The Economic Crisis Is Historic, as well as "A Terrible Thing to Waste"

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How long and how deep will this structural recession be?

- Three sources of ***structural*** economic decline: broken financial system, collapsing housing market, wealth destruction and collapsing consumer spending.
- Recession officially started in December 2007; record 2.6 million jobs lost in first year; the pace of layoffs is rising.
- Unemployment will increase to 9% or higher by the end of 2009. U.S. unemployment 11% in 2010 without Stimulus II.
- GDP 4th Q decline 5+%, and GDP is likely to contract further in first 2-3 quarters of 2009.
- Only dramatic national actions will prevent this from being an “L” shaped recession.

Historic financial meltdown and global recession of historic proportions.

- De-regulation and other factors led to an excessive degree of risk and leverage during a housing bubble inflated by questionable lending.
- Utter failure of finance sector-inspired faith in unfettered markets and free trade ideology.
- When the bubble burst, mortgage defaults exposed massive systemic risks created by financial institutions.
- Huge overhang of credit default swaps contributed to bank solvency crisis. Institutions “too big to fail” triggered bailouts, but also credit freeze.
- But we also had a “real economy” where there was no wage growth and excessive reliance on debt.

The galactic cost of finance market rescue.

- On top of the various bailouts in the spring and summer (Bear Stearns, Fannie Mae and Freddie Mac) the Federal Reserve, Treasury, Congress and the President threw trillions of dollars of taxpayer money at the financial markets in a wild and desperate attempt to protect the major banks.

- Never before had such largess been lavished so quickly with so little strategic thought and with such poor results. Nothing was done during this period to address the mortgage foreclosure crisis—one of the root causes of the meltdown.

- In a span of 9 months, the U.S. government committed $7.8 TRILLION in taxpayer dollars for a variety of capital investments, low-interest loans and government guarantees.
- And, none of this seems to be working. Talk of another $1 Trillion for toxic assets, and requiring lending as condition of any further aid.

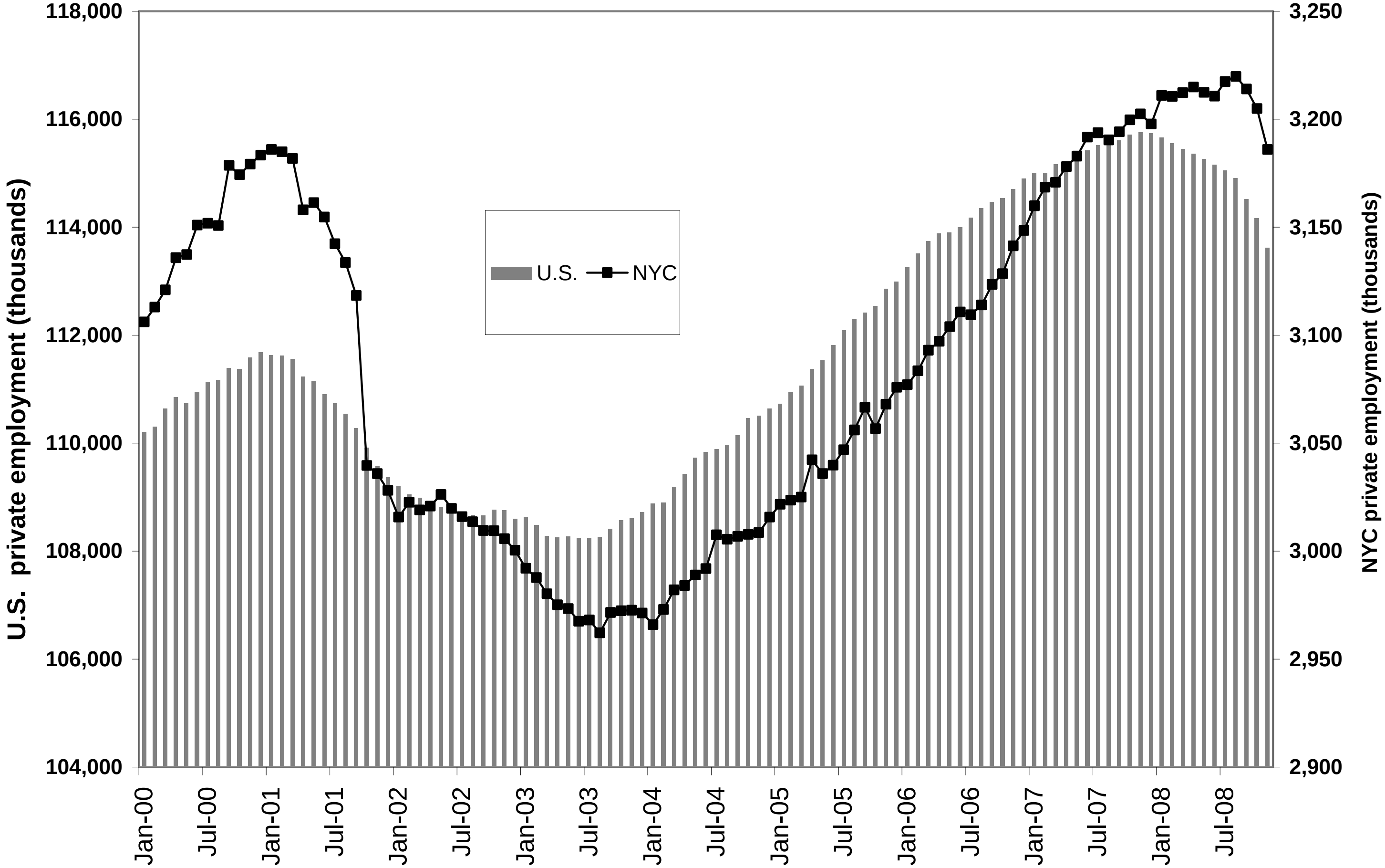
Trillions in home equity and retirement savings destroyed.

