" yesterday and said it would hasten New York City's default as early as Nov. 10—and the state's default not much later.

Carey — joined in his fury by Mayor Beame, State Attorney General Louis Lefkowitz, and virtually every other politician and businessman of note during the day — charged, "The Ford formula deliberately unravels every step we have taken to solve our own problems at a cost of perhaps billions to Washington."

Referring to Ford time and again as "that unelected President," Carey said the proposal is a "plan for federally-supervised martial law."

Levitt Is Be-Gloomed

he governor, flanked at a news conference by members of the Emergency Financial Control Board, which is virtually running the city now, said the specter of the feds taking precedence over note- and bond-holders as the President suggests, would only hamper the state's ability to raise $158 million on its own as part of the $2.3 billion bail-out plan for the city. The money is needed by Nov. 14, but sources suggested the commitment must be in hand by Nov. 10.

Then, in his most forceful statement to date, Carey said, "Default is inevitable" unless Congress moves on its own, and in spite of a Presidential veto threat — authorizes some "sort of" federal guarantee for state or city bonds or notes; or, in a new wrinkle — guarantees for pension fu[illegible] investing in state or city paper.

Later, Controller Arthur Levitt confirmed that there was a real possibility of default in early November. "The President's speech closed the possibility of avoiding default."

The prospect of federal aid "is what had sustained us," the controller said. Could the state now come up with the needed $150 million, Levitt was asked.

"I doubt it," he replied.

At City Hall, Mayor Beame — who will address the National Press Club next Wednesday — said Ford's proposal was "nothing less than a declaration of default" and creating a climate

(Continued on page 37 col. 2)

Carey Warns Ford: State May Go Next

(Continued from page 3)

"which, if unchanged, will lead directly to default."

Council President Paul O'Dwyer practically called for the return of Richard Nixon: "In retrospect, it makes one wonder whether the impeachment was really such a good idea."

The tenor of the response by the governor and the Emergency Control Board was that Ford had failed to evaluate his own plan, which they said would cost more money to the feds than any guarantee, and that its timing undermined the huge undertaking by the city and state to put "the fiscal house in order."

"The President suggests that a default can be avoided," declared William Ellinghaus, the executive director of the Control Board. "We know of no way — including increasing taxes and cutting expenditures — that will enable the city to meet its December and January cash requirements. Moreover, the President's position probably accelerates the timing of default."

Reiterating an old warning, Carey said again that the city, between Dec. 1 and March 31, and assuming no debt is paid off, must still come up with $1.2 billion in payments for essential services, mandated welfare and health costs, "and other utterly unaboidable needs."

Carey added glumly, "The Ford proposal would send not only the city, but New York State as well into default. And the consequences of that default to other cities and states are far greater than Mr. Ford's complacent words suggest."

Later, Carey got personal with Ford — and his "unelected" Vice President Nelson Rockefeller — saying the Administration is worriedd "about the apparition of Ronald Reagan" and the right, and this accounted for the hard-line position in dealing with the city's predicament.

"The Ford plan is bankruptcy," Carey said at another point.

Carey's other point, reiterated several times, was that the Ford Chapter XVI bankruptcy plan vs counter-productive, "an invitation to fiscal chaos throughout municipal and state governments, an open invitation to public bankruptcy."

A mayor or governor in any city or state, the Governor reasoned, "knowing that successors will have access to debt-payment suspensions, would be able to spend hisstateintobankruptcy.

"Such a law wouuld almost certainly destroy investor confidence across America. For, who would risk his funds knowing that a government could avoid payment simply by slipping into bankruptcy!"

As for Ford's reference [illegible] maintenance of "essential [illegible]ices" after default occurs, [illegible] Governor said the President [illegible] deliberately "omitted any re[illegible]ence to schools, sanitation, [illegible] other basic services."

As for the Nov. 10 deadline, the state has pledged $150 million for the purchase of Big Mac bonds. Felix Hohatyn, the financier who heads Big Mac, said the make-or-break decision is up to State Controller Arthur Levitt. He said things are "terribly bleak," but softened his pessimism somewhat later.

The New York Daily News, 10/30/75

Study Mass Furloughs to Avert Big D

By MARK LIEBERMAN

In a desperate effort to avoid default, Mayor Beame and the Board of Estimate are considering a variety of plans—including a furlough of 30,000 or more city employes—to cut city cash needs by a staggering $4.2 billion over the seven months that will end June 30.

Beame discussed the drastic measures with the board at an emergency meeting yesterday within hours of President Ford's Washington speech. The mayor ked the board members — controller Harrison J. Goldin, Council President Paul O'Dwyer and the five borough president to meet with ham again today to further discuss plans to avoid going to a fed bankruptcy court.

Sources at the board meeting yesterday said Goldin had reported the city would need $4.2 billion in cash to pay all its bills, including debt service, from Dec. 1 through June 30. Without paying debt service, Goldin reportedly said, the city woule need nearly $1 billion.

Among the pltns discussed yesterday to reduce the cash outlay — in addituon to furloughing city workers — were paying vendors 50 cents on the dollar for bills presented to the city, withholding welfare and medicaid payments and tapping pension funds for any available cash.

The economies, sources said, would be used as required to meet monthly or weekly cash shortages.

Beame reportedly rejected a suggestion that he respond to Ford's speech by withdrawing city police from posts at the United Nations and foreign UN missions here.

In addition t board members, City Council Majority Thomas Cuite, Council Finance Committee Matthew Troy Jr., Deputy Mayors James Cavanagh and Kenneth Axelson and City Planning Commission Chairman John Zuccotti attended the session.

Dow Listens And Lessens

Wall Street took President Ford's default medicine for New York City badly yesterday as stock prices plunged on a broad front and the Dow Jones index of 30 industrials fell 12.83 to 838.63. See story p. 70.

The New York Daily News, 10/30/75

Fed Aid Backers Glum on Bail-Out

By BRUCE DRAKE

Washington, Oct. 29 (News Bureau)—Congressional supporters of legislation to help New York City avoid default, dismayed at President Ford's announced veto threat, held out little hope today that the House or Senate would approve any such measure, even on an emergency basis.

Sen. William Proxmire (D-Wis.), insists that Fords program — which calls only for revamping of the federal bankruptcy laws to make the city's transition into default more orderly — would have "relatively slight effecit" on ultimate action by his committee, since all the Republican members of the panel are against any aid-New York bill anyway.

But he conceded that even if a bill were reported to the full Senate — which also is doubtful, given the fence-sitting status of another committee member, Sen. Joseph R. Biden (D-Del.) — it would face tough going.

"Default is a miserable course to take," Proxmire said. Ford's proposal would simply "shove New York into a tin-cup status and onto the federal government's back for years to come," he said.

Senate Democratic Leader Mike Mansfield (Mont.) said that Congress had a responsibility to act in the face of the veto threat, but he did not sound as if he believed the lawmakers would override the President. "If we make a move and he vetoes it, that's that," said Mansfield.

The U.S. Conference of Mayors charged that Ford had "failed to address the question of the national economic condition which has brought cities to the current crisis."

But Senate GOP Whip Robert P. Griffin (Mich.) spoke for most Republicans when he said that Ford "has said exactly the right thing and proposes the correct solution." He and other GOP lawmakers brushed aside talk of a major economic impact due to a New York default, echoing Ford's claim of "scare talk."

But Sen. Jacob K. Javits (R-N.Y.), who has been working for some kind of legislation to avoid default, declared that "sentencing New York to bankruptcy is a grave error."

"The President's bankruptcy prescription will damn the city for at least a decade," he said, "and by then its decline and fall could be irreversible." He said that the city would effectively be closed off from raising capital in private markets for years.

Sen. James L. Buckley (C-R-N.Y.), whose own bankruptcy revision bill yesterday foreshadowed the Ford plan, praised the President's speech, saying that New York City "must face the reality that it no longer has the resources to meet its obligations." He said that bankruptcy was preferable, because any save-New York legislation coming out of Congress would be "draconian.'

After a late afternoon caucus in the Capitol, members of New Yorks congressional delegation vowed to fight on for emergency legislation and to intensify lobbying among other lawmakers to make Congress aware of how New York's fiscal problems might have a "ripple" effect on other cities and states.

In addition, the New Yorkers said they would press for "equal time" on television to try to counteract Ford's speech, which was televised live in New York, although not nationally.

The New York Daily News, 10/30/75

Cash for Salaries Could End Nov. 21

By FRANK LOMBARDI

Even with their top-priority status, there may not be enough money in the city's coffers after Nov. 21 to meet the $18.3-million a week payroll costs of maintaining police, fire and sanitation services.

The Priorities In Default

The Beame administration has established the following priorities for city expenditures in the event of a default:

- Police protection, fire protection, sanitation, public health and all related life-support services.
- Food and shelter for those who are dependent on city support.
- Hospital and emergency medical care for those with no other resources.
- Payment to vendors who provide essential goods and services necessary for the ongoing delivery of the above.
- Maintenance of primary public schools and secondary schools.
- Interest on city debt.

Members of Mayor Beame's default contingency committee, which has been drawing up a master plan in case of default, predicted yesterday that even the emergency workers would be faced with payless paydays.

Even with default, the city will have revenue coming in from tax collections, federal grants and other sources not tied to borrowing from banks and investors. The key problem in default will be on how to distribute those limited revenues.

Courts May Decide

Although specific priority lqsts may eventually be drawn by the courts, the list prepared by the Beame administration gives payment priority to the cops, firemen, sanitationmen and other workers directly involved in life-support services.

Lowest priority was given to repaying the holders of the city's notes and bonds.

Deputy Mayor Kenneth S. Axelson, who is helping to refine the priority list, said that "even these basic payrolls will be in trouble."

"It's clear that if we don't have money, we can't pay anyone," Axelson said on the possibility of payless paydays for emergency-service employes.

Cops, alone, draw beweekly paychecks of $20.5 million; sanitationmen are paid weekly, with total payrolls for uniformed men, civilians and officers amounting to $3.5 million, and firemen, also paid every two weeks, have a $9.3 million payroll.

Current budget projections for the week ending Nov. 21 show that the city will have a payroll of $139.3 million to meet during that week and $146 million in revenues. Other obligations that week will result in a total deficit of $159 million.

The Beame list, unless changed, envisions no changes in the payment of pensions from the separate trust funds.

News photo by Jim Mooney

Felix Rohatyn, Gov. Carey and William Ellinghaus (l. to r.) at press conference in Carey's office.

Big Apple's Woes Peel DJ for 12

By WILLIAM BROWN

Stock prices on Wall Street plunged on a broad front yesterday following President Ford's pledge to veto any legislation to prevent New York City default. Ford's proposal to alter the bankruptcy law to accomodate the Big Apple's financial coring created no visible investor enthusiasm.

The Dow Jones average of 30 New York Exchange industrials sank 12.83 to 838.63, virtually wiping out the 12.98 gain the previous session on hopes of a softening Administration stand on the city. Standard & Poor's 425-stocks dropped 1.28 to 100.19.

Lack of significant selling pressure was one encouragement, as Big Board volume slowed to 16.1 mililon from 17 million Tuesday. Falling issues beat gainers, 1,078-347.

Piror to Ford's speech, the market opened lower in the wake of the announced first drop in leading economic indicators in seven months. At noon. the DJ was off 5.90

Analysts and brokers suggested the tough Administration position did little to clear the uncertainty of what a default of the city's magnitude might bring.

Bank isues, wtih large holdings of New York state and city obligations, were sold almost uniformally. Chase fell 1¼ to 25¾, Citcorp 1⅛ to 27¾, Chemical the same to 2⅞ and Bankers Trust Manufacturers Hanover 1 each to 29⅛ and 25½, respectively.

Gold shares, as is the custom in periods of equity decline, glisteend. ASA Ltd. rose 1 ⅞ to 35¾, Homestake 1½ to 38½ and Dome ⅞ to 36.

Among the movers, IBM lost 4 to 211 in heavy trading, Coca-Cola fizzed 2¾ to 80¾, Bristol-Myers shed 2¼ to 65 and Bethlehem Steel dropped 1⅞ to 64.

Quaker Oots posted a substantial rise in profits and climbed 1¾ to 22. Gulf & Western slipped ¼ to 20⅝ despite record earnings. Pillsbury couldn't explain its 3¾ decline to 79¼.

