Market Place

Municipal Bonds: West and South

By VARTANIG G. VARTAN

The vast marketplace for municipal bonds now shows an accelerating trend as far as investor demand goes. Basically, investors are looking west and south—out of the target range of New York and the specter of default.

"There was a time when all double-A rated state bonds traded at about the same yield," Siesel E. Canaday Jr. of John Nuveen & Co. said yesterday. "But all that has changed. Buyers are now scrutinizing the financial condition of each individual state."

"A year ago," he said by way of illustration, "people were buying New Jersey bonds in preference to, say, Louisiana issues, although both were rated double-A. Currently, the tendency is to buy Louisiana—a state that is running a surplus—rather than New Jersey, which isn't running a surplus."

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Bond analysts note that a number of states, in addition to New Jersey, have gone down in investor regard. This list includes Massachusetts, Maine, Vermont, Connecticut and Delaware. Prospective budget deficits or declining state revenues often are factors.

Generally, what happens pay higher interest costs when they come to market and, ultimately, this affects the pocketbooks of residents through higher taxes or other costs.

In the shrinking roster of top-rated states stand California, Texas and Wisconsin, among others west of the Hudson River. 'L "Some people get the impression that the problems facing New York have brought the entire municipal market to a standstill," declares Michael J. Garvey Jr. of Spencer Trask & Co. "This simplY Isn't true. Bids are being made and bonds are being sold. Life goes on. Why, in Texas they didn't even know we had a recession."

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California seems to have a special appeal, perhaps due lprt to its distance from New York. One Manhattan broker who once sold New York City bonds to clients [illegible] reports they ar

early October. The Fed, in turn, was spurred into action by fears of how a New York City collapse would affect financial markets, stocks and bonds included.

William Middeleer, partner in charge of the New York office of Bacon, Whipple & Co., speaks of "a points-West market" when it comes to customer interest.

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"More and more people are insisting on good quality issues," he said. "Pollution control bonds, backed by such companies as Exxon and United States Steel, are also selling well in the tax-exempt field."

Around the country, various municipalities have either paid higher borrowing costs or failed to sell issues as a side effect of the situation in New York, where neither the city nor the state nor state agenies now have access to the pubic market.

On Thursday, Chicago appeared to get a slight taste of this medicine when its Public Building Commission canceled a a proposed \$36-million bond sale. Mayor Richard Daley, chairman of the commission, attributed this move to chaotic market conditions stemming from New York City's fiscal problems.

But bond analysts pointed out that one important factor was the 7 per cent limitation on interest costs, as set by the commission. "Actually, Chicago could have sold that issue," one New YYorker observed, "either by shortening the maturity scale or raising its rate limit."

As it turned out, two leading Chicago banks bought the issue yesterday, staying within the 7 per cent limit, although the bonds were not re-offered publicly.

Meanwhile, Robert J. Fagan of Moore & Schley, Cameron & Co. commented on the lack of liquidity—and of a viable market — for New York City bonds. "You see a small speculative interest sometimes for 10 or 20 bonds," he said, "but it doesn't mean anything. You se e offers to sell city bonds due in 1978 and yielding 28 per cent, but the bids to buy just aren't there."

The Washington Star

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FRIDAY, NOVEMBER 28, 1975

Helping hand for New York

Call it what you will — bailout, a helping hand, a business transaction — the "New York Seasonal Financing Act of 1975" outlined by President Ford Wednesday night recognizes a fundamental fact: the United States government does have a legitimate concern about what happens to a city of eight million people.

No doubt arguments will be heard long into the 1976 presidential campaign season about whether Mr. Ford knuckled under to pressure from New York politicians and congressional leaders, whether he intended to help out all along and cleverly manuevered the city and state into getting its fiscal house in better order beforehand, whether he acted simply out of political considerations because he believed it would damage his election chances not to, or whether he felt that the possible national financial repercussions from allowing New York City to go into bankruptcy were too risky to chance.

Whatever the reasons, it was no easy decision, and the political consequences of it are unknown. We doubt that Mr. Ford will benefit much politically from it; he may even be hurt. Credibility and decisiveness were hardly enhanced by his move from hard line to softer and by the conflicting signals that came from the White House before the Wednesday announcement. And the decision to help the city may contribute to a stiffening of resistance to his nomination from the Republican right wing, where the feeling of many was to let New York stew in its own juice.

Yet, we believe that most citizens will view Mr. Ford's decision as the right one, and in the long run the politics of it may balance out. In any event, the nation's largest city now has a fighting chance to get its finances back on an even keel.

Mr. Ford undoubtedly is correct in saying that his hard stand over the past several months against bailing out the city forced state and city officials to enact some tough self-help measures. Had the administration simply opened the doors of the national treasury at the first cry for help, New York City, still would be going on its merry spending way. New tax programs and spending cutbacks are evidence that New York officials recognize that getting the budget into balance is the first priority.

