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THE WHITE HOUSE
WASHINGTON

THIRD DRAFT
October 25, 1975

(Used part of Original of Second
Draft -- pages 1 through 13a --
for Original of Third Draft)



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 ^{New York leader} ~~one~~ has yet given these questions a satisfactory answer.

XXXXXXXXXX



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. -- perhaps the same They believe other prophets/~~the~~ ones whose earlier prophecies brought New York City to its present state.

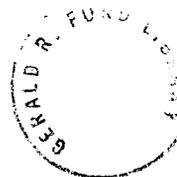
What I cannot understand -- and what nobody should condone -- is the blatant attempt in some quarters to frighten the American people and their Representatives in Congress into panicky support of patently bad policy. I say the people of



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.

THE WHITE HOUSE
WASHINGTON

(THIS SPACE IS LEFT FOR
INSERT A)



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.



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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 -- 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?

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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/^{ed} 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/^{may}~~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.



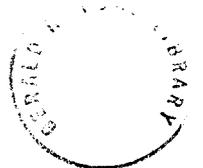
Second, I propose that the Federal Government act now so that if the leaders of New York permit a default, it will be orderly and limited in impact. A chaotic struggle among the City's creditors and even among its employees would seriously complicate the City's problems. Unfortunately, present Federal 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.

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 some temporary disorder but the repercussions will not be large or long-lasting. 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



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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.



THE WHITE HOUSE
WASHINGTON

Bob H

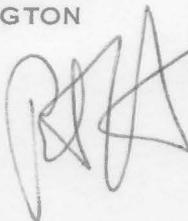
Decision will
be made Monday on
whether Congressional speech.
Probably Wed noon.
Have this retyped as

is. In meantime work on
reading text of book
ready Monday P.M. ltr.



THE WHITE HOUSE
WASHINGTON

From: Robert T. Hartmann



To: THE PRESIDENT

Date: Saturday evening

Time: _____

a.m.

p.m.

ATTACHED IS THE DRAFT WHICH BILL SEIDMAN SAYS
IS SUBSTANTIVELY SATISFACTORY TO ALL THE EXPERTS.

I WILL TIDY UP THE LANGUAGE SOME ON SUNDAY
ALTHOUGH I CANNOT DO EVERYTHING THAT NEEDS
TO BE DONE IN THIS REGARD WITHOUT KNOWING WHEN
AND WHERE IT WILL BE DELIVERED. HOWEVER, I WILL
GO AHEAD ON THE ASSUMPTION THAT IT WILL BE DONE
BEFORE A JOINT SESSION OF THE CONGRESS AND SEEN
BY NETWORK AUDIENCES.

IF YOU FIND ANY SERIOUS FACTUAL ERRORS I WILL
BE AVAILABLE BY TELEPHONE AT HOME, ALL DAY SUN-
DAY. SOMETIME I WILL ALSO REWORK THE L.A. SPEECH
WHILE MILT IS REWORKING SAN FRANCISCO. ██████████

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 ^{PENSION FUND}

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

^{WITHIN A SHORT TIME}
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.

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."

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

Consider what this has meant in specific terms:



-- New York City's payroll costs 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% of base pay. Four-week paid vacations and unlimited sick leave after only one year on the job. Where else?

-- In most cities, city employees are required to pay 50% or more of the cost of their pension. New York City is the only major city in the country that picks up the entire burden.

-- And when retirement for municipal employees does come, it often comes much earlier than in most cities, and the system has been rigged so that most can retire at pensions considerably higher than any sound retirement plan would permit.

-- New York City has 18 municipal hospitals; yet, on an average day, 25% of the hospital beds are empty. Meanwhile, the city spends millions more to pay the hospital expenses of those who use private hospitals.



-- New York City also 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 the much discussed welfare burden, more than one current welfare recipient in ten is legally ineligible for welfare assistance.

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;
- Massive growth in the city's debt;
- Extraordinary increases in public employee contracts;



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spents where
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as*

-- 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 **SUARANTEE**

[pay] its bills, it should be no surprise to its leaders that

many Americans ask why. Why should they [~~pay for~~ ^{SUPPORT}] 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~~ ^{LARGE INVESTORS AND BANKS?}] [~~and other creditors?~~]

In my judgment, no one has yet given these questions a satis-

factory 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~~



To be sure there are risks that default could temporarily unsettle financial markets. But these markets have already made a substantial adjustment in anticipation of a possible default by New York City.

