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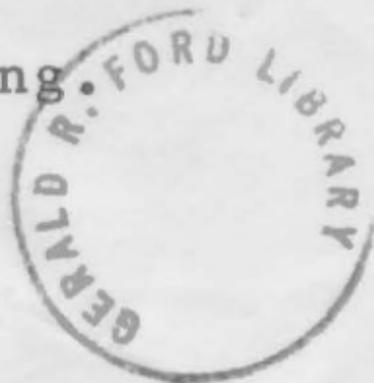
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DATE

LINE

meeting with Messrs Marsh and

Seidman in the morning.



THE WHITE HOUSE  
WASHINGTON

October 24, 1975

Neta:

Mr. Hartmann asked that we  
please file this.

He has another copy somewhere  
which he took with him to the  
New York City Meeting yesterday  
and made corrections on. In  
any case, he'd like us to keep  
this.

Gail



RTH

October 20, 1975

NEW YORK CITY

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

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

Responsibility for New York City's financial problems has thus been abandoned on the front doorstep of the Federal Government like a poor, unwanted child.



As your President, I believe the time has come to make

my position clear to the citizens of New York and to those across the land:

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

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

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

This is what I would like to do tonight.

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

Some have said it was the recession, the flight to the suburbs of the city's more affluent citizens, the migration to the city of poorer people, and the departure of industry.

Others have said that the city has become obsolescent,



that decay and pollution have brought a deterioration in the quality of life, and that a downfall could not be prevented.

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

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

Consider what this has meant in specific terms:

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



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

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

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

-- Retirement for municipal employees in New York often comes at an early age, and in many cases at incomes far above normal salaries.

-- The city has built a surplus of hospitals, so



many in fact that 25% of the hospital beds are regularly empty.

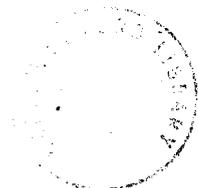
-- The city also operates one of the largest universities in the world, and it's tuition-free for any high school graduate who wants to attend.

-- And for those on welfare, the city now pays out 10 times as much per capita for benefits and assistance as any other major city in the country.

I do not mean to chastise New York for its behavior or even for its generosity of spirit. That was its decision, as it should have been. But when we look back over what the New York power brokers have allowed to happen over the last 10 years:

-- A steady stream of unbalanced budgets;

-- A tripling of the city's debt;



-- Extraordinary increases in union contracts;

-- And a defiance of the experts who said again and  
again that the city was courting disaster,

then we should have no doubt where true responsibility lies.

And when the city now asks the rest of the country to pay  
its bills, it should come as no surprise that many Americans  
ask why. Why should they pay for luxuries in New York that  
they have not been able to afford in their own communities?  
Why should the working people of this country be forced to  
rescue those who bankrolled the city's policies for so  
long -- the big banks and other creditors? So far, in my  
opinion, no one has given them a satisfactory answer.

What they have been told instead is that unless the  
rest of the country bails out New York, there will be a  
catastrophe for the United States and perhaps for the world.  
There is no objective evidence to support that conclusion.



It would be more accurate to say that no one really knows precisely what would happen in our financial markets if New York defaults. It's a matter of judgment. Our own analysis within the Government leads us to conclude that the financial markets have already made a substantial adjustment in anticipation of a possible default and that further disruptions would be temporary. The economic recovery would not be affected. I can understand why some might disagree with our conclusion and would speak out about their reservations. What I cannot understand -- and what none of us should condone -- is the blatant attempt in some quarters to frighten the American people into submission. This nation will not be stampeded; it will not panic when a few desperate politicians and bankers try to hold a gun to its head. What we need now is a calm, rational decision about what the right solution is -- the solution that is best for New York and for all Americans.



To be effective, the solution must meet three basic objectives:

-- It must maintain essential services for the residents of New York City. They have become innocent pawns in this struggle. I promise those citizens that the Federal Government will not let them suffer terrible hardships in the months ahead.

-- Second, the solution must ensure that New York City will have a balanced budget as rapidly as possible.