- For 1st time since WWII, total homeowners' debt exceeds equity.
- 2.25 million homeowners defaulted on mortgages in 2008.
- 1 in 6 homeowners owe more on their mortgage than their house is now worth.
- The stock market's slide over past 15 months has wiped out $3 Trillion in retirement savings—about 30% of the total.
- Massive wealth reduction will dampen consumer spending for years to come.
- The shift to 401(k) defined contribution plans has exposed millions of workers to stock market losses and heightened retirement ***in***security.

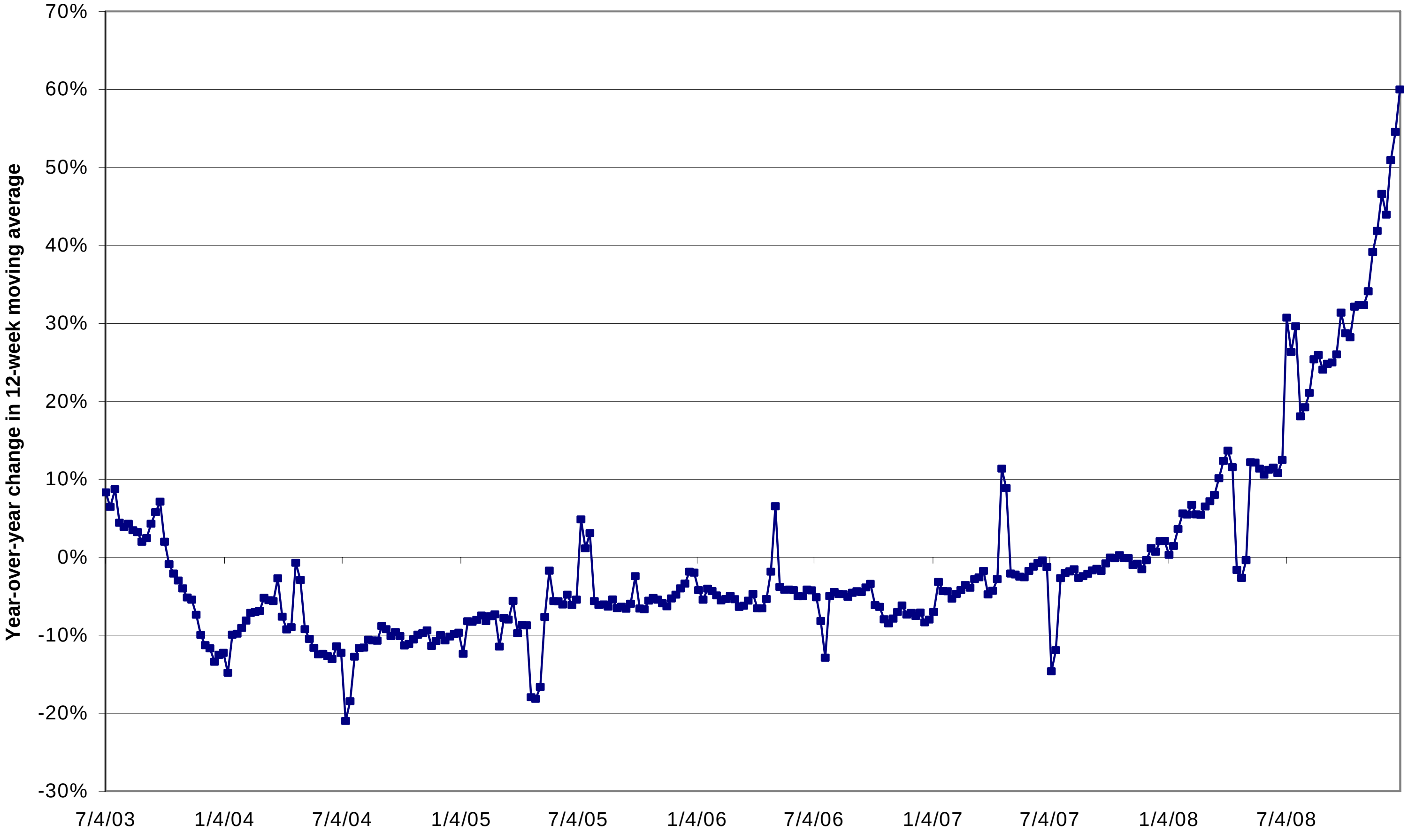
New York lagged the nation in entering the recession, but is catching up quickly.

- NYC lost 33,000 private jobs between Aug. and Nov.
- IBO forecasting loss of 243,000 jobs (6.4%) through the end of 2010.
- Both high wage and low wage jobs will be hit. Huge increase in unemployment among highly educated workers.
- Unemployment claims in NYC up 60% from a year ago.
- NY unemployment rate shot past 6% on its way to 9%; black and Hispanic unemployment rates twice that for whites. Underemployment in double digits. U.S. adult black male unemployment 13.4% in December.
- Many low- and moderate-income people will suffer from foreclosures, job loss, wages that fail to keep up with inflation, and service cuts. Social safety net tattered.

