Department of the TREASURY

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NEWS

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BEFORE THE SUBCOMMITTEE ON COMMERCE
CONSUMER AND MONETARY AFFAIRS
HOUSE COMMITTEE ON GOVERNMENT OPERATIONS
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New York City's Financial Crisis

A few years ago Charles De Gaulle arrived in New York and spoke affectionately about the special bonds he felt for that great City. "How often, at difficult moments, I looked to New York, I listened to New York, to find out what you were thinking and feeling here, and always I found a comforting echo." Those of us who know New York City as the financial capital of the world, the focal point of its capital markets, have similar feelings. I have been privileged to spend my professional career there, and I look upon the city as a second home.

It was with these feelings that my colleagues and I approached the very difficult problems of New York this spring. There was no prejudice against New York, only a sadness that this great City which had inspired so many had allowed its finances to become so disordered. And there were certainly no prejudgments based on the coincidence that the city's leadership happened to come from a different political party. No, we faced the problems of New York City acutely aware that fundamental questions relating to the proper roles and responsibilities of government at all levels of our system were squarely presented. And we concluded that the problems of New York were created at the local level and would have to be solved there.

For background, we must first understand the nature of the problem that was developing. Frequently, corporate entities of all types find that the timing of receipts and expenditures do not correspond. Thus, for example, a builder will borrow money from a bank to build a house, promising to repay the money out of the proceeds of its sale to the homeowner. At the corporate or governmental levels, wider options are available. Because the amounts involved are often beyond the capacity of one bank -- or even a group of banks -- to lend from their own funds, such borrowing may take place through the sale of debt securities in the public market.

WS-338

The successful use of this system depends on one simple condition: that the amount borrowed does not exceed the anticipated income. When this condition is continually violated -- when, for example, borrowing occurs not in anticipation of income, but instead to close a gap between income and expenditures -- the system ultimately breaks down. And that is precisely what happened to New York City this spring.

Having borrowed to finance deficits and then lacking a surplus in later periods to pay off these loans, the only way New York could pay off past loans was by floating new ones. As the deficits persisted and grew, the borrowing pyramid mounted: since 1969, New York's short-term debt has increased from $700 million to over $4 billion. At the end of 1974, New York accounted for nearly 40 percent of all state and local short-term debt outstanding.

The decision to halt this spiral was not made by a small group of men in a smoke-filled room. Instead, it was made in the clear light of day -- visible to all -- by that most omniscient of judges: the market iself. On March 13 and 20, the City, through its underwriters, offered for public sale $912 million of short-term notes at tax-exempt interest rates of up to 8 percent. Even for investors of relatively moderate means this looked, at least on the surface, like a very good deal. For such investors, the effective yield, on a tax equivalent basis, was some three times greater than that available at a savings bank. Yet weeks after the offering, despite relatively vigorous marketing, more than half of the notes remained unsold.

The market had spoken. Investors knew that buying the notes would make them just another layer in the borrowing pyramid and that their primary source of repayment would be the creation of still more layers of debt in the months ahead. In the absence of any credible indication from the City that it was taking any action to balance its budget, the necessary first step toward undoing the pyramid, investors simply shied away, choosing instead from a variety of competing investment options. Although the returns on such instruments may not have matched what New York was offering, the risks as perceived by the market were much lower. For New York, the market -- at least temporarily -- had closed.

It was in this atmosphere that we entered the picture. When the possibility of a financial crisis was first brought to my attention in March, I immediately asked Under Secretary for Monetary Affairs Jack F. Bennett to take personal charge of the matter. Mr. Bennett -- also a New Yorker by professional background -- moved quickly. Within the first week alone he

convened and participated in four high-level meetings -- three here in Washington and one in New York City -- involving representatives from the City, from the State and from the financial community. Indeed, at the last of this early series of meetings, he asked for and obtained the participation of experts on the municipal market from throughout the country.

Our purpose in holding the early series of meetings was twofold. First, we wanted to determine quickly whether any facile steps were available to reopen the market in time to permit the City to sell $550 million of additional notes on April 14. Accordingly, we met and talked with a variety of market experts -- from New York City and elsewhere -- to identify the causes of the market closure and to explore possible solutions. These were candid, realistic meetings of professionals, urgently seeking ways to sell a then unsaleable product.

