



**Partnership for New York City**

**Testimony to NYS Assembly Ways & Means Committee  
Public Hearing on the Economic Crisis  
By Representatives of the Partnership for New York City**

**Tuesday, October 28, 2008**

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The Partnership for New York City is made up of leaders of business and finance who are committed to maintaining New York's status as the center of international business and finance. We believe that the well-being of America's Main Streets depends on the resurgence of Wall Street - a message that New Yorkers need to carry to Washington, D.C. and the rest of the country. Our membership has included many of the institutions that have been most dramatically damaged by the near collapse of the global financial system - Bear Stearns, Lehman Brothers, AIG, Merrill Lynch, Wachovia and Washington Mutual. It also includes institutions that are working closely with the federal government to restructure the banking and capital market systems in this country and to insure America's recovery - JPMorgan Chase, Bank of New York Mellon, Bank of America, Goldman Sachs, Morgan Stanley, Citi, Deutsche Bank, BlackRock, the New York Stock Exchange and Nasdaq, to name a few. The Partnership and its Investment Fund also include a portfolio of emerging businesses that represent our city's future but are struggling to weather the credit crunch and recession.

Today, our members in the financial sector are scrambling to reinvent themselves, while at the same time mobilizing their resources to help government fend off a possible global economic depression. They are providing input to State officials with respect to the issues being considered by this committee. For those institutions that are working directly on rescue efforts, confidentiality stipulations with federal regulators made it

inappropriate for them to testify at this hearing. But the Committee should know that the talent and financial skills of the world's greatest financial services center are being tapped to help engineer the recovery, reform and restoration of confidence in our system and are available to this Committee. Moreover, we have thousands of financial and technology professionals who are available as a result of industry lay-offs to help design and staff the country's new regulatory and risk management systems. We need to urge the federal government to put this talent to work.

Our testimony reflects general consensus among our members about the issues being addressed in this hearing. We have also brought two young companies that represent New York's future in financial services and renewable energy - companies that were both launched with support from the New York State CAPCO program. They are illustrative of the type of young enterprise that we all have to help through this difficult period.

### **Economic Outlook**

Turning first to the outlook for our economy, the next two or three years will be rough going. The financial services industry will never again look as it did in 2007. We will not see the return of the large, highly leveraged investment banking businesses that generated outsized profits and bonuses. The numbers of people employed in securities will be permanently down, probably by 25-50 percent from a high of 192,000 in 2007.

And it is not just the financial sector that will suffer. Our other core industries - retail and fashion, travel and tourism, and media are just beginning to feel the pain of a global economic downturn. Consumers are not spending, international travelers are staying home, and advertising revenues are drying up. While New York avoided the worst of the housing values crisis, our commercial and residential real estate and construction industries will be hit hard as the falloff in financial services ripples through the economy.

In the past six weeks, we have seen another disturbing trend. Wealthy financial services executives have been the primary source of New York's angel and early stage venture capital, and they are cutting back. As their personal fortunes have diminished, so have commitments to funding the next generation of businesses and jobs. Similarly, the credit crisis is percolating down to small and midsize businesses in all sectors. Lines of credit and business loans are becoming unavailable because of the uncertain prospects for repayment during a recession.

Despite these challenges, our members are generally optimistic about the long-term prospects for New York - assuming all levels of government act in concert with industry leaders to pursue policies that restore consumer and investor confidence and establish a solid platform for economic recovery. The world still looks to Wall Street to

establish market trends. New York's brand as a commercial center is highly respected in emerging economies of Asia and other parts of the world. The tri-state Metropolitan Region has the world's largest aggregation of talent in the financial sector. Assuming we can hold onto that talent during a few lean years, our position as a financial center will remain pre-eminent.

We have many other things going for us:

- Foreign companies continue to prefer New York as the location for their U.S. operations, currently providing one out of twenty jobs in the city and responsible for 15 percent of our economic growth during the past five years.
- New York has more professionals in private equity, hedge funds and asset management than any other city in the world - and these are all sectors where future growth is promising.
- New York has significant opportunities to grow its share of the insurance sector.
- The relocation of the headquarters of newly merged Thomson Reuters to New York sets the stage for a new generation of technology-driven, multi-faceted professional services companies to operate out of this region.
- Major investments by universities, including the expansion of Columbia and the combined efforts of New York University and Polytechnic University to create a world-class engineering school, represent a foundation for New York's emerging leadership in the "innovation economy."
- Finally, while the Partnership focus is on New York City, there are emerging nodes of economic activity in corporate services, bio- and nano-technology, advanced manufacturing and renewable energy across the state that suggest we are finally seeing the sectoral and geographic diversification of the state economy that is essential to future vitality.

### **Impact of Federal Actions**

There is consensus among members of the Partnership that the federal government has been taking actions that are necessary and appropriate in order to stabilize the economy and restore functionality to the financial markets. The measures taken by Treasury and the Fed - investing in banks, consolidating the financial services system, and increasing deposit insurance - are not simply a bailout of Wall Street, but an essential first step in restoring economic security on Main Street.

There is still a need for the federal government to deal with the estimated 10 million homeowners in the country who are stuck in a position with negative equity in their homes and unaffordable mortgage terms. The other immediate need is for a major economic stimulus package, primarily channeled through direct aid to states and localities that are facing huge fiscal deficits. Governor Paterson's efforts to secure federal relief on the Medicaid reimbursement formula is widely supported, as is

funding for high tech and other infrastructure projects that are ready-to-go. Tax rebates to consumers are considered among the least useful federal interventions.

