The original documents are located in Box 15, folder "New York City - General (1)" of the Ron Nessen Papers at the Gerald R. Ford Presidential Library.

Phones + Telegrams
to 9 AM

Telegrams

Pro NY Aid 51
Con NY Aid 167
Comment 1

Phones

Pro N.Y. Aid 44
Con N.Y. Aid 47
Comment 11

Running Total Since
Oct 14: Phone Calls

Pro NY Aid 215
Con NY Aid 221
Comment 11

MAIL & TELEGRAMS

MAIL SINCE OCT 2

PRO NY AID 3,110

CON NY AID 5,165

COMMENT 161

NEED SIGN OFF ON FOR. AID
PACKAGE: ANDERSON WILL HAVE
EXPERT STANDING BY -
NEED SIGN OFF BY 12:30 PM
D.C. TIME

Ron:

Library of Congress says there were three bills passed following 1906 Earthquake in San Francisco:

1. Deficiency Appropriations Act. $601, 717 to rebuild federal buildings

2. April 19, 1906. Appropriation of $1 million to the Secretary of War for subsistence and quartermaster supplies

3. April 24, 1906. Appropriation of $1 1/2 million to Secretary of War for subsistence and quartermaster supplies

Library says they can find no direct federal aid to the city.

Larry

many fugitive papers until its own demise in 1891, while the 20th-century *San Francisco Examiner* and the *San Francisco Chronicle* dated from the mid-1860s.

Earthquake and Reconstruction.—If the results of a city's early growth are measured not only by absolute achievement but by recuperative vitality, San Francisco met and passed the most severe of tests in 1906. The city had experienced earthquake disturbances in 1864, 1898, and 1900, ~~but on April~~ 18, 1906, a violent earthquake, ~~followed by fire~~, demolished ~~most~~ of its central business and residential ~~districts~~. (*See* EARTHQUAKE: *Great Earthquakes: California* [*1906*].) ~~Hundreds~~ were killed or injured. Homeless residents camped in thousands on the dunes west of the city, while others fled to outlying towns (incidentally giving impetus for 20th-century suburban growth). The loss in ~~buildings~~ was estimated to ~~be more than $100,000,000~~; while the total property loss was believed ~~to be well over three~~ times as much. Within a short time, relief shipments ~~of food and clothing~~ reached the city, and some ~~$10,000,000~~ in financial aid came from Europe and America. ~~Although insurance payments in the neighbourhood~~ of $300,000,000 were forthcoming, the long task of reconstruction was sustained ~~by local courage and persistence~~. Much of the city was rebuilt to be earthquake and fire resistant, and new plans for civic development made headway as the debris of the old city vanished. With pardonable pride, in 1915 San Francisco invited the world to see the results of its efforts at the Panama-Pacific International Exposition.

largely voluntary

Change and Challenge.—The opening of the Panama Canal, celebrated by the aforementioned exposition, maintained San Francisco's traditional eminence as gateway to the Orient. It was the natural choice 30 years later for the historic conference, April–June 1945, at which the United Nations Charter was promulgated; and the Peace Treaty with Japan was signed there in 1951. But other 20th-century developments increasingly changed the character and role of the city. Westward migrations of the American population, drawn by the rich agricultural and new industrial opportunities in California; war industry and shipping during World Wars I and II; and diversified growth in the 1920s and 1950s ushered in a new epoch of metropolitan history—the development of a regional urban complex of which San Francisco was the heart, but not the whole.

Encyclopedia Britannica

Nineteenth-century San Francisco had been the unrivaled urban centre of a vast agricultural region. In the 20th century it became a city of international rank. It retained authority in many social, economic, and cultural activities. But the remarkable growth of population, economic institutions, and cultural centres throughout the metropolitan bay area (as well as in Southern California and, to a lesser extent, the central valley of the state) became the most prominent change and the most urgent source of challenge.

Internally, San Francisco confronted local forms of nationwide needs for technological, political, economic, and social reformation of urban processes. Externally, it faced a social environment no longer embodied in dependent suburban villages; modest, isolated towns; or great rural regions for which San Francisco was the only possible window to the world. Rather, it was in an environment of contiguous urban communities, themselves suffering the strain of rapid, ill-planned growth. From the mid-20th century onward, San Francisco would depend more on the quality of its leadership than on the mere weight of its activity and resources if the city were to retain its distinction as the pacesetter and lodestone of the West.

POPULATION

San Francisco, with a population of 740,316 in 1960, is the principal city in the San Francisco-Oakland standard metropolitan statistical area of five counties (Alameda, Contra Costa, Marin, San Francisco, and San Mateo), 2,486 sq.mi. (6,439 sq.km.), and 2,648,762 inhabitants. Population trends were indicated by the slight decline in San Francisco's size after 1950 and the relatively rapid growth of population elsewhere in the area to an estimated total of 3,056,000 by 1966. With its nearby counties of Marin and San Mateo, San Francisco and the West Bay urban zone had somewhat more than half the metropolitan area population in 1960, but somewhat less than half in 1966. By the r
60% of the area's inhabitants lived in cities of 75
was expected that by the end of the century pred
conditions would form a megalopolis extending o
bay area to the inland cities of San Jose, 45 mi. S
mi. NE on the Sacramento River; Stockton, 50 r
Joaquin River; and northward throughout muc
Peninsula.

San Francisco's population, like that of the enti
dominantly white in 1960. Foreign-born and Orien
relatively much more numerous in San Francisco
elsewhere in the metropolitan complex. Added t
inhabitants of foreign descent, they gave the city a
mopolitan atmosphere. The Italian and Chinese
were particularly conspicuous. The Negro populat
cisco and of the area approximated the national pro
Within it were large numbers of men and women n
cisco and new to urban life, generally. As in othe
out the United States, the depressed economic, ec
and domestic status of nonwhite residents, despit
over earlier conditions, constituted a severe hazard
decency, and vitality. During the 1960s, theref
other minority group efforts at self-assistance, ra
radic violence to demands for more effective nati
community programs in favour of the depressed
taged, evoked continuous public anxiety and rece
financial support.

Both in the city and the area, women were slight
ous than men. The median age of San Francis
higher than that of the area's population, due to the
smaller number in young age groups and its highe
aged persons. Correlatively, San Francisco's unma
was proportionately greater (44%) than that of
(34%). Economically, San Francisco's residents
quently in upper income brackets, and the "poverty
city, though painful to contemplate, costly to igno
to eradicate, imperiled somewhat fewer people (rela
certain other distressed points in the metropolitan a

Compared with averages throughout the area, the
was much more dense and more mobile. Reflecti
San Francisco was the site of urban renewal progr
slums by modern apartments and commercial esta
well as programs to construct automobile freeways, p
a new rapid transit system, and new office and pu
Conversely, home owners were more numerous in th
area at large than in the central city. Ribbons of r
circled the hills and filled the valleys throughout
workers thronged the highways each day as they co
from San Francisco and other major cities of the met

Finally—whether because of the traditional sophi
wealthy elite, the vivacity and iconoclasm of its art
social critics, or the sensitivity to international
dynamics derived from its long-standing responsibi
ern history—the character ascribed to San Franci
by observers and natives alike emphasized the tr
sity and animation. Perhaps such an image lacke
foundation in the gross statistics of its social struc
position. Nonetheless, it significantly entered into
of thought and action whereby the city related i
parts of the metropolitan area and sought to control
processes.

GOVERNMENT

San Francisco's five charters were granted respect
1856, 1861, 1898, and 1932. Initiative and refere
were first included in the 1898 charter. Under its
San Francisco has a consolidated city and county g
which the mayor, certain executives, the judiciary,
member Board of Supervisors are elected. The mayo
city's chief administrative officer and a variety of a
boards, including police, utilities, civil service, a
Water supply, based on the Hetch-Hetchy system

discussion, I would not then raise the point that it was too late. Therefore I trust that no other Member will do it now.

Mr. KEIFER. Mr. Chairman, I insist that long after this was under discussion the point of order was made. I don't know anything about this private agreement.

The CHAIRMAN. The Chair will state that general debate had been had before any suggestion was made as to a point of order. The Chair can not be mistaken about that for this reason: Before this paragraph was reached the Chair suggested to the clerk at the Speaker's table that there might be a point of order raised to this paragraph, and both the Chair and the clerk at the Speaker's table were waiting alert to ascertain whether such a point would be made or reserved, and it was neither made nor reserved. The Reporter's notes further bear out the statement of the Chair.

Mr. SIMS. Oh, the Chair is correct about that.

The CHAIRMAN. The first sentence uttered by the gentleman from Tennessee, according to the Reporter's notes, was:

Mr. Chairman, I would like to have this explained by the chairman of the subcommittee.

Mr. SIMS. Mr. Chairman, the Chair is entirely correct, but I notified the gentleman in charge of the bill, the gentleman from Massachusetts [Mr. GILLETT], chairman of the subcommittee, beforehand that I was going to make a point of order; that I was not satisfied about it. He then suggested that I do not raise the point of order, but that I give him an opportunity to explain it. I told him that I might not object to it after hearing it explained. He asked me if I would not refrain from doing it, and said after explanation I might do so. I said, "It will then be too late." He said, "I think not. Nobody can make it but you, but you can make it." Now, I have done this in the utmost good faith, and notified the subcommittee beforehand, and I have acted in accordance with the agreement with the committee. Of course if the Chair can not carry out that agreement, why, then, the Chair is not to be held responsible; but I did this through a solemn agreement and upon their request.

The CHAIRMAN. The Chair will state that the House can not be bound by an agreement of gentlemen.

Mr. SIMS. Oh, well, I know that, Mr. Chairman. Does any gentleman in this House want to put the committee in that attitude or me in that attitude?

Mr. GILLETT of Massachusetts. The gentleman has stated what I tried to state, but the Chair did not understand me. It was an explicit agreement between the gentleman and myself, and the gentleman agreed he would not make the point of order at first, and I agreed if he made it afterwards I would not raise the point of order, and I hope no other Member will. Therefore, I ask unanimous consent that the gentleman now be allowed to make the point of order, and I trust nobody will object.