-- And third, it must ensure that neither New York City nor any other city ever becomes a permanent ward of the Federal Government. I will not be a party to any arrangement which destroys our delicate separation of powers between the Federal, state and local governments. There is already too much power in Washington.

There are at this moment eight different proposals



under consideration in the Congress to prevent default. All are variations of basically one solution: that the Federal Government would guarantee the future bonds of the city so that it could borrow additional money in the financial markets. The sponsors say that the guarantee would be short-term because the city could be forced by Federal law to balance its books within three years.

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

Basically, I think it is a mirage. Once a Federal guarantee is in place, there is no realistic way to expect that the budget will be balanced within a short period of time. The city's politicians have proved in the past that they are no match for the network of pressure groups facing them. An indication of what is likely to happen as soon as the pressure is off was provided by Mayor Beame last week



when he vowed he will fight to restore the very jobs he has just been forced to cut. In the same way, the New York Times reported indications last week that in exchange for help from the teachers union, the political leadership of the State made concessions which could threaten their own efforts to balance the budget. So long as "politics as usual" continues in New York -- so long as the coalition of power brokers remains undisturbed -- there can be little serious hope that hard, tough decisions will be taken. A guarantee would change nothing in New York's power structure. Instead, it would inevitably lead to long-term Federal control over the affairs of the city.



Such a step would not only violate the principles of Federalism but would set a very undesirable precedent for the Nation. How can we deny other cities the same benefits extended to New York? And what discipline would be left on the spending habits of other city and state governments once

the discipline of the marketplace is removed? This is not a precedent that any of us can welcome.

Finally, I think we ought to recognize who the prime beneficiaries of this guarantee program will be. Not the people of New York City: as I promised earlier, essential services will continue for them regardless of what happens. Not the people in other cities and states across the nation: a guarantee will not help them at all. No, those who will benefit the most are the politicians and the investors who have put their money in New York City securities -- the big banks and other investors, many of whom are wealthy.

I am a strong believer in the financial marketplace, a system in which institutions and people with money can freely invest their funds. They willingly take risks, and the higher the risk, the more profits they get for their investment. But everyone knows that sometimes risks turn sour. And when the risks do turn out to be bad, as in New



York City, I do not believe that the Federal Government should then make them good. To me, it is clear that those who made the choice to invest their money should now bear the risk, not the 200,000,000 Americans who never made such a choice.

Does this mean there is no solution? Not at all. There is a sound and sensible way to resolve this issue, and I want to set it forth tonight.

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



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

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

Under this legislation, a Federal judge would be able to appoint a trustee of the court who could temporarily delay payments to the city's creditors and, of critical

importance, could force the city to gradually balance its budget. The power to bring necessary reforms in the city's budget-making process is essential; by placing it in the hands of a trustee, who will be supervised by the court, we will not only ensure that it is properly exercised but that it is also temporary in nature.

Let us recognize, however, that even by postponing payments to creditors and by curtailing some of its expenses, the city will still lack sufficient funds to pay its bills for as much as three years. Therefore, I am proposing that the court trustee be allowed to issue certificates to cover these shortages. These certificates would be like short-term loans and would be issued to the public. They would be guaranteed not by the Federal Government but by special revenues collected by the State of New York. Specifically, I am recommending that the State of New York introduce a temporary tax which creates enough cash to stand behind the



trustee certificates. The tax would be temporary, and the money collected might even be held in escrow so that it could be returned to taxpayers after the city's financial affairs are put in order. State officials argue that the taxes in both the City and the State are already too high; further taxes would only darken their economic hopes for the future. That is true. But because it is true, then the tax should serve another very good purpose: it will give New York's leaders a strong incentive to clean up their financial affairs quickly so that the tax can be removed.

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



The only ones who will be hurt by this plan will be those who are fighting so hard to protect their power and their profits: the city's politicians and the city's creditors. And the creditors will not be hurt much because eventually their investments will be rewarded. 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. Moreover, New Yorkers have shown over the years that when it comes to coping with temporary inconveniences, they are better at it than anyone else in the world. For the financial community, the default may bring some temporary disorder but the repercussions will not be massive. In fact, there is solid reason to believe that once the uncertainty of New York is ended, investors will begin returning to the markets and those markets will be sturdier. Finally, for the people of the United States, this plan means that they will not be



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

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

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



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

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

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

Thank you and good evening.



