NEW YORK STATE
2012 ECONOMIC AND REVENUE
CONSENSUS FORECASTING CONFERENCE

State Capitol - Room 124
Albany, New York

February 29, 2012
2:30 p.m. to 4:30 p.m.

PRESIDING:

Robert L. Megna
Budget Director
NYS Division of the Budget

SENATE MEMBERS PRESENT:

Senator John A. DeFrancisco
Chairman
Senate Finance Committee

Senator Liz Krueger
Ranking Minority Member
Senate Finance Committee

ASSEMBLY MEMBERS PRESENT:

Assemblyman Herman D. Farrell, Jr.
Chairman
Assembly Ways and Means Committee

Assemblyman Robert C. Oaks
Ranking Minority Member
Assembly Ways and Means Committee

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Chris Varvares (company position not identified) Macroeconomics Advisers	36	85
James Diffley (company position not identified) IHS Global Insight	53	85
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ROBERT L. MEGNA: Let's try to get started. We have a lot of folks with busy schedules.

And, so, I would like to welcome everyone to our economic and revenue consensus forecasting process.

I'd like to introduce the folks on the panel today.

We have Senator John A. DeFrancisco, Chairman of the Senate Finance Committee;

We have Assemblyman Herman D. Farrell, Chairman of the Assembly Ways and Means;

Senator Liz Krueger, ranking member of Senate Finance Committee;

And, Assemblyman Robert C. Oaks, ranking member of the Assembly Ways and Means Committee;

And also joining us at the table is Thomas Nitido. He's a deputy comptroller.

I think we'll jump right to have everyone to do some opening remarks. I'll make some very quick statements.

I think we're actually going to be missing some of our panel today because of the weather conditions. We've had at least one person who had an automobile mishap on the way up, but, everyone is okay.

And we have another person who got diverted to a different airport; and, so, we're going to try to set up a call-in for that person.

If we're successful, fine. If not, we'll deal with the distinguished panel that we have, and give them more time to talk to us.

Let me just briefly say, that, you know, we've been living through very difficult economic and fiscal times.

Everyone knows that.

Last year, we were coming out of the worst recession in the post-war period.

We believe, and still believe, that we were on the path to economic recovery; however, that recovery stalled in the summer, and we've continued to be hit, or buffeted, with very difficult economic news which has kind of slowed us down.

But we know the economy's getting better, but we know that we live through a lot of crises, and we still have the euro debt crisis, and we have extreme financial-market volatility.

And, I guess we'd like to ask the panel members to talk about that.

And we know that there's always a lag between what's going on in the economy and what happens to

tax collections.

Based on DOB's estimates, last year's events translated into the weakest levels of finance-sector revenues since 2003.

The Executive budget estimates a 32 percent decline in finance- and insurance-industry bonuses.

And, collections to date seem to be indicating that those estimates are on target.

Now, I know the Comptroller came out with a report yesterday, but, I think it's just a nuance of how you interpret the numbers.

I think, you know, when we look at the tax-collection numbers, we understand what the Comptroller's report was saying, but we think the collections to date are consistent with about a 30 percent decline in bonuses.

These declines are taking place against the backdrop of the most sweeping regulatory overhaul of the finance industry since the 1930s.

Wall Street firms have already been altering their executive-compensation practices in response to regulations that are still being written.

We've observed dramatic reductions in the cash portion of bonuses in favor of equity grants, with large portions of compensation being deferred,

and even subject to clawback.

We don't doubt that these changes are making us all better off in the long run; however, in the short and the medium term, we must acknowledge the added uncertainty to our income and revenue projections, and plan accordingly.

The game on Wall Street has changed, and perhaps the compensation game has changed permanently.

Nevertheless, we know there is positive news.

The New York State economy added more than 150,000 private-sector jobs between the third quarters of 2010 and '11.

The Budget Division estimates the state unemployment rate will fall, from 8 percent in 2011, to 7.6 percent in 2012, and even further in 2013. And we know that these rates are already lower than national rates.

So, in New York there is positive momentum; however, there are risks which cannot be understated.

Gasoline prices have risen over 40 cents a gallon in just the past two months, and have topped $4 in many places here in New York.

In the context of continued high rates of

unemployment, households will continue to struggle, as will those State revenues that depend on other areas of household spending.

Our state is not alone in the struggle to achieve a balanced budget.

We must acknowledge that income and revenue volatility is especially acute in New York, especially because of the finance sector, where we depend on such a large -- for such a large portion of our tax collections.

Finally, as the economy improves, at some point down the road, the current environment of low interest rates and the accumulating national debt will come to an end. And if unemployment rates should fall more quickly than the Federal Reserve's forecast, that day could come sooner than we think.

Historically, whenever the Federal Reserve shifts from an expansionary to a contractionary stance, the impact on financial markets, and consequently, New York's revenue base is negative.

Consequently, it's critically that we look ahead and prepare ourselves for that day.

In fact, if you look in our budget materials, we include a chart that shows, that when the fed's policy action takes place to be more contractionary

or more positive, there is almost an immediate effect on financial-sector results that has been almost an immediate effect on our tax-revenue collections.

So, it's against this backdrop of economic uncertainty that we embark upon the revenue-consensus process.

It's important to note, that while we each have forecasts at a fundamental level, I believe there's broad agreement in the numbers.

It seems that we further concur that our future revenue picture is very fragile.

The logical conclusion, is that we will need to take responsible and necessary actions, to keep our budget under control, and to strengthen our fiscal position in a continuation of what we accomplished last year.

Again, I'm going to turn the process over now to folks, and, I would ask Senator DeFrancisco.

SENATOR DEFRANCISCO: Thank you, Mr. Megna.

In the interest of time: Ditto.

No, now I'll just say something.

First of all: I welcome the hardy members of our panel. The hardy experts.

They must have some Syracuse, New York, blood

in them, because we don't miss anything because of snow in Syracuse.

So, we welcome you. We look forward to hearing from you on your expert advice on the issues that we have to decide today. And, not today, but before we even get into the budget process really in earnest.

We have to know what the forecast of revenues are going to be in order to determine how that money is spent, or saved in some way.

The -- the -- I agree with Mr. Megna, that the numbers are not far off from each of the reports that we have here from the various groups that provided the revenue forecast: the Senate Majority, the Minority; the Assembly Majority and the Minority; and from the Governor's Office.

So, I think that we're relatively close; however, we're still apart. And we have to get some kind of expert advice from all of you, to figure out where we should end up in.

The worst thing we can do is not come up with a reasonable forecast, and end up with more of a problem come next year, because we want to make certain that, each year, we're on the money, so that we don't run into the problems we've run into in the

immediate past, as far as budget deficits.

So, I'm looking forward to, and I know all the people on our side of this panel are looking forward to, your expert advice.

And, without any further ado, I'm ready to listen.

ROBERT L. MEGNA: Assemblyman Farrell.

ASSEMBLYMAN FARRELL: Thank you very much.

I am pleased to be here today. And I, too, look forward to hearing the panelists' thoughts on the economic outcome of both the state and the nation.

Giving the issues that still remain in areas, such as, housing, credit, labor markets, as well as issues in the euro zone, I'm interested in hearing your assessment of the pace of the recovery.

I'm particularly interested in hearing your thoughts on the implication of New York State's economy from the changing landscapes of the financial industry.

In addition, I want to hear your assessments of the risks to the economic outlook, both for the nation and the state.

And, your independent viewpoints, along with today's discussion, will provide a solid foundation

for our budget process.

I cannot emphasize strongly enough how important this analysis is to us as we endeavor to gauge the economy, and act as efficiently and effectively as possible in this period of great economic challenge.

And I thank you for being here today, and I look forward to hearing your comments.

ROBERT L. MEGNA: Senator Krueger.

SENATOR KRUEGER: Thank you very much, Bob.

I, too, appreciate everyone getting here, and I'm sorry that some people had a little trouble today.

I think all New Yorkers are pretty stoic about being able to get through the snow, and needing to do what we need to do.

And, in fact, that's the value of today.

I agree, the revenue forecast the five or six different parties are submitting today won't greatly change the final outcome of our revenue projection for this year.

In fact, I think, thanks to the growing professionalism of the Legislature and the Comptroller and the Governor's Office, those aren't where the fights are. The fights take place in how

we choose to prioritize and spend the money.

But the real value, to have all of you be willing to present to us each year, is for us to think through and understand a bigger global economic impact for our state, moving forward, for the year, and the coming years, because, as I think was mentioned by several people already, we're living in a world with a changing economic forecast, in: Who raises money? Who earns money? How do they earn the money? How can we tax it?

And all of these are critical for making sure that New York State knows how to plan in the twenty-first century, for an annual budget, or even a multi-year projection.