Mr. CRUMPACKER. Mr. Chairman, in the interest of orderly procedure and to avoid embarrassment on these questions I think it ought to be understood there is but one method to raise the point of order. If we are to respect agreements between Members of the House it will lead to no end of trouble and embarrassment.

Mr. WM. ALDEN SMITH. And a private agreement at that.

Mr. CRUMPACKER. And a personal agreement at that; and I accordingly object to changing the rule.

The CHAIRMAN. The gentleman from Massachusetts asks unanimous consent that the point of order to this paragraph be allowed to be made at this time, and to that the gentleman from Indiana objects.

Mr. GILLETT of Massachusetts. Mr. Chairman, I think there is but one thing I can do to keep good faith with the gentleman from Tennessee, and although I heartily am in favor of this paragraph and am very sorry to have it go out, I move that the paragraph be stricken out. [Applause.]

Mr. PALMER. It depends upon the committee whether you do that or not.

The CHAIRMAN. The gentleman from Massachusetts moves that the paragraph be stricken out.

The question was taken; and the Chair announced that the noes seemed to have it.

On a division (demanded by Mr. GILLETT of Massachusetts) there were—ayes 38, noes 16.

So the amendment was agreed to.

The Clerk resumed and concluded the reading of the bill.

Mr. GILLETT of Massachusetts. Mr. Chairman, I move that the committee do now rise and report the bill and amendments to the House with a favorable recommendation.

The motion was agreed to.

Accordingly the committee rose; and the Speaker having resumed the chair, Mr. DALZELL, Chairman of the Committee of the Whole House on the state of the Union, reported that that committee had had under consideration the bill H. R. 18198—the District of Columbia appropriation bill—and had instructed him to report the same back with sundry amendments, with the recommendation that the amendments be agreed to and the bill as amended do pass.

The SPEAKER. Is there a separate vote demanded upon any of the amendments? If not, the vote will be taken on the amendments as a whole.

The question was taken; and the amendments were agreed to.

The bill as amended was ordered to be engrossed and read the third time; and it was read the third time, and passed.

On motion of Mr. GILLETT of Massachusetts, a motion to reconsider the last vote was laid on the table.

MESSAGE FROM THE PRESIDENT.

The SPEAKER laid before the House the following letter from the President of the United States, which was read, and referred to the Committee on Appropriations:

To the Senate and House of Representatives:

I submit herewith a letter of the Secretary of War, with accompanying documents, including a form of a resolution suggested for passage by the Congress.

This letter refers to the appalling catastrophe which has befallen San Francisco and neighboring cities, a catastrophe more appalling than any other of the kind that has befallen any portion of our country during its history. I am sure that there is need on my part of no more than a suggestion to the Congress in order that this resolution may be at once passed. But I urge that instead of appropriating a further sum of $1,000,000 as recommended by the Secretary of War, the appropriation be for a million and a half dollars. The supplies already delivered or en route for San Francisco approximate in value a million and a half dollars, which is more than we have the authority in law as yet to purchase. I do not think it safe for us to reckon upon the need of spending less than a million in addition. Large sums are being raised by private subscription in this country, and very generous offers have been made to assist us by individuals of other countries, which requests, however, I have refused as in my judgment there is no need of any assistance from outside our own borders—this refusal of course in no way lessening our deep appreciation of the kindly sympathy which has prompted such offers.

The detailed account of the action of the War Department is contained in the appendices to the letter of the Secretary of War. At the moment our concern is purely with meeting the terrible emergency of the moment. Later I shall communicate with you as to the generous part which I am sure the National Government will take in meeting the more permanent needs of the situation, including of course rebuilding the great governmental structures which have been destroyed.

I hope that the action above requested can be taken to-day.

THEODORE ROOSEVELT.

THE WHITE HOUSE, *April 21, 1906.*

TRANSPORTATION OF DUTIABLE MERCHANDISE WITHOUT APPRAISEMENT.

Mr. ALEXANDER. Mr. Speaker, I desire to call up the bill H. R. 11037 as a privileged bill and ask unanimous consent to have it considered in the House as in Committee of the Whole.

The SPEAKER. The gentleman from New York calls up the following privileged bill, the title of which the Clerk will report.

The Clerk read as follows:

A bill (H. R. 11037) relating to the transportation of dutiable merchandise without appraisement.

The SPEAKER. The genteman from New York asks unanimous consent that the bill may be considered in the House as in the Committee of the Whole House on the state of the Union. Is there objection?

Mr. WILLIAMS. Mr. Speaker, I will be compelled to object.

Mr. ALEXANDER. Mr. Speaker, I move that the House resolve itself into the Committee of the Whole House on the state of the Union for the purpose of considering the bill H. R. 11037.

The SPEAKER. The gentleman from New York moves that the House resolve itself into the Committee of the Whole House for the consideration of the bill indicated.

The question was taken, and the motion was agreed to; and the House resolved itself into the Committee of the Whole House on the state of the Union for the consideration of the bill (H. R. 11037) relating to the transportation of dutiable merchandise without appraisement, Mr. HINSHAW in the chair.

The CHAIRMAN. The Clerk will report the bill.

The Clerk read as follows:

Be it enacted, etc., That the privileges of the first section of the act approved June 10, 1880, relating to the transportation of dutiable merchandise without appraisement, be, and the same are hereby, extended to the port of Buffalo, in the State of New York.

Mr. ALEXANDER. Mr. Chairman, the object of this legislation is to enable merchandise, and especially cattle, shipped from Canada to ports in this country to pass immediately through Buffalo to the place of destination without being stopped in Buffalo for appraisement. In other words, it allows goods intended for shipment abroad to pass from Canada through to New York without being held up at Buffalo for appraisement. It seems to be quite necessary that live stock arriving in Buffalo under these conditions should not be unloaded on the way.

Mr. BUTLER of Pennsylvania. It obviates delay?

Rejected

Nessen response to Governor Carey calling President Ford "a fiscal illiterate."

"When it comes to prudent fiscal management, Governor Carey scores about a D- and it looks like he's about to flunk his final exam. If Governor Carey has this opinion of the President's economic abilities, I wonder why he and Mayor Beame keep running to Washington, hat in hand, begging the White House to bail them out.

If Governor Carey believes <u>his</u> fiscal management abilities are so much greater than the President's, why doesn't he apply them to solving New York City's problem?

Governor Carey should stop acting like a cry baby and start acting like a Governor."

me and my Administration that they have acted in good faith, but they still need to borrow money on a short-term basis for a period of time each of the next two years in order to provide essential services to the eight million Americans who live in the Nation's largest city.

Therefore, I have decided to ask the Congress when it returns from recess for authority to provide a temporary line of credit to the State of New York to enable it to supply seasonal financing of essential services for the people of New York City.

There will be stringent conditions. Funds would be loaned to the State on a seasonal basis, normally from July through March, to be repaid with interest in April, May and June, when the bulk of the City's revenues come in. All Federal loans will be repaid in full at the end of each year.

There will be no cost to the rest of the taxpayers of the United States.

This is only the beginning of New York's recovery process, and not the end. New York officials must continue to accept primary responsibility. There must be no misunderstanding of my position. If local parties fail to carry out their plan, I am prepared to stop even the seasonal Federal assistance.

I again ask the Congress promptly to amend the Federal bankruptcy laws so that if the New York plan fails, there will be an orderly procedure available. A fundamental issue is involved here -- sound fiscal management is imperative of self-government.

I trust we have all learned the hard lesson that no individual, no family, no business, no city, no State and no nation can go on indefinitely spending more money than it takes in.

As we count our Thanksgiving blessings, we recall that Americans have always believed in helping those who help themselves.

New York has finally taken the tough decisions it had to take to help itself. In making the required sacrifices, the people of New York have earned the encouragement of the rest of the country.

Mr. Cormier?

The package proposed by N.Y. does not eliminate the $724 million gap, but the plan does finance it.

MORE

Tab B

It is proposed that the New York State legislature pass any of the following tax packages and direct that the revenues are to be applied to finance special new MAC notes to be issued on December 1, and thereafter as required.

Net Cash Requirements
million dollars

	N.Y. City [1]	N.Y. State (incl. HFA)	Total
Dec. 75 - June 76	$ 699	$1,811	$2,510
July 76 - June 77	390	50	440
July 77 - June 78	-434	-	-434
Total	$ 655	$1,860	$2,515

[1] Includes deferral of all payments on principal of notes and bonds and cancelling half of all scheduled interest payments.

Option 1

Cash Need $2,960 million

Option A:	10% Income Tax Surcharge (2 years)	$ 764
	4 cent gas tax (3 years)	696
	1 cent sales tax (3 years)	1,515
		$ 2,975
Option B:	5% Surcharge (2 years)	$ 382
	6 cent Gas Tax (3 years)	1,044
	1 cent Sales Tax (3 years)	1,515
		$ 2,941
Option C:	5% Surcharge (2 years)	382
	4 cent Gas Tax (3 years)	696
	2 cent Sales Tax first year, 1 cent 2nd and 3rd year	2,020
		$ 3,098

Surplus of $597 million available for refunds year 3.

Option 2
$250 Million Mitchell-Lama Purchase

Cash Need $2710 million

Option A:	7% Surcharge 2 years	532
	4 cent gas tax 3 years	696
	1 cent sales tax 3 years	1515
		2743
Option B:	4% Surcharge 2 years	304
	5 cent gas tax 3 years	870
	1 cent sales tax 3 years	1515
		2689
Option C:	9% Surcharge 2 years	684
	6 cent gas tax 3 years	1044
	1 cent sales tax 2 years	1010
		2738

Option 3

$250 million M-L Purchase
$200 million GNMA Purchase HFA Mortgages
$250 million Guarantee HFA Bonds

Cash Need 2490

Option A:	8% Surcharge (2 yrs)	$608
	5 cent gas (3yrs)	70
	1 cent sales(2 yrs)	1010
		$2488
Option B:	4% Surcharge (2 yrs.)	$304
	4 cent gas (3 yrs.)	696
	1 cent sales (3 yrs.)	1515
		$2515
Option C:	9% Surcharge (3 yrs.)	$1026
	4 cents gas (2 yrs.)	464
	1 cent sales (2 yrs.)	1010
		$2500
Option D:	9% Surcharge (3 yrs.)	$1026
	1 cent sales (3 yrs.)	1515
		$2531

Option 4

No default

<u>Cash Needs $5,813 million</u>

11% Surcharge (3 years)	$ 1,254
6 cent Gas (3 years)	1,044
3% Sales (1st year)	1,515
2% Sales (2nd and 3rd years)	2,020
	$ 5,833

RON:

The senior W.H. advisors plan or scenario on N.Y.C is as follows:

- a summary of the plan presented by Carey today is beigg prepared this summary, along with a letter presented by Carey, will be ~~gx~~ given key Hill members for their re iew and comment

On Monday, the W.H. would get back the reaction and recommendatinns from the Hill members and on Tuesday, these recommendations would be presented to the President for his decision

Carey has already made public their plan which does include federal guarantees for short term seasonal financing of

$1.3 billion in the ~~first~~ 1st year & $2.4 in the 2nd Yr.