OFFICE OF MANAGEMENT AND BUDGET

TRANSMITTAL FORM

THE DIRECTOR

DATE 10/24

TO : The President

FROM: James T. Lynn

*Bob H*  
*Some "links" by*  
*Jim Lynn. a couple*  
*not bad*



Good evening. Let me say at the outset that I hope you all  
all have a very happy Thanksgiving tomorrow, and caution those  
of you who will be going with me to the People's Republic of  
China not to eat so much turkey that you won't leave a little  
room for some of that delicious Peking Duck.

Before we go to questions, I would like to comment briefly  
on recent developments in New York.

Since early this year, and particularly in the past few  
weeks, the leaders of New York State and of New York City have  
been working to overcome the financial difficulties of the City  
which, as a result of many years of unsound fiscal practices,  
unbalanced budgets and increasing borrowing, threatened to  
bring about municipal bankruptcy of an unprecedented magnitude.

As you know, I have been steadfastly opposed to any  
Federal bailout of New York City and I remain opposed to a  
permanent Federal involvement which would require the taxpayers



of other States and cities to pay the price of New York's past political errors in which they had no part.

*omit*

At the same time, as I said at the National Press Club on October 29, no American can remain unconcerned about the serious problems of our biggest city, where one out of every 25 Americans live and which stands as a symbol of American enterprise and achievement to millions throughout the world.

It is important to all of us that the fiscal integrity of New York City be restored and that the personal security of eight million Americans in New York City be fully assured.

[ It is important to me as President of all the people. ]

*omit*

Some have said that I have been too tough on New York; that for political purposes I have turned my back on their difficulties and turned a deaf ear to their pleas for Federal help.

The fact is that I have always had more faith in New York's ability to solve its own problems than some of the faint-hearted critics. It has always been my hope that the



leaders of New York would, when the chips were down, face up to their responsibilities and take the tough decisions that the facts of the situation require. That is still my hope, and I must say that it is much, much closer to reality today than it was last Spring.

The fact is that in September, the New York State Legislature passed a plan that would tide the City over through early December. For the first time, pension funds were tapped. The first cuts began to come in municipal expenses. The financial books were brought more into line with reality. The unions, the banks, the political leaders -- all began to work together in a more cooperative and earnest way.

Yet even that was not enough; it was only temporary, and everyone knew it.

Only in the last month, when it was made clear that the City would have to balance its revenues and expenditures without the help of the Federal taxpayer has there been



concerted effort within New York to put the finances of the City and the State on a sound basis.

The outlines of their plan were first presented to my Administration three weeks ago. Since then, many additional details have been hammered out so that all of us have a better understanding of exactly what New York is planning to do for itself.

Let me outline the essence of their self-help program:

One, additional cuts have been approved to reduce the cost of running the City;

Two, more than \$200 million in new taxes will be raised;

Three, payments to the City's noteholders will be postponed and interest payments will be reduced through passage of legislation by New York State;

Fourth, banks and other large institutions have agreed to defer collection of their loans and reduce interest rates;

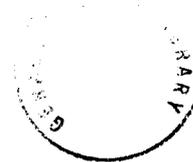


Fifth, for the first time in years, municipal employees will be required to bear part of the cost of their pension contributions and other reforms will be made in the pension funds;

Sixth, the City pension system is to provide additional loans of up to \$2.5 billion to the City.

All of these steps are part of an effort to provide financing and to bring the City's budget into balance by the fiscal year starting in 1977.

(MORE)



Only a few months ago, we were told that all these reforms were impossible and could not be accomplished by New York alone. Today they are being done by New Yorkers for New Yorkers.

This is a constructive program. It accomplishes many of the necessary sacrifices that would have been forced in default, without the need for formal court action. I warmly commend the ~~leaders of New York, including Governor Carey, the legislative leaders in Albany, Mayor Beame and the public-spirited citizens who have served so ably on the MAC Board and in other capacities, for their courage and constructive~~ efforts to date.

