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Program

GUEST OF HONOR

THE HONORABLE MICHAEL R. BLOOMBERG

Mayor of New York City

WITH REMARKS BY:

STUART FRASER

Policy Chairman, City of London

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QUESTIONERS

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Introductions

GLENN HUBBARD: Good afternoon everyone. Welcome. It's my pleasure to welcome you to this 402nd meeting of the Economic Club of New York in our 102nd year. I'm Glenn Hubbard, the Chairman of the club. The Economic Club of New York is the nation's leading nonpartisan forum. More than a thousand speakers have appeared before the club in the past century—their names are listed in the program—giving the club really a great sense of stature to hear from people who have things to say on the economy and the broader world. I'd also like to recognize members of the club's Centennial Society. Several dedicated club members had sparked the formation of the society in order to insure the long term financial stability of the club as a premier speaking forum. Thus far, about a 110 members have made a personal contribution to the Centennial Fund and are being honored as members of the Centennial Society.

We're honored today to hear first from Michael Bloomberg, the 108th Mayor of our great city. He was elected to office in 2001 and reelected in 2005 with a great coalition of support. His time in office has seen a reduction in crime in New York, an economic renaissance, a boom in affordable housing and an ambitious public health agenda. He's also gained control of the nation's largest school district. He's now, of course, as are we all, dealing with the fallout from the world economic crisis and will tell us about implications for our city. For those who worry that recessions are times to cry in one's beer, don't think that way. Michael Bloomberg began a small startup company in a recession in 1981 called Bloomberg LP. Today Bloomberg has over 250,000 subscribers to its financial news and information services. Headquartered here in New York, it has 9,500 employees in a 130 cities around the world.

When the Mayor finishes his remarks, we will then hear from our second speaker, Stuart Fraser, who is the Chairman of the committee that sets strategy and decides policy for the City of London. He's also a Corporate Director and someone with a very long and distinguished background in financial services. Mr. Fraser and Mr. Bloomberg have been working on several initiatives to keep New York and London and London and New York, just so I say them in both orders, as the world's financial capitals.

After their remarks, as is our custom, two designated club members will ask questions. Mayor Bloomberg, the floor is yours.

MICHAEL BLOOMBERG: Glenn, thank you and good afternoon to everyone. It's wonderful to join you all here today to help welcome Stuart Fraser to New York City. When I was in the UK last October, Stuart graciously nominated me for an incredible honor, the freedom of the City of London. Now you should know it is very similar to a key to the city, which I've never given him, except that it also comes with some little known privileges that stretch back to when the honor was first given in the 1200s. For instance—eat your heart out—I now have the right to drive sheep and cattle over London bridge and also the right to carry a sword in public. And if the police happen to arrest me for being disorderly, I also have the right to be sent home in a carriage rather than thrown into a cell. Stuart, I plan to put those rights to the test on my next trip to London and see if that's really true.

Anyway, my visit to London last October was an opportunity to meet with financial executives in the immediate aftermath of the collapse of Lehman Brothers as well as government leaders like Stuart. As the world's leading financial capitals, both London and New York are often in competition with each other, it might be easy to think that when London stumbles, New York profits or vice versa, but the reality is that both rise and fall the same amount when the economy changes, and we really do have a lot to gain by working together, and I think that's especially true right now because the global recession has hit both our cities very hard as you well know. In the past two years, firms on Wall Street have reported losses of more than $54 billion and may eventually lay off up to one-quarter of their workforce. While the financial services sector directly employs only about 9% of our city's private sector, it accounts for more than one-third of its payroll, and that money, of course, supports working class jobs in every industry in every borough. So the financial crisis is having an impact in every neighborhood. Small businesses are struggling to keep their doors opened, families are worried about keeping their homes and holding onto their jobs. In January alone the number of employed New Yorkers fell by 36,000. That was the biggest one month drop since 1976.

Now obviously we can't solve the global recession on our own. Stuart will be talking about some of the steps that can be taken at the international level, and I'd like to focus on some of the steps we are taking here at a local level to cushion the blow and rebound as soon as possible. In fact, every city creates its own future. If you believe you're at the mercy of larger forces beyond your control, I think you've already lost. Larger forces do affect every city, but successful cities learn how to adapt. New York learned the hard way back in the 1970s, and some of the lessons from that era now seem obvious. You can't borrow to meet operating expenses, you can't ignore petty criminals who breed a sense of lawlessness, you can't let housing abandonment destroy neighborhoods, you can't let the public school system become something that the middle class is afraid of, you can't drive the biggest tax payers out of the city, thus increasing the burden on everyone else, and you can't allow quality of life to suffer, and that means keeping the parks clean and the subways safe and reliable and the hospitals in good shape.

