The original documents are located in Box 5, folder "New York City, October 1975" of the White House Special Files Unit Files at the Gerald R. Ford Presidential Library.

Jim -

As terry suggests -

I will hold here for the

time being.

Trudy

THE WHITE HOUSE
WASHINGTON

New York

Pls keep these materials together
The President may wish to
review them again

Terry O'Donnell

MEETING WITH
SENATOR MANSFIELD ET AL.

Monday, November 10, 1975

8:30 A.M.

THE PRESIDENT HAS SEEN

THE PRESIDENT HAS SEEN.

THE WHITE HOUSE

WASHINGTON

October 9, 1975

MEMORANDUM FOR: DONALD RUMSFELD

FROM: JIM CONNOR

Dick Dunham was unable to compile the information requested in your memo of October 7th; however, OMB has provided the attached information on Federal assistance to New York City.

Encl.

MEMORANDUM

THE WHITE HOUSE

WASHINGTON

October 7, 1975

MEMORANDUM FOR: JIM CONNOR

FROM: DON RUMSFELD

Please get from Dick Dunham the exact percentage of dollars that go into the New York City federal budget with some explanation of what else goest to New York city like transfer payments for Social Security, etc.

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

OCT 9 1975

MEMORANDUM FOR JIM CONNOR

FROM: Dale R. McOmber

SUBJECT: Federal assistance to New York City

Yesterday, you asked for information on Federal assistance to New York City. Attached is a copy of a memorandum to the President that we did a couple of weeks ago on this subject at Pat Delaney's request. Note well the caveats in it; they apply at least as much to what follows here.

- According to New York City's 1975-6 budget (which we understand is being revised), Federal aid (including general revenue sharing) is financing 21% of NYC's total expense budget. A New York Times article of February 1, 1975 contained figures indicating that the Federal government also is financing 16% of NYC's capital budget.

- According to the Census Bureau's figures for 1973, 49% of the spending of governmental units (including the authorities) in the NYC area was financed by intergovernmental revenues. We do not know how much of this 49% was Federal. (Probably, an estimate for 1976 would show a higher percentage.)

- The attached table shows estimated direct Federal transfer payments to persons in the five boroughs of NYC in fiscal year 1974. These figures are taken from the Community Services Administration's compilation (called Federal Outlays) of Federal outlays by State and county. Don't be misled by the apparent precision of the estimates, but the orders of magnitude are probably reasonable.

- There is a figure for Food Stamps in the table--$116 million. If Food Stamps payments in New York have grown like those elsewhere, the 1976 figure will be about twice that of 1974.

° We were not able to get a figure on student loans to persons living in NYC. We did get a guess that Basic Opportunity Grants (i.e., income-related higher education grants) will be about $30 million in 1976.

Attachments

SEP 24 1975

INFORMATION

MEMORANDUM FOR: THE PRESIDENT

FROM: JAMES T. LYNN

SUBJECT: Federal Assistance to New York City

About a month ago OMB did a fast survey of Federal grant programs that will provide assistance to New York City in fiscal year 1976. The results of the study are summarized below.

Before using the figures -- if you do -- you should know the caveats that go with them.

- The survey was done hastily to meet a short deadline. Consequently,

  -- only major programs were included, and

  -- the figures are rough estimates.

- The figures do not reflect the fact that Federal assistance is provided in many different ways. For example, some require matching funds while some do not, and some go through States while some go directly to the City. Knowing the effect of changes in the amount of Federal assistance requires knowing how the assistance is provided in any particular case.

- Obtaining solid, reliable figures on aid to specific cities, even large ones, would require a massive, costly study.

The survey indicated that Federal assistance payments to New York City in fiscal year 1976 will be in the vicinity of $3-1/2 billion. The distribution of these funds among programs is expected to be roughly as is shown on the attached table.

Attachment

retyped for Director's signature/sv 9/24/75

Rough Estimate of Direct and Indirect Federal Grants to New York City in Fiscal Year 1976 (in millions of dollars)

		Amount
Payments to individuals:		
Medicaid	1,115	
Public assistance (cash)	657	
Food and nutrition	135	
All other	137	
Subtotal		2,044
Education and manpower		408
General Revenue Sharing		263
Transportation (mostly mass transit)		203
All other (community development, waste treatment facilities, debt service contribution to housing authority, etc.)		582
Total		3,500

Transfer Programs - 1974 Federal Outlays for New York City
(millions of dollars)

	Total	Bronx	Kings	New York	Queens	Richmond
Social Security:						
Disability insurance...............	210.9	36.5	77.2	35.6	51.7	9.9
Retirement insurance...............	1642.9	275.0	511.4	379.1	426.9	50.5
Survivors insurance................	453.7	81.0	157.8	73.6	121.8	19.5
Medicare...........................	470.8	84.1	150.7	113.0	110.2	12.8
Medicare:supplemental medical insurance.........................	164.9	29.5	53.0	38.7	39.1	4.6
Supplemental security income.........	136.2	30.1	46.2	45.2	13.1	1.6
Coal miners benefits.................	2.1	0.3	0.8	0.3	0.7	*
Unemployment benefits:						
Placement services-admin...........	28.1	2.0	6.0	17.6	2.0	0.5
Unemployment insurance.............	17.6	3.2	5.7	4.6	3.7	0.4
Military retired pay.................	42.4	4.3	3.2	20.2	12.7	2.0
VA compensation & pensions...........	147.1	24.0	44.5	29.8	42.1	6.7
VA readjustment training.............	64.2	10.5	19.4	13.0	18.4	2.9
Food stamps..........................	116.6	33.9	44.8	23.8	11.9	2.2
Civil service retirement & disability	148.6	26.9	51.1	28.3	36.8	5.5
VA insurance and indemnities.........	29.0	4.7	8.8	5.9	8.3	1.3
Total.........................	3675.1					
Total Federal Outlays...............	16289.6	1798.2	3200.4	8566.0	2371.0	354.0

October 7, 1975

EMBARGOED FOR RELEASE:
UNTIL 6:00 p.m, OCTOBER 11, 1975

OCTOBER 11, 1975

Office of the Vice President
New York, New York

REMARKS OF THE VICE PRESIDENT
AT THE
ANNUAL COLUMBUS DAY DINNER
THE WALDORF-ASTORIA HOTEL
NEW YORK, NEW YORK

October 11, 1975

Columbus Day in New York is always a high point in the year. Coming in mid-October, it heralds the onset of the magnificant fall season in our area with its brisk, invigorating weather and the marvelous color throughout the countryside.

More importantly, Columbus Day is a special day -- special because it commemorates not only the birth of the Great Discoverer but celebrates the generations of Italo-Americans who have contributed so much to this America.

In business, in finance, in labor, in science, in education and the arts, government and politics, Italo-Americans have added to the strength, the vitality and the ennoblement of our way of life.

Columbus Day marks not only these achievements, but recognizes the warmth, the enthusiasm, the generosity and great humanity of those of Italian origin. It pays tribute, too, to their spiritual dedication and their intense patriotism.

It was the spirit of Columbus -- seeking of a new world -- the seeking of opportunity, that brought Italian immigrants here and that motivates their descendents today.

As we celebrate this Columbus Day, it is well to remember also that Christopher Columbus challenged the popular thrust of his day -- the belief that the world was flat.

At a time when opinion was overwhelmingly against his insight and view, Columbus took the unpopular course. He did so because it was what the best informed minds and most knowledgeable observers counseled. He did so because it was the sound way -- and his courage was more than vindicated.

This is a time, too, when leadership again faces unpopular action if we are to pursue a sound course for the future.

Pesident Ford faces it continually in the difficult role of combating inflation and the politically unpopular actions required to hold down the persistent pressures for more federal spending -- with a $60 to $70 billion federal deficit this year.

- more -

Governor Carey, Mayor Beame and the Emergency Financial Control Board face it in the difficult and also politically unpopular decisions involved in restoring fiscal soundness to New York City. Yet, such steps have to be taken to restore confidence and engender outside support.

A central fact, not fully appreciated in this connection, is that the President of the United States does not have authority under existing statutes to meet the situation.

As we know, under the State law adopted by the Legislature on September 10, and signed by the Governor, New York City must come up by next Thursday, October 15, with a budget and financial plan which will produce a balanced budget by June 30, 1978.

This plan must be based on the realistic estimate of revenues provided to the City by the State Emergency Financial Control Board.

The Control Board must either approve, disapprove or modify the City's plan by October 20 to accomplish these objectives.

The City must take the action required to implement this plan.

When the necessary actions are taken and a solid base is established for restoration of budgetary and fiscal integrity for the City, it is my belief that at this point a basis will have been established for help to bridge that difficult period -- between the adoption of the necessary measures required by the State Emergency Financial Control Board this October and the restoration of investor confidence in the City's full financial viability by June 30, 1978.In other words, when the Control Board and the City have enacted these difficult measures, the essential preconditions will have been met and the stage set for appropriate Congressional action.

It is, therefore, essential that the Congress as a whole focus on the problem now and enact appropriate legislation.

Helping to bridge this gap -- to give opportunity for these economies and improved management measures to take root and produce results -- is certainly in the interest of all of us.

While there is general agreement that management deficiencies contributed to New York City's difficulties, it is important that we not lose sight of the burden carried by New York and the other cities of the nation as they have sought to respond to human needs pressed upon them.

It is equally important that these past responses be viewed in the context of their times -- times when we were being told we were an affluent society with unlimited resources that could abolish poverty by statutory fiat.

The stark facts of today show that we have been promising more than we can deliver -- that we have been raising expectations beyond our capacities to meet them.

As a result, we are now compelled at all levels of government to take stock of our commitments and our resources, in order to project a more realistic course to meet the people's needs.

In this appraisal, the plight of our cities requires special attention and emphasis. This nation has too long ignored the basics for urban living -- the need for an infrastructure that provides a climate for real jobs, for business, for the economic health and the social well being of the urban areas of America where most of our people now live.

(MORE)

Time is of the essence and the resolution of this immediate New York City situation is crucial. After the Control Board and New York City have acted to restore fiscal integrity, it will be a true test of the responsiveness of our Congressional system as to whether the Congress can act in time to avoid catastrophe.

These are difficult times, demanding hard decisions and effective actions.

But out of them can come a new urban vitality -- built upon sound fiscal and social policies and a recognition and appreciation of the dynamic economic and cultural role of urban America.

# # #

The Grand Rapids Press
EDITORIAL PAGE
WEDNESDAY, OCTOBER 22, 1975
14-A

We Don't Hate N.Y.

It is too bad that the controversy over New York's unfortunate financial problems is provoking from normally responsible people such heated and even irrational remarks.

Press Secretary Ronald Nessen berates New York's governmental leaders for spending beyond the city's means and running large deficits. He compares the situation to a heroin addict who can't kick his "self-inflicted" habit.

