



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

**Transcript of Governor David A. Paterson's
Remarks on Fiscal Responsibility at the Crain's Breakfast
Hilton New York, New York, NY
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Thank you. Thank you. Thank you, Kathy, for that wonderful introduction. I've known Kathy for a long time, and she, and all of the people at the Partnership, have been very helpful to us from the outset of our leadership at this very difficult time in this state. I can't thank you enough for that kind introduction.

I like being described as someone who listens. It's preferable to being described as a "visionary." [Laughter]

I would also like to thank Jill Kaplan and all the people at Crain's for hosting this breakfast, one that people look forward to, to hear what the views are in the marketplace, what the views are in government, what, in a sense, the inertia inherent in our society is.

That type of communication—alerting people to where the economy is and how business is running—is something that were able to amplify this year. It is extremely important that the public be made as aware as possible of the economic conditions as they exist and what the future forecasts are. So I want to thank everyone at Crain's, and Cushman & Wakefield, and Empire Blue Cross Blue Shield for sponsoring this breakfast.

And Craig David and Jay DeDapper, who want to try and make my life miserable this morning, I want to thank them for that as well. [Laughter]

I think all of you know that our economy is in very difficult shape. Wall Street is experiencing a downturn. Day by day, you are all experiencing that.

There is some good news. The Treasury Department has taken Fannie Mae and Freddie Mac and put them into conservatorship, which should stabilize the marketplace when it comes to home loans.

As Governor of this state, we will be monitoring the availability of credit and the viability of agencies as we intersperse it with legislation we passed this year to define what is a legitimate loan and, beyond those parameters, to penalize those who knowingly offer loans to people they know can't pay them back.

And with the—and for the three of you who benefited from that, I want to say that... [Laughter and applause]

We are aware that, because of this law, Fannie Mae and Freddie Mac have talked about the diminished volume of credit they will provide in New York State, but we feel that it only addresses a few of the loans, and there is not going to be a particularly hazardous situation deriving from that.

There are other pieces of good news. Certainly, looking at housing prices, housing prices have leveled off. From 2005, when they since dropped about 60 percent, they leveled off this March. Existing home prices have leveled off since the fall. And, according to Julia Coronado of Barclays Capital, a rise in construction is beginning very briefly.

But overall, there really is not much to report in terms of how the economy is improving. I named all the things I could, and now optimists can turn away from the screen and we can discuss how the economy is really faring. [Laughter]

All three of the indexes on Wall Street—the Dow Jones, the Nasdaq, the S&P 500—are down 20 percent over the summer. Wall Street is now in a bear market.

That has been manifested in terms of the write-downs that have come from J.P. Morgan, from AIG, from HSBC, from Merrill Lynch, to UBS. There have now been \$277 million written down by the major investment firms.

Just by comparison, in the three quarters following September 11—even with the tremendous damage to the area, to morale and to the marketplace—Wall Street was still able to turn a \$6.8 billion profit during that period. In the last three quarters, Wall Street has lost \$42 billion.

And so, when we look at the projection that bonuses will be down 25 percent this year, that capital gains will be down 24 percent this year, we realize that it has a tremendous impact on New York State's economy because 20 percent of our revenues are derived from Wall Street.

Therefore, our budget deficit, which we projected at \$5 billion for 2009-10, was upgraded to \$6.4 billion, a 28 percent increase, between April and July. Additionally, our three-year deficit of \$21.5 billion ballooned to \$26.2 billion in the same period of time.

It hasn't just been a Wall Street problem. In New York, it has now moved to Main Street. 772,000 jobs have been lost in this country. New York has lost 35,000 jobs this year, and it will probably level off at about 50,000 toward the end of the year.

There are 45,000 foreclosures in progress in this state right now. That's 80 percent higher than the 25,000 foreclosures we had in progress last year at this time—echoing the problem where over 1 million people have lost their homes in this country in the last year.

Our wage growth projections for 2007 were 8.6 percent. For 2008 they are 0.2 percent.