So, I appreciate your getting here on this snowy day, and teaching us some more about the world we're living in, economically.

Thank you.

ROBERT L. MEGNA: Assemblyman Oaks.

ASSEMBLYMAN OAKS: Thank you.

If anything, I've learned over budget hearings with my colleagues, "listening," we've done a lot of that over the last month or so.

We don't -- haven't shared a lot of our own, and so I won't do that as well, because we're -- I

think we've gotten pretty good at listening.

And, hopefully, we will hear several helpful directions from you.

I would like to say, though, that the Assembly Minority, in our report, and I know we have a stack of those there, is the conferences of [unintelligible].

And as you were presenting us some information, they're a little more conservative than the Governor, and looking at what the revenue might be in coming in.

Actually, on the PIT, looking at that as possibly being higher, but some of that just short term, because of, some of what federal might do in capital gains, and people adjusting to that.

But, we are concerned that -- actually, we look at it and see that the business taxes might be under some, that the rebound isn't sufficient enough, especially on upstate.

And so, hopefully, as well as looking at your insights, some of it is looking at what we could do, panelists, the Legislature.

And I think one of those is, just looking at: What are our policies, going forward?

They're going to be important this year, not

just as the budget, but what we do to stimulate growth, what we can do to change the economic environment, in New York, both from a regulatory stature and a taxing structure.

So, I think we need to do that, going forward; but, again, I look forward to hearing your insights today, to help us get to our final budget, going forward.

Thank you.

ROBERT L. MEGNA: Tom Nitido.

THOMAS NITIDO: Just, you know, obviously, the process provides for consensus among the legislative parties and the Executive.

It also provides, in the unlikely event consensus can't be reached, the Comptroller is prepared to provide his own revenue estimate.

ROBERT L. MEGNA: With that, I just heard some positive news, that, Chris will be able to join us. He's in the cab, coming from wherever outpost he got stranded.

And, also, as you mentioned to me, he'll be able to pay off his bet to you.

So, let's start with Hugh Johnson.

[Laughter.]

HUGH JOHNSON: I'll wait until he arrives.

Well, thank you very much.

And, Senators, Assembly -- members of the Assembly, Mr. Deputy Comptroller, Budget Director, thank you very much for inviting myself and my associates here, to work with you once again in trying to, maybe, refine a forecast for the national economy, the state economy. And, hopefully, help you in the whole process of getting towards an accurate forecast, or a reasonably accurate forecast, for revenues, which is, of course, is, I think, the goal here.

You mentioned that the growing professionalism, Senator Krueger, in our forecasting of the national and state economy, as well as revenues. And, although we'd all like to take a lot of credit for that, the real credit goes, I think, to, quite frankly, all the people sitting around this room.

It's remarkable how much hard work they do.

And it's remarkable the kind of output we see in these reports, and the work they do. They're really doing a very good job.

And I'm not all together sure, we'll certainly try to add something to that whole process, but, they alone have done -- are doing

really, really great work.

What I'll try to do is, to -- you do have a handout from me. I'm not going to plow through it or labor through it, particularly, because it's full of a lot of detail, or a lot of numbers, that are part of my somewhat specific forecast of what lies ahead for the national economy, and all of the variables -- the state economy, and all of the variables -- financial markets, short-term interest rates, long-term interest rates, stock prices -- which is, you know, easy to forecast, of course, with my fingers crossed.

But -- and, then, some comments on some of the -- I think, the important issues that we face today.

I'm not going to, as I say, plow through all of that. I'll just get to what I think is some of the bigger issues.

The starting point that I always like to use, for this session, or for any session, in thinking about what lies ahead for the economy, and for that matter, the financial markets, is -- to me, is to try to determine where we are in the current cycle.

The current cycle, which consists of a stock-market cycle, followed by a business cycle,

followed by an inflation- and interest-rate cycle.

Ordinarily, that's never an easy thing to do; but, ordinarily, that's easier than it is to do this time, because, what you need to do, in my view, and I don't want to get too complex or too far off the subject, but, is to superimpose on your understanding of the cycle, and understanding of where we are in the process of a mania.

Now, in this case, of course, we're talking about the 2004-2005 housing mania: What stage of that mania are we in?

And the reason I say that's important, is because that's going to affect the shape, or the outcome, of the underlying cycle.

Now, from a "big picture" point of view, simply stated, using some of the terminology that we've picked up over the years and -- in studying manias, we're in the "revulsion" stage of the mania, which is a tough word to deal with, but, nevertheless, it captures some of where we are.

In the "revulsion" stage of a mania, you're essentially working off the excesses that you built during the mania.

And, in this case, of course, we're talking about the significant build up in debt, generally;

but mortgage debt in particular.

And that constitutes, first of all, a very important component, or variable, in the current picture, but, obviously, a significant head wind.

And it is one of the reasons, if not the reason, why we're seeing economic activity, or growth, the recovery being somewhat, let's call it "anemic," when compared to other post-war recoveries, whether we measure it by gross domestic product, or, we look at important numbers, such as the employment numbers.

So, we're still working through that "revulsion" period.

And I might add, that in some of the literature that you see these days, that "revulsion" period tends to be much longer than anybody appreciates; the average, being, say, six years.

So, you tend to have this head wind, or somewhat anemic -- comparatively anemic economic activity, for a very long, and I might say, unpredictable period of time.

But the point is: Where are we in all of this?

And the answer to that question is: Do we

have further to go in the current cycle, despite the fact that we have this head wind?

And the answer to that question, in my judgment, from a 30 -- 30,000 feet, is: Yes, we have further to go.

The reason I say that, is because, first of all, I look at the performance of the financial markets.

And the message of the financial markets, so far, particularly the recovery in the financial markets since the middle of August of last year, if I look at the performance of the financial markets, the message there is, very clearly, that we have further to go in the current economic cycle.

It's not just the case that the stock market is rising. It's also the case that the so-called "bull market," or, economically sensitive sectors of the market, are the leading sectors of the market.

So you see things, like, technology, industrials, and consumer discretionary stocks at the top of the list.

And you see the safer sectors, the sectors that investors buy when they're only very worried about the -- about prospects for the economy, at the bottom of the list.

Utilities, telecommunications, health care, consumer staples, they're right at the bottom of the list.

So the point being, is the message that investors are sending us. And they tend to be far more right -- no offense -- but far more right than we are. But, collectively, not individually, are -- really do a great job at forecasting.

Also, you see small- and mid-sized companies outperforming large companies; growth companies outperforming value companies.

The message from the financial markets is very strong, and that is: We have further to go in the current cycle.

Now the question is: Is that consistent with some of the important monetary and economic variables?

And the answer to that is: Yes.

Federal Reserve policy; Bob mentioned --

And I'll have a thing -- I'll mention something about Federal Reserve policy in just a minute.

-- he's right, that it's an important variable, and we need to think about it, particularly now.

But, Federal Reserve policy, obviously, to this point in time, has been accommodative, and that's the understatement of the year.

Secondly, in response to accommodative policy, and a number of other factors, bank lending. Not on real estate, not real-estate lending, but, commercial and industrial loans are now growing, or positive.

In response to that, we have strong, or fairly solid, growth in the money supply, whether we measure it in nominal or real terms.

As a result of that, liquidity conditions are positive.

Simply stated: There's enough growth in liquidity, as measured by the money supply, to drive both the economy and the financial markets.

So, the message of the financial markets is positive. We have further to go in the current cycle. And that's confirmed by important economic variables, and --

Did you bring your five bucks, Chris?

[Laughter.]

HUGH JOHNSON: Anyway, excuse me.

-- it's confirmed by important variables.

Nice to you have here.

Now, also contained in my report is some of the -- is a lot of numbers.

After just giving you that big sense; in other words, the sense that the -- the forecast that the economy is going to expand for the remainder of 2012 and 2013, what I've simply said so far is, that's on fairly firm footing. Or, at least it's consistent with the message of the markets, as well as the message of important monetary and economic variables.

Having done that, then it's important, for me, but most importantly, the folks that are sitting around this room, to quantify, in as much detail as you can, all of the variables that are going to lead to, or determine, the outcome for the New York State economy, and revenues.

I'm not going to pick my way through all of those numbers, except to say, that, at the last page -- don't look at it -- but, the last page of my report, is a summary. Just has some numbers; the numbers that I come up with.

I might add, that I'd be very surprised if my numbers are significantly different from anybody else's numbers. They're fairly consistent.

And, you know, if you were trying to decide

which numbers you're gonna use for national economic growth -- personal income? wages? employment? -- a coin is probably as useful as a forecasting tool is, as anything. They're all close.

The reason I think that the numbers are pretty good, is this: Is because, first of all, the numbers are positive.

