

Economic Club of New York

288th Meeting
73rd Year

Edward I. Koch
Mayor of New York City

and

Felix G. Rohatyn
General Partner, Lazard Freres & Company

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Questioners: Henry Kaufman
Executive Partner and
Chief Economist, Salomon Brothers

J. Paul Lyet
Chairman and Chief Executive Officer
The Sperry Corporation and
Former Chairman of the Economic Club of New York

Introduction

Chairman Edmund T. Pratt, Jr.

Good evening ladies and gentlemen, and welcome to this, the 288th dinner of the Economic Club of New York. An organization that at least we, with understandable modesty refer to as the foremost speaker's forum in the world. The size of this audience tonight certainly says something about, I hope, the caliber of past programs and certainly the expected caliber of this evening's program. As I remember in my youth in the days of the movies, before you got the main feature, you always got the coming attractions. So let me remind all of you here that just about a month from tonight, on June the 26th, Thursday night, we will have the next evening program of the Economic Club, when we will be honored to have as our guest, Mr. Benjamin Civiletti, the Attorney General of the United States and Mr. Arthur Levitt, the President of the American Stock Exchange. We hope that many of you can be with us that night, and I can't pass up this opportunity as I always like to do, speaking as your chairman, to suggest to all of you chief executives who are here that one of the best things that you can do for some of the other executives in your organization is to offer them membership in the Economic Club, so that they can partake of this, which is indeed, one of the special advantages that comes to those who have their place of business or at least are willing to come in and spend an evening now and then in the Big Apple.

We are pleased to have, as speakers tonight, two distinguished New Yorkers. Mayor Edward

Koch and Felix Rohatyn. This is not the first time that a mayor of New York has addressed the Economic Club of New York, but it has been a long time. Mayor LaGuardia spoke in 1945 and Mayor Wagner in 1956. (Laughter) As questioners of our speakers this evening, we are fortunate to have two outstanding business leaders who are also members of the Economic Club; Henry Kaufman is an Executive Partner and Chief Economist at Solomon Brothers. And has become in recent years one of the outstanding and most influential economists in our country. Our second questioner is Paul Lyet, Chairman and Chief Executive Officer of The Sperry Corporation, and a former Chairman of this club. He is one of America's most respected business executives.

Now, let me introduce our first speaker of the evening, Felix Rohatyn is a man I have known and respected for many years. And I say that in spite of the fact that he is on the Compensation Committee of the Pfizer Board. (Laughter) As you know, Felix is a General Partner in the Investment Banking Firm of Lazard Freres. He is a member of the Board of Directors of ITT, Owens Illinois, Eastern Airlines and MCA Corporation in addition to Pfizer. He serves as Chairman of the Surveillance Committee of the New York Stock Exchange back in the early 70s. These and many other commitments might seem enough to keep anyone busy, but his interests are much broader. He is a distinguished public servant, best known as Chairman of the Municipal Assistance Corporation since it was set up in 1975 to aid New York City. It has provided the City with more than \$10 billion of financing in that time. He has also been a significant part of the efforts leading to federal loan guarantees for the City. He is Special Economic Advisor to the Governor of New York and is intimately involved in an endless

number of activities and organizations critical to life in the Big Apple. Felix has served New York in many ways, but he has not limited his concern to the City. He is as sensitive to emerging problems and always seems to ask the tough questions. He has been a leader in the debate on the nation's economy, on the changing relationships between various regions of the country, and on the long-term implications of our present energy dependence. And he has proposed many innovative solutions to these problems. Felix combines the skill of a businessman with a broader set of concerns. This combination is much needed at present and gives special weight to his remarks tonight. It is my pleasure to introduce Felix Rohatyn.

Felix Rohatyn

General Partner, Lazard Freres & Company

Thank you Mr. Chairman, Mr. Mayor, my liberalism is always suspect until we get into meetings of the compensation committee. (Laughter) Once upon a time, a team called the New York Mets won the World Series. They did it with a relief pitcher named Tug McGraw who said all during the summer of '69, "You gotta believe". My late Senior Partner, Andre Meyer, one of the most brilliant men I have ever known, had never heard of Tug McGraw. Andre used to say, "We need fewer financial analysts and more psychoanalysts". (Laughter) The word credit comes from the Latin credere, meaning to believe. These somewhat disjointed reflections do have a point. Andre Meyer, Tug McGraw, the Latins, were all really saying the same thing. Namely that confidence in the belief in the ability to find solutions, whether on the ball field or in the boardrooms, in the

White House or in the streets, by the cornerstone of a functioning society and economy. That no matter how much technical jargon we hear from economists and monetarists about the Laffer Curve, M1 and M2, Kemp-Roth, supply-side tax cuts and other magic, we have to begin with a notion that people must believe that their leaders know what they are doing and where they are going.

In the United States today, this is clearly not the case. Alone among the leaders of the West, the United States seems unable to govern itself. A visit to Paris or Bonn or Tokyo, brings home the most startling difference, their governments do seem to govern. There is a direct link between the identification of a problem, a recommendation for action, a public debate followed by decision and implementation. It is not in any sense a perfect process but it is no coincidence that countries with higher dependence on imported oil than the U.S. can deliver lower rates of inflation, higher productivity and harder currencies to their citizens than we do. They seem able to govern themselves; we seem merely bent on endless debate. The failure of our Atlantic allies to follow our lead is not just due to orneriness on their part. They don't believe in us. What is worse, we don't seem to believe in ourselves.

In large part, this lies behind the economies current plunge toward what could be our most serious downturn since the 1930's. Political leaders unable to think in the maelstrom of daily crises, seek simple solutions to agonizingly complicated problems. Their media gurus go one step further. They assume with total arrogance and contempt for the voters that the average

American is incapable of understanding a complicated problem and facing up to complicated facts. The result is a debate on economic policy as unedifying as it is unproductive.

Conservatives argue for the dismantling of government, the virtues of the free-market and the 30% tax cuts. Liberals argue for wage price controls and national health insurance. The administration argues that everything is on course and we finally have the recession so avidly pursued by our government. Since even OPEC cannot continue to double prices each year, and the recession has reduced a man for money, the next few months may produce inflationary statistics showing relative improvement. This has already started and is interpreted by the administration as a victory for a determined prudent policy.

But the average American knows that this is all rubbish. He knows that there is no totally free-market when he looks at OPEC. He knows that there is no totally free-trade when he looks at Japan. His reactions are very rational. Last year he borrowed instead of saving because inflation penalized thrift, and rewarded consumption. This year he is crawling into the bomb shelters because he knows the roof is caving in. The reality of the matter, despite the fact that the stock market is up, and interest rates are down, is that our economy is out of control, careening from runaway inflation to steep recession. The real core rate of inflation is increasing, our currency is in danger and many of our government institutions, legislative and executive are unresponsive or inept.

