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THE WHITE HOUSE
WASHINGTON

PRESIDENT'S BRIEFING BOOK
WITH COPIES OF THE ATTACHED
SENT TO JIM SHUMAN

11/12/75

POLITICS
(An Overview)

I inherited the Presidency at a time when the political system of the United States was going through one of its most severe tests in its 200 year history. Watergate and Vietnam put these strains on our system:

1. The American people experienced a loss of confidence in their political system, all other institutions, and the very future of the country.
2. The Republican Party was brought to its knees. Some observers did not think it would survive.
3. Many areas of government activity had been virtually neglected for almost two years. One result was to increase the stridency and demands of many of the interest groups in the country.
4. The elections of 1974 resulted in a massive turn-over in the Congress, which unsettled that body. This unsettled situation undercut Congressional leadership and caused the Congress to become an unpredictable, lurching mechanism.

In sum, the political environment required immediate first aid and steady attention if we were to come through the political crisis.

*I don't understand some politicians who
"Enter some & duck others"
People are sovereign / will enter but not necessarily
campaign in each.*

Given this situation, my first responsibility as President was to correct the problems in our political system. Several principles have guided my actions:

1. Conduct an open Presidency, which emphasizes numerous direct contacts with the American people and straight talk about the seriousness of the problems we face and about the realistic options we have to solve them.
2. Revive the Republican Party. I believe that a healthy two-party system is one of the most effective safeguards of our political system and of the basic freedoms of the people.
3. Reduce the level of expectations of the government's ability to solve every problem in our society. These expectations have outrun our ability to pay for them and to perform them efficiently from the federal level.
4. Put the government and its actions back into balance with the rest of society, and begin to address the important problems left untended in the previous two years.
5. Prevent the leaderless and unsettled Congress from imposing additional unworkable programs and demands on the American people. I have had to take decisive action to stop hasty and unthoughtful action by Congress, against

the noisy protests of special interests. That kind of decisiveness is right for the time.

The country, when I took office, did not need politics as usual. The times required and still require a very different approach. The best politics is those policies which properly fit the times. I believe I have followed such policies. As I stand for election, I am willing and anxious to be judged on my record.

I believe Americans who think as I do make up a large majority of this country's voters.

I have not allowed myself to be drawn into the political excitements of the moment, the daily utterances from would-be opponents or critics. I have every confidence that if I address the major political ills in the system, the small speculations that take up so much of Washington's day-to-day life are not important. They will not be important to the voters. I will be judged by my accomplishments.

I am not ^{going} to worry about interview polls. The only poll that really counts is the word of the people on election day.

THE WHITE HOUSE
WASHINGTON

November 8, 1975

MEMORANDUM FOR: THE PRESIDENT

FROM:

RON NESSEN

R N

Here are the editorials you requested, concerning New York City's failure to do all it can for itself to avoid default.

THE NEW YORK TIMES 11/5/75
Enough Self-Help?

"I believe that New York City can avoid default," President Ford asserted once more Monday night. "They can take stronger action than they have taken."

No informed person who has seriously examined New York's fiscal predicament can accept the President's first conclusion. The accumulation of deficits and debts is far too great to be absorbed by this city—or state—in one "cold turkey" dose of austerity.

New York must have some kind of outside aid in order to remain viable during a prolonged and painful period of readjustment. The only question is whether that aid should take the form of loan guarantees to help the city help itself, as provided in legislation that is advancing in both houses of Congress, or whether the Federal Government should wait to pick up the pieces of a bankrupt city at untold cost to the American taxpayer, as advocated by the President. We reiterate our belief that the former choice is clearly the better one, in the interests of the nation as well as state and city.

The fact remains that New York has not yet done all it could—and must—do to help itself. Consider the revised budget for the current fiscal year:

- Proposed expense budget spending totals \$12.1 billion—\$200 million more than last year's spending and \$1 billion more than was originally budgeted for the last fiscal year.

- Revenue estimates for the current year total \$11.1 billion, leaving a \$1-billion book deficit—substantially more than the \$724-million deficit that was supposed to have been reduced by a vaunted \$200 million in new budget cuts.

- Included in the revenue totals is \$104 million in "surplus" interest from pension funds that are notably underfunded. This is a repetition of the kind of gimmickry that, as we have often noted, helped reduce the city to its current condition. It cannot be accepted as responsible accounting by a city that claims to be working toward an honest budget balance.

- Also included in this year's anticipated revenues is approximately \$800 million in state aid advances and \$200 million in prepaid taxes which were received and spent last year. It is by no means certain that these advanced payments totaling \$1 billion will be repeated.

- Spending estimates do not include \$700 million in expense items that have been misplaced for years in the capital budget. Since the city cannot sell its bonds, there are no capital funds available for these items—nor for roughly \$1 billion in true capital spending which is still going forward.

Thus the city is in fact spending at a rate of approximately \$13.8 billion (\$12.1 plus \$.7, plus \$1.) for the current year against revenues that could be more realistically—if conservatively—estimated at \$10 billion (\$11.1 minus \$1 minus \$.104). The net addition to New York's already crushing burden of debt this year thus could run as high as \$3.8 billion.

The reforms and reductions that have been achieved so far have been dramatic and painful, as every New Yorker knows. But the city's actions still fall short of the demands imposed by its crisis. The prospects for aid, or for survival if aid is not forthcoming, could be significantly improved if City Hall and Albany moved at once to tailor the budget more realistically to meet contingencies that could worsen the city's already parlous condition.

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THE NEW YORK TIMES 11/7/75 Tottering Dominoes

Governor Carey's warning that four state agencies face "imminent default" underscores the danger of far wider repercussions if New York City is allowed to slip into bankruptcy.