Our 16 largest banks paid taxes on their profits by remitting \$173 million to New York State's treasury in June of 2007. In June of 2008, they sent us \$5 million.

When you look at the inflation rate—we have cut interest rates on the federal level seven times since March—we find that we have a 4.2 percent flex inflation rate, which is the highest that we've had in 17 years.

And when you account for the fact that we're also driving inflation in other countries—that, in China, India, Indonesia and Saudi Arabia, they have 8 to 10 percent inflation rates—in Malaysia, it's 14 percent, 23 percent in Argentina, 29 percent in Venezuela, and 50 percent in some of the African countries—we have been the catalyst for worldwide inflation that is now driving the European market into recession and the South Asian market is in the worst position since the Asian flu in 1997. So we are part of an overall international downturn in economic development and economic wealth.

And in New York, we are just getting to the recession, because though the United States is going into our eighth month of declining employment, employment in New York has only been declining for four months. So we are now just getting to the crux of our financial difficulty.

To that end, this is where Crain's, and a number of other journalists who are reporting on these issues, have been so important.

The Center for Excellence in Journalism reported in March that only 28 percent of people nationally, and 30 percent of people in New York, knew that the market was in this much trouble and that the economy is suffering as much as it has.

When I came into office on March 17, the second day that I was in office, I cut \$800 million from the state budget and made a 3.35 percent cut to all agencies.

This was to try to accommodate a circumstance where we felt like our planned spending growth rate of 4.8 to 5.3 percent, which would go over 6 percent after negotiation with the Legislature, was not going withstand the impact on our economy.

We were able to pass our budget—an enacted budget that was less than the proposed budget for just the second time in 30 years—on April 9.

Then we thought we were in the clear, because we received \$1.6 billion in the next economic growth forecast, which came from mergers and acquisitions and land deals and initial public offerings and real estate transfers that came mostly from New York City ending around June of 2007. But this is when the revenues started to fall off the cliff.

That \$1.6 billion, by the July economic forecast—which we didn't know about at the time we passed the budget—we were now in deficit by \$630 million. In other words, during that same period when the budget shortfall skyrocketed, we went from \$1.6 billion over what we had budgeted—in other words, what would have been a cushion for us—we went through it and ended up with a \$630 billion deficit for the rest of this budget year.

That's when I realized something that was advocated by the Center for Excellence in Journalism—that people do not really understand what the economy is.

You don't have to tell a consumer that rising gas prices at the pump are negative. You don't have to tell a homeowner that rising costs for home heating fuel are going to rearrange the family's budget. But the economy itself is an amorphous concept, kind of like Einstein's Theory of Relativity—everyone thinks it's important, but no one can really define it.

Interestingly enough, what the researchers at the Center offered was that when the public becomes informed that the economy is a problem specifically, the public responds very favorably.

This is why I chose to speak to all of the residents of New York on July 31 and paint the picture of our economic downturn for the rest of the year—to let them know that I was going to increase the cuts to state agencies from 3.35 percent to 10 percent in order to close our budget deficit for the rest of this budget year.

What I wanted was for the Legislature to come back to Albany and to cut further, to establish a cushion for us for our October forecast, because the economy is still in a downturn. And happily, the legislators, the advocates, the leaders of the Legislature, and lobbyists in Albany came together and worked out a \$1 billion package that will cut next year's budget deficit from \$6.4 billion to \$5.4 billion and cut our three-year projection from \$26.2 billion to \$24.1 billion.

Now, T. Boone Pickens is wrong. The first billion dollars is the easiest to cut. [Laughter] We are going to get into more difficult areas as time goes on.

But you do have to recognize the spirit of cooperation. Dueling press releases were replaced by negotiation. The legislators did come back in the middle of the summer in an election year, some of them having primaries, many of them having other plans. They truncated that and came back to Albany to work on these issues.

We have even put into play another \$300 million or \$400 million we may be able to address later on, we just didn't have enough time in the special session.

So hats off to Speaker Silver, Majority Leader Skelos, Minority Leader Malcolm Smith and Minority Leader Tedisco, the Assembly Republican leader, for their efforts and the efforts of their members—and advocates who have started to recognize that the economy is in such a severe downturn.