Bill Seidman was going to present the above plan to D.Cheney for his concurrence.

JGC

"Bailout"

1 – 11-15% yield.
guaranteed.

2 – RR bonds.

3 – Pass books.

October 2, 1975

SUBJECT: FEDERAL ASSISTANCE TO NEW YORK CITY

The total Federal assistance to New York City totals about $3.5 Billion. A rough breakdown is as follows:

		(Billions)
Payments to Individuals		$ 2.0
Medicaid	1.115	
Public Assistance	.650	
Food and Nutrition	.135	
Other	.137	
General Revenue Sharing		.263
Transportation (mainly mass trans.)		.203
Education and Manpower		.408
Other		.580

JGC

SELECT COMMITTEE ON CRIME
ITS CAUSES, CONTROL AND EFFECT ON SOCIETY

270 Broadway
New York, New York 10007
Area Code 212 [illegible]

Ref. ________

October 16, 1975

Hon. James Buckley
17 Russell Building
Washington, D. C. 20510

Dear Senator Buckley:

Enclosed is a memorandum prepared by the counsel to my committee in which he raises issues of grave concern that relate to the New York City fiscal crisis. The recommendation is made that the issues raised in the memorandum be brought to your attention with a view to perhaps mobilizing the appropriate federal response.

I fully concur in such recommendation and accordingly forward the memorandum to you for whatever action you deem appropriate. Please be assured that both I and my committee's staff stand ready to answer any inquiry or assist in any way should you wish to pursue this matter further.

Very truly yours,

Ralph J. Marino

Senator Ralph J. Marino
Chairman

RJM:ehc
Enc.

Members of Committee
Ralph J. Marino
Chairman
John G. LoPresto
Vice-Chairman
Abraham Bernstein
Secretary

* * *

John D. Calandra
Arthur O. Eve
John T. Flack
Alan Hochberg
James F. Hurley
Thomas F. McGowan
Lloyd H. Paterson
Dale M. Volker

* * *

Ex-Officio Members
Warren M. Anderson
Majority Leader of Senate
Joseph Zaretzki
Minority Leader of Senate
Perry B. Duryea, Jr.
Speaker of Assembly
John E. Kingston
Majority Leader of Assembly
Stanley Steingut
Minority Leader of Assembly
John J. Marchi
Chairman of Finance Committee of Senate
Willis H. Stephens
Chairman of Ways & Means Committee of Assembly

NEW YORK STATE
SELECT COMMITTEE ON CRIME
ITS CAUSES, CONTROL AND EFFECT ON SOCIETY

270 Broadway
New York, New York 10007
Area Code 212 488-3545

Jeremiah B. McKen
General Counsel

Ref. ________

M E M O R A N D U M

TO: SENATOR RALPH J. MARINO, CHAIRMAN

FROM: JEREMIAH B. McKENNA, COUNSEL

DATE: October 13, 1975

INTRODUCTION

Pursuant to your request we have examined the State Comptroller's Interim Reports 1 and 2 which concern New York City's central budgetary and accounting practices. These reports leave little doubt that recent city borrowings have relied upon massive fraud in the statement of the accounts pledged to repay the borrowed funds. The issue of immediate concern is whether such municipal fraud is inadvertent or deliberate.

THE FACTS: INTERIM REPORT NO. 1

The first report, designated Report No. NYC-3-76, focused upon the Supplementary Revenues listed as Receivables from the State and Federal governments. These comprise 38% of the City's Expense Budget. A portion of these funds are advanced or paid quickly to the City but inevitably some payments lag behind the City's expenditure of these funds. This creates a built-in need for short term borrowing by the City to enable it to make the expenditure in advance of reimbursement. Such borrowing usually occurs in the form of Revenue Anticipation Notes (RANs).

The State Comptroller's Office looked at the Receivables from the State and Federal governments applicable to the years ended June 30, 1974 and June 30, 1973. Interim Report No. 1 states the result of the audit succinctly:

> "The accounts receivable from the State and Federal governments applicable to the years ended June 30, 1974 and June 30, 1973, recorded in the City's central fiscal records as of March 31, 1975 are grossly overstated. We examined \$373.3 million out of \$434.2 million of such Receivables, and found them to be overstated by \$324.6 million." (at p.2, emphasis supplied.)

The Comptroller's Report is strewn with comments that cry out for further investigation. For example, it was the practice of the City Comptroller's office to send city agencies a statement listing the balance of the State and Federal receivables that pertained to the agency's programs. In one instance, the city agency involved, the Department of Social Services, responded by declaring \$121.4 million "no good" and explaining why.[1] Nevertheless, the item remained a receivable in the Comptroller's records.

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1. Office of the Comptroller of the State of New York, Report on New York City's Central Budgetary and Accounting System, Report No. NYC-3-76 pp. 17-18, 1975.

Between Spetember 11, 1973 and November 12, 1974, the City issued $1, 275 million in Revenue Anticipation Notes against a declaration of $1, 667 million in anticipated State and Federal aid receipts. The actual anticipated aid receipts in the City's books of account were $1, 016 million but most significantly the actual realizable aid was $404 million.[2] When the anticipated revenues did not come in because they were fictitious, the City drew from other sources to repay the note holders on the due dates. For example, on September 16, 1974,

RANs, totalling [illegible] became due which

the City paid from an issue of current RANs.[3] Thus, the City has been pyramiding its fictitious accounts receivable, tied to Federal and State Revenues, into a concealed deficit in the hundreds of millions.

There are other ramifications to this particular manipulation of the City's accounts receivable. The City was able to circumvent the requirement of a balanced budget and incur expenditures without offsetting revenue sources. The City was simultaneously able to report better year-end results than actually experienced.[4] The inflation of the anticipated Federal and State aid also relieved the pressure

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2. Ibid, p. 26
3. Ibid, p. 26
4. Ibid, p. 27

on the rest of the expense budget by raising the revenue side of the ledger and reducing the expense side.

THE FACTS: INTERIM REPORT NO. 2

The New York City Charter section 1515 provides that after expenditures have been matched against receipts, the budget is to be balanced by the real estate tax levy. For the year ended June 30, 1975, the expense budget of $11.1 billion was to be financed in part by a real estate tax levy of $2.9 billion. But included in the anticipated real estate tax revenues were $502 million in uncollected real estate taxes.

When Arthur Levitt's auditors examined in detail the $502 million of uncollected real estate taxes, they found this amount included $126 million on diplomatically owned and therefore untaxable real property, $53 million on Mitchell-Lama housing for which tax abatement had been granted, $54 million for property on which the City was in the process of foreclosure for delinquent taxes and $43 million for property belonging to the bankrupt Penn Central Railroad for which there was little likelihood of payment in the foreseeable future. When it was added up, some $408 million out of the $502 million was uncollectible.

The City borrowed $308 million in Tax Anticipation Notes (TANs) on June 11, 1975 pledging these uncollectible tax revenues as collateral. There were other effects from the inclusion of these fictitious tax receivables in the City's revenue budget. The City was enabled to illegally increase its debt limit, understate its true tax rate and permit its budget to appear to be in balance when in fact it was seriously out of balance.

THE APPLICABLE LAW

Section 175.30 of the Penal Law makes it a Class A misdemeanor to present to a public servant or office a written instrument containing false statements or information with the knowledge that it will become part of the records of such public office. The City's budget, its accounts receivable and the documents supporting the issuance of the various Tax Anticipation Notes and Revenue Anticipation Notes qualify as instruments for purposes of this section. If an intent to defraud the State or City can be shown, the crime is raised to a Class E felony by Penal Law Section 175.35. In addition, Section 175.45 of the Penal Law makes it a Class A misdemeanor to issue false financial statements in the manner detailed in the Interim Reports Numbers 1 and 2. The issue to be decided is whether the false entries in the City's fiscal records were made inadvertently or deliberately. If these entries were knowlingly and deliberately made with an intent to conceal the true financial condition of New York City and to permit the City to borrow to meet its cash needs under a budget dangerously out of balance, then it would appear that Article 175 of the Penal Law applies.

FEDERAL STATUTES

If the false entries concerned with anticipated State and Federal receipts were knowingly used in any reports filed with a federal agency, it would appear that Section 1001 of Title 18 of the U. S. Code would make such a federal crime. In addition, Section 1014 of Title 18 of the U. S. Code makes it a crime for anyone knowingly to make a false financial statement or overvalue any security for the purpose of influencing the action on a loan of a bank insured by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation. If the RANs or the TANs mentioned in the Comptroller's reports were purchased by FDIC or FSLIC insured banks, and it can be shown that the gross overstatement of the anticipated Federal and State revenue accounts receivable and the real estate tax receivables was deliberate, then it would appear there is federal criminal jurisdiction over the fiscal record manipulations of New York City.

CONCLUSION

There is little doubt that this Committee has the jurisdiction to investigate to determine whether public officials of the City of New York have knowingly participated in one of the most mammoth financial frauds in history. Unfortunately, our Committee has neither the resources nor the staff to conduct such an investigation properly. If either our Committee or the Senate Finance Committee undertook this investigation singly or jointly, we would be accused of political partisanship. Such a crucial investigation as this should not be impeded by charges of partisanship, however false they may be.

It appears then that the investigation could best be conducted by a federal agency that would draw upon the resources and trained staff available on the federal level. It is therefore our recommendation that this problem be referred to U. S. Senator James Buckley so that he might explore through his office which federal agency or vehicle would be most appropriate for this investigation.

