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SPEAKER: NEW YORK GOVERNOR DAVID PATERSON (D)

MODERATOR: SYLVIA SMITH, PRESIDENT, NATIONAL PRESS CLUB

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MS. SMITH: Good afternoon. My name is Sylvia Smith. I'm the Washington editor of the Fort Wayne Journal-Gazette and president of the National Press Club. We're the world's leading professional organization for journalists. And on behalf of our 3,500 members worldwide, I'd like to welcome our speaker and our guests today. I'd also like to welcome those of you who are watching on C-SPAN or listening through XM Satellite Radio.

We are celebrating our 100th anniversary this year, and we have rededicated ourselves to a commitment to the future of journalism through informative programming, journalism education, and fostering a free press worldwide. For more information about the Press Club or to blog about today's event, please visit our website at www.press.org.

We're looking forward to today's speech, and afterward I'll ask as many questions from the audience as time permits. Please hold your

applause during the speech so that we have as much time as possible for as many questions as there are. I'd like to explain that if you do hear applause, it may be from the guests and members of the general public who attend our events, not necessarily from the working press.

I'd now like to introduce our head table guests and ask them to

stand briefly when their names are called. From your right, Greg Mott, finance team editor at Bloomberg News; Marilyn Geewax, economics correspondent for Cox News Service; Douglas Turner, senior correspondent in the Buffalo News Washington bureau; Representative Yvette Clarke, a Democrat of Brooklyn -- welcome; Rick Dunham, the Washington bureau chief for the Houston Chronicle and past president of the National Press Club; Leigh-Taylor Smith, the newly crowned Miss New York and a guest of our speaker; Melissa Charbonneau of CBN and vice chairwoman of the speakers committee. And we'll skip our speaker for just a minute.

Jerry Zremski, Washington bureau chief for the Buffalo News and the organizer of today's luncheon -- thank you, Jerry; Sean Maloney, first deputy secretary to the governor and a guest of the governor; Marc Heller, Washington correspondent for the Watertown Times; Kathy Kiely of USA Today; Cheryl Hampton of National Public Radio; and Keith Hill, editor and writer at BNA and chairman of the Press Club Board of Governors. Welcome to you all. (Applause.)

Given that we don't often invite lieutenant governors to join us at this podium, David Paterson wasn't on our original list of speakers here at the National Press Club for 2008. But all that changed on March 17th when -- well, you know what happened.

You might not have heard much about David Paterson before that, but you've surely heard plenty since. New York's 55th governor became an historic figure the moment he took the oath of office the day that Governor Spitzer resigned. He is the Empire State's first African-American governor and the second legally blind person to lead a state. He finds himself in the office that catapulted two Roosevelts to the presidency, the office that has given the nation such gifted politicians as Nelson Rockefeller and Mario Cuomo.

It's no easy job, especially in times like these. On Tuesday, Paterson delivered an address televised statewide in which he spelled out in plain terms the damage that the financial industry's troubles and the national economic downturn have done to New York. The state faces a deficit of \$26.2 billion over the next three years. Speaking, as he always does, from memory, Paterson said at that speech, "The fact is we confront harsh times. Let me be honest. This situation will get worse before it gets better."

And today Governor Paterson is here to share his thoughts on the economy in more detail, and perhaps discuss how Washington can make things better or worse for his state. We might hear a bit about the Medicaid reimbursement formula that, in Paterson's view, is anachronistic, putting too much burden on the New York taxpayers. And

we might hear about the governor's views on the "Don't worry, be happy" crowd of economists who say the nation is not in recession.

Paterson recently replied to such an optimistic view of -- (audio break) -- "That finally confirmed to me that flying saucers have landed and that people from outer space are in our midst and interfering with policy." (Laughter.) If that seems like a rather, oh, colorful remark, perhaps we should be prepared for more.

While Paterson was largely unknown nationwide before this year, his warmth and wit are legendary in Albany. Replacing a governor who proudly called himself a steamroller, Paterson has brought a new spirit of comity as well as comedy to the New York state capital. In the words of a Republican state legislator, "Paterson has been a breath of fresh air."