Mayor Koch and I have had a number of differences on New York City fiscal issues. We may well have more in the future. But I yield to no one in my admiration for the Mayor. For an extraordinary achievement, is restoring a sense of confidence and belief in the future of this City. Ed Koch has been the Tug McGraw of the City since he so obviously believes the problems to be solvable, the people believe it. When they believe it, as in the recent transit strike, they are willing to sacrifice for an understood goal; the solvency of the City. The Mayor now faces a harsh struggle to balance the budget. His chances of success will be greatly enhanced by his own belief and that of the people of the City, that he can provide reasonable solutions. The City and even the state are only details, however, in a much larger regional and national picture. And without satisfactory regional and national solutions, neither is likely to be a viable social and economic unit in the long run.

The national problems we are facing today are as clear and obvious in 1980 as it was clear and obvious in the early 70's that New York City was headed for bankruptcy. What is needed is to identify them and to understand that there is no alternative but to solve them. New York City avoided bankruptcy when its political business and leadership recognized that we were all in the same boat and that sacrifice from everyone was needed to avoid catastrophe. This is now needed at the national level.

What are these main areas of major dislocation? First, in 1980 our payments to OPEC will approach \$100 billion, nearly ten times what they were five years ago. The value of all

companies listed on the New York Exchange is about \$900 billion. The notion that over the next five years, we will mortgage to OPEC half of our productive capacity, built up over 200 years to pay for a product we burn every day is obviously unsustainable. Recycling is not the answer. It is only a mechanism to lend more and more money to people who can afford it less and less. The OECD and the Third World will each run a deficit of about \$60 billion this year due to oil imports. With OPEC running a total net surplus of about \$120 billion. Since both the OECD and the Third World will need vastly stepped up exports to cover these deficits, it is difficult to see who will export to whom. In view of the strain on our banking system, it is difficult to see where the financing will come from.

Second, a huge Federal budget producing a deficit of about \$40 billion at the end of one of the longest economic recoveries in decades has combined with OPEC pricing, to produce the highest national rate of inflation in this century. A major recession was set in motion to credit policies resulting in up to 20% prime rates of interest. This had created a temporarily strong dollar but is driving major sectors of American business into serious difficulties. Automotive, airlines, housing, steel, savings and loans are facing conditions not seen in decades. Small business in many areas is facing disaster conditions.

Third, from 1980 to 1990, oil producing states like Alaska, Texas, California, and Louisiana, will collect increased tax revenues amounting to about \$115 billion as a result of oil price decontrol. Like a domestic version of OPEC, these states can use their vast revenues to lower other taxes,

increase services, attract industry by almost unlimited means. Their economies as well as the economies of surrounding states will get significant boosts. And like a domestic version of the Third World, the Northeast and the Midwest, importers of fuel, already in financial difficulties and needy for additional federal assistance, will bear the burden creating greater risk of further social and economic distress.

And fourth, despite the long-term weakness of the dollar, our international competitive position has not improved. Japan and Germany practice business labor government partnership in the true sense. Their individual interests may not always coincide, but their overall goals and objectives are always the same; to be competitive and as a result to provide jobs. We pay lip service to the concept but do not practice the reality. As a result, we are falling further and further behind.

It doesn't take a genius to know that simple solutions and primitive slogans will not cope with these highly contradictory powerful dislocating trends. What should be our objectives? They should include the following: first to have a growing functioning economy which can provide private, I repeat private employment for anyone in this country who wants to work. This must be as true for electronic technicians in Arizona as for young blacks and Hispanics in the urban ghettos of the Northeast and the Midwest. We do not need the lesson of Miami to be reminded of the fact that our urban ghettos are social time bombs. That can only be defused by employment opportunities together with education.

Second, to provide a sound and stable dollar for the housewife in Columbus as well as for the Gnome of Zurich. Inflation must be brought down, not just this summer but year after year after year. This means reducing gradually and consistently the size of the federal budget and the level of taxation. The current drive for a balanced budget for 1981 in light of the current downturn is both meaningless and unachievable.

Third, to restore the nation's international security posture in general, and its ability to protect its energy sources in the Middle East.

Fourth, to gradually wean the U.S. from its dependence on foreign crude and to have a stable pricing and supply mechanism with OPEC in the meantime, and fifth, to have a balanced economy with the emphasis on a competitive manufacturing sector, and to provide the investment funds such a policy requires. National productivity improvement is a matter of national survival. It involves work ethics, at least as much as work rules. It means encouraging technology, and eliminating needless regulation.

When the problems are set against the objectives, a possible set of solutions becomes apparent. I say possible because obviously many roads lead to Rome and choosing the best can become theological. But first let us look at our present economic policy, assuming we have one. This seems to be based on the following premises.

First, to fight inflation with a recession and a voluntary wage price program to produce a balanced budget. The problem with that policy is that every 1% of unemployment cost the Federal budget \$20 to \$25 billion. It is not extreme to believe unemployment will reach 9% before the economy turns. This means adding \$50 billion or more to the potential budget deficit and throws balance out the window.

Furthermore, recent settlements in the steel and auto industries, averaging 10% per annum or more, indicate that the wage price guidelines have created an inflationary floor at 10% plus. When the times comes to bring the economy out of its present tailspin, running a huge deficit and a double digit base rate of inflation, it is terrifying to guess what future rate of inflation may be reached.

Second, the present policy seems to be to reduce dependence on foreign crude, by letting the price go up slowly, taxing the oil companies and hoping for the best. The result has been a ten-fold increase in our payments to OPEC. A requirement to maintain double digit interest rates to keep the dollar from collapsing. Gasoline prices still is 50% below Europe's, greater dependence on OPEC than ever, and a dying auto industry.

It is not difficult to understand why we are in such a mess. I have urged for some time that consideration be given to a comprehensive program that would include the following step. First, a temporary wage price freeze. I do not believe in a system of permanent wage price controls.

However, recent labor settlements make it clear that the voluntary guideline program is a failure. A temporary freeze imperfect as it is, could be combined with budget cutbacks to break inflationary expectations and the underlying rate of inflation while other policies are put in place.

Second, it is imperative that budget cutbacks of substance be coupled with long-range tax reductions that include the elimination of indexing provisions in social security and other government programs.

Third, it will be impossible to lower interest rates meaningfully at home, and simultaneously protect the dollar abroad without reducing oil imports. The choice is between a large gasoline tax or rationing. The gas tax is preferable to me since its revenues can be recycled into the economy.

Even though Congress is now balking at a \$.10 gas tax, I believe a \$.50 tax to be a minimum would strengthen the dollar and would permit further reductions in interest rates. Neither the Europeans nor OPEC will believe we are serious about conservation, with less than \$2 per gallon of gasoline or unless we institute rationing. By strengthening the dollar it would also make long-term bonds a more acceptable method of payment to OPEC which is an absolute necessity.

Furthermore, we need to achieve greater productivity, improved international security, and greater use of manpower to reduce social costs. This requires non-inflationary growth, and some shift from consumption to investment. The proceeds of the gas tax, a minimum of \$50 billion per

annum initially, would be the key of such a program. Part of the proceeds would fund additional military programs, part would fund investment oriented tax credits and part would reduce Social Security taxes for lower income groups. A stronger dollar would permit the lowering of interest rates and other taxes required to produce non-inflationary stimulus.