If there are public officials who are criminally responsible for the financial calamity that now threatens the city, state and, indeed, the nation, their individual responsibility should be fixed and fixed quickly.

JBM:ehc

October 17, 1975

At 12:25 a.m. an aide to Mayor Beame placed a call to the President.

The call was put through to Terry O'Donnell. The aide said that the Mayor felt default was eminent in the morning and wanted to advise the President personally.

Terry told the aide that the President had gone to sleep but he would act on the telephone call.

Terry then called Bill Seidman who he knew was awake because Seidman had taken several calls from New York already. Seidman was aware of the situation, told Terry to call the aide back; Seidman would keep the President advised.

Dennis Dugard NYC Mayors staff Felix Rohatyn at 12:15 am

Terry then notified the Usher's Office to have the President call Seidman when he awoke.

At 5:37 a.m. the President called Seidman.

The President asked Seidman to have a meeting of the Monitoring Group to review the situation and to meet with him this morning.

<u>This was not meant to imply any change in the President's position, but part of the ongoing monitoring</u>.

Treasury chairs these meetings. Sometime Simon, more often Deputy Secretary Yeo. The group met at 8:15 a.m.

We have no more details on the meeting.

The wires, the radio and whatever additional people who were in the Press Room were advised at 9:30 a.m.

We also said there would be no anticipated briefing either by the President or the group after the meeting but that Ron would be prepared to answer questions at his briefing.

Seidman : 5:37 (Phone)
Greenspan : 10:30 (Visit)
Simon : 10:45 (Phone)

— o —

~~[illegible]~~

Emphasize that there is no statutory authority for Pres to give any long-range solution to NYC's financial problem.

— o —

Q. Advance Welfare money?

— o —

A.

Advance Money? } Does not solve long-range problem. So opposed.

President Keeping in touch with situation. If have anything to say, let you know.

Q Open Mind?

A. Speculative situation overtaken by events. Situation too fluid to comment. Pres.

Meeting

8:15 am Simon, Seidman, Lynn, Greenspan,
Present Rumsfeld, Scalini. Reviewing situation. Then series of bi-lateral meetings.

Meeting again very shortly.

At this pt, there is no plan.
Over the Pres to send case.
to NYC.

[ca. 10/21/75]

AID TO NEW YORK CITY

Letters and telegrams (from May 3 to October 21, 10 a.m.)

PRO aid to New York City	2703
CON aid to New York City	1861
Comment	86

Letters and telegrams (during last two weeks -- figures are broken out of total above)

PRO aid to New York City	1355
CON aid to New York City	1396
Comment	49

THE WHITE HOUSE

WASHINGTON

October 23, 1975

MEMORANDUM FOR : THE HONORABLE WILLIAM SIMON
Secretary of the Treasury

FROM : JIM CANNON Jim

SUBJECT : Telegram from Arthur Levitt
Comptroller of New York State

The attached telegram to the President was sent to Jim Falk today.

Since Treasury has the liaison with New York City, perhaps it would be more appropriate for you to respond.

~~cc~~: Ron Nessen

WH3012(1109)(2-012058E291)PD 10/18/75 1109

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PMS PRESIDENT GERALD FORD

WHITE HOUSE DC

DEAR MR PRESIENT LAST NIGHT YOUR PRESS SECRETARY MADE THE STATEMENT THAT NEW YORK CITY'S FINANCIAL CRISIS COULD BE SOLVED IF ITS OPERATING BUDGET WERE CUT BY A MERE 6-0/0. UNFORTUNATELY THIS PROBLEM IS FAR MORE SERIOUS AND COMPLEX. BECAUSE IT HAS NO ACCESS TO THE CAPITAL MARKET NEW YORK CITY IS UNABLE TO FINANCE EITHER ITS OPERATING EXPENSE DEFICIENCY, ITS CAPITAL CONSTRUCTION PROGRAM, OR ITS MATURING SHORT TERM OBLIGATIONS.

IT IS NOW ESTIMATED THAT THE CITY WILL HAVE A CASH DEFICIT OF MORE THAN 5 BILLION DOLLARS BY JUNE 30 1976. THE FINANCING PACKAGE DEVELOPED BY THE STATE OF NEW YORK WILL COVER THE DEFICIENCY THROUGH

NOVEMBER 30 1975 FOR ABOUT 1 BILLION DOLLARS. BUT WITHOUT FEDERAL ASSISTANCE THE REMAINING CASH DEFICIT OF ABOUT 4 BILLION DOLLARS CANNOT BE FINANCED.

NO MATTER HOW THE CITY REDUCES ITS BUDGET IT CANNOT FIND SUFFICIENT CASH TO MEET ITS EXPENDITURES UNLESS IT HAS ACCESS TO THE CAPITAL MARKET.

UNLESS THE FEDERAL GOVERNMENT GUARANTEES ITS BORROWINGS THE CITY WILL SURELY DEFAULT ON ITS OBLIGATIONS. THOUSANDS OF CONSTRUCTION WORKERS WILL LOSE THEIR JOBS. THE CITY'S ADMINISTRATIVE MACHINERY WILL COME TO A GRINDING HALT AND THE CITY'S PEOPLE WILL BE SEVERELY HURT. FURTHERMORE THE PROBLEM IS SPILLING OVER INTO THE STATE'S OWN PROGRAM AS WELL AS THOSE OF THE STATE'S OTHER MUNICIPALITIES. STATE

PUBLIC AUTHORITIES CREATED TO FINANCE CAPITAL CONSTRUCTION CAN NO LONGER BORROW AND MIGHT DEFAULT NEXT MONTH ON THEIR MATURING OBLIGATIONS. THEY MUST HAVE ACCESS TO SOME 2 BILLION DOLLARS BY JUNE 30 1976 IF THEY ARE TO AVOID DEFAULT AND CONTINUE CONSTRUCTION. THE STATE'S MUNICIPALITIES AND THE STATE ITSELF ARE PAYING INORDINANTLY HIGH INTEREST RATES AND HAVE VIRTUALLY LOST ACCESS TO THE CAPITAL MARKET

WE DO NOT SEEK OUTRIGHT GRANTS, NOR DO WE NEED FEDERAL LOANS. WE NEED YOUR GUARANTEES TO PROVIDE US WITH ACCESS TO THE CAPITAL MARKETS I RESPECTFULLY URGE YOUR IMMEDIATE INTERVENTION.

ARTHUR LEVITT COMPTROLLER STATE OF NEW YORK

NNNN

THE WHITE HOUSE

WASHINGTON

October 27, 1975

MEMORANDUM FOR RON NESSEN

FROM: BILL SEIDMAN LWS

SUBJECT: Guidance on New York City

Senators Stevenson and Proxmire have each made proposals with respect to Federal financial aid for New York City.

Senator Stevenson's proposal incorporates three main elements:

(1) Federal financial assistance would be conditioned on a restructuring of the City's debt under which holders of City obligations would receive lower interest rates and postponed principal payments.

(2) The restructuring could be on a voluntary or involuntary basis and would require payment of principal over the next 10-15 years.

(3) The precise conditions of federal aid would be determined by a three-member Federal Board headed by the Secretary of the Treasury.

Senator Proxmire has proposed that:

(1) Federal financial assistance be conditioned on a renegotiation of New York City pension plans.

(2) Federal financial assistance not be conditioned on involuntary restructuring because involuntary restructuring has the effect of default.

The New York State Emergency Financial Control Board is already sounding out the banks on the possibility of a deferral of both New York City and MAC notes. (The banks hold $1.1 billion of MAC bonds.)

NYC

Administration Position

The Administration is continuing its careful monitoring of the New York situation.

We continue to believe that it is possible that further efforts by New York City and State can meet the situation without federal financial assistance.

If asked if the Administration believes that New York City can avoid default I would answer that it is possible, but because of the lack of required action by the City and the State, it would appear that it is becoming increasingly difficult for New York to avoid a default.

COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

ALAN GREENSPAN, CHAIRMAN
PAUL W. MACAVOY
BURTON G. MALKIEL

October 27, 1975

MEMORANDUM FOR THE PRESIDENT

Subject: An Economic Analysis of the New York City Financial Crisis

New York City, with approximately $1 billion of expenditures each month, is now to the point that its revenues fall short of current and capital expenditures even without including the costs of service on its debt. The City needs more income to pay policemen and firemen and to continue capital improvement projects. This income in recent months has been forthcoming from issuing new debt. But unless additional financial resources are found the City will default and stop debt service payments in December. At that point the funds for current expenditures will also be insufficient.

This memorandum provides an economic analysis of the financial crisis in New York City. The question is how the present financial problem evolved over the last ten years -- what were the political and economic decisions that resulted in deficit operations. Proposed solutions to the crisis are reviewed and analyzed in the concluding section of the memorandum. The analysis makes clear that it is unlikely that the various "plans" now offered contain the solution to the crisis without Federal legislation.

1. The Present Financial Condition of New York City

The City of New York expects to receive from tax sources, welfare aid, and other State and Federal aid, approximately $906 million per month for the last nine months of this fiscal year. The expense budget calls for expendigures of approximately $903 million per month. Capital outlays, some of which are in reality current expenses, exceed $100 million per month. Without including debt service, the deficit in current and capital account should be $98 million per month. This deficit will probably be exceeded, however, because the expense budget may underestimate actual outlays if the new State plan is not enforced. The City Comptroller testified before the Senate Banking Committee on October 24th that revenues will fall short of expected expenses by $1.2 billion for the period December through March of 1976 alone.

Additional outlays are necessary to maintain the capital budget. The amounts required in the rest of this fiscal year are expected to exceed $50 million per month for repayment of principal and interest and for maintenance of currently budgeted capital improvement programs. Even if debt service is suspended, the City will need as much as $500 million to $1 billion in the next three to six months to meet expenses related to capital projects.

Mayor Beame and the Emergency Financial Control Board have adopted a three-year financial plan to attain a balanced budget for the fiscal year commencing on July 1, 1977. This plan is designed to achieve an end to the deficits, by reducing the rate of expenditures by $200 million in this fiscal year, $300 million more in fiscal year 1976-1977, and $300 million more in fiscal year 1977-1978. At the same time the capital budget is to be cut from $1.7 billion to $1.1 billion, with operating expense items in the capital budget reduced by $350 million per year.