As the key spokesman for the Ford Administration, it hardly behooves Mr. Nessen to be expounding on the merits of balanced budgets. The federal deficit for the current year will exceed $60 billion. Uneasy creditors won't be lining up in Washington, however, because the central government simply has more money printed and then goes out and "borrows" it. No other governmental unit enjoys this option.

On the other side, Pulitzer prize winning columnist Mary McGrory has taken aim at President Ford and let go with a barrage of intemperate comments. Among them was a description of Mr. Ford's "rather small-bore presidency." In that same column about New York's money predicament, Ms. McGrory asserts: "In Grand Rapids they hate New York."

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In the absence of documentation, it is puzzling and indeed troubling that this unqualified statement would appear in a nationally syndicated column. Ms. McGrory's imprudent statement follows editorial comment from respected newspapers in the East chiding the President's hometown for failing to meet its debt obligations during the Great Depression.

Without dwelling on the City of Grand Rapids' experience in the fiscal year ending March 31, 1934, it should be noted that the default occurred at the time of the national bank holidays in early 1933 and the amount of the principle involved was less than $1.8 million.

The proximate causes were decreased revenues resulting from unpaid property taxes and the old Grand Rapids National Bank which went into receivership at a time when it held $2½ million in city funds. Significantly, the city's financial embarrassment not only was modest in amount, but it also was short-lived. With the help of a $1,150,000 Reconstruction Finance Corp. loan which became a grant, the following year's audit reflected that payments were current.

At issue, however, should not be what happened to Grand Rapids 40 years ago. Rather, it is New York's current problems which must be addressed. This is why The Press on Sunday urged President Ford to use his office to assist the nation's largest and most important city.

The fact is that several of this country's largest cities face serious fiscal problems. Sobered by New York's situation, many municipal leaders are acting at last to head off the inevitable consequences of permitting spending to exceed revenues year after year.

There is, of course, the question of precedent which Mr. Ford has raised but our inclination is that other troubled cities will react by belt-tightening, rather than spending irresponsibly in order to attract the kind of federal loans and/or loan guarantees which New York City now seeks.

Whatever happens, however, let us be sure that New York's financial crisis is not treated on the basis of politics as usual. Like a war, the outcome is much too important to let partisan considerations dictate how the problem is attacked.

•

It was 1664 when Péter Stuyvesant, the Dutch director general, was forced to yield the province of New Netherland to the British and the city of New Amsterdam became New York City. Considering what has transpired since the, the people of Grand Rapids would seem to have ample reason to be disappointed about the stewardship exercised by Fun City's elected and appointive officials.

But a feeling of disappointment is far different than one of hate. Very little of a productive nature is built on hate for, as poet Robert Graves expressed so well: "Hate is fear, and fear is rot that cankers root and fruit alike."

The people of Grand Rapids know this. How unfortunate that Ms. McGrory does not know the people of Grand Rapids.

THE PRESIDENT HAS SEEN....

THE WHITE HOUSE

WASHINGTON

October 23, 1975

MEMORANDUM TO: MAX FRIEDERSDORF

FROM: RUSS ROURKE R

Max, Doug Bennett and I met with Senator Jim Buckley this morning for approximately 30 minutes. Our basic purpose was to discuss certain factors relating to the appointment of a new U. S. Attorney for the Western District of New York.

Having settled our original business, a discussion ensued concerning the plight of New York City. Buckley, who plans a press conference this morning concerning certain aspects of the New York City problem, suggested, in a most constructive and friendly fashion, that the President "minimize his rhetoric relative to New York City and talk more about the need to assist the millions of innocent citizens in the City who are the real victims of years of mismanagement and corrupt political leadership". Buckley thought the President would do well to assure those "millions of innocent citizens that they would be assured of continued essential services, viz., police, fire, etc. during this critical period". In other words, Buckley thought the President could drive home the principle he has thought to establish and place the blame where it belongs, i.e., on the fiscally irresponsible and corrupt political leadership in New York City, without, at the same time, totally alienating the innocent citizens of New York City. Buckley is simply concerned that the President is coming across as one who has "written New York City off". He is convinced that that is not the case, but feels that only the President can clarify this issue.

Specifically, Buckley earnestly requested a 30-minute meeting with the President prior to the time he meets with the various union representatives (fire, police, etc.) from New York City. After checking with Scheduling this morning, I am advised that an as yet unapproved proposal has Buckley scheduled for a 2:15 p.m. meeting on Tuesday, October 28, followed by a 2:30 meeting with the union heads.

I might note that Buckley expressed his deep appreciation to Doug Bennett and me for spending so much time "in his behalf" on this very ticklish

U. S. Attorney appointment position. Both Doug and I got the very distinct impression that Buckley, given certain considerations, would like to support President Ford against any Republican primary opposition. He was extremely pleased, for example, over the President's public references to his Food Stamp proposal. By joining forces with Buckley on this New York City issue, I believe the two can be drawn even closer together.

cc: JMarsh
BKendall
DBennett
DCheney

THE PRESIDENT HAS SEEN

THE WHITE HOUSE

WASHINGTON

October 22, 1975

MEMORANDUM FOR THE PRESIDENT

FROM: L. WILLIAM SEIDMAN LWS

SUBJECT: New York City Financial Situation

The near default of New York City last Friday has spurred renewed efforts by New York State and City officials to secure Federal financial assistance. Governor Carey and Mayor Beame have testified before committees in both the Senate and the House and have generated some congressional support for federal guarantees and other forms of federal assistance for New York City.

The Economic Policy Board Executive Committee in reviewing the New York City financial situation remains convinced that federal financial assistance for New York City is inappropriate. There is also agreement that, if a way can be found to avert a New York City default without endangering the good credit of New York State and without federal guarantees, that this is preferable to a default.

New York City and the Emergency Financial Control Board are releasing a three-year financial plan this week which outlines reductions in City personnel and services designed to bring the City budget into balance for the fiscal year commencing July 1, 1977. We have obtained a preliminary draft of the document which contemplates revenues and expenditures as follows:

SUMMARY OF FINANCIAL PLAN
(in Millions of $)

	City Fiscal Year		
	1975-76(a)	1976-77	1977-78
Total Revenues	8392	11992	12294
Expense Budget	7479	10634	10697
Reductions	-92	-462	-724
Total Expenses	7387	10272	10073

	City Fiscal Year		
	1975-76 (a)	1976-77	1977-78
Debt Service	1669	2190	2071
Surplus or (Deficit)	(664)	(470)	150

(a) October-June only.
Expense Budget figures do not include $100 million reserve for overruns for fiscal years 1976-77 and 1977-78.

A copy of the draft financial plan is attached at TAB A.

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~~ achieve or maintain 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 massive 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.

7

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.

THE PRESIDENT HAS SEEN....

THE WHITE HOUSE

WASHINGTON

October 23, 1975

TO: DONALD RUMSFELD

FROM: JERRY JONES

SUBJECT: Forums for Presidential Message on New York City

Dick asked for a layout of the possible forums on Monday, Tuesday and Wednesday of next week for the President to deliver a message as to his position on New York City's financial crisis. Unfortunately, the options are rather limited; the following is the entire range that Bill, Red, Terry and I have been able to develop:

1. A forum in New York City on Wednesday morning on the way to Los Angeles. The standing forums are as follows: the Investment Association of New York -- 650 members under the age of 41; the National Alliance of Businessmen in New York City; Columbia Business School Club; New York Society of Security Analysts which the President appeared before in February of this year.

The benefits of a New York forum are that the President takes on the problem in the lion's den; the down side is a travel issue, a potential demonstrator problem and the lack of a truly appropriate forum to address the humanitarian side of this problem. In addition, Mayor Beame would probably want to greet the President and this could not help but be an embarrassing situation.

2. Reschedule the luncheon speech in Albuquerque in front of the Western Governors. There will be ten Democratic governors at this conference, the subject of which is energy. The governors would probably support the President's position on New York. However, the down side problems are: (a) Rescheduling a canceled event adds to the disorganization charge; (b) addressing the New York City problem in front of Western governors may not be appropriate; (c) the conference topic is energy.

3. Deliver the message in a speech at the Los Angeles fund raising dinner. While this gets the President's position in front of the public it is bad form because it is a partisan function, it is in Los Angeles, it is in front of fat cats, we lose the news cycle because of the late hour on the East coast.

4. Deliver the message at the San Francisco fund raising function. Same as above except you do make the East coast news cycle on Thursday.

5. A function in Washington, D.C. This would be the best except there are no appropriate forums the first three days of next week. The following groups are in town: (a) the beauticians (b) American Institute of Aeronautics (c) National Council of Jewish Women (d) Girl Scouts of America (e) Air Traffic Control Association (f) Railway Progress Institute and several others of like quality. In addition, Baroody currently does not have a large group coming in next week. If we create an event by inviting mayors or governors or some other appropriate group the down side is the charge of media manipulation and at this late date it would be difficult to avoid that problem.

6. Ask for network television time to deliver a speech to the nation. While this would be the best possible option in terms of getting the President's position well stated to the country,we believe that the networks would not grant the time request and that the topic in reality is not of sufficient importance to risk the second consecutive turndown on a time request.

7. Address a joint session of Congress on Wednesday morning. We believe that such an address should be limited to major national issues of over-riding importance. This is not one and we feel such a request would be an over-reaction to the problem and thus be a political minus.

8. Send a written statement to the Congress and make a brief statement for film on the New York City problem on Tuesday morning or Wednesday morning. Because of the lack of an appropriate forum in Washington this is our recommended option. The brief four or five minute statement can be made either from the Oval Office or in the press room and if it is properly worded it will generate the same television exposure of any of the above options with the exception of the nationwide television address. We also feel that this type of response is the most "Presidential." It does not involve travel, it does not involve theatrics, it is not an over-reaction to what is not actually a national problem and it gets maximum exposure with minimum inconvenience.

Therefore, we recommend Option 8.

_______Approve   _______Disapprove

INTRODUCTION

This document presents a summary of the joint City-EFCB three-year financial plan developed pursuant to the requirements of Chapter 868 of the Laws of 1975, as amended. The plan demonstrates a feasible path from the City's present state of fiscal imbalance to a balanced budget for the fiscal year commencing on July 1, 1977.

The financing plan presented here relies heavily, but not solely, on the materials submitted by the City on October 15, 1975. It deviates from that submission in certain ways, including a significent cash reduction in the City's capital budget by approximately $450 million over the period of the plan.

As with any three-year planning effort, the present plan rests on several key assumptions. The assumptions concerning revenues, expenditures and borrowings are detailed below, but it is important to emphasize the extreme sensitivity of the financing plan to the terms and conditions of borrowings. Considerations common to any enterprise, such as interest rates and maturities on borrowings, are important sources of this sensitivity, as are considerations unique to a governmental enterprise, such as the response of the real property tax rate to borrowings of the City itself. The assumptions about borrowings which underly the financing plan appear to be a conservative reflection of likely market conditions over the life of the plan. In particular, it is assumed that there will be available a Federal guarantee for taxable, one year notes at an interest rate of eight and one-half percent.