Moreover, claims have been made that because of New York City's troubles, other municipalities will have grave difficulties in selling their bonds.

But, the New York City fiasco is unique among municipalities.

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. *at fair market rates.*

The more important risk is that any attempt to provide a blank check for the politicians of New York City could insure that no long-run solution to the city's problems would occur.



~~more accurate to say that no one really knows precisely what~~

~~To be sure there are risks that default could ^{unsettle} financial markets~~
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~~municipalities. But ^{these} financial markets have already made a substantial~~
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~~solution to the city's problems would ^{OCCUR} be possible.~~

Insert A →

~~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. [~~These 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 ^{ASSURE} ~~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 ^{INTENDED} to prevent default. They are all

variations of one basic theme: that the Federal Government

would guarantee ^{THE AVAILABILITY OF FUNDS TO} ~~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. By giving a Federal guarantee we would

be reducing rather than increasing the prospect that the city's budget

will ever be balanced. New York City's politicians have proved in the

past that they will not face up to the city's massive network of pressure

groups as long as any alternative is available. If they can scare us into

providing that alternative now, why should they not be confident of scaring

us 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.

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.~~ ^{SUCH A STEP} 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)

[to replace pages 12 and 13]

Finally, we must all recognize who the primary beneficiaries of a Federal guarantee program would be. The immediate beneficiaries would not be the recipients of the services provided to New York City residents because the really essential public services must and will continue to be provided.

The prime beneficiaries would just be the New York politicians who would thus be excused from bearing the responsibilities of the profligacy of their past decisions and further excused from now making the hard decisions required to restore the fiscal integrity of the city.

The second beneficiaries would be the ^{LARGE} ~~high income~~ 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.~~



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.

[p. 13 (b) lead in]



I am well aware that New York has had increasing difficulty raising money to pay its bills.

If, at some point, the city is unable to pay all of its bills, legal confusion could result. In order to prevent this confusion -- and to insure that the city can continue to provide for essential public services -- Federal bankruptcy law must be changed,

~~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 ^{PRESIDE} ~~over~~

^{OVER} ~~out~~ an orderly reorganization of the City's financial affairs ^{SHOULD THAT BECOME NECESSARY}

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 ^{AN ARRANGEMENT} ~~[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 ^{CURRENT LAW} ~~[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 ^{NOT ONLY} must file a good faith plan ~~[which will not only provide]~~ for ~~[partial]~~ payment ^{IT'S} ~~[of]~~ its creditors but ~~[which]~~ ^{MUST} ~~[will]~~ also ~~[establish]~~

PRESENT A PROGRAM FOR PLACENT

the fiscal affairs of the City on a sound basis [~~within a reason-
able 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 ^{TO} ~~[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 legisla-
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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 ^{PROCEEDING} ~~[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 ^{NEED} ~~[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 some temporary disorder but the repercussions ^{NEED} ~~will~~ not be large or long-lasting. In fact, there is solid reason to believe that once the uncertainty of New York is ended, ~~in-~~ ~~vestors 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



(MORE)

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 ^{SPENDING} 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^{PENSION FUND}

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 ^{WITHIN A SHORT TIME} [~~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.

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."

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

Consider what this has meant in specific terms:

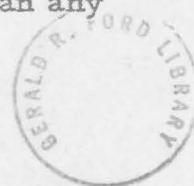


-- New York City's payroll costs are the highest in the United States. A sanitation worker with three years experience now receives a base salary of nearly \$15,000 a year. Fringe benefits and retirement costs average more than 50% of base pay. Four-week paid vacations and unlimited sick leave after only one year on the job. Where else?

-- In most cities, city employees are required to pay 50% or more of the cost of their pension. New York City is the only major city in the country that picks up the entire burden.

-- And when retirement for municipal employees does come, it often comes much earlier than in most cities, and the system has been rigged so that most can retire at pensions considerably higher than any sound retirement plan would permit.

-- New York City has 18 municipal hospitals; yet, on an average day, 25% of the hospital beds are empty. Meanwhile, the city spends millions more to pay the hospital expenses of those who use private hospitals.