These lessons may be obvious enough, but getting elected officials to apply them successfully is not always so easy, in part because political and special interests always get in the way. What I think has made the difference for our administration is that we've approached every issue from a completely independent and nonpartisan perspective. Maybe we haven't been right on every issue, but we've always followed the data and done what we've believed is right no matter what the politics, and we've held ourselves accountable for results. That's why we've been able to drive crime down 30% since 2002 and cut it another 15% this year, it's why we've been able to raise high school graduation rates by more than 20%, and it's why our affordable housing program, the largest in the nation, has a mortgage foreclosure of less than 1/10th of 1%.

As tough as 2009 will be, the city really has entered this recession at a higher point than we've ever been, and that's why while we're clearly going to have some problems, I am as optimistic as I've ever been, we are better positioned than ever to ride out the storm. One reason for that is that we began preparing for it back in the year 2007 at the first signs of the slowdown. While Washington and Albany were still on spending binges, we began cutting budgets and paying down some of our long term debt, we've cut two and a half billion dollars from city spending over the past 12 months alone, even as we've challenged ever city agency to do more with less. Doing more with less is something you learn in the private sector, and I can tell you it is just as true in the public sector. Even with smaller budgets, our service delivery keeps improving, which allows the quality of life to keep improving, and that may be the biggest single thing we can do to strengthen our economy.

But it's not enough. We also have a responsibility to do whatever we can to support businesses, especially the small businesses that employ over half of our city's private sector workforce. Many small businesses are family owned and operated and they're also what makes the economy so dynamic and our neighborhoods so diverse and strong. To make it easier for them to start, open and expand, we're creating an online one stop shop for permits and licenses so that we can get the bureaucracy out of their way. We're also helping businesses to access financing and incentives, create business plans, find pro bono legal services and retrain their workers. Over the past year you should know we've awarded $3 million in grants directly to businesses so that they can retrain their employees to meet the changing demands of the economy. For example, last week I visited one of those businesses. It's a company called Rucci Oil that's been providing heating oil and equipment to homes and businesses on Staten Island since 1929. The Rucci's business has suffered, and they were set to lay off some of their workers, but by using a grant from the city and adding some money of their own, they were able to retrain ten of their employees to work on air conditioners and natural gas equipment. So those ten employees who might otherwise have been laid off or employed only seasonally are still working and with their new skills their wages could easily rise by 20%, and I think it's a perfect example of how training funds are a win/win for business owners and their employees.

Now you might think that ten employees is not terribly important in the grand scheme of things, given we're talking about losing a couple of hundred thousand jobs in New York City, and an overall scheme in trying to create 400,000 new jobs to make up for that and take us even further, but what city government does, unlike state and federal government, is we work directly with people. Our successes in schools are one student at a time, in keeping our workforce going it's one employee at a time, and we work at the level where we really deliver services. Ten employees on Staten Island shows what can be done, and the leverage you get out of that of other businesses realizing they can qualify and they have a future as well is what, in the end, helps the whole 8.4 million people that live in the city.

Since the markets crashed last fall we've been expanding our job training efforts by keeping our Workforce I Career Centers open on nights and weekends. You'll be shocked at how many services cities provide that aren't available and people can come and use them. It is a unique thing in government to try to tailor your service delivery to the needs of the people, but it's something that we've tried to do throughout our entire city. Back in 2004, these career centers were placing about 500 New Yorkers in jobs per year. We combined our small business services with the agency that trained people, and last year, even with the downturn, our centers went from placing 500 people a year to placing 17,000 New Yorkers in jobs last year and we're aiming for 20,000 placements in '09. It just goes to show you what you can do if you take a look at your services and see whether there are better ways to provide those services.

Typically government always does the same thing. Chance is scary and there's always a constituency to stop change, and those that advocate change don't man the barricades and make it a single issue for them. But the bottom line is our responsibility, particularly in tough times, is to find new ways to deliver services, to look at every service and see whether or not it merits continuing, and it doesn't, don't throw the monies in programs that are working over to those into programs that aren't working. Instead, look at those that aren't working and see whether there isn't a better way to do it.

Now we also want to increase entrepreneurship in the city. After losing a job, there can be golden opportunities to start your own business. Thank you very much Salomon Brothers. Earlier this morning, we launched our latest entrepreneurial initiative, which we call FastTrac. It's a partnership with the Kaufman Foundation to provide training to aspiring entrepreneurs and recently laid off workers who are interested in starting their own businesses. Increasing the number of entrepreneurs will not only create new jobs, it will help create the companies that when the good times return, and they will, will be ready to capitalize on new opportunities. One of our great objectives is to keep the people laid off here in the city because when the economy does turn around we want to make sure that the workforce companies we'll need to succeed and to grow are already here, otherwise they will go elsewhere, the companies to follow the people.