A second purpose of these early sessions related more directly to the question of Federal financial assistance. Before we could identify, much less evaluate, our options in this regard, we needed facts: facts about the City's expenses and obligations, facts about its revenue sources, facts about its debt structure. An early roadblock was the absence of good records. No document existed which summarized with any clarity the income and expenses of the City. No document provided a straightforward accounting of its assets and liabilities. As we quickly became mired in the byzantine world of the City's accounts, our requests that such information be developed were met with earnest promises of prompt compliance. Although that was more than three months ago, the information has not yet arrived.

While these meetings proceeded, other parts of our staff were also at work. Our legal staff analyzed questions ranging from our legal authority to purchase municipal securities to the coverage of the federal bankruptcy laws. Others began to explore in depth the range of federal assistance programs. And after complaints surfaced that payments under our social and educational assistance programs were too low or too late or both, we immediately commenced an inquiry at HEW, which has responsibility for administration of the programs involved.

Let me dwell briefly on the HEW situation because it is indicative of the kind of misunderstanding which has permeated this entire matter. At the City's request, senior members of my staff and Secretary Weinberger's staff met with budget experts from the relevant departments of the City's government: The Board of Education, The Department of Social Services and the like. Understandably, there was an element of suspicion at the start, fueled by a conviction that somehow the Federal Government was shortchanging the City in the amount and timing

of its support payments. As the meeting progressed a strange thing happened: in going through the assistance programs, item-by-item, the group determined that HEW was doing an excellent job in scheduling its assistance payments to New York. Apart from a question whether certain Medicaid payments should be changed to an advance rather than reimbursement basis -- which I shall discuss later -- the City officials left satisfied that we were properly carrying out our responsibilities.

But HEW's concern for New York did not stop there. After the meeting, they carefully reviewed our entire program in New York, most of which is administered through the New York State Department of Social Services. And that review resulted in the discovery of substantial underpayment of the estimated federal welfare payments paid to the City by the State. We called the underestimates to the attention of appropriate State officials, and the matter was promptly corrected, with the City receiving an additional $90 million.

I call these matters to your attention because they so clearly belie the image of callous insensitivity that some have sought to saddle us with.

Let me now turn to the question of special federal financial assistance to the City of New York. The determination that hundreds of millions of dollars would not magically materialize from HEW programs illustrates a fundamental proposition that we established very early. Irrespective of the merits of the case for special federal financial assistance to New York, the practical means of providing such assistance were severely limited. We identified four possible options for the Federal Government:

-- One: Advance Revenue Sharing and Medicaid payments

-- Two: Guarantee or purchase New York City securities.

-- Three: Lend New York City all or a portion of the required funds through the Federal Reserve System.

-- Four: Take no action at the federal level, recognizing that a solution must be developed and implemented at the local level.

In evaluating the options, we first looked at the legality and practicality of implementing each of them, again still not yet reaching the question which separated options 1 through 3 from option 4: that is, whether any form of federal action was warranted on the merits.

We found that only the first option could be accomplished by Executive Branch administrative action. We had no authority whatsoever to make a direct loan to New York or to purchase any of its securities. As a matter of law, there were only two sources of meaningful amounts of cash.

First, there was Revenue Sharing. On July 7, we are scheduled to make the April-June quarter's Revenue Sharing payment. New York City is scheduled to receive $64 million and New York State an additional $57 million. Had we advanced the date for making this payment and had the State then agreed to turn over to the City all of its share, this source could have provided $121 million.

The other potential source of cash was the change in the Medicaid payment method I referred to earlier. At present, the federal share of Medicaid coverage for patients in private hospitals is paid to cities on a reimbursement basis; that is, upon presentation of a voucher confirming that the city has paid the hospital the amount in question. As a consequence, the city must first borrow the funds and pay the hospital before receiving the federal share. Had we changed this procedure, agreeing to provide the funds in advance on an estimated basis, we could have provided the City with approximately $75 million from this source.

The total of $196 million available through these channels seemed small in relation to New York's enormous cash requirements. We therefore tended to dismiss this option and turned to the others.

New legislation -- the second route -- appeared equally unpromising. Legislation authorizing federal purchase or guarantee of municipal securities raises a number of complex issues ranging from tax policy to management of the Federal Debt to federal/state/local relations. In view of the fact that any such legislation would -- as a political necessity -- have had wider application than just New York City, such complexity alone eliminated this course as a viable option. There simply was not time to resurrect and resolve these fundamental questions in a satisfactory way and still meet New York's timetable for cash.