An additional key feature of the financial plan is that it prescribes a system of milestones to assist the City, the EFCB, and other interested parties to monitor the execution of the plan.

It is important to point out also that no enterprise can adhere inflexibly to a rigid three-year plan. Thus, it is contemplated that specific details of the plan will have to be modified in light of experience with the yields of individual tax instruments, credit market conditions, and specific expenditure program priorities over the three-year life of this paln. Nonetheless, the broad thrust of this plan appears reasonable and feasible at this time, and the monitoring system will provide guidance regarding possible modifications which may be required.

ASSUMPTIONS

1. Revenues: a. City revenues are estimated in accordance with those delivered by the EFCB as of September 30, 1975, with some modifications concerning real property tax changes required by alternative debt service assumptions.

b. On a cash basis, it is assumed that the State will repeat its advances of various State aid funds in the final quarter of the City fiscal year.

2. Expenses: a. It is assumed that there will be no wage increases for municipal employees for the duration of the plan other than 1975-76 increments and cost of living allowances.

b. Inflationary increases in the dollar costs of supplies and purchased services for the duration of the plan are assumed to be absorbed within present agency dollar limits. In calculating agency spending levels for the City fiscal years 1976-77 and 1977-78 no further attrition in staffing levels is assumed.

c. It is assumed that the City's cost for welfare and medicaid programs will remain constant throughout the plan period.

d. Pension surplus reversion to the City is assumed at $104.6 million for City fiscal year 1975-76, and approximately $130 million for fiscal year 1976-77 and $160 million for 1977-78. The plan does not address the questions concerning full funding of the City's pension plans, pending recommendations from the Shinn Management Review Committee.

3. Reductions:

a. Some of the cost reductions proposed by the City will in practice not be implemented in the exact manner contemplated in the City paln. In some cases the City will have to be prepared to implement these reductions to the same dollar amount through alternative means.

b. Reductions in covered agencies will be required as contained in the City submission, and the City will be asked to bear primary responsibilities for monitoring compliance with the plan on behalf of the Board.

c. It is assumed that operating items in the capital budget will be reduced by $30 million on a cash basis in the current City fiscal year and by $80 million in 1976-77 and $130 million in 1977-78.

4. Financing:

a. It is assumed that over the life of the plan there will be available approximately $6 billion in principal amount of Federally guaranteed, taxable, one year notes, bearing 8 1/2% annual interest.

SECTION II

SUMMARY OF FINANCIAL PLAN
(in Millions of Dollars)

		City Fiscal Year		
		1975-76(a)	1976-77	1977-78
A	1. REVENUES			
	2. Real Estate Taxes (See Table A)	2081	3265	3234
	3. General Fund	3471	4197	4422
	4. State and Federal Aid	2606	4258	4369
	5. Other Revenues	234	272	269
	6. Total Revenues	8392	11992	12294
B	7. EXPENSES (excluding debt service)			
	8. Expense Budget	7479	10634	10697
	9. Reserve for Overrun	–	100	100
		7479	10734	10797
	10. MINUS Reductions	– 92	– 462	– 724
	11. Total Expenses	7387	10272	10073
C	12. NET SURPLUS BEFORE DEBT SERVICE (line 6 minus line 11)	1005	1720	2221
D	13. NEEDED FOR DEBT SERVICE (See Table B)	1669	2190	2071
E	14. SURPLUS OR (DEFICIT) (line 12 minus line 13)	(664)	(470)	150

additional borrowing

(a) October - June only.

TABLE B

1. Debt Service Required and New Debt Incurred by Year

PURPOSE	1975-76 Amount Borrowed (a)	1975-76 Debt Service (b)	1976-77 Amount Borrowed (a)	1976-77 Debt Service (b)	1977-78 Amount Borrowed (a)	1977-78 Debt Service
1. City Debt Existing Prior to 10/1/75	0	1908	0	1154 (c)	0	884 (c
2. MAC through 11/30/75	0	654	0	632	0	628
3. Capital Budget	867	0 (d)	1100	74	930	167
4. Seasonal Financing	1300	35 (d)	2000	50	2000	50
5. Budget Deficit	664	0	470	57	0	97
6. Financing Short-term debt rolling	1569	0 (d)	250	133	0	155
7. City Short-term debt rolled	0	72	0	90	0	90
8. Total, All Purposes	3736	1669	4014	2190	3400	2071
9. MINUS Seasonal:	1300		2000		2000	
10. Net New Amounts Borrowed	2436 (e)		2014 (f)		1400 (g)	

(a) In year of borrowing

(b) In year of payment

(c) City Long-Term less amount paid from Special funds

(d) December - June only

(e) Line 3 (75-76) Plus Line 6 (75-76)

(f) Line 3 (76-77) Plus Line 5 (75-76) Plus Line 6 (76-77)

(g) Line 3 (77-78) Plus Line 5 (76-77) Plus 6 (77-78

8 2. TOTAL INDEBTEDNESS

Total Debt Outstanding at End of Fiscal Year, Exclusive of Seasonal Borrowing

			June 1975	June 76	June 77	June 7
A	1.	CITY LONG Issued prior to July 1975	$ 7,767	$ 6,698	$ 5,689	$ 4,97
B	2.	MAC Long Issued through Nov. 30		3,194	3,020	2,69
	3.	Short Issued through Nov. 30		250		
C	4.	CITY SHORT to be rolled by Banks, P.F. & S.F.	1,051	1,051	1,051	1,0
	5.	Outstanding	3,664	—	—	—
D		NEW DEBT TO BE ISSUED:				
	6.	Capital	—	867	1,967	2,
	7.	Financing Short Debt	—	1,569	1,569	1,
	8.	Deficit	—	664	1,134	
	9.	Other	—	—	250	
E	10.	TOTAL	12,482	14,293	14,680	14

·B 2. TOTAL INDEBTEDNESS

Total Debt Outstanding at End of Fiscal Year, Exclusive of Seasonal Borrowing

		June 1975	June 76	June 77	June 78
1.	CITY LONG Issued prior to July 1975	$ 7,767	$6,698	$5,689	$4,971
2.	MAC Long Issued through Nov. 30		3,194	3,020	2,692
3.	Short Issued through Nov. 30		250		
4.	CITY SHORT to be rolled by Banks, P.F. & S.F.	1,051	1,051	1,051	1,051
5.	Outstanding	3,664	—	—	—
	NEW DEBT TO BE ISSUED:				
6.	Capital	—	867	1,967	2,897
7.	Financing Short Debt	—	1,569	1,569	1,569
8.	Deficit	—	664	1,134	934
9.	Other	—	—	250 -?	-?500
10.	TOTAL	12,482	14,293	14,680	14,614

2.2 increase.

TABLE C

Cash Flow Statement

			1975-76 (a)	1976-77	1977-78
A.	1.	REVENUES:	$ 8,392	$ 11,992	$ 12,294
B.	2.	OPERATING EXPENDITURES:	7,387	10,272	10,073
	3.	Capital Expenditures:	1,147	1,100	930
	4.	Long-Term Debt Service	908	1,154	884
	5.	MAC Debt Service	654	632	628
	6.	Short-term debt, maturing	3,542	4,401	5,171
		interest on debt to be issued:	-0-	264	419
	7.	Short-term Debt Service	107	140	140
	8.	TOTAL:	13,745	17,963	18,245
C.	9.	NET CASH NEEDS	5,353	5,971	6,951
D.	10.	CASH SOURCE:			
	11.	New Debt	3,100	4,120	5,100
	12.	New City Short Debt	250	-0-	-0-
	13.	Roll by Banks, P.F., S.F.	799	1,051	1,051
	14.	MAC (October and November)	426	—	—
	15.	Aid Advance	800	800	800
	16.	TOTAL			
E.		CLOSING BALANCE (carried through)	$ 5,375	$ 5,971	$ 6,951
			22	-0-	-0-

(a) October - June only.

EFCB

E 2. CAPITAL BUDGET - ~~[illegible]~~ PLAN
(Cash Outlay in Millions of Dollars)

		City Fiscal Year		
		1975-76	1976-77	1977-78
A	1. Expense Budget reduce by 7%	$ -20	$ -41.8	$ -41.8
B	Mitchell-Lama Housing			
	2. Stretch Out	-36	+28	
	3. Halt Projects	-47		
	4. Total	-83	+28	
C	Construction			
	5. Transit Authority	-15	-15	-15
	6. Environmental Protection	-22.6	-42.6	-37.4
	7. Municipal Services	-13.3	-25.4	-14.2
	8. Education	-39.6	-40.2	-15.3
	9. Other	-13.1	-11.8	- 6.6
	10. Total	-103.6	-135	-88.5
D	Reserve	+46.3	+13.6	+34.5
E	Total Potential Cuts	160.3	135.2	95.8
F	Capital Budget Total	$1,600.0	$1,100.0	$930.0

TABLE E

1. CAPITAL BUDGET

(Cash Outlay in Millions of Dollars)

		City Fiscal Year		
		1975-76	1976-77	1977-78
A	Expense Items			
	1. Personal Service	$ 237.1	$ 217.5	$ 197.9
	2. Other than Personal Service	111.1	101.9	92.7
	3. Fringe Benefits	42.6	39.1	35.6
	4. Lease of Facilities	92.7	92.7	92.7
	5. Vocational Education	174.9	160.4	145.9
	6. Manpower Training	38.6	35.4	32.2
	Total	$ 697.0	$ 647.0	$ 597.0
B	Mitchell-Lama Housing	$ 209.9	-0-	-0-
C	Construction			
	1. Transit Authority	181.1	169.2	138.1
	2. Environmental Protection	152.9	151.9	126.4
	3. Municipal Services	86.2	35.7	18.8
	4. Education	165.4	75.1	37.9
	5. Other	267.8	156.3	106.6
	Total	$ 853.4	$ 588.2	$ 427.8
D	CAPITAL BUDGET TOTAL	$1,760.3	$1,235.2	$1,024.8
E	Effects of Reduction			
	1. Expense Items	677.0	605.2	555.2
	2. Mitchell-Lama	126.0	28.0	-0-
	3. Transit Authority	166.1	154.2	123.1
	4. Environmental Protection	130.3	109.3	89.0
	5. Municipal Services	72.9	10.3	4.6
	6. Education	125.8	34.9	22.6
	7. Other	254.7	144.5	100.0
	Total	$1,552.8	$1,086.4	$ 894.5
	Plus Reserve	46.3	13.6	34.5
F	REVISED CAPITAL BUDGET TOTAL	$1,600	$1,100.0	$ 930.0

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(in Millions of Dollars)

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9.	Reserve for Overrun	—	100	100
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E 14.	SURPLUS OR (DEFICIT) (line 12 minus line 13)	(664)	(470)	Ø150