This plan does not promise a solution to the problems created by the debt service deficits in the next few months unless investor confidence is restored immediately. The State of New York plan to deal with debt service needs calls for the State purchase $450 million of City notes this month. This would seem to be achievable even if some outside sources of money have to be obtained by the State to provide the needed amount. But it is highly uncertain whether the State can provide the funding necessary to complete debt service and meet payrolls in the capital budget items after December. The most likely course of events is for the City to default on debt service in December even with the maximum possible assistance from the State.

In the next year, and in the long term, the solution to the financing problem is to balance City revenues and expenditures. For this to be done certain critical political decisions of the last decade have to be reversed. These decisions related to the City's reasponses to demands for more and better services, and to the City's methods of obtaining both tax revenues and borrowed funds.

Decisions on corporate taxation and rent controls were equally important because they reduced incentives for industry and housing to develop in the New York area.

2. Creation of the Fiscal Crisis

The current financial problems in New York City are the result of a process which has been going on for a decade or more. Recent economic conditions of course, have played a role in default at this time. Inflation has raised the costs of services, unemployment and recession have increased the needs for services. The recent record high interest rates have especially affected New York by increasing debt service costs on the extraordinarily large volume of short-term paper issued by this city.

The influence of the recession is shown in Table 1. Although the CPI increased by 9.3 percent from June, 1974 through June, 1975, the sales tax base for New York increased only 1.7 percent. This fact is important because New York City obtains more of its revenues from non-property taxes (57 percent as compared to 38 percent in 1972-1973) than do other metropolitan areas and thus the tax receipts are more income sensitive than those of most local governments. The unemployment rate for New York City has been greater than that of the nation as a whole, but the volatility of that unemployment has not been more marked. The number of welfare recipients has risen, but not markedly. The index for welfare recipients in fact declined from the 1972 high to levels 5 to 10 percent lower in 1974 and 1975. An influx of welfare cases as a result of the recent recession cannot be the cause of the financial poblems of the city. Consequently, general economic conditions in 1974-1975 can be said to have caused problems of New York City but not significantly more than those of the rest of the nation's cities. And the other cities did not experience New York's financial crisis.

New York City has been losing population and jobs (as shown in Table 2). The tax base has been disappearing as well (as indicated by deflating the sales tax base by the CPI for commodities).

The effect of these trends on the tax burden in New York City is shown in Table 3. Through fiscal 1971, taxes as a percent of personal income fluctuated within .4 percent of 7.7 percent, but then rose a full percentage point in 1971-1972. For fiscal 1975 taxes are 10.2 percent of personal income.

TABLE 1-- Measures of the Recession's Impact on New York City

Year	Unemployment Rate[1]	Welfare* Recipients[2]	Sales Tax* Base[3]
1970	4.8	101.5	78.1
1971	6.7	109.5	81.5
1972	7.0	112.9	NA
1973	6.0	106.4	91.9
1974	7.2	101.4	96.7
1974 June	6.9	100.0	100.0
July	7.3	100.2	100.4
Aug.	6.8	99.3	100.2
Sept.	7.3	100.5	99.1
Oct.	7.2	101.3	99.8
Nov.	7.4	101.3	99.6
Dec.	8.5	102.4	100.4
1975 Jan.	10.3	102.8	101.0
Feb.	10.2	102.5	101.0
Mar.	11.0	103.1	101.7
April	10.8	104.3	102.0
May	10.9	104.3	101.9
June	11.7	105.0	101.7
July	12.0		
Aug.	11.0		

Sources: 1. New York State Department of Labor
2. New York State Department of Social Services
3. Annual figures from New York State Department of Taxation and Finance. Monthly figures from Municipal Assistance Corporation

*Indexes use June 1974 as the base period (Sales Tax Base 100 = $1.6 billion; Welfare Recipients 100 = 949,000). Sales Tax Base is equal to the total value of sales subject to taxation. Index is based on a twelve-month moving average to eliminate seasonal effects.

The Welfare index includes recipients under the AFDC and home relief programs.

Table 2 -- Employment, Population, Welfare Recipients and Sales Tax Base, 1970-1975 (first half)

Year	Total Jobs Index	Private Sector Jobs Index	Population Index	Welfare Recipients Index	Sales Tax Base Index	Sales Base Deflat Inde
1960	94.5	98.4	98.6	NA	NA	NA
1970	100.0	100.0	100.0	100.0	100.0	100.0
1971	96.4	95.5	99.9	107.9	104.4	101.0
1972	95.1	94.2	99.4	111.2	NA	NA
1973	94.5	93.1	97.1	104.8	117.7	102.8
1974	92.4	90.4	95.8	99.9	123.8	96.6
1975	90.1	88.1	NA	102.2	129.9	94.8

Congressional Budget Office, "New York City's Fiscal Problem," calculated from Tables 3 an

Table 3

New York City Personal Income as Related to Taxes, Expenditures and Deficits

Fiscal Year	Personal Income $ B	Personal Income Deflated by CPI	Taxes $ B	Taxes as Percent of Personal Income	Municipal Expenditures % Personal Income	Municipal Deficit % Personal Income	Municipal Debt as % Personal Income
1963-64	27	29	2.0	7.6	NA	NA	NA
1964-65	28	30	2.2	7.9	12**	NA	NA
1965-66	29	30	2.2	7.3	13**	NA	NA
1966-67	31	31	2.4	7.7	14**	NA	NA
1967-68	34	33	2.6	7.8	16**	NA	NA
1968-69	37	34	2.8	7.6	15	NA	NA
1969-70	39	33	3.0	7.5	17	.2	16
1970-71	41	34	3.2	7.7	18	1.8	17
1971-72	43	34	3.7	8.7	20	3.5	16
1972-73	45	34	4.0	8.9	21	2.5	21
1973-74	48	33	4.5	9.4	22	.9	21
1974-75	50	32	5.1	10.2	NA	3.4	23
						NA	NA

Source: CBO Table 5, and calculated from data found in Annual Report of the Comptroller, The City of New York, Fiscal Years 69-70 through 73-74, New York City: Economic Base and Fiscal Capacity Summary, Maxwell Research Project on The Public Finances of New York City.

* Excludes fees and charges, stock transfer taxes and nonresident income taxes.

** Not strictly comparable with data for later years.

At the same time municipal outlays increased more rapidly than the tax burden. Table 3 indicates the change which overtook city expenditures and debt in relation to personal income. While for the four years 1964-65 through 1967-69 city expenditures rose as a percent of personal income by three percentage points, for the 6 years ending in 1973-74 they rose 7 percentage points. Cumulative municipal debt relative to personal income rose as well.

The conclusion is that New York City experienced demographic and economic changes which led to a stagnating and then declining city economy. The changes eliminated the possibility that today's problems could be solved by tomorrow's growth. There was no longer an expanding economy on which more debt could be placed in expectation that future growth would make continuous funding of current deficits feasible. As the deflated personal income figures in Table 3 show, the City's economy was stationary in the late 1960's and early 1970's. This condition put a limit on revenues from tax sources. New Federal policy in the early 1970's reduced the expansive growth of aid programs at the same time. Thus income growth for the city was likely to be much lower than in some of the newer large cities in the South and West.

The pressures for expansion of expenditures did not abate, however. The demand for social and educational services for the poor were responded to by interest groups across the political spectrum. The momentum built up on the expenditure side was carried along by rising expectations for City services. In addition, the ability of the City's powerful unions to extract wage settlements, coupled with ineffective lower and middle management contributed significantly to the situation in which the City finds itself. The political process in New York City and the way in which the municipal government chose to postpone problems allowed the deficits to accumulate to crisis dimensions. The gap between what the City paid out and took in from tax and grant receipts exploded beyond levels acceptable in other cities.

The budgetary process which relates expenditures to revenues broke down in New York City and allowed the gap to be created. Controls that normally would have forced reconciliation between expenditures and receipts were loosened by the use of questionable accounting practices. The result of the slippage in management was to postpone the day of reckoning. The postponement made the problem worse because the deficit increased significantly. This made refunding not only a financial problem but also an operations problem because of the necessity to raise money to meet payrolls.

The fiscal practices which contributed to the City's ability to spend more than income are as follows:

(a) Borrowing on accounts receivable. In a number of instances, the City borrowed on accounts receivable that had little if any likelihood of being collected.

(b) Capitalization of operating expenses. Operating expenses have been put in the City's capital budget so as to reduce the need for tax levy monies in a given fiscal year. This practice grew to the point where it eroded the City's ability to finance capital improvements to its own physical plant. Further, this practice, while legal, inevitably cost the taxpayer 15 to 20 percent more each year because of the interest payments on the borrowed funds. In the 1973-74 budget, for example, the entire cost of the vocational education program (estimated at $148 million) was transferred from the operating budget to the capital budget through a technical loophole in the law.

(c) Underfunding pension costs. The City underfunded the entire pension program by holding to acturarial assumptions made in 1917 that imply short lifetimes for retired employees. In addition, the Fire Department Pension fund has been $200 million in arrears because of an impasse among members of the fund's Board of Trustees as to the respective responsibilities which the employees and the City should assume in making payments to liquidate the deficit. Despite these factors, the City took advantage of some questionable fiscal practices to use $125 million of "excess" income in the Employees Retirement System to balance the 1974-75 budget.

(d) Underfunding collective bargaining settlements. In each of the last two fiscal years the City has underfunded the cost of collective bargaining settlements by about $100 to $150 million annually. Essentially, the City assumed that contracts negotiated in one fiscal year, e.g., 1973-74, would not be settled until the following year, e.g., 1974-75. This allowed the 1973-74 costs of such contracts to be paid retroactively through bonds issued under the "judgements and claims" provision of the City Charter and the State Finance Law. The effect on relative expenditure levels in the following year, e.g., 1974-75, was to double count the cost of the collective bargaining increase as the amount allocated doubles to meet the base year (1973-74) salaries plus the second year (1974-75) cost increases. This practice has permitted the City to grant salary increases in excess of what they might normally provide since there is little effect on the City tax levy funds in the base year.