We also want to give people more incentive to work, and for many who are laid off, that can mean self-employment or freelance work. These independent workers, you should know, make up more than 15% of our workforce, often supporting our signature industries such as design publishing and fashion, and as many larger companies shed jobs and industries go through a fundamental restructuring, even more people are turning to freelance work, and there's nothing like being your boss. I can tell you that from firsthand experience. But freelancers who are often middle class entrepreneurs have never had very much political clout, and so they face some serious disadvantages when it comes to taxes and benefits. I think it's time to start leveling the playing field for freelancers, and today I'm pleased to announce that we're be forming a new partnership with the Freelancers Union. There is one to begin addressing these longstanding problems.

Problem number one is that New York State has an unincorporated business tax that double taxes independent contractors and sole proprietors. It, unfortunately, links the two words that government hates, business and taxes, together, but the truth of the matter is these are not the big companies, these are one person or two people or five people getting together and starting a business and to double tax them. Just as everything gives the incentive to go in exactly the wrong direction, we've got to make it easier for these people to start a company and to go out and be in charge of their own destiny and rejoin the workforce rather than keeping them out of it. We're pushing to reduce or eliminate that tax for 17,000 businesses, and that would let them keep more of their hard earned money and it would encourage more people to do freelance work, which is exactly the kind of economic activity that can end up creating jobs and stimulating growth.

Freelancers also lack any safety net to fall back on during hard times. If a company lays you off, you can collect unemployment insurance, but if you're a freelancer and you lose all of your clients, good luck. That's not healthy for workers and their families, and it's certainly not healthy for our economy, and so today I'm also pleased to announce that we'll be working with the Freelancers Union to develop a proposal that would create a federal unemployment benefit for independent workers. One way this could work is to create a fund that workers would contribute to and that would also offer freelancers some level of tax benefits.

Our new partnership with the Freelancers Union will also work to create more affordable office space. In January, we launched an initiative to create new incubator space for aspiring entrepreneurs because overhead is often one of the major obstacles to business formation and growth, and in the months ahead we work with the union to find space specifically for freelancers, and we'll help them market the benefits to their members. I know the union president, Sarah Horowitz, is with us here today, and Sarah, we look forward to working closely with you and other leaders to make New York City as freelance friendly as possible.

Encouraging entrepreneurs also means keeping our doors open to immigrants, and that's something that I believe in passionately. I often talk about the benefits of immigration to our city and our country, and here is an astounding statistic that helps, I think, prove the point. About 40% of all patents in this country are awarded to immigrants. Think about that. About one-quarter of Silicon Valley companies were founded by Chinese or Indian immigrants. Innovation and immigration go hand in hand. And with that in mind, we're launching a new international business plan competition to attract more of these pioneers to our city. We're in the process of reaching out to business students at nearly a dozen of the world's top MBA programs and engineering schools from Poland to the Philippines, and the winners will receive $20,000 each and a free trip to New York City where we'll connect them to free office space, top venture capitalists, professors and entrepreneurs who can help them put their ideas in motion. Now we don't know whether the competition will result in any major new ventures, but ultimately we hope it will at least send the following message. New York City is the place to be if you want to build an innovative company and attract the best and the brightest.

Now unfortunately as we are opening our doors even wide to the world, Congress is moving in the opposite direction. The recently passed stimulus bill contains a provision that makes it harder for banks and other businesses getting federal bailouts to use the H1B visa program to hire foreign skilled workers. If you ever wanted to shoot yourself in the foot, that's as a good a way to do it as I know. Economists estimate that every H1B visa creates five jobs for Americans. We just can't climb out of this recession by shutting our doors to immigrants. It will only make things worse. Somehow or other, committing national suicide I never thought is an intelligent way to provide for our future, and that's exactly what we're doing.

The reality is we need more immigrants, not fewer immigrants. We need more laborers who will work their way up the ladder. We need more scientists and engineers and doctors and teachers whose ideas and innovations will be increasingly in demand around the world, and that only way for that to happen is for Congress to adopt comprehensive immigration reform, and the longer we wait the more damage we will do to our economy. Immigration and international trade have always been the driving force behind New York City's economic success and, in fact, the whole countries, and that remains as true today as it's ever been. In a global economy no city, not London, not New York, not anywhere else, can hide behind barriers.

It's also true that no city can afford to be too dependent on any one industry. That's my last point I want to make. Not on banking, not on automobiles, not even on computer technology, because every industry goes through both boom and bust times. That never changes. The most stable and successful cities will be those like smart investors that diversify their portfolios, and that's why promoting small businesses and entrepreneurship is so important. But we're also working to attract and support mid to large companies and growing industries, and over the past few years we've made enormous progress doing that by investing in industries like tourism, film and television, media, fashion, health care, bioscience, green development, information technology, education and others. All of these industries have long term growth potential, and because of the hard work that we've done they've been growing here instead of someplace else.