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(a) In year of borrowing

(b) In year of payment

(c) City Long-Term less amount paid from Special funds

(d) December - June only

(e) Line 3 (75-76) Plus Line 6 (75-76)

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B 2. TOTAL INDEBTEDNESS

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5. Outstanding	3,664	—	—	—
NEW DEBT TO BE ISSUED:				
6. Capital	—	867	1,967	2,897
7. Financing Short Debt	—	1,569	1,569	1,569
8. Deficit	—	664	1,134	934
9. Other	—	—	250	500
10. TOTAL	12,482	14,293	14,680	14,614

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	12.	New City Short Debt	250	-0-	-0-
	13.	Roll by Banks, P.F., S.F.	799	1,051	1,051
	14.	MAC (October and November)	426	—	—
	15.	Aid Advance	800	800	800
	16.	TOTAL			
E.		CLOSING BALANCE (carried through)	$ 5,375	$ 5,971	$ 6,951
			22	-0-	-0-

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EFCB

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(Cash Outlay in Millions of Dollars)

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	4. Total	-83	+28	
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	5. Transit Authority	-15	-15	-15
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	8. Education	-39.6	-40.2	-15.3
	9. Other	-13.1	-11.8	- 6.6
	10. Total	-103.6	-135	-88.5
D	Reserve	+46.3	+13.6	+34.5
E	Total Potential Cuts	160.3	135.2	95.8
F	Capital Budget Total	$1,600.0	$1,100.0	$930.0

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	3. Transit Authority	166.1	154.2	123.1
	4. Environmental Protection	130.3	109.3	89.0
	5. Municipal Services	72.9	10.3	4.6
	6. Education	125.8	34.9	22.6
	7. Other	254.7	144.5	100.0
	Total	$1,552.8	$1,086.4	$ 894.5
	Plus Reserve	46.3	13.6	34.5
F	REVISED CAPITAL BUDGET TOTAL	$1,600	$1,100.0	$ 930.0

SINDLINGER & COMPANY
Marketing & Opinion Research

S | M | T | W | T | F | S

Sindlinger's Economic Service
Harvard and Yale Avenues, Swarthmore, Pennsylvania 19081 215/544-900(

NEWS & ISSUES

Wednesday --- October 22, 1975 Report W-2:

New York Aid Opposed

- ... Nearly two-thirds of Americans are opposed to federal help for New York City.
- ... More than three-quarters balk at higher taxes to bail out nation's biggest city.
- ... Most who favor aid reside in East. Opponents say own cities are in trouble.
- ... Political and governmental leaders risk widespread public wrath if New York City is helped and others are ignored.

American consumers are opposed by a 2-to-1 majority to use of federal money to help New York City out of its financial dilemma.

The opposition becomes even more adamant when it is suggested that the proposed federal aid could boost income taxes.

The widespread resistance to helping New York City was found by Sindlinger & Company during a 14-day survey with a sample of 2,282 consumers in all parts of the 48 contiguous United States.

Conducted via continuous daily telephone interviews, the September 25th-October 8th survey also found that most of the minority that favored federal help lived in the northeastern parts of the country with the biggest bloc concentrated around the New York City metropolitan area.

TWO-THIRDS OPPOSE AID

Nearly two-thirds of all American consumers --- or 65% --- said the federal government should not provide money to bail out the nation's largest city. Only 30.2% favored federal aid.

When the pocketbook issue was introduced, however, the sentiment for having New York City find its own solutions grew markedly. More than three-quarters, or 76.5%, said they would not be willing to pay one extra cent in taxes to help New York. Another 18.1% said they hadn't thought about the issue while a mere 5.4% said they would be willing to accept higher taxes.

These findings show that a fair sized bloc of people may like the idea of helping New York City in principle but they themselves wouldn't be willing to ante up anything toward that cause.

SINDLINGER & COMPANY, INC. OF MEDIA IN PENNSYLVANIA
SPECIAL NEWS & ISSUES STUDY ON FEDERAL BAIL OUT OF NEW YORK CITY
14 DAYS --- SEPTEMBER 25th-OCTOBER 8, 1975

	TOTAL Sample	TOTAL %	TOTAL Proj. (000)	MALE Sample	MALE %	MALE Proj. (000)	FEMALE Sample	FEMALE %	FEMALE Proj. (000)
BASE --- ALL ADULTS 18 YEARS & OLDER	2282	100.0	147982	1138	100.0	71594	1144	100.0	76388
QUESTION 1									
SOME PEOPLE SAY THE FEDERAL GOVERNMENT SHOULD BAIL NEW YORK CITY OUT OF ITS FINANCIAL PROBLEMS WITH GOVERNMENT MONEY --- OTHER PEOPLE SAY GOVERNMENT MONEY SHOULD NOT BE GIVEN TO NEW YORK CITY AS OTHER CITIES AND STATES HAVE FINANCIAL PROBLEMS AND WOULD DEMAND EQUAL TREATMENT.									
WHAT IS YOUR OPINION ON NEW YORK CITY?									
1. GIVE GOVERNMENT MONEY..	691	30.2	44723	372	32.7	23411	319	27.9	21312
2. NOT GIVE MONEY	1482	65.0	96112	740	65.0	46536	742	64.9	49576
3. DON'T KNOW	109	4.8	7147	26	2.3	1647	83	7.2	5500
HOW MUCH WOULD YOU BE WILLING TO HAVE ADDED TO YOUR INCOME TAX IF THE GOVERNMENT HAD TO BAIL OUT NEW YORK CITY?									
1. NOTHING	1742	76.5	113093	843	74.1	53051	899	78.6	60042
2. DON'T KNOW	416	18.1	26870	222	19.5	13961	194	16.9	12909
3. AN AMOUNT STIPULATED ..	124	5.4	8019	73	6.4	4582	51	4.5	3437
BASE: WITH AMOUNT	124	100.0	8019	73	100.0	4582	51	100.0	3437
1. $1 - $5.00	20	16.3	1306	9	12.3	564	11	21.6	742
2. $6.00 - $10.00	34	27.7	2222	14	19.1	875	20	39.2	1347
3. $10.00 - $15.00	41	32.6	2611	34	46.7	2140	7	13.7	471
4. $16.00 - $20.00	13	10.6	851	5	6.8	311	8	15.7	540
5. $21.00 - $30.00	7	5.7	455	4	5.5	252	3	5.9	203
6. $31.00 - $40.00	8	6.3	510	6	8.2	376	2	3.9	134
7. $41.00 - $50.00	1	0.8	64	1	1.4	64	0	0.0	00

GENEROSITY IS RARE

Even the 5.4% sliver that would be willing to accept higher taxes weren't all that generous.

One of three was willing to pay between $10 and $15 extra to comprise the largest bloc of those who specified an amount.

More than three-quarters --- or 76.6% --- specified an amount between $1 and $15. Another 10.6% were willing to pay up to $20.

Practically all those who were willing to pay additional taxes resided in the northeast and generally within close proximity to the financially troubled metropolis.

POLITICAL RISKS ABOUND

These findings could have rather important political ramifications.

Many members of the majority who opposed New York City aid claimed a principle reason for their opposition was their belief that their own cities were in no better financial shape.

This, of course, opens the door to the much discussed possibility that if New York was helped many other beleaguered cities would follow hat in hand. At the very least, leaders of the other cities would be under public pressure to join the parade to Washington.

On the matter of political gain, the overwhelming opposition shows that New York City's cause is not a popular issue around the country. Any political or government figure who champions that city risks being damaged severely in the so-called hinterlands. Certainly this would be a drawback that any presidential candidate must weigh if he is thinking of leading the fight in Washington for New York.

NEW YORK

THE PRESIDENT HAS SEEN....

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

By Ken Auletta

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

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

It took a decade for Buckley to appear "responsible." He was bucking the sixties, the Age of Good Intentions, when candidates solemnly promised to outspend their rivals. New ideas. New programs. That's what we wanted. An unwitting spokesman for the age was Mayor Robert F. Wagner, who, in his last budget message, in 1965, declared: "I do not propose to permit our fiscal problems to set the limits of our commitments to meet the essential needs of the people of the city."

Consistent with that curious fiscal philosophy, New York City persisted in an ambitious—and compassionate—effort to care for those less fortunate by taxing those who could afford it. Today, 14 per cent of our citizens are on welfare. We support nineteen municipal hospitals, free tuition at the City University, open enrollment, day-care centers, foster homes—and we have an assortment of more than 25 different taxes. We have conducted a noble experiment in local socialism and income redistribution, one clear result of which has been to redistribute much of our tax base and many jobs out of the city.

The city's now overwhelming credit crisis is primarily a symptom, not a cause, of a deeper economic malaise, whose roots reach back three decades and encompass a series of city, state, and even federal decisions. This is a piece about those decisions, a chronicle of the people and events that cumulatively pulled us into our predicament.

To pinpoint the most important of these decisions, I interviewed more than 40 public officials, labor leaders, businessmen, bankers, and students of city government. My question was always the same: What were the key events and decisions that led to the city's present fiscal crisis? After sorting through these responses, and assisted by a research associate, Robert Sullivan, I waded through old budgets, Board of Estimate minutes, press releases, newspaper clips, state laws, books, and pamphlets. Then, when I had narrowed the choices, I did more interviewing.

In time, twenty critical decisions seemed to me to be the key events that let New York into financial ruin. The criterion for selection was not merely a "bad" or a "good" decision as such, but also those that opened the door for later abuse.

There are those who stress that New York is primarily the victim of social forces beyond its control. They will be disappointed in what they find here. Sure, there are general villains in plenty: the migration since World War II which brought 2 million blacks and Hispanics (largely poor) to the city and the departure of 2 million primarily white residents (largely middle income); the loss of one out of ten jobs in the last five years; inflation; taxes; racial polarization; anti urban bias; even the invention of the automobile. Not to mention such nondecisions as insufficient federal and state aid and the failure to engage in effective economic planning.

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

If the principal actors who have guided our city's destiny these last several decades—Wagner, Rockefeller, Beame, Lindsay—seem the chief villains in this piece, it must be remembered that they could not have accomplished all they did without a supporting cast of state legislators, borough presidents, City Council members, and city comptrollers.

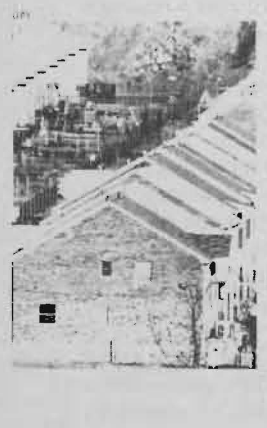
Add to this list promiscuous bankers, voracious labor leaders and their members, and—by no means least—the press, because it was too preoccupied with gossip, too lazy, or assumed its readers were too dumb or too bored to bother with detail. Finally, there is the press's audience, the public, which all too often lived down to the press's low expectations.

So, this is a story not only about what our "leaders" did—and how—but about what we did to ourselves.