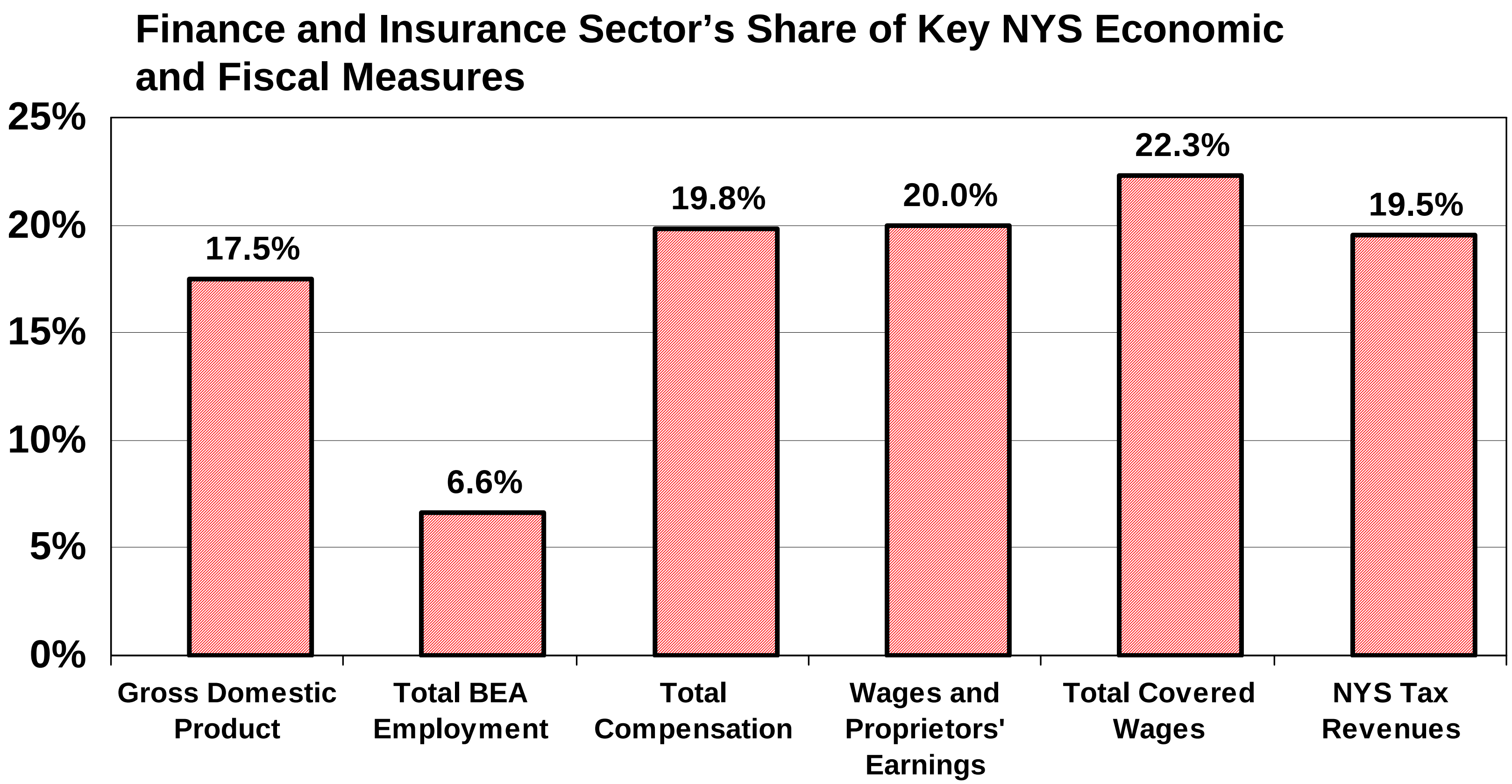
NYC job losses lag the U.S., but catching up.



NYC initial unemployment claims starting to rise sharply . . . up 60% as of Dec. 26.



NY's tax revenues melt in the meltdown producing historic budget gap ($15B—about one-quarter of state funds.)



