

The Economic Club of New York

348th Meeting
88th Year

The Honorable George E. Pataki
Governor of New York

The Honorable Christine Todd Whitman
Governor of New Jersey

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Questioners: Thomas E. Dewey, Jr., Senior Partner
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Introduction

Chairman John M. Hennessy

Welcome to the 348th meeting in the 88th year of the Economic Club of New York. This is our final meeting for the year 1995. And we've had an outstanding group of leaders address the club, the President of Mexico, the Speaker of the House, the Secretary of the Treasury, and the Chairman of the Federal Reserve. Tonight we have a very special program, one with a focus much more close to our own home and our own interests – a double bill, in fact – the Governors of New York and New Jersey.

One of the most exciting developments in the United States today is the rebirth of state governments as the laboratories of change. Much of the drive for innovation, for leaner government, and the focal point in redefining an actual positive role of government and its relationship to the rest of society is at the level of state government. Increasingly, Congress and the public are turning to reform governors for leadership and example. Governor Pataki and Governor Whitman are both at the cutting edge of this drive to reshape government, and we're absolutely delighted to have them both with us here tonight. They tossed a coin. Governor Pataki lost and he's going to speak first. (Laughter)

Our first speaker holds a Gubernatorial Seat occupied in this century by Theodore Roosevelt, Franklin Roosevelt, Thomas Dewey, Averell Harriman, and Nelson Rockefeller. A little over a

year ago, he won by defeating one of the titans of the Democratic Party, three-time governor Mario Cuomo. That victory propelled him immediately to the front ranks of the nation's governors. It also presented him with a formidable pack of troubles that none of his predecessors have ever had to confront in this century, including an often bitterly divided Legislature, a Republican Senate, and a Democratic Assembly, and a \$5 billion budget deficit. He took office just 11 months ago, January 3, promising to slash the growth of government, cut taxes, reform welfare, and restore incentives. In his first year he has managed to trim government, to launch an ambitious program of privatization, and to push through a tax cut that will eventually be worth more than \$3.5 billion. He's also established a special state agency devoted to getting rid of regulations that cost more than they help, taking the remarkable position that if the state is going to regulate, the regulations ought to make a lot of sense.

George Pataki grew up in the Hudson Valley in Peekskill. He graduated from Yale, went on to Columbia Law School, and then practiced law here in New York City with the Blue Ribbon firm of Dewey Ballantine. He returned to Peekskill at age 36 and was elected that city's youngest mayor ever. Two years later, he won re-election by the largest margin in the city's history. And in 1994, excuse me; in 1984 he was elected to the State Assembly where he served with distinction for four terms. In 1992, he won a seat in the State Senate and two years later he became our governor.

Summing up the victory of George Pataki in 1994, coming on top of the election of Rudy

Giuliani, the widely respected Almanac of American Politics declared the New York version of The Welfare State for all of the attractiveness of its champions was repudiated by its citizens.

The Almanac went on to say Governor Pataki has shown competence, aggressiveness, and nerve aplenty, and he bids fair to become the re-definer of the new idea of New York. It gives me great pleasure to present to you, the Governor of New York, the Honorable George Pataki. (Applause)

The Honorable George E. Pataki

Governor of New York

Thank you Jack. Thank you for that introduction and thank you for what you do for the Economic Club of New York and for New York City and State. And Ray Price, Ray, it's good to see you here, the President of the Economic Club, and for your commitment as well. Governor Whitman, I have to thank you. The governor really paved the way for many of the ideas and the programs that we're putting in place in New York and I have to thank her for her leadership and courage in changing the state of New Jersey. That's the good part. The bad part is it makes it harder to keep our companies here because she's doing such a great job in New Jersey. But we're going to win that fight and there are plenty of global companies to go around for both New York and New Jersey.

This is a special place for me. It was November 8 of last year, right here in this hotel, where one night I spent about a week watching TV and looking at the returns and coming down here to the

excitement of an election victory. And it makes me think back that night, on November 8 of 1994, as to the decision making process I went through before deciding to run for governor. And it wasn't an easy one.