Prices on the American Exchange slumped in light trading with losers leading gainers by 2 to 1. Brad Ragan gave up 1¾ of Tuesday's 1⅞ gain, closing at 15⅝. Syntex eased ⅞ to 32⅝.

Eliot Janeway Says . . .

The stock market saw another one of its time-honored rules diversed yesterday. Towards the end of any pre-election year, Wall Street revives the rule that what's good for it is best for any President seeking reelection. President Ford took the hard line against a New York City bailout and undid the rally of the previous day which had bet on the bailout. Ford's strategy is forcing a painful readjustment on the market. Whether Ford's political savvy is better than Wall Sreet's, only time will tell.

The New York Daily News, 10/30/75

The Christian Science Monitor, 10/30/75

lew York: Congress to rescue?

By Richard L. Strout
Staff correspondent of
The Christian Science Monitor

Washington

s President Ford tongue-lashed New York ⁄ profligacy and warned against big nders in Washington, Congress once more ed the need for quick, decisive action in a nplicated crisis.

'ongress seemed ready to revise federal ıkruptcy laws to permit America's biggest l richest city, if it defaults, to continue ice, fire, and municipal services, and to ep access open to funds.

But some congressmen, particularly Demo- its, charged Mr. Ford with attempting to ike political capital out of New York's plight his scorching denunciation of fiscal laxness his warning that "a day of reckoning will to Washington and the whole country it as it has to New York," with over- ending.

President Ford painted a black-and-white ture of the New York crisis. The city's ecord of bad financial management is ique among municipalities," he said. He arged that "New York City now asks the st of the country to guarantee its bills."

He asserted that the city authorities (and emed to include New York State's Demo- atic Gov. Hugh L. Carey) are trying to ampede federal relief by a scare story."

In some of the strongest language used by a esident in modern times, Mr. Ford de- ared:

"What I cannot understand — and what obody should condone — is the blatant tempt in some quarters to frighten the merican people and their representatives in ngress into panicky support of patently bad olicy."

He added, "The people of this country will ot be stampeded, they will not panic when a ew desperate New York officials and bankers ry to scare New York's mortgage payments ut of *them*."

★Please turn to Page 9

President Ford (top) and Mayor Abraham Beame (below) try to find answers for embattled New York City

By Albert J. Forbes, staff artist

The Christian Science Monitor, 10/30/75

★ New York rebuffed—Congress to rescue?

Continued from Page 1

He would veto any bail-out bill, he announced, for federal guarantee of New York loans.

Mr. Ford, like Secretary of the Treasury William E. Simon, took a relatively calm view of default: "For the financial community," he said, "the default may bring some temporary difficulties but the repercussions should not be large or long lasting."

In his divided Cabinet, President Ford has come down emphatically on the side of Mr. Simon, who has told Congress that default would not seriously set back the nation's recovery from recession.

As contrasted to this, Vice-President Nelson A. Rockefeller has urged federal intervention and has publicly warned of danger if there is none.

Arthur F. Burns, chairman of the Federal Reserve Board, has taken a middle course.

New York City's eight million residents would appear to lose normal democratic control over their governmental affairs if the municipality defaults, under the Ford plan. As the President explained it, the city must "file a good-faith plan for payments to creditors" with a federal court. The latter would be empowered to authorize debt certificates covering new loans with priority over other debits.

Mr. Ford saw "hard measures" ahead for city and the state: "They must either increase revenues or cut expenditures."

This will not be easy, some congressmen noted. The city already has a 6 percent sales tax, one of the highest in America, and the state leads the nation in per capita state and local taxes, at $894.

Mr. Ford warned of constitutional consequences in a federal bail-out of an erring municipality. It would set a precedent for breakdown of federalism, he argued.

There was an undercurrent of criticism of New York bankers in Mr. Ford's caustic summary. He repeatedly coupled politicians who had led the city astray with financial institutions that supplied the cash. He hinted that the local financial community now wanted federal intervention for its own ends.

Pressed after his talk as to why Washington had bailed out Lockheed Aircraft, President Ford said that the government "may have made a mistake."

The Christian Science Monitor, 10/30/75

Aid plan for New York 'cold cheer' for Beame

By George Moneyhun
Staff correspondent of
The Christian Science Monitor

New York

President Ford's new plan to aid New York City draws no cheers from City Hall here — but on Wall Street, some analysts call the Ford proposals a step in the right direction.

Mayor Abraham D. Beame sees little reason for rejoicing in the Ford plan to create a "mechanism to manage default." The Mayor insists that allowing the city to default before any federal action is taken would be catastrophic for municipal credit markets and bond holders. Tens of thousands more layoffs of city workers would be required, and vendors who contract for the city's goods and services would be hard hit, city officials complain.

Mayor Beame insists the federal loan guarantee under consideration in the Senate Banking Committee would cost the federal government nothing and would give the city the breathing time it needs to whittle down the size of its $800-million debt.

"Who is the Mayor fooling?" asks one Wall Street analyst. "The federal guarantee would cost somebody something. These bonds have to be repaid. Where is the money going to come from to pay back New York City?"

Wall Street supporters of the President's plan argue that the current federal bankruptcy statute which would apply to New York

★Aid plan 'cold cheer' for Beame

Continued from Page 1

City if default comes is impossible to implement.

The President's plan would not prevent a default, but would create a federal referee to pay the salaries of city policemen, firemen, and sanitation workers before attempting to pay off the holders of city bonds.

At the heart of the controversy over the impact of the President's proposal is the continuing uncertainty as to just what repercussions a default by New York City would have. Mayor Beame, Governor Hugh L. Carey, and a number of the nation's biggest bankers have repeatedly warned that default would be disastrous for cities in the U.S. and abroad and that the U.S. economic recovery likewise would be endangered.

President Ford shares the view of some Wall Streeters that default would have only a minimal impact.

"Sure, there will have to be some agonizing cuts made, and there will be some short shocks in the stock market — for a day or two at most — but the long-term impact will be good," remarked one analyst in support of the President.

Mayor Beame already has given up considerable control over the city's fiscal affairs to state overseers, and, regardless of what kind of federal help is finally approved in Washington, the Mayor stands to lose even more authority.

Governor Carey, meanwhile, has been weighing a request for a $300-million corporate tax increase to help the state's ailing budget. The state has already gotten into financial hot water by trying to bail out New York City.

New York City already has some of the highest taxes in the U.S., a fact that has driven many large firms out of Manhattan in recent years and has added to the city's budget woes. Despite the gloomy prospects of higher taxes, the Governor says the overhauling of the city's management will bring long-term benefits and, perhaps, "solutions to problems that have heretofore been insurrmountable."

The Chicago Tribune, 10/30/75

Ford vows N.Y. aid veto

Offers plan to retain services

By Bill Neikirk

Chicago Tribune Press Service

WASHINGTON—President Ford vowed Wednesday to veto any bill to prevent a New York City default, but at the same time proposed legislation to continue a flow of services to its citizens if the city goes under.

Calling a bailout bill a "mirage," Ford told the National Press Club that a federal rescue of New York City would keep the city from balancing its budget,

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The government's index that anticipates future economic trends fell for the first time in seven months in September, contradicting other signals showing continued economic growth. Page 2.

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set a "terrible precedent" for the nation, and reward irresponsible fiscal behavior.

"The primary beneficiaries would be the New York officials who would thus escape responsibility for their past follies," he said.

FORD PROPOSED amendments to the federal bankruptcy laws that would permit the city to file for reorganization in federal court, automatically stave off suits by creditors, and continue police, fire, and other essential services.

Ford's political gamble was addressed in a question and-answer session. Asked if he thought he could carry New York City in an election, the President said the people of New York have known for a long time that they were being misled on their financial future.

"They would like straight answers and straight talk," he said. "If we can do it and do it right, I think I'll have a friend or two in New York."

If a default occurs, Ford said, the federal government will work with the court to assure that essential services are maintained. He did not specify the contemplated help.

Ford's proposal for revised bankruptcy laws to prevent financial chaos in case of a city's default is not new. Both Democrats and Republicans on Capitol Hill are considering such a proposal. Sen. Stevenson [D., Ill.], who has a more far-reaching approach to the city's problems, plans to offer a similar proposal.

Under Ford's proposal, New York must not only file a plan for payments to its creditors, but "must also present a program for placing the fiscal affairs of the city on a sound basis."

FOR THE CITY'S short term cash needs, Ford said the court would have power to allow the city to issue debt certificates, "which would be paid out of future revenues ahead of other creditors."

Ford chose the press club forum to explain his position to the country after being pressured by some of his political

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President vows to veto N. Y. aid, keep services

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advisers to support some type of New York City aid. Some of Ford's advisers believe that politically he is on the wrong side of the New York issue.

Coming to that point, Ford said many Americans are asking why they should support advantages in New York they have not been able to afford in 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?

HE REJECTED AS a "scare story" the reports that default by New York would mean catastrophe for the United States and the rest of the world. He called it a "blatant attempt to frighten the American people . . . We have heard enough scare talk."

Ford noted at least eight proposals on Capitol Hill would guarantee. New York loans. "I can 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," he said.

The President said his proposal would not by itself put the affairs of the city in order.

"Some hard measures must be taken by the officials of New York City and New York State," he said. "They must either increase revenues or cut expenditures, or devise some combination that will bring them to a sound financial position."

THE REPERCUSSIONS of a default on the financial community "should not be large or long-lasting," he said.

Ford closed by saying that if the nation spends and provides services as New York has, then a "day of reckoning" will come.

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

The President said he thought default could be avoided, but he didn't say how.

He said his approach would make investors in city and state bonds more discerning. He called it the "greatest deterrent to mismanagement of state adn city administrations."

The Chicago Tribune, 10/30/75

N. Y. crisis pushes bonds lower

NEW YORK [AP]—With New York City's financial crisis again at center stage, prices of stocks and municipal bonds declined broadly Wednesday.

Before President Ford's statement at noon that he "would veto any bill that has as its purpose a federal bailout of New York City to prevent a default," the bonds of cities, states and other municipal borrowers declined a quarter to a half a point.

Hard-hit in particular were Municipal Assistance Corp. bonds, issued in the summer months under New York State sponsorship to aid the city. Those issues declined a point to two points in price, or $10 to $20 per $1,000 face value.

RICHARD L. FRANKE, president of John Nuveen & Co., Chicago-based municipal bond house, said the reaction probably represented the last 10-per-cent adjustment of the market.

"It certainly isn't the rout that some observers were expecting," he said.

"There has been some apprehension down here," said a bond dealer for Paine, Webber, Jackson & Curtis, Inc. "But not panicsville."

The dealer noted that early in the day some of the bond market's anxiety showed up in the fact that a large volume of dealer municipal bond inventory was showing up in the market looking for bids, and issues from states like Louisiana, Michigan, South Carolina, and others were selling in large blocks, often at a loss.

BUT THE consensus appeared to be that the Ford speech, and a New York City default if it follows, would set off only a short-lived shockwave, followed by a sigh of relief that at least some of the uncertainty had been lifted.

Crying Wolf

Analysts Say Crisis, And Politicking, Hurt New York's Chances

'Help, I'm Poor' Plea Failed To Sway Lenders; Cash Might Have Been Raised

Losing a Game of 'Chicken'

By BARRY NEWMAN
Staff Reporter of THE WALL STREET JOURNAL

NEW YORK—The way to get things done in New York City, according to classical political wisdom hereabouts, is to create a crisis. With a good crisis going, this city's intractable interests somehow find it easier to give something up without catching too much flack for letting their constituencies down. It always has worked.

Over the past six months, however, the classic political wisdom hasn't worked at all. If anything, crisis management of New York's budget problems has worsened the squeeze—or so say a number of academic experts, citizens' watchdog groups, politicians and financiers involved in the city's chaotic attempts to find the money it needs to survive.

Some people think crisis management is the only effective way to force compromise here, and many observers say that accusing Mayor Abraham Beame of weakness in the face of disaster is the worst kind of armchair quarterbacking. "The notion of default is just so unpalatable," says Raymond Horton, head of a commission appointed by the mayor to study the city's long-term financial picture, "that you just had to go through a string of crises to try to prevent it."