I would recommend the immediate creation of an institution modeled after the Reconstruction Finance Corporation of the 1930's, to provide a safety net for certain industries, financial institutions and municipalities in serious difficulties. Like all safety nets, it should be initiated before further disasters and not afterwards.

Too many large corporations are now seriously over leveraged. Too many financial institutions are not nearly as strong as they should be. Too many cities in dire straits. Last, I would recommend the appointment by the President of a temporary national commission. It should recommend to the president and the Congress prior to the expiration of the Wage Price Freeze, first a mechanism for a limited period of wage price restraint, following the expiration of the freeze and second in a more general sense, the commission should recommend an economic strategy for the U.S. for the next two decades.

Difficult, controversial policies must originate from nonpolitical, credible bodies, created in an atmosphere of emergency to generate the political support, enabling the president and the Congress to act. We can no longer assume that a gradual piecemeal approach to our economic

problems can work. The basic rules of the game have changed to such an extent that a re-examination of the entire structure is needed. Nobody today has all of the answers but at least we should raise some of the questions. These would include trade unemployment, how do we reconcile an international free-trade policy that we practice and others preach, with a need to create millions of manufacturing jobs for our present unemployed, as well as for Blacks and Hispanics in the urban ghettos. Alternative energy, conservation alone cannot sustain the growth of the economy needed to provide jobs. Synthetic fuels will be many years coming. Nuclear power in France, coal in Germany, has enabled those countries to reduce dependence on oil without suffering serious downturns and inflation.

A similar commitment will have to be made here. It seems so far politically elusive. Sunbelt and Snowbelt, it is imperative that the regional shifts which I described earlier be anticipated and met with a permanent burden and revenue sharing plan at the national level. Changes in Federal aid formulas, targeted tax benefits, and other similar mechanism will have to be devised to maintain regional balance. This will undoubtedly require creating a Northeast/Midwest political coalition.

And last, an industrial strategy which coupled with tax policy will have as its objective to reverse the decline of the manufacturing sector in our economy. Our economies base should be balanced as between services and manufacturing with the emphasis however on manufacturing. This is not only an economic but a national security requirement. There are no perfect solutions and no assurances of success. It is argued that wage price controls have not worked in the past. However

a temporary freeze in an environment of restraint could be successful while overall policies are put in place.

It is argued that a gas tax is politically impossible and if anything rationing would be easier. But everyone agrees that tax cuts aimed at investment are necessary. Increased military expenditures are necessary, balancing the budget is necessary. Those cannot happen with our revenues and rationing will not produce revenues.

Since the OPEC oil embargo of 1973, we have been living with a myth as comfortable and persistent as it is unrealistic. The myth that this country with an economic and social structure based on cheap energy as well as cheap credit, could adjust to an explosion in the cost of both. It cannot be done without important changes in our way of life, as well as in many of our institutions. We have a mixed and complicated economic, political and social structure and we are now at a turning point. It has been coming for a long time. And it will take a long time to adjust to the new realities. There is a clear danger that continued deadlock over many of these issues as a result of the scattering of political decision making power, may create social and political upheavals of unforeseeable dimensions.

There are many more Miami's lurking in the wings. What we are facing is not only a sudden economic emergency caused by a few unpredictable shocks; we are facing a political and social crisis of major dimensions. Challenging democracy here at home, as nothing is done since the

1930's.

The truth as in Rashomon is many faceted. The economic road that I would travel is more interventionist than the conservative dogma, but also more business oriented than liberals would like. There are other roads. If the true conservative experiment is to be tried in this country, as appears likely, let it be with our best, broadest, conservative minds of which there are many. And let it be done with confidence. But that is really what the next president, whether Republican, Democrat, or Independent, conservative or liberal, must bear in mind. When Tug McGraw was brought in to relieve in the ninth inning with the bases loaded and none out, he didn't take a poll to find out what pitch to throw, he didn't run a TV ad to improve his image, he believed in himself, and he threw the ball by the hitter. Presidents must remember that they are not there to be popular, they are not there for image, presidents, just like Tug McGraw are there to perform in the clutch. Only such performance will create the unity and the confidence this country desperately needs to meet the challenges of the last decades of this century. Thank you.

(Applause)

Chairman Edmund T. Pratt, Jr.: I told you he asks the hard questions. I wonder if you can imagine what it is like to have him on your board. (Laughter) Regardless of that, one thing we can be sure of, it is a very good thing to have him as a part of our City. Thank you Felix.

(Applause)

I will remind you that the procedures of the club call for hearing both speakers. At the close of which are two distinguished questioners who have a series of interesting questions ready for them to bring forth their views in more detail.

Our second speaker tonight is his Honor, the Mayor of New York. Over the years we have listened at these meetings to leaders from many parts of the world, and from many segments of our society. I suspect, however, that none of them were more critical to our lives and our future here in this great but troubled City than is this man with the second hardest job in the country. Ed Koch is well-known for asking many people that he meets, “How am I doing?” The point is that he is continually concerned, continually responsive to the needs of the public. He obviously cares so much about others and about the future of the Big Apple that he generates support from an astonishing breadth within the City. Ed Koch’s life is intertwined with the life of this City. He was born in the Bronx, was educated at City College and NYU and practiced law in New York for many years. He was elected to the City Council in 1966 and between 1969 and 1977 represented Manhattan’s silk stocking district in Congress. As Mayor he has had a special opportunity to influence this City’s future. He has used that opportunity well. Mayor Koch is seeking to re-establish this City on a sound financial footing. This is a difficult task and not always a popular one. He takes the long view. Sometime this also means taking a lot of heat. But through it all he has kept the respect of those who have the cities welfare at heart. This kind of leadership has brought an encouraging response. Today there is a greater spirit of cooperation in this City. Today there is less acrimony and more willingness by business, labor and government

to work together. Ed Koch's initiatives have been a major factor in bringing this about. The Mayor's job is not an easy one, but Mayor Koch tackles it with enthusiasm. Let's give him an enthusiastic welcome tonight. Ed Koch.

The Honorable Edward Koch

Mayor of the City of New York

Thank you. (Long applause) Thank you. Thank you very much Mr. Chairman. Felix, that was a heavy speech, but it was good. (Laughter and applause) I would make one additional recommendation to President Carter, and I agree substantially with everything that Felix recommended to him, and I listened very closely, and I thought it was a brilliant exposition. I would make one additional recommendation to the President and that is that he takes Felix into the Cabinet. (Applause) And I mean that.

Now for my speech. I have a formal speech, because this audience is so distinguished. Rather than what I would normally do which is to speak in an impromptu way, but also in the course of the speech I am going to give you some illustrations of what it is each day to be mayor.

But I want to talk to you a little bit about the City and what an incredible City this is. A City that all of us have to have great faith in. It seems to me that to most people, economics is like art.

