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FM THE WHITE HOUSE

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TO AMEMBASSY LONDON

S E C R E T EYES ONLY DELIVER AT OPENING OF BUSINESS [redacted]

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WH52305 SECTION #1 OF #2

NOVEMBER 26, 1975

FOR: AMBASSADOR RICHARDSON

FROM: BRENT SCOWCROFT

1. BELOW IS A COPY OF THE PRESIDENT'S STATEMENT ON NEW YORK CITY. IN LIGHT OF THE INTEREST IN THIS SUBJECT DISPLAYED BY PRIME MINISTER WILSON AT RAMBOUILLET, YOU MIGHT WISH TO CONVEY THIS TO JOHN HUNT IN THE CABINET OFFICE.

THE WHITE HOUSE

STATEMENT BY THE PRESIDENT

I WOULD LIKE TO COMMENT BRIEFLY ON RECENT DEVELOPMENTS IN NEW YORK. SINCE EARLY THIS YEAR, AND PARTICULARLY IN THE PAST FEW WEEKS, THE LEADERS OF NEW YORK STATE AND OF NEW YORK CITY HAVE BEEN WORKING TO OVERCOME THE FINANCIAL DIFFICULTIES OF THE CITY WHICH, AS A RESULT OF MANY YEARS OF UNSOUND FISCAL PRACTICES, UNBALANCED BUDGETS AND INCREASED BORROWING, THREATENED TO BRING ABOUT MUNICIPAL BANKRUPTCY OF AN UNPRECEDENTED MAGNITUDE.

State Dept. review completed pages 1-3.

AS YOU KNOW, I HAVE BEEN STEADFASTLY OPPOSED TO ANY FEDERAL HELP FOR NEW YORK CITY WHICH WOULD PERMIT THEM TO AVOID RESPONSIBILITY FOR MANAGING THEIR OWN AFFAIRS. I WILL NOT ALLOW THE TAXPAYERS OF OTHER STATES AND CITIES TO PAY THE PRICE OF NEW YORK'S PAST POLITICAL ERRORS. IT IS IMPORTANT TO ALL OF US THAT THE FISCAL INTEGRITY OF NEW YORK CITY BE RESTORED AND THAT THE PERSONAL SECURITY OF EIGHT MILLION AMERICANS IN NEW YORK CITY BE FULLY ASSURED.

ON-FILE NSC RELEASE INSTRUCTIONS APPLY

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IT HAS ALWAYS BEEN MY HOPE THAT THE LEADERS OF NEW YORK WOULD, WHEN THE CIPS WERE DOWN, FACE UP TO THEIR RESPONSIBILITIES AND TAKE THE TOUGH DECISIONS THAT THE FACTS OF THE SITUATION REQUIRE. THAT IS STILL MY HOPE, AND I MUST SAY THAT IT IS MUCH, MUCH CLOSER TO REALITY TODAY THAN IT WAS LAST SPRING. I HAVE QUITE FRANKLY BEEN SURPRISED THAT THEY HAVE COME AS FAR AS THEY HAVE. I Doubted THAT THEY WOULD ACT UNLESS ORDERED TO DO SO BY A FEDERAL COURT. ONLY IN THE LAST MONTH, AFTER I MADE IT CLEAR THAT NEW YORK WOULD HAVE TO SOLVE ITS FUNDAMENTAL FINANCIAL PROBLEMS WITHOUT THE HELP OF THE FEDERAL TAXPAYER, HAS THERE BEEN A CONCERTED EFFORT TO PUT THE FINANCES OF THE CITY AND THE STATE ON A SOUND BASIS. THEY HAVE TODAY INFORMED ME OF THE SPECIFICS OF NEW YORK'S SELF-HELP PROGRAM. THIS INCLUDES:

ONE, MEANINGFUL SPENDING CUTS HAVE BEEN APPROVED TO REDUCE THE COST OF RUNNING THE CITY; TWO, MORE THAN \$200 MILLION IN NEW TAXES HAVE BEEN VOTED; THREE, PAYMENTS TO THE CITY'S NOTEHOLDERS WILL BE POSTPONED AND INTEREST PAYMENTS WILL BE REDUCED THROUGH PASSAGE OF LEGISLATION BY NEW YORK STATE; FOUR, BANKS AND OTHER LARGE INSTITUTIONS HAVE AGREED TO WAIT TO COLLECT ON THEIR LOANS AND TO ACCEPT LOWER INTEREST RATES; FIVE, FOR THE FIRST TIME IN YEARS, MUNICIPAL EMPLOYEES WILL BE REQUIRED TO BEAR PART OF THE COST OF THEIR PENSION CONTRIBUTIONS AND OTHER REFORMS WILL BE MADE IN THE PENSION FUNDS; SIX, THE CITY PENSION SYSTEM IS TO PROVIDE ADDITIONAL LOANS UP TO \$2.5 BILLION TO THE CITY. ALL OF THESE STEPS-- ADDING UP TO \$4 BILLION--ARE PART OF AN EFFORT TO PROVIDE FINANCING AND TO BRING THE CITY'S BUDGET INTO BALANCE BY THE FISCAL YEAR STARTING JULY 1, 1977.