But it'll take more than that to lift New York out of recession. And Governor Paterson is here today to tell us more about what it will take.

Ladies and gentlemen, please help me welcome to the podium the governor of New York, David Paterson. (Applause.)

GOV. PATERSON: I 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. I already have him beat. (Laughter.)

And 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 the congresswoman from the borough that I was born in Brooklyn, none other than Congresswoman Yvette Clarke. (Applause.) And my first deputy is here. He's been paid a lot of money, so I don't have to introduce him. (Laughter.)

But there are three agency heads who came down to see me -- Patricia Smith, our commissioner of labor, and Richard Neiman, our superintendent of banking, and Eric Dinallo, who, in addition to being superintendent of insurance, was the only member of the administration that ever spoke to the lieutenant governor until March 17th. Thank you very much. (Laughter.) So I'd like to thank all of them for coming.

And I went to the 35th 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 Castilio (sp), who is a lawyer here in Washington. And I told him I'd be in Washington. I found that 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, there are people who 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. Internationally, the dollar is plummeting. Historic investment houses are teetering on their foundations. And financial fear is widespread and is 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. And we now have, 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. (Scattered applause.) In this crisis -- there's one person that agrees with me. (Laughter.) 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 for 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 is 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 fiercely. 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 that 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 American -- 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.

We -- our consumer protection board in New York is investigating widespread complaints of gouging on prices of gasoline and home heating fuel, and 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 are -- have lengthened the time in which those seniors and

those indigents 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 at times of economic downturns, they become euphemistic with a way to bash the poor, the old, the elderly and the disabled.

But at that 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 that we have 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 (thousand) 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 for college (sic) graduates and 2 percent unemployment 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 unemployment. In New York, we are trying to address that issue, as we know about the loss of financial jobs, particularly in manufacturing. We have lost 194,000 jobs in manufacturing in cities like Buffalo, Syracuse, Rochester, Utica, Lake Placid, Plattsburgh, and Binghamton, an upstate region struggling for survival because of the loss of our 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 that 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 the energy costs of transportation exceed the savings that they got with a cheaper labor. Therefore, many of them now want to come back to the United States. And as long as you all are quiet, we are 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 Chairman Ben Bernanke on July 16th.

And they talked about the many contributors to our sagging economy that he cited, but thought the worst of them all are home foreclosures. And we see in New York that one 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 a 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.

But when we look at legislation, New York in the last couple of weeks has signed into law legislation that will create a new underwriting standard for foreclosures and -- underwriting standard for mortgages.

And 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 buyer has very little chance to ever repay the loan, and now, as a criminal statute in the state of New York.

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

Now, much of the foreclosure process and the subprime mortgage credit woes have severely injured our financial services and insurance industries. From December 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 11th, 2001.

But in the three quarters 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 be falling off by 10 percent at the end of this year, have had to be reevaluated in the last month to 20 percent.

Their capital gains losses, which were estimated at 16 percent just 90 days ago, have now grown to 24 percent. And this is having an immeasurable 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 State is running

deficit for fiscal year 2009 of \$6.4 billion. That has increased by 28 percent just in the time that I've been governor. And although it's felt like a couple of years, it's 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 2007 in June. This June they paid \$5 million. The statistics are staggering. We are not the only state that's 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 further 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 next coming months. But we will try to lower taxes and target investments to ameliorate this crisis. We will lower taxes on property for homeowners that won't affect the economy too much, but will hopefully try to keep a population in New York, and we will additionally lower taxes on businesses to try to reignite the engine of our economy.

Our target investments will be in the areas of clean and renewable energy sources, in the infrastructure of our state, and in education, as we see them as the catalyst 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 authority so that the state can borrow, and public and 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 what will be a national crisis of bankruptcy and perhaps -- 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. And that is only 75 percent of the current project for 2007 of 82.6 billion. Now, by comparison, California, with a \$45.8 billion shortfall that it pays to the government, is \$16.2 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. We do not bequeath (sic) Arizona; we just feel that we are paying taxes and don't get it back at a time when we are requiring needed services.

