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NOVEMBER 19, 1975

## Office of the White House Press Secretary

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THE WHITE HOUSE

## STATEMENT BY THE PRESIDENT

I am gratified that the leaders of New York appear to have accepted primary responsibility for solving the financial problems of the City and are proceeding in the direction of a long-term solution in accordance with the State Constitution and laws. I am impressed with the seriousness of their intentions as described by Governor Carey in his letter to Secretary Simon and await further concrete actions by the State and the other parties concerned.

The bail-out bill now before the House of Representatives is irrelevant because it does not address the current situation and I would veto it.

I am convinced that if New York continues to move toward fiscal responsibility, all parties concerned can look forward to a satisfactory resolution despite the current obstacles.

If they continue to make progress, I will review the situation early next week to see if any legislation is appropriate at the Federal level.

In the meantime, should New York leaders fail to implement their intentions, New York City could still be forced into legal default. Therefore, I am asking the Congress once again to enact special amendments to the Federal bankruptcy laws which would ensure that such a default, if it occurs, would be orderly.

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(OPTIONAL PARAGRAPH - see attached sheet)

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OPTION # 1

Until this is done, it would be inappropriate to discuss methods to ensure New York City's essential services prior to default.

OPTION # 2

After this is done, it would be appropriate to consider any remaining seasonal financing needs to maintain New York City's essential services.

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Mayor Robert F. Wagner, who, in his last budget message, in 1965, declared: "I do not propose to permit our fiscal problems to set the limits of our commitments to meet the essential needs of the people of the city."

Consistent with that curious fiscal philosophy, New York City persisted in an ambitious—and compassionate—effort to care for those less fortunate by taxing those who could afford it. Today, 14 per cent of our citizens are on welfare. We support nineteen municipal hospitals, free tuition at the City University, open enrollment, day-care centers, foster homes—and we have an assortment of more than 25 different taxes. We have conducted a noble experiment in local socialism and income redistribution, one clear result of which has been to redistribute much of our tax base and many jobs out of the city.

The city's now overwhelming credit

estimate minutes, press releases, newspaper clips, state laws, books, and pamphlets. Then, when I had narrowed the choices, I did more interviewing.

In time, twenty critical decisions seemed to me to be the key events that let New York into financial ruin. The criterion for selection was not merely a "bad" or a "good" decision as such, but also those that opened the door for later abuse.

There are those who stress that New York is primarily the victim of social forces beyond its control. They will be disappointed in what they find here. Sure, there are general villains in plenty: the migration since World War II which brought 2 million blacks and Hispanics (largely poor) to the city and the departure of 2 million primarily white residents (largely middle income); the loss of one out of ten jobs in the last five years; inflation; taxes; racial polar-

If the principal actors who have guided our city's destiny these last several decades—Wagner, Rockefeller, Beame, Lindsay—seem the chief villains in this piece, it must be remembered that they could not have accomplished all they did without a supporting cast of state legislators, borough presidents, City Council members, and city comptrollers.

Add to this list promiscuous bankers, voracious labor leaders and their members, and—by no means least—the press, because it was too preoccupied with gossip, too lazy, or assumed its readers were too dumb or too bored to bother with detail. Finally, there is the press's audience, the public, which all too often lived down to the press's low expectations.

So, this is a story not only about what our "leaders" did—and how—but about what we did to ourselves.

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THE WHITE HOUSE  
WASHINGTON

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10/25/75.

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NEW YORK CITY

Events are now rushing to an apparent climax in the financial affairs of New York City. \_\_\_\_\_ days ago the city tottered on the brink of a default and was saved from that fate by an eleventh-hour decision of the teachers union.

The next day, Mayor Beame testified here in Washington that the financial resources of the city and of the State of New York were exhausted. Governor Carey agreed. It's now up to Washington, they said, and unless the Federal Government intervenes, New York City will no longer be able to pay its bills as of December 1.

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

As your President, I believe the time has come to state my position personally to the citizens of New York and to

those across the land:

-- To sort out fact from fiction in this terribly complex situation;

-- To say what solution will work and what should be cast aside;

-- And to tell all Americans how the problems of New York City relate to their own lives.

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

Some have said it was long-range economic factors such as the flight to the suburbs of the city's more affluent citizens, the migration to the city of poorer people, and the departure of industry.

Others have said that the big metropolitan city has become obsolescent, that decay and pollution have brought a deterioration in the quality of life, and that a downfall could not be prevented.

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

There is an old saying: "The harder you try, the luckier you are."

No city can expect to remain solvent if it allows its expenses to increase by \_\_\_% every year, while its revenues are increasing by only \_\_\_% a year. Yet the politicians of New York City have done precisely that for the past \_\_\_\_\_ years.