In my case, I'm working, starting point, with the consensus forecast for the national economy, which is: 2.2 percent growth in 2012. 2.6 percent growth in 2013.

The reason that number, and any numbers that are close to it, make sense, is because, first of all, they're positive;

And, secondly, they're -- which is important, is they're somewhat below. They're moving toward, but they're somewhat below what we might call "trend"; or what we might call, the average numbers that you ordinarily see at this stage of a recovery.

So, yes, positive, that's good news.

A little bit less than the kinds of numbers that you ordinarily see, as we begin the fourth year of a bull market, and we get right close to the fourth year of the recovery in the economy.

So, the point is, is you have those numbers.

Those numbers are there for you to see.

And one of the things that I have looked for, or tried to produce in the numbers that I produced, and I think it's something for you to maybe think about, is -- is, internal consistency.

And, in my judgment, the numbers that I come up with, whether it's numbers for New York State -- or, numbers for the U.S. economy, or numbers for U.S. State -- for New York State, are, internally -- internally, consistent.

Let me just say one thing about, you mentioned stock prices, Bob.

And, I just -- it's not unusual at this stage of a recovery --

And, again, we're starting the fourth year of a bull market and the fourth year of a recovery.

-- it's not at all unusual, in fact, it's normal, that you have a slowdown in the growth rate of profits.

And you have that in most of your forecasts.

I have it in mine.

And you also have a slowdown in the performance of the financial markets or the equity markets.

So the big news -- the big -- the good news

is always the first year. That's when you have a big year for the stock market.

But each successive year, the rate of return starts to come down. And in the fourth year, it gets to be -- I've got, average over average, of, about, 1.0 for this year, and 3 -- and 6.8 for next year.

Those are price only. That's the kind, that's normal.

I might have said -- also add, it's very consistent with what you get in the fourth year of a bull market, which we're about to start. And it's also consistent, and this is pure whimsy, but, what you get in the -- in an election year.

So, at any rate, things are going to slow on the corporate-profit side, and on the S&P 500, and we'll use that.

Let me get to a couple of -- a couple of points about -- that I'd like to make.

First of all: It's important to, I think, recognize, there's a fairly strong correlation between the outcome for the U.S. economy and the New York State economy.

Now, in this case, what I'm using is the Index of Coincident Economic Indicators, as

published by the Federal Reserve Bank of Philadelphia.

But there's a very strong statistical correlation, and you'll see a chart in there.

There's also strong correlation between, for example, all of the variables, but, let's say, the growth rate of employment for the national economy and the growth rate of employment for New York State.

There's also an interesting correlation between federal budget receipts and New York State budget receipts.

I'm not saying that they're precise, but I'm saying that, over longer periods of time, you see a general correlation.

What that says to me, is that the practice that we're doing here, the process we're going through, of trying to get to revenues for New York State, by starting with a forecast for the national economy, and a forecast -- moving from that, to a forecast for New York State, and then a forecast for revenue, this whole process is -- is -- is legitimate.

We're doing this, in my judgment, in the right way.

But the problem is, this, or, the logically prior assumption which is contained in all of this, is that we're right, on the forecast for the national economy, if that's our starting point.

The problem -- the problem gets even more significant, is when you review the consensus forecast, which tends to be close to what all of our forecasts are, we review the history of the consensus forecast for the national economy, you find, especially at this stage, it's invariably wrong.

And the real question, as we approach 2012 and 2013 -- it's a little too early for 2013, but not for 2012 -- is -- is the forecast.

2.2 percent: Is that too high, or is that too low?

Which way do you want to, sort of, skew, or lean, your revenue forecast?

And, interestingly enough, and again, this falls into, not statistical analysis, but falls into whimsy, is that there is a tendency of a consensus forecast, for any given year during the forecast period, which is a year before the actual year you're forecasting, and the year of the forecast, is to, sort of, pull in one direction.

And the sad news is, as I look at the forecast for 2012, down to 2.2, it's generally pulling in a negative direction, suggesting to me, that, although I'm going to work with 2.2 percent --

My associates here are gonna work with whatever numbers they want.

-- is that, if there's any way I would lean your forecast for the national economy; and, therefore, the New York State economy and revenues, is I'd probably lean it towards the leaner side, if you may, or, something, perhaps, lower than 2.2 percent.

In other words: I may be a touch on the high side.

Okay, the next question is, the forecast for inflation.

We've had discussions on this plenty of times, but, I think that the consensus forecast -- the consensus forecast is 2.2 percent for this year, and 2.2 percent for 2013.

I'm okay on this year. I think that that's going to be about right.

I'm not okay for 2013.

2013, in my judgment, the consensus -- or -- the consensus at 2.2, 2.1, is wrong, and it's too

low, and it's going be closer -- not big, but closer to 3 percent.

So, I would take a hard look at that number, and maybe -- and listen to the other folks here, who -- who spent a lot of time thinking about the rate of inflation.

That has implications for Federal Reserve policy.

As everybody knows, the Federal Reserve has sort of changed the way they do things now. They've formalized a 2 percent inflation target.

And I have a serious question.

I know the purpose of that is to increase transparency, or a level of certainty, surrounding Federal Reserve policy.

In my judgment, it decreases transparency -- or, it doesn't decrease transparency, but it raises the level of uncertainty.

And, I ask this question, this way: As we know, they promised to keep interest rates at zero to 25 basis points, through 2014. To the end of 2014.

Well, if in 2013 the unemployment rate is still coming down, but high --

And I believe it will be coming down,

continuously, through the 2012-2013 period, but still at a high level.

-- and, we see the rate of inflation in 2013 heading up towards 3 percent, what does that imply for Federal Reserve policy?

In my judgment, I don't know what it implies.

I've spent some time talking to various people at the Federal Reserve who are in the, sort of, hot camp, I might add, but, nevertheless, still talking to them.

And, in my view, that probably implies that the Federal Reserve is going to have to come off its promise of maintaining, or keeping, their target for the federal funds rate at zero to 25 basis points through 2000, up till -- through 2014.

That, they may have to raise -- in other words: The consensus forecast, plus every one of our forecasts, for short-term, and even longer-term, interest rates, might be a little bit too conservative.

They're not going to go a lot higher, but the feds, probably, which is the principal variable driving interest rates, particularly at the short end, is likely -- I think there's a really reasonably good chance that they can -- they're

going to start to move higher there.

So, you might want to take a very close -- close -- close look at that forecast.

Federal Reserve policy is one of the important, but uncertain variables.

The -- now, another thing -- this is something I say, but I don't know if it's going be all that -- I say this, on the federal level, but -- and it's true of the states as well:

If you do nothing, if you change no laws, if the federal -- at the federal level, you change no laws, there -- a lot of the -- there's a lot of laws that are going to be changed. They're in, sort of, various levels of flux, or uncertainty, right now, such as the reduction in the payroll tax.

But if nothing happens, you're still going to have a growth in receipts at the federal level, and you're still going have growth in receipts at the New York State level.

And I think that's kind of important, because there is a tendency, when, let's say, at the federal level, when revenues get to 14 to 15 percent in a recession, which they ordinarily do -- not quite that low, but they get down -- and when spending gets to 24 percent of gross domestic product,

there's a tendency to panic, and to try to change laws in order to try to reduce deficits and debt, and to do it at the wrong time.

And the point I'm trying to raise, is that, if we're right on the economy; if we get 2.2 percent, maybe a little bit less, growth in 2012; 2.6 percent, maybe a little bit less -- I don't know -- 2.6 is good, for 2013; the point is, is that, receipts at the federal level are gonna to rise, and, also, receipts at the state level are gonna rise some.

That's not say that, at some point, especially at the state level, where you have to balance budgets, is that you don't entertain revenue enhancements and spending cuts, or some combination thereof.

But it is to say, that a lot of the stuff will start to heal itself, if given time, and you don't want to -- you don't want to go to an extreme.

One comment on Europe.

The -- I -- I -- there's -- it's hard to overstate, how creative, and how interesting, what the ECB is doing.

They're doing very much the same thing that we did in the savings-and-loan crisis of 1990 and

1991.

They're providing significant liquidity of the banking system at a very low interest rate, 1 percent.

You may have seen the auction, or the results of what they did today, that was, 760 billion, 700 banks.

I mean, it's -- it's really cheap money.

We did the same thing in 1990.

And the banks, of course, still didn't have much of an appetite to make loans, and didn't, here.

And they're not likely to have much of an appetite to make loans there.

But they do have an appetite to buy sovereign debt; 2 to 3 years' sovereign debt.

And, as you see, interest rates on sovereign debt are coming down in Europe.

And that's all a result of what they're doing.

In time, when the profitability, and the balance sheets, in capital, or banks improve, as a result of this risk-free give-away --

I shouldn't call it that, but that's kind of what it is. It's very creative.