In some cases, that work has meant passing tax incentives, as we've done for the film and television industry. In other cases, it's meant investing in capacity as we've been doing in the bioscience industries, but in all cases, our success in attracting new investment is dependent on our ability to offer modern infrastructure, and that's why, for example, we're building right now an extensive to the Number 7 train to Hudson Yards, the first new subway track funded by the city in more than 40 years. Stuart Fraser can tell you why this is so important because without the Jubilee Line in London, Canary Wharf might still be in bankruptcy and the jobs that are now there would be scattered around the world. The Number 7 train extension is part of a city $43 billion capital plan that will create tens of thousands of construction related jobs that pay good wages, strengthen the middle class and help maintain our city as the nation's economic engine.

We haven't sat around waiting for a federal stimulus bailout, we haven't sat around waiting for the state to come up with money, we, in the end, are in charge of our own destiny, and if we want to have a future we have to reach in our own pockets and make the investments even when, at other levels of government, they don't have the foresight or the courage to do so. Now in ten days the G20 Summit will take place in London. The backdrop will be the most serious global recession that we've experienced in decades, and I think there's no doubt that international cooperation is essential to long term growth and stability, and that includes a more common regulatory framework. But in the short term, it will be up to each country and each major city to take actions on its own, and that's what the Obama Administration has been doing in Washington, that's what we've been doing in New York City, and I know that's what Gordon Brown and Boris Johnson and Stuart Fraser have been doing across the pond.

By nurturing small businesses that are more diverse than ever, by attracting capital and talent that is more mobile than ever and by offering a quality of life that is better than ever, the global economy gives cities more opportunities than ever to create their own future, and that's what we're working hard to do everyday. I think if we keep innovating, keep investing in the future and keep taking an independent nonpartisan approach, we're going to come out of this stronger than ever. Thank you very much.

GLENN HUBBARD: Thank you very much Mayor Bloomberg. From the other side of the ocean, the perspective from London, Stuart, the floor is now yours.

STUART FRASER: Mr. Mayor, ladies and gentlemen, it's certainly very good to be here with you today. I was told that I was going to talk in front of a small luncheon party, so they got that one wrong. Actually, Mike, you did talk a little bit about your freedom and the right to shepherd sheep over London bridge and carry a sword, however, you did miss one out, which perhaps when you were there you might not have thought you would have needed, but actually you also have a right that before your hanged you ask for a silk noose. But I think it's okay Mike, you're not a banker.

It's been I think some five months actually since we met in London, and I guess that's probably a lifetime certainly by what has happened since, not only in the financial markets, but also to the global economy. Now London, like New York, is an international or global city, and the difference is we don't really have that luxury of an enormous domestic economy, which will keep New York going for much longer I think. So we are very much focused on the international side, and if you like, looking at global regulation, global response, and how to bring people together in terms of adversity so we get the right outcomes.

Now many of the assumptions I think that we have grown up with have been blown apart. It seems at times as if the very foundations of our market based economies have been in danger of collapse. I know that in times like this is even more important for us to work together to strengthen and develop the unique relationship that exists between us. London and New York share many great attributes. We also share a number of major problems. Now the collapse of Lehman's came I think just before your visit to London and I'm not quite sure if PL is now going to replace PC, but I mean, prior Lehman's and post Lehman's is certainly a big difference.

It set up, I think, as one could say, the second wave of financial failures and the second wave of rescues by government and central banks. When we look at the names of the institutions we have had to support, we see again how New York and London are partners in adversity as well as in good times. Because of the problems with names like Citi and RBS, Lloyds…Merrill Lynch, they are indeed shared problems.

We have now exhausted the traditional means of stimulating the economy with interest rates close to zero and any thought of fiscal and monetary discipline consigned to some time in the future. Indeed, quantitative easing is now the name of the game, and even the central banks have little idea how this will pan out. Will it be pushing on a string? The Japanese experience. Or inflationary with or without economic growth? So it will be interesting to see after seeing the announcement this morning as how to that package will be received and how it will eventually pan out.

Currently, and some way forward, simply avoiding an economic collapse is a priority whilst other issues have to take a back seat. Now for us in the UK we are experiencing the most difficult period in the British economy, for certainly a generation, and in the case of financial markets, possibly the worse crisis since the 1930s. Depending on who you are, of course, the politicians like to ramp this up, so sometimes it even gets to the century depending on whether or not they're trying to make the claim that we are in a terrible position. But it is obviously very, very difficult. Obviously you're seeing similar problems, although I do believe that the scope and diversity of the American economy may make some of them a little bit easier to cope with. Also, Americans have a well founded reputation of changing with the times and uniting in adversity.

Lifting my head to the longer term, I do worry that we are not getting our act together in the area of financial regulation. Clearly there is a need, not only for tighter rules, but for more effective enforcement. To avoid, as the Bank of England nicely puts it, underlap, which actually means cracks between agencies, there does need to be obviously a rationalization and a clear set of reporting principles and procedures. The process is taking place in London, Brussels and

Washington, but I fear not at the same pace, and of course, each are starting from a different place. I believe that the City of London and New York must work together to insure that the political process does not come up with a number of solutions which will severely damage our long term global competitive positions.

