

Advise the President: GERALD R. FORD

THE WHITE HOUSE
WASHINGTON
May 14, 1975

MEMORANDUM FOR THE PRESIDENT
JIM CANNON *JCC*
Response to New York City's Request for
Credit Assistance

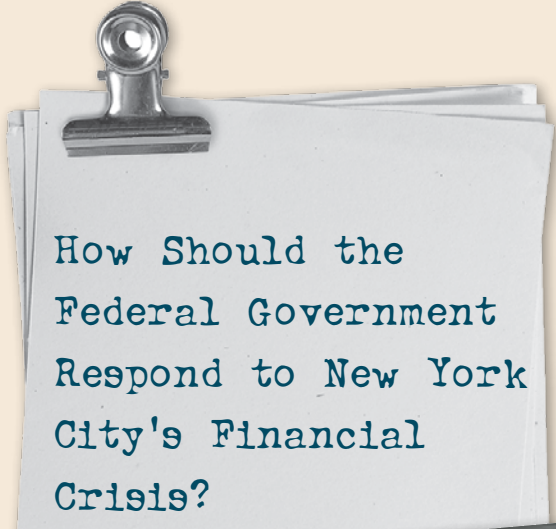
FROM: _____
SUBJECT: _____

_____ the Governor asked you to propose and/or
enable the City to use the credit
_____ days in an amount of _____
_____ response



HOW SHOULD THE FEDERAL
GOVERNMENT RESPOND TO NEW
YORK CITY'S FINANCIAL CRISIS?

Advise the President: GERALD R. FORD



How Should the
Federal Government
Respond to New York
City's Financial
Crisis?

Place: The Oval Office, the White House

Time: May 13, 1975

Gerald Ford describes himself as “a moderate in domestic affairs, a conservative in fiscal affairs, and a dyed-in-the-wool internationalist in foreign affairs.” The first person to become Vice President under the terms of the 25th Amendment, Ford assumes the presidency just nine months later, when President Richard Nixon resigns. The new President has inherited a full plate of domestic and international issues. One of the most pressing is the nation’s economy.

Economic troubles can also be found at state and local levels. New York Governor Hugh Carey and New York City Mayor Abraham Beame met today with President Ford. The City is on the brink of bankruptcy and the two have pled their case for Federal assistance. President Ford agreed to consider their request and respond within 24 hours. Jim Cannon, Director of the Domestic Council, frames three options for President Ford and you, his adviser, to consider.

There is not a consensus within Ford’s administration, but his basic philosophical and political beliefs, and advice from you, his trusted advisers, will guide him through this decision-making process.

President Ford would like to hear from you now, before making his decision.



STEP INTO THE OVAL OFFICE.
THE PRESIDENT IS WAITING FOR YOU.

Background

The 1970s may be New York City's lowest point. The city is notorious worldwide for its high crime rate and social disorders. The New York Police Department has been investigated for widespread corruption. The economic stagnation of the 1970s has hit the city particularly hard. A decline in the number of jobs due to the recent recession and the rapid loss of central city manufacturing has seriously affected a growing number of New Yorkers who have been unable to find work and have become more dependent on public assistance.

While the City's assets continue to decline, its spending continues unabated. Most studies of New York's fiscal problems have stressed the uniqueness of the services to citizens paid for by local taxes: a tuition-free university system, an extensive subway network requiring sizable subsidies, an unequaled public hospital corporation, and a wide array of public assistance. The City's welfare-related expenditures amount to \$4 billion annually, or one-third of its current spending budget.

The recession of 1974 – 75 has opened yawning deficits and exposed years of unsound practices. Financial gimmicks, such as shifting a portion of the City's operating expenses into its capital budget in order to present an overall balanced budget, produced small deficits that were allowed to accumulate and grow, ultimately creating a problem of unmanageable proportions.

In 1974, Gerald R. Ford became the United States President when President Richard M. Nixon resigned. Nelson Rockefeller, former Governor of New York, became the Vice President. The nation President Ford inherited from the Nixon administration suffered from rising inflation and from the deep wounds caused by the Vietnam War, social unrest, assassinations, and the Watergate scandal. Ford was a Republican, while the leaders of New York City and New York State were Democrats. Yet Ford, having served in Congress for 25 years, brought with him a reputation as a man of great integrity, respected by members of both parties.

What Problem Is New York Facing Now—in May 1975?

The City has been living beyond its means for many years. Since 1965 spending has increased by an average of 12 percent a year, while the City's revenues have increased by less than 5 percent. The cost of the City services has been rising almost twice as fast as the City's capacity to pay for them. The gap between annual income and spending has been papered over by financial shortcuts that have failed to address the problem itself.

Now the size of New York City's debt is so great that three major banks have notified Mayor Abraham Beame, Governor Hugh Carey, and U.S. Secretary of the Treasury William Simon that the City will not be able to borrow what it needs to stay afloat over the next four months.