-- in time, banks will become profitable

enough that their lending -- they'll have appetite to increase their lending. And that will, in time, lead to a recovery, not only in bank lending, but the economy.

In my judgment, when I look at the prices, when I look at interest rates on sovereign debt, when I look at the prices of credit-default swaps, when I look at financial-market prices in Europe, the message is -- as was said by the premier of Italy this morning, the message is, is: Things are starting to heal there.

The economy's not doing well, but they're -- but they seem to be headed in the direct -- in a positive direction, or, that investors are sending a message, that perhaps that's not going to be nearly the risk in 2012 and 2013 -- or, certainly, 2012 -- nearly the risk that we're all worried about.

That may be one of the least risks -- well, it's still a significant risk.

Okay, that's, basically, all I have to say.

I think, in sum: I think, again, the staff, everybody's done a great job. I think you're doing a great job on forecasting.

The national economy, the state economy, revenues, use a coin to resolve your differences.

I wouldn't really worry about it.

[Laughter.]

HUGH JOHNSON: I'm serious.

And, you know, there's no amount of statistical analysis that'll close those small gaps.

And -- and, you know, prospects seem good for this year. They seem a little bit better for next year.

There -- it's not going to be a normal recovery. It will be anemic when compared to other post-war recoveries.

It has to be, because we're still working through the "revulsion" period.

And, keep a very close eye.

I think -- think long, and think hard, about Federal Reserve policy.

Think long and hard about inflation, Federal Reserve policy, short-term and long-term interest rates; the forecast for those variables.

And -- and I wouldn't -- well, just as -- I shouldn't say something political, but I wouldn't move too fast on anything in trying to resolve deficits.

I mean, move with -- move carefully.

Let's put that it way.

Thank you once again for allowing me to be here. It's been wonderful.

ROBERT L. MEGNA: How do we want to handle it?

Do we want to ask questions, or wait until the end?

UNIDENTIFIED SPEAKER: Wait till the end.

ROBERT L. MEGNA: We will wait till the end.

Okay, given that, I'm going to introduce Chris, who we're really thrilled was able to make it through the snowstorm, and get here.

So, the next person on the panel is Chris Varvares, from Macroeconomic Advisers.

CHRIS VARVARES: Thank you very much.

It's a pleasure to be here, and be part of this process again.

[Unintelligible]. I hope you can arrange a pardon, because I had to hijack a cab.

[Laughter.]

CHRIS VARVARES: So, in listening to the remarks, as far -- I want to sort of agree with my esteemed colleague to my right, there is a lot of uncertainty right now.

It's often said, that in this period, we're very much in uncharted waters.

However, I think we're starting to move into charted waters, and I expect that, by the end of this year, one of two things going to happen:

Either the euro-zone crisis will re-intensify and will drag the global economy back into a recession, or, it will move in a way that is clear that it is resolving, and the economy of the U.S. and Europe, and the global economy indeed, will begin to experience something much more akin to a normal cyclical recovery that has been delayed now for three years.

So, in that sense, we often say that the probability distribution of outcomes is bimodal.

On the one hand, if we can eliminate that one risk of the European situation from becoming some kind of a meltdown, that we get back on track to a much better kind of environment.

So when you look at consensus forecasts, the blue chip, you're really are looking at an average of individual forecasters' best guess; and, as such, it may not really represent anything close to reality.

On the one hand, you know, the story of: The doctor, the physicist, and the statistician go out hunting.

And the doctor takes the first shot. It's far to the left.

The physicist takes the second shot. It's far to the right.

The statistician goes, "We hit!"

Okay, on average they were right on.

[Laughter.]

CHRIS VARVARES: So, we have to be wary of interpreting consensus forecasts as representing sort of two different views of the world: One view, that the European situation worsens, and we have -- we're on a slow-growth track, versus, that it improves and we have a much better environment.

The -- there is a sense that uncertainty is lifting.

And -- and as that uncertainty lifts, the balance of risk between upside and downside risks to our growth forecasts are becoming more balanced.

We have gone through this period where the risks have been way overweighted to the downside.

And what's happened -- what's been happening in Europe of late, is suggesting that, even -- there seems to be this resolve now, that: Well, okay, maybe Greece is going to end up leaving the euro, but, you know, what? We'll get through it.

And, increasingly, I'm of the view that, Europe, every time things get bad, they make the political decisions that are necessary to get past that immediate crisis and move on.

And I read a very interesting paper recently, where the story was, that part of the financial-market volatility that's at work there is a necessary part of the process to force the political decisions that are needed to resolve the crisis.

And I -- and folks who believe it will be resolved start from the premise, which we've had in our forecast for a long time, that they'll do whatever it takes to avoid an implosion of the euro zone.

So, just as background, the forecast I'm going to talk about assumes that the euro-zone crisis does not re-intensify, we do not have a meltdown.

It doesn't mean that the financial markets, still, are on a rollercoaster as we see progress forward, and then -- and, then, some progress -- reversal of that progress.

And that volatility in the financial markets is one of things that does make for a slower-growth

outlook for the United States, because it adds to uncertainty. More uncertainty reduces the value of risk assets that has real balance-sheet effects, that do have real effects on growth.

Okay, so, I want to talk just about seven of these slides, so don't fret. I'm not going to go through all of them.

So, really quickly, from 30,000 feet, we think that the U.S. will, in fact, avoid a recession, even though I think that the chance of recession have receded dramatically, but not everybody's taken off of recession calls.

This year will be another, kind of, muddling-through year.

Fiscal contraction at the federal and state levels is still a force that's slowing growth; and, it's also a downside risk, because, at the federal level, lots of things have to get resolved before we hit 2013.

If they don't get resolved, pushed back out of the way, et cetera, et cetera.

So, it's not only slowing growth on the track that we're on, but there's a risk that it could be -- we could see much more drag.

The slow growth in the economy means that

they will make little progress in lowering the unemployment rate this year.

With the kinds of growth rates we're talking about, we would expect the unemployment rate to be, basically, unchanged. Maybe even drifting higher.

The European situation we think will resolve itself. And, clearly, it's beginning to ease, but, as I said, there's still that other scenario that could threaten global expansion.

In this environment where we have relatively modest growth, not a lot of upward pressure, we think, to be sustained in commodity prices, we think inflation will remain on a fairly level track.

So, we're -- our forecast will be much closer to the [unintelligible] zone forecast, where the key measures of inflation that they watch, the broad consumer-price measures, would be rising at a pace less than 2 percent over the next couple of years.

And, in that case, you take the fed at its word, or at least its conditional commitment, that it's going to keep rates low, steady, zero, basically, through late 2014.

And let's face it, if the economy does better, we know that -- and inflation is higher, we know that they'll tighten before that time.

But, given the growth outlook that characterizes most of the forecasts I've seen, it's very consistent with the story that short-term rates will remain close to zero through 2014.

So, I think, relatively good news, from a budget perspective.

Nevertheless, long-term yields will begin to rise.

Long-term yields are really nothing more than a fancy weighted average of future expected short-term yields. And as you roll forward in time towards the date that the fed's going to begin tightening, you're dropping zero at the front end and adding 4 1/2 at the back end.

It doesn't take very long for that average to begin to move up.

So long-term rates, we think, are currently at their low level, and will begin to rise towards, 375, 380, by the end of 2013.

It will be an uneven rise, but the direction, we think, from here, is up.

Equity markets, we believe, are significantly undervalued. Still, 15 to 20 percent under value, even given the expected rise in interest rates that we see.

And, so, we think, this year, broad measures, like the Wilshire 5000, will be up, something like, 12 percent, and, we can do another 15 to 20 percent next year, to cure that undervaluation.

So let me go on and talk through a few of these slides and, quick, put a few more numbers to the story.

So, the -- Slide 3 shows the quarterly growth path of real GDP, as well as the unemployment rate.

We had a pretty good number reported this morning, for the fourth quarter, 3 percent, an upper revision from the earlier prints.

We think that some of that was -- clearly, was due to a surge in inventory building, that's not going to be repeated.

In fact, inventory -- decline in inventory building will help to slow growth early in year, but, to about 2 percent.

So, we're fairly comfortable with 2 percent growth for the first quarter, gradually rising over the year, so that the year, as a whole, measures fourth quarter -- where the fourth quarter would be 2.6 percent, or, 2.3 percent on a year-over-year basis.

We think, with the expiration of the

unemployment -- emergency extended unemployment benefits and the payroll-tax holiday, there's a hit to disposable income early in 2013, which will slow consumer spending in the first half of that year. So, you see growth dip a little, and then it gradually revives over the year. And growth, that year, we have it, 3.2 percent, or, 2.9 percent on a year-over-year basis.