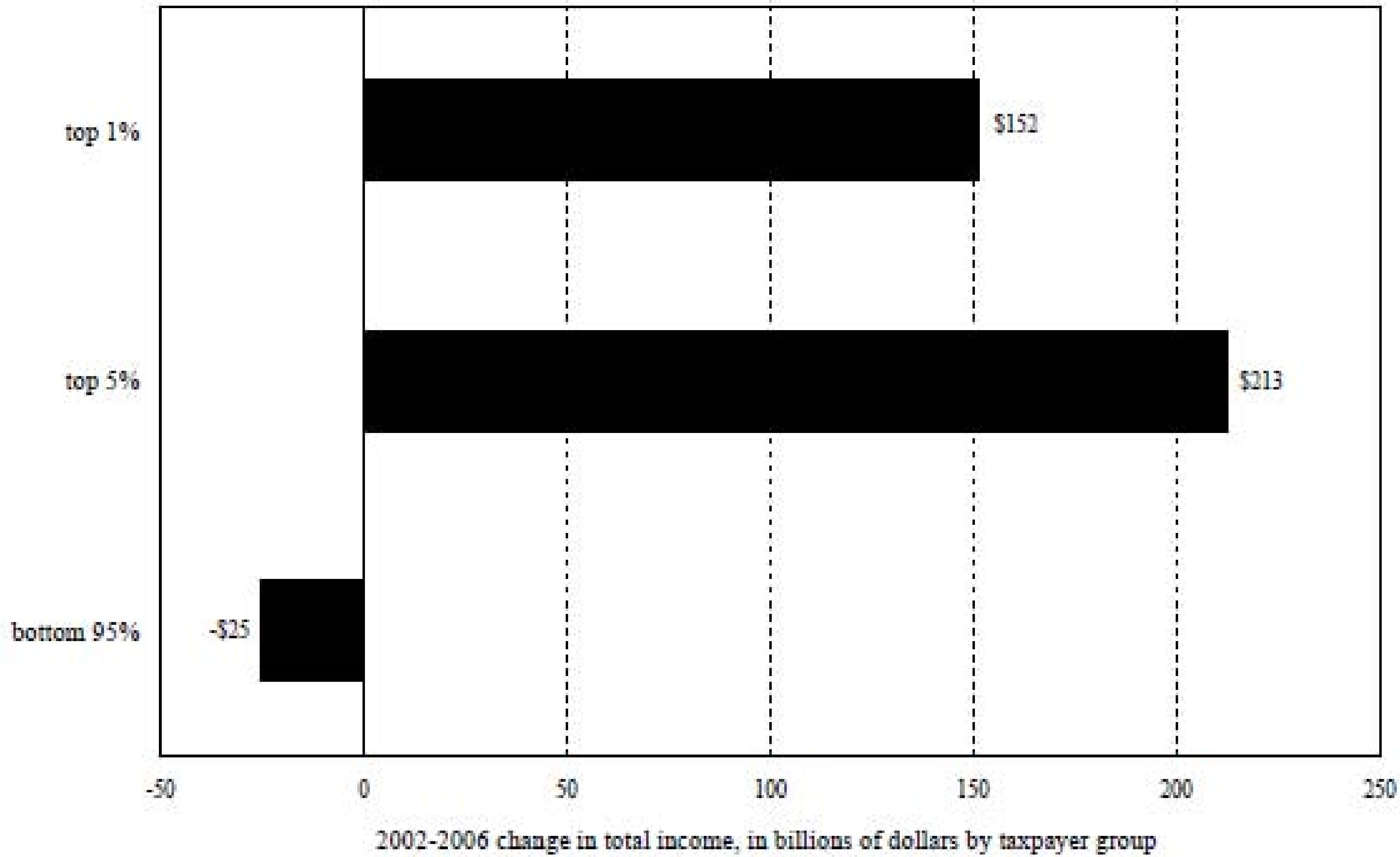
45 states face budget falls with combined gaps through 2011 of $350B

- NYS facing 2-year gap of $15.4 billion.
- 2009-10 gap of $13.7B is ¼ of general funds.
- Steep cuts in health, education, human services and most areas of state expenditure.
- Proposed wage cuts for both state workers and human service workers. New pension tier.
- Higher education tuition hiked and health insurance assessments hiked to close the gap.
- Taxes, fees and revenue increases of $5B, but no progressive income tax increase.

Despite the fact that incomes of the top 5% have soared while the incomes of the other 95% have fallen since 2002, the Governor is not asking the well-off to pay more to avert budget-slashing.

- Governor says the rich will flee although there is absolutely no evidence of that.
- NYS and NYC increased taxes at the top from 2003-2005, and the number of high earners rose rapidly.
- NYS has cut its top tax rate more than in half and several states now have a higher top rate.
- Nobel economist Stiglitz and 120 other NY economists say its economically more harmful to cut government spending affecting low- and moderate-income populations than it is to raise taxes at the top.

From 2002 to 2006, incomes soared for the top 5% of NYS taxpayers while the income of the bottom 95% fell



Restore effective government role in the economy.

- **American Recovery and Reinvestment Plan ($825B, 5% GDP).** More needed than just short-term cyclical stimulus. It includes:
- Substantial state fiscal relief (about $200B)
- Extended unemployment ins. and help with health ins.
- Increased food stamps, heating assistance, SSI, TANF
- Education aid: from preschool to college.
- Green jobs program and alternative energy development.
- Long-term investments in R-and-D and infrastructure, including public housing, transportation, schools, mass transit, national parks, etc.

Important that federal funds be provided in an accountable and targeted way, and that complementary policies be put in place to make sure it works.