~~As I assured them,~~ I have been closely watching their progress in meeting their problem. In the next few months, New York City will still lack enough funds to cover its day-to-day operating expenses. The City needs to borrow funds for a period of time <sup>As the next two</sup> each year, to ensure that essential services are provided.





Because the private credit markets may remain closed to them, representatives of New York have informed my Administration that they have acted in good faith but that they still need to borrow money on a short-term basis for a period of time each year in order to provide essential services to the eight million Americans who live in the Nation's largest city.

I am gratified that New York in recent weeks has started building the bridge back to financial safety. Now they ask us to put the last span in place on their bridge.

To that end, I will ask the Congress when it returns from recess for authority to provide a temporary line of credit of up to \$ \_\_\_\_\_ billion to the State of New York to enable it to supply seasonal financing of essential

services for the people of New York City. Money would be <sup>loaned</sup> ~~lent~~ to the State on a seasonal basis, <sup>the advances</sup> ~~normally~~ being <sup>1</sup> ~~loaned~~ from July through March and repaid in April, May and June.

If New York continues to act affirmatively in its own behalf,

we can reasonably expect that all Federal loans will be repaid in full with interest at the end of their fiscal year. There will be no cost to the rest of the taxpayers of the United States.



I ~~recognize that~~ <sup>T</sup> this is only the beginning of the process and not the end. As always, New York officials must provide the <sup>leadership</sup> There should be no misunderstanding about my position. In the event that local parties fail to abide by the plan, I am prepared to stop even this seasonal Federal assistance. ~~at~~ And since it would be prudent for the Federal Government to have in place a workable arrangement for any contingency, I will again ask the Congress ~~promptly~~ to amend current Federal laws so that, in the event that the New York plan fails, there can be an orderly resolution of the resulting default.

~~In the light of the actions taken by New York, the chances that formal default will be averted are now infinitely better. [ I will urge the Congress to do its part in helping~~

~~avert such a national calamity.~~ Our national policy has  
always been to help those who help themselves, ~~both at home~~  
~~and abroad.~~ New York has <sup>finally</sup> taken tough and self-sacrificing steps  
to help itself. New York has earned the encouragement of the  
rest of the country.

I want to see New York succeed and I believe, deep in  
their hearts, most Americans want New York to succeed and  
prosper. It has been said that I seek to make an example of  
New York City. I do -- but not just the obvious example of  
the trouble a city or state or nation can get into by  
permitting bad fiscal policy. I will be much happier with the  
example New York State and City can provide of how States and  
local communities can surmount their difficulties by working  
together to restore and maintain sound fiscal policies without  
becoming permanent wards of the Federal government. That is  
the example I have been seeking all along.

#

#

#



*Rudo*

~~October 20, 1975~~

Second Draft  
10/24/75

NEW YORK CITY

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

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



Responsibility for New York City's financial problems <sup>is being left</sup> ~~has thus been abandoned~~ on the front doorstep of the Federal <sup>— unwanted and abandoned by its real parents x</sup> Government ~~like a poor, unwanted child.~~

As your President, I believe the time has come to <sup>state</sup> ~~make~~

my position <sup>personally</sup> ~~clear~~ to the citizens of New York and to those across the land:

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

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

-- And to tell all Americans how the problems of New York City ~~may~~ relate to their <sup>own</sup> lives.

This is what I <sup>will</sup> ~~would like to~~ do tonight.



Many explanations have been offered about what led New York City into this ~~quagmire~~ <sup>quagmire</sup> ~~quagmire~~ ~~and street~~

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

Others have said that ~~the~~ <sup>big metropolitan</sup> city has become obsolescent,

that decay and pollution have brought a deterioration in the quality of life, and that a downfall could not be prevented.

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

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

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



Consider what this has meant in specific terms:

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

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

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

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



-- Retirement for municipal employees in New York often comes at an early age, and ~~in many cases at incomes far~~ *the system has been rigged?*

*so that many retire at pensions higher than the above normal salaries. salaries they have earned during most of their service*

-- <sup>New York</sup> ~~the~~ city has built a surplus of hospitals, so

many in fact that 25% of the hospital beds are regularly empty.