As Jack pointed out, I'd held a number of other offices, and in 1992 I went through a very difficult and impossible race and promised my wife when we won that, I'd never run for anything again for six years. Six months later, I was saying, Libby, what do you think, maybe I'll run for governor? And it wasn't, though, a decision that we didn't make without understanding the difficulties and the tough fight we were going to have, and having a very strong motivation for running that race. And the motivation was very simple. It was my belief that this state was, and was continuing to head down the wrong direction, that we were seeing opportunity and confidence in the future of New York State diminish as the years went by, and that we needed very significant change to restore people's faith in this state and optimism about the future.

Let me tell you a little about where we were when I took office on January 1st of 1995. 1994 hadn't been that bad a year. We were 47th of the 50 states in job growth. And I say that because from 1990 to 1994 New York State was 50th, dead last, 50 of the 50 states in new jobs created across the country. The recession had ended in April of 1991 and while we had been hurt very badly by that recession, the rest of the country since the recession had ended, had created over 8 million new jobs. And yet New York State had lost 100,000 more on top of what we had lost during the recession. We lived in a state where one out of eleven New Yorkers was on welfare.

And if that wasn't bad enough, right here in this city, one of seven residents of New York City was on welfare. We had seen 12 years in a row of a decline in the number of manufacturing jobs in the year before – the worst record in the history of this state. And in 1994, according to the U.S. Bureau of Figures, 17% of New Yorkers lived below the poverty level, the highest percentage in the history of this great state. We had things like the Javits Center that was supposed to be a center for economic growth and opportunity, that instead was a profit center for the mob where 65 of the first 100 carpenters who had to be hired on the floor were convicted felons, and yet nothing was being done to change that operation.

And that's where we were from an economic standpoint, but where were we from a state standpoint? As Jack indicated, I took office, I was pretty well prepared and knew the state government very well, but I wasn't prepared for a \$5 billion deficit. And we had a \$5 billion deficit in a state where we were already the highest taxed people in America and in a state that already had the lowest credit rating of any state in America because of the financial gimmicks and deferral of tough decisions of the past.

So that's where we were, and yet I still took office with a tremendous sense of optimism and confidence. I knew we could change this state. I knew we had here in this room and in this city and in this state, the talented men and women who are the investors and the entrepreneurs and the people capable of managing and creating the jobs and the economy of the future. So I knew, all we had to do was put in place policies that would give you the chance to compete fairly and

that we would make this great state what it was supposed to be and what it again will be.

So we started out, and the first task was to, as Jack pointed out, cut state spending. People told me last year when I was running, you couldn't spend less one year in government than you did the year before, and yet this year we adopted a budget for the first time in 52 years that spends less than we did before. And at the same time we closed the budget deficit. We understood that to create the jobs and the confidence in the future, we had to not only hold the line on taxes, but we finally had to cut taxes and we did. We cut the gross receipts tax. We cut the petroleum business tax. We cut the personal income tax over the next three years by a total of at least 25% for 70% of all New Yorkers. We cut the alternate minimum tax. We cut the beer tax and the soda tax and the highway user taxes.

And we finally took a look at the so-called temporary corporate surcharges. And I used to kid during the campaign that temporary taxes in Albany last longer than permanent jobs in the New York. (Laughter) And they did. But this year we cut that so-called temporary surcharge in half and next year it will be gone. It will no longer be on the books, and the temporary tax will have, in fact, vanished. (Applause)

And we took a look at some of the other things like the Javits Center and put in place a great new team headed by Bob Boyle that had the courage to go in there, shut it down, kick out the mob, reorganize it completely. And let me tell you, the results are beginning to come in. The Javits

Center right now is booked solidly through 1996. Its expenses are down in some categories by as much as 40% and it is again becoming that center of economic growth that it was envisioned to be a decade ago and that it will be this year and in the years to come.

And as we not only cut taxes to improve the economic climate, as Jack pointed out, again we looked at the regulatory morass that faced New York City and understood that it wasn't just the taxes; it was the regulations and the quality of life. And we began a case by case review of regulations and began eliminating those that made no sense. And you wouldn't believe the regulations we found on the books. I mean there was one regulation that required every hospital in this state to call in to the Health Department in Albany the number of vacant beds that they had, three times. Not three times a year, not three times a quarter, or three times a month, or three times a week – each hospital had to call in to Albany three times a day saying, you know, we called, we had 27 vacant beds, we still do. It was the most absurd regulation. And we asked the Health Department, why does this idiotic proposal exist on the books? And they said, well, we were concerned that if someone was injured or had an emergency and had to get a hospital bed, that we would know where the vacant beds were. This is in a state where we have 20,000 more hospital beds than we need and where the hospitals are almost as aggressive as some of the negligence lawyers in looking for accident patients to fill their beds. (Laughter) So let me tell you that that regulation and a lot more are no longer on the books.