But in recent days, New Yorkers have discovered that what works well with New York labor and political leaders doesn't work with congressmen. And yesterday, President Ford sniped at the city's poor-mouthing strategies as "blatant attempts in some quarters to frighten the American people." He added that "The people of this country will not be stampeded; they will not panic when a few desparate New York officials and bankers try to scare New York's mortgage payments out of them."

"Playing the Same Game"

It is a question that has been asked repeatedly as the city staggered along the brink of default from one tumultuous press conference to the next, from all-night session to all-night session, from "poignant final act" to "tension-filled episode," as the newspapers in town took to describing the many changes in "unchangeable" positions.

"Everybody was playing the same game," says Herbert Kaufman, co-author of a book on the city's government called "Governing New York City." The game everybody was playing, Mr. Kaufman says, is called "Chicken."

The problem with playing that favorite New York game this time was that bankers and bond buyers aren't big fans of "chicken," a game in which two teenagers drive their cars straight at one another at breakneck speed, bluffing until the last possible moment when one of them swerves away. They are in the business of lending money, and they enjoy lending money most to people who need it least. The more the city complained of its dire need, the less likely it was to have the need satisfied. And the more pushing and pulling among unionists and deputy mayors and legislators and accountants, the more the city lost stature with creditors.

At the outset, observers say, it was impossible to distinguish threats from realities, political squabbling from fundamental differences. Back in December, the city's controller, Harrison Goldin, was issuing statements saying the city's deficit was bigger than Mayor Abraham Beame said it was. Mr. Goldin turned out to be more than right, but the psychological impact of his argument was blamed in part for the upsurge in interest the city was forced to pay on its borrowings; and that was blamed for bringing on the current crunch.

Scare Talk Cost Real Money

"You want to reduce the budget, and the only way to do that is to convince the politicians that the problem is bad," says one of the controller's aides. "But you have to do that without panicking the financial community. If you generate uneasiness for any reason, you can expect to pay for it."

Recognizing the crisis and acting decisively to deal with it made investors jittery and exacerbated the situation. Until the middle of June, with the city facing bankruptcy if its debts weren't paid by the end of the month, Mayor Beame stuck to the argument that things weren't really all that bad. He and others accused the banks of trying to make the city accept a conservative political philosophy. The creation of the Municipal Assistance Corp. to help the city borrow its needs at the end of that month at first seemed like a sure solution. But politics intervened.

To balance his budget for the last fiscal year, the mayor went to Albany to plead for more taxes. He was met there by Republican legislators willing to make a deal: They would vote the taxes if upstate school districts got more state aid. Gov. Hugh Carey didn't want to agree to that, and as a result the legislature didn't act. Wit the end of June approaching, the mayor began threatening massive layoffs of city workers—as many as 67,000. It was classic politics working again. The mayor got his taxes, and the Republicans got their aid. Huge layoffs took place at the end of June, but a great many people were immediately rehired.

"We all knew they would be put back," Mayor Beame said in an interview with The New York Times this month, "and I think that, more than anything else, really hurt our credibility in the nation, not only in the city."

With enormous confusion over the number of layoffs, even to the point that the city had trouble figuring how many people it employed to begin with, the job of selling

Crying Wolf: Crises and Politics Hurt New York City's Chances

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MAC's bonds was made difficult far beyond anybody's expectations.

"We created MAC in three weeks," the corporation's chairman, Felix Rohatyn, said this week, "and we no sooner created it that we had to put together a $2-billion public offering for an organization that people never heard of other than it seemed to remind them of a cheeseburger.

"We were doing rather well in any case, and I felt that if we had made that original offering we had a chance of getting the city back in the market. But in the middle of this we had the spectacle of the city and Albany in violent arguments over taxation, a series of announcements about budget cuts and a sanitationmen's strike."

Throughout the summer the Municipal Assistance Corp. continued trying to cajole the city into making the dramatic gestures that could restore investor confidence. "We tried a series of actions," Mr. Rohatyn says, "that were embraced by the city with a fervor that could only be described as tepid."

A primary need was a wage freeze. But because a wage freeze was so distasteful to city unions, the mayor's strategy was to hold off pressing for it until the city was again on the verge of default, and the crisis leverage could be used. Finally MAC itself had to demand publicly that the city act. That help fosters the belief that the city was unwilling to take the necessary action to bring its finances in order.

As the summer wore on, many changes were made. The city's payroll was ultimately reduced by 10%, according to the mayor. The budget was trimmed by about $1 billion. A management advisory board was installed to revamp city operations. But, in deference to usual practice, the changes were made under pressure. "Whatever reforms were adopted," Mr. Rohatyn says, "they were adopted with such struggle and obvious reluctance that the impression around the country got worse and worse." By mid-August it was clear that the MAC rescue was a failure.

That set in motion a fresh attempt to assuage bond investors by creating another agency to oversee the city's finances. The mayor labored over his own plan to put together the city's required funds, but the plan was somehow forgotten in late August when the mayor and the governor agreed to establish a "panel" to supervise the city. At the announcement of that accomplishment in a crowded bedroom of the Waldorf Astoria the mayor expressed his opinion that the new plan really wouldn't make any difference in the way the city was governed. Apparently because of that statement, the banks whose agreement was vital, rejected the scheme the next day.

Under redoubled pressure, the state legislature in special session rammed through a law establishing a Financial Control Board with tougher provisions for supervising the city and with a series of financing arrangements intended to tide the city over until December. At this point, though, MAC officials were publicly pessimistic that the plan would succeed, and they were right.

The city lurched through September with the financing plan under a cloud of uncertainty. A teachers' strike compounded the city's problems further, and a costly settlement (which the control board nixed) didn't enhance the bullet-biting image of the Board of Education. In October, amid seemingly endless confusion over the actual size of the city's operating deficit, the control board ordered the mayor to make $200 million more in economies. Again, this was effected in all-night sessions with uncertain results.

Less than two weeks ago, the seams split again on the financing plan when the teachers pension fund balked at buying $150 million in MAC bonds. The turmoil that engulfed that last-minute bailout was the prelude to the city's current "last-ditch" supplications in Washington, during which Mr. Rohatyn told a congressional committee that New York could "hang the mayor" and still not be able to sell any bonds.

Whether or not it was truly necessary to handle the city's problems this way will remain a matter of debate. "You could postulate," Mr. Rohatyn says, "that if the city had done in June what it finally did in August and September, it could have come into the markets in October. It was a long shot, but there was a chance of doing it." On the other hand, according to Mr. Kaufman, the author of the book on city government, the temporizing may have been worth it because it meant "the hard decisions were put into the hands of a group not subject to the same political pressures as the mayor."

In any case, many analysts say the constant crisis atmosphere has hurt the city and will continue to hurt it in the future. For one thing, both the city and the State of New York are going to be socked with millions of dollars of additional annual interest payments on the bonds whose interest rates have soared to nearly 10% during the recent upheavals. The city also has lost about $2 million in revenue simply by giving a discount to businessmen to induce them to pay $33 million in advance real estate taxes.

In the longer term, the city will be paying for its "crisis management" in ways that will make New York harder to govern and more difficult to do business in. The mayor's power has been eroded in a city which is supposed to have what is called a "strong mayor" form of government, and considerable controversy is likely to surround efforts to get the "political house back in order," according to mayoral adviser Raymond Horton.

Layoffs made under the pressure to demonstrate overt improvements (and to dramatize the city's suffering) were made mostly among line workers instead of back office bureaucrats. Young, aggressive policemen on the department's "decoy squad," to cite a small example, were the first to go because of seniority considerations, despite their excellent conviction records. "They killed the guys doing the best work," says Bert Marks, president of the City Club, a watchdog group.

In the same vein, the freeze on wages for middle-level employes has already begun to increase the "brain drain" of the city's best talent to private pursuits. Manhattan District Attorney Robert Morgenthau says the defection of many assistant district attorneys makes cases harder to try, increases jail costs and also increases crime. "If we can't make people feel reasonably safe," he says, "a lot of them are going to move." And that won't do the city's economy any good.

During the crisis, the city is being forced to drop nearly $600 million in capital projects, which will put more people out of work and limit revenues. It shelved plans to build a big convention center, which was supposed to draw business into the city. It imposed a bond transfer tax and increased the stock transfer tax, which has already prompted two securities firms to plan moves to Jersey City. It increased the transit fare to 50 cents, a move considered likely to reduce ridership on buses and subways and to make it harder for the poorest people to get to their jobs.

As something of a final irony, some experts say the city's crisis will ultimately draw the federal government more deeply into the city's affairs—just the opposite of what President Ford seemed to be saying yesterday.

"It's impossible to finance a large inner city with the resources of the inner city alone," says Edward Hamilton, the city's deputy mayor under John Lindsay. "It's a fiction that the city must learn to live within its means." Mr. Kaufman says the federal government is sure to get deeply involved, particularly in efforts to create a form of regional government for the New York area. "I don't think the feds will be able to stay out of urban finances," he says, "no matter how hard they try."

"Look at all the people who live on flood plains," he goes on. "It's the same as New York. They don't have to live there; it's damn foolishness. But whenever it rains, they can count on the federal government to come in and, literally, bail them out."

The Wall Street Journal, 10/30/75

End of the Line?

Ford's Proposal Means Almost Certain Default For New York City

For Big and Small Investors, Payment Delays Likely; More Service Cuts Seen

A Kansan Takes It Calmly

A WALL STREET JOURNAL *News Roundup*

Bankruptcy became an almost certain prospect for the nation's largest city yesterday as President Ford dashed New York's desperate hope for a federal financial bailout and offered instead a plan for going broke without chaos.

The President's decision to slam the door on a congressional bailout, to accept the uncertain risks involved in a New York default, and to offer a plan for a court-controlled bankruptcy suddenly plunges the city toward the fate it has fought so hard to avoid. This apparently final stand by the White House means that time has almost expired on New York City: When its cash runs out, probably next month, the city almost certainly will default on its debts and become a ward of a bankruptcy judge.

"This city will default," said Brenton W. Harries, president of Standard & Poor's Corp., an investment advisory firm that rates the credit-worthiness of governmental units. Turning grimly away from a small television set in his office after listening to the President's harshly worded prescription, Mr. Harries said, "The city has no cash available and no opportunity to raise cash."

"Deeply Concerned"

"The President's speech closed the possibility of avoiding default," agreed Arthur Levitt, the New York State comptroller. "I'm deeply concerned about the future."

From now until next Jan. 30, the city will have a cash shortage of about $1 billion, even if it doesn't make any payments on debt coming due. In mid-November, the city needs $150 million, and there isn't any source in sight for it.

A default on these debts, state and city officials have warned, would threaten the financial standing of the state itself and possibly other governmental borrowers. New York Gov. Hugh Carey reiterated such fears yesterday, saying the impact of default on other areas would be "far grimmer than Mr. Ford's complacent words suggest."

But the specifics of what kind of ripple effects a default would have—and, for that matter, what kind of city New York would be under bankruptcy—can't be forecast with any certainty. Cities have gone bankrupt before in this country—and have eventually recovered after slashing city services, delaying debt payments and halting capital spending for schools, hospitals and other needs, but never on the scale of New York.

Despite the unknowable consequences of default, the President said for the first time yesterday that he would veto any pre-default rescue plan for the city. Instead, he proposed an alternative—a bankruptcy plan. (For details, see story on page 3.) The proposal would aim at assurance that, after default, the city would continue to provide minimum essential services, such as police and fire protection.

What would actually happen, nobody knows. But it seemed all but certain that there would be further cutbacks in some city services—the specifics and the extent of which would be determined later. A key problem might be what is considered an "essential" service. All of this, of course, would mean further reductions in city payrolls. It was also possible that default could lead to abrogation of some labor contracts, including large pension beneifts to retired city employes. And for banks and other holders of city debt—both large and small—the President's plan would almost certainly mean long delays in payments.

Meanwhile, New York City's champions in Congress will keep trying to pass some pre-default rescue legislation. But their task, never easy, has become next to impossible now that Mr. Ford has promised to veto any bailout.

Senate Prospects Doubtful

In the Senate, the banking committee will press ahead today with a plan for $4 billion of federal loan guarantees—a plan aimed at averting default. Chairman William Proxmire of Wisconsin said it is "likely" there are enough votes to send the bill to the full Senate. As for the bill's ultimate fate, however, Mr. Proxmire acknowledged in an interview: "I think it will be extremely hard for us to pass it, and overriding a veto would be much, much harder. That doesn't happen very often."