Twenty Critical Decisions That Broke New York City

1. June 22, 1944: The G.I. Bill of Rights is enacted.

UPI



One cannot write about the city's fiscal crisis without tracing the exodus of 2 million middle-income people since World War II to the suburbs. The decision of the federal government in 1944 to provide 4 per cent home loans to World War II veterans, with no down payment required, opened the floodgates. The American dream of owning a home and property converged with federal moneys to subsidize that dream. There were few comparable incentives to keep people in town. Implicitly, the government was saying: We invite you to the suburbs. Millions took advantage of that offer. To get them to their new homes, various governments and agencies would subsequently, quite literally, pave the way.

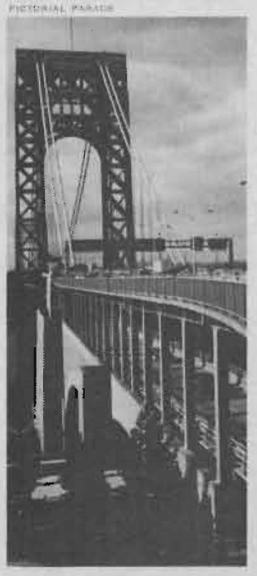
2. March 26, 1953: Governor Thomas E. Dewey signs a bill allowing New York to impose a payroll tax.

PICTORIAL PARADE

Governor Dewey, in a then common Republican effort to win suburban and upstate support by running against and embarrassing Democratic New York City, had the legislature pass a bill granting the city authority to impose a payroll tax of one-half of 1 per cent on all wage earners—including commuters. The cost of this was to be shared by the employer and the employee. There was a state string attached, however. The tax could be imposed only if the city agreed to set up a Transit Authority and commit itself to make its mass transportation system self-sustaining. Which was politically impossible. The city got the Transit Authority. What it didn't get was a payroll tax. On the recommendation of Mayor Wagner, the Board of Estimate rejected it. Through the mid-sixties the city retained this authority to impose a payroll tax. It was unused, and finally withdrawn by the state. For years the city has fought, vainly, to get permission of the State Legislature to tax commuters. A payroll tax would have provided a means to do so. If the city now had the payroll tax John Lindsay had asked for in 1970—his proposal would also have abolished the city income tax—an estimated additional $400 million would have been received from commuters alone this year.

3. January 16, 1955: The Port Authority and the Triborough Bridge and Tunnel Authority agree on a master plan—for cars.

PICTORIAL PARADE



Many factors were to contribute to the erosion of the city's economic base —repeal of the Lyons law, for example, which had required city employees to live in the city, and constantly rising taxes, which encouraged business to leave town. But it was the highway construction binge after World War II that made it easy to do so.

The Port Authority and the TBTA agreed on a plan to build a second level of the George Washington Bridge, the Throgs Neck Bridge, and the Verrazano-Narrows Bridge—each to carry cars only—and for ribbons of access roads and highways to go with them. It was a $1.2-billion package, and its architect was Robert Moses. As Robert Caro wrote in *The Power Broker*, his biography of Moses, the pact "sealed, perhaps for centuries, the future of

WIDE WORLD

New York and its suburbs." If the proposed money had been applied to mass transit—an abhorrent thought to Moses or the Port Authority's Austin Tobin—the city could have completely remodeled its subway system.

Little more than a year later, on June 29, 1956, the Federal Highway Trust Fund was established, creating a mechanism—a gasoline tax—to funnel new billions each year into highway construction. Between 1956 and 1965 alone, these funds paid for the construction of 439 miles of new highway in the metropolitan area. In the same period, not a mile of new rapid-transit track was completed.

4. March 31, 1958: Mayor Robert F. Wagner issues Executive Order Number 49.

What came to be called the "Little Wagner Act" was in fact the Big Wagner Act for municipal unions. The mayor's executive order granted to 100,000 city employees the right to join the union of their choice and the right to bargain collectively. It was not an easy decision. Wagner's advisers were divided between those who opposed the order, claiming it would lead to increased union pressure, and those who favored it, arguing it would impose orderly machinery for the resolution of disputes, bring stability to city agencies, and promote efficiency.

UPI

A labor adviser to Wagner, one who urged the signing of the executive order, now thinks it was a "mistake." He now believes it was wrong to assume that a municipal union can be dealt with like a trade union, because "the city is not an employer in the traditional sense. Profits do not exist. Workers are not extracting a share of profits but rather a share of taxes." He now views municipal collective bargaining as part of the political rather than the adversary process. Therefore, he says, municipal unions "are really a pressure group, a special-interest group."

UPI

A pretty powerful one, too. They are heavy contributors of money, printing, and manpower to campaigns. As Victor Gotbaum, head of District Council 37 of the State, County, and Municipal Employees' union, recently remarked: "We have the ability, in a sense, to elect our own boss."

The signing of the executive order led inexorably to the dilution of the power of city executives to manage their departments, since it placed such matters as "workload and manning" on the collective-bargaining table.

City union contracts now specify two-man, rather than one-man, patrol cars in low-crime areas; four rather than five men to a fire truck; a set number of days off for blood donations; 35-hour, rather than 40-hour, weeks for most city employees; eighteen days off a year for "chart" time for cops; fifteen minutes a day of paid wash-up time for sanitationmen; more than three months a year of paid vacation for teachers, plus paid sabbaticals.

Federal employees, who do not have the same collective-bargaining rights, have received salary increases averaging 5.5 per cent in the last ten years. In the same period city salaries grew by 10.4 per cent.

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One does not have to make labor a scapegoat or excuse a weak management to note, as *Newsweek* did recently, that even after adjusting for disparities in county, state, and federal aid, it still costs New York City $1,446 per capita to deliver the same services that cost Atlanta only $650, Chicago $715, and Philadelphia $731.

Following Wagner's executive order in 1958, the New York *Times* editorialized: ". . . city employees . . . will now be permitted to bargain harder for a pay rise that isn't there." Ultimately the *Times* was right, but it took a calamitously long time to make it so.

5. March 26, 1960: Governor Rockefeller signs a bill increasing by 5 per cent the state's contribution to state employees' pensions.

On the face of it, this appears to be a minor decision with small immediate dollar consequences. But, in fact, this decision signaled the beginning of a process of leapfrogging, of open competition between the city and state to outdo each other in rewarding their servants. The bill for the first time made pensions a part of collective-bargaining settlements and invited competition among public unions. Former Mayor Wagner recalls a Loyalty Day Parade in the early sixties. He and Rockefeller "were heading up the parade. The police and firemen were shouting, 'Atta boy, Rocky!' So I turned to Nelson and I said, 'You son of a gun, taking all the credit.' He laughed."

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The financial consequences of the 54 pension bills passed between 1960 and 1970 are staggering. In 1961, according to the State Scott Commission, the city paid $260.8 million to provide its employees with retirement and social security benefits. By 1972, that had jumped to $753.9 million, a growth of 175 per cent. The rapid increase in city employment accounted for only 30 per cent of this increase.

This year, the city budget for retirement benefits is $1.3 billion. But not even that sum gives the whole story.

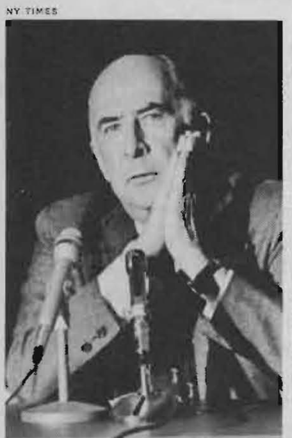
The business-oriented Committee for Economic Development has calculated that when all the city's costs—including hidden ones—are figured in, pensions will cost about 25 per cent of payroll. And the payroll itself now consumes 60 per cent of the city's budget.

6. April 18, 1960: Governor Rockefeller signs a bill creating the State Housing Finance Agency.

BLACK STAR


Until the creation of this agency, public authorities were expected to be self-sustaining. The things they built were supposed to pay their own way. However, upon the recommendation of a housing task force consisting of such luminaries as I. D. Robbins, James Scheuer, and Harry Van Arsdale, Rockefeller persuaded the State Legislature to depart from this policy.

The new agency would build nothing itself; it would provide money for others to build with. There would be no direct user revenues. The purposes for which the money could be used were broadly defined. As a way of getting around the state constitutional requirement to hold a public referendum in order to sell bonds backed by the "full faith and credit" of the state, the HFA would now rely on what was called "the moral obligation" of the state, for which voter approval wasn't necessary. The "moral obligation" concept was thought up by John Mitchell, the bond lawyer who went on to other things.

NY TIMES


The governor, in lining up support, tried to have it both ways. On the one hand, he told the public it would cost the "taxpayers" no money. On the other, he told investors that the state taxpayers would back the bonds. Years later we would all pay. "The decision on moral-obligation bonds," says Donna Shalala, a professor of government at Columbia University and a director of the Municipal Assistance Corporation, "reinforced and led to the era of avoiding constitutional requirements. It was difficult for the state to say to the city, 'Look, you're avoiding statutory or constitutional requirements in preparing your budget' when the state ignored the constitution by not going to the voters on bond issues."

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By the winter of 1975, the moral-obligation debt of state public authorities had soared to $7.4 *billion*. Public authorities had proliferated across the state, now totaling 230. And in February, 1975, one of the children of the HFA—the Urban Development Corporation—defaulted on its moral obligations, setting off the chain reaction which now threatens the entire local and state government bond market.

7. November 7, 1961: Voters approve new city charter.

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This was an eventful day in New York. It was a day the voters re-elected Bob Wagner—running against his own eight-year record—as mayor. Less noticed was a proposal supported by such good-government groups as the City Club and the League of Women Voters to amend the city charter. It carried by better than two to one. Among the charter changes were two that would strengthen the office of mayor. One empowered the mayor to estimate general fund revenues, a power formerly shared with the comptroller, the Board of Estimate, and the City Council; the second granted the mayor the power to estimate the maximum debt the city might incur for capital projects, a power also formerly shared.

It was the belief at the time—much as it was in Washington—that we needed a strong chief executive with the power to make decisions. The charter changes strengthened the mayor's powers, but they also opened these powers to abuse. An audit check on the mayor had been removed.

The new charter took effect on January 1, 1963. Fiscal sleight-of-hand began almost instantly. On April 2, 1963, Wagner proposed to balance his $3-billion budget, in part, by waiving payment of $15 million to the city's Stabilization Reserve Fund for one year. The City Council rubber-stamped this request, as did the State Legislature.

PICTORIAL PARADE


Comptroller Beame, unhappy with this approach, called on Wagner to use magic instead and balance the budget by increasing general fund estimates by $13.75 million and by changing the payment dates on state aid, thereby shifting the following year's state aid payments into the upcoming fiscal year.

Then, on May 6, Wagner solemnly warned: "A way must be found to replace a $40-million loss from the out-of-city sales tax." But on May 14, he suddenly saw a "brighter economic outlook" and said that the city could count on an additional $26.3 million in revenues.