Now I recognize that some power and influence has moved from financial centers to the political ones. Indeed with the government owning such a large part of the banking industry, this is inevitable. Given the public outrage at what has happened both in terms bailouts and bonus greed, there is a real risk of financial protectionism and sustained assault on the principles of free markets. We can easily end up saddled with a regulatory framework that effectively hobbles our ability to compete globally in the years to come.

It is safe to say the city, and indeed probably both our cities, when we do emerge from this crisis, will look quite a bit different than they did before. There will certainly be no return to what is being described as business as usual. Indeed, the whole rationale of free markets acting as an efficient allocator of capital is under scrutiny and debate. This is the bedrock, I believe, of our economies. The financial services industry may well be smaller for sometime. We have already experienced some heavy job losses, and the profile of certain sector, mostly banking, will change. We will, without doubt, also see changes in regulation, risk management, remuneration and corporate governments.

Looking to the future, global businesses will thrive again if the U.S. and the EU adopt policies that are coherent with each other and support global open markets. The focus of the work should not be on structures as such but on outcomes, and that's true at the national, regional and global level. We need a more collegiate approach. Consultation, intelligence sharing, a coordination of market intervention and so on. Certainly that does work. Much will, therefore, ride on the outcome of the G20 in London next week.

Wherever we are in the political cycle and however understandably fierce the domestic pressures, we must resist protectionism, and we also need to address the issue of rebuilding the reputation of the industry, which has been severely tarnished and explain why its success is essential for national and global economic growth. We do, I believe, need to create a new language, a language which allows us to communicate with non-financial people so that they do understand the benefits of the system that we have.

This is also the time to look for opportunities such as improving the infrastructure so that we are a better place to do business when the recovery comes. Yes, we did the Jubilee Line, and that's been a huge success. It's opened up a large part of East London there down the river, and that's been pretty good. We also now launching Crossrail, which is a $25 billion scheme, and I'm pleased to say that the first shovel will be active in force in about one year's time. So it's gone through everything, financing, it's been a long, long haul, but I'm sure that is going to help us, and we do need that infrastructure if we're going to remain competitively global. For anybody who's been to Shanghai or any of these other Asian cities, they don't have infrastructure problems. When they need a new subway, they just build it. So we need to keep up with them.

Despite the shakings, I think our foundations are strong and I am confident that our two cities will retain world leaders and financial services into the future. Indeed, the most recent survey that we carried out, and we carry out a survey every six months independently on all of the major financial centers around the world, has clearly shown that New York and London has suffered, but relatively we've improved because a lot of people now are coming back to centers like London and New York because they appreciate the depth, liquidity of the market, the talent base, and frankly, it's a very nice place to live. Thank you.

GLENN HUBBARD: Well thank you very much Stuart. We don't have swords or silk nooses, but we do have a tradition that the questions will come from two club members, and today we have Alair Townsend, who is a columnist for Crain's New York and a former member of the Koch Administration and former Trustee of this club, and Marty Lipton, from Wachtell Lipton, who's a well known leader in corporate governance and a Trustee of the club. Alair, the first question goes to you.

ALAIR TOWNSEND: Thank you Glenn, and thank you Mr. Fraser and Mayor Bloomberg for your remarks. I'd like to start with a question for Mayor Bloomberg. There have been boom and bust cycles on Wall Street before. Several, in fact, during our adult lifetimes, and often when the deed is done the economy seems to come roaring back almost stronger than before. Many believe that the aftermath of this current meltdown will be different from the others, however, and that the financial industry is fundamentally restructuring and entering a period of lower profits, employment and bonuses. And that would, of course, have dramatic consequences for our economy overall and for the state and city budgets. So I would like to ask the Mayor how he sees the size and shape of our financial services industry let's say five years or ten years down the road.

MICHAEL BLOOMBERG: Well let me start out by sizing my adult life has lasted an awful lot longer than your adult life. A young woman like you doesn't have the perspective of history that an old guy like me does.

ALAIR TOWNSEND: Oh, give that man a silk noose.

MICHAEL BLOOMBERG: Keep in mind I do this for a living. I think, number one, there will always be a financial services industry. It is likely to be centered in New York and London because English is the business language of the world and they both have diverse cultures and a history of capitalism and business formation and entrepreneurship, so I don't think there's much danger of that financial sector, when it comes back, is going to move elsewhere. It's a little less clear in other parts of the world what will be the financial sector, but stability, low crime and an attractive place to move your people to and for them to bring their families and live is one of the great determinants of where businesses can go because businesses can only survive where people who are going to work in those businesses are willing to live, and London and New York have distinct advantages over everybody else.