They don't know much about it, but they know what they like. I happen to be one of those

people. But I think I have learned something about the art of economics in the last two and a half years. Let me sum it up for you. Black ink is better than red. (Laughter and applause) If you don't have it, don't spend it. And the check is definitely not in the mail. (Laughter and applause)

This evening I want to talk about some of the things we have been doing to try and restore faith in city government. Restoration of faith has a spiritual sound to it, but faith is just as important to economics as it is to philosophy. Faith in the future is the foundation of good business. Nobody wants to invest in things that won't last, and especially not in a city that won't last. Well I am here tonight to tell you, that New York City is going to last and I am also here to tell you why.

Hard times teach us that realities are less dangerous than fantasies. In 1975 New York City got a crash course in economic reality, with a PhD. And I want to tell you what we learned. And thanks to Felix and others we came through the crisis of '75 and immediately became eligible for the crises of '76, '77, '78, '79, and '80. And I am not talking about financial crises alone. When I became mayor in 1978 I think half of the people in this audience were sure we would be in bankruptcy in a month or two. Not as a result of the City, as a result of me. But when I became mayor in '78, the City had a lot of troubles. But paradoxically my job was made somewhat easier by the mistakes that were made before me. In the 60's and the 70's, New York, like most other big cities was faced with enormous problems in the areas of education, housing, crime, unemployment, and we responded to those problems with expensive programs which all too often simply did not work. Nevertheless the programs got bigger, the problems got worse, and

the City near went broke.

Looking back over the wreckage in '78, it was obvious what had gone wrong. It was also obvious that we had to break away from the old answers, if we wanted to break away from the old results. City government was like a doctor trying to treat a patient who had been badly patched up. Wounds had been wrapped in makeshift splints and tourniquets. Special injuries had been temporarily anesthetized and whatever we touched brought cries of pain. In medicine, a timely amputation can save a patient's life. In city government it doesn't work that way. Every dead or dying appendage is supported by a lot of people with a special interest to protect. Want to cut a little dead weight out of the education budget, within minutes you will have a crowd at your door, shouting, doctor drop that scalpel. More likely you will have a picket line in front of City Hall.

Indeed, in the two years and near five months that I have been in office, there has been scarcely a day when there hasn't been a picket line in front of City Hall, and on those days when there is not a picket line, I know I have done something wrong. (Laughter and applause)

Want to tie off a hemorrhaging hospital which wastes millions of scarce dollars on empty beds and put that money into community out-patient facilities, and clients, to protect the patients.

Don't expect rational arguments to help you. Threats and invectives fill the air while those who think you are right, run for shelter.

I must tell you that it was on this platform back in November when I addressed a smaller audience, but nevertheless, an audience made up of very intelligent people, they were doctors. And one of them assaulted me, can you imagine that. Doctors are supposed to heal. (Laughter) I am one of the few people in public life who believes if you commit a crime, and you are apprehended, you should be prosecuted. I filed a complaint and the guy was convicted by a jury. (Applause)

Now politicians and public officials make their living on being liked. When they hear angry voices, there is a natural tendency to join the chorus and pass along the costs to the next generation. That has not been my style, but even if it had, in 1978, the City's problems would not have allowed it. We couldn't buy off our troubles anymore, we had to face them squarely and do what needed to be done.

One of the most important tasks which faced us then and now was changing the way that city management deals with labor. That is to say what we have done, I believe, has made that change. From the beginning, the City has been at a terrible disadvantage in bringing better management to municipal government. New York City is a \$13 billion a year business. Our product is public service. But thanks in large part to obsolete civil service rules and regulations we have an extraordinarily low ratio of managers to workers. These figures will boggle your mind. We have approximately 200,000 city workers. When I came into office in January of 1978 we had 2,000 managers who were not in the union. As a result of a court case, we now have 1,500 managers

who are not in the union. It means that we have approximately a ratio of managers not in the union to the union membership and they are just civil servants, they are protected also by unions, a ratio of 1 such manager to every 130 workers. Isn't that nuts, I think it is. We believe that we should have 20,000 such managers not in the union. And that would give us a ratio of 1 to 10; we don't even submit legislation to do that in Albany because we know we can't get it through. So we have been much more modest of simply asking for 5,000, an increase over and above the original number, to 5,000 and we can't get that through. That would give us 1 such manager to every 40 workers. Can't get it through the legislature.

This built-in weakness was compounded by the way management negotiated contracts with labor. Negotiate may even be the wrong word for the way things used to be. But I think we have made a good start towards changing old practices and beginning real negotiations. We are implementing a policy of mutual respect at the bargaining table.

No more sweetheart deals, no more private arrangements. We now negotiate at arms length and on I hope an equal basis. It used to be that everyone trembled when the unions mentioned the word "strike". In fact I am not even supposed to use that word. Everyone said the City couldn't take a strike. We don't want strikes, but we are not going to run away from our responsibilities either. There was a transit strike in the City of New York, and it hurt, but nevertheless we survived. We survived because those who live and work in New York understand that the City is defending their best interests and I must say, and I want to thank the business community, that in

contradistinction to what happened in 1966 when there wasn't the support that the then mayor needed to stand up and make it clear that the City would not just lay down.

There was that business support in this last go-around, 14 years later, and I am very appreciative for you having stood up with me. But most important, we survived because of the outstanding strength and support we received as I indicated a moment ago, from the business community during the strike and I again, want to thank you for what you did on that occasion. I have placed a strong emphasis on cooperation between the private and public sectors in my administration. Expertise and experience of executives on loan from the private sector have made a vital difference in getting the City back on the road to fiscal health. It has also helped us put New York on a more business like basis. Let me give you one example. New York City purchases one billion dollars in goods and services every year. This makes us one of the largest purchasers in the world. Unfortunately, when I came into office our vendor payments record was one of the worst in the world. You were lucky if you got paid at all. But under Commissioner Jim Capalino, I the Department of General Services, we now have an improved vendor payments record, to the point where almost 70% of our bills are being paid within 30 days, over 90% of our bills are being paid within 90 days and this means that more vendors now compete for our business. This means increased savings and most important, it means new respect for the City of New York. It means that we will do our job and can therefore expect other people to do theirs.

In short, we are not going to roll over and play dead anymore. We are running the City according

to what is best for the City, not according to whose brother-in-law is a friend of a friend who needs a favor. We now require community groups and others who want to use city facilities to pay their own way. When I came into office, very few groups paid more than a \$1 for the facility that we turned over to them and we provided the heat and hot water. Now there are facilities that we want occupied by community groups until we remove them from city ownership and put them back on the tax roles and we want to prevent them from being vandalized. But we have increased those leases, in many cases, from a \$1 to \$18,000 a year, or \$12,000 a year, or more, because we believe that this city can no longer afford to do what it did before, give everything away and in so many ways, defeat the people of this city.