The agencies in question—the Housing Finance Agency, the Medical Care Facilities Financing Authority, the Dormitory Authority and the Environmental Facilities Corporation—are financed through "moral obligation" bonds, unsupported by the full faith and credit of the state.

Nevertheless, they have all earned a high reputation for prudent management and have enjoyed good credit ratings. Their current inability to market their securities belies President Ford's fatuous assurances that the New York City situation will not affect the borrowing capacity of soundly run governmental units elsewhere.

Can anyone doubt that the failure of these reputable state agencies—which may even precede a city collapse—would have a profoundly depressing effect on the public credit crunch that is already being felt nationwide as a result of the city's crisis?

* * *

The predicament of the state agencies also points up an additional threat to the national economy that Federal officials cannot responsibly continue to ignore, try hard as they will. Default would mean abandonment of \$2.5 billion worth of construction projects, adding thousands of workers to unemployment rolls here and forcing cancellation of contracts to suppliers across the country.

The impact on a still uncertain recovery cannot be inconsequential, especially as other communities and states are compelled to curtail capital spending because of the high cost or unavailability of credit. The voters' rejection of \$5.87 billion in capital bond issues in a number of states earlier this week is surely a reaction to the New York situation.

* * *

In Albany, as in City Hall, the need for Federal help does not foreclose local responsibility to do more to correct local conditions that contribute to the crisis. Although the conduct of the state agencies that are currently threatened may be beyond reproach, it is a fact that state borrowing has expanded at an alarming rate since the introduction of the moral obligation device, tripling in ten years while the total debt of New York City merely doubled. A recent order from State Budget Director Peter Goldmark to defer the start of new construction is a regrettable but unavoidable step toward curbing that rash expansion and beginning to live within the state's diminishing means.

Furthermore, it is imperative that the Governor and the Legislature take action to close what the Senate Republican majority now admits is a deficit of at least \$383 million in the current state budget and which the Governor asserts is closer to \$700 million. Under present circumstances in state and city, a balanced budget is a fundamental precondition for re-establishment of credit and credibility.

THE SUNDAY VISIT

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REVIEW & OUTLOOK

New York Myths

After New York City's close brush with default Friday, Mayor Beame headed straight to Washington to plead with Congress for federal help. Since he continues his campaign in testimony today, there are a few points that listeners might keep in mind.

It's important to remember, for example, that the pain to the city comes from balancing its budget, whether it is forced to do this by default or by a federal law. Temporary federal help pending a balanced budget would be help not to the city but to the bondholders, and Saturday's testimony by New York bankers should be seen in that light.

Of course, what the city really wants is not temporary emergency help, but a permanent subsidy from the rest of the nation so that it can avoid balancing its budget and continue its old ways.

The argument for a permanent subsidy is quite explicit: The rest of the nation should subsidize New York because it bears the brunt of the national problems of race and poverty. The trouble with this contention is that it is built on a series of myths. New York is not an especially poor city. The racial migration has not made it poorer. It does not harbor a uniquely large proportion of the "welfare class." Its welfare payments are not the main cause of its budget deficits. Proposals to federalize welfare may have considerable merit, but New York's welfare problem does not give it a unique moral claim for federal help.

Median family income in New York City was \$9,682 in 1970, compared with \$9,867 nationwide. The city's median income was 60% higher than a decade earlier; while this was less than the 75% gain nationwide, it nonetheless represented a healthy increase. Similarly, the proportion of poverty families fell to 11.5% in 1970 from 15.2% in 1960; it was below the national average in both years. During the 1950s, when the bulk of the black migration actually took place, the decline in low-income families was even sharper.

The migrations undeniably did change the city's racial composition. In 1950 it was 10% black; in 1970, 21%, which is not at all high by the standards of other big cities. The median income for black families was \$8,107 in New York, compared to the national average of \$6,279. Other studies confirm that blacks came to New York to earn money, not to go on welfare, and that a good number of them have succeeded.

As for welfare, without question it is a serious problem for its demoralized clients and a large bur-

den for the budget. But New York is far from unique. According to the National Center for Social Statistics, 10.9% of New York's population receives Aid to Families with Dependent Children. This compares to 12.6% in Newark, 13.9% in Philadelphia, 14% in Washington, D.C., 14.5% in Baltimore and 15.8% in St. Louis.

In New York welfare payments pass through the city, where in most locations they are handled by counties or special welfare districts. More significantly, New York pays a share of the benefits out of its own tax funds while some other cities have been relieved of this responsibility by their states. But in 13 states a local jurisdiction still puts up its own tax money toward welfare. In one or two places, like Washington, D.C., this share is larger than it is in New York. Yet only New York is threatened with bankruptcy.

In any event, the importance of welfare in the city's budget is far less than first appears. Social services excluding Medicaid constitute \$2.4 billion, or nearly 20% of the current \$12 billion expense budget, but much of this is offset by receipt of state and federal reimbursement. According to City Hall, the direct cost to the city, including administration, is about \$600 million.

The cost of the city's debt service last year was nearly three times as large. And the increase in debt service costs during the five-month-old attempt to avert default—added interest costs, administration of the Municipal Assistance Corporation and the like—has already cost New York taxpayers more than their share of the annual AFDC payout. New York's trouble is not welfare, but poor management.

In addition, New York's subsidies to the poor are dwarfed by its subsidies to the middle class. These include: high salaries and unbelievable pensions for municipal employes, free tuition at City University, the tax loss that results from rent control, the subsidies to the mostly defaulted Mitchell-Lama housing. The poor typically move too often to be helped much by rent control, and don't need free tuition because they could get state scholarships. The gravy goes to the middle class.

This is the style of life to which New York has grown accustomed. We hope that Congress recognizes that the pressing need is not to finance it, but to persuade the city to change it.