In the House, Majority Leader Thomas O'Neill of Massachusetts conceded that there isn't any chance of getting the two-thirds majority needed to override a veto. "No, definitely no," Rep. O'Neill told reporters.

On the other hand, prospects for Mr. Ford's proposed change in the bankruptcy law look fairly good. As it happens, judiciary subcommittees in both houses have been engaged in a leisurely study of changes in all federal bankruptcy laws, not just those applying to municipalities. In the Senate, Chairman Quentin Burdick of North Dakota responded quickly to Mr. Ford's speech by scheduling a hearing for tomorrow by his Judiciary subcommittee on the presidential bankruptcy plan "so that congressional action can get under way immediately."

Javits Supports Revision

Even proponents of a loan guarantee for New York have been saying that the bankruptcy law for cities should be changed. Sen. Jacob Javits, a New York Republican, while bitterly critical of Mr. Ford's rejection of a loan guarantee, said he would support a bankruptcy-law revision. "Somewhere along the road we may need it," he said.

The full meaning of the prospect of default is unclear. The President is gambling that the financial and economic fallout from default won't ripple across the U.S. or

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End of the Line? Proposal by President Ford Appears To Mean an Almost Certain Default by New York City

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across the world, as pro-bailout forces warn. Reactions to the President's stand will have important bearing on the ultimate outcome. New York City and State officials could alter, for good or ill, the shape of the problem by their actions or inactions between now and D-Day. The uncertain reaction of stock and bond markets, private investors and even foreign governments could affect the outcome.

Despite these uncertainties, the President emphasized the possibility of an "orderly" way out of the city's dilemma in outlining his proposal yesterday. Condemning "fear mongering" by New York City and State officials, bankers and others who have warned of "catastrophe" in event of default, the President asked Congress to pass quickly a new federal bankruptcy law that would keep the city functioning under protection of a court while it rearranges its finances.

Bondholder Suits Barred

The new law—which Congress would have to pass in a hurry—would put the city government in the hands of a federal district judge who would oversee a restructuring of the city's debts, determine how it spends incoming tax revenues and make sure that essential city services are maintained. Bondholders and others would be barred from suing to tie up the city's funds while a new debt-repayment plan is worked out. The court, under the Ford plan, could help the city raise new money by authorizing it to sell debt certificates that would have first call on incoming revenues.

While some embattled New Yorkers welcomed the Ford proposal as offering an orderly means of working out the city's financial problems, none expected the process to be less than painful. Whatever the final shape of a court-ordered plan, it is considered likely to involve long delays in payment of city debts to banks and small investors alike, further cutbacks in payrolls and city services on top of those already made and possibly increased taxes.

Beyond the boundaries of the city, however, the consequences of a municipal default on an unprecedented scale are still far from clear. For months, as the city sank deeper into its fiscal morass, government officials and business people have hotly argued over the possible "ripple effects" of such a default on the nation's financial institutions and markets, especially the market for state and local debt securities. The question is whether a New York default can be isolated or whether investor confidence will be destroyed for even credit-worthy borrowers.

On the whole, investor reaction in the markets yesterday was calm, although prices of most securities declined. Trading volume on the New York Stock Exchange, for example, was lighter than Tuesday. The Dow Jones industrial average yesterday fell 12.83 points to 838.63 at the close.

Sell-Off in Tax-Exempts

There was a sharp sell-off in the tax-exempt bond market, causing the price of a typical $1,000 state or city bond to be slashed by about $25. Dealers noted, however, that a panicky atmosphere didn't materialize and also that a technical price adjustment could have been expected anyway in view of the impressive $66 rise by a typical bond over the past three weeks.

"At a time when bond professionals are concerned with the consequences of this recent price rally and expectations regarding its duration, they are being told by politicians that the municipal market is on the verge of disaster and disorganization," John Nuveen & Co. commented in advance of the President's speech. Certainly, circumstances may change, but today's market activity argues strongly in favor of a localization of the New York problem, and against any further significant, especially durable, national impact resulting from default," the bond firm added.

Nor do many dealers see much substance to the widespread belief that a New York City default automatically will prevent other local governments from raising capital in the public bond market. Indeed, Bank of New York remarked that enthusiastic retail receptions to recent new tax-free obligations of several New York State issuers, "including Syracuse, Rochester, Niagara Falls and Onondaga County, show that buyers have overcome their almost universal fear of New York issues and will buy them on a selective basis."

Bond dealers reported steady and calm trading after President Ford's speech. In fact, firms west of the Alleghenies seemed little concerned with the city's immense fiscal problems.

"Hell, it's no disaster out here if they default," one Kansas bond dealer acknowledged. "We sell Kansas bonds to Kansas bankers, and they don't give a damn what New York City does."

Prices of U.S. Treasury securities rose, partly because investors were selling municipals and looking for a safer haven for their money. Corporate bond prices also rose in what one dealer described as a "surprisingly calm" market.

In foreign countries, the dollar lost ground against other currencies. Foreign exchange dealers and foreign government officials fret that a shock to the U.S. financial system is likely to impede the nation's developing economic recovery.

Effect on U.S. Banking System

Aside from its impact on markets, there are fears that a New York default will threaten the nation's banking system. It is estimated, for example, that New York City banks alone hold $1 billion in face amount of New York City securities in their own portfolios. Marking them down to a realistic value in the event of a default would be a severe drain on bank earnings.

The Wall Street Journal, 10/30/75

Ford Vows to Veto Rescue Plan for New York City, Urging Legislation to Allow an 'Orderly' Bankruptcy

He Outlines Way to Keep Vital Services Operating After Probable Default

By JAMES P. GANNON
Staff Reporter of THE WALL STREET JOURNAL

WASHINGTON—With a vow to veto any "bailout" of New York, President Ford urged Congress to pave the way for an "orderly," court-controlled bankruptcy by the financially desperate city.

In a speech bristling with condemnation for the city's political and financial leaders, Mr. Ford stiffened his resistance to any federal financial rescue of the city and outlined an alternate proposal designed to keep New York functioning after a near-certain default on its debts.

The President's speech yesterday to the National Press Club practically foreclosed the possibility that the federal government will prevent the city from becoming insolvent, probably next month. Mr. Ford declared that "I am prepared to veto any bill that has as its purpose a federal bailout of New York City to prevent a default," a promise designed to cover the key loan-guarantee proposals being drafted in Congress.

Legislative leaders agreed it would be nearly impossible to enact financial aid for New York over a presidential veto, though efforts to pass such a measure are likely to continue. At the same time, lawmakers appeared ready to go to work quickly on Mr. Ford's bankruptcy proposal.

Providing a federal guarantee to enable New York to borrow more money wouldn't be a solution to the city's problems but a "mirage," Mr. Ford said. "By giving a federal guarantee we would be reducing rather than increasing the prospect that the city's budget will ever be balanced," he asserted.

"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 possible," the President stated. In harsh language, he charged that "a few desperate New York officials and bankers" are trying to panic the Congress into a loan guarantee by forecasting "catastrophe" if New York City defaults.

'Chapter 16' Proposed

To provide an alternative to federal aid, Mr. Ford proposed legislation modifying federal bankruptcy laws to give the federal courts "sufficient authority to preside over an orderly reorganization of New York City's financial affairs, should that become necessary." Mr. Ford didn't flatly predict default, but White House officials conceded New York's chances of avoiding it have almost disappeared.

The President proposed a new Chapter 16 of the federal Bankruptcy Act, under which New York could file for bankruptcy. Under the Ford plan, the city would declare itself unable to pay its bills and propose to the court a plan for reorganizing its debts, including possibly scaling down the amount owed, stretching out the maturity dates and lowering the interest rate to be paid. Such a plan would be subject to approval by the U.S. judge overseeing the bankruptcy case.

The bankruptcy procedure would automatically prevent creditors from suing the city for immediate payment. Mr. Ford said this stay of any suits would provide "a breathing space for an orderly plan to be developed" to restructure the city's debts.

"While New York City works out a compromise with its creditors," Mr. Ford explained, "the essential government functions of the city would continue." The President pledged that the federal government would assure continuation of police and fire protection, emergency medical care and other such services after a default.

"In the event of default," he said, "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."

Vagueness on U.S. Aid

The President was deliberately vague on how the federal government would "work with the court" to maintain city services. He declined, in response to a question after his speech, to specify the "means or method" of doing that.

At the White House, an aide to the President said that the post-default maintenance of city services possibly could involve use of federal funds, but that isn't the White House's design. "We don't expect that federal revenues will be needed," L. William Seidman, an economic aide to Mr. Ford, told newsmen. "We don't foresee that possibility, but we don't totally preclude it," he added.

Mr. Seidman said the precise actions the federal government might take to maintain city services are necessarily "vague," because much would depend on the judgments of the Bankruptcy Court and actions by the city or state in cutting other expenses or raising taxes to pay for services.

The White House aide also declined to specify which city services would be considered "essential" after a default. Mr. Ford cited police and fire protection as essential, but Mr. Seidman wasn't willing to say that operation of the public schools or payment of welfare benefits would merit that designation.

To meet the city's short-term cash needs, the President said, the court under his proposal would be able to authorize the city to borrow money by selling debt certificates that would "be paid out of future revenues ahead of other creditors."

New York officials have estimated that, even if they stop paying interest and principal on the debt, the city's expenses will run about $1.2 billion higher than its expected income during the period from December through March. This cash gap could be narrowed significantly, White House officials suggested, if the city chopped some nonessential spending and raised taxes, and then the court-authorized debt certificates could cover any remaining gap.

Asked why any investors would buy such bankruptcy bonds when almost nobody is willing to invest in New York debt securities now, White House officials said that the notes would be salable because they would have first call on any incoming revenue.

The President said his plan will "do three essential things": prevent city funds from being tied up by lawsuits after default, provide the conditions "for an orderly plan to be developed for payments to New York's creditors over the long term" and "provide a way for new borrowing to be secured by pledging future revenues."

The President stressed that his proposal wouldn't solve New York's fundamental financial woes, though it is designed to force city and state officials to take politically unpopular steps to do so. "Some hard measures must be taken" by those officials, Mr. Ford said. "They must either increase revenues or cut expenditures or devise some combination that will bring them to a sound financial position," he said.

His plan would mean "some temporary inconveniences" to New Yorkers, the President said, but he called those inevitable. "For the financial community," he added, "the default may bring some temporary difficulties but the repercussions shouldn't be large or long-lasting."

Citing what he called "fear-mongering" that a default by New York would trigger a national financial crisis, Mr. Ford lashed out at "the blatant attempt in some quarters to frighten the American people and their representatives in Congress into panicky support of patently bad policy," meaning a loan-guarantee bailout bill. "We have heard enough scare talk," he said.

New York's problems stem from "bad financial management," the President charged, citing a tripling of the city budget in the past decade. He criticized New York's high public-employe wages and pensions, free college tuition, city-run hospital system and other spending programs as factors in the city's financial bind.

The "primary beneficiaries" of any bail-out of New York "would be the New York officials who would thus escape responsibility for their past follies," Mr. Ford charged. The "secondary beneficiaries" would be large investors and banks who bought city bonds expecting a high, tax-free return, he added. The President's tough talk publicly articulated what some Ford administration officials had been saying privately—that a financial rescue of New York would only bail out city politicians and bankers, who got the city into its present fix to begin with.

Until yesterday, congressional advocates of a loan guarantee for New York had pinned their hopes on Mr. Ford's previous refusal to say flatly that he would veto such a proposal. Yesterday's speech dashed those hopes, but momentum may carry a loan-guarantee bill forward for a while longer.

Senate Panel to Meet

The Senate Banking Committee had scheduled a final vote for today on a plan for $4 billion in federal loan guarantees to help the city stave off default. That meeting will go ahead as planned, said Chairman William Proxmire (D., Wis.), despite the difficulties sponsors face with a Senate filibuster and the high hurdle of overriding a veto.

Mr. Ford's speech is sure to strengthen the resolve of conservative Senators in both parties who had planned a filibuster to prevent a Senate vote on the loan-guarantee bill. Sen. Proxmire would need the votes of 60 Senators to defeat the filibuster. Now the President has put Mr. Proxmire on notice that he will ultimately need 67 votes, if all Senators are present, to override a veto of any bailout bill that clears Congress.