So, I think a little better this year than the consensus, but, next year, we're somewhat more optimistic.

And it really gets back to that story of: How do you weigh the dissipation of the head winds that we've been dealing with for a long time, versus, a return of some normal cyclical dynamics that will help to lift the economy when we get out to 2013?

One of the issues is, and one of things that we hear a lot about, is the key head wind has been the de-leveraging story.

Well, if you simply take a look at what's happened at the household saving rate since it peaked at about 5 3/4 percent early on in the recovery period, to where it is today, as well as the growth in consumer credit, I think it's pretty

safe to say that the household sector's big de-leveraging days are behind them, and, that we're not in a big credit boom again. But, we're at least in a period where households are in a position, that, the financial-obligation ratios, the delinquency rates, are down at almost historical lows, or certainly mid-cycle levels, to suggest that there's capacity for households to use debt to once again raise spending, or, use credit growth to raise spending.

The housing market, we've seen early signs that it's beginning to recover.

I think, if you -- you don't have to squint too hard to see that home prices really are stabilizing. It's still very much a regional story.

Home prices are rising, sharply in some markets.

We look at the California market, the home prices have been up for the last year to year and a half, and by quite a good measure.

So, home builders are becoming more optimistic.

The foreclosure-starts' rate has fallen off, even if you take apart from the robo signing mess.

I think there's signs that the housing market

has clearly hit bottom, and has -- it's bounced along bottom for a year and half, and it looks like the early beginnings of a housing recovery are there.

So, we think, if we can again get past the situation in Europe, where we have a significant meltdown, that there is a good chance that growth could -- there's as good a chance that growth could exceed the consensus forecast, as it could come in lower.

Okay, in -- I mentioned fiscal drag, and, the next slide details some of the sources of that drag.

Certainly, we know government spending restrained at the federal level is accounting for some restraint. So, there has been actual outright spending reductions not relative to baseline, but level reductions in spending that accounted for six-tenths of drag last year. And we think it will be another two- to three-tenths this year, and a tenth or two in 2013. And that's before we'd incorporate so-called "multiplier effects."

We think 2013 will be he held back about a half a percentage point due to the expiration of the payroll-tax holiday and the expiration of the extended unemployment benefits.

We've been clearing out our forecast, some sort of revenue enhancement, about a 60 billion increase in personal taxes that would generate 600 billion over the 10-year window that they're negotiating over.

There's some risk -- so that's the drag.

And the risks are, that the sunsetting of the Bush and Obama tax cuts in 2013 would imply a very large tax increase, together with the other provisions I just mentioned, it would reduce personal income by about $500 billion that year, which would be massive, massive drag.

It's -- and, again, it's so bad, it's, just, neither -- neither party wants to have their fingerprints on that, so, we think that some kind of resolution will occur this year.

But, from our base forecast, we have drag of about eight-tenths from federal fiscal policy, in 2013.

It could actually extend to as high as 3 percentage points if everything that can go wrong does go wrong.

And since our growth forecast for 2013, fourth -- the fourth is 3 percent, if you had all that drag, it would surely throw the economy back

into recession.

And, so, that's a risk, but we view it as a low risk.

If you go on to the next slide, it details some of the underlying forces on the unemployment rate.

We do see employment growth kicking up this year.

The lines that are for labor force and employment growth are measured fourth quarter over fourth quarter, so it belies a bit the fact that growth of employment will be relatively slow in the, roughly, 100,000 a month for the first several months this year, we believe, but probably -- they'll up sharply, towards 200, or maybe a little better, later in the year.

The unemployment rate, frankly, is a big wildcard.

The labor force has acted in a very fluky way, and a puzzling way, and it's difficult to know whether the labor force will continue to, sort of, languish, or whether it will come back sharply as it does in a cyclical sense.

And, I hate to say this, but we've sort of thrown up our hands to try and understand exactly

what's been pushing the labor force around lately.

So, the unemployment rate itself is a wildcard, but we do think we're at a situation now where we'll see sustained, solid increases in employment that will build as we move through the year.

In terms of inflation, on Slide 6, I like to show this, to show the point that inflation is indeed cyclical. Large amounts of slack typically put downward pressure on inflation.

That was certainly true in the '70s and early '80s.

It's less true today because fed credibility has helped to stabilize inflation expectations, so slack doesn't matter as much as it used to, but we believe it still matters.

The fact that the unemployment rate is remaining elevated has slowed the rate of growth of labor compensation.

We know this, it's very clear, and that has helped to keep profit margins expanding.

I agree, that we are probably at the peak of the profit share. And, if there's any movement up, it's probably slight, and we're probably towards the downside slope of the profit share.

And, so, be ready for those implications.

But, nevertheless, that expanding of the corporate profit share, companies still do compete on price to gain market share; and, so that has helped to keep inflation relatively soft.

You can see, also in this chart, the growth of unit labor costs. There have been very large outright declines in union labor costs on the backside of the recession, a combination of strong productivity gains and relatively slow growth of labor compensation. And that expansion of those margins has led to very strong profit growth.

That strong profit growth has led to huge increases in retained earnings. We're at record levels of retained earnings. [Unintelligible] absolutely, and as a share of the GDP.

Corporations are lending money back into the economy, if you will, by the amount of saving that they're doing, and building up large balances of liquid assets.

Once we get to the other side of the European crisis and uncertainty lifts, I think there's a chance here, and we might only be one good burst of animal spirits away from catching on to that virtuous cycle of strong investments, strong

employment growth, at a -- and a really good couple of years of overall economic growth.

Certainly, corporate -- large corporations -- large non-financial corporations have the wherewithal to increase capital spending quite dramatically, should they decide to do so.

Gone to Slide 7, this shows the rate picture.

It goes through 2013, showing that funds' rate, basically, at zero, all the way out.

We have no increase in the policy rate over that period; but, again, long-term rates would be expected to move higher.

You'll notice -- some people sometimes ask: Gee, why are the lines so erratic in history, but so smooth in the forecast period?

We don't forecast noise.

And these are meant to show the general direction of interest rates, which, clearly, is higher for long-term rates, as I explained earlier.

But even still, by the time we get to the end of 2013, look at the conventional mortgage rate.

It's still at what, apart from this most recent episode, would be a historically low level.

So, we don't think that that's -- itself, would stand in the way of a housing recovery.

The same thing for the 10-year treasury yield, it's at a historically low level.

So, real interest rates will remain historically low, just as, you know, inflation's edging up a little bit. But, real interest rates would remain at near historic lows, and we don't think that that would stand in the way of a serious recovery beyond 2013.

And, finally, if you look at the next charts, Chart 8 on the equity markets, this -- the colored band shows our -- what we view a fair value for Wilshire 5000 index.

We've been at the bottom end of that, with the meltdown in the market last summer. We were well, well below that range. We've crept up to the bottom edge of it, and we expect that we'll see continued strong gains in equities over the next couple of years, to help get us back into, sort of, the middle of that range.

And that is supported by the very strong level of profits.

And as we'll see, going forward, we'd expect that the dividend-payout ratio will be rising, and that would help to offset, somewhat, the rise in interest rates that might otherwise tend to reduce

valuations.

So, our -- our -- so that's the -- pretty much, the end of the story.

Our view is slightly more optimistic than the consensus this year. A bit more optimistic next year. And, again, it is very scenario-dependent.

I think we believe, that, as long as we avoid the re-intensification of the euro crisis, we can be in for the kind of growth that we're forecasting.

ROBERT L. MEGNA: Thanks, Chris.

Jim Diffley.

JAMES DIFFLEY: Thank you, Budget Director Megna.

You know, I thought we had some big differences in the forecast.

And, first of all, I'd say we don't have many differences [unintelligible] as I thought we did, but that is one thing Chris said earlier, when I saw 2.6 percent in one of your tables.

2.6 percent for GDP this year, was Chris's measure of Q4 2011 to Q4 2012.

And I was contrasting that, quickly, with the 2.2 percent we have. [Unintelligible], and as you mentioned, it's about the consensus.

So I thought, my God, Chris was much more

optimistic, but he corrected me. I mean, he just clarified, 2.6 was the Q4 to Q4.

It's a tricky data question, but 2.3, is Chris's forecast for year-over-year growth for 2012.

So, we don't disagree that much at all.

What we -- you know, what I can say, to summarize our forecast, is that we're more certain now than ever, through the course of this recovery, that we're on the road to recovery. That we have momentum, both in the U.S. and, as Bob said, in New York State.

We're also more certain that the recovery is slow, and sluggish, and prodding along. Slowly, but surely, we're moving up.

Okay?

So I'm going to go through the slides a little. I'll try not to repeat much of what Chris said, and I'll spend more time on New York when we get there.