*New York*

-- The city also operates one of the largest universities in the world, ~~and it's~~ *free of* tuition-~~fee~~ for any high school graduate who wants to attend.

*New York*

-- And for those on welfare, ~~the~~ city now pays out 10

times as much per capita for benefits and assistance as any

other major city in the country.

*EPB to (check facts)*

*Motive*

*I do not blame all the people of New York*

~~I do not mean to chastise New York for its behavior or city for their generous motives or for their even for its generosity of spirit. That was its decision, present plight. ~~But~~ those who have as it should have been. But when we look back over what the misled the people of New York city about New York power brokers, have allowed to happen over the last 10 years.~~

*The Consequences are 'incontrovertable':*

-- A steady stream of unbalanced budgets;

-- A tripling of the city's debt;



~~these own~~  
~~independent~~  
~~experts~~

-- Extraordinary increases in union contracts;

~~public employees~~

-- And a defiance of the experts who said again and

again that the city was courting disaster.

~~total disregard of their own independent~~  
~~warned~~

~~There can be no doubt where~~ ~~responsibility lies.~~  
~~then we should have no doubt where~~ ~~responsibility lies.~~

And when ~~the~~ <sup>New York</sup> city now asks the rest of the country to pay

its bills, it should ~~come as~~ <sup>be</sup> no surprise <sup>to its leaders</sup> that many Americans

ask why. Why should they pay for ~~luxuries~~ <sup>advantages</sup> in New York that

they have not been able to afford <sup>for</sup> in their own communities?

Why should <sup>all</sup> the working people of this country be forced to

rescue those who bankrolled ~~the~~ <sup>New York</sup> city's policies for so

long -- the big banks and other creditors? ~~so far,~~ <sup>In</sup> my

~~opinion,~~ <sup>judgment,</sup> <sup>yet</sup> no one has given them <sup>a</sup> <sup>questions</sup> a satisfactory answer.

~~And~~ <sup>can I</sup>

~~What they have been told~~ <sup>I</sup> instead <sup>is</sup> that unless the

American are told

rest of the country bails out New York, there will be <sup>a</sup> <sup>certain</sup>

catastrophe for the United States and perhaps for the world.

There is no objective evidence to support that conclusion.





It would be more accurate to say that no one really knows

precisely what would happen in our financial markets if New

*which prophets one believes,*

York defaults. It's a matter of judgment Our own analysis

*Administration* ~~is~~ *is*

within the ~~Government~~ *leads us to conclude* that the financial

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*by New York City*

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~~of the whole nation~~

*current*

*seriously set back x*

can understand why some might disagree with our conclusion

*AI*

*people*

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*nobody*

understand -- and what ~~none of us~~ should condone -- is the

*the ones whose earlier prophecies brought New York City to its present state*

blatant attempt in some quarters to frighten the American

~~people into submission. This nation will not be stampeded;~~ *Capitulation Panicky support of bad policy.*

*I say the people of this country*

it will not panic when a few desperate politicians and

*and the Congress*

*Representatives*

*New York*

bankers try to hold a gun to its head. What we need now is

*scare the mortgage payments out of them x*

a calm, rational decision about what the right solution

*as to*

is -- the solution that is best for *the people of* *West* and for all

Americans.

*CEPB to check Lockheed and Penn Central cases*

*Connally - vs like Paulm  
Buckley / Lockheed & Penn Central*

*right*

To be effective, the solution must meet three basic

*Tests*  
objectives:

-- It must maintain essential services for the residents *people*

of New York City. ~~It must protect the~~ *They have become innocent* ~~victims of~~ *people* ~~in this~~

struggle. ~~I promise~~ *must be assured that* those citizens that the Federal Government ~~their governments, city, state and Federal, will not~~ *will not let them suffer* ~~terrible hardships~~ *in the months* ~~abandon them~~ *permanently* ~~punish them for~~ *ahead.* ~~let them suffer~~ *the fiscal sins of others.*

-- Second, the solution *make absolutely certain* must ensure that New York City

*Canal*

~~will have a balanced budget, as rapidly as possible.~~ *with 2 1/2 years in the years ahead*