And we understood too that you don't make economic decisions solely because of the tax burden

or solely because of the regulatory burden but because of the quality of life. And we had a criminal justice system that put the rights of the defendants way ahead of the rights of the decent law-abiding people to walk the streets or play in the parks or send their kids to school in safety. And we changed that, not just the death penalty, but tougher sentences for violent felons, ending parole for repeat violent felons, passing the Megan's Law.

And let me just tell you one other change we made. We had the absurd law, a rule in this state that if you were convicted as a violent felon, a violent felon, you could have a sentence of 18 months in jail. You also could qualify to get out on work release 18 months before your minimum sentence was over. So we had the case where violent felons were convicted and did not serve one day in jail. One of the first things I did on January 2 was sign an executive order ending early release and work release for violent felons. We subsequently got the legislature to enact it into law, and through the first nine months of this year, crime, violent crime by people out on work release in this state is down by 89%.

What we're doing is simply putting in place a common sense approach. We want violent criminals off the street. We want the regulatory burden to have a cost benefit analysis. And we want the tax burden to be one that reasonably reflects the ability of the people to pay that tax burden. And the results are coming in. It's not simply the crime rates that are going down, but I can tell you that corporations like IBM and Kodak and ITT and others have made the decision that this is the place to invest and keep their headquarters and expand and create the

opportunities of the future. And instead of that record, from 1990 to 1994 being dead last of the 50 states in creating new jobs, for the first nine months of this year, New York State has created a net of over 85,000 new private sector jobs and we are growing faster than the national average for the first time in over five years. (Applause)

We also looked to change a failed welfare system. And I've pointed that one in seven residents of this city was on welfare. And there are those critics who are always going to be up there saying you can't require this or you can't require that. Well, let me tell you that changing that welfare system was not simply to save the state money, although it's done it, it was to create a new climate, to break the cycle of dependency where people were discouraged from working and encouraged to stay dependent on the state, not just from month to month but from year to year and generation to generation. We put in place tough fraud measures, tough steps like fingerprinting of welfare recipients. I just met with Mayor Giuliani last week and they have now reached a point where with these tough anti-fraud measures more than 60% of all applicants for home relief are rejected by the city of New York.

We put in place programs like Mandatory Workfare for the able-bodied to require the able-bodied to go out and help us in the parks and to help us in the libraries and to help us clean the streets and to make the city and state a better place. Again, not to punish or penalize those trapped on welfare, but to allow them to develop a sense of pride and self-worth and the skills that come from going out and working and earning a check and being a contributing member of

society instead of someone dependent from year to year on the government. And right now, more than 25,000 New Yorkers, able-bodied welfare recipients, are out there working developing those skills, and the Home Relief rolls in this state are down by almost 20% since this January.

And we are looking, as we work to make this great city and state a better place, not simply to make the Javits Center work, not simply to allow the large corporations to have confidence in the future, but to make every single neighborhood of this city and state a better place. We took the Harlem Urban Development Corporation, a monument to the politics of the past, an organization that had spent over \$100 million in the last ten years with virtually no results, and abolished it, and put in place a new organization that is going to have the full \$100 million that this governor commits to put into the Harlem South Bronx Empowerment Zone. They're going to be using it for things like entrepreneurial assistance programs for the small businesses in Harlem and the South Bronx to allow the talent and the energy in those communities to create jobs in the neighborhoods instead of building monuments to the politicians of the past.