Recent news in New York, including this morning's GDP release, which was revised up for the fourth quarter, to 3.0 percent, is a little misleading.

It's probably due to good weather, I'll mention. No one's mentioned that before, but

there's also a big inventory build in the fourth quarter, that we know will not occur -- and both you and Chris mentioned this -- in the first quarter.

So, the rate of growth -- the rate of measured growth is bound -- bound to slow a little.

On the other hand, today there was a huge revision upward in wages, as measured in the second half of 2011.

That bodes well, because households, turned out, they're spending was not so far out of line with their income in the latter half of 2011, but was indeed more supported by that income that we thought, and hence is more sustainable, by the increased rate of consumer spending.

So, consumers are indeed cautiously increasing their spending, as businesses have been, at least outside the construction sector or structural investment -- real estate investment.

We believe the housing market recovery -- we also agree the housing market has clearly hit the bottom, and is coming up, to some degree, but slowly.

However, a normal path of new-home construction in the U.S., and including new-home

sales, and people being able to move around, for purposes of jobs and careers, et cetera, is very vital to more robust economic growth, but, it's still a couple of years off.

The housing market is starting up, but it's at a very low level.

The export outlook, in the medium term, is very favorable.

We're very bullish on exports being a leading sector in growth in the rest -- for the rest of this decade.

2012 will be a little slow, though.

The euro zone's in recession now. Not in a deep recession.

There are serious risks there, as we'll mention, but we do look for it to come out of even that mild recession in the second half of 2012.

China and the Pacific are also slowing a bit.

They're still growing very fast, much faster than the Western economies, but slowing a little off the pace than they had in the last -- in over the last decade.

Fiscal policies will tighten a bit.

We agree with Chris's point, that we -- that the political parties cannot let the nightmare

scenario occur in the beginning of 2013, of sharp cuts in spending or increase in taxes.

But, we also think it's crucial that the payroll-tax cut have been continued through 2012, because the economy does not have enough momentum without it to withstand the serious negative consequence to demand, should that happen.

But, over the longer term, fiscal policy is going to be contractionary, we agree.

The euro-zone sovereign-debt crisis has been handled better than it -- one might have been worried about a few months ago.

The European Central Bank is providing a lot of liquidity; and, effectively, it wasn't quite clear they would be willing to do so.

We also take the view, that they will do whatever's necessary, as the Federal Reserve did in the U.S., to keep the euro zone from falling apart.

And, so, those risks have decreased, but they're still there.

Germany is still driving a hard bargain in terms of austerity measures being demanded of certain countries.

And, it remains a threat, as do rising oil prices.

We have not been sanguine about oil prices coming back down to, you know, levels earlier in the last decade, at all. We've always maintained that the fundamentals are, the oil prices will remain high -- high, historical, and -- in historical terms. Although, natural gas prices are low, and that's an aid to the economy, particularly in households, particularly in the northeast.

But this recent uptick is worrisome. I mean, oil prices have always, and geopolitical uncertainties always, been a potential drain on the economy, and something we do have to be concerned about, but, we were not counting on oil prices declining in our current forecast at all.

So if you look at the graph on page 3, you'll see, in the blue bars, our projected rates, to the right of the vertical line, at the start of 2012, in GDP growth, positive, but, you know, not strong.

Anything much less than 3 percent is hardly a potential GDP growth in the U.S. It takes us a couple of years to get back up there.

And, as a result, the unemployment rate, and the number of jobs added to the economy, improves, but only very gradually.

The idea that, even in 2015, we're still

flirting with 7 percent unemployment, is not a very optimistic view, historically, again, of the U.S. economy, but it's an improvement from what we have today, and part of the recovery process.

Our numbers on Slide 4 show you the gradual ramp-up in real-growth domestic product, to over 3 percent, finally, on a year-over-year basis, in 2014, but a gradual rise.

Consumption remains moderate in growth. We do think households have largely been through the de-leveraging, but, of course, they're not going to take on debt the way they did 10 years ago, in the last decade.

So, we're not going see consumption leading. That's one of the reasons we're looking and -- for exports to move up and take a larger share, roughly, about, almost 40 percent of projected growth this decade in the U.S. will come directly from exports.

Business fixed investment remains strong.

The residential investment increases, 16 percent in 2013, 26 percent in 2014.

Remember, come off very low levels and they're just getting back up to normal, so, it takes that type of growth to be get back to normalcy.

On the next slide, page 5, you see other

indicators.

I'll point out:

Light vehicle sales only getting back to, again, improving. And there's some pent-up demand we have seen for automobiles, but we don't see it rising very fast.

15 million cars in a year was topped many times in the last decade, but, at least we get up to a somewhat healthy rate by 2014.

Housing starts don't reach a million until sometime -- a million-unit annual pace, until sometime in 2013. And that's, historically, a very low number.

In the bubble there were 2 million. That was unsustainable. But we expect a normal rate, owing to household formation in the U.S., and demographics, to be about 1 1/2 million.

There's still a large amount of inventory of unsold houses and unoccupied houses on the market, much larger than is healthy, and that keeps pressure down on prices, but it is slowly being worked off, thankfully.

We agree with the previous presenter on -- I think, if I remember their points correctly -- Consumer Price Index. CPI is not a threat for a

while. About 2 percent, we think, is maintained.

You see oil prices over $100, on average, per barrel.

And, again, monetary policy remains very loose, 0.1 percent federal funds' rates, for foreseeable future.

And, so, I agree that the threat of a fed tightening has very serious implications for the New York budget, and other budgets. That's somewhere off into the future now.

Employment: Let's take a look at employment by itself, on the bar chart on Slide 6.

We finally get back with less than 2 percent growth. Again, positive growth, going forward, but less than 2 percent is not a typical recovery at all.

If you look quickly at 2004 to 2006, you see 2 percent easily being topped, and that's after jobs have been recovered from the recession.

We don't get at that rate, the level of jobs that existed in the U.S. in early 2008 or late 2007, again, until late in 2014, at these rates.

New York, as you'll see, reaches that level, previous peak employment, somewhat -- somewhat quicker.

Notice I said "previous peak employment."

Unemployment still remains high at that time because we've had labor-force growth in the intervening period, of course.

So, it's not really full employment in any sense -- in that sense.

Chart 7 gives all the reasons why we think market fundamentals support high oil prices, going forward.

And I won't go through that, other than to note the obvious risks coming from Iran, and elsewhere.

Turning to consumers a bit: Disposal-income gains for households, of course, limit the rate of growth of consumer spending.

Remember, the consumer spending was propelled a lot by home-equity loans, et cetera, in the last decade, and we won't see that reappear.

So, here, I've plotted real consumer spending versus real disposable income.

You see the negatives during the recession, but, somewhat moderate pace coming out of the recession, in terms of spending, and obvious implications for sales-tax bases, in other words -- and other spending activity.

Durables behave more cyclically, this pent-up demand.

If you haven't bought a car in a while, they -- they cars do deteriorate.

Same thing with other appliances.

And so we see a spurt in durables that we don't see in non-durables, but that must end. There's a spurt, as pent-up demand appears, then, pent-up demand is exhausted.

So, it has a natural cycle in the recovery from a recession.

That's documented on Chart 9 of our forecast.

Take a look at what the other factors, driving:

Spending, well, the savings rate, and, of course, the wild fluctuations in household net worth, owing to two big factors: Stock market cycles, and improvements lately, of course; but, also, real-estate equity.

We do look for savings rates, in the blue, to gradually increase in, quote, the new normal, as consumers do not take on the debt burdens they had in the past.

But, the decline in savings rates you see, you'll see the blue line, coming from 2010, down to

2012, will reverse itself at last.

Light -- this is the, graphically, light vehicle sales, or, cars and light trucks, you see recovering together, after the recession.

Won't belabor that.

Slide 7 dramatically showing how real-estate markets plummeted to below half a million -- or, virtually, half-a-million unit annual pace of construction, post-World War II lows, by a lot, by the way.

And then, only by the last five years of the decade, getting back up to, what we term, a normal rate. A sustainable long-term rate of household home growth, given household formation.

Multi-family markets are stronger now than single-family markets, as families adapt to the new realities of real-estate home-price appreciation, amongst other things.

So, summarizing this: We want to talk about a baseline forecast, and then talk about, what are the risks around it.

And we provide both optimistic and pessimistic scenarios.

For a while, our pessimistic scenario, for a while -- I mean, in the months leading to the end of

2011, probability associated, that was up around 40 to 50 percent.

Okay?

We've now moderated our assessment of the risks of having a double-dip recession. We still put it at a quarter, led by a credit crunch, spurred by sovereign-debt crisis in the euro zone, you know, falling apart from the current agreements that are in place between Germany and Greece and the other countries.

