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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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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.

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 difficulty 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.

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 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 preside 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.

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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 questioner 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 retro-

spect, 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 creditability 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.