This problem should be no surprise. Two nonpartisan studies concluded, in effect, that New York City's revenue base is simply not large enough to finance all the services that the City provides. Vice President Rockefeller foresaw the problem years earlier. As he put it, "I've dealt with NYC and its financial problems as Governor for a great many years....They've used up about all the rinky-dinks and rollovers and gimmicks that there are. Now they're going down to a very tough situation of income and outgo which are out of balance."

On May 13, 1975, Governor Carey and Mayor Beame met with President Ford and Vice President Rockefeller concerning the possible financial collapse that threatens New York City within days when its notes become due. They asked for a Federal guarantee of one billion dollars of New York City notes to be issued in May and June 1975. The City has been unable to borrow money since March, and it will default if it can't roll over its outstanding notes.

NEW YORK CITY FINANCIAL CRISIS: MAIN PARTICIPANTS

Federal Government



Gerald R. Ford (R)

President of the United States

38th President of the United States. He represented West Michigan in the U.S. House of Representatives from 1949 until 1973, when he was selected by Richard Nixon to replace Spiro Agnew as Vice President. He was confirmed as Vice President by a large majority in both the House and Senate.



Nelson A. Rockefeller (R)

Vice President of the United States

The grandson of Standard Oil founder John D. Rockefeller, Nelson was drawn to public service. He was a moderate Republican who held various positions in the FDR, Truman and Eisenhower administrations, then served as New York's 49th Governor from 1959 – 1973. Rockefeller tried for the Republican presidential nomination in 1960, 1964, and 1968. Gerald Ford nominated him to serve as Vice President in 1974.



William Simon (R)

Secretary of the Treasury

After military service and graduation from Lafayette College, Simon began his career in business, mainly finance. He served as Deputy Secretary of the Treasury before Richard Nixon selected him to serve as Secretary of the Treasury. Following Nixon's resignation, Gerald Ford asked Simon to stay on, and reappointed him Secretary of the Treasury.

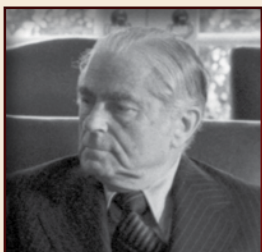
State and Local Government



Hugh L. Carey (D)

Governor of New York State

Served as the 51st Governor of New York State (1975 – 1982) as well as a seven-term representative in the United States House of Representatives. Carey was born and raised in Brooklyn, New York and received his law degree from St. John's University.



Abraham D. Beame (D)

Mayor of New York City

Served as Mayor of New York City from 1974 – 1977, inheriting the financial crisis. Beame grew up on New York's Lower East Side and graduated from the City College of New York. He spent 30 years employed by the City of New York, including two terms as City Comptroller.

Glossary:

Bankrupt

When you have been legally declared unable to pay your debt.

Bond

An official certificate that promises to pay back money that was borrowed, plus interest.

Capital Budget

A budget plan to pay for long-term expenses.

Debt

Owing money to a person or organization.

Default

Failing to make a payment you are required to make.

Deficit

Having an amount of money that is less than what you need.

Economic Stagnation

When the economy isn't improving.

Expenditures

The amount of money spent on something.

Federal Reserve Board

A seven member group who oversees the Federal Reserve System (the central banking system in the U.S.).

Fiscal

Having to do with the money of a business, government, or non-profit organization.

Inflation

When prices continue to increase.

Insolvency

Not having enough money to pay your debts. Often happens before bankruptcy.

Long Term Debts

Debts that need to be paid in one year or more.

Municipal Bonds

Bonds issued by local governments and usually used for special projects.

Notes

A government or business bond.

Operating Expenses

Money spent by an organization or business on day to day activities.

Recession

When production, employment, and spending slow.

Restructure

To organize something in a different way.