Other cities that might regard the Ford proposal as a gravy train ought to look closely at what's being offered before they try to climb aboard. Any city in financial trouble is going to have to look first to its own financial resources and adopt stringent spending restrictions. Secondly, the assistance being offered New York is no gift; it is in the form of loans carrying stiff repayment provisions and relatively high interest.

Even with the federal loan program, New York City will not be over the hump. Officials believe that the loans will enable the city to stave off formal bankruptcy but that is not certain.

Now is not the time to argue about the politics of what has been done but to get on, as Governor Hugh Carey said, with the "work of rebuilding and restoring confidence in New York City, of insuring New York's place in this nation." In doing that the nation, as well as New York City, will be the beneficiary.

Defaults Go Back to 1838; Most Cities Recovered

United Press International

In 1838, Mobile, Ala., became the first American city to default when it could not pay its debts.

But it and cities that went bankrupt later, including President Ford's hometown of Grand Rapids, Mich., didn't disappear as businesses normally do.

Given time, most cities were able to resume payments of principal and interest to investors and lenders.

A study of financial emergencies in American cities published in 1973 by the Advisory Commission on Intergovernmental Relations, found that during the two decades before the Civil War, there were 19 local government defaults, caused mostly by tight-money conditions and bank failures.

All were for short periods.

The worst defaults came after the Cilvil War, especially during the 1873 to 1879 depression, in the 1920s following land speculation and in 1927 after the real estate boom in Florida collapsed.

Then the Great Depression dried up tax money for the nation's cities, and more than 2,000 were in default in 1933. At one point, 17.7 per cent of all municipal bonds were in default.

Size of the government unit provided no immunity from the financial crisis. Detroit went into default, as did Grand Rapids. The study showed Michigan helped out by taking over all relief payments for Gran8d Rapids.

All 48 cities with populations of more than 25,000 that went bankrupt were out of default by 1938. Smaller communities took longer, but municipalities with populations of 10,000 and more had settled their default problems by 1945.

There have been few serious default problems since World War II. One city that did face a default crisis, however, was Hamtramck, Mich., a community of 27,000 which found itself without sufficient funds to pay employees and pensioners in spring, 1970. Last-minute authority to sell $400,000 in tax anticipation notes saved the city from default.

HUD Chief Sees N.Y. Crisis Hurting Housing Program

By Charles A. Krause
Washington Post Staff Writer

New York City's financial crisis has adversely affected the federal government's new multibillion-dollar subsidized housing program, Carla A. Hills, Secretary of Housing and Urban Development, said yesterday.

"It's going to be very tough in the capital market to reach our goal" of building 240,000 new subsidized units this fiscal year, Hills said, because state and local housing authorities are experiencing severe difficulties selling bonds to finance their portion of the federal program.

In a television interview taped for broadcast by KPHO in Phoenix, the secretary took a softer position on the New York City crisis than the White House, which opposes federal aid to the city. Hills said she might favor some kind of aid if the city presented a practical plan to balance its budget.

News said it.

The new federal program, known as Section 8 of the Housing and Community Development Act of 1974, gives HUD the authority to subsidize rents for low-income persons who qualify for participation.

HUD guarantees state and local housing authorities that the federal government will subsidize a certain number of these persons for a 40-year period. Based on these guarantees, the housing agencies are supposed to be able to borrow money through bond sales and build new low-income housing projects within their jurisdictions.

But, with the nation's capital market in disarray because of the New York City crisis and the default earlier this year of New York State's Urban Development Corp., Hills said that state and local authorities outside New York are finding it difficult, if not impossible, to borrow money to build Section 8 housing.

Private builders also are eligible to participate in the Section 8 program, but so far they have shown little inclination to do so, according to several sources familiar with the program.

Again, the major problem is financing, according to David DeWilde, HUD's deputy assistant secretary for housing production, because money is in short supply and because the subsidized rents allowed under the program are insufficient to cover the costs of new apartment construction.

HUD's target for the current fiscal year was to provide rent subsidies for 400,000 low-income families across the country; 160,000 of these families were to move into existing apartments and 240,000 were to go into new units.

DeWilde said he still thinks that 400,000 families wil[l] receive rent subsidies thi[s] year but more will have t[o] move into existing apartment[s] than originally anticipated.

Yesterday, Hills said the nation's turbulent bond market was to blame. But some state and local housing directors, including Joseph G. Anastasi, Maryland's secretary for economic and community development, say the problems with Section 8 are more wide-ranging.

Anastasi said Section 8 has not succeeded in Maryland because not enough federal money is available to construct apartment projects large enough to be financially viable even if capital was otherwise available.

Another problem, Anastasi said, is that the "subsidies are not deep enough," meaning that the rent levels guaranteed by the program are not high enough to induce new construction.