- Might include tax cuts although this is a debatable way to provide stimulus.
- Stabilize the housing market. While housing prices have come down 25%, some economists expect another 15% decline. However, falling housing prices will continue to destabilize the finance sector and impede recovery. Legislation is needed to stem foreclosures and force the re-negotiation of mortgages (including forced de-securitization if necessary). Lending institutions should absorb most of the losses; in exchange government should provide loan guarantees.
- Defuse the pressure to limit further federal spending. Can’t let the deficit mongers get in the way of using the federal government to provide sufficient stimulus to kick start a sustainable recovery and address long-standing public investment needs. As a share of GDP, the deficit has been much greater than it is now. Investments will boost long-term growth.

Establish a new economic model: current crisis is a critical opportunity to re-shape the economic debate and the policies of a new Administration.

- Not only did the financial system fail but the underlying economic model collapsed—it had promoted polarization and the middle class squeeze.
- Workers did not share in productivity; this created lop-sided, debt-burdened, and inherently unstable growth.
- We need a new model of public investment-led growth where American workers share in the prosperity they create and do not have to rely on debt to maintain living standards. We need a model that rebuilds the middle class.

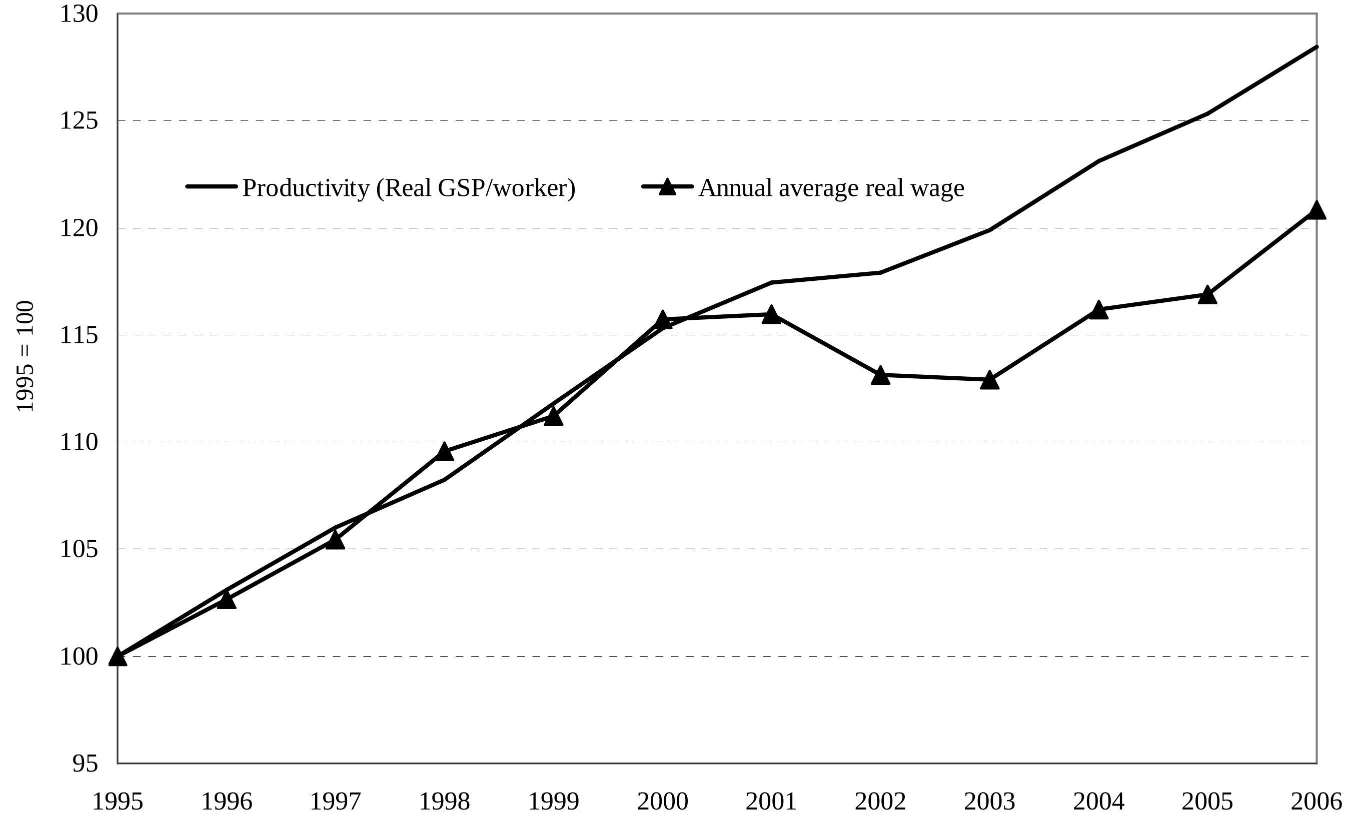
Building blocks for a New Economic Model that creates broadly shared prosperity