And if persons or groups wish to purchase available city property, we expect them to pay market value. A brief little anecdote on that. In Brooklyn there was an empty school, it was excessed, they didn't need it in the public school system. So it was available for sale. And a local parochial, religious group wanted to use it for a parochial school and that is fine with me. I happen to be supportive of parochial and private schools, to have them competitive with the public school system, because I believe heart and soul in competition. And of course, this group got everybody in the community to support their request to buy the school. I would think so too. They got every legislature and the community board, and they called up, and they said, we would like to buy the school and we said, fine. They said, we will give you \$25,000 for the school. I said, that is ridiculous. They said, how about \$750,000. (Laughter) I said, that school is going on the auction block and if you want the school, buy it. It will be sold subject to existing zoning.

They said, you can't do that. You have to put a provision in; it can only be used as a school. So that they would be the ones who would make the only bid. I said, no, auction, subject to existing zoning. I got calls from the legislatures in the area. One of them called me up and he said, you have to remove that school from the auction block. I said, no. He said you must give them that school and I said, if you want them to have that school, buy it for them, but with your money, not the taxpayer's money. And the school went on the auction block and it was a very spirited bidding. And it was sold for \$2,065,000. What is interesting is, that the group that bought it was the one that had offered \$25,000. (Applause) Under our regulations, they have to provide a down-payment of \$300,000 and they sent in a check for that amount. And it bounced. (Laughter) And they called up and they said they wanted to renegotiate. I said, nothing doing. It is going back on the auction. And you are not allowed to bid under our rules because you failed in your down-payment. And if we get a dollar less than \$2,065,000, we are going to sue you for the differential and you won't have the school and you will have paid for it. We got \$2,065,000 from them. (Applause)

We also expect those who use the cities water and sewer services to pay for what they use. This caused an enormous storm. People said, you can't charge us. I said, it is not taxes. They said, it is taxes, we don't want to pay. Lots of people don't pay water and use charges. I said it is easy, you don't want to pay, don't drink. (Laughter) We collected \$300,000 from Columbia University. They had never paid. We collected from Yeshiva, from Fordham, from all of the schools, why shouldn't they pay. Why should everybody else pay for water charges? We even collected from

Woodlawn Cemetery and I didn't know they drank. (Laughter and applause)

We are using a single standard when making these decisions. What we do applies to everyone.

This has come as a shock to some people because there isn't a single group or organization in the City which doesn't want special consideration. It doesn't matter if they are Jews, Italians, Ukrainians, Hispanics, Blacks; they all have a special case to plead. And maybe there are occasions when we would like to give special consideration to one group or another, but the fact of the matter is, that we can't afford it, and we are not going to do what we can't afford. I think that is called good economics. At least I hope it is. Because a lot of people keep telling me that it is not good politics. I don't happen to agree with that assessment either. However, just as it is not good medicine to avoid the pain of a needed injection, it is not good politics to avoid the pain of needed reforms. Basically our citizens want to do what is right. They want the self-respect that comes from knowing that temporary sacrifices will produce long-term benefits. They will put aside their cynicism when they see that progress is actually being made and that everybody is being treated equally by government. And I think we are beginning to see results.

When I talk to New Yorkers I sense a renewed pride in our city, an increased faith in the future of the greatest city in the world. This is an important development but one which can turn against us if we don't keep the ball rolling. No one likes to have their hope raised, only to fall a greater distance. So let me now turn to the problems which could still do us in if we don't find ways to manage them.

First of all, our biggest problem right now is everyone's biggest problem, as Felix pointed out, inflation. Inflation makes it extremely difficult to balance budgets. Just look at what is happening in Washington. In spite of the agonizing cut of \$15 billion from the federal budget, observers are predicting that there will be a deficit in 1981, a year when federal revenues will increase by \$75 billion. With this kind of inflation, what chance do cities and states have to break even? Well I support the objectives of a balanced federal budget. I hear that Washington is not dealing with the areas of the budget that have created deficit conditions. They cut local aid programs that have been growing by less than 2% a year, while the federal budget has been growing by more than 12% since 1977. These aid cuts hurt New York Cities plan for fiscal recovery, and they hurt a lot.

Let me give you some examples of how inflation and programs mandated by the federal and state governments affect the City budget in just three areas of our budget, Medicaid, special education and energy. We are projecting total increases in the City fund, expenditures of \$502 million from fiscal '79 to fiscal '81. Let me repeat that amount, \$502 million. Medicaid will increase by \$181 million, and special education, a federal mandate, will go up by \$143 million. And energy costs will increase by \$178 million. These projected increases in expenditures are about \$53 million more than the entire projected growth in our tax revenues over that same period. Let me just tell you about Medicaid, how it is breaking the back of the City of New York. We are putting in out of local tax levy dollars, a billion dollars in welfare and Medicaid. The feds add to that \$2 billion

and the state adds to that a billion or a total of four. We should not be bearing that billion dollars. Of that billion dollars, \$650 million is Medicaid and \$350 million is the welfare support payments of food and shelter and clothing, etc. If we didn't have to bear the cost of that billion dollars, the City of New York could lend Chrysler money; they wouldn't have to turn to the Federal Government. (Laughter and applause) It doesn't take figuring to realize that these increases threaten to interrupt some of the great progress the City has made in putting its fiscal house in order. Between '75 and '79 the City reduced its true budget deficit from \$1.9 billion to \$422 million. And the latter figure was audited. We get audited every day by six different auditors. (Laughter) If all of your corporations had to be audited like we are audited, you would be in a lot of trouble.

But we find ourselves faced with mandated expenses that are thrust upon us by the state and federal governments. It is hard to keep up with the latest plans the feds have for our money. Let me briefly explain how the mandate makers pass along their problems to others. New York City produces a sizeable amount of sewerage, sludge, which we dump in the ocean. In the face of a federal order to shut down ocean dumping, we are forced now to put that sludge on the land. But there are federal regulations governing how it shall be put on the land. And I have this nightmare that I will be required to take this sludge home to my apartment every night. (Laughter)

The feds require that we de-water and compost the sludge at a cost of \$250 million in capital investment and \$35 million in annual operating costs. The feds pick up 75% of the capital costs,

but the City shoulders at least 75% of the operating costs. All this to cover our land with a toxic sludge until a better solution is available. This will take about ten years at which time we will be forced to abandon \$150 million of the capital investment made for the interim solution. It is wrong, it is absolutely nuts what they are requiring us to do.