ONLY A FEW MONTHS AGO, WE WERE TOLD THAT ALL THESE REFORMS WERE IMPOSSIBLE AND COULD NOT BE ACCOMPLISHED BY NEW YORK ALONE. TODAY THEY ARE BEING DONE.

THIS IS A REALISTIC PROGRAM. I WANT TO COMMEND ALL THOSE INVOLVED IN NEW YORK CITY AND NEW YORK STATE FOR THEIR CONSTRUCTIVE EFFORTS TO DATE. I HAVE BEEN CLOSELY WATCHING THEIR PROGRESS IN MEETING THEIR PROBLEM. HOWEVER, IN THE NEXT FEW MONTHS, NEW YORK CITY WILL STILL LACK ENOUGH FUNDS TO COVER ITS DAY-TO-DAY OPERATING EXPENSES.

THIS PROBLEM IS CAUSED BY THE CITY HAVING TO PAY ITS BILLS ON A DAILY BASIS THROUGHOUT THE YEAR, WHILE THE BULK OF ITS REVENUES ARE RECEIVED DURING THE SPRING. MOST CITIES ARE ABLE TO BORROW SHORT-TERM FUNDS TO COVER THESE NEEDS, TRADITIONALLY REPAYING THEM WITHIN THEIR FISCAL YEAR.

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BECAUSE THE PRIVATE CREDIT MARKETS MAY REMAIN CLOSED TO THEM, REPRESENTATIVES OF NEW YORK HAVE INFORMED MY ADMINISTRATION THAT THEY HAVE ACTED IN GOOD FAITH BUT THAT THEY STILL NEED TO BORROW MONEY ON A SHORT-TERM BASIS FOR A PERIOD OF TIME EACH OF THE NEXT TWO YEARS IN ORDER TO PROVIDE ESSENTIAL SERVICES TO THE EIGHT MILLION AMERICANS WHO LIVE IN THE NATION'S LARGEST CITY.

THEREFORE, I HAVE DECIDED TO ASK THE CONGRESS WHEN IT RETURNS FROM RECESS FOR AUTHORITY TO PROVIDE A TEMPORARY LINE OF CREDIT TO THE STATE OF NEW YORK TO ENABLE IT TO SUPPLY SEASONAL FINANCING OF ESSENTIAL SERVICES FOR THE PEOPLE OF NEW YORK CITY. THERE WILL BE STRINGENT CONDITIONS. FUNDS WOULD BE LOANED TO THE STATE ON A SEASONAL BASIS, NORMALLY FROM JULY THROUGH MARCH TO BE REPAID WITH INTEREST IN APRIL, MAY AND JUNE WHEN THE BULK OF ITS REVENUES COME IN. ALL FEDERAL LOANS WOULD BE REPAID IN FULL AT THE END OF EACH YEAR. THERE WILL BE NO COST TO THE REST OF THE TAXPAYERS OF THE UNITED STATES.

THIS IS ONLY THE BEGINNING OF NEW YORK'S RECOVERY PROCESS AND NOT THE END. NEW YORK OFFICIALS MUST CONTINUE TO ACCEPT PRIMARY RESPONSIBILITY. THERE MUST BE NO MISUNDERSTANDING OF MY POSITION. IF LOCAL PARTIES FAIL TO CARRY OUT THEIR PLAN, I AM PREPARED TO STOP EVEN THIS SEASONAL FEDERAL ASSISTANCE.  
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WH52305 FINAL SECTION OF 02  
I AGAIN ASK THE CONGRESS PROMPTLY TO AMEND THE FEDERAL  
BANKRUPTCY LAWS SO THAT, IF THE NEW YORK PLAN FAILS,  
THERE WILL BE AN ORDERLY PROCEDURE AVAILABLE.

A FUNDAMENTAL ISSUE IS INVOLVED HERE: SOUND FISCAL  
MANAGEMENT IS AN IMPERATIVE OF SELF-GOVERNMENT. I TRUST  
WE HAVE ALL LEARNED THE HARD LESSON THAT NO INDIVIDUAL,  
NO FAMILY, NO BUSINESS, NO CITY, NO STATE AND NO NATION  
CAN GO ON IDEFINITELY SPENDING MORE MONEY THAN IT TAKES IN.

AS WE COUNT OUR THANKSGIVING BLESSINGS, WE RECALL THAT  
AMERICANS HAVE ALWAYS BELIEVED IN HELPING THOSE WHO  
HELP THEMSELVES. NEW YORK HAS FINALLY TAKEN THE TOUGH  
DECISIONS IT HAD TO TAKE TO HELP ITSELF. IN MAKING THE  
REQUIRED SACRIFICES, THE PEOPLE OF NEW YORK HAVE EARNED  
THE ENCOURAGEMENT OF THE REST OF THE COUNTRY.

2. WARM REGARDS.

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