Number two, I think that when this business comes back, and incidentally, it hasn't gone away, it is true there is an enormous downturn in the industry in terms of their profits, but if you take a look at January, February, and I assume March will turn out to be exactly the same, their revenues are exceeding their expenses, and if it wasn't for the fact that they have to write down billions and billions of dollars, they have ongoing businesses and there's financing being done, there are mergers taking place, there's advice being given, so we're not going to go away. I think in the support side of the business there's more automation, but more complex products require more support staff, more analysis and more recordkeeping, so I'm not pessimistic about the total employment in the industry, although it will take a while to come back, and I'm certainly not pessimistic about the future of an industry.

Will Wall Street find other products to make as much money on? Don't ever think that there isn't a group of people on Wall Street that are very smart and very clever. They've able every time in the past to find ways to replace one product with another. When I came into the industry you made most of your money commissions on stocks. Today commissions fundamentally don't exist on stocks. You made money trading in public outcry or phones when people would call up, and today there's an enormous amount of automation and people still make money. So don't be so pessimistic on this industry or its ability to employ people and make money. Our great problem is making sure that when it comes back the people that they need are right here in New York, that they haven't moved elsewhere because if they've moved elsewhere companies can go elsewhere. If they have stayed right here, companies don't have any alternative but staying here, and so we've never really, with the exception of film and television, used tax subsidies to get people to come here and stay here. We've invested our money in improving our cultural institutions and our parks and public schools and cleaning the streets and bringing down crime, and it's been a very successful strategy so far.

MARTY LIPTON: Yes, I'd like to address this question to both Mayor Bloomberg and Mr. Fraser. You both mentioned the importance of infrastructure in terms of the future of the cities, New York City and London, and here in the United States infrastructure is largely the responsibility of the city itself. I understand that in England the national government contributes more to infrastructure development than here, relatively more. But in countries like China, other countries in the world, the national government assumes all the responsibilities for infrastructure. Now how will New York, London and the cities here that are dependent on their resources for infrastructure be able to compete in the future with the cities that can call on the national resources for infrastructure, particularly in those countries that recognize that building the infrastructure of their cities give them a tremendous competitive advantage.

STUART FRASER: I think the issue for us certainly, it will remain the national government because of the system of taxation. I'm fortunate in this respect, or I should say that my Mayor is fortunate in not having the same problems as your Mayor in terms of budgets and everything because most things are financed directly from the national resources. What we do is convince the governments that in fact London is a very important financial contributor to the whole economy. I mean, in the good time certainly we've exported huge amounts of capital to the rest of the country. It's also financial services, it's not just in London, it's also created jobs in the whole of the UK so that in total it can range anywhere estimates from 11 to 13% of GDP.

Now that means you need to put infrastructure to support and it is always that argument. I'll be honest with you though, it's very important, but it's by no means the real reason why people come and live in cities. The real people why people come live in cities, I mean, we've had a creaking tube system, now nearly fully repaired, a pretty creaking train system for a long time now nearly repaired, and we've got new lines going on. But when you go to India or India, when I was out there recently, and I went to see plans for a new city they were building in one of the states, and it was wonderful, an absolutely wonderful city, but the problem, as I pointed out to them that that is just cost. If you put a building, it doesn't earn you any money at all. If you put a subway in it doesn't earn you money. Can you get the talent to come to it and live there? And that's a whole different ballgame, and it's exactly the same with Shanghai. It was exactly the same, they have everything.

So infrastructure is terribly important, but do not forget, as I think Mike said, it is the whole deal with a city. So I spent a lot of time on insuring our arts are up to scratch. We have one of the finest international art centers in the City of London, we make sure that our parks and garden are good, that people have places have got places to buy flats in London and he city, a whole host of things other than just that. So it's a total mixture. You know, you'd be quite surprised what people will put up with if they've got the rest of the environment right. And so that's what I feel quite strongly about. But let's not let up the pressure we keep on saying as we want more infrastructure, but as I say it's so much more complex and that's what gives us huge, both of huge competitive edge because you ask anybody around the world, where would they want to really work and live? And I think it was only two cities that came up. They'll go to other places temporarily three or four or five years to further their career. Where do they really want to live, New York or London?

MICHAEL BLOOMBERG: Marty, let me add another thing here. You know, we before were building Republican bridges to nowhere, now we'll build Democratic bridges to nowhere. That's just the process when the federal government provides the money, and if they provide the money, they are always going to decide where it is spent. Just part of democracy, and you can argue whether it's good or bad. I would have approached, and I hope the administration and Congress still do, the ability to stimulate infrastructure construction by devolving it down to the lowest level, to the municipalities. If the federal government were to subsidize municipal rates, guarantee municipal bonds, let you do the arbitrage between the taxable and tax exempt markets, which banks used to be able to do, I think you would see local municipalities building what they really need.