Third, there was the possibility of a loan from the Federal Reserve. Governor Mitchell addressed this option in detail yesterday and I need not retrace his steps. In evaluating this option from the Administration's standpoint, however, these facts stand out. First, we were aware of the limitations Congress itself imposed on this approach. By requiring the approval of five members of the Board of Governors -- more than a simple majority -- Congress clearly intended that this authority be exercised with extreme restraint. Moreover, we

knew that historically the Fed had conformed to the will of the Congress and had not exercised such authority in nearly four decades. Accordingly, we were aware from the start that this option, like the first two, was probably of dubious utility.

With these considerations in mind, we turned squarely to the merits of Federal involvement. In addressing this question, a number of criteria were relevant:

-- First, the assistance had to be effective: that is, it had to be part of a solution which we could confidently predict would prevent a recurrence of the crisis after this money ran out;

-- Second, the assistance had to be fair and equitable: we could not show undue favoritism to one city at the direct or indirect expense of others;

-- Finally, and this is partially a composite of the preceding criteria, the assistance had to be in the national interest: undue expense or adverse impact on other federal programs or objectives could not be tolerated.

What did effectiveness mean? It meant to us that the payment must be necessary to get the City over a nonrecurring, short-term crisis, a financial accident, so to speak. A payment would not be "effective" if it appeared that the same cash flow problem -- highlighted by an inability to raise funds through the sale of securities in the public market -- would appear again, month after month. A payment would not be effective if it treated only the symptoms and not the cause. In other words, we were looking for a plan of responsible fiscal action, designed and implemented at the local level, to restore investor confidence and reopen the public market. Although many ideas were discussed between March and the middle of May, as of the time of our decision no City official was willing to commit the City Government to an immediate and effective program of meaningful fiscal reform.

The importance of a program of fiscal reform really bridges this criterion of effectiveness and the next criterion of fairness. For if we were to use the nation's funds to deal with the difficulties of one city, albeit a very important one, we would have to satisfy ourselves that any such payment would not be to the disadvantage of other cities.

Fairness meant two things. First, any aid we provided New York would have to be made available to other cities. Thus, nationwide application of option 1, for example, would cost the federal taxpayer $815 million -- a high price to pay for providing New York with a single $126 million payment.

Second, we looked at New York's position relative to other cities to determine whether it was demonstrating the kind of concern for its financial affairs that characterized the actions of other municipalities throughout the nation. We immediately discovered that by comparison to other cities, New York was not a particularly hard-hit victim of the recession or the so-called urban crisis. Its real property values, its sales taxes and its income tax revenues had held up better than most other cities. Unlike other cities, the problem was on the expenditure, not the revenue, side.

It is not the province of a federal official to tell any city how much it should spend on social services, how much it should pay its employees or charge its students. But when that city comes to Washington seeking financial aid, it is most emphatically the duty of the Federal Government to review the balance between expenditures and revenues. And what we found in New York was a complete lack of balance -- rapidly increasing expenditures that far outstripped the growth in revenues. Expenditures were increasing at a rate of 15 percent a year while revenues were growing at only 8 percent a year. This problem is not merely too much government; it is financial disaster.

With this in mind, let me turn briefly to some specific data concerning the City's finances. Looking at the payroll, Census Bureau data shows that New York employs some 49 employees per 1,000 residents. The payrolls of most other major cities range from 30-35 employees per 1,000 inhabitants. And Baltimore, New York's closest competitor at 42 employees per 1,000, this year imposed a 20 percent reduction in the municipal payroll. By comparison, New York's proposed cuts -- prior to Mayor Beame's recent budget announcements -- were minimal.

Turning to specific services, New York spends $151 per capita on health and hospitals. Among other cities, only Boston is over $100, at $122 per capita -- most cities are at $50 or below. Yet, as measured by the vacancy rate, nearly one quarter of the beds in New York City hospitals were empty last year.

I do not want to belabor the welfare situation; New York's problems in this regard are altogether too well-known. Nevertheless, it bears noting that among cities over 1,000,000 -- all of which have large underprivileged populations -- only New York spends more than $20 per capita on welfare and related social services. Its figure is $315 per capita.

Moreover, although the situation has improved in recent years, the welfare rolls remain laden with ineligibles. Earlier this week the State Department of Social Services reported

an estimated ineligibility rate of 9 percent. Although this is down from 18 percent in 1973, the improvement still compares unfavorably with results elsewhere in the state. Over the same period, non-City welfare ineligibles fell from 15 percent to less than one percent. And these figures take on more meaning at over $10 million per percentage point.