But why did they recognize it? Because now, the Center for Excellence in Journalism reports that 58 percent of New Yorkers know that the economy is in disrepair. So it's actually been the communication and understanding of where this budget is that has put us in the condition that we are in. We are now changing the culture. For the first time in a very long time, Albany attacked the budget deficit, not in a proscribed period of time, but in an emergency, which this certainly is.

Because looking at the economy for the rest of the year, does anybody really think that 25 percent is going to be the reduction in bonuses on Wall Street? I hear estimates of 30, 40, even 50 percent.

Does anyone really believe that capital gains will be down 24 percent? I'm hearing that it will really be 35 to 40 percent. Every time it goes down 10 percent, that's another \$750 million we have to make up on the state's end.

So if they both came in at 40 percent, and we have about a \$500 million cushion, we are going to wind up with a \$620 million deficit for this year, and we're going to wind up there in the middle of October. So this is why I thought it necessary to bring the Legislature back—not only to address the budget issue, but to address the ancillary problem that people did not understand how severe this downturn is.

It's not the mortgage-foreclosure crisis. It's not the unemployment crisis. It's not the lack of federal government reimbursement to the states. It's not the significant problems we're having receiving credit in this country. It's all of the above, and it's a problem that's existing in 25 of the 50 states. There are \$52 billion in deficits from those particular states.

The State of California is struggling for survival, trying to close a \$15.2 billion budget deficit in this year alone. We don't want to end up in that situation, with mass layoffs, with the state workforce projected to be working at minimum wage, with huge taxes levied on citizens who are already overburdened as they are in some of our sister states. We're now the fourth state that has opened up our budget for this year and tried to change it.

So there are severe economic problems that are raging through this country that we are going to have to address. And what we are trying to get everyone to understand is that this isn't fiscal conservatism, this is fiscal reality. This is where we stand right now, and this is what has to be addressed.

And it is most important that we understand that the quicker you address a crisis, the sooner you will recover from it. You get well the same way you got sick. As most homeowners are aware, if \$100 per month was paid directly to principal, it reduces the mortgage from 30 years to 18 years. By going in with real and recurring cuts, as we've done, it will create a multiplier that hopefully we will enhance when we come back to Albany either later this year or next year in order to try to bring ourselves into a new relationship with finance.

The saddest detail of this whole process is that our revenues this year were actually up 8.4 percent, even with these fiscal problems, but our spending is up 10.9 percent. This is why reducing spending has to be the beginning inertia in any workable, sensible and achievable plan to try to restore prosperity in our state.

When we're able to do that, at the same time, we're going to have to invest.

We want to bring jobs into this state in clean, renewable energy.

We want to reignite the engine of our economy by moving into the intellectual capital era, by taking advantage of the fact that there are more colleges and universities here in New York than anywhere else. New York leads the country in importing human capital to attend our institutions of higher learning. But we have not manifested that properly.

The state of California does. The state of Massachusetts does. There are 50 employees of the state who work directly at MIT turning their cutting-edge research into economic development. We can do the same in New York.

And interestingly enough, many companies that have moved jobs overseas have discovered that the energy costs to move supplies back and forth to South Asia and to China are often higher than the savings from having a cheaper workforce. Many of them are starting to relocate. A lumber company came back to Richmond, Virginia. A cement company came back to Dayton, Ohio. And we are competing to bring manufacturing jobs back to New York to replace the 210,000 manufacturing jobs we've lost since the turn of the century.

And so, I want to thank all of you for inviting me this morning to give you an update on where our budget is and what our aims are for the future, as we recognize that we can still grow our economy even in the midst of deficit.

I hope that all of you will work with us, understanding the need right now to cut our spending, and to restore the public trust in our ability to lead and our ability to make decisions that inure to the benefit of our state.

I hope that if we all work together, and take a realistic look at this problem, we will be able to avoid some of the crises we are seeing in the economies of other states.

So thank you very much for having me this morning. It's been a pleasure addressing you.
[Applause]

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