Nevertheless, Sen. Proxmire isn't giving up yet. "Once New York City has gone bankrupt," said the Senator in a blast at Mr. Ford's plan, "she will be unable to borrow in the private market for years to come." He predicted that "the President's bankruptcy solution" will cost the federal government more money in the long run than a loan guarantee that heads off default.

Sen. Proxmire admitted that "it will be extremely hard" to pass a loan-guarantee bill "and overriding a veto would be much, much harder." House Majority Leader Thomas O'Neill (D., Mas.) said there isn't any chance the House would muster the two-thirds majority needed to override a veto. "No, definitely No," he told reporters. Still, House Democrats appeared determined to plow ahead with a bill to stave off default, if only to pin the blame more clearly on the President for any distress that might follow.

Rep. Thomas Ashley (D., Ohio), chairman of a House Banking subcommittee working on a loan-guarantee bill, predicted that both his panel and the full committee would approve the legislaton, perhaps this week. But Mr. Ashley said a New York default "appears to be certain" and forecast that the federal government will have to provide billions of dollars in aid to keep city services going.

Quick Action in Congress

Committees in both houses of Congress had been working on revisions in federal bankruptcy laws, and Mr. Ford's proposal may get quick action.

In the Senate, a judiciary subcommittee scheduled a hearing for tomorrow on the President's plan. In the House, a Judiciary subcommittee already has completed hearings on revisions in the bankruptcy law as applied to cities; a committee source said only two or three days would be required to draft a bill. Subcommittee Chairman, Don Edwards (D., Calif.), however, said his panel would wait to see how the loan-guarantee legislation fares before drafting a bankruptcy bill. He said the subcommittee could act quickly because there is bipartisan agreement on the matter.

Ford's Plan

Under the legislation proposed by President Ford, any city with a population over one million would be eligible to file for relief under federal bankruptcy law, provided that the action first was authorized by the state.

In New York's case, a petition would have to be filed in federal court in New York City. It would have to state, among other things, that the city was "insolvent or

Please Turn to Page 22, Column 1

Veto of Rescue Plan For New York City Is Pledged by Ford

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unable to pay its debts as they mature" and that it wanted to carry out a plan for either partial payment of creditors or extension of the maturities on its debt. The city would have to submit lists of outstanding claims against it and "to the extent practicable" names of persons who might be hurt by the plan.

The court couldn't accept jurisdiction unless the petition was accompanied by a "good faith" debt-repayment plan that the city certified was "in its view fair, equitable, feasible and not unfairly discriminatory in favor of any creditor or class of creditors." In addition, the city would have to provide current and projected revenue and expenditure figures showing that its budget would be in balance "within a reasonable time after adoption of the plan." The proposed legislation doesn't define "reasonable time."

Once the petition was filed, the Ford proposal provides that those with claims against the city couldn't enforce them except as permitted by the court. Creditors, as they were identified, would be notified of the proposed plan by the court clerk at the city's expense.

Creditors would have 90 days to accept or reject the payment plan or any proposed modification and they could act in person or by authorizing attorneys or committees to represent them.

Of the creditors voting, those holding two-thirds of the amount owed each class "materially and adversely affected" would have to favor acceptance before the court could confirm a debt-repayment plan. Holders of preferential claims, such as those secured by pledges of property or revenue, would be in separate classes from those with ordinary claims.

Finally, following a hearing on the plan, the judge could clear it if he found, among other things, that it was feasible and equitable and that it appeared the city would meet the goal of a balanced budget "within a reasonable time."

The President's bill specifies that a debt-repayment plan could include provisions "modifying or altering the right of creditors generally, or of any class of them, secured or unsecured" through such methods as issuance of new securities "of any character."

While a bankruptcy plan was pending, the court could authorize the city to issue new debt "under such terms and conditions and with such security and priority in payment over existing obligations as the court may approve," according to the administration bill.

All creditors would be bound by a confirmed plan, even if they had objected to it. If a plan required surrender of securities as a condition to participation, creditors would have five years to take such action. Any money or property unclaimed at the end of that time would revert to the city.

However, the bank regulatory authorities have agreed that such markdowns don't have to be made until six months following a default—after the dust settles. And the Federal Reserve Board has repeatedly said it stands ready to make loans to individual banks that run into financial trouble because of such markdowns.

Reaction to the Ford proposal by the city's union leaders was relatively calm. For example, Victor Gotbaum, head of the municipal employes' union, ruled out a strike unless city workers aren't paid because they aren't considered in the "essential-services" class. In that case, he said, they will walk off their jobs.

"I see a phasing-out of $1 billion of costs in welfare, medicaid, correction and higher education," he said.

Mr. Gotbaum and some other city leaders said they still see a chance of avoiding default, but they concede it is remote. Plans are under way, the union leader said, to involve the city, the state, the banks and the unions in a coordinated effort to put New York on a sound financial footing.

Similarly, Walter B. Wriston, chairman of First National City Bank, said: "I think there is still a possibility of avoiding default if there is a catalyst to bring together all the parties involved. The President's statement may increase pressure to put together a plan."

Mr. Wriston conceded that such a plan is "problematical," and he described the Ford proposal as "an intelligent thing to do" as an alternative. The Bankruptcy Act amendment, he said, "will give an orderly way of making a financial transition."

Abrogating Contracts

Bankruptcy would also provide another element that some analysts see as crucial to the city's future financial health—that is, according to some legal specialists, it would permit the court to abrogate existing contracts. And this, it is argued, would permit the restructuring of pension programs that provide large benefits to retired city employes—benefits so costly that they may not be covered by existing pension funds.

"The pension funds are broke, and the union leaders know it," one analyst says. Under a federal court order, he argues, the union leaders can go to their membership with the bad news and still have a chance of being reelected to office—something they couldn't do on their own.

Among the key questions still unresolved is whether the "prior-lien" debt certificates to finance city services, as proposed by Mr. Ford, could be sold. "If you change the indentures on existing debt obligations, who is to say the indenture on new 'debt certificates' won't be changed six months later," one securities analyst asked. "I suspect the Federal Reserve Bank of New York would be the major buyer."

Abrogation of prior bond contracts—or labor-union contracts, for that matter—would undoubtedly be challenged in court. The legal tangle could go on for years, analysts say, but in the meantime the city would be operating under a court-order plan.

The Chance of Chaos

What kind of city would it be? In the frantic months leading up to the current disarray, there have been predictions of social chaos as welfare recipients failed to get their checks, police and firemen were laid off, and schools were closed. There have been threats, now withdrawn, of a general strike by the city's unionized employes. Bondholders, many of them small investors, would be betrayed as solemn repayment commitments were cast aside.

This could happen, some analysts say, but it doesn't have to. For one thing, the Ford program makes an obvious effort to avert social unrest by providing for maintenance of essential services. Also, the city, currently under the control of an emergency state agency, already has tightened its finances considerably without major upheavals.

The payroll has been cut to 263,000 people by a reduction of 31,000 jobs since last January. The subway fare was raised to 50 cents from 35 cents. Seven schools have been closed, and 13 more will be. The tuition-free city university—a particular source of resentment outside New York—has had its budget cut by $60 million.

All new construction contracts have been eliminated from the capital budget for the next three years. Real-estate taxes have been increased and new taxes imposed. (New York state and local taxes represent 15.8% of the citizens' personal income, compared to 11.5% nationally.)

More of this is coming, default or no default. The city budget, which now is controlled by the state Emergency Financial Control Board, calls for cutbacks in expenditures over this fiscal year and the following two of $725 million. The current budget is being cut $200 million to about $12.1 billion.

Detroit as an Example

The plan proposed by President Ford for managing the city bears a close resemblance to the state plan, already operating, under which these cutbacks are being made. Thus, the city in bankruptcy might not differ too much from the city in a sort of state-administered receivership.

Such receiverships have worked in the past. Bond analysts say no local governmental body has ever failed to pay off general-obligation bonds, despite bankruptcy, although the holders had to wait for their money.

Detroit provides an example of how this can be done. In the 1920s the city boomed, riding the coattails of the burgeoning automobile industry and soaring real-estate prices. But with the coming of the Depression, the city was in trouble.

The city slashed its operating budget, fired hundreds of employes, cut services and reduced salaries. For a while, salaries were paid only in scrip.

Even so, the city went into default Feb. 14, 1933. The city administration and a bondholders' committee declared a moratorium on debt payments and agreed to a refunding plan. The refunding plan cost Detroit several million dollars in fees and $125 million in added interest costs.

But, according to the Advisory Commission on Intergovernmental Relations in Washington, "the refunding plan worked out even better than could have been expected," and the city eventually paid off all its back debts.

The New York Post, 10/29/75

City Unions Press Ford to Save Jobs

By Joseph Berger
N. Y. Post Correspondent

WASHINGTON — The New York police and fire unions, angered by the treatment they have received from Gov. Carey and Mayor Beame during the city's fiscal crisis, have decided to flex their political muscles to halt future layoffs and even restore some already dismissed men to their jobs.

The first fruits of the new strategy were evidenced yesterday afternoon when President Ford met with Patrolmen's Benevolent Assn. president Ken McFeeley, Uniformed Firefighters Assn. president Michael Maye, and the heads of unions representing detectives, correction officers, transit patrolmen and other smaller protective forces.

The unions came away with a promise, apparently worked out before the meeting, that the federal government will make sure that police, fire and other essential services are maintained, default or not.

Ford directed all executive agencies to unravel red tape on any funds already allocated to New York.

There was even an optimistic statement by McFeeley indicating that the President would try to bring back some of the 3000 policemen fired so far.

The meeting, arranged by Sen. Buckley (RC-N.Y.), had been requested by the unions.

The discussion with the President ostensibly concerned itself with the city's fiscal crisis. But behind the formal remarks were some hard political facts that had been presented to Buckley and Ford's political advisers by the PBA and the other unions.

McFeeley, Maye and the nine other union heads represent 70,000 workers. When retired members of the unions and the relatives and friends of those

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City Unions Press Ford on Jobs

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working and retired are counted in, the 70,000 figure, according to PBA calculations, mushrooms into two million voters particularly interested in policies affecting cops, firemen and other protective services.

These 2 million votes, a close observer remarked sarcastically, "would go to Bella Abzug if she could save the jobs of police and firemen." The observer stressed that the union leaders had not necessarily promised Ford their votes but that they were warning New York's Democratic leaders of the political consequences of further layoffs.

The union leaders have urged Ford not to "write the city off politically" for his future election campaigns, the observer said.

The PBA has formed a council on political education modeled on a highly successful political lobby organized by teacher union president Albert Shanker. The PBA plans to feed data collected from its men and from members of other unions into a computer and tell each Assemblyman, Senator, Councilman, Representative and other elected officials how many "public-safety votes" he has in his district.

McFeeley, Maye and the other union leaders banded together several months ago as the Council for Public Safety to represent their members when their interests clash with those of other municipal unions.

Gotbaum's Role

The members of the CPS all belong to the Municipal Labor Committee, headed by Victor Gotbaum of District Council 37 of the American Federation of State, County and Municipal Employes.

The CPS leadership feels that its unions have been punished during the fiscal crisis for failing to support either Carey or Beame during their respective elections. At the same time, the CPS leaders say, unions that supported Beame and Carey have been given favored treatment.

The CPS leaders point out that while the municipal work force grew by some 100,000 employes over the last decade, relatively few cops and firemen were added. But when the wave of layoffs began last June, the ranks of cops and firemen were cut in the same proportions as other unions.

The CPS leaders argue that the city should have fired meter maids and other traffic control employes before firing any cops, since the police force once performed those duties. Instead, the CPS argues, the city kept its meter maids, contending that they earn revenue for the city. The PBA feels the same revenue could be earned by its men.

Finally, they point out that their men have had pension plans that allow for 20-year retirements since the 1930s because of the dangerous nature of their jobs. In recent years these generous pension plans have been extended to other municipal unions despite the fact that the original logic for lucrative pensions did not apply to those unions.

The CPS leaders are angry that recent statements calling for renegotiated pension plans as the price for federal assistance have included their unions as well.

Barry Feinstein, head of Teamsters Local 237 and a supporter of Carey and Beame, described the CPS charge of political motivation behind the layoffs as "nonsensical."