Let's look at the area of Medicaid, only because I wouldn't call 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 give back the resources by which we could pay our Medicaid costs. And we urge the federal government to take another look at whether or not 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 are able to do it a second time this year. But we think that there needs to be target investments in areas of infrastructure and particularly transportation for many of our states. We need high-speed rail, interconnect 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 and 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.

And as we're speaking about debt, the five largest debtors in this country -- I know we all know then 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 of 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 passengers than Amtrak does in a year. Every 10 days the MTA moves more American travelers than all of 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 from New York.

Now, we are going to possibly, unless we see some change in the federal reimbursement for heating and energy -- and we urge Congress, before they leave, to 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 that New York 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 really this is 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 is how it was 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. The conducted about 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 four to conducting 51 percent of the economic development in this country by the year 1840, and the people moved where the jobs are. The people moved to New York, and the New York population grew to 13 percent of the national average -- of the national population.

All through the 20th century, New York was the leader in economic development and recovery. In 1893 and also in 1907, when bank purges and gold runs put this country in an economic difficulty, it was a New Yorker named J.P. Morgan that helped create a smooth landing. In the beginning of the 20th century when monopolies seemed to put our economic situation in a great downturn, it was Teddy Roosevelt, a New Yorker, who led the country back to a new progressivism. And after 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 systems that we haven't built 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 be ahead 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 will be richly rewarding.

If we work together we can find workable, sensible and achievable ways to get through this period, and it is in that spirit that I thank you so much for inviting me to address you this afternoon. Thank you very much.

(Applause.)

MS. SMITH: Thank you so much, and we have an awful lot of questions here. You obviously incited a lot of curiosity. You're the first governor I've heard who has described a silver cloud in the price of oil. Have you actually seen the return of some manufacturing operations to New York State?

GOV. PATERSON: Well, the price of oil, once it hit \$100, that

was the signal to the industry that the price could continue to go up. Obviously we are suffering from the price of oil and the part of the barrel that's scarce, where we have gasoline and we have -- not to the extent that other states have, but certainly have seen less traveling by motor vehicle. The whole issue with oil are not just the foreign governments that have unstable leadership that threaten the supplies of oil that come to this country, it's the fact that oil itself is depleting as a resource -- not in five years, not in 10 years, not in 20 years, but it is depleting.

For example, the United States produced 9.5 million barrels of oil in 1971, which was the highest point we ever got. Later this year we will go under half of that, or less than 4.7 million barrels of oil per day. And if you think about that, the energy -- return on energy investments was a unit of energy to 30 barrels of oil some 35 years ago. It's now 1 unit per five barrels of oil. That's why the oil companies, with great land masses in this country, want to conduct offshore drilling because we have picked all the low-hanging fruit for oil. Now, I'm not advocating for offshore drilling; I'm just telling

you why they want to move that way. The reason they want more refineries is that the oil that we have now is harder to refine. It's combined with other elements. And it isn't just like -- remember on "The Beverly Hillbillies" when you're "shooting for some food and up from the ground came a bubbling crude?" That show went off and so did that idea. (Laughter, applause.)

MS. SMITH: You did mention, though, that because of the higher price of oil and transportation, some companies that had moved offshore were going to relocate and we shouldn't tell anybody else, but have you actually seen some businesses come back, some manufacturing operations return to New York?

GOV. PATERSON: We've had very few return to New York as yet, but the -- my suggestion is that the increasing costs of energy -- say a lumber company. They take the wood from trees in upstate New York, the transport it to India, then they build things and transport it back. They now have studies that show that because of the transportation costs, they might as well have just paid the workforce a little more and have it done right where the trees are. (Scattered applause.)

MS. SMITH: What is your state doing to decrease our dependence on foreign oil? Is New York investing in wind power, solar power, and natural gas like the country's Western states?