Let's look at still other areas. At an annual cost of more than one-half billion dollars, New York's city-operated university -- larger than virtually every state university -- provides a tuition-free education to every high school graduate, regardless of the student's ability to finance his own education. Yet reasonable tuition charges would not be a hardship since both the state and federal governments have extensive scholarship programs, insuring that no qualified student will be denied an education. The present system needlessly subsidizes, at great expense to every taxpayer, those who are able to bear the costs themselves.

The burden of New York's massive payroll is multiplied by one of the nation's most generous employee benefits systems. Fringe benefits for many city employees equal 50 percent of base pay. In addition, employees need not contribute to their own pension plans, yet may retire early at high rates.

Police and fire, sanitation, housing, the picture is the same: New York is at or near the top in every category on a per capita basis. And on a total dollar basis, to which we ultimately must turn in determining how the bills will be paid, there is simply no comparison.

As would be expected, the bottom line reflects the component parts. New York spends in excess of three times more per capita than any city with a population over one million. When the base is broadened to include smaller cities, only Boston and Baltimore spend more than half as much as New York -- and even when compared to these cities, New York's expenses are 50 percent higher.

These figures, from 1973, provide the most current basis of comparison. When historical data are evaluated, other interesting trends come to light. Not only does New York now spend far more than any other city, but over a ten-year period, its increase in spending has far outpaced other urban centers. From 1963 through 1973 per capita municipal expenses of large U.S. cities (excluding New York) increased on the average 2.2 times. During the same period, New York's expenses increased some 3.5 times, a 50 percent greater rate.

The only way an entity which spends more than it takes in can keep afloat is by borrowing. Accordingly, the ultimate indicator of a city's ability to manage its financial affairs is its debt strcture, and -- given legal restrictions -- particularly the short-term portion thereof. On June 30, 1969, New York had $671 million in short-term debt outstanding. By June 30, 1974, the figure had increased 6 times, to approximately $3.5 billion. And only the closing of the market for New York in April prevented the short-term borrowing load from approaching $6 billion this year. As it is, and taking into account state advances to be repaid by "Big Mac," short-term debt will be nearly $4.5 billion, a billion dollar increase in one year.

And even the growth in short-term debt does not tell the whole story. In recent years, some $700 million per year of deficit spending for current purposes has been "hidden" in the capital budget to be financed by long-term borrowing. This practice alone now costs the New York taxpayer well in excess of $100 million per year.

By contrast, apart from bond anticipation notes -- which can be considered a form of construction financing -- few cities have any short-term debt at all. Each year Chicago issues some $300 million in notes, and pays them off annually when tax payments come in. Until May 5 of this year, Boston had $65,000,000 in tax anticipation notes outstanding, but it retired them on schedule when 1975 taxes were paid this April. Again, except for bond anticipation notes, no other major American city reported any short-term debt.

In recent years, New York has faced the marketplace's demands for restraint, responsibility and realism with spending, promises and gimmickry. Capital borrowing for current expenditures, artificially high revenue estimates to "balance" budgets and support even more borrowing, and, above all, an inability to say no where more spending is concerned, make New York unique among our major cities. While the economic difficulties of recent years have caused most of us -- from the individual taxpayer to other large cities -- to tighten our already tight belts, New York has plunged onward, committing its own citizens to impossibly large financial burdens and now turning to the taxpayers of the nation for even more funds.

In the course of numerous meetings at all levels, we stressed this disturbing set of facts to City officials. And we were not alone. From the New York Times, from the New York Clearing House, from the Citizens Budget Commission, the same message was repeated again and again: get your spending into line with your ability to pay.

How did the City respond? Speaking bluntly, I think they thought we were all a bit naive. You could fight crime, you could fight pollution, you could fight poverty and ignorance, but -- in New York -- you could not underestimate the powerful forces for spending being brought to bear on the City's elected officials, driving the City into the slow and painful death of bankruptcy.

Now I know enough about New York to know that Mayor Beame and his colleagues would be in the fight of their lives the moment they touched their scalpel to the growing layer of fiscal fat which is strangling the City. One only has to look at that incredible pamphlet off-duty policemen, firemen and others were handing out to tourists earlier this month to appreciate the kind of problem the Mayor was dealing with. But we make a tragic mistake when we resolve questions solely on the basis of which side is more threatening or more unscrupulous.