-- New York City also 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 the much discussed welfare burden, more than one current welfare recipient in ten is legally ineligible for welfare assistance.

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;
- Massive growth in the city's debt;
- Extraordinary increases in public employee contracts;



-- 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 **SUARANTEE**

[~~pay~~] its bills, it should be no surprise to its leaders that

many Americans ask why. Why should they ^{SUPPORT} [~~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 ^{LARGE INVESTORS AND BANKS?} [~~big banks~~] [~~and other creditors?~~]

In my judgment, no one has yet given these questions a satis-

factory 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



To be sure there are risks that default could temporarily unsettle financial markets. But these markets have already made a substantial adjustment in anticipation of a possible default by New York City.

Moreover, claims have been made that because of New York City's troubles, other municipalities will have grave difficulties in selling their bonds.

But, the New York City fiasco is unique among municipalities.

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 more important risk is that any attempt to provide a blank check for the politicians of New York City could insure that no long-run solution to the city's problems would occur.



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insert (A)

→

~~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 ^{ASSURE} ~~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 ^{INTENDED} to prevent default. They are all

variations of one basic theme: that the Federal Government

would guarantee ^{THE AVAILABILITY OF FUNDS TO} ~~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. By giving a Federal guarantee we would be reducing rather than increasing the prospect that the city's budget will ever be balanced. New York City's politicians have proved in the past that they will not face up to the city's massive network of pressure groups as long as any alternative is available. If they can scare us into providing that alternative now, why should they not be confident of scaring us 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.

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~~ ^{SUCH A STEP} 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)

[to replace pages 12 and 13]

Finally, we must all recognize who the primary beneficiaries of a Federal guarantee program would be. The immediate beneficiaries would not be the recipients of the services provided to New York City residents because the really essential public services must and will continue to be provided.



The prime beneficiaries would just be the New York politicians who would thus be excused from bearing the responsibilities of the profligacy of their past decisions and further excused from now making the hard decisions required to restore the fiscal integrity of the city.

The second beneficiaries would be the ^{LARGE} ~~high income~~ 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.~~

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:



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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.

[p. 13 (b) lead in]



I am well aware that New York has had increasing difficulty raising money to pay its bills.

If, at some point, the city is unable to pay all of its bills, legal confusion could result. In order to prevent this confusion -- and to insure that the city can continue to provide for essential public services -- Federal bankruptcy law must be changed,

~~law is inadequate to deal with this problem.~~ Therefore, I

will tomorrow submit to the Congress special legislation pro-

viding the Federal Courts with sufficient authority to ~~carry~~ ^{PRESIDE}

^{OVER}_{out} an orderly reorganization of the City's financial affairs ^{SHOULD THAT BECOME NECESSARY.} _^

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 ^{AN ARRANGEMENT} ~~[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 ^{CURRENT LAW} ~~[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 ^{NOT ONLY} must file a good faith plan ~~[which will not only provide]~~ for ~~[partial]~~ payment ^{TO} ~~[of]~~ its creditors but ~~[which]~~ ^{MUST} ~~[will]~~ also ~~[establish]~~

PRESENT A PROGRAM FOR PLACING

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 ^{TO} ~~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 ^{PROCEEDING} ~~[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 ^{NEED} ~~[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 some temporary disorder but the repercussions ~~will~~^{NEED} not be large or long-lasting. In fact, there is solid reason to believe that once the uncertainty of New York is ended, ~~in-~~
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(MORE)

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 ^{SPENDING} 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.

It's now up to Washington, they said. 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.

pick up





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 ^{PENSION FUND}

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 ^{WITHIN A SHORT TIME} ~~(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~~ ^{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 ~~have said~~ ^{argue} that the big metropolitan city has become obsolescent, that decay and pollution have brought a deterioration in the quality of ^{urban} life, and that ^{New York} ~~a~~ downfall could not be prevented.



Let's face ~~the~~ ^{one simple} fact: ~~many~~ ^{most} 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 ^{have}

been better managed.

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

are." *I like that definition of "luck".*

During the last decade, the politicians of New York ^{city} have

allowed ^{its} ~~the~~ budget to triple. No city can expect to remain solvent if

it allows its expenses to increase by an average of 12% every year,

while its tax revenues ~~have been~~ ^{are} increasing by only 4 to 5% a year.