GOV. PATERSON: New York has -- back when I was lieutenant governor, in case anyone cares what I was doing -- (laughter) -- Governor Spitzer assigned me to direct New York State's energy policy, and we are doing a lot for wind and solar power. We are opening up facilities. If you ever come to Tonawanda, right outside Buffalo, they have the wind turbines running right along the highway. They were considered to be kind of a blunt to the aesthetic value, but everybody drives by the highways now just to see them. And we have geothermal power that we're trying. We have underwater power projection right off Roosevelt Island in the East River, which is actually an estuary in New York, and we are very much trying to lure

energy-efficient companies to come to New York.

But let's just remember this: Wind and solar power, along with geothermal and hydropower, what they do is they basically heat nitrogen to a boiling point where it cracks and becomes an energy source. Nitrogen is not an energy source; it's a conductor. The problem with nitrogen is that you can only use it in a small area because you can't ship nitrogen the way you can oil. Nitrogen escapes any container you try to put it in. At the University of California at Berkeley they've got it down to 3.4 percent, but this is still not an economical way to save energy. What we're going to need is to put money in our research institutions, and New York has the largest collection of colleges and universities so that we can increase the efficiency of these alternative, renewable, and clean sources. President Carter warned us about this over 40 years ago. We didn't heed the call, and that's why we're stuck where we are today, racing against time trying to find energy sources to replace coal and oil.

MS. SMITH: As you can imagine, there are a lot of "D" and "R" questions today, but this one is, "Were you referring to a depression or a recession in the country?"

GOV. PATERSON: Well, I'm referring to -- we have a recession in the country that is generally considered by economists to be a way -- I was just suggesting that this may be the most severe economic challenge to America since the Depression, since that time. And let me apprise you of the fact that those who tried to point out that we were going in that direction 18 months to two years before were chided and ridiculed and cajoled. But the point is that in the end, it probably speeded up the time that we were able to respond. Our president, President Herbert Hoover, thought that we should wait and keep checking the numbers, and how did that work out for him? (Laughter.)

MS. SMITH: You recommended an additional federal stimulus package. How does it help New Yorkers if the U.S. government builds up more debt?

GOV. PATERSON: Well, I think this is one of the hard saws for economists to ponder, that in my respects, whenever there is debt, there has to be some reinvestment to reduce the debt. So there are time when perhaps even additional money has to be invested to try to reignite the engine of our economy. Lowering taxes alone will not just bring forth prosperity. There may have to be some -- what I think we need to do, and I'm anticipating that at some point we will get through this crisis -- is to assess how much debt we've allowed ourselves to have in the first place. We turned a \$2.5 trillion surplus into a \$7.5 trillion debt in 48 months in the early part of this century.

We cannot allow government to be that frugal with spending, and the individual who'll spend the money is always talking about lowering taxes and being careful with money.

MS. SMITH: But you also talked about the importance to reduce government spending and reduce personal spending by cutting up credit cards, and you mentioned in your speech several targeted spending

programs that you advocate. But what about cuts? Where will you reduce spending?

GOV. PATERSON: Well, we have a 3.35 reduction to spending in our New York State agencies. Yesterday, I called for another 7 percent reduction in the workforce of the state. We are going to have to look at prize programs in some of our most esoteric areas to cut or our state would then loom on the brink of bankruptcy. This is, as I said, a very difficult step for public servants to take.

I feel as bad as they do, but I think they need to understand that the sooner you address the problem -- if you think that there is discord among the public when you have to reduce the number of jobs the antagonism will be -- will have logarithmic effects if you don't do it and then companies close down, jobs are lost en masse, and then you have a public in a frenzy, and they will be the first to tell government, why didn't you do this before. How many times have you been told to do things by spouses, a member of your -- members of your family and you didn't do it, even though you weren't always asked but people always tell you, why didn't you do this before.

MS. SMITH: So I wonder if you could give us some examples of those esoteric areas that you might recommend to state officials to cut.