*achieve and maintain*

-- And third, *the right solution must guarantee* it must ensure that neither New York City

*American permanent dependent a colony* nor any other city ever becomes a ~~permanent ward~~ of the

Federal Government. *I will not be a party to any arrangement*

*which destroys our delicate separation of powers between the*

Federal, state and local governments. ~~There is already too~~

~~much power in Washington.~~

*Leave room for next A*

*least*

There are at ~~this moment~~ eight different proposals

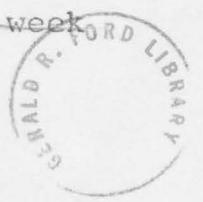


*Basically,*

under consideration <sup>by</sup> in the Congress to prevent default. All  
*They all* are variations of ~~basically one~~ <sup>one basic theme</sup>: that the Federal  
 Government would guarantee the future bonds of <sup>New York</sup> ~~the~~ city so  
 that it could borrow additional money in the financial  
 markets. The sponsors <sup>of these bills</sup> say that the guarantee would be  
 short-term because <sup>New York</sup> ~~the~~ city could be forced by Federal law  
 to balance its books within three years.

*will*  
 I am fundamentally opposed to this <sup>Purported</sup> solution, and I ~~want~~  
~~to~~ tell you why.

Basically, I ~~think~~ <sup>think</sup> it is a mirage. Once a Federal  
 guarantee is <sup>given</sup> ~~in place~~, there is no realistic way to expect  
 that the <sup>city's need ever</sup> budget ~~will~~ be balanced within a short period of  
<sup>New York</sup> ~~time.~~ ~~The~~ city's politicians have proved in the past that  
~~they~~ are no match for the <sup>massive</sup> network of pressure groups <sup>then face</sup> ~~facing~~  
~~them.~~ An indication of what is likely to happen as soon as  
 the pressure is off was provided by Mayor Beame last week.



when he vowed he will fight to restore the very jobs he has just been forced to cut. In the same way, the New York Times reported indications last week that in exchange for help from the teachers union, the political leadership of the State made concessions which could threaten their own efforts to balance the budget.



As long as "politics as usual" continues in New York -- ~~as~~ long as the <sup>present power</sup> coalition of ~~power brokers~~ remains undisturbed -- there can be little ~~no~~

serious hope that hard, tough <sup>long-term</sup> decisions will be taken. <sup>for long-term reforms</sup> ~~Any~~

<sup>guarantee</sup> would change nothing in New York's power structure.

Instead, <sup>it</sup> would inevitably lead to long-term Federal

control over the <sup>city's</sup> affairs of the city — New York would become a colony of Washington — or vice versa.

Such a step would ~~not only~~ violate the <sup>spirit</sup> principles of our Constitution.

Federalism ~~it~~ would set a <sup>terrible</sup> ~~very~~ undesirable precedent for <sup>the</sup> the Nation. <sup>promise immediate and eventual results</sup> ~~It would~~ ~~rewards~~ ~~every~~ other

city that followed the example of our largest city, extended to New York. And <sup>what</sup> ~~what~~ <sup>restraint</sup> ~~restraint~~ would be left on

<sup>ON</sup> the spending ~~limits~~ of other <sup>local</sup> city and state governments once

it became clear to them that ~~if~~ there

Another example

Federal

rest of

*is*  
~~to see there is a Federal rescue squad that will always arrive in the nick of time~~  
the discipline of the marketplace ~~is removed?~~ This is not a

~~precedent that any of us can welcome.~~ *that will always arrive in the nick of time?*

Finally, ~~I think we ought to~~ *must all* recognize who the primary

beneficiaries of ~~this~~ *a Federal* guarantee program ~~will~~ *would* be. Not the vast

*majority of the* people of New York City: ~~as I promised earlier,~~ *the really* essential

*public* services ~~will~~ *must and will* continue for them regardless of what happens.