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 fonm 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 re-

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Pension Funds Are Near Pact on Backing Loans to City

Continued From Page 1, Col. 6

main 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.

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 to default said, "Yes, pension funds could be involved." He added that the final decision would rest with the funds' trustees, zut 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."

HOW NEW YORK CITY GOT ITSELF INTO SUCH A FIX

It is a long history of generosity to its citizens, concessions to its unions and deception in its budget-making that has brought New York City to the brink of default.

Over the years, the city expanded its spending on services, welfare, and wages and fringe benefits for employes. Yet each year, tax revenues grew more slowly than spending, and the gap between income and outgo widened.

Budget gimmicks. But, for years, New York was able to conceal—while worsening—its dangerous fiscal plight by following unique, and sharply criticized, budgetary practices. State law requires cities to balance their budgets. But New York regularly violated the law's intent by using "gimmicks" that made red-ink budgets appear to be in balance. Some examples:

- The city's capital budget is supposed to finance only long-term projects, such as purchases of machinery or school construction. But New York regularly included current payments for employes' services, consultants and the like in the capital budget. The revenues of new long-term bond issues, not current tax payments, were used to pay for these "hidden" operating costs.
- To pay their bills as they come due, many cities borrow for short periods of time until taxes are paid. New York, however, regularly overestimated its revenues and issued bonds against nonexisting income. The money financed the deficits. Each year, new overestimates and new bonds enabled the city to carry the deficits from year to year.

High interest costs. In June, New York had about 13 billion dollars of debt outstanding, including 3.3 billion in hidden deficits. That's equal to about $1,700 for each person in New York. Just paying the interest and some of the principal on its debts will cost the city 1.8 billion dollars this year—more than it spends for fire, police and sanitation services combined.

"Clearly, New York City officials are guilty of irresponsible budget behavior, of spending more than they were receiving, and of hiding those practices with budget gimmickry," the Congressional Budget Office told a House subcommittee.

The State, instead of clamping down on New York City, endorsed fiscally irresponsible moves while imposing burdens of its own on the city.

Concessions to labor unions, made over the years to avoid crippling strikes, have given city employes wages that are generous by private-business standards—plus lucrative fringe benefits.

Richest of the benefits is the pension system. Fire, police and sanitation workers can retire at half pay or more after 20 years on the job, regardless of age. Pensions alone cost the city 1.3 billion dollars annually—a figure that experts say is kept that low only by book juggling.

Extravagance? New York is widely accused of extravagance.

For instance, New York State traditionally has provided generous welfare benefits, which the city had to help pay. But the city added even more benefits on its own. Result: Despite recent cutbacks, welfare and related services in New York City will cost about 3.5 billion dollars this year. Federal and State governments pick up only about two thirds of that.

New York City also provides a city hospital system that costs 870 million dollars a year. No other major city supports so extensive a system. Critics say New York's is inefficient and needs a major overhaul.

The City University system, with 229,000 students, offers free tuition and open admissions to undergraduates. The university costs 550 million dollars annually, of which the city pays about 60 per cent.

The box on page 18 shows how New York outspends other big cities.

What makes New York unique, many experts point out, is that much of the big spending benefits the middle classes, not just the poor. Subsidies for mass transit, free university tuition, and housing construction are cited as examples.

The city has financed the 26-million-dollar construction of Shea Stadium and 60-million rebuilding of Yankee Stadium for use of sports teams that are privately owned.

It is such spending that led the *Wall Street Journal* to editorialize:

"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."

By Leonard Silk

The odds are heavy—well-informed observers now put them at five-to-one or higher—that New York City will default within a month. If that happens, what will be the impact on the national economy?

The question cannot be answered "scientifically" because there are too many unknowns: the psychological reaction of financial markets at home and abroad; the degree of Federal support that the Ford Administration will extend to the city after bankruptcy; the actions that will be taken by New York City and state officials to cushion the shock, and the reactions of public officials, bankers, businessmen and individual persons throughout the country to an event that is without precedent.

Despite the forecasting difficulties, however, it is essential to try to anticipate the impact of default—if only to establish the basis for future policy actions.

The shock will be immense, but it will not all be felt on the day of default or even for weeks and months afterward. The city's publicly held securities total $12.3 billion. Only $3 billion of this amount is held by banks; the balance is difficult to trace, but the bulk of it is held by individuals, many of whom are pensioners and people of modest means, who will suffer serious losses of principal and interest.

The Federal Reserve will keep all major banks from going under by lending against their holdings of city and state obligations at par value. But the Securities and Exchange Commission will require the banks to disclose all doubtful securities in their portfolios, lest stockholders, depositors and other lenders to banks be misled.

Affected banks and other troubled lenders will cut their commitments to small businesses, housing, large corporations of less than the highest credit standing and other municipalities of doubtful creditworthiness. The housing slump will be worsened; plant and equipment spending and state and local outlays will be dragged down.