"I've lost over a 1000 people," said Feinstein, who represents 15,000 municipal employes in a wide range of jobs. "I got hurt worse than the police. Vic Gotbaum lost 14,500 [of 108,000] people. That's the reward you get for having supported Carey and Beame."

Associated Press Wirephoto

SEN. JAMES BUCKLEY

A message from Ford?

"We never said we agreed with the Mayor's philosophy of across-the-board cuts," Feinstein continued. "On the other hand, we don't think you should only cut people outside the police, fire and sanitationmen's union."

Feinstein also contended that there were unions that had not supported the Mayor which suffered few layoffs ure of the jobs they repre- because of the essential nat- sented.

McFeeley indicated that politics was a factor in his grievance when he told reporters on the White House lawn: "The President agrees that the layoffs were being done for political reasons."

He added, "People outside the city now realize that people running the city have been screwing up." The White House refused to comment on McFeeley's characterization of Ford's opinion.

The President, McFeeley said, did not identify any specific funds that might be tapped to rehire dismissed police and firemen. But McFeeley said he felt the money that could be used included funds earmarked under the Law Enforcement Assistance Act, the Safe Streets Act and the Comprehensive Employment Training Act.

The President, he said, believed that "bringing back 3000 men was a goal that ought to be accomplished."

Buckley, who also spoke to reporters on the lawn, disclosed that Ford, despite the Administration's public denials, believes that the city will default.

"Everyone understands the city can't avoid default," Buckley said. "There is an understanding that there is not enough cash coming in if you include debt obligations, interest and principal."

Buckley's cryptic qualification apparently indicates that Ford believes the city, with some federal help, can continue its essential services, but may have to restructure its debt, extending payment periods and reducing interest on city bonds.

Congress, City Wait For Ford

By DAVID ROSENTHAL
N. Y. Post Correspondent

WASHINGTON—The city and Congress today are waiting to learn the fine points of President Ford's speech on New York's fiscal crisis in hopes that confusion over the Administration's policy on Congressianol action will be cleared up.

Ford's address, before the National Press Club here, is almost certain to have an important impact on Congress' troubled efforts to provide some form of assistance to New York.

While the President has steadfastly opposed any federal intervention, there have been conflicting reports on whether he would in fact veto aid legislation should it gain Congressional approval.

Although Ford is expected to propose a revision in the federal bankruptcy laws today, it is unclear if his plan would also entail the granting of some U. S. loans to the city to provide it with cash to pay for essential services after a default.

The influence of Ford's remarks on Congress takes on an important new dimension as the time available for federal action seems to grow shorter. Municipal Assistance Corp. officials in New York are now saying a default is possible as early as the second week of November.

Of particular concern to some proponents of city aid is that Ford's speech could effectively foreclose hopes that some Republican lawmakers might support a plan which would avoid a city default through the granting of federal loan guarantees. It is generally believed that without some GOP backing chances of Congressional approval would be very slim.

"It may reinforce their feelings somewhat," said Sen. William Proxmire (D-Wis.) of the potential effects of Ford's speech on Republicans, most of whom so far have opposed U. S. aid.

Asked whether chances for Senate passage would be

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City & Congress Wait to Hear Ford

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hurt by Ford's position, Proxmire replied, "The prospects haven't been good all along."

Proxmire is chairman of the Senate Banking Committee, which is considering a loan guarantee plan for the city that is conditional upon a restructuring of large amounts of debt held by investors, especially large banks and institutions. The plan was presented by Sen. Adlai Stevenson 3d (D-Ill.), who said through a spokesman that despite Ford's bankruptcy approach he would almost certainly stick to his program.

The committee yesterday postponed a vote on the Stevenson measure largely because of a desire to evaluate the President's remarks.

One Banking Committee member, Sen. Harrison Williams (D-N. J.) said there is "a probability" that the President is prepared to announce a program which would "put us through the torture of bankruptcy after a default." Williams, asked whether Ford's proposal would effect GOP Senators, said, "I would say so."

Considered a key element to the impact of Ford's speech today is whether he proposes, along with the bankruptcy provision, some other measure that would take care of the city's essential services in a default.

While Ford reportedly told city labor leaders yesterday his plan would insure that vital services were not disrupted, it was left unclear whether these functions would be maintained through loans or merely by a bankruptcy reorganization which would permit the city to stop debt payments.

Controller Golding says week warned the Banking Committee that even should the city stop all debt service payments, it would still be short of funds to take care of vital services.

According to one Senate aide, Ford's speech today could sway some Senators who are still undecided on what form of assistance the federal government should provide to the city.

"If Ford proposes some type of loans besides a bankruptcy, and a willingness to have the government come in after a default, it might swing some votes over to 'Option Two'," said the Senate aide.

Option Two is an alternative plan by the Banking Committee staff that would "contain" a default by granting indirect loans to the city for services while making federal loan guarantees available to localities whose credit worthiness may be threatened by the fallout of a New York collapse.

Some Republicans have already indicated they would prefer a plan similar to this.

"Default would have the result of enforcing the strongest possible discipline," said Sen. John Tower (R-Tex.), the committee's ranking minority member. And Sen. James Buckley (RC-N. Y.) announced yesterday he would introduce legislation—apparently similar to Ford's proposal — which would amend the bankruptcy laws to deal with a city default.

Under existing federal bankruptcy law, a municipality can declare bankruptcy under a section known as Chapter IX. But Chapter IX is considered impractical for the city's purposes because it requires that 51 per cent of all creditors agree to an initial bankruptcy plan and that two-thirds of them concur with a final court-imposed arrangement.

City officials have been unable—and say it would be almost impossible—to identify or locate all of New York's creditors.

Some Senate aides charged that Ford chose today to make his announcement in an effort to hinder or block action by the Banking Committee.

While it had appeared near certain that a loan guarantee measure could have been narrowly approved yesterday, word of Ford's announcement precipitated a delay, while creating further uncertainties in what has already been an unpredictable situation in the committee's stance on federal intervention.

"What everyone wanted to know was whether Ford is going to say 'This is my plan and I'll veto anything else,'" said a Senate Banking Committee aide; "If that's the case it's much more difficult perhaps."

One White House aide, while denying that Ford's timing was designed to stall committee action, acknowledged, "There was a desire to have our thoughts included in any legislation."

The Administration's announcement that a substantive Ford position on New York would be forthcoming seemed to catch the Banking Committee Democrats by surprise.

Some Senate sources saw Ford's move as an effort to protect himself politically from Democrats on the increasingly volatil issue of New York assistance.

"With the President putting up a program," said a source, "he can always veto something passed by the Senate and say he did it since it was contrary to his own plan. But if he didn't have anything on the table, it's difficult for him to justify a veto when he hasn't offered anything of his own."

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New York Times,
10/30/75

. . . Presidential Piety

Although it was not clear that President Ford had a firm grip on just how his plan to sweep up after a default would actually work, he displayed a firm grasp of his own particular vision of sin and sinners. The President's rigid and punitive moralism pierced several secondary targets—cities generally, profligate urban officials, doomsayers and welfare cheats among them—before hitting the principal source of his dismay, which is adequate funding for public programs designed to improve American society by meeting urgent human needs.

Beyond announcing that New York has to swallow bitter medicine because it has been bad, the President was in effect making a ringing and heartfelt reaffirmation of the fact that he has declared war on the country's most generous public impulses. The speech was of a piece with his vetoes of health, education and child nutrition measures and his continuing war against the food stamp program. In his peroration, Mr. Ford warned that providing more benefits and services than the nation can afford would bring on a day of reckoning in Washington and asked: "When that day of reckoning comes, who will bail out the United States of America?"

What the President is really doing is waging an intense and dishonest battle on the issue of national priorities. While his Defense Secretary bemoans "savage" cuts which would pare his budget down to a mere $90.2 billion for next year, the President is busy warning that spending money on social needs is the quickest way to perdition and setting New York up as the horrible proof of his assertions. In a society strained by economic inequality and not yet recovered from a major recession which has left millions still jobless, the President's comments ring with a quaint McKinleyesque authenticity. For once, he read a speech as though he really believed it.

A rational debate on how to allocate the limited resources available for urgent national needs is both fair and necessary. Mr. Ford, however, is employing emotionalism and thinly disguised antiurban bigotry to help him withdraw funds directed at those places where the nation's social fabric is stretched thinnest and where acute suffering could well grow to cause severe social disintegration.

There is no question that funds available to meet those problems are not unlimited. But it is also beyond question that failure to face up to those problems will not only continue to devalue the quality of life for everyone in this society, but could also bring on a different kind of day of reckoning that Mr. Ford now has in mind. If that day should ever come, it is doubtful that the President would find his simple pieties very helpful.

Presidential Default...

New York Times,
10/30/75

Like a bemused stranger from another place and time, President Ford yesterday addressed the contemporary crisis in urban America's largest city in terms of the political and economic dogmas of an 18th-century rural confederacy.

Mr. Ford's "fair and sensible" plan for purging New York of its fiscal sins and restoring the city to solvency is neither sensible nor fair. It does not begin to offer solutions to the city's complex problems, let alone to the deeper national urban crisis of which New York's acute budgetary disorder is merely a symptom.

The President's pietistic lecture on the city's ills and his prescription for dealing with them are based on a number of fundamental fallacies which his Administration has been promoting for weeks:

- New York's situation is unique and the city's collapse would have no serious repercussions on other cities which "simply have been better managed." As we have often noted, New York's elected officials certainly have helped precipitate the city's present predicament through political chicanery and fiscal mismanagement. But to reiterate that truism is no service now. Congress, and presumably the White House, have heard the testimony of Mayors from across the country indicating that they too are struggling with many of the problems that have pushed New York to the brink. But, as New York is the largest city, the magnitude of its crisis is obviously larger and less tractable than any other city's—and the effects on the nation correspondingly more profound and far-reaching.
- New York's default would have no lasting effects on financial institutions or the national economy. There is an accumulating weight of expert testimony to the contrary—enough, in our view, to convince any prudent person that the President is taking unacceptable risks with the fate of the nation in dismissing this indeterminate question so cavalierly. The fragile interdependence of a modern industrial society cannot be brushed aside with slogans from an agrarian past.
- Default could still be averted through local efforts by city and state officials who have "abandoned" New York on Washington's doorstep. That is an ignorant insult to New Yorkers, of both parties and from many walks of life, who have performed superhuman feats of rescue and reform, to keep the city afloat through the agonizing months of recurring crises.
- The Federal Government has no business intervening on behalf of a troubled city, a concept of federalism that has no constitutional validity and which has been repeatedly belied by Federal interventions on behalf of distressed communities, corporations, interest groups and even foreign countries.
- The President's plan for a court-managed default could sustain the essential life of this city with only "temporary inconvenience" to its citizens and at no cost to the Federal Government. If it would work at all, which is doubtful, Mr. Ford's vaguely defined scheme would in fact result in a far higher cost to the Federal taxpayer and a much deeper and more enduring Federal involvement in the affairs of the city than any of the so-called "bailout" plans that are gestating in Congress. Contrary to the President's assertion, all of those plans involve tough restrictions that would compel New York or any other endangered city to put its fiscal house in order as a condition for aid.

The difference between the Ford plan and those being advanced by concerned members of Congress is that Congress is seeking a way to help the city help itself back to fiscal health. The President indulges in moralistic posturing from his shaky pulpit, as he recklessly waits for the city to founder, dragging state and nation in its train.

Baltimore Sun,
10/30/75

THE SUN

A16 BALTIMORE, THURSDAY, OCTOBER 30, 1975

WILLIAM F. SCHMICK, JR., Publisher • PAUL A. BANKER, Managing Editor • J.R.L. STERNE, Editorial Page Editor

Sad Tidings for Fun City

President Ford is quite prepared to have New York city default on billions in municipal bonds held not only by big financial institutions but by many Americans of modest means. He is quite willing to have federal bankruptcy laws amended on an *ex post facto* basis not to ward off the insolvency of the nation's largest city but to facilitate it. He is quite ready to place existing creditors at a distinct disadvantage to purchasers of new "debt certificates" who would have first claim on the city's revenues under his bankruptcy-law revisions.

Very well. Then let the President of the United States set an example by being the first to buy one of these "debt certificates." Because if he does not, or his federal government does not, there is reason to doubt there will be many other takers. New York state tried to prevent the Big Apple's insolvency this summer by issuing so-called Big MAC bonds with a first call on the state's sales tax revenues. Yet the value of those bonds has fallen. Now, if a federal court were to authorize new "debt certificates," potential buyers would be sure to know that over the next three months the city faces an operating deficit of $1.2 billion. So where would the money come from to amortize these certificates?