Now they still will build things that may be done for political reasons and not have the economic underpinnings and justification. For example, our number seven line subway extension has enormous economic payback because you're going to open the whole West Side. Other things we do don't necessarily have that, they just make your train more pleasurable or satisfy a political need, but if you left the municipalities with some skin in the game so you guarantee 80% of the debt, but there's still 20% that the local taxpayer has to say do I want that, am I willing to run that risk? The same thing with paying for it. Then I think you would get infrastructure done even more rapidly because there's a much greater diversity of projects that would be started right away, and it would be much more targeted and deliver more results.

Having said all that, if the federal government sends out money for infrastructure, we are going to fight to get our share of it, but invariably whether it comes from the federal government or goes through the states, the states, once again, have their political structure that is typically not representative of where most people live. So the monies that get down to the big cities in America are a lot smaller than their populations would typically justify. Or even it it's proportional to their populations, it's a lot smaller than the economic payback would be if you did things in the big cities which generate most of the revenues. New York City, for example, has 40% of the state's population but pays 50% of the state's taxes.

ALAIR TOWNSEND: In 2007, Mayor Bloomberg and Senator Schumer released a report by McKinsey on the future of the financial services industry in New York City, how to keep it competitive. One of the key recommendations was that to compete with Europe, and yes, I think especially London, and Asia for listings of public companies, some of the most onerous requirements of Sarbanes-Oxley needed to be revised. Another major finding was that the country needed to make it easier for skilled foreign professionals to enter the country with a visa, and you've spoken about that. In this climate, neither of those changes seem likely any time soon. Indeed, we may go in other directions. Moreover, some argue that global confidence in our financial institutions, especially given their huge appetite for risk, which has unsettled others, has been shaken. So I'd like each of you, if you would, to give us your views on how you evaluate the current competitiveness of New York City relative to other global locations.

MICHAEL BLOOMBERG: Let me start, let me take a stab at the first. Number one, these things we talked about are programs at the federal level, so Senator Schumer was there standing with me. We didn't agree on everything, but most we did, and he was, in all fairness, the impetus behind the study to look at our competitive position versus London. I, for example, have never thought that Sarbanes-Oxley was particular onerous. Particularly in tough times, I want better financial statements rather than worse. I think you could tweak it for small businesses where the cost is prohibitive, but for big businesses, if you were a director of my company and you weren't willing to sign the financial statements, you wouldn't be a director for very long. I want to make sure that the information that's being reported is full and gives an accurate picture of what's going on.

How we use that information is the real problem. For example, mark to market in commercial banking, you shouldn't be using it to decide whether it's an ongoing concern. Having said that, the stockholders have a right to know. If things were mark to market, if they were sold, what are they worth? So we've got to be careful here. The problem is not so much the law, it's what we as citizens or as investors do with that. The other thing is that if you want to be competitive, you have to open your borders, you can't have a taxation policy that drives people overseas, you can't have a regulatory policy that is at odds with regulation around the world, and Congress has a very difficult time in dealing with the fact that those oceans today aren't anywhere near as big as they used to be, and we've always had, Chuck did talk about the regulation then, getting Congress to go to one regulator where all these companies are doing the same thing even though the names, because of the names or their charters or whatever, get regulated by different parts of Congress and different government agencies. That's a very hard thing because of the political support that these industries provide to the legislators. In the end, it is the Congress', the committee's power to regulate to something, and if you take a look, you'll also see that's where they typically get most of their funding for their campaigns from. So why they would ever agree to combine it all, no matter how much sense it makes for the country's point of view, I don't know, and every time Paulson went to Washington, that was his number thing. Hank’s a smart guy and he said this is what we’ve got to do. I couldn’t agree more. But they’ve made no progress.

Having said all this, I think your question’s got to be directed to Congress and to the President because those are national issues. We can do things in our city to help our employees, our citizens, our small businesses, but we can’t set national policy. I can go down there and testify until I’m tired, whether everybody even listens, they all walk in, make their statements, walk out, and I’m testifying to—we’ve all been there. Stuart?

STUART FRASER: I think we certainly have. Yes. It’s interesting, we are competitors London and New York, but I think in the sense that we both welcome it because competition keeps us sharp and keeps us active. The real growth, as we all know, is going to be Asia in the longer term, and that’s where the market, we need to think about. There are billions and billions of people out there who are going to require financial services, who’ve got really nothing at the moment, and the growth potential is huge.

In terms of, I would say, if you like, sort of the Western centers or whatever, say New York and London and Europe, immigration is certainly an absolute key factor. We need to keep our borders open because it’s all about, as I mentioned earlier, talent, people, and that’s what we need to continue to attract, and we will attract many people from Asia, who will in turn go back to Asia, and they will work within their city. So we’re not frightened of that. Indeed, we advise the Indian government and other governments on how to create a financial services center because we genuinely believe it's the size of the cake that is more important than anything else, and if they can become rich in the decades to come, this will help us all.