The federal government is also doing a good job of coordinating recovery efforts with the private sector institutions best positioned to help – the largest concentration of which are in New York. Bank of New York Mellon has been selected as the manager and monitor of TARP assets; JPMorgan Chase has been awarded co-management of commercial paper; New York’s legal and accounting firms are providing multiple services to the government; we hope that I.C.E., which operates out of New York, will be awarded the contract to establish the platform for credit default swaps. A number of our minority-owned institutions look forward to participating in the federal recovery efforts that place diversity requirements on contractors.

As the system is restructured, many New York-based institutions are likely to become larger and stronger companies. Even where we are suffering losses, the current process allows New York-based companies to make acquisitions that will ultimately expand their footprint and increase profitability. Even the acquisition of some of our companies by out-of-state and foreign companies is actually maximizing retention of jobs in New York, since there is minimal duplication of functions and coverage within the acquiring banks. So in the long term, the emergency process that the federal government has put in place will provide opportunities for New York to benefit.

On the other hand, the bashing of Wall Street in Congressional Hearings and on the Presidential campaign trail diminishes New York’s political capital in Washington D.C. and in the international marketplace. Lloyd Blankfein, Co-Chairman of the Partnership, has said that the problem we face is not broken companies, but broken confidence in the system. While industry leaders and regulators should acknowledge their mistakes, public attacks on companies or regulators will not solve the problem, but simply perpetuate public disaffection with Washington *and* Wall Street.

There is a danger that, in the zeal for reform, the regulatory pendulum will swing so far that it will cripple U.S.-regulated institutions that must operate in competitive global markets. New York’s state-level regulators have the expertise needed to advise on national reform. The Partnership urges New York’s government leaders to take a prominent role in advocating for a reconstituted regulatory framework that is effective but fair. U.S. regulation needs to be coordinated with world regulators. All entities in financial services, public or private, need to be regulated in a consistent way, in accordance with international standards and regulatory controls that are calibrated to the size of entities and reflect the exposure they present to the system. Equally important, however, is for government to know when to step out of the way and let the private sector assume financial responsibility.

The rapid emergence of London as a world financial center was directly correlated to their national government's commitment to regulatory, immigration, tax and trade policies that reinforce their economic development goals. The national government and regulators of the U.K. are constantly informed by and responsive to competitive pressures on the industry, in part because both government and industry are based in London. New York and Washington D.C., on the other hand, often have been poles apart when it comes to synchronizing their policy interests. The current crisis has established a new level of communication between New York's regulators and industry leaders with federal regulators and Treasury. This interface needs to be extended to Congress and the in-coming Administration and institutionalized in the new regulatory environment. America's future in the capital markets and the global economy depends on it.

### **Policy Recommendations to Ease Effects of the Crisis**

Recovery from a disaster – whether it is natural or manmade – depends on strong leadership that lays out a clear plan and acts on it quickly. For New York, the collapse of the financial markets has been described as a 100-year storm – a disaster, by anyone's standards. New York's economic recovery requires a statewide plan that puts government, industry and labor on the same track to address the fiscal and economic consequences of what is happening and to guide future policy decisions and resource allocations. The Partnership is prepared to assist the Governor and the Legislature in preparing such a plan.

In 2007, the Partnership worked with A.T. Kearney to produce an analysis of NYS economic development programs and the framework for a strategic plan for growing and diversifying the state economy. The report called for a major overhaul of current programs, in favor of more targeted public investment in technology-enabled businesses and regional industry clusters. It also affirmed the need for coordination of state tax, energy and workforce development policies with a comprehensive economic development strategy. Investment in passive programs, like Empire Zones, is largely a waste of limited state resources. Instead, New York needs a more robust and refundable research and development tax credit to offer companies that create new jobs here. It needs a pre-set package of tax and energy benefits that can be marketed to businesses that set up new or expanded operations in the state. It needs a grants program targeted to business-university partnerships that directly connect to strengthening industry clusters, replacing state grants for basic research and stand-alone capital projects. Finally, there is a short-term need to make credit available to small and middle market businesses if federal stimulus efforts do not address this issue. One idea is to reprogram some of the state's loan guarantee authority in the SONYMA insurance fund to co-insure loans and lines of credit that banks provide. With state guarantees, banks and possibly pension funds could immediately extend funding to renewable energy and

other growth sector companies that face the threat of failure if the cut-off of conventional credit continues for more than a few months.

As noted earlier, maintaining New York's status as the center of world finance depends more than anything on keeping top talent in the tri-state region. The immediate challenge is the estimated 40,000 professionals who are suddenly out of work, have lost a significant amount of their net worth, and do not see immediate prospects for re-employment in their industry. The State Department of Labor, New York City, the Partnership and various other groups have begun to discuss coordinated placement strategies aimed at redeploying talent within the region. The state should consider reprogramming or asking for additional federal workforce development funds to support this effort, including not only financial professionals but the support personnel from other sectors who are also affected.

A final message that needs to be made loud and clear is that New York's tax burden on business and individuals is already high and a tax increase at this time would be very destructive to attraction and retention of businesses and high end talent. New York should not forget that the markets are global, trading is done electronically, and that New York must remain competitive. Spending reductions, deferrals and alternate sources of revenue - other than taxes -- need to be the way New York State closes its budget gap for the duration of this crisis.

Glenn Hutchins, one of our Board members, recently observed that the financial system will migrate to where GDP growth is occurring and capital is accumulating. New York must get its house in order to retain and continue to attract companies. This will require tax and regulatory policies that are highly competitive as well as significant investment in technological innovation in the private and public sectors. New York certainly needs to diversify its economy to cushion against downturns in the financial sector, but we can never replace the value that Wall Street brings to this city and state. No other industry could provide the scope and size of value-added services, the tax revenues, or the multiplier impact in other sectors. New York's status as world financial capital is what brings international business and investment here. Our challenge is to convince the rest of America that prosperity on Main Street is only possible if Wall Street continues to flourish. This hearing is an excellent opportunity to start that process.