"The significance of the charter change," argues a budget expert, "was that when you had a mayor operating with a Budget Bureau which was creative, the sky was the limit."

8. April 3, 1964: The New York State Local Finance Law is amended.

The State Legislature and the governor, each of whom is required to pass on every city budget, have often passed on, winked at, or initiated gimmicks

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BLACK STAR

which allowed city officials to use the capital budget—intended to pay for projects with a long economic life—for current expenses. Instead of requiring politically painful budget cuts, Section 11, Paragraph 62 permitted officials to use the capital budget to borrow money for *current* expenses.

Imagination bloomed. In his 1964-65 capital budget, Mayor Wagner buried $26 million in expense items. Governor Rockefeller approved an administration bill (Chapter 634 of the Laws of 1967) which allowed "the costs of codification of laws and the fees paid to experts [lawyers], consultants, advertising and costs of printing and disseminating" to be regarded as a capital expense by granting these expenses a "three year period of possible usefulness." This from our present vice-president, who is now campaigning against "permissive liberals."

The expanding use of this device and its long-range cost and effect on "investor confidence" should not be underestimated. Between 1965 and 1975, according to the Citizens Budget Commission, a total of $2.4 billion in expense items was smuggled into the capital budget at an added interest cost of $250 million. It has become a major factor in the city's massive debt service, which in this year is projected to require $1.886 billion, consuming 14 cents out of every expense budget dollar, or more than the city spends for police, fire, the City University, sanitation, and the environment combined.

9. May 13, 1965: Mayor Wagner closes a budget gap by short-term borrowing.

UPI

Mayor Wagner had planned to present his last expense budget to the full Board of Estimate before live television cameras. But word had leaked out that the mayor planned to close a $255.8-million budget gap by issuing short-term notes and by asking two separately elected state legislatures and the voters to approve a constitutional amendment permitting the city to increase real estate taxes 20 per cent. Editorialists screeched. City Comptroller Beame, a close Wagner ally, blasted the plan.

The live TV plans were scratched. Instead, Deputy Mayor Edward F. Cavanagh Jr. read a six-minute message to two Board of Estimate members on the same day John Lindsay announced his candidacy for mayor. Among the highlights of the Wagner budget message was his plan to "borrow now, repay later," as he phrased it. Expressing the optimism and rhetoric of the day, he said, "I intend that we shall press ahead with the war on crime, the war on poverty, the war on narcotics addiction, the war on slums, the war on disease, and the war on civic ugliness."

Such "wars" cost money, and Wagner presented a tricked-up, record-high $3.87-billion budget to pay for them. It was deficit financing, and the implications for the future were profound. In July, Moody's lowered New York City's credit rating, thereby costing taxpayers millions of dollars in additional interest charges. According to one official on the privately funded Citizens Budget Commission, an organization whose timely and pertinent warnings went largely unheeded over the years, "Wagner showed it could be done. His action showed that our laws—with the help of the legislature, our constitution, and our statutory framework—are sufficiently elastic to encompass a devastating amount of mismanagement." Governor Rockefeller helped round up sufficient Republican votes in the legislature to pass this scheme.

BLACK STAR

On June 30, 1965, the city's short-term debt was $526 million. By February, 1975, it had grown to an insupportable $5.7 billion.

On December 21, 1965, Mayor-elect John Lindsay, sounding remarkably similar to the man who would follow him into office eight years later, expressed alarm: "I face a budget gap of almost a billion dollars for the first fifteen months of my administration." Wagner denied there was a deficit, as Lindsay would eight years later.

10. January 12, 1966: Mayor Lindsay settles a citywide transit strike.

BLACK STAR

Mayor-elect John Lindsay journeyed to the Americana Hotel on December 27, 1965, to meet with representatives of the Transport Workers union and the Transit Authority. He asked both sides to arrive at a "fair settlement" to avoid a transit strike and then, with unaccustomed humility, declared: "I am not an expert on labor matters."

Over the next fifteen days he would prove this. On January 1, 1966, 34,800 transit workers went on strike, immobilizing most of the city. It was the first strike in TWU history, and the first major citywide strike in the city's history. Until this point, unions would threaten and bluster but then sit down in some smoke-filled room and work out a settlement. This time—after Lindsay denounced what he called the "power brokers," after the New York *Times*, near hysteria, had blasted a judge for merely throwing union leaders in jail, after union president Michael Quill had called his mayor a "pip-squeak" and the *Times* a "meddler"—the strike

WIDE WORLD

WIDE WORLD

was settled with a package of improvements worth $52 million, or twice what one of the three mediators said could have been the price.

Price aside, there was another important consequence. As former Mayor Wagner now recalls, "They went on strike—a violation of the law—and yet as part of the settlement they were forgiven, with no penalties to any extent."

The 1966 transit strike was John Lindsay's Bay of Pigs. It set the pattern for his future shaky dealing with municipal labor. Some feel he was the victim of poor advice. One participant recalls, "There were four guys principally responsible: Abe Raskin and John Oakes of the New York *Times* were on the phone every day telling Lindsay what to do. Then there was [pollster] Lou Harris and [Liberal party chief] Alex Rose. They were the architects of that settlement. They were all smart guys who understood public relations, but not labor relations."

Today, one of those four advisers reflected that Lindsay's mistake was that he "surrendered" to the unions' demands. His view was that Lindsay should have drawn the line and summoned the troops to battle. That may be correct, but it presupposes that the public, like a mighty army, would march in step behind their leader. Yet by the thirteenth day of the strike the public — tired, inconvenienced, their work and life patterns disrupted—was the party most ready to "surrender."

11. April 30, 1966: The State Medicaid law is enacted.

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Running for re-election in 1966, and playing the role of a "liberal," Nelson Rockefeller signed Medicaid into law, hailing it as "the most significant social legislation in three decades."

The significance should not be underestimated. Almost everyone was for Medicaid in 1966—Robert Kennedy, both houses of the State Legislature, labor, Republicans, and Democrats. It was the compassionate thing to do—and a classic case of good intentions and goals being subverted by poor thinking and slovenly legislation. The New York State Medicaid law promised free medical care to the poor, to senior citizens, and part of the middle class as well. The state was going to spend money—Rockefeller said "$90 million"—to subsidize medical care. But the state neglected to provide money or a plan to expand medical facilities and provide the beds, doctors, nurses, and technicians that would be necessary. Costs exploded as too many people chased too few doctors and facilities—making medical care prohibitively expensive for many New Yorkers. Not to mention what it would later do *to* our senior citizens in nursing homes and *for* venal private nursing-home operators.

The city's share of Medicaid costs is now greater than its share of welfare.

12. January 4, 1967: The city's Office of Collective Bargaining names an impasse panel to settle a pay-parity dispute.

WIDE WORLD

In 1967, faced with a tough quarrel involving old and sensitive relationships—"parities"—within police ranks, and between police and fire pay scales, the city's Office of Collective Bargaining named an impasse panel to sort out the issues. There followed the city's breaking of a written agreement with the police, a lawsuit, appeals, rehearings, and a six-day police strike in 1971. Ultimately, the city lost a suit brought by the Patrolmen's Benevolent Association, and the financial consequences were great. "By the time other groups, like firemen and sanitationmen, came forward with their related demands," writes professor Raymond Horton in his book *Municipal Labor Relations in New York City*, "the cost to the city was considerable—estimated from $150 million to $215 million."

But the city paid another price for its parity debacle. The city had previously suffered strikes by its transit workers, its teachers, sanitationmen, welfare workers. But until January, 1971, it had been almost unthinkable that those responsible for public safety would strike. With that strike went another piece of the social fabric, encouraging citizens and investors alike to lose confidence in the city's future.

13. November 7, 1967: Voters reject a new state constitution.

Voters who can remember back to 1967 may dimly recall a strident argument over the wisdom of repealing the so-called "Blaine Amendment" to the state constitution, which forbade state aid to parochial schools. Repeal of Blaine was part of an extensive revision worked out in a constitutional convention. The package was resoundingly defeated. But for the city of New York, which cast 56 per cent of its ballots against the revisions, the new constitution would have helped a great deal in other ways.

Article V, Section 25b of the proposed constitution called for the state to assume over a ten-year period the full cost of operating all courts in the city of New York. In the 1975–76 year the city's share of court costs is budgeted at $94.2 million.

Article X, Section 16 of the proposed

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constitution called for the state to assume over a ten-year period—10 per cent each year—the total cost of all city welfare. In 1967–68 the local cost for welfare was $267.2 million. By 1975–76 the local share of welfare and Medicaid costs had multiplied to more than $1 billion.

Article IX, Section 1d of the proposed constitution would have changed the city's state-school-aid formula. Instead of being based on attendance, as it now is (with the city's high rate of absenteeism), the formula would have been switched and would have been based on pupil registration, benefiting densely populated areas like the city.

14. November 5, 1968: The election of Richard Nixon.

CAMERA 5

The name Nixon will be remembered for various perfidies—Watergate, Cambodia, Chile, Vietnam. But as far as the city's fiscal crisis is concerned, Nixon should be remembered as the president who, in the words of urban historian Richard Wade, "abandoned the notion of compensatory spending for our cities and instead switched to per capita aid, which favored the burgeoning suburbs." Though in absolute numbers federal aid to the city grew incrementally during each of the years Nixon was president, by 1973–74 it decreased as a percentage of the city's budget—and it is certain that had a progressive been president, the city would have received considerably more support. Additionally, as the federal government cut back on matching grant programs, the city, in an attempt to continue those services, often overextended itself. "A critical series of decisions," argues a former deputy mayor, "was the acceptance of federal programs forced on us during the Johnson years. In the liberal euphoria over these programs too little attention was paid to the long-term costs of these programs."

15. March 18, 1969: John Lindsay announces his candidacy for re-election.

Lindsay was in trouble, and he knew it. In February, 1968, he had suffered a massive, city-wide sanitation strike in which he threatened to call out the National Guard. In a union town, labor leaders were calling him anti-labor. Even worse, in the wake of the September, 1968, teachers' strike over decentralization, many Jews—the city's largest and most powerful ethnic group—were openly calling the mayor anti-Semitic.

He had to try to rebuild an electoral

PICTORIAL PARADE

coalition, to be more political. He hired a talented campaign manager, Richard Aurelio, and instructed his key aides to check important government decisions with Aurelio. If he was to win he had to do what most elected executives do: use his government powers to advance his campaign. Only John Lindsay had to do more. He was still a Republican in a town where that party is nearly extinct. And more he did.

"That was a year the mayor wanted labor peace," Lindsay's deputy budget director at the time, David Grossman, now recalls. It was the year, says Raymond Horton, "when John Lindsay stopped fighting with the unions and went to bed with them."

