



STATE OF NEW YORK | EXECUTIVE CHAMBER  
DAVID A. PATERSON | GOVERNOR

**Transcript of Governor David A. Paterson's Remarks at the National Press Club  
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Thank you, Sylvia Smith, the president of this organization, for that very nice introduction. By the way, the first legally blind Governor of a state served for 11 days, so I already have him beat. [Laughter]

It is quite an honor to be here, and I just wanted to say hello to some friends of mine who were kind enough to come today. One is a Congresswoman from the borough where I was born, in Brooklyn, none other than Congresswoman Yvette Clarke. [Applause]

There are three agency heads who came down to see me: Patricia Smith, our Commissioner of Labor; Richard Neiman, our Superintendent of Banking; and Eric Dinallo, who, in addition to being Superintendent of Insurance, was the only member of the Administration who ever spoke to the Lieutenant Governor until March 17<sup>th</sup>. Thank you very much. [Laughter] I'd like to thank all of them for coming.

I went to the 35<sup>th</sup> reunion of my graduating college class, and I met an old friend of mine who I used to sit up and talk with named Julio Castillo, who is a lawyer here in Washington, and I told him I might be in Washington, and I heard he found his way in here. So thank you for coming, Julio. And thank all of you for coming as well.

New York State and the United States are experiencing a downturn in the economy that is worse than the energy crisis of 30 years ago, that is greater than the economic recession of 40 years ago, and may yet be as challenging to the American population as even the Great Depression.

This crisis is as undeniable as it is dangerous. The United States is generally considered to be in a depression. All across this country, people are losing their jobs and their homes. Corporation finances are falling. Rising costs of oil and food are shrinking every paycheck. There is certainly a fear on Wall Street and internationally; the dollar is plummeting. Historic investment houses are teetering on their foundations. Financial fear is widespread and contagious, with everyone waiting for the other shoe to drop.

We have got to go away, and grow away, from the callow and puerile philosophy that this situation will go away. We have to understand that these problems will not resolve themselves. There is no quick fix. There is no silver bullet. There is no painless way in which we can escape these consequences.

Action must be taken by state and federal governments. State governments must cut spending, and federal governments must reinvest in the infrastructure of our country.

We have to be smarter about money. For too long, governments have done less with more and paid more for less. We now, from the leadership level, have to undergo what families in this country are grappling with, how to generate more revenue when our income value has depleted.

We're going to have to cut spending. The time has come for America to cut up its credit cards. The time has come for our government to realize that we have got to cut spending and move forward in this prospect. The era of spend now and pay later is over.

This crisis is one where government must initiate action. States are going to have to practice the fiscal discipline and make the difficult decisions that we've eschewed decade after decade. The time for action is now, because it would certainly appear that this problem, as I said on Tuesday, is going to get worse before it gets better. And it's clear that the faster we act, the sooner and stronger we will recover.

But the overall solution to our economic woes involves more than just cutting spending. Government is more than just balancing budgets. We balance budgets, but we must also balance priorities. Compassion is not optional. Neither is common sense. It is as critical to invest wisely as it is to cut forcefully. Without investment, there is no growth. Without a sense of curtailment, there is no prosperity.

These are the essential ways in which government can play a role in the economic recovery of this country. We must be, in many ways, compassionate in our governing, and we must be smart in our spending. These are the ways we can maximize our ability to help people even as we are forced to liquidate many of our financial plans.

This is why, in New York, we have doubled the time from 15 days to 30 days whereby people will have their power or heating cut if they aren't able to pay the bills. This will give the New York consumer a greater opportunity to address life-threatening situations by borrowing or refinancing as opposed to being placed in a situation where they go without electricity or fuel. That is the constructiveness of compassion.

Our Consumer Protection Board in New York is investigating widespread complaints of gouging on prices of gasoline and home heating fuel. We are going to teach seniors and those who are vulnerable consumers how to identify scams and report them to the authorities. That is also the constructiveness of compassion.