But as of early May, when I, and then the President, met with the Mayor and the Governor, no resolution of the problem was in sight. The issue as then presented was plain and simple: give us the money to get us through the immediate crisis, then we'll begin to worry about a solution.

As I have indicated, it had become clear that the only real solution lay in a responsible program of fiscal reform. Such a program would reopen the market and avert the possibility of a default by New York City. But because no such program had even been suggested by City officials, it was our responsibility to evaluate the constant suggestions that a default by New York would have a devastating impact on the capital markets, the banking system and the national economy as a whole.

It was quickly apparent that the principal adverse effects would be based on psychological factors, not objective ones. To be sure, many parts of the economy -- especially in New York City -- would suffer severe harm. On the whole, however, our markets, our banking system and our economy each are large and diversified enough to withstand the temporary inability of even an entity the size of New York City to meet its obligations.

But I have been around markets long enough to know that one ignores psychology at his own peril. Accordingly, before reaching a decision, we asked ourselves three more questions about the psychological effects of a default:

-- First, what impact would a default have on the securities markets, particularly the municipal markets?

-- Second, would a default influence the condition of the major banks?

-- And third, what impact would a default have on public confidence nationally?

With respect to the impact on the market, it is fair to say that there were differences of opinion. Certain market professionals from the private sector did tell us the effect could be devastating. But my staff and the Federal Reserve Bank of New York, which as you know, serves as the focal point for our public securities markets, advised me that whatever impact did occur would be temporary, and, even so confined, would be negligible.

Three factors produced this judgment. First, it was uniformly believed that any default would be shortlived and that there was enough underlying value in New York City to assure that all holders would eventually be paid 100 cents on the dollar. Second, the municipal market had recently experienced the prospect of a major tax-exempt issuer default -- New York State's U.D.C. -- and had weathered it well. Third, New York's problems had been public knowledge since at least November and the market, at least in large part, had reflected this risk by discounting the prices of New York City and other weaker issuers. This last judgment was confirmed by the strong rally in the municipal market when "Big Mac" was established.

We found the banking system even better equipped to handle whatever shock might occur. The New York City holdings of the major New York banks, while large in absolute terms, were only

a fraction of one percent of the total assets of these institutions. The sophisticated investors, whose large deposits were in question, were aware of this fact, and were also aware that, upon a default, this portion of the banks' holdings of New York securities would hardly become worthless.

This lack of a realistic basis for fearing large withdrawals was coupled with a recognition that the system was designed to handle such an event, if it did occur. A primary reason for establishing the Federal Reserve System was to correct temporary imbalances of liquidity in our banking structure. And the System clearly would have been able to handle any imbalance which might have occurred in these circumstances.

Finally, working with Chairman Greenspan of the Council of Economic Advisors and senior economists at the Federal Reserve, we looked at potential consumer and business reaction. In view of the general knowledge of New York's situation and an awareness that at least many of the underlying problems were of the City's own making, we saw little risk that a default would be viewed as an indication of a more widespread economic malaise.

Concluding that a default would not have precipitated an economic crisis did not mean that a default should not be avoided at virtually any cost. But when we reviewed our analysis of what other cities have done and are doing to meet the economic challenges of these times, another barrier to special treatment for New York became apparent. Many of our leading cities are having troubles these days, troubles largely attributable to the recession and unemployment levels, and to the impact of these phenomena on municipal revenues. But as I discussed earlier, and as confirmed by a recent Joint Economic Committee staff study, virtually all these jurisdictions have met their problems head on, recognizing that meaningful cuts in spending levels were a critical part of any solution. As we in this town are altogether too aware, spending cuts do not come easy for any elected official, especially when a direct impact on one's own constituents can be identified. But throughout the country, brave local leaders have literally put their political futures on the line by insisting that all questions, however painful, be addressed and that the problems be solved in a responsible manner.

Under our system of government, it is not, and should not be, the job of the Federal government to manage the finances of State and Local government. That function must be handled locally, by the government's duly elected leaders. But we do have a

responsibility to those leaders not to undermine their efforts. And if we have provided funds to New York, what would we have said, for example, to the Mayor of Detroit or to the Mayor of Cleveland, each of whom has incurred the wrath of major political forces in his own city by taking steps to see that they pay their own way. No, if our system is to continue to function, it was clear we had to protect the credibility of local leaders. And aid to the one major city which had not taken action to meet its fiscal responsibilities would have destroyed that credibility overnight.