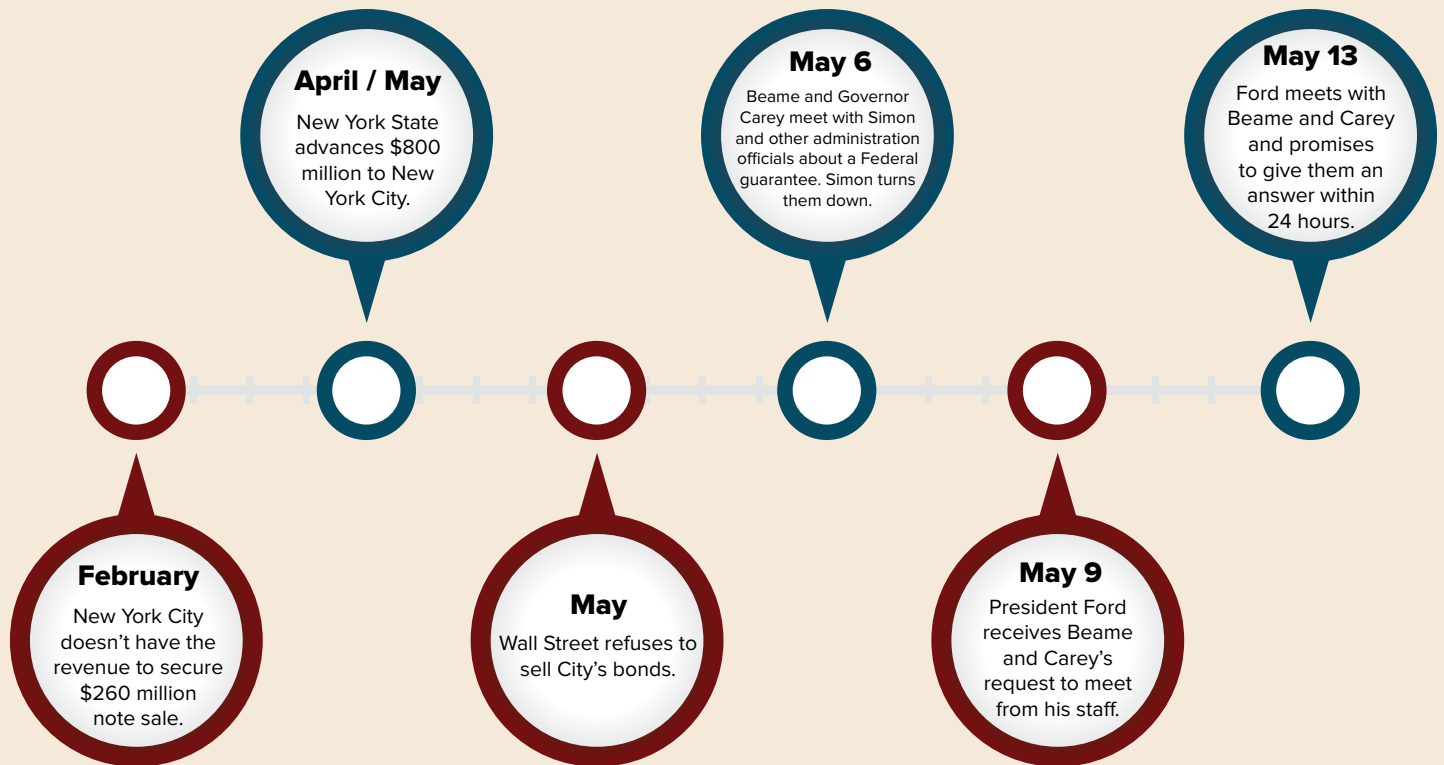
Revenue

Money collected through taxes.

Short Term Debt

Debt that needs to be paid within one year.

1975 TIMELINE



How Should President Ford Respond?

President Ford can select from several options to help solve the crisis. Although the question revolves around numbers and balance sheets, the human consequences of any decision he makes will be wide ranging and affect many people. What other issues must he struggle with, and what is the best approach to this dilemma?

To promote dialogue, deliberation, and a deeper understanding of the tough choices facing the President, three options are presented in this booklet to frame your discussion.

These options look at possible solutions to this crisis, but they differ in their diagnosis of the problem and in their recommendation of how each level of Government should respond to resolve the problem. Each option proposes a list of possible actions and identifies some of the potential trade-offs. The actions are not presented as definitive solutions but rather as starting points for discussion.

OPTIONS

How Should the Federal Government respond to New York City's Financial Crisis?

Option 1: Flatly deny the request for a bailout: Let New York City solve its own problem.

Option 2: Provide a Federal bailout with conditions: Get a bankrupt New York City back on track.

Option 3: Provide Federal assistance to New York City only if the State of New York assumes responsibility for the city's restructuring: Force New York State and New York City to work together.

FACING THIS TOUGH DECISION, HOW WOULD YOU ADVISE PRESIDENT FORD TO RESPOND?



View of Manhattan and the East River, May 1974.

OPTION ONE: FLATLY DENY THE REQUEST FOR A BAILOUT

Let New York City solve its own problem . . .

The President should not provide federal dollars or guarantees to bail out a fiscally irresponsible city according to this option. Fiscal responsibility is essential for cities, states, and the Federal Government. New York City's critical financial condition is not new, it has been developing for a long time. A Federal bailout will provide no real solution but merely postpone an honest reckoning with the problem. This fiscal crisis must lead to the adoption of sound budget policies that will have a substantial and beneficial effect on both the short- and long-term credit of New York City.

William F. Buckley, editor of the *National Review*, said that "New York City is in dire financial condition as a result of mismanagement, extravagance, and political cowardice. ... It must learn to live within its income, before it goes bankrupt."