We have lengthened the time in which those seniors and indigent people can be on Medicaid by reassessing our eligibility patterns. We have increased the age, to 21, of those children who are in foster care who are not receiving health care after age 18. And we are putting \$150 million into expanding the number of individuals who qualify for food stamps. The reason we do this is because, in times of economic downturn, they become euphemistic with a way to bash the poor, the old, the elderly and the disabled.

At the same time, there are those who, out of conscience, and those who, out of benevolence, have unfortunately eschewed the opportunity to take action, feeling naively that this is going to help those who are in peril. When, in fact, the failure to take decisive action in our country has

always exacerbated our problems. Look at the times when we delayed action when action should have been taken. The abolitionist movement. The Great Depression. World War II. Many suffered even more because we waited to intervene.

And now we have to confront our greatest challenge, which is unemployment in this country. In New York, 35 to 40,000 people will lose their jobs in 2008. Our unemployment hurts those who are least prepared. 7.4 percent among those who do not have high school degrees, as opposed to 4.4 percent who are college graduates, and 2 percent among those with college degrees.

Nationally, this country, since December of 2007, has lost 578,000 jobs—353,000 just in manufacturing. Seven straight months of dropping private employment. In New York, we are trying to address that issue, because we know about the loss of jobs, particularly in manufacturing. We have lost 194,000 jobs in manufacturing in cities like Buffalo, Syracuse, Rochester, Utica, Lake Placid, Plattsburgh and Binghamton. Our Upstate region is struggling for survival because of the loss of manufacturing jobs.

But we found something out, and I'm going to bring down the cone of silence. This is Agent 86, reporting to all of you. [Laughter] Don't tell any other governors, but we have figured out in New York that a lot of the companies that have taken their resources overseas, and their plants overseas because of the lower-paid labor force, have found that energy and transportation costs exceed the savings they got with cheaper labor. Therefore, many of them now want to come back to the United States. As long as you all are quiet, we're going to get a lot of them. [Laughter]

A major manufacturer of cement has relocated to Virginia, but we see this as a great opportunity to bring manufacturing jobs back to New York. Many of New York's jobs that have been lost are actually in the area of construction. We think this is a primary opportunity for government to invest in construction, particularly school renovations and school construction.

It is tested and proven that children learn better when they are in better facilities and more aesthetic environments. So we can benefit children, take advantage of an available workforce, and reignite the engine of our economy by investing in construction of schools and other areas where government might intervene.

Now, writing in the *Financial Times* earlier this month, the former head of the New York City emergency financial control board, Felix Rohatyn, and his partner, Everett Ehrlich, wrote about the testimony by Federal Reserve Chair Ben Bernanke on July 16<sup>th</sup>. They talked about the many contributors to our sagging economy, but thought the worst of them all are home foreclosures.

We see, in New York, that 1 out of every 493 homes has been foreclosed. In the first quarter of 2008, we have 13,700 homes that have entered the foreclosure process, up 36 percent from last year. There are now 45,000 homes in New York in the foreclosure process, that up 80 percent in the last year and half. Nationally, there are 1.1 million homes at the end of the first quarter of 2008 in the foreclosure process, up 99 percent in the last 12 months.

When we look at legislation, New York in the last couple weeks has signed into law legislation that will create a new underwriting standard for mortgages. In that respect, there is now an

understood parameter by which lenders and borrowers can agree is a viable loan. Anything outside of that means that the borrower has very little chance to ever repay the loan, and it is now a criminal statute in the State of New York.

In addition to that, we are adding 90 days to the period in which the lender first notifies the homeowner of the foreclosure process beginning. Putting \$25 million into counseling for those who are in foreclosure and even legal fees should they feel they were illegally duped into these types of situations.

Now much of the foreclosure process, and the subprime mortgage woes, have severely entered our financial services and insurance industries. From December of 2007, they have laid off 88,000 workers. In New York State, financial services will probably lay off one-sixth of its workforce, or 35,000 workers. This is the same as it was after the terrible attack on America on September 11, 2001.