There is more. In the special education program, Congress has mandated that all handicap children be provided; they phrase it, a free and appropriate education. Who can be against that? It is a worthy goal. But what about the cost? It costs New York City three times more to educate a handicap child than a non-handicap child. It costs over \$8,000 for a handicap child. Federal funding, however, can be summed up like this, first they underestimate the cost, then they underfund the underestimate. New York City is receiving \$8.5 million in federal aid while spending an estimated \$300 million in tax levy dollars for special education in fiscal 1981. It boggles my mind, and I am sure it boggles your mind as well. But what really hurts is that I voted for these crazy programs when I was in the Congress. (Laughter and applause)

Let me close by saying this to you. I have only one goal and that is to make this a better city in the course of time that I serve as its mayor. And I must say, I have been given an opportunity that few thought would ultimately be mine. I was not supported by the forces that normally elect a mayor; the realtors, the bankers, the municipal labor unions, the county leaders. Those are the four forces that normally elect the mayor. So I come in unencumbered with the normal political baggage that you come in with when these are your allies. And I am not suggesting anything

pejorative, illegal, or immoral; it is just the nature of the system. They didn't think I would be elected, so they didn't test me. I think I would have passed the test. I want to make that very clear. (Laughter) But I come there totally unencumbered and I am going to do what has to be done. I have said that I want to be the mayor for three terms, 12 years, because it will take 12 years to turn the town around, in my judgment. But if at the end of four years, people want to throw me out for whatever reasons, and I can understand that there are some people who are fed up with me, and I understand that. But if at the end of four years they want to throw me out, that is okay. My salary is \$60,000; the salary of the President of IBM is at least \$600,000. If they throw me out, there must be something in between. (Laughter) Thank you.

QUESTION AND ANSWER PERIOD

CHAIRMAN EDMUND T. PRATT, JR.: Mr. Mayor, among this audience, 1400 strong, whether we live or work in New York, we are your constituents. Ladies and gentlemen, our mayor. (Applause) Now, the questioning period. I remind you the way it works. We have two questioners, Paul Lyet on my left, Henry Kaufman on my right. They will alternate questions, addressing their questions to either of the speakers. We will start off with a question from Mr. Lyet and followed then Henry by you.

PAUL LYET: Mr. Rohatyn, the Mayor started off with a comment about your remarks. Would you like to have an opportunity to comment about his remarks?

THE HONORABLE FELIX ROHATYN: Well I thought the Mayor and I had achieved a modus vivendi until he recommended that I go to the Carter Cabinet. (Laughter) What struck me as probably the second prize in a contest, where the first prize is a summer vacation in Philadelphia. (Laughter and applause) But despite what could otherwise be considered an aggressive posture, I support the Mayor. The Mayor and I have established what I think is a very pleasant and helpful working relationship. I think, as I said, I think he has done an extraordinary thing in terms of the spirit of the City at a time when confidence is badly flagging. We will undoubtedly have some differences from time to time, over specific theology of some of these issues that we talk about, but I have nothing but praise and support for the job that he is trying to do in the City.

PAUL LYET: While you are still on your feet.

THE HONORABLE FELIX ROHATYN: Don't you have a question for him. (Laughter)

PAUL LYET: Well we will come to him. Based on what you now know, including the Mayor's comments, how do you view the prospects for the City re-entering the bond market, by mid 1982 which I understand was the target date?

THE HONORABLE FELIX ROHATYN: Well very dimly. And that has nothing to do with the Mayor's performance or with the City's actual performance. When we put together the four year

financing package involving federal loan guarantees, we put together a package of \$4.5 billion, 2.5 years ago. Of which the last \$900 million were supposed to be the City re-entering the markets to the extent of \$300 million in the fiscal year beginning this July 1st and \$600 million the year following that. We were then living in an environment of inflation that was running at about half the present level of inflation and economic recovery that was still strong and we thought that both the city and the state would be in at least possibly in a strong position by June 30, 1982 with maybe two balanced budgets behind it at that time, and that therefore there would be a strong possibility of the City not only re-entering the markets, because I think the City could sell \$50 or \$100 million worth of bonds tomorrow, but really being self-sustaining in the markets, meaning raising somewhere between three-quarters of a billion and a billion dollars a year regularly at acceptable rates. I think the current economic conditions have kind of thrown that scenario out the window. And that we now have to look to MAC and possible some shifting around of the federal guarantees that are still on standby as at least being an option for the City to avail itself, not only through 1982 but beyond maybe through '83 and '84. That doesn't mean that I know the City can't re-enter the market, because as I said, I think it could in limited amounts and maybe it will do better because conditions may change. I don't think it is prudent to plan best case at a time when we see that best case is the result of...I mean best case doesn't happen with the kind of government performance that we have had at the national level over the last few years. And therefore, I have no reason to think that things are going to turn dramatically enough to create the economic environment for the City to be able to be self-sustaining. We are planning to extend MAC's borrowing capacity from \$8.8 billion to \$10 billion. We are planning

to ask the federal government to let us shift the guarantees around to use \$900 million that are still on standby between now and 1982. So that between that MAC and what the City can finance on its own, we can probably go through maybe 1984. At which point, as the Mayor said, other solutions involving Medicaid, involving welfare, other national solutions to regional problems may enable us to do something a little different.

HENRY KAUFMAN: (INAUDIBLE - MICROPHONE NOT ON)

VOICE FROM AUDIENCE: Henry you need a microphone

MAYOR EDWARD KOCH: He said I was extraordinary and outstanding. (Laughter and Applause)

HENRY KAUFMAN: I understand that this is the first in the Club that the questioner is taking the podium. Mr. Mayor you said correctly, your performance tonight was extraordinary and outstanding. And indeed, in view of your comments, for a while I thought you were about to endorse the next Republican candidate for president. In light of your comments, though tonight, why are you endorsing President Carter, and what do you expect from him that he didn't deliver in the last few years.

MAYOR EDWARD KOCH: No, that is a reasonable question. (Laughter) I am supporting the

president and have supported him in a public way for his re-election campaign for over a year, when very few people were doing that. I am doing it for several reasons. Let me just lay them out for you. There is no secret. It is in the interest of the City that I do that. That is number one. As the Mayor of this City, the Democratic Mayor, and Democratic Governor, and Democratic President, and I think that partnership is required, except under extraordinary circumstances and those extraordinary circumstances don't exist. Secondly, I happen to like him as a human being, and I know him reasonably well and I think he is a very smart person, very dedicated and I don't for one moment want to take the position that he has done the things that I would like to see done in this very limited area of New York City or the urban areas across the country, because our problems are duplicated wherever you find large numbers of people. It is just that ours are the largest because of our size. But they are duplicated throughout the country. I have said to President Carter, directly and to his advisors, that in my judgement, if an election were held today, and I have said this now for a number of months, and I would say it again today, if an election were held today in the City of New York, President Carter would lose and Ronald Reagan would win. I have said that. I have also said to him that he can turn it around. And that to turn it around, and in my judgment he will seek to do that when his attention gets focused again on November instead of on the primaries, and he will come back here. If he cannot win New York, he cannot win the election. And because of that I believe that there will be changes. Now let me just make it very clear, that is not extortion. We don't ask him for anything that we are not entitled to. (Laughter) No it is not. I want to make it very clear. We don't ask for a single dollar that we are not entitled to have. Just to make your case, and I don't want to take too much time

on this, but to make your case, the four year plan that we submitted to the Congress was prepared and signed off by the Secretary of the Treasury, Mike Blumenthal, President's agent. That four year plan required that there would be budgetary support in each of the four years. I can tell you that in each of the first two years we not only did not get budgetary support, we actually lost programmatic monies. I have said that to the president. It is very disappointing. As a result of those failures in those particular areas of budgetary support and programmatic support which vanished, we had to cut our budget substantially. When I say cut the budget, some people say, isn't that nice, no it is not nice when you have to reduce the services in the City and that is in fact what has been happening over the last several years. We try to do as much as we can within our limited resources, but we were making cuts as a result of federal reductions in budgetary support. I hope that he will turn it around. And it is because I say this openly, and I hope he reads about it, that he will make the necessary changes. And that is why I support him. Isn't that reasonable.