The Federal Government is already contributing \$3.5 billion a year (about 25 percent of New York City's budget) to help fund its social programs. Seven major studies all came to the same conclusion: the rate of the City's expenditures is growing at a much faster pace than its revenue base.

U.S. Treasury Secretary William E. Simon turned down a similar request for a Federal guarantee of \$1 billion of New York City notes seven days earlier on May 6, concluding that "not only is the Federal Government's legal authority to provide financial assistance limited, but also that such assistance would not be appropriate. The fundamental solution to the City's financial problems does not lie at the Federal level."

In this view, helping New York might dramatically alter a "traditional balance" between the Federal Government and the states and chart a dangerous course toward "federalization" of the governmental system. Legally, dealing with the problems of cities and local governments is a state responsibility, so the Federal Government must be careful not to overstep its bounds.

Every family which makes up a budget has to make painful choices. As we make these choices at home, so must we make them in public office too. We must stop promising more and more services without knowing how we will cover their costs.

Gerald R. Ford

WHAT SHOULD BE DONE?

- ***NYC could declare bankruptcy because it can't afford to pay its bills.***

But . . . this would increase New York City's borrowing costs; potentially create chaos if the City has to lay off police, firefighters, and other City workers; and encourage other cities in financial difficulty to ask for help.

- ***NYC could raise fees on services like water and sewer.***

But . . . some citizens may not be able to pay higher fees for vital services, and the City might actually lose revenue.

- ***NYC could appoint an emergency manager empowered to make deep cuts.***

But . . . this would give one person tremendous power over the functions of the City and its governance.

- ***NYC could cut all nonessential services.***

But . . . if museums and important cultural institutions are closed, it could impair the City's image and seriously affect revenues from tourism.

- ***NYC could raise taxes.***

But . . . this would put a greater burden on the City's residents.



President Ford discusses possible federal aid for New York City with Governor Carey and Mayor Beame in the Cabinet Room on May 13, 1975.

OPTION TWO: PROVIDE A FEDERAL BAILOUT, WITH CONDITIONS

Get a bankrupt New York City back on track . . .

New York City's bankruptcy will affect far more than the City's finances, according to this option. The Federal Government must bail out New York City because it is one of the nation's largest cities and its failure might have unexpected ripple effects. The Government can exercise a crucial role now by using its power to step in and resolve the crisis. However, the current Federal bankruptcy law is inadequate to deal with the default of such a large city, so Congress would have to address this issue and amend the law.

Two threats seem particularly worrisome. First, New York's collapse would mean economic turmoil for the entire nation; after all, the City is the country's financial capital. Default could damage the ability of New York State to borrow money and disrupt the municipal bond market. That might trigger multiple financial crises across the country, perhaps shaking the nation's entire banking structure.

Denver Mayor William McNichols describes the New York City crisis as a variant of the domino theory: "Every city in the nation is like a tenant in the same building. If somebody says the third floor is going to collapse, you can't say that's not going to bother me because I'm on the second floor."

The second threat is the possible breakdown of civil order in New York City. The urban riots of the 1960s are still a fresh memory in 1975. The last time the City tried to freeze City employee wages and reduce personnel, the unions fought back with a two-day "wildcat" strike, and police handed out "Welcome to Fear City" leaflets advising visitors to stay out of the City.

In return for a bailout, New York City must address the long-term imbalance between revenues and expenses that lies at the heart of the problem. The City will be required to develop a plan to balance its budget. Given the amount of money involved, this plan will require an evaluation of everything the City can do to reduce expenses and raise its income, so that Federal assistance becomes a bridge to self-reliance, not just an addictive fix.



Sanitation workers collect garbage on 172nd Street in Manhattan, July 1973. The crisis could potentially lead to disruptive strikes by these and other city employees.

WHAT SHOULD BE DONE?

- ***Turn over all the City's financial affairs to a Federal judge.***

But . . . this would upset the balance of power in government, placing Federal officials in charge of municipal affairs.

- ***Require that New York City cut welfare, police, and fire services.***

But . . . these cuts jeopardize the safety of all residents and hamper the City's ability to attract new residents and investment.