We suspect it would have to come from the very Ford administration that refuses any "bailout" in the form of federal loan guarantees on New York's current indebtedness. We suspect, but we are not sure. When the President was asked at the National Press Club to specify whether the federal government would provide cash or guarantees or troops to maintain the city's essential services, his answer was as follows: "I can only say that the federal government will work with the courts. I do not want to prescribe precisely the means or methods but I can say that in working with the courts after the refusal of local and state people to assume their responsibility this federal government will see to it that essential services are maintained."

The President's non-answer is worth quoting because it goes to the fiscal nub of the "calm, rational" approach he espoused after attacking the "desperate New York officials and bankers" trying to "stampede" the American people. Senator Mike Mansfield, who comes from Montana rather than Manhattan, had an interesting reaction. He expressed concern that the Ford plan might finally confirm the "domino theory," meaning that would-be investors in municipal bonds elsewhere in the country might turn wary if new bankruptcy laws would permit a defaulting city to put new creditors ahead of them on the say-so of a federal court.

It may well be that revisions of the bankruptcy statutes are in order to bring the law closer to the financial realities with which cities and states have to deal. But this need not prevent Congress from drafting federal loan guarantee legislation to guide and goad New York out of its fiscal quagmire. Mr. Ford has vowed he will veto loan guarantees no matter how severely they force New York to end its profligacy. But if Congress can find a way to combine such guarantees with needed amendments to municipal bankruptcy laws, the President in the end may have to accept a flexible rather than a vindictive approach to New York city's problems.

Washington Post,
10/30/75

Rowland Evans and Robert Novak

Ford Peels the Big Apple

The week before his National Press Club speech yesterday, President Ford—astonished by fierce antagonism throughout the nation against any federal bail-out of New York City—has passed this private word to top officials: no federal help until after the city defaults.

"I can tell you now," Mr. Ford said yesterday, "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."

Such hard-nosed obduracy may cast Jerry Ford in the role of Ebenezer Scrooge. But from the standpoint of practical politics, it puts him four-square both with his own party and the vast majority of American voters.

Indeed, Mr. Ford took pains to telephone Vice President Nelson Rockefeller ten days ago with friendly advice. Reading in Hobart Rowen's interview with Rockefeller in The Washington Post that the Vice President predicted "catastrophe" if the Big Apple had to default, the President gently admonished Rockefeller not to make things "more confusing."

Some high administration officials say that Rockefeller has pulled back from his electrifying break with the President. In his speech in Indianapolis last week, Rockefeller appeared to temporize (saying he "completely agreed" with Mr. Ford that the city has to put its financial house in order before it gets help).

But that leaves unchanged the fundamental difference between President and Vice President.

Rockefeller wants the city to prove its future solvency by budget cuts before the December bond default deadline, then receive massive federal aid in the form of bond guarantees to avoid default.

The President's hardened position is exactly the opposite: Only default can make federal aid politically saleable. Any federal life-saving operations before default, he now feels, would be perceived across the country as a bail-out for rich bankers who hold almost 50 per cent of all tax-exempt municipal securities in the nation and, hence, would be the first to reap the harvest of federal intervention.

Evidence to support this is flowing into the White House. For example:

Item: A poll of 1972 Republican National Convention delegates from western states, commissioned by the Western Conference of Republican Governors, came out 255 to 12 against federal aid to New York City.

Item: The bail-out issue has begun to dominate the regular nightly telephone polls taken by Albert Sindlinger's polling organization. At this writing, Sindlinger shows national anti-bail-out sentiment of more than 4 to 1 (and even in New York state, a pro-bail-out ratio of only 3 to 1.)

Item: An offhand remark leaning toward federal bail-out by Sen. Lloyd Bentsen, running both for the Democratic presidential nomination and Senate reelection from Texas, unleashed withering anti-Bentsen political fire at home. The strong pro-bail-out statements of the most popular politician in Texas, John B. Connally, have subjected him to hostile editorial attack. One well-informed Texas politician tells us: "New York bail-out is now the hottest single issue in this state."

Perhaps most telling is the way an anguished Congress, almost 2 to 1 Democratic, is pulling back from the sulfurous bail-out question.

The President's legislative experts a month ago were worrying over what Mr. Ford should do not if but when Congress sent him a bail-out bill. Today, thanks to the natural force of politics, pre-default aid in any form looks unlikely with only five weeks before the city's cash flow makes bond redemption impossible.

If the President sticks to his present course, there will be a clear winner inside his administration: Secretary of the Treasury William Simon, arch-critic of any federal aid before default.

Yet, no mood of triumph dominates the Treasury, where there is understanding of troubling questions that cannot be fully answered until after default. For example: with New York bankers predicting financial chaos if default occurs, would the country react in a psychological frenzy, rushing to redeem gilt-edged municipals in other cities and states and even making runs on local banks?

Simon's economic experts claim the evidence is to the contrary. A Maryland tax-exempt bond issue, for example, sold quickly last week at a comparatively low 5.27 per cent. The market in municipals generally has been good, undercutting the fear campaign of the New York bankers.

Moreover, Treasury men are confident of their post-default plan: a quick cash flow in the form of a federal loan to meet current bills.

Then, with the U.S. Treasury riding herd on the city's return to fiscal solvency and with the default itself acting as the catalyst for essential peeling of runaway costs (including city pensioners), New York City will be forced into a retrenchment that might be impossible under a pre-default bail-out.

Sticking to this plan over the next five weeks will not be easy. But given the hardened new mood in the Oval Office, there is no doubt the effort will be made.

Washington Post, 10/30/75

"Can You Folks Hear Me Back in Grand Rapids?"

Baltimore Sun, 10/30/75

Joseph Kraft

Ford Must Admit His Part in New York City's Troubles

Washington.

President Ford has come up with a plan for New York that would put the city under the stigma of bankruptcy and punish all New Yorkers except the forces of law and order, whose pay would be guaranteed. In assessing that plan, thoughtful people will want to set apart those who are to blame for the city's trouble from those who are not.

Only such distinctions can yield just opinions as to whether the federal government has a special responsibility to help the city Only by separating the bad guys from the rest, moreover, can it be fairly established who should be made to pay the price for the city's difficulties.

One of the big, bad guys, it turns out on inspection, is precisely the federal government.

The deep recession, which flows from poor management of the economy by the Ford administration, has had a devastating impact on New York city. It has raised unemployment and held down income in ways which cut the city's tax take while increasing its expenses for welfare and other services such as free hospital care.

To be sure, other cities have also suffered from the recession. But for two reasons New York has been hit hardest. It has heavier service charges which thus go up more in a recession; and its revenues, being dependent chiefly on income and sales levies, go down more than those of most cities which rely mainly on property taxes.

So even apart from what bad effects a default in New York might have on the rest of the country and the world, Washington has an undoubted involvement in the city's plight.

Far more directly involved in the city's sickness are the recent municipal administrations. Mayors beginning with Robert Wagner and continuing through John V. Lindsay and Abraham D. Beame undertook to sponsor welfare, medical, education and transportation services the city could not afford. They bought labor peace with outrageous giveaways (particularly in the matter of pensions) to the municipal unions.

Worse still, they covered up their profligacy with accounting devices tricky to the point of fraud. Large amounts of operating costs, which yield no return, were regularly included under the heading of capital expenses which supposedly pay for themselves over time.

There was also consistent and reckless overstatement of the moneys the city would get from the state and federal government to cover their share of various projects.

But the budgetary frauds were not perpetrated by the various city administrations in isolation. There were other parties.

New York state, for one thing, kept tacitly approving the city budget. So did the major New York banks by buying bonds.

What all this says to me is that punishment for the crimes of New York ought to be fairly widespread. Clearly, New York city officials have to pay heavily. It is only right that fiscal authority over the city has, in effect, already been taken away from the mayor.

New York state also has to pay. A pledging of the state's credit, and the making available of state funds, is a minimal sacrifice.

The beneficiaries of the city's improvident generosity cannot escape, either. Charges have to go up for education, transportation and medical care. The pension system, which puts the city in hock to municipal employees forever, will also have to be redesigned.

Neither can the bankers, who defaulted on their responsibilities, get off unscathed. Senator Adlai E. Stevenson 3d (R., Ill.) is right in asserting that the city debt should be restructured so that the big banks are repaid at lower interest rates and only after more pressing operational claims are met.

This suggests to me that a just bail-out plan for New York could have been developed in Congress. President Ford, I believe, made his move in order to preempt congressional action and gather unto himself the political benefit of stamping on New York city.

The New York Daily News, 10/30/75

President's 'Straight Talk' Is Full of Holes

Washington, Oct. 29 (News Bureau)—President Ford's "straight talk" plan for meeting New York City's continuing fiscal crisis contained several glaring holes—and neither Ford, in a brief question period after the speech today, nor top White House officials were able to provide any answers.

The unanswered questions included:

- What "essential services" are to be maintained in New York City, and where is the money to come from to pay for them?
- What assurances does a bankrupt New York City have that anyone will buy the "debt certificates" issued under the sanction of the federal courts?
- What happens to New York state?

The first concerned the President's pledge that "essential public services" must be maintained in New York. Nowhere in the speech — except for a mention of policemen on the beat, firemen in the station house and nurses in the emergency ward — did he define

services nor did he say that federal money would be committed for that purpose.

Indeed, by singling out the sanitationmen as examples of high-paid city workers, the President left the impression he did not regard them as "essential." White House officials briefing

An Analysis

reporters said this was not the case, but when asked about the schools they were evasive.

Finally, when pressed, L. William Seidman, Ford's economic coordinator, said that the President did not believe the schools were essential.

Seidman also made it clear that Ford did not expect to commit any federal money for New York's "essential services," beyond wringing a few more dollars out of already existing programs operated by the Law Enforcement Assistance Administration and other federal agencies.

Under the Ford plan, after the city goes into bankruptcy, the federal courts would assume jurisdiction and there would be an "automatic" stay of suits by creditors. The constitutionality of such a stay — which essentially abrogates contracts solemnly entered into by the city — is doubtful at best.

After the stay, "in order to meet the short-term needs of New York City, the court would be empowered to authorize debt certificates," under the Ford plan. These certificates would covers "new loans" to the city which would be paid off out of future revenues, ahead of other creditors.

But who would buy such certificates? The basic rule — in life, as on Wall Street — is "once bitten, twice shy." Following the "prudent man" rule cited by Sate Controller Arthur Levitt for not investing more pension funds in Big Mac bonds, banks and other institutions could be violating their fiduciary obligations to entrust their clients' money to a bankrupt.

And finally, what about New York state? Ford made no mention of the state's problems, even though Gov. Carey and other officials have warned that because of Albany's deep involvement in save-the-city plans, the state could default even before the city.

In the modern history of the nation, no state has ever defaulted, although Tennessee came close during the Depression in a highway-bond scandal. Technically, a state may be able simply to cancel its debts. As the President pointed out in his speech, under the Constitution, 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."

In addition, Ford said, "the states also relinquished certain sovereign powers to federal government — some altogether and some to be shared." The Civil War proved that the states cannot take back these powers unilaterally. But one unsolved Constitutional question, whether Congress can pass legislation permitting a state to declare bankruptcy, was left hanging.

The New York Daily News, 10/30/75

He's President of All the People Except New York

By JAMES WIEGHART

Washington, Oct. 29—Under the guise of delivering some "straight talk" on New York City's fiscal crisis in a speech before the National Press Club today, President Ford consigned New York City to bankruptcy.

Ford's promise to veto any constructive legislation designed to help the city avoid default virtually ruled out the possibility of congressional passage of any of the half-dozen or so bills now under consideration in the House and Senate Banking committees.

The President, with 25 years in the House under his belt, was well aware of this, of course. Instead, he unveiled as the alternative to saving the city from the uncertainties, dangers and humiliation of default, his proposal to amend the federal bankruptcy law so as to make the onerous plunge into insolvency more orderly, if not more painless.

The President vowed that the federal government would assure that "police, fire and other essential services" would be maintained in the event of default, but his proposal contained no provision to back up that promise and his top economic adviser, William

CAPITOL STUFF

Seidman, concerned that Ford did not commit the federal government to spend a penny for that purpose.