So it has been an up and down first year. It has been in many ways a very difficult year, but in many ways a very rewarding year because I can sense as I go around the state time and again that we are instilling a new sense of confidence in the future of this state. That you, and the people of this city and state understand that when we talk about these tax cuts we're going to continue them, not just this year, but next year and the year after that because that's what we need to again make this great state what it is. And we're working with Governor Whitman and Lou Eisenberg

on the Port Authority so that we can start privatizing things. And with the leadership of Governor Whitman, the Port Authority earlier this year has committed to selling the Vista Hotel which will net the Port Authority over \$140 million from an operation that it shouldn't have been in in the first place. And we're going to continue to look at things like privatizing the World Trade Center Towers and the Long Island Freight Railroad and other things that do not belong as a part of government. And I have to thank Jack Hennessy for that because I created a Privatization Committee chaired by Ron Lauter and Jack is the Vice-Chair of that. And Jack, thank you. And just a point on privatization, the estimation is that with state and local governments across this country, there are assets like the Vista Hotel and like freight railroads and like office complexes leased to the private sector amounting to more than a quarter of a trillion dollars that can be un-leased to help us do the appropriate job of government, and not things that have grown without appropriate thought in the past.

So I said I took office on January 1 of 1995 with a tremendous sense of optimism about the future notwithstanding the difficult challenges we faced. I have to tell you that I'm even more optimistic now because we do see the results of these first nine months of changes. We do see a sense of confidence in the future. We still have, in this great city, the men and women who are the best anywhere, who have that work ethic and the drive and the, not just willingness to compete, but the desire to compete and excel and to make their companies and their communities and this state the best it is.

We still have immigrants coming to this city from places, new places like the Dominican Republic and Korea and Greece and Haiti who have that same drive that my grandparents had to get a job and to work and to build a better life for themselves and their children and to share in this great American experiment and the great American Dream. All we have to do, as I said in the beginning, is put in place the policies at the state level that will allow you and the talented men and women of New York to compete fairly. We're doing it, and because of that talent, I'm extremely optimistic. This great state again is going to become the Empire State. Thank you very much for being here. And Jack, I look forward to the question and answer period. (Applause)

Chairman John M. Hennessy: Our next speaker stunned the nation with her near-upset of Senator Bill Bradley in the 1990 U.S. Senate race in New Jersey. Three years later she ran again, challenging incumbent-Governor Jim Florio. This time she won and soared immediately to national stardom. Christine Todd Whitman grew up in a political family. Her mother was Vice-Chairman of the Republican National Committee. Her father was New Jersey State Republican Chairman as well as a very successful business contractor. In fact, one of his major projects was Rockefeller Center. Christie attended her first Republican National Convention at the ripe old age of 9. So when she entered public life it wasn't exactly as a newcomer.

Her first run for office was in 1982 when she won a seat on the Somerset County Board of Chosen Freeholders. Later Governor Tom Kean named her President of the New Jersey Board of Public Utilities. She distinguished herself in both posts, but wasn't widely known until her daring

challenge in 1990 to Bill Bradley. But she did bring a freshness and a directness that clearly registered with the public as did her determination to make government leaner and more responsive.

When she ran for Governor, critics scoffed. I'm sure all of you read the headlines in some of our more esteemed newspapers here that scoffed at her promise to enact a phased-in 30% tax cut. But guess what? After she won, she actually did it and she completed it this past July – one year ahead of schedule. (Applause)

Having promised to make New Jersey a more business-friendly state, she's also achieved a roll-back of the corporate surtax, lowered the corporate tax rate for small businesses, and made a major move towards Tort reform. She is the 50th Governor of New Jersey but the first woman ever to hold that office, and in January she was the first governor, male or female ever chosen to give the formal response to a President's State of the Union Address. Newsweek has tabbed her as one of the nation's most influential Republicans along with Newt Gingrich, Bob Dole, and Rush Limbaugh. (Laughter) Sorry about that.

It's a very special pleasure to present the Governor of New Jersey, the Honorable Christine Todd Whitman. (Applause)

The Honorable Christine Todd Whitman

Governor of New Jersey

Good evening. I told Jack, I'm not so sure I should thank him for that introduction or not, but it certainly was novel. Certainly when you hear George Pataki speak and then you hear me speak, you're going to hear something that sounds like echoes because he and I share so much of the same philosophy as to what we believe should be happening for the people of our states.

So tonight I'd like to do it just a little bit differently – rather than to go through the areas where we share a philosophy and the kinds of initiatives that we've undertaken in New Jersey to meet those – to speak about an issue that I believe is absolutely critical to the future of our country. That's the relationship between the government and the governed. I'm referring specifically to the extent in which the public sector has been consistently cast in a confrontational stance versus the private sector, especially business. I'm concerned that this growing trend is rapidly destroying our ability to meet the challenges that our society faces.