That the payroll-tax cut and unemployment insurance benefit extensions would have been allowed to lapse after March, we think would be ruled into that scenario.

Consumers would then retrench, and housing recession would continue to drag on without much end in sight.

So, those types of factors lead us to, and we put a 25 percent probability on it. It's not something to be dismissed, but that's our pessimistic scenario.

I'll show you what it looks like, graphically, in a second.

Optimistically, the euro-zone crisis, which as, you know, the prospects have, look a lot better

than they did a couple of months ago, but is resolved convincingly.

The reforms get in place that are, both, not crippling to the companies -- to the countries -- sorry -- at the time, and, also, increased confidence that the crisis is indeed over, credit channels around the world begin to function more smoothly.

They are functioning more and more smoothly since the problems of 2008 and 2009, but really get humming like they should. And that leads to confidence, and there's another virtuous cycle there, in terms of confidence and spending that we can plug in.

And then, emerging markets, the growth engines for exports, which are really in the Far East, take off as well.

That's our optimistic scenario.

If you look at the graph, then, on page -- on Slide 14, page 14:

You see the gap between our red, the low scenario, the double-dip recession, where GDP growth goes negative for a while in 2012;

And the high scenario, 3.5 percent to 4 percent growth for a year or two. A very bullish

view of the economy, should that happen.

And the baseline, much more moderate, 2 1/2 to 3 percent growth for the next six quarters.

Bottom line, the most likely outcome, in our view, is:

Continuing but modest growth, cautious consumer spending, businesses and exports, with some help from consumer durables, continue to drive the expansion for a few quarters;

Pent-up demand for housing, eventually, but slowly, releases itself;

Fiscal tightening is coming, but it's not coming too soon;

And then we have the major global risks from the euro zone, from an oil-price shock.

And I haven't mentioned it, but, again, China is slowing in terms of its rate of growth.

And, they have their own real-estate bubble, by the way, that they seem to be managing, in a way -- in sort of a brute-force way, of preventing home prices from going up.

But, we would be hurt by a hard landing in China from their bubble activity, because we do get a lot of business, both, directly, in terms of business to China, but also the Pacific nations

that, themselves, depend upon Chinese economic growth, would hurt us should the growth rates there plummet.

And, so, the probability of another recession -- double-dip recession is down to a quarter, finally.

All right?

Let's take a look at the regional outlook, across the country, briefly.

This year, by the end of 2012, we expect all regions of the country, all states -- a nice way to measure it -- to be increasing in employment; to have employment gains.

It's not the case right now, but most are -- and, for unemployment to be falling.

The states that were most greatly impacted by the housing crisis will finally begin to be growing, and they'll be growing at a relatively fast rate.

Of course, they have a much sharper rebound to make. They lost in -- at a much larger fraction of the job basis than, say, New York did, and, certainly, than the country -- than states in the center of the country have.

The Rust Belt and southern manufacturing states are doing rather well, relatively, in terms

of, again, historical precedence, as manufacturing takes a leading role in the recovery.

And, New York is among one of the four states that will be adding over 100,000 jobs again this year.

Looking at that by a map, it's a little fuzzy I see in the printout, but, New York in the lead.

That's, actually, fourth-quarter growth in New York just gets into that top rank, 1.7 percent. That's Q4 over Q4. The average for the year is a bit less than that.

But, relatively strong growth in the near term for New York, and following a weaker -- a stronger -- that is, a weaker fall, a smaller fall, during the recession, as we'll see in a minute.

The state unemployment rates remain stubbornly high in the -- ironically, in the Sun Belt. You know, and big reversal of fortune and regional economics in the countries of the Sun Belt is now the least well-performing sector -- regions of the country; whereas, for years and years, in the post-war period, it was quite the opposite.

But, you can get a sense of that.

I've added real-growth state product here, as well. An important indicator, "the indicator," of

overall economic activity, comparable to real gross domestic product for the U.S.

New York is -- appears much worse, in terms of GSP than it does in employment, and that's because of a bit of a retrenchment in the financial sector -- the very high value-added financial sector in New York City.

Which, I guess I'll skip to, and mention right now, for the moment.

We do think that there is risk from financial-sector retrenchment, clearly.

We're relatively optimistic that the really large amounts of layoffs announced by the Wall Street firms --

And they really haven't been focused on New York; they've been focus on their worldwide operations.

-- are overstated, or, in the sense, that we don't think they'll all come to pass.

But, we do see sharply lower bonuses this year, and we think that's a permanent change for Wall Street;

And, very weak, if at all, employment growth, going forward, over next couple of years in the financial sector in New York.

But, there's a risk, though, that, you know, not stemming partly from the euro-zone crisis, but also from the sharply -- sharp downturn in profits in finance this year, that those layoffs and other retrenchments in Wall Street will come to pass.

It's a big negative risk for New York; and, of course, a bigger risk for New York than it is for the U.S.

A contrasting, go to slide -- oh, we don't have a number on this slide.

Slide 20: When does New York regain jobs it lost in the recession?

A little earlier than the U.S.

By 2013, New York has reached the previous peak, which I believe was the first quarter of 2008.

I'll have to check back, exactly.

This is tailored to the different states' cycles, by the way, but you get a sense of how that stands in terms of the rest of the country, in the top quartile of states, in terms of overall experience.

The euro-zone exposure is greater here, in terms of how much the export sector. This is a share of state exports to Europe.

Along the East Coast, you see a greater

exposure to Europe, in terms of types of exports that are -- that are sent, should Europe -- but that's a lower -- should Europe go into a deeper recession, but that's a lower-probability event than we had previously referred to.

New York employment growth here, on the next slide, again, a shallower recession than the U.S., coming back up now.

U.S. rebound catching up to New York, in terms of growth rates, but, of course, there's more to gain, more to recover, in the U.S.

And, overall, New York performs -- continues to be relatively strong, relative to the U.S. At least comparable to that.

The next graph, on wage and salary growth, New York looks a little worse.

Why? That's those -- those are the Wall Street bonuses.

All right?

The finance -- the very important finance sector taking a hit this particular -- this -- at the end of 2011, in particular, and, falling below, in terms of the overall.

This measure's not just Wall Street. This is all wages in New York, but Wall Street's a

significant factor, as you know.

Then, looking at two big spending items: Cars -- automobiles/sales, in red; and housing starts, in blue.

Recovering, again, comparably to the U.S., in the sense of not reaching yet, for quite some time, the heights they had in the -- during last decade, but recovering slowly, finally, at last, and surely.

Bottom line for New York: Continued growth.

I haven't mentioned real-estate markets.

We think real-estate markets -- residential real-estate markets have hit the bottom, but, it's still the case that one could make.

You know, there's still a lot of foreclosure activity to take place.

There's still a lot of home sale -- homes for sale. There's little -- a lot of notional homes for sale, in the sense that people aren't putting them on the market.

This spring selling season, by the way, will be -- will tell us something about how strong demand is.

And there is still a risk of further home-equity falls.

We're not projecting further falls. We think

we're at the bottom, but, we do acknowledge the risk.

Real-estate markets, given the rise in real-estate values over the last -- and during the bubble in the last decade, real-estate markets have been a lot -- the crash has been a lot milder in New York than it might have been, comparing it to California or Florida or Arizona, okay, for instance.

But, to be sure, that the risk of recession is certainly diminished.

We expect growth; but, again, it's going to be moderate in the near to medium term, for New York.

All right?

Thank you.

ROBERT L. MEGNA: Thank you.

Last, but certainly not least, Ronnie Lowenstein.

RONNIE LOWENSTEIN: Thank you very much for having me.

I'll be talking about New York City, so, it's somewhat different from what you've been hearing.

And, I'd also like to say, that, before I start, I was at the first Consensus Revenue Forecast

Conference, and, there's no comparison between the sorts of cooperation, professionalism, you see now, and what was happening back then.

So, that's all to the good.

All right, I want to make one main point.

New York City's Independent Budget Office, which I head, is putting out a new forecast for the city, and U.S. economies, next Monday.

So, a lot of what you're hearing, you'll be seeing then.

This is a very different forecast than the last forecast which we put out, which was, literally, two months ago, back in December.

And the difference is, we're now expecting that the weakness that we saw in the securities industry in the second half of last year is going to persist.

We're anticipating, this is due to structural change within the industry, as opposed to cyclical factors.

And, because of that, the forecast we'll be releasing on Monday is very much more pessimistic for the city's economy than we had seen in December, or the forecast before that.

The bottom line is: We're expecting the city

of New York to add just 22,000 jobs this year, which is down about 10,000 from what we added last year when the recovery was more shaky. And, it's a far cry from the nearly 40,000 jobs we were forecasting back in December.