GOV. PATERSON: I don't have to tell state officials the areas that we're obviously going to have to cut. They're going to be the areas where we spend a lot of money -- in our educational system, which we desperately need as an investment for our future -- in our healthcare facility, when we have so many people sick in this country and uninsured as has been -- has been the case. Obviously, the employment is an area we're going to wind up cutting services to repair highways and roads could be affected by this. There is no place that we're going to touch that doesn't have adequate value in this country. There are obviously always some areas of budgets that you can go through that you think you can shave off but most of these states have already done that. And as I pointed out earlier, there

are four states that have reopened their budget processes this year -- three, I'm sorry -- and have cut their budgets even further and they're still reeling in debt.

The reason I pointed out what happened in New York, our budget projection was \$5 billion for next year in April -- \$5 billion. Then, because of mergers and acquisitions, initial public offerings, and lands transfers in New York City, we received revenues in -- that we counted in May at \$1.6 billion. So we thought we were in the clear for this year. We have burned up the \$1.6 billion, now have a \$630 million debt that we're going to have to address for the rest of the year. And this isn't coming from state government spending. This is coming from the lower revenues from Wall Street which comprises 10, 20 percent of our resources, and it's happening more so in New York State but it's happening in other states. The federal government has got to step in to this process.

MS. SMITH: Questioner says, New York's industrial base has been gutted. It formed part of the engine that built the state. Do we

need to look at U.S. trade practices to help rebuild that industrial base?

GOV. PATERSON: Well, U.S. trade practice are some of the things that we can actually look at but the quality of life issues cause a lot of people to lose -- to leave the state, and hundreds of companies are out of business, they're going out of business, and the state budgets were wildly out of balance in the late '80s and early '90s when the exodus from the state actually began, and then also our tax policy was an issue. But we are trying to increase our own trade policy with foreign countries and other entities to try to get people to reinvest in New York.

MS. SMITH: The upstate New York economy has been troubled for decades now. How much worse can it get in this recession and how much blame does the state's high-tax environment deserve for the region's lack of growth?

GOV. PATERSON: Asked and answered. (Laughter.)

MS. SMITH: Another questioner says -- (laughter) -- other New York governors have waited until the state's fiscal crises have deepened before acting. What is your -- why is your approach wiser than that of Governors Cuomo or Pataki?

GOV. PATERSON: The governors, I think, honestly had problems addressing the controversy of having to make cuts. It's -- that idea of how lonely it is at the top, I'm beginning to really understand that. (Laughter.) The reality is that sometimes you have to make the difficult decisions because in the end history has proven that there will be more prosperity and it will come sooner if you take those roads. Now, look -- I don't know what -- everything that Governor Cuomo did. I know he was trying. Governor Pataki, he was also trying. Governor Spitzer, he was certainly trying. But there's a new sheriff in town and I'm going to make these cuts as soon as they need to be made. (Applause.)

MS. SMITH: You said education and employment services and infrastructure are on the table. Are there any areas that are not on the table for cuts?

GOV. PATERSON: Well, I would think that it would be more foresighted for those who are going to be in the decision-making process not in to advance of it to tell us what their sacred cows are because we all have our interests, we all have our issues, and we all have our priorities. But what we have to engage in here is not lecturing everyone else on what they shouldn't do but take some self-awareness of the situation and self-examination to determine where we should go.

So as the executive in the state, everything is on the table and the quicker we address this we can get things off of the table. But we all can coalesce in our encourage -- encouraging the federal government to start reinvesting in our states who are hemorrhaged. Half the states are in deficit. You can't say that the leaders of those states are such bad managers. It really is that there will be

more states in deficit. There will be entire regions of this country struggling for survival. There will be millions of people out of work and others denied the ability to come back to work if we don't stop this problem as soon as possible.

MS. SMITH: Questioner says, what does New York need to do to break its economic dependence on Wall Street. What are you planning to do to shelter your state's economy from the next economic downturn?

GOV. PATERSON: Well, I think that what happened, particularly in the '90s where the Dow Jones average quadrupled between June of 2000 and June of 2008 and where there was prosperity and investment, is we got used to the idea that we could run up bills and get bailed out by Wall Street, and it was -- it was having that corporate credit card, so to speak, that the government could run up bills and then the corporations would bail us out because they were doing so well in the financial services area.