There's a tendency, it's not new but it has recently reached new heights, to view the relationship between government and business as a zero sum game in which for every winner, there must be a loser, for every proposal for change is seen as a threat to one constituency or another. Every discussion quickly becomes a battle of wills instead of a mutual search for a better way to do things.

Now I know that much of life is a zero sum game in business and in politics. But quite frankly the problems that this country faces are too great, too complicated, too pervasive, too important to be approached as if there can only be winners and losers. If we don't solve them, we all will be losers. The confrontation bred by zero sum thinking is breaking down our ability to reach responsible balance among the competing demands of our complex society. I believe we have to forge a new common sense approach, and this belief underlines what we're doing in my administration in New Jersey. It includes the most radical idea that leaders in government and in business have to start looking at each other, not as implacable adversaries but as pragmatic allies.

Allow me to illustrate this with a couple of things that we have done in New Jersey. There are a few areas of public policy today that generate as much confrontation between business and government as environmental policy. My state has a long record of enacting and enforcing some of the most rigorous environmental laws in the nation. In many respects we have no choice. We're the most densely populated state in the nation. Industrial parks and children's playgrounds often sit side by side. Our state is rich in natural beauty. And we're determined to preserve that for our children and for our grandchildren. Charged with that effort of preservation is our Department of Environmental Protection. In the past, the DEP has staked out a reputation as a champion of nature, but it also became known as a sworn enemy of business.

Let me just give you an example. Manufacturing companies were routinely required to fill out hundreds of different environmental permits regulating every single process that they incurred in

the course of producing their product. And there was little effort by government to make that process any easier at any time down the road. We're trying to change that. We're replacing all those scores of permits with a single permit, a single facility-wide permit, while ensuring the same level of environmental protection without the paperwork that we are used to putting companies through. We're proving that you can create jobs and protect the planet.

Later this month I'm going to visit two manufacturing sites in New Jersey to present them with their new facility-wide permits. Because of our efforts to streamline the process without compromising protection, these companies have already invested millions of dollars in new plant equipment and retained hundreds of jobs in New Jersey that we might very well otherwise have lost to other areas of the country – New York among them. By forging a cooperative relationship with these companies without compromising our environmental standards, we turned what has long been a zero sum game into a win-win situation for everyone impacted by it.

We've not, of course, invented this approach all by ourselves. New Jersey, and in fact it's a symmetry that students of New Jersey history will appreciate, has looked to the Dutch model as an example of how to balance our concerns for the environment with our commitment for economic growth. There are some very interesting parallels between New Jersey and The Netherlands. We have the same high population density and all the problems that go with that. Our economies are strikingly similar. In both The Netherlands and New Jersey, chemical companies are one of the leading industries, and we both maintain leading port facilities.

Perhaps not surprisingly, we also share some environmental and health problems. For instance, The Netherlands leads Western Europe in soil contamination just as New Jersey has the dubious distinction of leading the United States in hazardous waste sites. We also have serious air and water pollution challenges. And while we're not identical, we have learned a lot from The Netherlands model that's embodied in their national environment policy plan.

What really has impressed me was not so much the crisis that Holland faced but the way they went about solving it, the way they went about managing it which was the best for everyone. It focuses, their approach focuses on consensus building. It relies on long-term planning not tied to political cycles. It involves everyone – government, business, and citizens. And it's based on honest, independent measurements. We need to follow that example and not just in environmental policy areas. We need to follow it across the board in everything we do.

Let's look at the ongoing debate of our tax code. Government, through its taxing policy has often looked on taxpayers, both individuals and corporations as cows to be milked. Well, as someone who grew up on a farm, I know very well if you try to milk the cow too often, she goes dry. The clearest example of what happened to New Jersey's economy when you apply that philosophy to it was following the largest tax hike in our history.

In 1990, the government, the Governor and the Legislature enacted this record tax hike expecting only that revenues would flow into the State Treasury. They did not expect, although they soon

discovered that what really flowed was jobs out of the state of New Jersey. That's why I made tax cuts a centerpiece of my campaign. I knew that we had no hope of regaining the upward economic momentum if we did not make it clear that New Jersey was open for business. And being open for business included getting rid of our burdensome tax rates, the tax rates that we were imposing both on individuals and on corporations. That approach has worked as the over 114,000 newly employed New Jerseyans will testify. Having faith that the people and businesses were going to keep their dollars in New Jersey was a very good bet on our part.