But in the three quarter that followed that lugubrious day, there were increases in the market of \$6.8 billion. Just by comparison, in the last three quarters of this time period, those same firms have lost \$40 billion. Their downturn in bonuses, considered to have fallen 10 percent this year, has had to be reevaluated to 20 percent. Their capital gains losses, which were estimated at 16 percent just 90 days ago, have now grown to 24 percent.

This is having an immeasurable effect on our economy and the budgets around this country. State budgets, now half of them, are \$48 billion in arrears. Twenty-five of the 50 states are now in deficit. New York is running a deficit for fiscal year 2009 of \$6.4 billion. That has increased by 28 percent just in the time that I've been Governor. Although that has felt like a couple years, it has only been four and a half months. [Laughter] We have a projected three-year deficit of \$26.2 billion. That's up \$4.7 billion just in the last quarter.

And just to give you an example, our 16 largest taxpayers, banks, paid \$173 million into the New York treasury in June of 2007. This June, they paid \$5 million. The statistics are staggering.

We are not the only state having this problem. Florida has a budget deficit of \$3.4 billion. California's budget deficit is \$22.2 billion. Both of those states have had to reopen their budgets and cut spending. They are still unable to grapple with this problem as are we in New York.

New York has a \$122.4 billion budget, and a 200,000 labor force. Both, tragically, will have to be reduced in the coming months.

But we will try to lower taxes and target investments to ameliorate this crisis. We will lower taxes on properties for homeowners, that will hopefully not affect the economy too much, but will keep a population in New York, and we will additionally try to lower taxes on businesses to try to reignite the engine of our economy. Our target investments will be in the areas of clean, renewable energy sources, in the infrastructure of our state, and in education, as we see them as the catalysts to investment and opportunity over the next few years.

But we recognize in all of this, and with a number of financial consultants that I have brought in, that we are going to have to explore other areas. Federal loans. Further reductions to some of

our state services. Independent money perhaps invested in bond authorities that the state can borrow. And public-private partnerships, not to sell any of our state assets, but to take advantage of their equity and leverage so that we can try and ameliorate these problems.

But like the other states, we are going to have to turn to the federal government for help. The federal government is going to have to put more into the states that support it in the next couple of years before we have a national crisis of bankruptcy and further fiscal insolvency.

The late Senator from New York, Daniel Patrick Moynihan, was often very interested in talking about the ways in which the federal government does not reward New York for its taxes. New York's tax shortfall, in payments to the federal government, in 2006, was \$62 billion. That is only 75 percent of the current projections for 2007 of \$82.6 billion. By comparison, California, with a \$45.8 billion that it pays to the government, is \$16 billion behind New York. Texas is \$23.9 billion behind New York. The State of Arizona presents a different situation. They get back \$13.7 billion more than they pay in taxes as of 2006.

We feel that we need our tax money as much as Arizona or any other state does. Not to bequeath Arizona, but we feel like we are paying our taxes and not getting them back at a time when we are requiring needed services.

Let's look at the area of Medicaid. Elizabeth, I wouldn't consider it anachronistic, as much as I would consider it to be an anomaly that New York's salaries, since we assessed the Medicaid reimbursement formula on a per-capita income basis, New York's salaries appear, because of the Wall Street bonuses and the capital gains, to be higher than they actually are.

If we were to assess Medicaid reimbursement by the federal poverty rate—where New York State, at a 10.7 percent federal poverty rate, is 25 percent higher than the national average—then we would be able to get back the resources by which we could pay our Medicaid costs. And we urge the federal government to take another look at whether Medicaid's formula, as it is now, is responding to the needs of states.

There is a financial stimulus package that is coming right here, we hope, in Washington, and we thank the Congress in advance if they're able to do it a second time this year. But we think there needs to be targeted investments in the area of infrastructure, particularly transportation, for many of our states.