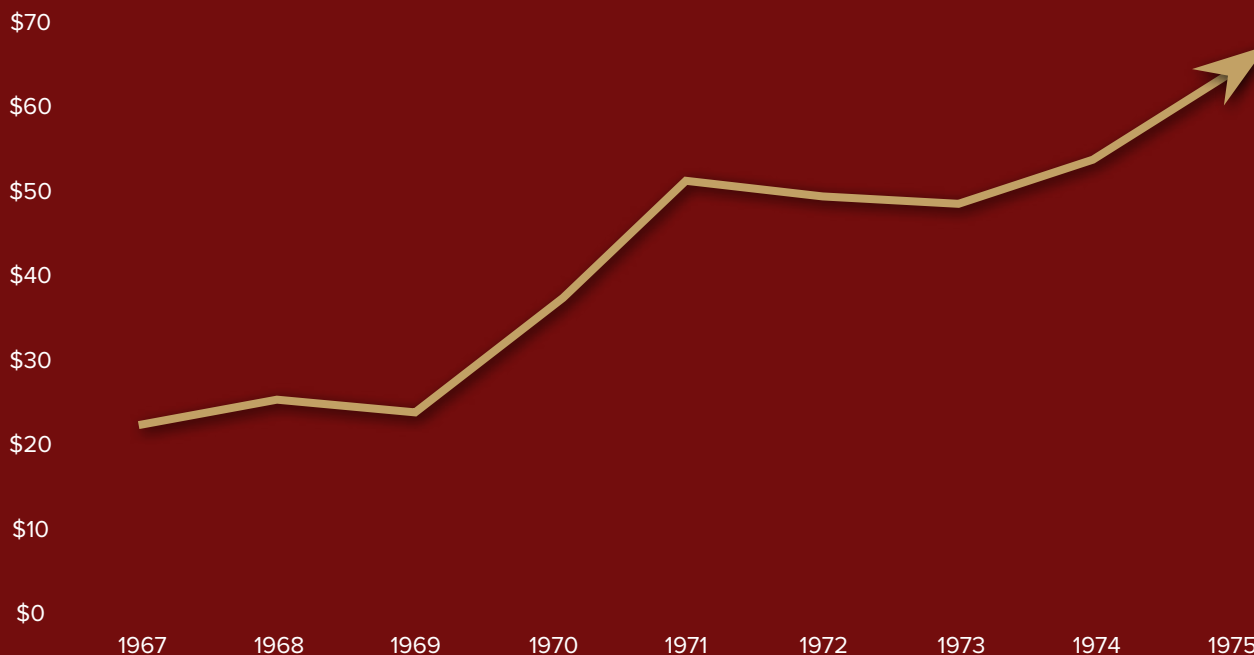
- ***Make changes in city pension fund arrangements including increased contributions from City employees.***

But . . . people rely on their pensions, and changing these agreements now would be a hardship. This could unfairly endanger the retirement of employees who did not cause the situation.

- ***Buy and restructure the City's debt.***

But . . . the City would owe money to the Federal Government, and if New York City finances don't improve, the Federal Government may never be repaid.

Volume of NYC Municipal Borrowing in Billions



OPTION THREE: PROVIDE FEDERAL ASSISTANCE TO NEW YORK CITY ONLY IF THE STATE OF NEW YORK ASSUMES RESPONSIBILITY FOR THE CITY'S RESTRUCTURING

Force New York State and New York City to work together . . .

The problem is that New York City and the State of New York have refused to work together, according to this option. While it is true that New York City is a special case, a national "capital" second only to Washington, DC, this crisis is not, at root, a Federal problem. The crisis facing New York City affects not only the City but also the State of New York and the future of fiscal responsibility across all levels of government nationwide. The Federal Government should only help if the State uses its power to generate broad-based support for a solution that requires many different actors to step up to the plate.

New York City alone did not create the current financial problems. New York State had a hand, too. State officials tolerated or even suggested many of the gimmicks that enabled the budget to appear balanced, and the banking community knew that such tricks were being used. Confrontations between the Mayor and the Governor over the City's fiscal year 1976 budget may well have caused investors to doubt New York City's creditworthiness.

The leadership at each level of government faces difficult, and often unpopular, financial decisions. The City must develop a more austere and balanced budget and a financial plan that can be approved by the State Emergency Financial Control Board. New York State, meanwhile, has to use its good credit to help the City recover. Private banks need to recognize the City's importance and put their own resources into the mix. Only then might the Federal Government step in to propose legislation to Congress to help bridge the gap in the City's financial resources until improved management measures take root and produce results.

Would the cutbacks leave them with adequate fire and police protection? Would they have enough doctors for their hospitals and teachers for their schools? Wasn't there something—short of a cash handout—that the federal government could provide?

Gerald R. Ford

WHAT SHOULD BE DONE?

- *The Governor should require the state legislature, which has primary responsibility for what happens to New York City, to step up and help the City.*

But . . . the state's finances could be put in jeopardy.

- *The state should require the City to implement a wage and expenditure freeze immediately.*

But . . . public employees may strike and people would have less money to spend, which will not help the economy.

- *The state should increase revenues by adding new state taxes to provide additional finances to the City.*

But . . . this would mean that residents across the state would be responsible for bailing out one particular city.

- *The state should require banks and creditors to provide concessions and restructure New York City's debt.*

But . . . this would mean that the state will be telling private businesses how to conduct their affairs.

- *If New York State takes these actions, the President should encourage Congress to authorize Federal assistance to bridge the gap in the City's financial resources until improved management produces results.*

But . . . Congress would set a precedent for other cities if it passed special legislation for New York City, even with conditions.