Consider what this has meant in specific terms:

-- Over the last decade and a half, the number of residents in New York City has actually declined, but the number of people on the city's payroll has increased by 50 percent.

-- One-third of the employees now on the city's public education staff teach not a single student. They have either clerical or administrative jobs.

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-- New York's municipal employees are generally the highest paid in the United States. A sanitation worker with three years experience now receives a base salary of \$15,000 a year; fringe benefits and retirement add 50 percent a year to the base. At the same time, a New York City subway coin changer receives a higher salary than a private bank clerk.

-- In most cities, city employees are required to pay 50 percent of the cost of their pension. New York City is the only major city in the country that doesn't charge its employees a penny.

-- Retirement for municipal employees in New York often comes at an early age, and the system has been rigged so that many retire at pensions higher than the salaries they have earned during most of their service.

-- New York City has built a surplus of hospitals, so many in fact that 25% of the hospital beds are regularly empty.

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-- New York City also operates one of the largest universities in the world, free of tuition for any high school graduate who wants to attend.

-- And for those on welfare, New York City now pays out 10 times as much per capita for benefits and assistance as any other major city in the country. (EPB to check facts)

I do not blame all the people of New York City for their generous motives or for their present plight. I do blame those who have misled the people of New York City about the inevitable consequences of what they have allowed to happen over the last 10 years.

The consequences are incontrovertible:

-- A steady stream of unbalanced budgets;

-- A tripling of the city's debt;

-- Extraordinary increases in public employee union contracts;

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-- And total disregard of their own independent experts who warned again and again that the city was courting disaster.

There can be no doubt where real responsibility lies. And when New York City now asks the rest of the country to pay its bills, it should be no surprise to its leaders that many Americans ask why. Why should they pay for advantages in New York that they have not been able to afford for their own communities? 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 big banks and other creditors? New York leader In my judgment, no ~~one~~ has yet given these questions a satisfactory answer.

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Instead, Americans are told that unless the rest of the country bails out New York, there will be certain catastrophe for the United States and perhaps for the world. There is no objective evidence to support that conclusion. It would be

more accurate to say that no one really knows precisely what would happen in our financial markets if New York defaults. It's a matter of which prophets one believes. Our own analysis within the Administration is that the financial markets have already made a substantial adjustment in anticipation of a possible default by New York City and that further disruptions would be minor and temporary. The current economic recovery of the whole Nation would not be seriously set back.

I can understand why some people disagree with this conclusion and would speak out about their reservations.

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They believe other prophets/~~the~~ ones whose earlier prophecies brought New York City to its present state.

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. I say the people of

this country will not be stampeded; they will not panic when a few desperate New York politicians and bankers try to scare the mortgage payments out of them.

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

(EPB to check Lockheed and Penn Central cases)

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

-- It must maintain essential services for the people of New York City. It must protect the innocent victims of this struggle. Those citizens must be assured that their governments, city, state and Federal, will not punish them for the fiscal sins of others.

-- Second, the solution must make absolutely certain that New York City can and will achieve and maintain a balanced

budget in the years ahead.

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

THE WHITE HOUSE  
WASHINGTON

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There are at least eight different proposals under consideration by the Congress to prevent default. They are all variations of one basic theme: that the Federal Government would guarantee the future bonds of New York City so that it could borrow additional money in the financial markets. The sponsors of these bills say that the guarantee would be short-term because New York City could be forced by Federal law to balance its books within three years.

I am fundamentally opposed to this purported solution, and I will tell you why.

Basically, it is a mirage. Once a Federal guarantee is given, there is no realistic way to expect that the city's budget need ever be balanced. New York City's politicians (of both parties?) have proved in the past that they are no match for the massive network of pressure groups they face.

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As long as "politics as usual" continues in New York -- as long as the present power coalition remains undisturbed -- there can be no serious hope that hard, tough decisions will be taken for long-term reform. Federal guarantees would change nothing in New York's power structure. Instead, they would inevitably lead to long-term Federal control over the city's affairs -- New York would become a colony of Washington -- or vice versa.

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

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Finally, we must all recognize who the primary beneficiaries of a Federal guarantee program would be. Not the vast majority of the people of New York City: the really essential public services must and will continue for them regardless of what happens. Not the vast majority people in other cities and states across the nation: a guarantee to New York City will not help them at all. No, those who will benefit the most are New York politicians who support/<sup>ed</sup> the spending spree and the investors who voluntarily put their money in New York City securities -- the big banks and other investors who anticipated a high rate of tax-free return.

I am a strong believer in the financial marketplace, a system through which institutions and people with extra money can freely invest their funds. They willingly take risks, and the higher the risk, the more earnings they/<sup>may</sup>~~can~~ get for their investment. That is as it should be. But everyone knows that sometimes risks turn sour. There must be losses as well

as gains in risk-taking. And when the risks do turn out to be bad, as in New York City, I do not believe that the Federal Government and all the taxpayers of this country should then make them good. To me, it is clear that those who made the free choice to invest their money in New York City should now bear the risk, not the 200,000,000 Americans who never made such a choice.