Before the 1969 election, lucrative new pension benefits had been awarded attendance teachers, sanitationmen, higher-education employees, police, firemen, and library teachers. Lindsay's re-election campaign would ultimately win the support of such powerful city unions as those of the state, county, and municipal employees and the sanitationmen. Albert Shanker, head of the teachers' union—who in 1968 spoke of Lindsay in terms that would make Mike Quill proud—remained neutral. The mayor's people considered this a pro-Lindsay posture. In 1970, the teachers were rewarded with an extravagant pension settlement.

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Lindsay also used his budget for a series of manipulations to tide him through the election. He balanced his expense budget by counting $116.7-million in nonexistent revenues. He doubled expense moneys slipped into the capital budget. Playing Santa Claus, he reversed a long-held position and promised to hire more firemen; he also dangled overtime pay for policemen who worked a new night shift.

With the involuntary help of the taxpayers, and assisted by a brilliant campaign, the Liberal party, and a clown named Procaccino, Lindsay won—with 42 per cent of the total vote.

16. June 18, 1971: Rockefeller signs an amendment to the Local Finance Law.

New York State first resorted to budget notes in 1942 as a method of meeting emergency expenditure needs by borrowing against next year's revenues. The legislation spoke of "epidemic, riot, flood, storm, earthquake, or other unusual peril." Looking at New York City's recent fiscal history one would think that "epidemic," "earthquake," and "unusual peril" were annual events.

In 1971, in order to "balance" the city budget, city leaders got behind an overly optimistic forecast of how much

CAMERA 5

federal aid the city could expect. When Congress hedged on revenue-sharing, the city got caught short by several hundred million dollars. Governor Rockefeller responded by signing into law an amendment to the Local Finance Law which, in effect, said: if New York City makes a mistake in its estimate of additional revenues from federal revenue sharing in fiscal 1971–72, not exceeding $100 million, and gets insufficient aid from the federal government, it can issue one-year budget notes. But if the city can't come up with this money by 1974, it would be permitted to ask the State Legislature for money to cover the budget notes, and the legislature "will make a first-instance appropriation." That is, it would lend the city the difference.

At that time, John Lindsay used this special power to issue $308 million of such notes to cover false revenue estimates. The legislature also permitted the city to repay these notes as late as July 31, 1974, on the presumption the city would repay a part each year. Instead, each year the city simply rolled over that debt. This takes us to May 30, 1974, a gubernatorial election year. In preference to prudence, Governor Malcolm Wilson and the legislature created the New York City Stabilization Reserve Corporation at the request of Mayor Beame to repay the budget notes of 1971–72.

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The legislature then created the Stabilization Corporation to be a borrowing agency in order to borrow money to pay for the borrowings the city could not. In brief, this new agency was encouraged to borrow money to repay borrowed money—paying interest on interest. And digging the city in deeper and deeper until it faced a true "epidemic" in 1975.

17. June 19, 1973: The Board of Estimate and City Council approve Lindsay's 1973-74 expense budget.

It was a good year for wine but a lousy year for the city budget. It was an unusual budget in that it was shaped by both an outgoing mayor (Lindsay) and by a comptroller (Beame) who was to be the incoming mayor. Though Beame has repeatedly blamed the $1.5-billion deficit he says he inherited for much of the city's current woes, as comptroller and mayoral frontrunner his fingerprints were all over the document. He attended breakfast meetings on June 11 and 15 with Lindsay to achieve a compromise toward what they called a "balanced budget." On June 18, 1973, City Hall issued a joint statement. "Agreement has been reached

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on a proposed 1973–74 Expense Budget by the Mayor, the Comptroller, the Board of Estimate and City Council leaders." The New York *Post* reported: "This was the first year in the past four that Lindsay and Beame practiced budget politics of consensus instead of confrontation."

Among their budget tricks were (1) the placing of $564 million of expense items in the city's capital budget, an increase of $290 million from the previous year; (2) the city ended at midyear its existing subsidies of transit fares for schoolchildren and the elderly, pretending the need would disappear or that the state or federal government would bail the city out; (3) the City Council arbitrarily freed "revenues" of $148.5 million by, among other things, postponing the statutory repayment of $96 million to the "rainy day" fund; (4) Lindsay announced a deficit of $211 million and simply summoned the state to close it; (5) they made good a Beame campaign pledge by adding to the budget an authorization for 3,000 more cops, even though the city had at the time 2,250 police vacancies; (6) they approved a one-year roll-over of the $308 million in budget notes issued to cover the 1970–71 budget deficit.

A high official in the present comptroller's office calls that budget an example of outright fraud.

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David Grossman, Lindsay's budget director at the time, described in a June, 1973, memo the importance of his and Lindsay's—and Beame's—budget for 1973–74: "It was not until recently —from June 30, 1973, to March, 1975— that the really sharp increase in short-term borrowing occurred and the market began to ask what was going on. In those two years, short-term debt went up by an astounding 138 per cent (from $2.5 billion to the current $6 billion level). During the same two years, the expense budget went up 19 per cent while the state and federal aid component rose by only 7 per cent. Small wonder, then, that the city ran into a crisis of confidence in March, 1975, and ceased to be able to sell its short-term debt. What accounts for the very rapid growth in short-term borrowing in only two years? It would appear that the answer lies mostly in the way in which the last two city budgets were constructed—built on hoped-for revenues that never arrived, on budgetary techniques that anticipated future revenues by borrowing cash in the present, and on a continuing roll-over of past deficits from year to year. . . . The current cash crisis is, in budgetary terms, the end result of a political process that saw the city adopt two successive budgets in which the hard issue of budget balance was avoided." (*Continued on page 40*)


Regular: 17 mg. "tar," 1.3 mg. nicotine;
Menthol: 18 mg. "tar," 1.3 mg. nicotine
av. per cigarette by FTC Method.
Warning: The Surgeon General Has Determined That Cigarette Smoking Is Dangerous to Your Health.
Here's Max.
The maximum 120mm cigarette.
A lot longer than 100's. Yet, not a penny extra for all those extra puffs.
Great tobaccos. Terrific taste.
And a long, lean, all-white dynamite look.
"How can anything so nifty be so thrifty?"
MAX
FILTER 120° by KENT
MAX
MENTHOL 120° by KENT
© Lorillard 1975

(Continued from page 36)

18. November 6, 1973: The election of Abe Beame.

"The whole disaster of the city is Beame," bitterly complains an official with the Citizens Budget Commission. "The people in the Budget Bureau are and have been his. The secret of his powers is his mastery of the Budget Bureau. If you take a look at the 'creative decisions' in the city, you have to stand in admiration. There is an unbelievable technical elegance that one has to admire. What led to Beame and Deputy Mayor Cavanagh's downfall was the fact that these two guys were unable to adjust to changes in the new intergovernmental ball game we have. The city came to depend for 40 to 45 per cent of its budget on state and federal government funds. They could not shuffle these funds.

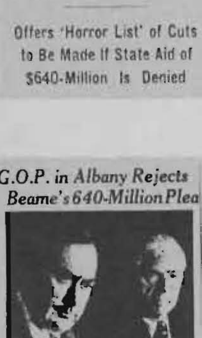
"The nature of the city's budget changed, but Beame did not adjust to the situation. He still continued to claim savings based on expenditures not made, and which never would have been made to begin with. The city claimed hundreds of millions in savings on people it could not have hired. It was as if my washing machine broke and my wife got it repaired for $50. If I were Abe Beame I would claim a $250 saving since I didn't have to go out and buy a new washing machine."

Abe Beame did something like that in the spring of 1974 when he presented his 1974–75 budget. Rather than make painful cuts to balance his budget, he raised the already highest taxes in the nation by $44 million; he smuggled $722 million of expense items into his capital budget; borrowed $520 million through the creation of the Stabilization Reserve Corporation, to be repaid over ten years; raised some $280 million by advancing the date of sewer-rent collections and siphoning what he called "excess" pension earnings to meet the city's share of pension contributions. The city had increased its reliance on borrowed funds to cover insufficient current revenues, thus pushing off still larger debt payments to next year.

BEAME THREATENS 38,000 DISMISSALS

Offers 'Horror List' of Cuts to Be Made If State Aid of $640-Million Is Denied

G.O.P. in Albany Rejects Beame's 640-Million Plea



Besides his budget failures, Abe Beame's performance directly led to the undermining of confidence in his—and, therefore, the city's—credibility. At first, he blamed whatever budget problems he had on the $1.5-billion deficit he said he inherited from terrible John Lindsay. Then on December 2, 1974, he blamed City Comptroller Goldin's differing deficit estimates for the 9.5 per cent interest the city was forced to pay for short-term notes. Then, over the next two months, he separately announced what he called Phase One, Two, and Three of city layoffs. On February 1, he said layoffs had been averted because city unions were forgoing contractual rights. The mayor seemed to be saying that the current year's budget crisis was no more. On February 15, Beame projected a $1.68-billion budget gap for the next fiscal year. Then he announced layoffs that later did not materialize. He blamed Republicans in Washington. Then he blamed Albany. On May 29, standing in the well of the Council Chamber before live television cameras, the mayor blamed the banks and "editorial columns" for a "conspiracy" to create "an atmosphere of doubt and uncertainty about New York's securities." On June 24, First Deputy Budget Director John J. Lanigan, a long-time Beame-Cavanagh associate, said, "I think there's a possibility we'll end up with a balanced budget" for the 1974–75 fiscal year. By July 7, the mayor was sitting calmly in his office and announcing that the fiscal crisis was "behind us." Like Nixon with Watergate, he had treated the city's fiscal crisis as a public-relations problem.

LAYOFFS OF 40,000 ORDERED AS CITY ENDS FISCAL YEAR

19,000 in Effect at Once—Nonmayoral Units May Cut Equivalent of 21,000

2,000 FIREMEN SEVERED

TALKS CONTINUE ON BILL CREATING CITY AID AGENCY

Governmental and Banking Negotiators Wrestle With Limits on Borrowing

CLOCK IS RUNNING OUT

Hope Is to Avoid a Default on $792-Million in Debts Due on Wednesday

On March 24 he warned, "Nobody is going to tell me how to run the city." On June 10, the state Municipal Assistance Corporation was created. By July 18 Beame meekly told the MAC he would do "whatever is necessary" to win back the investors he had accused of "conspiracy" on May 29. By September, the State Legislature had passed a bill, a main purpose of which was to advertise to investors that Abe Beame was no longer in charge. He had been stripped of his budgetary powers, as the city—through the default of its leaders—had been stripped of representative government.

"Abe Beame could have done much more much earlier and paid much less," a high state official told me in July. "In fact, if the city had been willing to get honest with its figures last winter and had presented a two- or three-year fiscal plan and agreed to limit its borrowing, there could have been an agreement with the financial community and there would have been no need for Big MAC."

19. June 15, 1974: The Port Authority's 1962 covenant is repealed.

In 1962 the Port Authority made a deal with the governors of New York and New Jersey. The authority agreed to take over and modernize the bankrupt and decaying trans-Hudson commuter tubes in return for winning the approval of the governors to build the World Trade Center. As an additional incentive, the legislatures of the two states passed covenants assuring the authority, together with its bondholders,

Sweater Ensemble: Nipon.