Decisions on budgetary practices were important, but not the only determinant of deficit operations. A number of key political decisions were made, including the following:

(a) Mayor Wagner in 1958 granted city employees the right to bargain collectively. This created what one of Wagner's advisers called "a powerful special interest group" able to influence elections and bargain effectively for salary and benefit increases beyond those in effect in other cities.

(b) Successive Mayors in the decade from 1965 to 1975 developed the practice of borrowing on short terms so as to cover budget deficits. On June 30, 1965 the city's short term debt was $526 million. By February, 1975 it had grown to $5.7 billion.

(c) Mayor Lindsay postponed decisions to balance budgets in both 1973 and 1974. More than $270 million of expense items were moved to the capital budget, contingency accounts were drained, and one year notes were "rolled over" a second year. As a result, between June 1973 and March 1975 short term debt increased from $2.5 billion to close to $6 billion.

(d) At a number of points each Mayor considered and rejected proposals to remove rent controls. These controls in the last few years have kept rents below operating costs for many owners, thus reducing property values for tax purposes effectively to zero. About 25 percent of city apartment buildings are in arrears on taxes. Of the 125 subsidized Mitchell-Lama projects for middle income residents, 90 are in various stages of default. Outright abandonment runs to 90,000 housing units per year. The incumbant Mayors depreciated the tax base for the sake of voter approval in the next election.

With these actions the New York City municipal government ceased to practice levels of fiscal restraint found in other city governments. The results are shown in Table 4.

Table 4
Revenues and Expenditures of New York City
(Millions of dollars)

Revenues	Fiscal Year 1969-1970	Fiscal Year 1971-1972	Fiscal Year 1973-1974
Real estate taxes	$1,831	$2,100	$2,489
General fund	2,012	2,752	3,379
State and Federal aid	2,433	3,370	4,123
Other	251	377	84
Total Receipts	6,527	8,589	10,075
Expenses			
Current (excl. debt)	6,420	8,088	9,997
Current and capital (excl. debt)	7,139	9,207	11,579
Net Surplus Before Debt Service	-612	-618	-1,504
Debt Service	221	325	474
Net Surplus after Debt Service	-833	-943	-1,978

Source: Annual Report of the Comptroller of the City of New York

Although significant gaps did not occur between current revenues and current expenses, this was in part due to large expansions in the capital budget and in debt service. Funding problems were postponed by shifting from current account into the capital account. The day of reckoning was postponed.

These practices allowed New York City to extend itself beyond other large cities in the magnitude of its expenditures. As indicated in Table 5, the per capita expenditures of New York City exceeded those of every other except Washington, D.C. (a special case because of its national capital status). After taking account of the fact that New York City provides its own school services while many other cities do not, New York is still operating beyond the levels of expenditure provided elsewhere. State of New York studies indicated that New York City expenditures in the early 1970's for all categories of city services exceeded or matched those in the other of the 10 largest cities on a per capita basis. Cities having higher per capita incomes did less, and took a smaller proportion of per capita incomes in local taxes. The New York style of public service was lavish and expensive.

3. Proposed Solutions to the Financial Crisis

After New York's financial difficulties became apparent, the State set up the Municipal Assistance Corporation (MAC) to do the City's borrowing and the Emergency Financial Control Board (EFCB) to oversee the City's spending. To avoid default in September, the State legislature approved a complex financial plan to use the State's credit to help the City raise \$2.3 billion to meet cash needs until December. The merging of State and City credit has caused investors to lose confidence in both governments. Prices for both State and MAC securities have dropped, raising the real possibility that the marketability of State securities may decline to the point where new debt issues will not meet both the City's and State's needs. Were this to occur, the State would be dragged to default along with the City. At the present time seven State agencies are in danger of defaulting unless they can raise a total of \$1.5 billion by June 30. Beginning in March, the State government has to find ways to borrow approximately \$4 billion in short-term funds primarily to supply State aid to local governments for welfare, school costs and other services.

To restore investor confidence and thereby prevent default by both the City and the State governments the City and EFCB have attempted to put together a plan to balance the municipal budget within three years. It is widely

Table 5

Comparison of Per Capita General Revenues for the
Ten Largest U.S. Cities, 1966, 1970, and 1974

Cities with Dependent School Population *	Per Capita Total General Revenues				Per Capita General Revenues Raised from Own Sources				Percent of Total General Reve Raised from Own Sources		
	1966	1970	1974	Aver. annual % increase 1966-1974	1966	1970	1974	Aver. annual % increase 1966-1974	1966	1970	1974
New York City	$509	$838	$1378	13.2	$348	$454	$714	9.4	68.4%	54.2%	51.8%
Baltimore	335	618	945	13.8	184	285	373	9.2	55.2	46.1	39.5
Washington, D.C.	526	908	1520	14.2	385	581	840	10.2	73.4	64.0	55.3
Cities without Dependent School Population											
Chicago	132	183	319	11.7	105	139	218	9.6	80.1	75.8	68.3
Los Angeles	130	188	311	11.5	110	156	253	11.0	84.8	82.8	81.4
Philadelphia	166	276	457	13.5	142	241	321	10.7	76.1	87.1	70.2
Detroit	185	272	486	12.8	131	197	300	10.9	70.7	72.6	61.7
Houston	84	112	185	10.4	76	108	154	9.2	91.2	96.3	83.2
Dallas	89	142	260	14.3	87	137	220	12.3	98.5	96.0	84.6
Cleveland	127	194	370	14.3	100	170	253	12.3	76.5	87.4	68.4
Averages	$223	$373	N.A.	N.A.	$167	$247	N.A.	N.A.	73.4%	76.2%	N.A.

Source: U.S. Department of Commerce, Bureau of the Census, City Government Finances.

* Cities that operate school districts within the municipal budget.

acknowledged that the City's public payroll has to be reduced significantly, that City services have to be cut, particularly in the municipal welfare, hospital, and education systems, and some City agencies have to be abolished. It is also acknowledged that means must be found to increase City revenues, including raising sales tax rates. But encouragement must be given to business and industry to develop within the City so as to add to municipal tax receipts within existing corporate rates.

The plan is possible only if a significant initial expenditure reduction is made in the 1975-76 fiscal year. Mayor Beame and EFCB have proposed that the City government reduce expenditures from tax levy funds by $200 million over this fiscal year. This requires a redu ction of total outlays for services of $342 million (the difference being reductions in those services paid for by Federal and State funds). The proposed redu ctions occur primarily in welfare and other social services, and secondarily in education, hospital and police services. The important categories are shown in Table 6. Social services are cut the most, because $4 of reduction are required in Federal and State aid to achieve a $1 reduction in the City's own outlays.

These cutbacks require a reversal of City expenditure growth trends not likely to be achieved. Moreover, past patterns of decision making in New York imply that cutbacks, if achieved, may not be made in the most effective manner from the long run viewpoint.

-- The reductions in the educational and police serices are expected to come out of operating programs -- from the high school and community school districts, or from crime control -- rather than from support services where excess employment is the greatest.

-- The reduction in social services is attained primarily by cutting back on personnel which if across the board could have the effect of increasing overall welfare expenditures (as more people enter the welfare roles without being checked).

-- Health and hospital services are reduced by curtailments in hospital care in all the hospitals without actually closing down the most outmoded and inefficient hospitals.

These cuts will be objected to by the municipal unions and local community interest groups concerned with their

Table 6: Major Proposed Reductions in New York City Expenditures in 1975-1976

Agency	Total Reductions ($ million)	Reductions in Expenditures from the City's Own Tax Receipts ($ million)
Education	39	38
Police	20	20
Social Services	128	37
Environmental Protection	14	13
Health and Hospitals	39	12
Human Resources	10	10
All others	92	71
Total	342	201

own police, education and hospital services. They have not been achieved voluntarily by the City in the past, and they are not likely to be achieved by a City government in the future. The question is whether EFCB or succeeding agencies will be able to make these redu ctions and follow through in the face of strong union and local community pressure.

Long term cost reductions. There is no plan at this time that specifies the additional $600 million of reductions to be achieved in the next two fiscal years. Budget saving proposals have to be much more drastic than those outlined for the rest of this fiscal year. But any feasible plan would reduce further the police, fire and sanitation department employees that are still on the job. These would include sizable reductions in 3,500 supervisory jobs at the rank of sergeant or above in the police department, and in fire inspection positions. They would call for eliminating up to one-third of the employees of the sanitation department by means of a long-term capital enhancement program. The reductions would be the most difficult to obtain in the fire department and somewhat less difficult in the sanitation department, although significant capital expenditures would have to be made in new garbage collecting equipment. The changes required in thee sanitation department would be most likely achieved by contracting out garbage collection to private corporations able to borrow at lower rates in the capital markets and to operate at lower costs in collection.

The cutbacks require reductions in real income for those employed by the City. There is some doubt that substantial savings could be made from reducing real wage rates for both political and economic reasons. The municipal unions have threatened general strikes to protest extended wage freezes. Comparisons between salaries in New York and other cities indicate that New York's salaries are somewhat "out of line" with those elsewhere or in the private sector given that, although wages are comparable, fringe benefits are paid for entirely by the City so that wages net of health and pension payments are at least 10 percent greater. Fringe benefits and pension payments in New York City are well beyond those offered elsewhere. In addition to wages totalling $4.5 billion this year, the City will spend another $2.8 billion on fringe benefits and pensions. This constitutes 55 percent of the payroll, while in private industry the fringe-pension package averages 20 percent of the payroll. City workers receive four weeks vacation their first year on the job, and most have unlimited sick leave, personal leave days and a variety of other time-off provisions. The City pays the full health insurance costs of its employees and supports annunity funds for policemen, firemen and sanitation men (with total health and annunity expenditures of $100 million per year). Although it will be extremely difficult to curtail these fringe benefits, bringing expenditures under control will require that to be done. Most proposals stress that employees should pay a significant part of their own health insurance premiums, vacation periods should be reduced, and there should be an elimination of annuity payments. But these in effect constitute salary reductions which the unions say they will not accept.