But in reducing tax rates and reducing the confrontational stand between Trenton and the taxpayer, we've also sought to create and promote better cooperation among the public, the private, and non-profit sectors to address the problems confronting our state. In our urban centers, for instance, we're forging partnerships with businesses, non-profits, and the neighborhoods themselves to encourage and achieve a real revitalization. We're changing the approach of the past. We are ending the days of pumping millions and millions of dollars into cities with government calling all the shots from some remote location, in our instance, Trenton. Let's face it, if that policy had led to Nirvana, and we've seen it replicated all across this nation, we would have been there long since. And I don't think anyone who would honestly look at the situation of our cities would tell you that we're there.

By implementing this new approach, we hope to use the benefits of cooperation to achieve what confrontation between the tax collector and the taxpayer has not achieved. And I'm pleased to

say that we're seeing some successes. Just last Friday, for example, I visited and was privileged to give out some diplomas at a program that we've implemented to help people who are interested in opening their own businesses in our urban centers. The program is called, The Enterprise Training Institute, and it gives budding entrepreneurs in cities like Newark, Camden, and some of our others, the important advice and information that they need in order to succeed – not just to start a business, but to make it work and succeed. It includes the participation of some of New Jersey's finest financial institutions. This sort of approach, a working partnership with business – in this instance, banks – to bring economic growth to our cities is far better than trying to beat business over the head to participate. Ultimately it's going to benefit everyone involved – those who live there, those who work there, and those who invest in our cities.

Before I conclude and we take questions, there's one more issue and I believe that it's of paramount importance, that I'd like to discuss. The changing and challenges facing the states as the Federal government converts hundreds of social welfare programs into far fewer block grants that go back to the states, this revolutionary challenge carries enormous potential for Titanic clashes between interest groups served by the current system. If not managed carefully, very carefully, we will witness a battle royale in which there will be big winners but also equally big losers. I believe very strongly that if all concerned parties approach this as a zero sum game, our efforts to move power away from Washington back to the states will fail. In addition, we risk undoing much of the progress that we've made in building the consensus that certain societal needs require societal commitment. You notice that I say societal, not government, because we

can't expect government alone to bear the full burden of improving our society.

State governments must use this change as an opportunity, not an excuse. We must take advantage of what is probably our best chance ever to redefine our goals and the means we use to achieve them. If we simply sit back and try to fit the current structure into a smaller box, everyone is going to get squeezed. In New Jersey, I've charged my Cabinet to prepare for the coming revolution by involving all the affected parties now at the onset. All the members of my Cabinet are working to achieve cooperation among their constituencies by making clear that we view this change as an opportunity to be embraced, not a disaster to be survived. I believe that we can create a host of winners in this process.

Those who these programs serve can be winners because we will be forced to take a fresh look at their needs and develop better ways to meet those needs. Those who deliver the services can be winners because they will be unshackled from the policies of the past to create more efficient, more productive methods to reach those who really need their services. And those who pay for these programs, the taxpayers, can be winners because every efficiency we find will diminish the pressure for ever-escalating tax increases.

Ladies and gentlemen, one of my predecessors as governor, who went on to serve as the 28th President of the United States, said the highest and best form of efficiency is the spontaneous cooperation of a free people. I believe Woodrow Wilson was right. We need to move away from

the era of confrontation that has been the hallmark of government. We need to move toward a new era of cooperation between government and all the people, all the constituencies, that it serves. We need to work together to implement the long-term, lasting changes that events and the tide of history are forcing upon us. If we can do that, we will be able to say that we faced the challenge, embraced the opportunity, and led the way for a better future for all our people. It's just common sense. Thank you very much. (Applause)

QUESTION AND ANSWER PERIOD

CHAIRMAN JOHN M. HENNESSY: I think now we've seen exactly what we mean by the laboratories of change with the freshness of thought after hearing our two thinkers tonight, our two speakers tonight. We now turn to the formal questioning period. Tom Dewey, Senior Partner at McFarland and Dewey will begin, and then be followed by Richard Ravitch, the Chairman of Aquarius Management. Tom, do you want to start off?