President Paul Volcker of the Federal Reserve Bank of New York and other competent observers now fear that there is grave danger that a New York State default will follow and compound the risks of a New York City default. This would double the impact. New York State has $12.5-billion in securities outstanding, including Municipal Assistance Corporation bonds replacing $2 billion of city debt. Together, of their combined publicly held obligations of $23 billion, New York City and State owe $10 billion at short term. Defaulting on the short-term debt would be a heavy blow to individuals and businesses throughout this region.

Will other regions benefit if New York and its surrounding region go down? Perhaps, but it is well to remember that the Northeast cannot be sawed off and allowed to float out to sea; it is not an island but part of the mainland. The Administration likes to stress the international interdependence of the United States; we are even more interdependent within the nation.

Quantative estimates of the cost to the nation of a New York City default vary with the assumptions made and the econometric model used, but they are broadly consistent. The most "optimistic" estimate of Data Resources Inc., a consulting firm used by private corporations and by the President's Council of Economic Advisors, is that a New York City default would cost the nation $14 billion in lost national production and 500,000 jobs. Similarly, the most favorable estimate of the econometric group at the Wharton School of Finance of the University of Pennsylvania is for a loss in national output of $10 billion and a loss of 430,000 jobs. Less optimistic assumptions would roughly double those estimated losses. And a default by New York State, coming on top of the city's bankruptcy, would double the costs once again.

The United States Treasury would be impacted. Tax revenues would fall by billions and Federal spending would rise to make good President Ford's promise to pay for police, fire and other "essential" services—though what that term means remains unknown. New York, its ability to borrow impaired for years to come, and its tax base shrinking as businesses migrate from the area, could become a long-term ward of the Federal Government.

Other cities—especially those of the Northeast but not those exclusively—fear the threat to themselves. Mayor Peter Flaherty of Pittsburgh, who has run a tight fiscal program in his own city, said, "I don't want to see the world's most dynamic city go down the tube—it's just too important."

Foreign governments are deeply worried. Chancellor Helmut Schmidt of West Germany vainly tried to convince President Ford of the threat of New York's imminent collapse to the international economy. The loss of New York's position as the world's premier financial center could have reverberations for years to come. Foreign government and banking officials have until recently been unable to believe that the United States Government would permit this to happen. The sudden blow to the international economy, still laboring to climb out of the most severe recession of the post-war period, could be the greatest danger immediately ahead.

Collage, with some details of New York City's shield, by S. Harmon.

'Foreign governments are deeply worried.'

Even if the risks of a catastrophic impact are no worse than ten-to-one against, is that risk worth taking?

If New York is forced into bankruptcy and feels itself the victim of self-interested regional plotting and enmity, a serious new trauma would be inflicted not only on this city but on the nation—a nation divided not just regionally but ethnically and in terms of social and economic classes. The consequences of that political and social trauma are even more difficult to estimate than the immediate economic impact of New York's probable collapse, and are possibly even more dangerous.

Is this trip into the unknown and unknowable necessary—or wise?

Leonard Silk is a member of the Editorial Board of The Times.

The Trauma of Default: A Wave Effect Beyond the Hudson

By Charles W. Bailey

MINNEAPOLIS

A number of people, many of whom should know better, seem intent these days on rearranging the map of this country. Their purpose appears to be to convince us that New York City is not really a part of the United States — and that what happens there is of little or no concern to the rest of us.

We can begin by conceding a number of things that tend to make this thesis attractive. New Yorkers are not the most lovable people in the Republic. They are aggressive and cynical, they tend to suffer from delusions of superiority, and they talk with a funny accent. The city's government is notably inefficient, profligate and corrupt. The air is foul. The streets are choked with traffic, paved with refuse and riddled with chuckholes. The residents have only themselves to blame for many of their current municipal woes.

But to concede all that and more does not mean that the rest of us either can or should let Fun City stew in its own juice, President Ford and assorted Congressional yahoos notwithstanding. There are several reasons — some purely a matter of enlightened self-interest, some compelling even if they do not carry a price tag—why New York's troubles are our troubles, too.

'New York's troubles are our troubles, too.'

The fiscal collapse of the nation's largest city would inevitably affect every taxpayer in every other city. There is evidence that New York's money troubles have already boosted the current and future costs of public financing elsewhere by upward of $3 billion, because of higher interest rates on city and state bonds. If the big city goes bust, this will get worse, and of course higher bond interest is paid by higher taxes.

New York's troubles may be larger than those of other American core cities, but they differ only in degree. Even a cursory review of New York's current difficulties makes it clear that Minneapolis, for example, has many of the same problems—though on a much smaller scale at the moment. New York's success or failure in dealing with them now will tell us a good deal about whether, and how, we can deal with them later.

Like it or not—and many of us do not like it a bit—New York is the financial, cultural and communications linchpin of the country. It is also immensely important to transportation, foreign trade, retailing, and other enterprises. A nation struggling to pull itself out of a severe recession can ill-afford to let so important a segment of its economy collapse into insolvency.