As al ~~Smith~~ ^{Smith}, a great Governor who ~~came~~ ^{rose} from the sidewalks of New York, used to say: "Let's look at the record."



The record shows that

New York City's payroll costs 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% of base pay. Four-week paid vacations and unlimited sick leave after only one year on the job. Where else?

The record shows that

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New York City ~~also~~ operates one of the largest universities

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-- As for the much discussed welfare burden, *the record shows* more than one

current welfare recipient in ten is legally ineligible for welfare assist-

ance. *(proof?)*

certainly

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generous ~~instincts~~ or for their present plight. I do blame those who have

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of what they have allowed to happen over the last 10 years.

The consequences are incontrovertible:

-- A steady stream of unbalanced budgets;

-- Massive growth in the city's debt;

-- Extraordinary increases in public employee contracts;



-- 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 ^{the} real responsibility lies.

And when New York City now asks the rest of the country to **GUARANTEE**

~~[pay]~~ its bills, it ^{can} ~~should~~ be no surprise to its leaders that

many ^{other} Americans ask why. ^{, they ask,} Why should they ^{SUPPORT} ~~[pay for]~~ advantages

in New York that they have not been able to afford for their

own communities? ^{, then ask,} 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 ^{LARGE INVESTORS AND ~~big~~ BANKS?} ~~[big banks]~~ ~~[and other creditors?]~~

^I 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, there will be certain catastrophe for the United States and perhaps for the world. ~~There is no~~

~~can we believe~~ objective evidence to support that conclusion. It would be

~~What can Halloween~~ ^{is} this scare story true?

~~To be sure~~ ^{Of course} there are risks that default could temporarily unsettle the financial markets. But these markets have already made a substantial adjustment in anticipation of a possible default by New York City.



Moreover, ^{also are} ~~claims have been made~~ that because of New York City's troubles, other municipalities will have grave difficulties in selling their bonds. ^{I know this} ~~This thought~~ troubles many ^{thoughtful} citizens.

^{record of financial}
But, the New York City fiasco is unique among municipalities.

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} ~~more important~~ risk is that any attempt to provide a ^(Federal?) blank check for the politicians of New York City ~~will~~ ^{could} insure that no long-run solution to the city's problems would ^{ever} occur.

I can understand the concern of many citizens in New York and elsewhere. I ~~can~~ understand because I am ^{also} ~~myself~~ concerned.

~~more accurate to say that no one really knows precisely what~~

~~To be sure there are risks that default could~~ ^{unsettle} ~~financial markets~~
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Insert (A) →

~~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.~~
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What I cannot understand -- and what nobody should
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 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

New York's
~~the~~ mortgage payments out of them.

We have heard enough of these self-serving false alarms.

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.

That is what you want and what I want.
~~(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. *There must be police on the beat,*
~~[Those citizens must be assured that their~~

firemen in the station, nurses in the wards
~~governments, city, state and Federal, will not punish them~~

and teachers in the classrooms. Life must go on.
~~for the fiscal sins of others.]~~

-- Second, the solution must ~~make absolutely certain~~ *ASSURE*

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 dependant~~ 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 are the creatures of the States. The States delegated ~~taxeittiasxandxotherxlegalxsubdivisionsx~~ 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, ^{customs} such as taxation, ~~qualification of voters and jurisdiction over~~ certain crimes. In return the Federal government ~~assumed~~ ^{has} certain obligations to the States -- but no authority to by-pass them and ~~control~~ ^{regulate} their subdivisions.

I see a serious threat to the ~~historical balance~~ ^{legal and traditional relationships} among our Federal, State and local governments in any/ ^{Congressional} action which would lead to disruption of this delicate balance. Our largest city is no different in this respect than our smallest town. ~~if people in this country want to govern themselves, they are better off turning in emergencies to their State Capital than to the Capital in~~

~~Washington. If Mayor Beame doesn't want Governor Carey to be Mayor~~ ^{run} his city, ~~who~~ does he want the President of the United States to be ^{Active} Mayor of New York?