Fall 1975:
Estée Lauder gives you the one color so multifaceted it builds a whole new look for you: Country Brick

Country Bricks burnished with frost, warmed by the sun. They're the colors to wear everywhere: eyes, lips, cheeks, fingertips. They're the colors to wear with everything soft and sweatery and this-Fall. Here's how:

Eyes: Pressed Eyelid Shadow in Burnished Brick/Warm Brick.

Lips: RE-NUTRIV Rich Rich Lipstick in Roman Brick, Rose Brick.
Tender Lip Tint in Cafe Brick, Alfresco Brick.
Fresh Air Lip Polisher in Polished Brick.

Cheeks: Face & Cheek Tint in Russet Brick.
Soft Film Compact Rouge in Sunny Brick, Tawny Brick.
Tender Blusher in Burnt Brick, Smoky Brick.

Fingertips: Lustrous Nail Lacquer in Brick Tile, Glazed Brick.

Estée Lauder

 Photograph: Skrebneski Pantsuit: Ginala

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that never again would it be required to assume any deficit mass-transit operation. Since mass-transit systems chronically lose money, this effectively took the authority out of the mass-transit business.

For years, critics of the Port Authority have lashed out at this failure to invest in mass transit. A leader in the fight to wrench the authority into helping finance mass transit was labor attorney Theodore Kheel, who said in the spring of 1974, "Repeal of the 1962 statutory covenant will in no way impair the security of Port Authority bondholders." He was backed by Governor Brendan Byrne of New Jersey, who signed the repeal on April 30. Then overwhelming majorities in both houses of the New York State Legislature passed the repeal. Governor Malcolm Wilson, switching from the support he had promised Nelson Rockefeller in the fall of 1973, hesitated in signing the measure. He was fearful, he said later, that his approval of the measure would "overturn a solemn pledge of the state." He was immediately attacked by fellow Republicans, by Kheel, by all the then-Democratic-candidates for governor, by the City Bar Association, by just about everyone in politics. Wilson had been warned that repeal would seriously undermine "investor confidence," words then foreign to most of us. Finally, on June 15, only minutes before the signing deadline—and knowing he faced a difficult November election—Governor Wilson relented and approved the measure.

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PHOTOWORLD

Donna Shalala, a member of the MAC board, reports that in her dealings with bankers they often cite the repeal as undermining "confidence" in government securities. To investors the repeal served as a warning—despite assurances from the state and the Port Authority—that what the state giveth it can taketh away.

20. February 25, 1975: The New York State Urban Development Corporation defaults.

The first sentence of UDC President Edward J. Logue's 64-page annual report for 1974 begins: "1975 can be a banner year. . . ." It was, of sorts.

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On January 21, State Comptroller Arthur Levitt deplored yet again the "moral obligation" gimmick used by UDC and other agencies to avoid constitutionally required voter approval for state borrowing. He also blamed the banks for "cooperating with a vengeance" to reap profits from UDC. In succeeding days Governor Carey appointed task forces to study and seek to prevent the nation's most powerful housing agency from drowning in $1-billion in debts outstanding, and the $1-million per day it owed contractors. The agency had clearly overextended itself. After a series of frenetic meetings and touch-and-go negotiations with the banks, on February 26 the governor fashioned a bipartisan plan to provide refinancing and stave off the collapse of this important state agency. At the time everyone hailed the statesmanship exhibited by all sides. Largely overlooked was an event which took place the day before, and seemed less significant. On February 25, New York State—rather than appropriating state moneys and perhaps raising taxes to cover $104.5 million in due notes—chose to default on UDC obligations for four weeks. Governor Carey double-talked, saying that since these were short-term notes they "do not carry the moral obligation of the state."

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Four weeks later the state made good on this money. But the damage had been done. UDC became the first major government agency since the Depression to become insolvent. As Richard Ravitch, the man Carey installed as Logue's successor, had warned on February 9, "People did business with the UDC—small businessmen, architects, civil-rights organizations—thinking they were doing business with the state of New York. The fact that they technically were not doesn't matter now." The message communicated to investors was that state moral obligations were not legal obligations. Like the Port Authority bond covenant, in the eyes of the investment community the state was breaking a contract. Said a Wall Street bond trader: "Why should I buy the moral obligations of immoral politicians?" The consequences were swift. The *Wall Street Journal* reported "public bonds fell an average of $15 for each $1,000 face amount." Within days New York City was forced to accept a then astronomical 8.69 per cent interest rate on $537-million of bond-anticipation notes—up from 7 per cent two weeks before. In a joint statement Beame and Goldin said, "The recent default by the state Urban Development Corporation" has created an "unwarranted climate of suspicion in the marketplace." They charged that New York City taxpayers were being forced to pay for the mistakes of "another jurisdiction." The State Housing and Finance Agency postponed a scheduled note sale—made finally on April 23 for a record 9.6 per cent. By April, construction of more than $1 billion in nursing homes, hospitals, facilities for the handicapped, and other projects was held up for lack of investors. The municipal-bond market was going to hell. And the city of New York, the most flagrant violator of that market's rules, was thus set up to reap a whirlwind. ■

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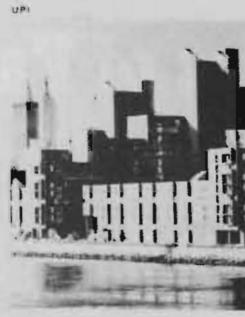


New York Post

MAC $56M Short As Deadline Nears

Rocky in New Call for Aid

MODES

COLLECTION ALBERT AND MARK NEWGARDEN

Starred and feathered: *In London in 1918, Baron de Meyer used his familiar shimmered light to enhance the beauty of "Dolores."*

. . . And Masters of Fashion Photography

In another century they might have become a Gainsborough, a Terborch, or, with a little luck and pluck, a Mme. Vigée-Lebrun. But in the twentieth century they became photographers, and as a result, the art of recording fashion lost status. No matter how arresting, inventive, or *beautiful* fashion photographs might be, they were generally considered as ephemeral and commercial as the apparel they displayed. Yet, paradoxically, many of them were taken by such men as Steichen, Man Ray, Beaton, and Avedon, whose work outside the field of fashion was highly acclaimed.

All this is about to be rectified, thanks to Robert Littman, the enterprising director of the Emily Lowe Gallery of Hofstra University. He has organized the first major exhibition of outstanding fashion photographs from World War I to the present, from Baron de Meyer's luminous plumes (above) to Deborah Turbeville's bathhouse blues (page 46). The show opens in Hempstead on October 30 and moves to the Kornblee Gallery in New York on December 16. Chosen from the work of 25 of the world's top photographers, the 200 pictures on display not only chronicle the changing modes and evolving mores of this century but confirm the place of fashion photographs among the high-status—and now high-priced—masterworks of the camera.—**Dorothy Seiberling**

John Simon Diagnoses Ken Russellmania

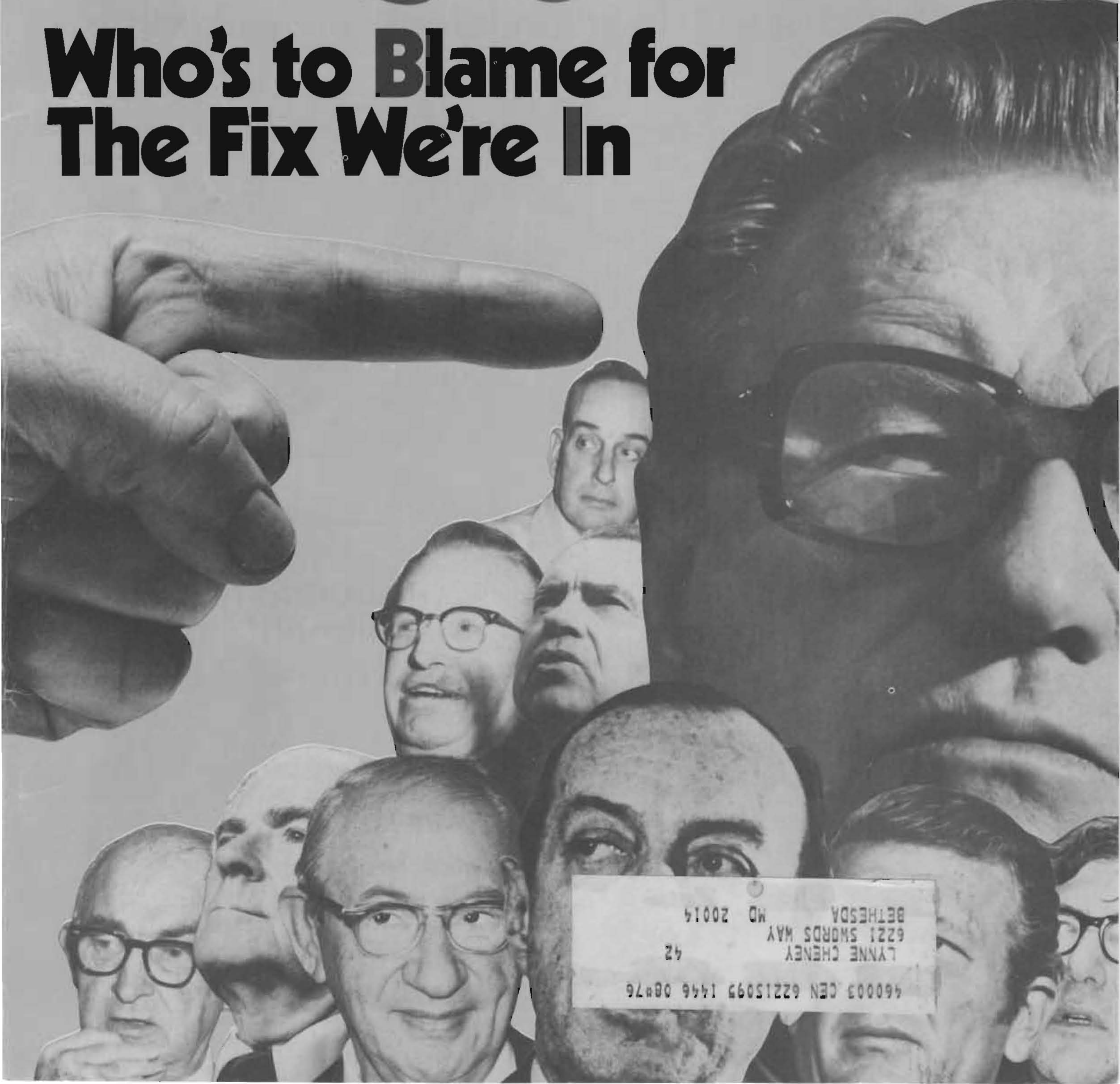
The John Connally Comeback Road, by Aaron Latham

Great Fashion Photographs of the Last 50 Years

75 CENTS OCTOBER 27, 1975

NEW YORK

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



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