Certainly New York must clean its own fiscal house thoroughly if it is to expect substantial Federal help. It will have to stop borrowing for current expenses, for example—a practice that has rotted its fiscal structure in the past decade. It must cut back, in a major way, on scores of current services and benefits to its private citizens and public employees alike. But the rest of the country cannot wait until these reforms are fully effective before it offers assistance.

There is something else, too. New York is where many Americans began in this country. My grandfather landed at Ellis Island, for example, and it was from New York that he set out with a peddler's pack to find a new home. So did the parents and grandparents of a lot of us. New York has always been our great gateway; it has paid, and indeed is still paying, the social-services price of that role.

That is a small point, perhaps, and certainly not so compelling as other more pragmatic arguments for aiding New York. But it will not hurt, as we debate the wisdom of helping this sick metropolis, to remember how many of our forebears used it as a way station on a journey to better places and better lives.

Charles W. Bailey is editor of The Minneapolis Tribune, from which this editorial-page column is reprinted.

N.Y. Times 11/5

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:

- Proposd 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.

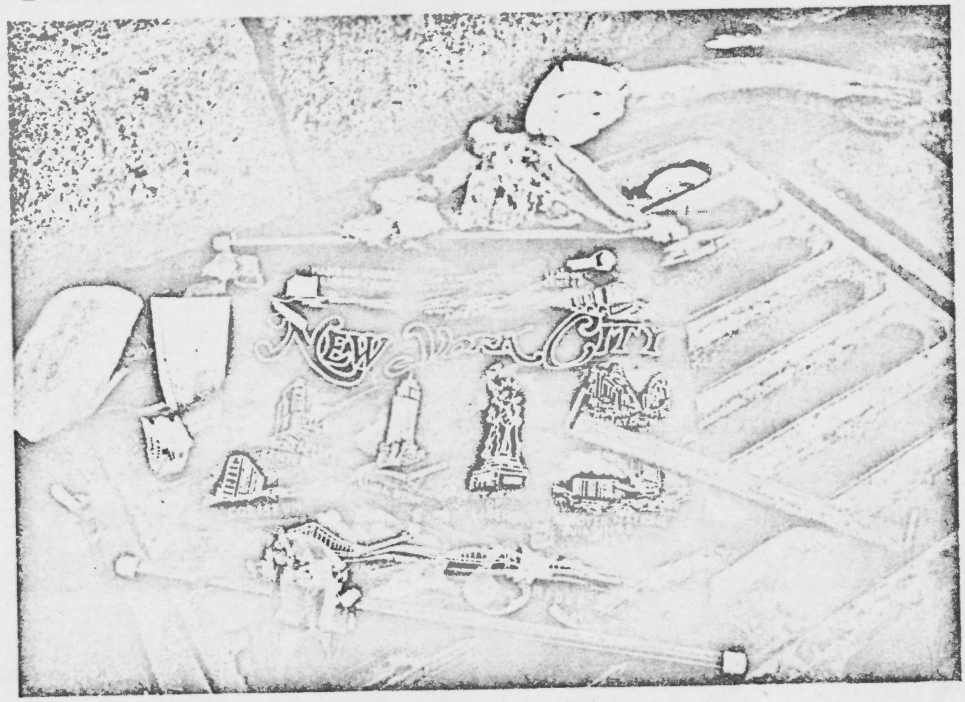
THE WHITE HOUSE
WASHINGTON

TO: Ron

FROM: AGNES WALDRON

This is best analysis
I have seen of
the fraud perpetrated
by NYC politicians.
I strongly recommend
that you take the time
to read it

GOING BROKE THE NEW YORK WAY



By abusing its extraordinary borrowing powers, the city lived way beyond its means and piled up unmanageable debts. Now comes the painful part.

by Wyndham Robertson

As the nation's largest city struggles to extricate itself from the financial quicksand that has been threatening to drag it under, Americans watching the suspenseful spectacle have begun to wonder whether other large cities are headed for the same kind of trouble. The answer is fairly reassuring: New York is a special case.

New York is different because it has had a credit card that enabled it to live beyond its means. For years its elected officials have had the sort of license that politicians dream about, but that only those at the federal level were presumed to enjoy—namely the opportunity to spend without the concomitant necessity to tax. The set of conditions that led to this unique situation are (1) the unusually liberal borrowing power granted to the city by the state, and (2) the city's use of budgetary and accounting procedures that even experts find baffling. The second condition helped to conceal the fiscal abuses engendered by the first. Rather than match spending with revenues, New York's politicians have overused their vast borrowing power, particularly in the last five years. And some evidence suggests that the borrowings, which ballooned during the last year or so, breached even the broad legal limits so generously set by the state.