THOMAS E. DEWEY, JR.: Thank you Jack. Yes, my first question is for Governor Pataki and it may seem parochial after the rather broad-gauged speeches we've had. But one of the concerns that a lot of us have here in New York, especially in New York City, is that after the, I think well-intentioned and intelligent, measures last year to put most of the Medicaid recipients into managed care, we've now come up against the Congressional budget this year which of course is going to be vetoed. But on the other hand the effect, if anything like that goes into effect, on

hospitals and other health care institutions in New York State, especially the city, is going to be absolutely devastating. We've seen numbers which would imply that virtually every major hospital in New York would have to close its doors under these numbers over the seven-year period in which the budget is supposed to be balanced. We're talking about staggering numbers, not only for the Medicaid and Medicare programs, but also because we will be punished because we train so many of the nation's doctors. I wondered what the state administration thought about that and what if anything it's doing.

THE HONORABLE GEORGE E. PATAKI: Well, Tom, thank you. It's not a parochial question at all. It's a very important question to all New Yorkers – what we're doing about the changes in Medicaid and Medicare proposed in Washington. Let me comment in broad terms about what they're proposing down there on welfare, Medicaid, and Medicare. There are three basic elements. The first is to go from an entitlement program to a block grant program giving the states the authority to tailor the programs. The second is to put in place a balanced budget over seven years. And the third is to allocate the funds within that balanced budget formula among the states. The first, on the question of going from entitlements to block grants, I think, I support, I know I support very strongly. We want to put in place programs, whether it's on Medicaid or welfare, that meet the needs of New Yorkers and not necessarily those of people from Iowa or South Dakota or Texas. And you mentioned managed care, we are moving towards managed care in this state because we think it will help the delivery of health care to low income New Yorkers that shouldn't have to wait in an overcrowded emergency room. They should have a

choice of options from networks based in the community where they become consumers instead of dependent. But we can't do that, unless we get a waiver out of Washington to allow us to go to managed care, and so far they have not given it to us. Notwithstanding the fact that as we move voluntarily towards managed care, we have stopped the process whenever there was the slightest hint of abuse or inadequate service to low income New Yorkers. On the question of block grants, we want that authority and devolution of the ability to tailor the programs to the states. The second element is the balancing of the budget over seven years. I think we're all better off if that happens – if the Federal government finally gets its fiscal house in order, and apparently Congress and the President have agreed that that is the appropriate step to do. And what they are looking to do is among their priorities is to allocate funds to the states for these programs. I think the Medicaid allocation is too low. I think it's going to have a very direct and negative impact on our ability to deliver health care and to balance the budgets in New York State. And I think it should be changed. But more importantly, the third element in allocating those funds has become a formula fight between states in the northeast like Governor Whitman and myself here in New Jersey and New York and states that are so-called growth states like Texas and Utah and California. And Governor Whitman and I have been down to Washington time and again fighting for the northeast against some of these other states, and at the present time I am extremely unsatisfied with the formula that has been reached. Not only are we going to be limited to the funds contained in the budget resolution to balance the Federal budget, but from New York State's parochial standpoint, over that seven-year period, we will get \$7 billion less than we would have under the existing formula. And that money is not going to go to balance the

Federal budget; it's going to go to states like Texas and Utah. So I've been down there time and again meeting with the Congressional leadership, meeting with the Administration, Secretary Shalala and others, making the case for New York. We will continue to make that case. But I have to point out one thing, that even if we are successful in that fight, and we don't know at this point, we have got to change New York's Medicaid system. Our costs are totally out of line with respect to the rest of the country. I go down there and I sit across the table from Governor Pete Wilson from California and he says to me, how can you justify the fact that your Medicaid program costs three times as much per recipient as mine in the state of California? And I give him the logic, that it is a higher cost place in New York and we do have a more elderly population and an immigrant population, and unique circumstances like AIDS where we have a commitment to be compassionate and care for people. But ultimately, the facts are we cannot justify a system that is three times as expensive per recipient as other states. So we are going to continue the fight in Washington to try to get an allocation that fairly recognizes those cost needs of the northeast, and particularly New York. But at the same time we're going to continue to move to change our system so that we can become competitive and lower the costs.

RICHARD RAVITCH: Governor Whitman, you articulated very well the challenge that you face because of the devolution of the Federal government of a lot of social programs to the states. In a sense the same thing has happened in your state, that you reduced income taxes and reduced state aid to education.....(AUDIO ENDS ABRUPTLY)