So you've got to look at competition. I absolutely agree about tax policy. I mean, I presume that the 90% rumored tax charge on certain earnings isn't being taken too seriously. Otherwise the flags would be out in every other financial center in the world because they would simply be delighted to take the best talent from the states. And that is true. You live in a global environment, in a competitive, and we tell that to our Chancellor and…and our Prime Minister that this is a global world. You just cannot sit there and look at it as a one state world. I mean, it just doesn't operate like that.

I think if you're really a sad person like me and suffer from extreme insomnia, I'd recommend the Turner Report, which has just come out, which although it doesn't have all the nice answers you'd like because there aren't such things as nice answers, it does actually raise a lot of debate and questions, and I think it's a very fascinating document, one of the best I've seen in terms of saying, well we need to challenge these assumptions. But yes, I think you've said about the determinations, sometimes certain people or certain states commit suicide. That is our greatest danger. The world has got huge growth potential. We just have to make sure we're there to benefit from it.

MARTY LIPTON: Mayor Bloomberg and Mr. Fraser, you've both talked about the attractions of your cities, New York and London, as places to live, but in the kind of economic downturn we're experiencing right now, it's the cultural, the entertainment, the health care, the education, all these institutions that make New York and London the desirable places to live, are hurt most by the downturn, particularly here in the United States where so much of the support is from personal contributions rather than from government support. Would each of you comment on how your city can do more to preserve the great cultural institutions that we have and how to assist in improving them as we go forward hopefully as the economic downturn changes rather rapidly?

STUART FRASER: That's interesting. This is what we term the soft attributes of any city, and this is why people live there. So they want safer streets, they don't want to live behind closing metal doors everywhere. I want to feel secure. So security's a big issue. We're certainly a little bit fortunate I guess in the City of London, we have our own police force, and that's because we're a primary target for terrorism. But essentially keeping our city safe is one big factor. The arts, for instance, yes, I mean, I think we are the third largest giver to the arts in the UK. That's after the government and the BBC. So we spend a lot of money on art and arts, and I think, again, this creates a human city.

These higher costs, if you like, infrastructure costs that we've got, soft costs I think are well worthwhile because I come back to, and I'm sorry, I just keep coming back to it, cities are about human beings, and there is this, I think now, maybe are slow a little bit in this climate, but the work/life balance, everything, all of these things need to be watched and make sure that we remain competitive. That's why I still remain optimistic. I can go to places, plenty of places that have got better infrastructure, that have less traffic, have all the other things, but they lack that ingredient. So maintaining that, and bringing in the corporate sector. The corporate sector is an important area. I know actually in the states you do more of it I think because, or perhaps lack of government support so much and you're used to it, but yes, our fight is to keep corporate, if you like, supporting these soft areas that make a city great. We will see some decline I think as we'll report out actually yesterday, predicting a 20% or so decline in that. But we just have to keep going at it. It's understandable for corporates, they're cutting back. We want to know what they're spending their money on, but again, I believe as a global city that's what you need to do.

MICHAEL BLOOMBERG: One of the answers is to use tax policy to encourage gifts to museums and hospitals and educational institutions. We've done that by making gifts deductible. One of the things is to have the companies and people here be profitable and prosperous so that they have the wherewithal to do it, and while we like to think that lots of people contribute, and they do, and small donors are the lifeblood of the future of organizations, the lifeblood in any given day are the large donors. I mean, Marie…can tell you the percentage of MoMA's gifts that come from a handful of people is staggering, and that's true of everyone of these organizations. So we have to be sure we do that.

We have to make sure that we get the tourists that come here, have them come here to patronize these institutions and make sure they know about all of them. One of the things we're trying to do with a lot of work in the United States, in New York City, is to make sure when tourists come here they know about the small cultural institutions throughout all five boroughs and not just those on Fifth Avenue or in midtown Manhattan. And also, it's advertising. You've got to promote the cultural institutions. As you know, New York has police officers in a dozen cities around the world. They help us get ahead and know best practices and counteracting terrorism.

Likewise, through NYC & Company, we have offices in 15 odd cities around the world to advertise New York, and that's the kind of budget we should be expanding in these tough times.

Now, you know, people say well you can't afford to advertise in downturns. Well if you don't do it you're not going to have an upturn. So it's getting people to go to the institutions, it's getting people to contribute to the institutions, and lastly, it is making it easy for institutions to come here, open up and attract people to work in them. So making it popular, if you will, to be part of, to patronize, to contribute to, to donate to is all part of what we do in this city, and whether it is the performing arts or the visual arts, whether it is advancing medical science or treating patients, whether it is having the great universities here or helping public education, all of these things need support from the public, and it's government policies that can make that easier or more attractive.

GLENN HUBBARD: Thank you very much. As a business school dean, I can note that ending on giving money to educational institutions is a wonderful place to wind up lunch. But thank you Mayor Bloomberg, thanks to Stuart Fraser, thanks also to Alair and Marty for the questions. Let's again give our speakers a round of applause and then lunch will be served.

(END)