What I think we must learn from this in the future is that the Wall Street revenues are a false economy. If they're there, we should save it. We should manage our economy assuming only the threshold of reward from Wall Street and then in that way we will do what New York City under Mayor Bloomberg has done -- that they had a \$6.1 billion surplus. So it is going to take longer for the recession to hit them because even though the recession is eating them up and their resource -- their budget deficit has fallen by a billion dollars in three months, which is what he told the Financial Control Board the other day, they still have a reserve and a -- more than a rainy day fund to hold them at least while they try to make other adjustments, and he's already talking about making them. He's not sitting back waiting for all of the resources to run out.

MS. SMITH: A couple of questions along this line. If New York is in such fiscal crisis, why does it continue to offer the Cadillac of Medicaid programs? Or, as Rush Limbaugh said yesterday, New York's welfare situation -- welfare state is to blame for the state's recession. What would you say to that?

GOV. PATERSON: Well, if Rush Limbaugh said it, then I know it's wrong. (Laughter, applause.) But in my continuing view that we can try to educate even in a financial crisis, we'll send Rush a copy of how the Medicaid formula is reimbursed and how New York gets blamed a lot when actually it gets the least in federal support for Medicaid.

There was -- there are articles that say that Medicaid fraud is one-third in New York. What fraud there is in Medicaid is mostly the providers. An inaccurate statement at a federal hearing in 2001 gets said over and over and over by those who feel that Medicaid is improperly managed. My predecessor, when he was attorney general, used the Martin Act to go after Medicaid fraud. We are going to set up ways to continue to go after Medicaid fraud, because we need every penny.

But one of the problems in New York is that when your manufacturing jobs leave, you do, to give Rush a little credit, have a social service-based economy, because now you have individuals who have gotten older, and their tax dollars provided the broad revenue

base from which there can be derived some claim on to them in their retirement, but we don't have the younger people who are working in New York to provide a new tax base to support them.

So what we actually have is 28 (percent) to 30 percent of college graduates of New York leaving the state for other opportunities. And it is a vicious cycle. What we are trying to do now is use those resources that we have to bring companies back in, to create new jobs, and hopefully in the areas of medical and scientific research, in the areas of information and technology, and making use of our colleges and universities by plugging them in with the state, as MIT does in Massachusetts, to take their cutting-edge ideas and to promote them into economic development.

MS. SMITH: When you meet with the Fed chairman later today, what advice do you plan to give him?

GOV. PATERSON: I am not going to assume that I can give the Fed chair any advice at this particular time. I just want to ask him

where the Fed will go. Of course, we cut interest rates seven times between the spring and now, and it's created inflation that not only is in this country but has gone international.

China, India, Indonesia and Saudi Arabia have 8 to 10 percent inflation. It's 14 percent in Malaysia, 23 percent in Argentina, and 29 percent in Venezuela -- but who cares about Venezuela? -- and nearly 50 percent in a lot of the African countries. But the reality is that there's going to have to be some sort of balance that I hope he will alert me to in which we try, as much as we can, to hold the dollar -- hold prices from inflating, and at the same time not injure the markets, which are struggling for survival.

MS. SMITH: A member of the audience says, "Your rise to the governor's seat is, if anything, an illustration of the fallibility of our public officials. What lessons do you draw about the imperfection of politicians?" (Laughter.)

GOV. PATERSON: Be careful when you come to Washington. (Laughter, applause.)

I think that, in all honesty -- (laughter) -- like I hadn't been before -- (laughter) -- we in public service often talk in absurd extremes, and we arrogate responsibility to ourselves. And in that respect, the public likes that. Public officials are mythological. President Herbert Hoover wore a top hat and used a cane. He never did this before he became president, but this was the austere look that America had, that kind of grandfather presidential look.

And yet our public servants are just like the rest of us in society. We all have our strengths. We all have our weaknesses. We all have our fallibilities. But when we are running for office, we pretend that we don't have them. And so what happens is that it becomes almost sport to see people ascend to high leadership positions and then to tear them down. And so I saved you the trouble. I did it myself. (Laughter.)