(Laughter)

HENRY KAUFMAN: Thank you Mr. Mayor, but I rarely get to ask political questions so I would like to ask Mr. Rohatyn why does he support John Anderson in view of the response by the Mayor?

THE HONORABLE FELIX ROHATYN: Well that is easy, we disagree. (Laughter) First of all I do not make political endorsements. I don't think it is appropriate for the Chairman of MAC to do that. On the other hand I have made no secret of the fact that I have...the one political

contribution I have made has been to John Anderson. And I have done it and I communicate with him for the following reasons. First, it seems to me he is the only presidential candidate at this point who is addressing himself to purely regional issues that I think are absolute life and death for us. John Anderson is talking about the problems of the Northeast and the Midwest and by talking about it, he may force the other two main presidential candidates to face that issue if they are going to win here which ultimately as the Mayor says, they are going to have to do. But I don't think we ought to let them do that without addressing themselves to that particular issue. Secondly, John Anderson is the only man who has had the courage to talk about a gasoline tax at the levels that I think are absolutely necessary to save this country from bankruptcy and no other presidential candidate has had the courage to do that. And third and last but not least, anybody who lives in New York City has got to support some kind of gun control law. And John Anderson is the only presidential candidate who hasn't waded around some kind of hunting licenses and his love affair with the rifle and has come out for gun control. And I think that is sufficient for me at least to try to help him. Last but not least, my children are for him.

J. PAUL LYET: Mayor Koch, in light of inflation, recession, and labor demands and possible federal and state assistance shortfalls, are you expecting to see your favorite color in the fiscal 1981 and 1982 budgets, or that awful red you have talked about?

MAYOR EDWARD KOCH: Well as I think most people in this room would know, we have decided to go to a gap balanced budget a year ahead of time. And that is my intention and I

expect to realize that goal. At the very worst and we will not throw in the towel, we will have a budget which is statutorily balanced that we are allowed for the total of the three years of the four year program to use capital monies for operating expenses which we are not doing in fiscal '81 if the budget is truly gap balanced. So we will achieve, in my judgement some of the gap balanced budget because if there are the shortfalls that occur, we will seek to compensate for them through further reductions which can be damaging. There are limits as to how much you can reduce and certainly limits as to how much you can reduce in any one year. There will be the possibility of revenue enhancement. Part of our gap balanced budget requires increases in taxes to the extent of \$175 million where we are seeking to impose those taxes and they are taxes which are intended not to hurt business, not because you shouldn't bear your fair share, but because if we increase the taxes on business, we feel it is counterproductive to jobs and keeping businesses here that provide the additional taxes. So we have been very careful in the way we have selected the taxes that will be imposed if the council and the state legislature allow us to do it. If we are not able to get everything that we need to truly balance our budget in accordance with the expected revenue, then we will seek to possibly increase those taxes but there are limitations there. And finally, if we have exhausted every single effort, we will still conform with our four year plan, by having a statutorily balanced budget. But it is my hope it will be truly gap balanced.

HENRY KAUFMAN: Mr. Rohatyn you have been an advocate for the creation of another Reconstruction Finance Corporation. We have gone through some difficult periods during the

last ten years in which we had the failure of a prominent railroad, the largest in the United States in 1970, the Franklin National Bank failed in 1974, and a number of other institutions have gotten into difficulty. Nevertheless, the system has recovered and the times has prospered. How do you answer the criticism that an RFC, indirectly or directly, results in the efficient enterprises subsidizing the inefficient that it does not promote the growth of business in the new economic frontiers, and that in order to get aid you have to be big and you can't be small and that it generally removes the discipline of the marketplace.

THE HONORABLE FELIX ROHATYN: I think those are all very valid criticisms. On the other hand, I think the alternative is probably worse. I can think of nothing worse than the Senate Banking Committee trying to restructure the Chrysler Corporation. And I think that once that was done a line was crossed in terms of the public interest and in terms of bailing out very large corporations rather than let them go into bankruptcy. And that line having been crossed in principle I say if we are going to do it, let's do it right. Namely, if we are going to do it, let's have a structure that is not political, that can invest equity in a large corporation that is failing, and not put in guaranteed debt in the way it was done with Chrysler. Let's have an organization that can negotiate arms length with labor and banks in order to get real concessions out of them, and not four paid holidays that are "\$468 million" and some conversion of deferred interest to preferred stock eight years down the road that is called conversion to equity. So my point is, from the corporate sector, and I think we are entering into a period of financial fragility, such as we really haven't seen since the '30s or at least that we may enter that kind of period. I say let's

create a safety net that can work the way it should work. Secondly, again, if I am right, and things are very bad, and I may be wrong, and I hope I am wrong. I have always said I would rather be wrong and rich, then to be right and much poorer. But if I am correct and cities like New York City or Chicago or Detroit, cannot balance their budgets ultimately without mutilating themselves by raising their taxes or laying off their workers to a level that the cities are no longer viable, I think there should be an alternative to municipal bankruptcy that allows you to ride through a period like this without either committing suicide and making a city permanently unviable, or declaring bankruptcy. And I think in RFC, the way it worked in the '30's, I think Jesse Jones did a spectacular job. As I said, I understand the arguments. There are strong arguments against it. I think that still, I come down on the side of creating a safety net at a time that I think is very dangerous.

PAUL LYET: A question for Mayor Koch. Given the fact that the Transit Authority has an operating deficit and a new contract that will increase costs substantially; do you anticipate a fare increase?

MAYOR EDWARD KOCH: I said from the very beginning that I would prefer that there not be a fare increase, not for political reasons, although it may be hard for people to accept, not at all, it is simply because we in New York are paying the highest percentage of the cost of the ride as opposed to any other city in the country. We are paying \$.50 towards a ride which before the new contract cost \$1.04. To increase the percentage from the fare box, I think is

counterproductive. The only way that, that fare then can be kept at \$.50 is if the state legislature imposes new taxes because there is no free lunch and everybody knows that, and somebody has to pay and I support the new taxes that would be necessary. But the fact is that the very taxes that the governor has proposed would not be adequate to keep the fare at \$.50, even if every dollar was passed for that two year period. The total deficit, depending on who you talk to, but the figure that is most often used for the two year period is \$590 million over the two year period. The governor is talking about financing the fare and maintaining it at \$.50 for one year with his taxes. If you are asking now to speculate as to whether or not the taxes that will be passed will keep the fare at \$.50, my response would be, my gut tells me it will not be kept at \$.50. That there will be some combination of tax increase and fare increase.

HENRY KAUFMAN: For the record, will you still support Westway, and not for the record, but so we know.