We need high-speed rail between Albany and New York City, which would generate more business. It would shorten the travel times. And it would create energy conservation and environmental cleanup.

We feel also that many of the ports of New York, in places where we could continue to move freight, are not opened up. We need to fix the transportation at Kennedy Airport, the I-90/290 interconnect in Buffalo, and in the land and water ports of New York City.

As we're speaking about debt, the five largest debtors in this country—I know we all know them by heart—the State of California, the State of New York, the City of New York, the State of Massachusetts, and the MTA. Who is the MTA? [Laughter]

The Metropolitan Transit Authority of New York has a \$22.9 billion budget that exceeds that of 47 states. And I would just caution that, before we blame the MTA's board or management for this process, we take a further look at that statistic. The MTA moves 8.5 million people every day. Every three days, the MTA moves more people than Amtrak does in a year. Every 10 days, the MTA moves more travelers than all our domestic airplane flights combined. So even as the MTA moves, on average, 30 to 33 percent of American travelers, it receives only 15 percent of an American budget.

This is why we continue to implore the federal government to take another look at New York—a state that has always been a leader, and a state that certainly needs greater redress.

Now we are going to, possibly, unless we see some change in the federal reimbursement for heating and energy—and we urge Congress to, before they leave, address this issue—many of our states that experience cold weather are going to have a problem with home heating this winter. I will do everything I can to make sure New York's families don't freeze when it gets cold, including moving resources from other programs to accommodate that.

But we need assistance from the federal government. And this is really my charge and my ask as I come to Washington today.

In 1820, New York State had a population that was 4 percent of the national population, and New York State conducted about 4 percent of the economic development. This was true in most states. Pennsylvania was 3 percent of the national population and did 3 percent of the business. North Carolina was about 1.6 percent of the national population, and they conducted 1.6 percent of the economic development.

But New York State invested—even though, in 15 of the next 20 years, they would be running budget deficits—by building the Erie Canal and establishing the Erie-Lackawanna Railroad. New York then jumped from doing 4 to doing 51 percent of the economic development in this country by the year 1840. And the people moved where the jobs were. The people moved to New York, and New York's population grew to 13 percent of the national population.

All through the 20<sup>th</sup> century, New York was a leader in economic development and recovery.

In 1893 and in 1907, when bank purges and gold runs put this country in economic difficulty, it was a New Yorker named J.P. Morgan that helped create a smooth landing.

In the early 20<sup>th</sup> century, when monopolies put our economy in a difficult situation, it was Teddy Roosevelt, a New Yorker, who led the country back to a new progressivism.

And during the Great Depression, even before he became President, as Governor of New York, Franklin Delano Roosevelt started to interact, through his Labor Secretary, Frances Perkins, with other states, so that when they got into Washington, they hit the ground running with a number of programs to move us out of the Great Depression.

We in New York want to be national leaders today by identifying, for this country, the gravity of this crisis, to urge us to act. There is no need to panic once America wakes up to the fact that we have an extreme hardship of financing in this country right now. Not just unemployment, not just financial service issues, not just home foreclosures, not just a subprime mortgage crisis, but all of the above and more: heating problems, energy issues, and the inability of our country to invest in the states that comprise it.

But there is opportunity. There is plenty of time, if we start to look at who we are, what we are, and what we can be.

Targeted investments to rebuild our highway system, that haven't been made for 50 years, are a solution to this problem. Reinvesting in the human capital of this country that makes us the world leader in education and medical and scientific research can help to bring us out of this crisis. And continuing to fight to bring us out of the energy crisis, as we realize the depleting values of financial resources, can bring us further to real economic sovereignty.

It's frightfully difficult, but we will be richly rewarded. If we work together, we can find workable, sensible and achievable ways to get through this period. It is in that spirit that I thank you so much for inviting me to address you this afternoon. Thank you very much. [Applause]

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