~~I can assure you I don't want to be.~~
~~do you?~~
do

now, what is the ¹⁰ 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

would guarantee ^{THE AVAILABILITY OF FUNDS TO} ~~the future bonds of~~ New York City ~~so that it~~

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term because New York City could be forced by Federal law to

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I am fundamentally opposed to this purported solution,

and I will tell you why.

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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 ^{SUCH A STEP} 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)

[to replace pages 12 and 13]

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



The ~~prime~~ ^{any} beneficiaries would ~~just~~ be the New York politicians who would thus ~~be excused from bearing the~~ ^{escape} responsibilities of the ^{gov} profligacy of their past decisions and ^{be} further excused from now making the hard decisions required to restore the fiscal integrity of the city.

The second ^{any} beneficiaries would be the ^{LARGE} ~~high income~~ investors and financial institutions who purchased these securities anticipating a high rate of tax-free return.

This is a formidable alliance. But
~~Does this mean there is no solution? Not at all. There is a~~
we have all taken solemn oaths to serve
~~fair and sensible way to resolve this issue, and this is the way to do it.~~
the best interests of ~~the~~ all the American people.

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:

*Without this
speech has no impact
outside NY*





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.

[p. 13 (b) lead in]



We are all

~~I~~ am well aware that New York has had increasing difficulty

raising money to pay its bills. *How can we help?*

If, at some point, the city is unable to pay all of its bills, legal

confusion could result. In order to prevent this confusion -- and to

New York
insure that ~~the~~ city can continue to provide for essential public services

the
-- Federal bankruptcy law must be changed, *As you know, the*
~~Constitution puts in the Federal government the uniform Federal~~
~~law is inadequate to deal with this problem.~~ Therefore, I

tomorrow (?)
will ~~tomorrow~~ submit to the Congress / special legislation pro-

viding the Federal Courts with sufficient authority to ~~carry~~ *PRESIDE*

OVER
~~out~~ an orderly reorganization of the City's financial affairs *SHOULD THAT BECOME NECESSARY.*

New York

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 that the City desires to work out

an adjustment of its debts with its creditors.

bankruptcy laws.

then be authorized to

The Court will accept jurisdiction of the case and provide for an automatic stay of suits by creditors so that the essential functions of ^{*New York*} 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 ^{*AN ARRANGEMENT*} ~~[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.]~~



New York

While ~~the~~ City is working out a compromise with its creditors the essential governmental functions of the City would continue under ^{*CURRENT LAW*} ~~[the financial direction of the Court and the State financial control Board.]~~

The proposed legislation will include provision that as a condition of ^{*New York*} the City petitioning the Court, ~~[that]~~ the City

^{*NOT ONLY*} must file a good faith plan ~~[which will not only provide]~~ for ~~[partial]~~ payment ^{*TO*} ~~[of]~~ its creditors but ~~[which]~~ ^{*MUST*} ~~[will]~~ also ~~[establish]~~

PRESENT A PROGRAM FOR PLACING

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

New York

In order to meet the short term needs of the City the Court ~~will~~ ^{would} be empowered to issue debt certificates covering new loans to the City which would be ^(repaid) 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

New York

City funds from being tied up by lawsuits. [[] Second ~~W~~, it will

enable an orderly plan to be developed for ~~[partial]~~ payment ^{TO} ~~[of]~~

New York's creditors over the long term. [[] Third ~~W~~, it will

enable some new borrowing secured on a priority basis by future tax revenues.

We should

~~not~~ not delude 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 ^{being} ~~to be~~ taken

by the officials of New York City and State. ^{They} ~~this must include~~

either increase ^{cut} revenues or expenditure ~~cuts~~ ^{or} ^{devise} 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 ^{PROCEEDING} ~~[default]~~ supervised by a Federal Court.

[Handwritten scribble]

~~[This plan will work. It will work because it is fair.]~~

most affected

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 ^{NEED} ~~[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 some temporary disorder but the repercussions ^{NEED} ~~will~~ not be large or long-lasting. In fact, there is solid reason to believe that once the uncertainty of New York is ended, ~~in-~~ ~~vestors 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



(MORE)

asked to assume a burden that is not of their own making and should not become their responsibility. This is ^{the only} a fair and ^{sensible} honorable way to proceed.

In conclusion, ^{Consider} let us pause for a moment to ~~consider~~ what ~~the~~ New York City ^{is} experience means for ^{all citizens of} the United States.