- Employee Free Choice Act
- Higher minimum wage
- Labor standards enforcement
- Universal and affordable health care
- Affordable and accessible higher education
- Revitalization of mfg.; revamp auto sector
- Infrastructure moderniza-tion & public investments
- New int'l trading rules
- Green jobs investments
- Real re-training
- Better work supports and Safety Net
- Improved retirement security; nat'l and NYS

Get serious about major NYS economic challenges.

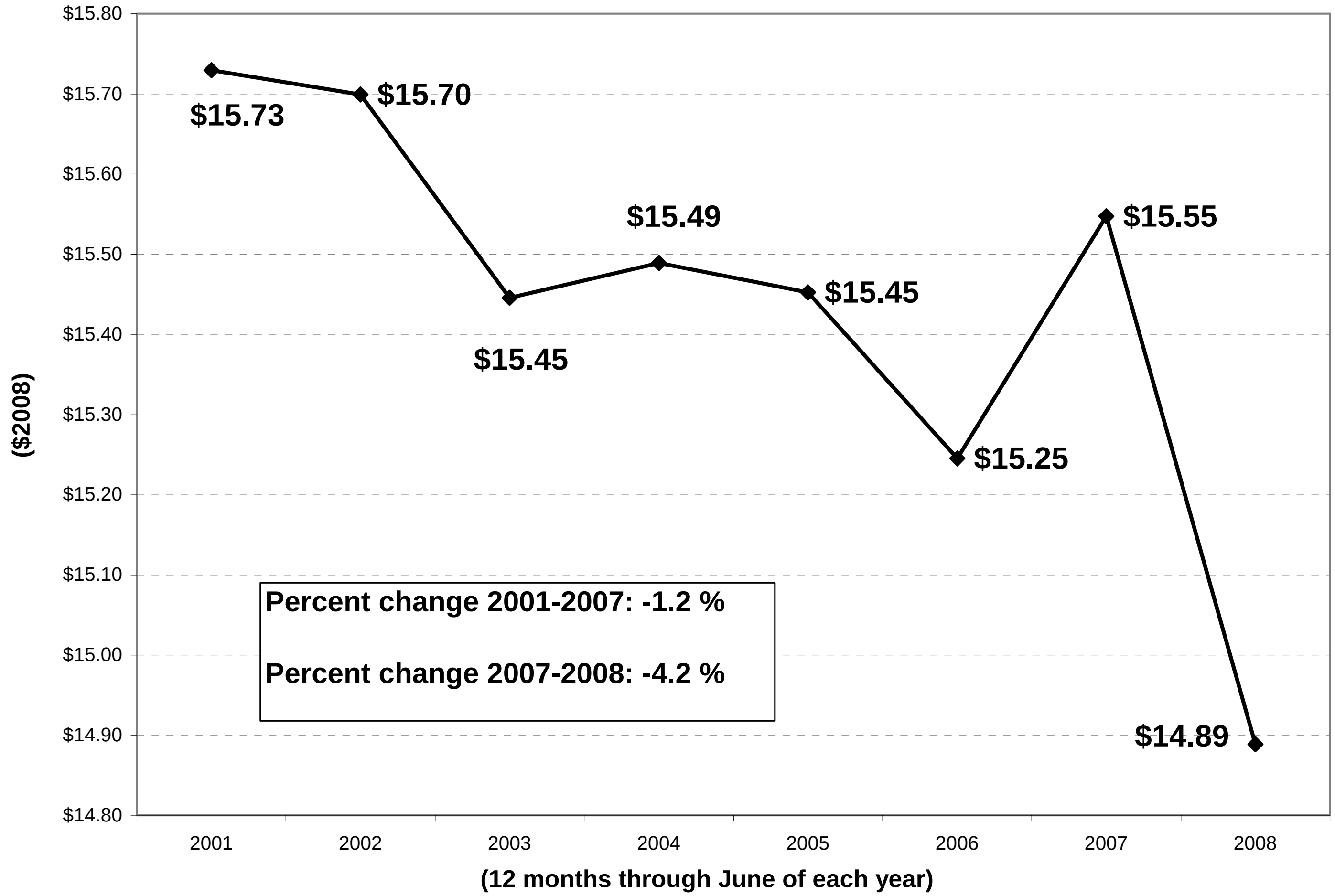
- Income polarization greatest among all states; polarization rooted in labor market. Top 5% take all of the 2002-09 income gains.
- Productivity of NY workers and their average wages both grew 15% in late 1990s. From 2000-2006, output per worker increased 11% while average wages grew only 1%.
- Real median hourly wages in NYC fell by 4% during the expansion from mid-2003 to mid-2008.
- Despite increases in NYS minimum wage in 2005-07, the real value of the NY minimum wage is 16% below it 1970s peak.
- Ranks of working poor grew 75% from early 1990s to mid-2000s.
- Unregulated work is on the rise. FPI: 50,000 NYC construction workers (25% of total) misclassified as independent contractors or employed off-the –books entirely.
- Very low UI recipiency rate (1/3 in NYC) and 25% erosion in value of maximum weekly benefit since 2000. UI trust fund so low NYS has to borrow from the Federal government.