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

First, I propose that the leaders of New York face up to reality. Either they must take firm steps to avoid default, or they should prepare to accept the inevitable. They argue that they have run out of resources to help the city. I disagree. What they have run out of are alternatives that are politically easy. They can still take the tough but decisive step of raising their taxes. And if they do, they can save themselves from default.

There is no reason why citizens in the rest of the country should raise the money when it can still be done by the citizens of New York.

Second, I propose that the Federal Government act now so that if the leaders of New York permit a default, it will be orderly and limited in impact. A chaotic struggle among the City's creditors and even among its employees would seriously complicate the City's problems. Unfortunately, present Federal law is inadequate to deal with this problem. Therefore, I will tomorrow submit to the Congress special legislation providing the Federal Courts with sufficient authority to carry out an orderly reorganization of the City's financial affairs.

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

The Court will accept jurisdiction of the case and provide for an automatic stay of suits by creditors so that the essential functions of the City will not be disrupted. This stay, essentially an injunction, would continue until the proceeding is terminated. This will enable an orderly plan to be developed whereby the City can work out a composition with its creditors. This might take the form of payment in full but over a longer period of time, or it might involve payment for less than the full amount due the creditors.

While the City is working out a compromise with its creditors the essential governmental functions of the City would continue under the financial direction of the Court and the State financial control board.

The proposed legislation will include provision that as a condition of the City petitioning the Court, that the City must file a good faith plan which will not only provide for partial payment of its creditors but which will also establish

the fiscal affairs of the City on a sound basis within a reasonable period of time.

In order to meet the short term needs of the City the Court will be empowered to issue debt certificates covering new loans to the City which would be paid out of future tax revenues ahead of other creditors.

Thus, the legislation I am proposing will do three essential things. First, it will prevent, in the event of a default, all City funds from being tied up by lawsuits. Secondly, it will enable an orderly plan to be developed for partial payment of New York's creditors over the long term. Thirdly, it will enable some new borrowing secured on a priority basis by future tax revenues.

Let us not dilude ourselves that this proposed legislation will in and of itself put the affairs of New York City in order without the need for some hard measures to be taken by the officials of New York City and State. This must include

either increased revenues or expenditure cuts or some combination of both that will bring them to a sound financial position.

Our careful examination has indicated, however, that those measures are neither beyond the realm of possibility nor beyond the demands of reason. If they are taken, New York City will, with the assistance of the legislation I am proposing, be able to restore itself as a fully solvent operation within a reasonable period of time.

To summarize, the plan I am recommending tonight is this: if New York fails to act in its own behalf, there should be an orderly default supervised by a Federal Court. This plan will work. It will work because it is fair.

The ones who will be hurt by this plan will be those who are now fighting so hard to protect their power and their profits: New York politicians and the city's creditors. The creditors will not be wiped out; how much they will be

hurt will depend upon the future conduct of the City's politicians.

For the people of New York, this plan will mean that essential services will continue. There may be some temporary inconveniences, but that will be true of any solution that is adopted. For the financial community, the default may bring some temporary disorder but the repercussions will not be large or long-lasting. In fact, there is solid reason to believe that once the uncertainty of New York is ended, investors will begin returning to the markets and those markets will be sturdier. Finally, for the people of the United States, this plan means that they will not be

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asked to assume a burden that is not of their own making and should not become their responsibility. This is a fair and honorable way to proceed.

In conclusion, let us pause for a moment to consider what the New York City experience means for the United States.

Two weeks ago, I spoke to you about the choice I believe we face as a nation: the choice between continuing down a path of higher government spending, higher government deficits, and more inflation or taking a new direction by cutting our taxes and cutting the growth in government spending. Down one fork, I said, lies the wreckage of many great nations of the past. Down the other lies the opportunity for greater prosperity and greater freedom.

Tonight I think it is clear what path New York City chose. None of us can take any pleasure from this moment,

because the leaders of New York were in a very basic sense following the same practices they saw in Washington. The difference is that Washington owns printing presses and can always print more money to pay its bills. But ultimately the practice of living beyond your means catches up with a nation just as it catches up with a family or city. And for the citizens of that nation, the bill comes due either in the form of higher taxes or the harshest and most regressive tax of all, inflation.

All of us tonight care especially about the people of New York City: they have worked hard over the years to create one of the greatest centers of civilization. But as we work with them now to overcome their difficulties, let us never forget what led that city to the brink. , And let us resolve that these United States will never reach the same crisis.

Thank you and good evening.