Two weeks ago, I spoke ~~to you~~ about the ^{crossroads} ~~choice~~ I believe

we face as a nation: the choice between continuing down a path of higher ^{Federal} government spending, higher ^{Federal} government deficits, ^{higher} and ~~more~~ inflation ^{— on the one hand —} or taking a new direction by cutting ^{Federal} taxes and cutting the growth in ^{Federal} government spending. Down ^{Path} 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 ^{simply} a very basic sense

following the same ^{SPENDING} practices they saw in Washington. ^{the} big

difference is that Washington ^{has} printing presses and can

always print more money to pay its bills. But ultimately

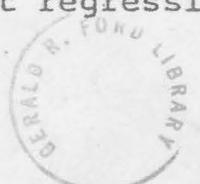
the practice of living beyond your means catches up with a

nation just as it catches up with a family or city. ^{your own} And for ^{with New York}

^{Sooner or later} ~~the citizens of that nation~~, the bill comes due ^{for all Americans} either in

the form of higher taxes or the harshest and most regressive

tax of all, inflation.



Americans ought to care

All of us tonight care especially about the people of

they are wonderful citizens who

New York City: ~~they~~ have worked hard over the years to

Wood's

create one of the ~~great~~ centers of civilization. But as

we work with them now to overcome their difficulties, let us

New York

never forget what led ~~that~~ city to the brink. And let us

of America

resolve that these United States ~~will never reach the same~~

~~crisis, dead end~~ *Choose the other road*

Thank you and good evening.

There is a profound ~~less~~^{on} for all Americans in the *financial* experience of our biggest and richest city.

Though we are the richest nation in the world, there is a *practical public* limit to our bounty, just as there is to New York's.



Other cities, other States ~~and~~^{as well as} the Federal government ~~as well~~ are not immune to the insidious disease from which New York is suffering. This ~~disease~~^{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 on and on.

It is a progressive disease and there is no painless cure.

Those who have been treating New York's financial ~~misery~~^{sickness} have been prescribing larger and larger doses of the same political pep pills that have proved so popular and successful in Washington for so many years.

None of us can point a completely guiltless finger at New York ~~for~~^{all} we have enjoyed its pleasures and comforts. None of us should now derive comfort or pleasure from New York's anguish.

But neither can we let the contagion spread. ~~As~~^{As} we work with the wonderful people of New York to overcome their difficulties ~~help them to~~ ^{and they will} ~~and revitalize one of the world's great centers of civilization,~~ ^{human} ~~let us never forget what brought New York City to the brink.~~ ^{this}

we must

mark my words

For if we go on spending more than we have, providing more services than we can pay for, then a day of ~~fiscal~~ reckoning will come to Washington ~~just as surely~~^{and the whole country just} as it has to New York.

~~Thank you for your help. If we have the courage, to save the United States of America from this nation from the New York...~~

I leave you with this ~~thought~~ *question*:

When that day comes, who will bail out the United States of America?

Thank you.



THE WHITE HOUSE

WASHINGTON

October 27, 1975

MEMORANDUM FOR: THE PRESIDENT
FROM: L. WILLIAM SEIDMAN *LWS*
SUBJECT: New York City

A redraft of your New York City speech designed to incorporate the substance of your proposal is attached at Tab A. The draft has been coordinated with all appropriate Departments and agencies.

A copy of the proposed Bill referred to in the speech providing for a Chapter XVI in the Federal Bankruptcy Act is attached at Tab B.

A letter from Chairman Burns to Congressman Ashley outlining his views on New York City is attached at Tab C.

cc: Robert T. Hartmann
Donald Rumsfeld



continue until the proceeding is terminated. This will enable an orderly plan to be developed whereby the city can work out an arrangement with its creditors.

While the city is working out a compromise with its creditors, the essential governmental functions of the city would continue under current law.

The proposed legislation will include provision that as a condition of the 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 the city, the Court will be empowered to authorize 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 payments to 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 delude 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.

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
proceeding supervised by a Federal Court.

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 need 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 some temporary disorder, but the

repercussions need not be large or long lasting. In fact, there is solid reason to believe that once the uncertainty of New York is ended, 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 spending 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.