These were the elements of our decision-making process. As you can see, the decision was not made hastily, lightly or without complete attention to all relevant considerations. It was not an easy decision, but I think events to date have shown it was the right one. With the Federal avenue closed off, so to speak, all parties could again turn their full attention to developing a solution at the appropriate governmental level.

Before concluding, I do want to mention what the City and State have done since May 14, because I think it does provide a basis for optimism. The formation of the Municipal Assistance Corporation -- or "Big Mac" as it has come to be known -- provides the basis for constructive action in two important areas. First, MAC will refinance, and thus in effect reduce, New York City's short-term borrowing load by some $3 billion. A major problem in marketing New York City notes has been sheer volume, the market simply gets tired of the same issuer making massive claims on the market, month after month. Although New York's short term borrowing demands will continue to be enormous by any standard, a 40 percent reduction should be of benefit.

Second, both in the directives of the legislation itself and in the ongoing activities of the MAC Board, valuable assistance in implementing a meaningful program of fiscal reform should be provided. The legislation directs the City to adopt reforms such as better accounting and the elimination of capital borrowing for expense items. Perhaps more importantly, the legislation makes the MAC Board a formal participant in the budget-making process. As such, the largely non-political Board can act as a buffer for the other participants in making and implementing the hard decisions with respect to spending which are essential to a long term solution.

In short, MAC has helped with the cash-flow crisis, MAC will reduce the short-term borrowing load and MAC can provide needed technical and political assistance in making the necessary spending cuts. But the fact remains that the hard decisions must be made. And they must be made and implemented promptly to avoid a recurrence of the financial crisis in the fall.

Frequently over the past three months, the inevitable comparison between the finances of New York and the finances of the Federal government has come up. The comparison is justified. The problem and its causes are the same, only our Federal printing press relieves us of one of the symptoms -- the "cash-flow crisis" we have just experienced. More importantly, the solution is the same: fiscal responsibility.

Ladies and Gentlemen: In tracing for you today the developments and reasoning that led to our decision of May 13 with regard to the City of New York, I have tried to avoid pinpointing responsibility on any individuals or administrations. There is no need to descend to that level. More than that, I would hope that all of us might recognize that the New York City experience raises questions that are much larger than any individual personalities, questions that relate to our philosophy and approach toward government.

Americans are rightfully concerned about the fiscal plight of the largest and richest city in the land because they know that the philosophy which has prevailed in New York -- the philosophy of spend and spend, elect and elect -- first took root and flourished here in Washington, D.C. As a nation, we began planting the seeds of fiscal irresponsibility long ago. Forty of our last 48 budgets have been in deficit, and 14 out of the last 15. By the end of next fiscal year, the total Federal debt will be more than twice what it was less than a decade and a half ago. And by that same date, private holdings of Treasury securities will have increased 50% in only 18 months.

Neither man nor government can continue to live beyond their means for very long. A family that persists in such habits will eventually enter bankruptcy. A city will ultimately default on its loans. And a nation will foist upon its citizens the cruelest and most regressive tax of all, inflation.

There can be no doubt that the problems of inflation that we have experienced in recent years as well as the recession which arose from that inflation are both a product of our excesses of the past. When the Federal budget runs a deficit year after year, especially during periods of high economic activity such as we have enjoyed over the past decade, it becomes a major source of economic and financial instability. The huge Federal deficits of the 1960s and 1970s have added enormously to aggregate demand for goods and services, and have thus been directly responsible for upward pressures on the price level. Heavy borrowing by the Federal sector has also been an important contributing factor in the persistent rise in interest rates and to the strains that have developed in money and capital markets. Worse still, continuation of budget deficits has tended to undermine the confidence of the public in the capacity of our government to deal with problems such as inflation.

We must stop promising more and more services to the public without knowing how we will pay for them. We must play fair with the American people, telling them not only what services we can deliver but how much they will cost -- both now and in the future. And we must recognize that the taxpayer, on whom the entire pyramid of Federal, state and local taxation must rest, can carry only so much. It is fruitless to spend more than he is able or willing to pay for.

For too many years, like the City of New York, we have been trying to burn the candle at both ends, living off our inheritance and mortgaging our future at the same time. Whether we can prevent the nation from falling into the same plight as our greatest city is now the central issue before us.

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