President Ford and Secretary Simon meet with Arthur Burns, Chairman of the Federal Reserve, and leaders of several New York City banks in the Oval Office, September 23, 1975.

SUMMARY

How Should the Federal Government Respond to New York City’s Financial Crisis?

As one of President Ford’s advisers, carefully consider the steps that could be taken, and the benefits and consequences of each. How will you advise the President to respond to New York?

OPTION ONE: FLATLY DENY THE REQUEST FOR A BAILOUT

Main Arguments in Favor of This Option	Examples of What Might Be Done	Some Consequences and Trade-offs to Consider
The President should not provide Federal dollars or guarantees to bail out New York City. The City’s financial condition is not new but has been developing for a long time. A Federal bailout will provide no real solution; it will merely postpone coming to grips with the underlying problems. This fiscal crisis must lead to the adoption of sound budget policies that will have a substantial and beneficial effect on both the short- and long-term credit of New York City.	NYC could declare bankruptcy because it can’t afford to pay its bills.	This would increase NYC’s borrowing costs; potentially create chaos if the City has to lay off police, firefighters, and other City workers; and encourage other cities in financial difficulty to ask for help.
	NYC could raise fees on services like water and sewer.	Some citizens may not be able to pay higher fees for vital services, and the City might actually lose revenue.
	NYC could appoint an emergency manager empowered to make deep cuts.	This would give one person tremendous power over the functions of the City and its governance.
	NYC could cut all nonessential services.	If parks, museums, and important cultural institutions are closed, it could impair the City’s image and seriously affect revenues from tourism.
	NYC could raise taxes.	This would put a greater burden on the City’s residents.

It has always been my hope that the leaders of New York, when the chips were down, face up to their responsibilities and make the tough decisions that the facts of the situation require.