Since 2000, New York real wage growth has lagged the growth in productivity.



Sources: Bureau of Economic Analysis, analysis by FPI.

NYC real median hourly wages didn't rise over the past cycle and dropped sharply over past year.



Need to re-orient NYS economic development

- Between NYS and local bodies (IDAs and NYC), billions of dollars annually spent in the name of economic development with poor results.
- Make good jobs the goal of economic development; add accountability and prevailing wage and living wage standards.
- Promote green jobs development and sustainable development.
- Where NYS invests heavily in new technology, such as the $1 billion AMD facility, taxpayers should get an ownership share.
- NYS needs to work with new Federal administration to re-orient econ. dev. to prioritize investing in workers and in revitalizing manufacturing (still the core of the upstate economy).
- NYS can't have an economy that is globally competitive without a strong manufacturing sector, including auto-related.
- But NYS also needs new national economic policies that will help re-build the middle class and generate sustainable economic growth.

Adjust to a smaller finance sector in New York.

- **50,000 finance jobs or more could be permanently lost.** Big 3 (Goldman, Morgan Stanley, JP MorganChase) now bank holding companies; less leverage possible.
- **Diminished revenue impact.** Will pay little tax next 4 years, tighter regulation will limit excessive risk-taking, profits, bonuses and taxes.
- **Imbalance between finance and the "real" economy will be corrected.** Finance share of corporate profits rose from 10% in 1980 to 40% in 2007.
- **Foreign Policy magazine named NYC the #1 Global City for Business.** New York has many competitive strengths besides finance.
- **Value-added per worker much higher than nat'l avg. in many sectors.**
- **Dense urban areas more environmentally sustainable and efficient.**
- **Market adjustments will occur.** Real estate prices will fall, finance workers will adapt, new companies will start up or come to NY.
- **Smaller finance sector will be good for NYC and the broader economy, and will help moderate income polarization.**

Once-in-a-lifetime opportunity to shift the direction away from polarization and toward an expanded gov't role that creates the basis for shared prosperity.

- Unprecedented downturn; worst since Great Depression.
- Taking an enormous toll in job losses, business failures, foreclosures, and wealth destruction…creating unprecedented hardship and justifiably intense anger.
- But, "a crisis is a terrible thing to waste"—it creates unique opportunities.
- There has been a mainstream shift away from "free markets" in favor of strategic government intervention and investment.
- Opportunity to reverse polarization and lay the basis for broadly shared prosperity—the only hope for sustained and sustainable economic growth.
- Promote government investments in social and physical infrastructure, and effective regulation of finance sector.
- Balance NYS & NYC budgets, in part, through progressive tax changes.

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