In the longer period, the services extended to the City resident have to be reduced as well. Cutbacks in education, health, and welfare services would be a prime consideration. Particularly important is a cutback in the municipal hospital system -- an 18-hospital complex and related health care facilities that provides medical services for more than 2 million patients per year. The system costs close to $1 billion a year and has chronic deficits as a result of inefficient operations, low capacity utilization and expensive treatment in relation to charges. Last year the City experienced a deficit close to $334 million in that portion of the budget.

Proposals have been widely made to phase out or severely reduce the number of municipal hospitals. These plans have been opposed not only because the facilities provide health care particularly to the poor, but also because they are an important source of jobs to members of minority groups. Suggestions to close a hospital have provoked bitter protests among neighborhood residents fearing the loss of this resource and have touched off sensitive racial issues. Nevertheless, cost savings must be made and the most effective way is to reduce the number of small inefficient facilities. Eliminating hospitals has been a tentative municipal goal for years, but has been abandoned each time the issue is raised because of strong local community reaction.

Other City agencies will have to undergo drastic pruning. The City University system, by attempting to carry out policies of open admissions at the undergraduate level and full doctoral programs at the graduate level, has extended itself beyond its resources. Its annual expenditures of up to $600 million could be reduced by eliminating graduate training and by shifting the open-admissions program back to the high schools as a remedial education program. Tuition should be equivalent to that now being paid by State University students. In the long run the City University should be a division of the State University of New York, for cost reductions obtained by consolidation could be beneficial to both governments.

Plans for reducing welfare costs call for either shifting the costs to other governments or for eliminating the outmoded system now in operation. Most likely neither policy could be put into effect, and reductions in expenditures will be achieved only by more diligent surveillance of the caseload. This city's caseload is now close to 1 million, with slight increases likely in the next few years. State audits indicate that the proportion of ineligible people receiving welfare in New York City is close to 11 percent for the first half of this year. This is an increase from a preliminary report of 9 percent for the first four months, but is less than the 18 percent reported last year. Improved operations have to come from simplifying the error-creating regulations in the system.

The fact is that a solution to New York City's problems that relies on expenditure reduction is doomed to failure unless there is a restructuring in the way the City responds to the pressures of interest groups. Unless this is achieved the budget gap will not be closed. The gap that exists is not transitory because those with the power to make changes benefit from the status quo. "Business as usual," however fervent and well intentioned the efforts at expenditure reform, cannot suffice to put the City on a sound financial basis.

Increased City tax revenues. One of the means for balancing expenditures and revenues in the past has been to raise taxes. Yet as business taxes have been increased, companies have been driven from New York City. Further extensive increases in City corporate taxes will in the long run probably reduce revenues paid into the municipal government. Important policies for long-term stability include measures to add to the tax base rather than to reduce it.

First, corporate taxes should not be raised unduly. Recent studies indicate that the City is once again cost competitive in attracting corporations in certain industries. Because of large scale building of office space, rents on space for banking, communications, publishing, and other important industries are at levels competitive with those in other important metropolitan centers. If efforts are made to hold corporate tax rates down, the long term gains for the City itself may be substantial.

Second, an important step in encouraging additions to the tax base is to remove the City's archaic rent control law. Because landlords have not been able to raise rents to levels that cover costs, much housing has been abandoned. Tax delinquencies on real estate have been rising and reached $200 million in fiscal year 1975. Rent controls must be phased out and incentives provided to re-establish building programs and home-ownership in the City.

Additional income and sales taxes have to be levied on residents if they are going to continue to demand such extensive services. In addition to an 8 percent sales tax, a city income tax is levied on residents and to a lesser extent on commuters. City and State taxes for a New York family of four earning $15,000 a year now come to more than $650. While these amounts are large, they may not be out of line with the extensive services provided by the municipal government.

Summary

At the present time it does not seem likely that significant cost reductions and income increases are about to be realized. Budgetary balancing is still quite speculative.

The plan for a $200 million reduction this year is not more likely to be more successful than plans to achieve the same reductions in earlier years. Voluntarism by City or State officials in cutting back programs deemed important by local community groups or municipal unions had no previous success. Although the crisis atmosphere may generate some reforms, it is not possible to foresee immediate results from the Beame-EFCB plan. The interest groups still have considerable power. Although questionable financial practices have been eliminated, the results will be first the long-delayed bankruptcy.

The use of Federal funds to prevent bankruptcy would be no more successful in solving long run problems. A Federal bailout to prevent default would require more than $4 billion this fiscal year for refinancing debt and the capital program, and would require an additional $2 million to finance the operating deficits on current and capital accounts during the year. Without a reduction in expenditures, the Federal outlays would have to increase by $1 to $2 billion a year in the next few fiscal years. These amounts would be excessively large and inequitable in a period of Federal program reductions designed to obtain a more balanced Federal budget. The problem of expenditure and receipts control would remain.

Paul W. MacAvoy
Member

Alan Greenspan
Chairman

FOR IMMEDIATE RELEASE OCTOBER 29, 1975

OFFICE OF THE WHITE HOUSE PRESS SECRETARY

THE WHITE HOUSE

REMARKS OF THE PRESIDENT
AND
QUESTION AND ANSWER SESSION

THE NATIONAL PRESS CLUB

12:02 P.M. EST

THE PRESIDENT: Mr. President, fellow members of the Press Club, ladies and gentlemen, guests:

I am deeply grateful for the opportunity to join you today and talk to you about a matter of very deep concern to all Americans.

New York City, where one out of every 25 Americans lives, through whose "Golden Door" untold millions have entered this land of liberty, faces a financial showdown.

The time has come for straight talk -- to these eight million Americans and to the other 206 million Americans to whom I owe the duty of stating my convictions and my conclusions, and to you, whose job it is to carry them throughout the world, as well as the United States.

The time has come to sort facts and figures from fiction and fear-mongering in this terribly complex situation. The time has come to say what solutions will work and which should be cast aside.

The time has come for all Americans to consider how the problems of New York and the hard decisions they demand, foreshadow and focus upon potential problems for all Governments -- Federal, State and local -- problems which demand equally hard decisions for them.

One week ago, New York City tottered on the brink of financial default, which was deferred only at the eleventh hour.

The next day, Mayor Beame testified here in Washington that the financial resources of the City and the State of New York were exhausted. Governor Carey agreed.

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(OVER)

They said it is now up to Washington and unless the Federal Government intervenes, New York City, within a short time, will no longer be able to pay its bills.

The message was clear: 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.

Many explanations have been offered about what led New York City deeper and deeper into this quagmire. Some contend 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 argued that the big metropolitan city has become obsolescent, that decay and pollution have brought a deterioration in the quality of urban life, and New York's downfall could not be prevented.

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

There is an old saying, "The harder you try, the luckier you get," and I kind of like that definition of "luck."

During the last decade the officials of New York City have allowed its budget to triple. No city can expect to remain solvent if it allows its expenses to increase by an average of 12 percent every year, while its tax revenues are increasing by only 4 to 5 percent per year.

As Al Smith, a great Governor of New York who came from the sidewalks of New York City, used to say: "Let's look at the record."

The record shows that New York City's wages and salaries are the highest in the United States. A sanitation worker with three years experience now receives a base salary of nearly $15,000 a year. Fringe benefits and retirement costs average more than 50 percent of base pay. There are four-week paid vacations and unlimited sick leave after only one year on the job.

The record shows that in most cities, municipal employees have to pay 50 percent or more of the cost of their pensions. New York City is the only major city in the country that makes up the entire burden. The record shows that when New York's municipal employees retire, they often retire much earlier than in most cities and at pensions considerably higher than sound retirement plans permit. The record shows New York City has 18 municipal hospitals; yet, on an average day, 25 percent of the hospital beds are empty.

Meanwhile, the city spends millions more to pay the hospital expenses of those who use private hospitals. The record shows New York City operates one of the largest universities in the world, free of tuition for any high school graduate, rich or poor, who wants to attend. As for New York's much-discussed welfare burden, the record shows more than one current welfare recipient in ten may be legally ineligible for welfare assistance.

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Certainly, I do not blame all the good people of New York City for their generous instincts or for their present plight. I do blame those who have misled the people of New York about the inevitable consequences of what they are doing or were doing over the last ten years.

The consequences have been a steady stream of unbalanced budgets; massive growth in the city's debt; extraordinary increases in public employee contracts; and total disregard of independent experts who warned again and again that the city was courting disaster.

There can be no doubt where the real responsibility lies, and when New York City now asks the rest of the country to guarantee its bills, it can be no surprise that many other Americans ask why.

Why, they ask, should they support advantages in New York that they have not been able to afford for their own communities. Why, they ask, should all the working people of this country be forced to rescue those who bankrolled New York City's policies for so long -- the large investors and big banks?

In my judgment, no one has yet given these questions a satisfactory answer. Instead, Americans are being told that unless the rest of the country bails out New York City, there will be catastrophe for the United States, and perhaps for the world.

Is this scare story true? Of course, there are risks that default could cause temporary fluctuations in the financial markets. But, these markets have already made a substantial adjustment in anticipation of a possible default by New York City.

Claims are made that because of New York City's troubles, other municipalities will have grave difficulty selling their bonds. I know that this troubles many thoughtful citizens.

But, the New York City record of bad financial management is unique among municipalities throughout the United States. Other communities have a solid reputation for living within their means. In recent days and weeks, other local Governments have gone to investors with clean records of fiscal responsibility and have had no idifficulty raising funds.

The greater risk is that any attempt to provide a Federal blank check for the leaders of New York City would insure that no long run solution to the city's problems will ever occur.

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I can understand the concern of many citizens in New York, and elsewhere. I understand because I am also concerned. What I cannot understand -- and what nobody should condone -- is the blatant attempt in some quarters to frighten the American people and their representatives in Congress into panicky support of patently bad policy.

The people of this country will not be stampeded. They will not panic when a few desperate New York City officials and bankers try to scare New York's mortgage payments out of them.

We have heard enough scare talk. What we need now is a calm, rational decision as to what is the right solution, the solution that is best for the people of New York and best for all Americans.

To be effective, the right solution must meet three basic tests: It must maintain essential public services for the people of New York City. It must protect the innocent victims of this tragedy. There must be policemen on the beat, firemen in the station, nurses in emergency wards.

Second, the solution must assure that New York City can and will achieve and maintain a balanced budget in the years ahead.