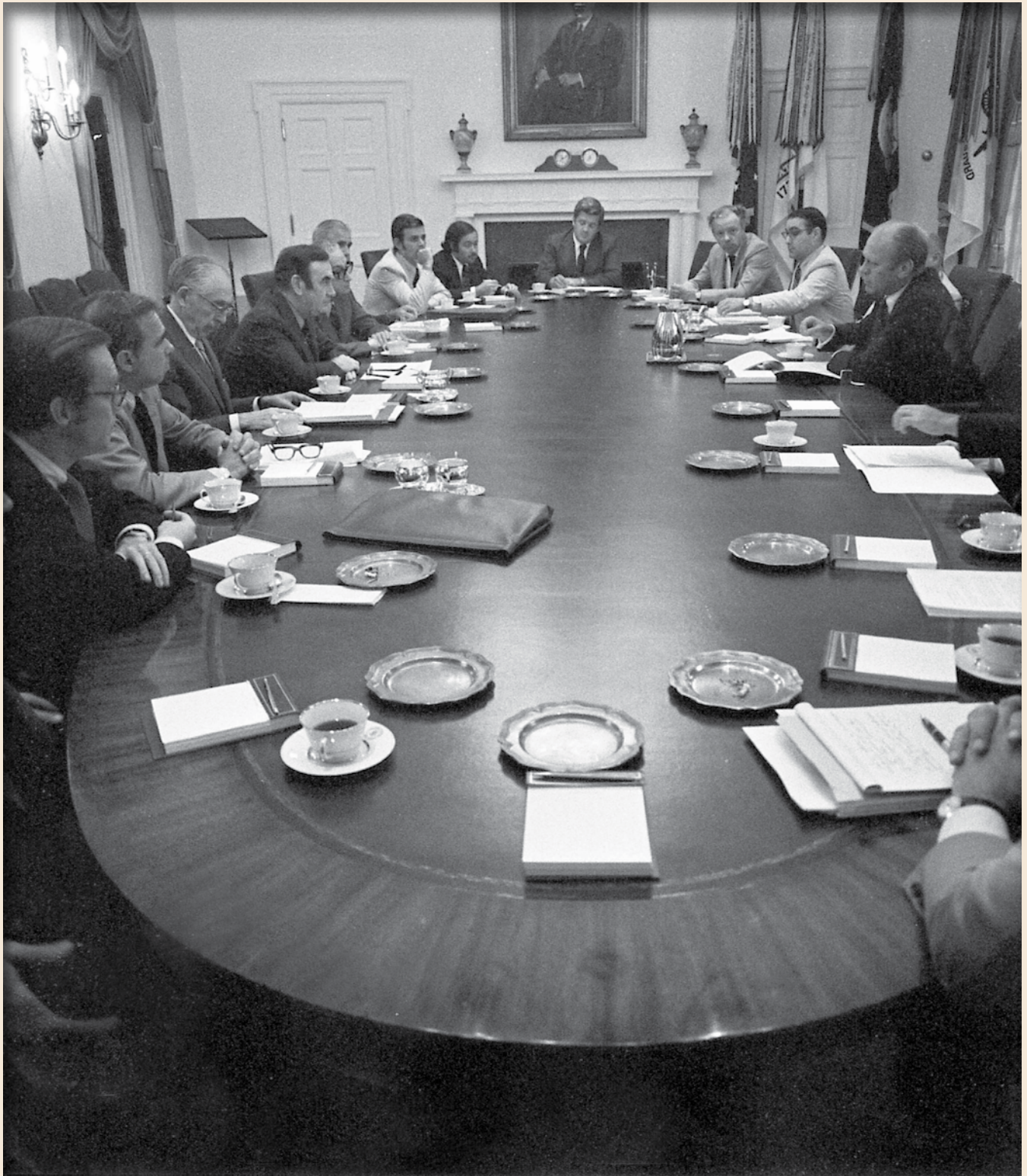
Gerald R. Ford

OPTION TWO: PROVIDE A FEDERAL BAILOUT, WITH CONDITIONS

Main Arguments in Favor of This Option	Examples of What Might Be Done	Some Consequences and Trade-offs to Consider
<p>The Federal Government must bail out New York City because it is one of the nation's largest cities and its failure might have unexpected ripple effects in the banking system and in the city's civil order. In return for a bailout, New York City must address the long-term imbalance between revenues and expenses that lies at the heart of the problem. Given the amount of money involved, this plan will require an evaluation of everything the City can do to reduce expenses and raise its income, so Federal assistance is a bridge to self-reliance not just an additive fix.</p>	Turn over the City's financial affairs to a Federal judge.	This would upset the balance of power in government, placing the Federal judiciary in charge of municipal affairs.
	Require that NYC cut welfare, police, and fire services.	These cuts jeopardize the safety of all residents and hamper the City's ability to attract new residents and investments.
	Make changes in the City pension fund arrangements, including increased contributions from City employees.	People rely on their pensions. Changing these agreements now would be a hardship. This could endanger the retirement of employees who did not create the situation.
	Buy and restructure the City's debt.	The city would owe money to the Federal Government, and if NYC finances don't improve the Federal Government may never be repaid.

OPTION THREE: PROVIDE FEDERAL ASSISTANCE TO NEW YORK CITY ONLY IF THE STATE OF NEW YORK ASSUMES RESPONSIBILITY FOR THE CITY'S RESTRUCTURING

Main Arguments in Favor of This Option	Examples of What Might Be Done	Some Consequences and Trade-offs to Consider
<p>The crisis facing New York City affects not only the City but also the State of New York and the future of fiscal responsibility across all levels of government nationwide. Private banks, New York State, and the Federal Government, including Congress, should all take a hand in resolving this problem. The Federal Government should only act if the State of New York uses its power to generate broad-based support for a solution that requires many different actors to step up to the plate.</p>	The Governor should require the state legislature, which has primary responsibility for what happens to NYC, to step up and help the City.	The state's finances could be put in jeopardy.
	The state should require the City to implement a wage and expenditure freeze immediately.	Public employees may strike and people would have less money to spend, which would not help the economy.
	Increase revenues by adding new state taxes to provide additional finances to the City.	This would mean that residents across the state would be responsible for bailing out one particular city.
	The state should require banks and creditors to provide concessions and restructure NYC's debt.	This would mean that the state will be telling private businesses how to conduct their affairs.
	If New York State takes these actions, the President should encourage Congress to authorize Federal assistance to bridge the gap in the City's financial resources until improved management produces results.	Congress would set a precedent for other cities if it passed special legislation for NYC, even with conditions.



President Ford and his advisers meet with Governor Carey and a delegation from New York in the Cabinet Room to discuss the financial situation in New York City, September 2, 1975.



STOP

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discussion is finished.**

Do not read this section until the forum discussion is finished.

What President Ford Did to Resolve the New York City Financial Crisis

On May 14, 1975, President Ford denied Mayor Beame and Governor Carey's initial request. In his letter to Beame he stated that the City should work with the State to secure the necessary loans. He also asked Secretary Simon to monitor the situation closely.

Governor Carey appointed an advisory group, the Municipal Assistance Corporation (MAC), which helped New York City meet its obligations throughout the summer; however, default loomed on the horizon again in September. President Ford met with Carey and other New York officials on September 2 to discuss the situation. Afterwards he reviewed potential assistance options but again decided against providing Federal aid to New York City.

On September 9, the New York State legislature passed the Financial Emergency Act. It effectively transferred control of New York City's finances to a newly created state-level Emergency Financial Control Board. Under the Board's guidance the City avoided default.

President Ford indicated in October that Federal assistance could potentially be forthcoming if certain conditions were met. At a news conference on October 9 he stated, "I am just very reluctant to say anything other than 'no' until...I see what New York City has done" to balance its own budget and obtain aid from New York State.