Most other cities operate under rules that constrain overspending by putting strict limits on short-term borrowing. Many cities are forbidden by law or charter to

Photograph by Paul Weller

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ECON. PAPER

MAREE - ON SADAT

THE WALL STREET JOURNAL 10/28/75

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 burden 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.

New York

Who's to Blame for The Fix We're In

By Ken Auletta

"...The roll-overs, false revenue estimates, and plain lies that have robbed taxpayers of billions... people have gone to jail for less..."

On October 7, 1965, William F. Buckley, then a candidate for mayor, warned, "New York City is in dire financial condition, as a result of mismanagement, extravagance, and political cowardice.... New York City must discontinue its present borrowing policies, and learn to live within its income, before it goes bankrupt." Judging by the reaction, one would have thought Buckley had proposed to drop the atom bomb on Israel.

It took a decade for Buckley to appear "responsible." He was bucking the sixties, the Age of Good Intentions, when candidates solemnly promised to outspend their rivals. New ideas. New programs. That's what we wanted. An unwitting spokesman for the age was 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 crisis is primarily a symptom, not a cause, of a deeper economic malaise, whose roots reach back three decades and encompass a series of city, state, and even federal decisions. This is a piece about those decisions, a chronicle of the people and events that cumulatively pulled us into our predicament.

To pinpoint the most important of these decisions, I interviewed more than 40 public officials, labor leaders, businessmen, bankers, and students of city government. My question was always the same: What were the key events and decisions that led to the city's present fiscal crisis? After sorting through these responses, and assisted by a research associate, Robert Sullivan, I waded through old budgets, Board of 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 polarization; anti urban bias; even the invention of the automobile. Not to mention such nondecisions as insufficient federal and state aid and the failure to engage in effective economic planning.

But to blame everybody is to blame nobody. There are particular villains in this story. If there is a single common thread weaving through these many decisions, it would be what is called "politics." And since "liberal" politicians have dominated city government these many years, it is they who are more guilty than others. The roll-overs, false revenue estimates, and plain lies that have robbed taxpayers of literally billions through excessive borrowing to cover up excessive fraud . . . people have gone to jail for less.

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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Default Would Have No Adverse Effects
Milton Friedman -- CBS Morning News

The torrent of comment on NYC's financial crisis has obscured three key propositions. First, NYC is a special case. Its government spends 1/3 more per person than its nearest competitor for the title of big spender -- San Francisco. And twice as much per person as Chicago. Yet, in my experience, the average citizen of New York gets less in return. In addition, New York is the only city that has maintained rent control ever since WW II. The result has been wholesale abandonment of dwelling units and the drastic erosion of the tax base.

Second, New York's lavish spending is the direct result of the most welfare state oriented electorate in the US. In this sense, New York's problems are a foretaste of what other cities, other states and the country as a whole can expect if their electorates continue to imitate NYC's leftward surge. Trying to do good by spending someone else's money is a sure-fire recipe for financial disaster. If NYC does not persuade you of that, I suggest you consider the case of Great Britain.

Third, the unlimited growth of welfare state policies spells not only financial crisis but also the loss of self-government. As part of the price of rescue efforts by the state of New York the governance of the city has been taken out of the hands of the officials elected by the citizens of NYC. Caretakers appointed by the state are now in charge.

If NYC goes bankrupt that will have no major adverse effect on the rest of us and it will be therapeutic for NYC. The rest of us have no obligation to save NYC from its own folly, but we shall deserve the same fate if we do not learn from it. -- (10/31/75) pay their way?' Chicago Mayor Daley has expressed sympathy for New York. The mayors of Denver and Milwaukee, however, favor federal aid, Rebecca Bell reported. -- NBC Today Show (10/30/75)

Ford Campaigns In San Francisco Presidency: News

President Ford Thursday returned to San Francisco to tell a group of prominent Republicans that he will not be pressured by "artificial deadlines" into signing further arms control agreement with the Soviet Union.

He said that his Administration has "injected the American spirit of 'can do' into our policies at home and abroad" and has stirred a strong surge of national confidence.

"President Ford keeps coming back to California because he knows he must beat Ronald Reagan here in order to be assured of getting the Republican nomination. He returned to the St. Francis Hotel and entered through a protected garage for security. The last time here a shot was fired at him from the crowd outside this hotel," Tom Jarriel (ABC) reported.

"California Republicans haven't been exactly wildly enthusiastic for the incumbent," Jarriel said. "Trying to turn them on, he has tailored his political rhetoric more and more to the conservative right. New York's financial crisis has given him an issue to champion. At a fund-raising luncheon, he used the example of rebuilding after the San Francisco fire."

Ford said (on NBC film): "Next year marks the 70th anniversary of the San Francisco fire. San Francisco passed the ultimate test of the recuperative power of an American city. Local courage and local determination prevailed. (ABC film): "The reconstruction was not a federal bailout. It was a local undertaking."