Not the *vast majority* people in other cities and states across the nation:

*to New York city* a guarantee/will not help them at all. No, those who will

benefit the most are ~~the~~ *who support the spending spree* politicians and ~~the~~ *the* investors who

*voluntarily* ~~have~~ put their money in New York City securities -- the big

banks and other investors, *who anticipated a high* ~~many of whom are wealthy.~~

*rate of ~~return~~ tax-free return x*

I am a strong believer in the financial marketplace, a

system ~~in~~ *through* which institutions and people with ~~money~~ *extra to* can

freely invest their funds. They willingly take risks, and

the higher the risk, the more ~~profits~~ *earnings* they ~~get~~ *can* for their

*That is as it should be.*

investment. | But everyone knows that sometimes risks turn

*there must be losses as well as gains in risk-taking.*  
sour. | And when the risks do turn out to be bad, as in New



York City, I do not believe that the Federal Government *and all*  
*the taxpayers of this country* → should then make them good. To me, it is clear that those  
 who made the *free* choice to invest their money *in New York City* should now bear  
 the risk, not the 200,000,000 Americans who never made such  
 a choice.

Does this mean there is no solution? Not at all.

There is a *fair* sound and sensible way to resolve this issue, and  
*this is the way to do it;*  
~~I want to set it forth tonight.~~

*STEP* →

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

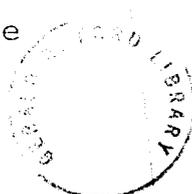


*bring rev & exp into balance*

?

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

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



Under this legislation, a Federal judge would be able to appoint a trustee of the court who could temporarily delay payments to the city's creditors and, of critical

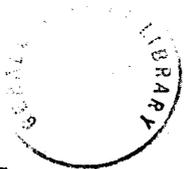
importance, could force the city to gradually balance its budget. The power to bring necessary reforms in the city's budget-making process is essential; by placing it in the hands of a trustee, who will be supervised by the court, we will not only ensure that it is properly exercised but that it is also temporary in nature.



Let us recognize, however, that even by postponing payments to creditors and by curtailing some of its expenses, the city will still lack sufficient funds to pay its bills for as much as three years. Therefore, I am proposing that the court trustee be allowed to issue certificates to cover these shortages. These certificates would be like short-term loans and would be issued to the public. They would be guaranteed not by the Federal Government but by special revenues collected by the State of New York. Specifically, I am recommending that the State of New York introduce a temporary tax which creates enough cash to stand behind the

trustee certificates. The tax would be temporary, and the money collected might even be held in escrow so that it could be returned to taxpayers after the city's financial affairs are put in order. State officials argue that the taxes in both the City and the State are already too high; further taxes would only darken their economic hopes for the future. That is true. But because it is true, then the tax should serve another very good purpose: it will give New York's leaders a strong incentive to clean up their financial affairs quickly so that the tax can be removed.

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



The only ones who will be hurt by this plan will be those who are fighting so hard to protect their power and their profits: the city's politicians and the city's creditors. And the creditors will not be hurt much because eventually their investments will be rewarded. 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. Moreover, New Yorkers have shown over the years that when it comes to coping with temporary inconveniences, they are better at it than anyone else in the world. For the financial community, the default may bring some temporary disorder but the repercussions will not be massive. In fact, there is solid reason to believe that once the uncertainty of New York is ended, investors will begin returning to the markets and those markets will be sturdier. Finally, for the people of the United States, this plan means that they will not be

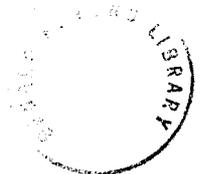


asked to assume a burden that is not of their own making and should not become their responsibility. This is a fair and honorable way to proceed.

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

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

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



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

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

Thank you and good evening.



NEW YORK CITY

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

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

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

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



those across the land:

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

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

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

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

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



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

(MORE)

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

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

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

Consider what this has meant in specific terms:

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

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



(MORE)

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

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

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

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

(MORE)



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

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

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

The consequences are incontrovertible:

-- A steady stream of unbalanced budgets;

-- A tripling of the city's debt;

-- Extraordinary increases in public employee union contracts;



(MORE)

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

There can be no doubt where real responsibility lies. And when New York City now asks the rest of the country to pay its bills, it should be no surprise to its leaders that many Americans ask why. Why should they pay for advantages in New York that they have not been able to afford for their own communities? Why should all the working people of this country be forced to rescue those who bankrolled New York City's policies for so long -- the big banks and other creditors? In my judgment, no one has yet given these questions a satisfactory answer.