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

Let me digress a minute to remind you that under our Constitutional system, both the cities and the Federal Government were the creatures of the States. The States delegated certain of their sovereign powers -- the power to tax, police powers and the like -- to local units of self-government, and they can take these powers back if they are abused.

The States also relinquished certain sovereign powers to the Federal Government -- some altogether and some to be shared. In return, the Federal Government has certain obligations to the States.

I see a serious threat to the legal relationships among our Federal, State and local Governments in any Congressional action which could lead to disruption of this traditional balance. Our largest city is no different in this respect than our smallest town. If Mayor Beame doesn't want Governor Carey to run his city, does he want the President of the United States to be acting mayor of New York City?

What is the solution to New York's dilemma. There are at least eight different proposals under consideration by the Congress, intended to prevent default. They are all variations of one basic theme: That the Federal Government should or would guarantee the availability of funds to New York City. I can tell you, and tell you now, that I am prepared to veto any bill that has as its purpose a Federal bailout of New York City to prevent a default.

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I am fundamentally opposed to this so-called solution, and I will tell you why. Basically, it is a mirage. By giving a Federal guarantee we would be reducing rather than increasing the prospects that the City's budget will ever be balanced. New York City is officials have proved in the past that they will not face up to the City's massive network of pressure groups as long as any other alternative is available. If they can scare the whole country into providing that alternative now, why shouldn't they be confident they can scare us again into providing it three years from now?

In short, it encourages the continuation of "politics as usual" in New York -- which is precisely not the way to solve the problem.

Such a step would be a terrible precedent for the rest of the Nation. It would promise immediate rewards and eventual rescue to every other city that follows the tragic example of our largest city. What restraint would be left on the spending of other local and State Governments once it becomes clear that there is a Federal rescue squad that will always arrive in the nick of time?

Finally, we must all recognize who the primary beneficiaries of a Federal guarantee program would be. The beneficiaries would not be those who live and work in New York City because the really essential public services must and will continue.

The primary beneficiaries would be the New York officials who would use the escape responsibility for their past follies and be further excused from making the hard decisions required now to restore the city's fiscal integrity.

The secondary beneficiaries would be the large investors and financial institutions who purchased these securities anticipating a high rate of tax-free return.

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.

If the city is unable to act to provide a means of meeting its obligations, a new law is required to assure an orderly and fair means of handling the situation.

As you know, the Constitution empowers the Congress to enact uniform bankruptcy laws. Therefore, I will submit to the Congress special legislation providing the Federal Courts with sufficient authority to precide over an orderly reorganization of New York City's financial affairs -- should that become necessary.

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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 New York City is unable to pay its debts as they mature and would be accompanied by a proposed way to work out an adjustment of its debts with its creditors.

The Federal Court would then be authorized to accept jurisdiction of the case. There would be an automatic stay of suits by creditors so that the essential functions of the City would not be disrupted. This would enable an orderly plan to be developed so that the City could work out arrangements with its creditors. While New York City works out a compromise with its creditors the essential Government functions of the City would continue. In the event of default, the Federal Government will work with the Court to assure that police and fire and other essential services for the protection of life and property in New York are maintained.

The proposed legislation will include a provision that as a condition of New York City petitioning the Court, the City must not only file a good faith plan for payments to its creditors but must also present a program for placing the fiscal affairs of the City on a sound basis.

In order to meet the short-term needs of New York City the Court would be empowered to authorize debt certificates covering new loans to the City, which would be paid out of future revenues ahead of other creditors. Thus, the legislation I am proposing will do three essential things:

First, it will prevent, in the event of a default, all New York City funds from being tied up in lawsuits.

Second, it will provide the conditions for an orderly plan to be developed for payments to New York City's creditors over a long-term.

Third, it will provide a way for new borrowing to be secured by pledging future revenues.

I don't want anybody misled. This proposed legislation will not, by itself, put the affairs of New York City in order. Some hard measures must be taken by the officials of New York City and New York State. They must either increase revenues or cut expenditures or devise some combination that will bring them to a sound financial position.

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Careful examination has convinced me 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.

To summarize, the approach I am recommending is this: If New York fails to act in its own behalf, orderly proceedings would then be supervised by a Federal Court.

The ones who would be most affected by this course of action would be those who are now fighting tooth and nail to protect their authority and to protect their investments -- New York City officials 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 leaders.

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 difficulties but the repercussions should not be large or longstanding.

Finally, for the people of the United States, this means that they will not be asked to assume a burden that is not of their own making and should not become their responsibility. This is a fair and sensible way to proceed.

There is a profound lesson for all Americans in the financial experience of our biggest and our richest city. Though we are the richest Nation, the richest Nation in the world, there is a practical limit to our public bounty, just as there is to New York City's.

Other cities, other States, as well as the Federal Government, are not immune to the insidious disease from which New York City is suffering. This sickness is brought on by years and years of higher spending, higher deficits, more inflation and more borrowing to pay for higher spending, higher deficits and so on, and so on, and so on. It is a progressive disease and there is no painless cure.

Those who have been treating New York's financial sickness have been prescribing larger and larger doses of the same political stimulant that has proved so popular and so successful in Washington for so many years.

None of us can point a completely guiltless finger at New York City. None of us should now derive comfort or pleasure from New York's anguish. But neither can we let that contagion spread.

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As we work with the wonderful people of New York to overcome their difficulties -- and they will -- we must never forget what brought this great center of human civilization to the brink. If we go on spending more than we have, providing more benefits and more services than we can pay for, then a day of reckoning will come to Washington and the whole country just as it has to New York City.

So let me conclude with one question of my own: When that day of reckoning comes, who will bail out the United States of America?

Thank you very much.

MORE

Q. Now we have time for just a few questions, haven't we, Mr. President? The first one asks, "Mr. President, you say that in the event of a default the Federal Government is prepared to work with the courts to assure that the City can continue to maintain its essential services such as police and fire protection. Does this mean the Federal Government will provide cash or guarantees or Federal troops?

THE PRESIDENT: Of course, I don't assume that the City will default because I think the capacity in the City and the capacity in the State is there to avoid default; but in the eventuality that those in control of the City and State refuse to step up to that responsibility and that capability, then the court will have to go through the default process.

I can only say that the Federal Government will work with the Court. I do not want to prescribe precisely the means or method but I can say that in working with the Court after the refusal of local and state people to assume their responsibility, this Federal Government will see to it that essential services are maintained.

Q. If it comes to default, how much do you estimate it will cost the United States Government at a minimum?

THE PRESIDENT: Again I do not assume that default is absolutely certain for the reasons that I, a few moments ago, said. It is my judgment that the Federal court under the default procedure and the jurisdiction that the Court has, that it can issue on behalf of the City and/or the State certificates that will have a prior lien on any revenue that comes in while other creditors are held off from getting any benefits in the interim period, so I foresee no loss to the Federal Government whatsoever.

Q. Mr. President, this next question has been asked in about fifteen different ways and I have chosen this version: The questionner asks, what is the difference between the Federal Government's bailing out Lockheed and bailing out New York City?

THE PRESIDENT: Well, in retrospect we may have made a mistake in bailing out Lockheed and yet I think you can draw a distinction. In the case of Lockheed the Federal Government contributes in defense contracts a very substantial portion of the revenue that comes to the company -- I have forgotten the exact percentage but it is 75 or 80 percent or perhaps even more -- and the Federal Government as a result of that tremendous control over funding had a capability of maintaining control precisely without other public officials being involved.

I think that is a fair distinction but in retrospect, as I said at the outset, I am not sure we didn't make a mistake.

Q. Thank you, sir. Another questioner asks: In order to insure a continued flow of private funds to public related entities, how does the administration intend to assure future investors that their interests will also be protected when financial difficulties arise?

THE PRESIDENT: The best way for that to occur, Mr. President, is to say that in the case of New York City where there is mismanagement as there has been, the city must go into court in bankruptcy, in default, and when that happens as every investor knows, their obligations which they bought in the free market, hoping for a good return on a tax-free basis, was not a good investment.

I think investors will be more discerning. They will be much more discerning and they will insist that municipal and state officials manage their affairs in a way that will assure credibility to the investor.

I think this course of action that I am suggesting is the greatest deterrent to mis-management of municipal and state action and it is the greatest assurance to future investors that when they buy municipal securities they are making a good investment. I think that will be the end result.

Q. Another questioner wonders why will the people buy the debt certificates that you propose when they would not buy Big Mac bonds which also were backed by assured revenues?

THE PRESIDENT: The legislation would provide that the court cooperate in the issuance of these certificates with those certificates having the highest priority on any revenues that come into the city -- priority above any other -- which means that revenues from taxes, revenues which might come from the Federal Government under revenue sharing or otherwise, would be earmarked for precisely those court-backed certificates.

Every other creditor stands in line and, as I understand it, this current problem that may come in the middle of November, certainly in December, is more of a short-term cash flow problem providing the local officials and the State officials face up to the long-range difficulty.

Q. Another questioner says your prescription for New York City sounds fine but would it work for management of the Federal establishment?

THE PRESIDENT: Well, we have a little different situation here but I think the basic problem, as I said in my remarks, is exactly the same. And if we don't start getting a handle on these long-range commitments in a wide variety of cases, both in our domestic programs as well as our defense, we are going to be faced in a relatively short period of time in the history of this country with the same problem that the City of New York faces today.

We have a different power than New York City has, that we can print money, in effect, but that is not an honest decision or an honest course of action for the American people or the country.

Q. Mr. President, before we go to the final question, I would like to give you the traditional gift that we give all of the proper speakers. This is a National Press Club tie and it is as close as we can get to the maize and blue of an arbor, and also with it goes the certificate from us for appreciation, awarded in recognition of your appearance as guest speaker here today.

Now we have one final question: Do you think you will carry New York City in the next election? (Laughter)

THE PRESIDENT: I will take my chances on New York City because I think there is a substantial number of people in New York City who have known for a long period of time that their great city was being misled and they are now ripe for some straight answers, some straight talk, and I am confident that we can solve the problem, and when we do it, and do it right, I think I will have a friend or two in New York City.

Q. Mr. President, we will get a chance for a reaction to that question next Wednesday when Mayor Beame speaks to this audience.

END (AT 12:40 P.M. EST)