In a television interview earlier in the day, President Ford said MAC bondholders would be paid eventually, but pointed out that they gambled by investing in a tax-free investment. The President also dismissed speculation that his plan would ruin the bond market, saying, "I don't think we should be scared."

"The President has blamed New York's crisis, in part, on the pension programs negotiated by unions," Jarriel reported. "After it was pointed out in a Metromedia news conference that Governor Rockefeller took part in those negotiations, the President was asked if his Vice President should not share the blame."

THE WHITE HOUSE
WASHINGTON

October 31, 1975

TO: RON NESSEN

FROM: RUSSELL A. ROURKE Russ

_______ For Direct Reply

_______ For Draft Response

___X___ For Your Information

_______ Please advise

The Sunday Democr

TALLAHASSEE, FLORIDA, SUNDAY, DECEMBER 11, 1932.

SPOKESMEN FOR WINE INTERESTS GIVEN HEARING

Plea Made for Inclusion of Naturally Fermented Wines

Washington, Dec. 10.—(AP)—Spokesmen for grape interests today endorsed that provision of the Collier bill allowing naturally fermented wines, in testimony to the house ways and means committee.

On Monday and Tuesday representatives of dry organizations are to give testimony in opposition to the bill providing for 2.75 per cent beer and legalization of light wines.

Chairman Collier said "the treasury is investigating the subject and will not be able to complete its investigation until Wednesday" by way of explanation that Secretary Mills would not appear today as had been planned. Once the testimony is all in, the committee will go into executive session to decide whether to agree on a bill to recommend for early house action.

The first witness today, Marion Devries of Washington, representing the Grape Growers League of California, said he represented 25,000 producers.

DEVRIES REPLIES

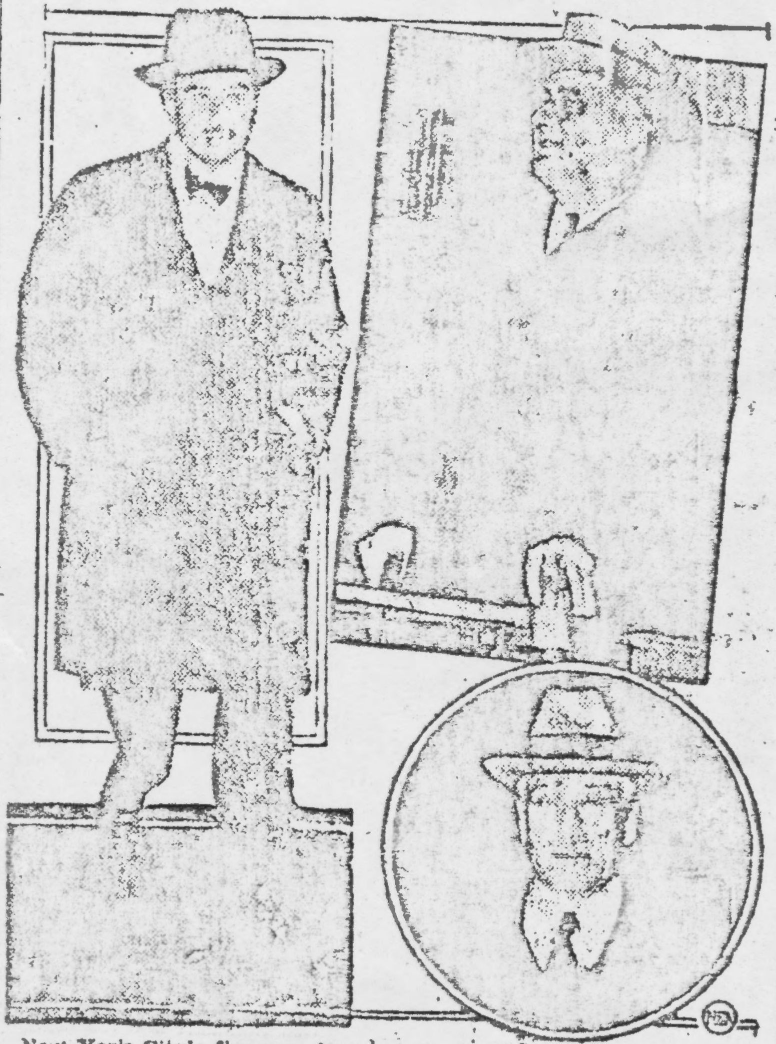
Representative Treadway, Republican, Massachusetts, asked: "Are you ready to contend that naturally fermented wine is not intoxicating?"

"I am ready to say that when wine is used with meals that it is not intoxicating," Devries replied.

"Wine is not a saloon drink. We are willing to propose an amendment to the Collier bill to provide that consumption of wine be limited to use at meals."

Port and sherry and other fortified wines ... he ... consumption of ... dry wine ...