Nor can I.

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



more accurate to say that no one really knows precisely what would happen in our financial markets if New York defaults.

It's a matter of which prophets one believes. Our own analysis within the Administration is that the financial markets have already made a substantial adjustment in anticipation of a possible default by New York City and that further disruptions would be minor and temporary. The current economic recovery of the whole Nation would not be seriously set back.

I can understand why some people disagree with this conclusion and would speak out about their reservations. They believe other prophets the ones whose earlier prophecies brought New York City to its present state.

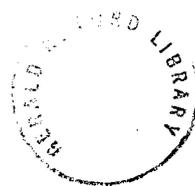
What I cannot understand -- and what nobody should condone -- is the blatant attempt in some quarters to frighten the American people and their Representatives in Congress into panicky support of patently bad policy. I say the people of



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

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

(EPB to check Lockheed and Penn Central cases)



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

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

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

budget in the years ahead.

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



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

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

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

(MORE)



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

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



(MORE)

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



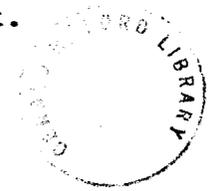
I am a strong believer in the financial marketplace, a system through which institutions and people with extra money can freely invest their funds. They willingly take risks, and the higher the risk, the more earnings they can get for their investment. That is as it should be. But everyone knows that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

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

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



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



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

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

Under this legislation, a Federal judge would be able to appoint a trustee of the court who could temporarily delay payments to the city's creditors and, of critical



importance, could force the city to gradually balance its budget. The power to bring necessary reforms in the city's budget-making process is essential; by placing it in the hands of a trustee, who will be supervised by the court, we will not only ensure that it is properly exercised but that it is also temporary in nature.



Let us recognize, however, that even by postponing payments to creditors and by curtailing some of its expenses, the city will still lack sufficient funds to pay its bills for as much as three years. Therefore, I am proposing that the court trustee be allowed to issue certificates to cover these shortages. These certificates would be like short-term loans and would be issued to the public. They would be guaranteed not by the Federal Government but by special revenues collected by the State of New York. Specifically, I am recommending that the State of New York introduce a temporary tax which creates enough cash to stand behind the

trustee certificates. The tax would be temporary, and the money collected might even be held in escrow so that it could be returned to taxpayers after the city's financial affairs are put in order. State officials argue that the taxes in both the City and the State are already too high; further taxes would only darken their economic hopes for the future. That is true. But because it is true, then the tax should serve another very good purpose: it will give New York's leaders a strong incentive to clean up their financial affairs quickly so that the tax can be removed.

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



The only ones who will be hurt by this plan will be those who are fighting so hard to protect their power and their profits: the city's politicians and the city's creditors. And the creditors will not be hurt much because eventually their investments will be rewarded. 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. Moreover, New Yorkers have shown over the years that when it comes to coping with temporary inconveniences, they are better at it than anyone else in the world. For the financial community, the default may bring some temporary disorder but the repercussions will not be massive. In fact, there is solid reason to believe that once the uncertainty of New York is ended, investors will begin returning to the markets and those markets will be sturdier. Finally, for the people of the United States, this plan means that they will not be

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

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

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

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

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

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

Thank you and good evening.



07/21

THE WHITE HOUSE  
WASHINGTON



These pages should be inserted  
in place of pages 13b, 14, 15  
and 16 in this copy.

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



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

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

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

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

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



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

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

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

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



either increased revenues or expenditure cuts or some combination of both that will bring them to a sound financial position. Our careful examination has indicated, however, that those measures are neither beyond the realm of possibility nor beyond the demands of reason. If they are taken, New York City will, with the assistance of the legislation I am proposing, be able to restore itself as a fully solvent operation within a reasonable period of time.

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

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



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

For the people of New York, this plan will mean that  
essential services will continue. There may be some temporary  
inconveniences, but that will be true of any solution that is  
adopted. For the financial community, the default may bring  
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