MS. SMITH: Good line. (Laughs.) Which vice presidential pick would help Barack Obama win your state? And which would help John McCain win New York?

GOV. PATERSON: The vice presidential pick that Senator Barack Obama would choose that would help him win New York, I think, would be any of about 10 or 15 people whose names I won't bother to run through, starting with our own senator, Hillary Clinton, but also many of the governors. I don't want to get them in any trouble, but Rendell and Warner. There are plenty of people I think could run with Barack Obama and they could win New York.

The candidate that would help John McCain win New York would probably be a resurrection. (Laughter, applause.)

MS. SMITH: I'm speechless. (Laughs.) Moving on, the McCain campaign has been calling the GOP candidate the American president Americans have been waiting for. Some have said this is an implicit attack on Barack Obama's background and his race. What do you think?

GOV. PATERSON: Well, Senator McCain served this country long before he was in public service. He paid almost the ultimate price, being a prisoner of war. He was duly nominated by his party and is certainly a viable candidate for president. And I was impressed with Senator McCain when he spoke at the NAACP convention, because he was the first Republican candidate who I believed when he said he would come and talk to these groups again.

So I don't want to get into the acrimony of the candidates, but certainly words can be used to promote a lot of different philosophies. I would hope that they're just trying to say that he's a candidate who really embodies the feelings of other Americans, which I think has probably been said about other candidates on both sides of the aisle when they faced others. So I don't take much offense to it. But I would suggest to them that if he's the answer to America's problems, then the question must be ridiculous. (Laughter.)

MS. SMITH: We're almost out of time. (Laughs.) But before asking the last question, I have a couple of things to take care of. First, I'd like to inform you of upcoming speakers. On August 4th we have the mayor of Miami, Manny Diaz. He's president of the U.S. Conference of Mayors, and he'll discuss challenges the next president will face in urban areas. August 6th, we have Governor Tim Pawlenty of Minnesota, and his topic will be "Sam's Club Republicans." And October 7th we have Christo and Jeanne-Claude, who are world-renowned contemporary artists.

And I would like to present our speaker with the National Press Club centennial mug with Eric Sevareid.

And then our last question. "Despite hard economic times" -- and obviously this comes from a traveler in the audience -- "Despite hard economic times, New York City hotels haven't lowered their daily rates and are still getting top dollar. Why isn't this sector suffering like the rest of us?"

GOV. PATERSON: Well, surprisingly enough -- and thank you for

this centennial mug with Eric Sevareid's picture on it. I used to watch Eric at the end of the nightly news with Walter Cronkite every night say the same thing over and over. (Laughter.) But New York still derives a lot of its resources from tourism. Thirty-four percent of the revenues that come to Macy's are from tourists, and over 40 percent at Bloomingdale's, two of New York's big shopping centers. We're happy that people still want to come to New York and still want to visit the place. And I guess the hotels have aptly taken advantage of it.

So I would just end with this centennial mug by reminding everyone that this is also the centennial anniversary of the Chicago Cubs. When they won the world championship in baseball in 2008 (sic/means 1908), it featured the famous double-play combination Tinker to Evers to Chance. The interesting thing about Tinker and Evers is that they never spoke to each other. They had a fight about taking a cab from a hotel in Chicago once.

And what I think is interesting about that is something that Americans should understand. We don't always have to like each other. We don't always have to agree with each other. We don't even always have to speak to each other. But if we work together, we can find some ways out of this economy's woes and into prosperity in a lot sooner period than we might have thought.

Thank you very much. (Applause.)

MS. SMITH: Well, we're glad that you spoke to us and we're glad you like us.

GOV. PATERSON: Thank you.

MS. SMITH: I'd like to thank you for coming today, Governor, and to the audience. I'd also like to thank National Press Club staff members Melinda Cooke, Pat Nelson, Jo Anne Booz and Howard Rothman for organizing today's lunch. And thanks to the NPC library for its research.

For more information about the Press Club, visit us at www.press.org. Thank you. We're adjourned.

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