Ford's speech and his proposal were essentially political documents, directed not at the 8 million concerned and worried New Yorkers who stand to suffer the as yet unknown repercussions of their city's fiscal collapse, but at the other 206 million Americans who live elsewhere.

There was no attempt by Ford to discuss seriously the deep-rooted problems of the cities which contributed so much to New York's current dilemma. Instead, he used the occasion to blast away sometimes erroneously at easy targets — bumbling officials, highly paid workers, overgenerous municipal employe pensions, and tuition-free university education — in a blatant effort to cash in politically on the various anti-New York biases that exist in many parts of the country.

In a blatant distortion, Ford dismissed as federal "bailouts" pending congressional measures to provide emergency aid to New York, ignoring the fact that all of them are punitive in form, requiring the city to balance its budget within two or three years by raising taxes and cutting expenditures, and that the federal government would actually make money from the federal loan guarantees by charging New York a "premium" for the service.

Then, speaking on behalf of the rest of the American people, Ford asked: "Why ... 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?"

Ford also pooh-poohed as "scare talk" concerns that have been voiced by New York officials, bankers, and even some members of his own administration, that a New York default could have a serious national economic impact. "The default may bring some temporary difficulties, but the repercussions should not be large or long-lasting," he said.

Aside from attempting to convince concerned Americans that they need feel no guilt over standing idly by while the nation's greatest city confronts economic collapse alone, and pandering to the latent biases that many rural small town and suburban Americans harbor against the big cities, Ford did nothing and said nothing today to ease the New York fiscal crisis.

It was not presidential performance, but the performance of a shrewd politician determined to wring the maximum political advantage out of a volatile national issue as he heads into next year's election campaign.

FORD'S STAB IN THE BACK

President Gerald Ford made it abundantly clear yesterday that the White House wants no part of any constructive effort to help New York City avoid default.

President Ford

Indeed, the President seems to feel that we ought to welcome insolvency as a healthy, purifying atonement for all our past fiscal sins of omission and commission.

With that in mind, Mr. Ford proposes to "aid" the city by having Congress adopt a municipal bankruptcy law. He argues that it would afford New York breathing room for refunding its debts while maintaining essential services.

This totally negative approach was accompanied by a great deal of solemn sermonizing on the city's abysmal record for waste, extravagance and financial finagling, the lushness of its welfare-state programs, the exorbitant salaries and pensions it has granted civil servants.

This recital of wrongdoing was nothing less than a stab in the back of a great city — an act of cheap politics that plays recklessly on anti-New York sentiment across the nation.

To further fan such feelings, Mr. Ford resorted to—

GROSS DISTORTIONS

—in describing the proposals for federal assistance that have been offered. According to the chief executive, we are seeking a straight handout from the government so that New York can continue on its merry, spendthrift way with the rest of the country picking up the tab.

No responsible person who has recommended loan guarantees or other forms of federal help has ever suggested that the city be given a free ride. On the contrary, the pleas have been coupled with demands that the city be required to make stringent economies, and to repay within a reasonable time any money Washington had to pay out..

Mr. Ford also chose to ignore, in a statement given in a national forum, the—

REAL AND EARNEST EFFORTS

—that the city and state have made to cope with our fiscal crisis.

Not a word did he mention about the Municipal Assistance Corp., the Emergency Financial Control Board, accounting reforms, pay freezes, program cutbacks and the dismissal of thousands of police, firemen and other public employes.

Surely, in fairness to New York, Mr. Ford ought to have informed the millions of Americans unfamiliar with day-by-day developments here about those painful measures that have been adopted.

But it appears that Mr. Ford has not the slightest interest in being fair or helpful to New York.

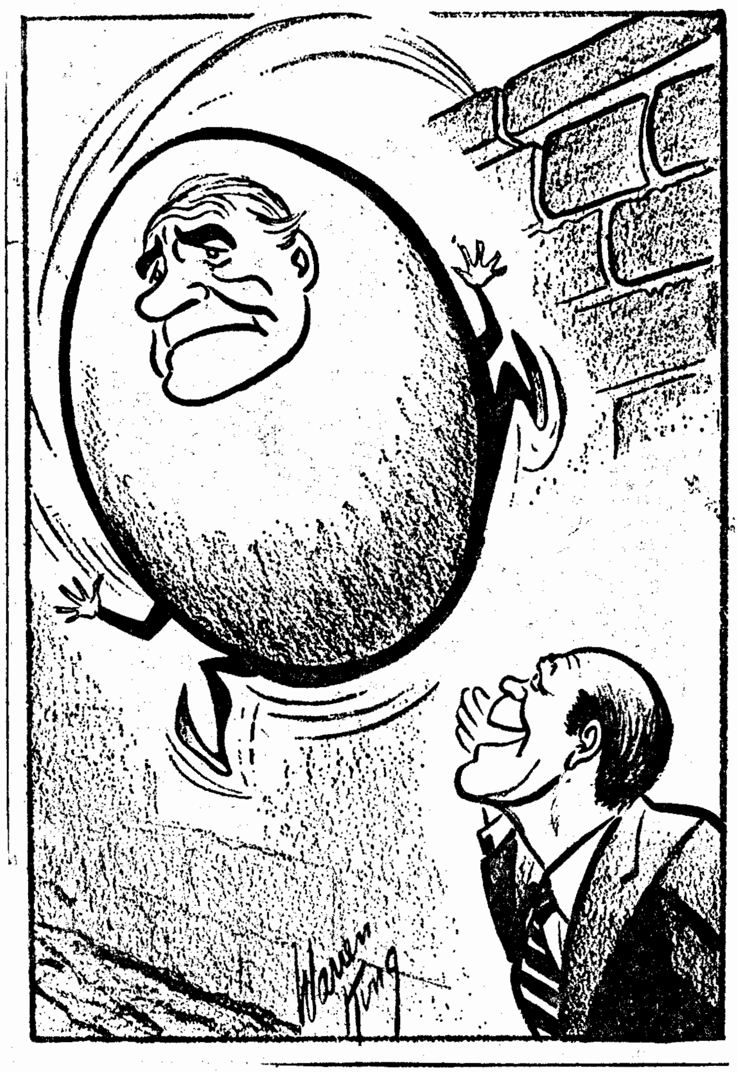
Instead, he has offered a "solution" which would be ruinous to New York, and which many hard-headed financial experts—including some within the President's close circle of advisers — believe would send damaging shock waves through the entire national economy.

The New York Daily News,

10/30/75

The New York Daily News, 10/30/75

SO WHO CARES?



The Christian Science Monitor, 10/30/75

'We haven't got a rope, but here's a life jacket'

The Dutch Uncle President

President Ford's Dutch uncle lecture to past and present managers of New York's finances yesterday was highly appropriate; anyone who thinks it was political opportunism should reexamine the issue. (The President's speech is excerpted elsewhere on this page.)

The refusal of the President, and the unwillingness of much of Congress to give New York a federal bailout loan or loan guarantee is not based in rednecked prejudice. Washington has been more than generous to New York over the last decade—that's one root of the city's problems.

Rather, the President's invitation to New York to commit voluntary bankruptcy—and his proposals for removing some of the legal stickerbushes on that path—is the only rational stance. And while he displayed a marked animus towards those who have mismanaged the city, that does not imply an animus towards the people of New York.

However, the President's warning that there is no painless cure for the city's problems should be taken to heart by all the people of New York, particularly its middle class. There is no prospect that New York can balance its budget without a drastic and painful reorganization.

It must restore its tax base by removing rent controls and eliminating tax forgiveness on large parcels of middle class housing. A moratorium on debt service that would be likely under bankruptcy would afflict middle and upper income holders of the city's securities. The reorganization will have to restructure debt to reduce short-term obligations.

And the city's vast work force will be hit by further job reductions and a pressing need to rewrite the city's pension contracts. Erosion of the tax base, the heavy burden of short-term debt and unreasonably generous salaries and pension benefits are the key to the city's budget problems. If you total up the constituency that will be affected by an effective reorganization on these three fronts you have the answer to why New York city and state politicians have not dealt with reorganization themselves.

None of these measures would necessarily cast further burdens on the poor. The claims that the city got into its mess through compassion are mainly nonsense. It got into the mess mainly through self-indulgence.

The reasons the President cited for not bailing out the city are based on fundamental principles of major importance. It is important that cities remain, legally, creatures of the states, and not become wards of the federal government. Washington already is too much tempted to inflate the currency to cover debts. Americans are paying a 10% inflation tax on top of all their other taxes because of that tendency. To give the cities access to the federal money machine would invite the kind of currency inflation that can wreck a modern industrial economy.

There is a moral issue as well. The managers of New York's finances have been guilty of practices that would land a private businessman in jail. They have concealed extensive dipping into borrowed capital to meet current expenses. They have claimed fictitious backing for securities. The only way to restore standards for good conduct in government is to condemn this sort of thing, as the President did.

The strong adherence to moral and economic fundamentals in the President's address is salutary. He promised to veto any federal loan guarantee that might get through Congress. He faced up to Mayor Beame's predictions of catastrophes that would result from bankruptcy. He is willing to let banks and other investors suffer for their bad judgments. Interestingly enough, financial markets did not collapse on this show of spirit. The Dow Jones Industrials improved slightly just before the speech and slipped back later, but not badly. Industrial bonds were firm. Treasury bill interest rates declined. There was some selling of municipals. None of this should be surprising. Any securities markets jitters were balanced against the tonic effect of getting something more than lip service to sound economic principles from Washington.

If New York defaults in mid-November the President's proposed new Chapter 16 for the federal bankruptcy law, assuming it passes Congress, will set up procedures to avoid an explosion of creditor litigation. It will put reorganization in the hands of a federal judge. But that does not mean there would be no further problems ahead. The political process won't have ended. There will still be resistance from city and state politicians to some of the more painful steps towards reorganization. There could be strife among municipal employes. It remains to be seen whether the city could sell short-term financing certificates, even under court supervision.

But for the moment, the President has adopted the only proper stance. The Dutch uncle lecture was overdue, not only for New York but for the entire country.

The Wall Street Journal, 10/30/75

The Christian Science Monitor, 10/30/75

Readers write

On New York woes

I have been deeply disturbed to find the editors of the Monitor — a paper which I have long admired — leading the public, and being led, up the same garden path trod by the mass of mass media in relation to the controversy over New York City's financial woes.

You rightly point out that a number of conditions beyond the control of the city administration are contributing to the economic problems of municipal government. But you completely ignore, as do the others, the decisive fact that there are even more contributing conditions which are completely under the control of municipal government.

The fiscal crises of the cities must be related to the extravagant labor contracts negotiated with city workers, including pension plans beyond the wildest dreams of the ordinary working citizen, and these facts in turn must be related to the kickbacks which political parties regularly expect and get from these municipal workers in the form of contributions of time and money — often in violation of local or state law, and always in conflict with the public interest and the intent of civil service and merit hiring systems.

The fiscal crises of the cities must be related also to the cost overruns commonly permitted on contracts where the low bidder was a political crony who was assured that his real recompense would come in exorbitant payment, suitably divided up, for change orders on which there is no bidding.

There are the gaping wounds in the body politic in comparison with which the conditions beyond control are only scratches. It is corruption and cronyism, inefficiency and waste, which have bled away the financial resources of the cities. Dishonest and incompetent leaders who live by the spoils system, public looters rather than public servants, must carry the blame for the crisis — not some impersonal set of conditions beyond control.

I hope you will give some attention to the ways and means of redressing the grievances turned up, by bringing these crimes to light and by exposing the ways in which the corrupt have tried to preserve their power by perverting the local elections processes.

Philadelphia — Donald Barnhouse

Saving gas

Stewart Dill McBride's article on the home sewage unit called clivus multrum sounded like an important step toward productive waste disposal. However, it does not go far enough.

As I understand it, the odorless gas which is allowed to escape would be methane gas, which has proven to be an excellent gas for fuel. From what I understand, the poisonous chemicals of this gas can be removed by a very inexpensive filtering process.

Then not only would we be saving fresh water and producing nutrient-rich fertilizer, but we would be heating our homes as well, thereby saving precious fuel.

San Antonio — Rebecca Sears

Letters are welcome. Only a selection can be published and none individually acknowledged. All are subject to condensation.