By the end of the month Congress was considering several proposals intended to prevent default. In a speech at the National Press

Club on October 29, President Ford asserted, "I can tell you, and tell you now, that I am prepared to veto any bill that has its purpose a bailout of New York City to prevent a default." He instead proposed legislation that would, after New York City declared bankruptcy, place a Federal judge in charge of the City's financial affairs until an orderly plan to pay off creditors was established.

After being briefed by White House staff on developments in New York, President Ford met with Governor Carey and New York officials on November 14 to learn about the rescue plan they developed. A few days later President Ford issued a statement saying he was "gratified that the leaders of New York State appear to have accepted primary responsibility for solving the problems of the city." He also promised to consider appropriate Federal legislation if they continued to make progress.


With the New York State aid package in place, Congress moved quickly to enact Federal assistance. On December 9, President Ford signed the New York Seasonal Financing Act of 1975. This legislation enabled the Secretary of the Treasury to make loans of up to \$2.3 billion a year to New York City for fiscal years 1976 through 1978. It also required the City to repay the loans at an interest rate one percent higher than the current U.S. Treasury borrowing rate.

Although New York City did not default, in 1976 Congress amended the Bankruptcy Act to establish revised procedures for large municipalities filing for bankruptcy.

FINAL **DAILY NEWS** **15¢**
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FORD TO CITY: DROP DEAD

Vows He'll Veto Any Bail-Out

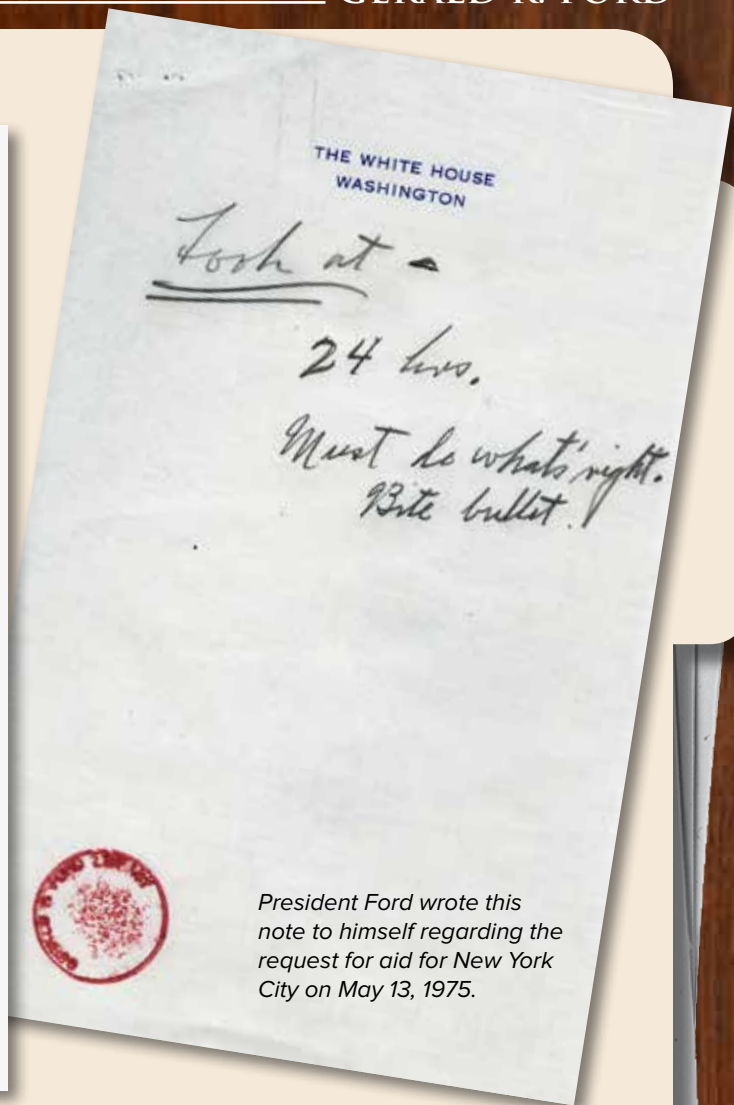


**Abe, Carey
Rip Stand**

**Stocks Skid,
Dow Down 12**

Three pages of stories
begin on page 3; full text
of Ford's speech on page 36

New York Daily News, October 30, 1975.



President Ford delivers a speech regarding aid to New York City at the National Press Club on October 29, 1975.



This booklet was prepared by the National Archives and Records Administration in collaboration with the National Issues Forums Institute and the Kettering Foundation. The booklets in the “*Advise the President*” series lead participants in guided discussions based on historic Presidential decisions.

For information about the Presidential Libraries or to access other books in the series, visit: www.archives.gov/presidential-libraries/

For more information about the National Issues Forums Institute, visit: www.nifi.org

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