MAYOR EDWARD KOCH: Just for the record, have you ever heard anything said to two people that wasn't for the record. (Laughter)

HENRY KAUFMAN: Well, will you still support Westway if there is a subway fare increase?

MAYOR EDWARD KOCH: Let me give you my position on that. When I ran for election, my position was an opposition to Westway and I said at that time that the policy of the state was for

Westway having been made by a prior Mayor and the then governor. And when I spoke with the governor early in my administration the commitment that he got from me and I from him, was the following. That if he guaranteed to maintain the fare at \$.50 through January of 1982, I would withdraw my opposition to Westway and support it, which I have done, I have done that. The Westway is held up in Albany as a result of two certificates being required from the state government which they have to do after adequate hearings and that process goes on. I have said that if the governor, notwithstanding his good efforts and I am not faulting him on his efforts, and I am not laying the blame for a fare increase at his feet, and I am not in any way attacking him, not at all. But if notwithstanding his good efforts, and he does everything he can but he proposes, the legislature disposes, he fails in guaranteeing that fare, at \$.50 through that period of January 1982, my position is that as of the day that the fare is scheduled to go up, if a determination is made, it will go up, I will make my determination on the merits as of that day without regard to my prior position before I was elected or my position that came out of the agreement with the governor to guarantee the fare and to go forward with Westway. It will be as a result of a determination made on that day, should that day arrive. Clear.

PAUL LYET: Well I gather you are not burning your bridges in front of you.

MAYOR EDWARD KOCH: Why should I burn any bridges? I mean...this administration prides itself; it does it on the merits.

HENRY KAUFMAN: Mr. Rohatyn you have advocated a number of times the imposition of a wage and price freeze. How do you expect to facilitate that in an economy that interdependent with other world economies where the price of oil is not directly controlled by us? Where a whole series of commodity prices are internationally controlled by market forces and others, where do you put the limits of that wage and price freeze and what is uncontrolled?

THE HONORABLE FELIX ROHATYN: Well as with the RFC, it is an imperfect answer to what I think is a runaway situation. Clearly there are some issues that you might not be able to cope with, with a wage price freeze, if you had very large fuel oil increases, if you had crude increases, you might have to pass them through. I think in a very imperfect world, you have to have sometimes imperfect solutions that are better than no solutions. Especially if they are temporary. I think one of the biggest mistakes we try to make is to create permanent perfect solutions in a world that is continuously changing and where the imbalances are shifting all the time. I think that a wage price freeze that is temporary and that is taken at the same time as some other policy actions are taken, such as a large gasoline tax, which incidentally could have stabilized oil prices, at least for some time, could permit a labor leader the luxury to accept a very modest wage settlement at a time when his membership is pushing him very, very hard for very large labor settlements. And that you might not have had the 40% steel settlements and the 35% automotive settlements in industries that are in severe difficulty by themselves, before even these actions were taken. So I know perfectly well that a wage price freeze is not a perfect solution, that it is imperfect. Again, as with the RFC, I think in today's times, if you did it

together with a number of other things, a number of other policy issues, that it is better than taking no action and I believe I remember a very brilliant and very renowned economist named Henry Kaufman who almost edged to that position some time ago.

CHAIRMAN EDMUND T. PRATT, JR.: Might we have one more question from each please.

HENRY KAUFMAN: Can I just follow that up and change the subject. And ask the Mayor the following. We can all see the step up in economic activity that is taking place on the Island of Manhattan. Could you comment on what is happening in other boroughs in the City?

MAYOR EDWARD KOCH: The fact is that the City of New York, the government is not investing government funds, either in the business areas or in the housing areas in the borough of Manhattan, below 96th Street. All government involvement in terms of dollars overwhelmingly will be north of 96th Street and in the four other boroughs. The construction that you see, that we are all aware of in the heart of Manhattan is privately financed and I know that there are those, particularly those who want to be critical of the administration and who want to incite people, who say, look at what they are doing, they are putting up hotels on 50th Street and Madison Avenue, and why don't they put it in the South Bronx. And my response is, if I went to Harry Helmsley and I said, Harry, why don't you put the Palace Hotel in the South Bronx, (laughter) he would say, as you can understand, "With your money". Well since he is not using our money, he is using his money; we can't tell him where to put it. But we are making it attractive to go into

the other boroughs and more businesses are doing it, not enough, because of tax abatements and we are going to even do more as it relates to that, to shift the emphasis to an even greater degree to the other boroughs. But the dollars that we spend on Section VIII Housing, we do not do Section VIII Housing in the parts of Manhattan where there is market rental and go try and find an apartment on the East Side or West Side of Manhattan for less than \$800 or \$1000, a one or a two bedroom apartment, even, more in many cases. And the dollars that go into the business trips which Peter Solomon is in charge, we put those monies into the other boroughs. But the other thing that I tell people as I go around to all of the boroughs is, that the people who work in these new hotels that are being built in Manhattan with private dollars, they happen to live in the South Bronx and elsewhere in this City, so that they too benefit from that private investment. Thank you. (Applause)

PAUL LYET: This evening you made a number of excellent well thought out recommendations for the solution to the nation's economic ills, and you detailed them very specifically. And at another point you indicated your support for John Anderson. And I must say that as I listened, I thought, these are just great, but in the real world, how do we implement these things politically? Do you see any way to implement these solutions, the ones that you suggested from a political standpoint in the real world? We have to get out there and get the job done. How do you do it?

THE HONORABLE FELIX ROHATYN: What did I suggest that was so complicated? I suggested a \$.50 gas tax in Germany, in France, in Holland; you probably have a gas tax of \$1.50

or \$1.70. What does it require...if I am correct, I may not be correct, but assuming that I am, what does it require. It requires the president that gets on television, which means that he can get into every home in this country, and explain to people that something is a matter of national survival. That means he has to have credibility. He can explain it. He can explain that sacrifice has to be shared and he has to make them believe it. What else is so terribly controversial?

Studying trade policy to see how...the most complicated thing probably is getting employment into the ghetto; of anything that I talked about tonight. And avoiding 20 Miami's. I think if there is anything that I think is really difficult, the rest isn't difficult. How do you get into the ghetto and bring some hope and some employment and some real private employment to a class of our society that is probably by now given up complete hope. And at the same time is a part of our society that we must cope with. Otherwise we won't have much left, and otherwise I don't think we have much left to waive in front of the Communist in saying we are so much better than they are, if we have 20% of our population living in hopelessness. I think that is difficult. But that requires, not only political will, it requires some sort of social commitment to do it. And figuring out how to tie employment with some kind of a business government labor partnership into the education system, directly into the ghettos so that your school system is directly tied to your employment. And working at it. I think that is the only thing that is really difficult. The rest, I don't think is very difficult if you have people who are credible and who can talk to the nation. We have people in New York do much more difficult things basically. When we worked with the labor unions and the banks in '75 and achieved a wage freeze and the banks stretch out and the tuition at the university and fare increases, these were much more ... it seemed to me (audio ends

abruptly)