ROOSEVELT HELPS NEW YORK FINANCES



New York City's finances temporarily were saved when President-elect Roosevelt rushed from a winter vacation at Warm Springs, Ga., into a conference at his New York residence with bankers and city officials. An agreement to pare $20,000,000 from the city budget—mostly in salaries—brought aid from the banking group and prevented the city from defaulting on a $40,000,000 indebtedness. At left is Winthrop Aldrich, banker who conducted the negotiations for his group; upper right, Governor Roosevelt as he arrived from Georgia, lower right, Controller Charles W. Berry as he arrived at the meeting.

ALMS SEEKER SAYS NAME'S DEPRESSION; STORY BEARS IT OUT

Chipley, Dec. ... merely a name, but one man

METHODISTS WILL OPPOSE REPEAL PROHIBITION LAW

COAST GUARD H... FINE RECORD F... WORK PAST YE...

Rear Admiral Ha... Tells How 5,214 Pe...sons Were Saved

Washington, Dec. 10—(AP)... brief report today related in ... ter of fact words how the U... States coast guard had sav... rescued from peril 5,214 p... during the year ended last ... 30.

Tersely, with few lines of p... for the personnel, Rear Ad... H. G. Hamlet gave statistic... compiling the activities of his ... from braving the freezing ga... Alaska and the iceberg-inf... North Atlantic to more p... duties in regulating national ... international yacht races.

To the men who faced the h... ships to aid suffering persons ... coast guard commandant sai... was pleased to express his "w... est appreciation and acknow... ment of their faithful labors ... devotion to service."

Turning to law enforcement, ... miral Hamlet said in his a... report:

"The operations of the se... in its law enforcement work ... the prevention of smuggling ... liquor into the United States ... sea proceeded satisfacto... throughout the year and were ... companied by gratifying re... when the difficulties and perp... ties of the problem are consi... ed.

"The smuggling situation ... whole was practically the sam... that existing during the prece... year. There has undoubtedly ... some falling off in volume ... liquor brought to the Un... States coasts for attempted sm... gling but this reduction in vol... has been comparatively slight..."

The commandant said the ... vice had boarded ... ve... and examined their papers...

A History Lesson for Ford: U.S. Did Aid Frisco in Quake

By OWEN MORITZ

President Ford's admonition to New Yorkers to learn from the lesson of the San Andreas Fault to avoid default—that is, emulate the home-town spirit of San Franciscans after the great earthquake—ignores a lesson or two from history.

Such as: the federal government helped bail out San Francisco after the quake.

Such as: New York City extended comfort and aid to ravaged San Francisco.

Indeed, the President's remarks in Los Angeles, in which he blamed New York City's administration wholly for its financial troubles and generally exonerated the administration of Gov. Rockefeller for those troubles, has critics wondering if he is ignoring the lessons of history.

The President told his California audience that the rebuilding of San Francisco after the devasting 1906 quake was a "loca undertaking — the work of San Franciscans."

Indeek, there was almost no peacetime precedent for federa aid in 1906 but Congress appropriated aid to help Frisco make up for the estimated $500 million in losses sustained in the earthquake and three days of fires afterward. As historians are wont to note, a former New York governor — a Republica very unpopular with his party's conservative wing and once a vice president — was in the White House. President Theodore Roosevelt signed the act of Congress.

In his Los Angeles remarks, made during a half-hour telecast which was broadcast over WNEW-TV last night, the President blamed what he called 10 to 12 years of New York City maladministration for the city's generous welfare and pension allowances. As it happens, welfare and pension benefits must be approved by the state Legislature and the governor.

Once the state approves the welfare scale, the federal Department of Health, Education and Welfare must approve it also, since the government contributes 50% for local welfare payments. The U.S. now contributes $1.2 billion in welfare aid to the city. The state and city each pay 25%.

Ford said the U.S. contributes 25% of the city's $12.3 billion expense budget. The city's Budget Bureau says the federal contribution is less than 19%, most of that for welfare.

between individual policymakers, is the crucial defense policy issue.

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.

NEW YORK TIMES

November 14

1975

A Kind of Default

Governor Carey's program for avoiding default by New York City includes a complex scheme for rescheduling the city's debt which, it must be conceded, itself represents a kind of default.

Experts may differ on definitions, but there can be little doubt that the city's creditors, and its future credit prospects, will suffer under a plan that will require the holders of municipal securities to accept deferment of principal payments or to exchange short-term paper for long-term Municipal Assistance Corporation bonds at reduced interest rates. Although there appears to be legal precedent for the proposed debt "moratorium," some court challenge appears inevitable.

Nevertheless, an orderly restructuring of the crushing burden of municipal debt clearly has become an essential element in any broader program for restoring New York to solvency. Equity and common sense demand that the city's creditors share in the sacrifices that will be required to meet that goal. The cost of cooperation is certainly far less than the price of the alternative—all-out default and interminable litigation in bankruptcy court.