So, this is a huge change in our forecast, and it's reflected everyplace in the forecast.

We're also anticipating that the all-important security industry barely grows over the course of the forecast period, through 2016, and, that has effects on, pretty much, every variable you can think about.

And the final "big picture" thing to say about our forecast, is, throughout the recovery, we've been really focused on downside risk.

You know, the risk is, that there are big structural changes coming in the industry, and what will happen then?

Or, there are big risks of a double-dip recession.

Unlike those past recent forecasts, the risks on this forecast are more balanced.

There are definitely still downside risks, but, there's some upside potential in this forecast as well, and the sort that we haven't seen in the

past.

So let me say a little bit about what happened to the city in the downturn, what happened in the recovery, and how we've changed the forecast.

If you want to compare the city of New York and the nation, during the great recession, it depends on what you're measuring.

If you're doing it on the basis of employment, certainly, New York City was later to get into the recession, and we were earlier to come out.

So, our downturn, at least measured by employment, was shorter.

Moreover, if you're still looking at employment, our downturn was also shallower.

Over the course of our downturn, the city of New York lost less than 4 percent of total employment.

And if you look at the U.S., the corresponding number is, the U.S. lost more than 6 percent over the course of their downturn.

So, we had a shorter downturn, it was a shallower downturn, but the picture changes if you start looking at wages.

Adjusted for inflation, if you look at

aggregate wages, which is total wages for the New York City economy; so, a combined 12 percent in 2008 and 2009.

The securities industry, which is a very small part of that employment, but very highly paid, accounted for close to two-thirds of that decline.

So, there's a really big 12 percent decline in aggregate wages. Most of it's attributable to the securities industry, but smaller declines spread throughout all the sectors.

In contrast, during the U.S. downturn, U.S. wages, excluding New York City, for a total of 5 percent during the downturn.

So, we had much steeper declines in wages, but much less steep and shorter declines in employment.

Now, look at the recovery.

Certainly, through most of the recovery, so far, economic growth in New York City has outpaced that of the nation.

And based upon the most recent employment data, the city of New York has recovered 57 percent of the jobs it lost.

That's 57 percent of total jobs.

The private sector, much bigger numbers;

nearly three-quarters of the jobs are back.

And you contrast that with the U.S., where they've gotten back, as of January, 36 percent of the jobs they lost in the downturn.

So, you know, we've really have been doing better, in terms of putting on jobs.

Same thing, if you look at income measures, if you look at inflation-adjusted personal income, New York City regained its personal-income peak last year, 2011.

As far as we can tell, that has not happened yet for the country as a whole, although, we're expecting it will happen sometime this year.

So that's the good news.

But, more recently, starting about midway through 2011, things changed.

And, last spring, the U.S. economy softened a lot, and so did the New York City economy.

And, although the U.S. economy softened, the New York City economy actually began to contract.

If you look at the U.S. economy as a whole, you know, employment growth is back.

They recovered fairly quickly. It felt gut-wrenching at the time, but, in four out of the last five months, the U.S. has regained -- has

gained over 150,000 jobs each month, for four out of the last five.

It's looking pretty good.

In contrast, New York City jobs actually declined; and, moreover, they didn't start picking up again until the very end of the year.

Moreover, when you look at that, again, high-paying securities sector, it was adding jobs fair -- at a, I think, healthy rate early in the year.

Those job gains were basically erased by the end of the year. They're gone.

Now, each time I went back at our forecast for the last two years, and I went back at them a lot, particularly where I'm trying to write the next one, we spent a lot of time talking about risks.

And the big risk we kept talking about, besides double-dip recession, was that there was structural changes coming in the financial industry; that, a more highly regulated financial industry, and particularly the securities sector, and, a sector that was required to hold more capital, would, by definition, be a less-profitable sector.

A smaller, less-profitable, slower growth, maybe more stable, but, certainly not the profit

engine that we've seen in the city in the past.

It strikes us, that although we don't know the scale of the changes yet, we're starting to see them.

So what we've done is, we've gone into our forecasts, and we've brought down the numbers for the financial industry. And, as you've seen, it has a huge impact on the total city economy.

Okay, so we've started to build these structural changes into our forecast.

And the forecast we're releasing on Monday, it seems that there's a 25 percent decline in bonus payments for this year, for the current bonus season.

As of last night, as we looked at personal income-tax withholding, it was up about 30 or 31 percent, but it bounces around a lot.

I also don't think there's that much of a difference between our number and the Comptroller's number, because the Comptroller's got a bigger number for this bonus season, and a smaller number for last bonus season, so that magnifies the percent-change difference.

But, still, you know, we're holding with our first estimate.

We're expecting that there's a 7.5 percent decline in average securities' industry wages in 2012, which is huge.

We're expecting the securities industry to lose about 4,300 jobs, or, 2.6 percent of securities' industry employment, over the year.

And if you look at the total financial industry, the drop is more like 7,000.

And we're also expecting a sharp decline in the profits of New York Stock Exchange member firms.

That's what we typically call "Wall Street profits."

The member firm numbers that we look at are just a small fraction of the total industry, but it serves as a very good bellwether for what's happening in the industry.

We're anticipating, that once those fourth-quarter numbers from last year are in, we expect them to be reasonably bad.

The total profits for these New York Stock Exchange member firms will top out at about $10 billion for 2011; which, if you compare it to the year before, 28,000 doesn't look so good.

And, we expect them to remain quite weak, reaching just 13 billion for the current year, and

not a whole lot more than that a couple of years out.

So these changes in the financial industry ultimately affect every sector of the local economy, and that's how we get to our forecast of the 22,000 job gain for the year, which is down from -- down 10,000 or so from last year.

But, from my perspective, what's really important, it's a sea-change in our forecast.

We expected nearly 40,000 jobs in December, two months ago, and now we're looking at something that's half of that.

Similarly, we expect personal-income growth to slip. We're expecting it to reach 2.4 percent in 2012, down from nearly 4 percent last year.

So, jobs are down, personal income down. And, longer term, the forecast is down as well.

While New York City will be adding jobs, we're expecting the securities industry to be pretty much more [unintelligible] losing jobs this year, but then, going forward, job growth averaging, roughly, 600 jobs a year, for the next four -- I guess, through the rest of the forecast period, which is through 2016.

That's job growth of well under one half of

1 percent, which is, pretty much, nothing.

Although there isn't a lot of job growth, there still is income growth, of course. And, so, if the securities industry is responsible for that 1 percent of all of the jobs we're expecting to gain over the forecast period, it's about 14 percent of wage growth.

And that may sound like a lot, but it's gotten -- it's actually nothing, compared to what the security industry has done, in good years and bad, for the city's economy in the past.

So if you look at the last decade, both the ups and downs, the securities industry alone, which isn't even the whole financial sector, but just the securities industry, typically, in good years and bad, is responsible for about 40 -- I'm sorry -- 60 percent of the wage change -- aggregate wage change, and, the New York City economy is driven just by this one small segment of the economy.

If you go back a couple of decades, it's more like 40 percent, but, the last decade, it's 60 percent.

So, in the boom, 60 percent of the total growth in aggregate wages for the New York City economy is driven by just a small handful of people.

We don't expect that to be a case, going forward, and that's where all the changes come from.

So, again, it's a very different forecast. You'll see there is also -- you'll see it in more detail on Monday.

And, I'm sure it's not our last word on this.

Thank you.

ROBERT L. MEGNA: Thank you, Ronnie.

I guess, do folks have questions?

I mean, I have one, and I think it's based open what Ronnie was talking about, and I throw it out to the whole panel.

Has the Wall Street model changed?

Are we in a different environment, where we should expect financial-service payouts to be consistent with the declines we've seen in the current year?

Is that to be expected, going forward?

Jim touched on it a little bit.

You know, I'd be interested in what folks think.

HUGH JOHNSON: I don't know.

I haven't studied, or tried to study hard, and get a good -- I know it's an important question, and I know it needs a studied answer.

But the -- I think there's just two things that have happened.

One is, certainly, profits have declined. And when profits decline in Wall Street, like any other business, but particularly Wall Street, compensation is very sensitive to the swings in profits.

Revenue is, probably as much as profits, but, nevertheless, a combination of the two.

So that's one of the big variables: revenues and profits.

And as I look forward, and I ask myself: Is that going to change?

And, maybe.

But, last year, if you take a look at the numbers, you saw that underwriting and training, revenues and profits, or success -- whatever you want to call it -- were pretty dismal. Pretty understandably dismal, given the volatility that we had in the financial markets.

You talked to issuers of securities, that there wasn't much of an appetite in that kind of an equity environment that issued securities.

So I -- my suspicion is, is, based on what Diamond, and another of others have said, and what I

believe is the case, is that you're gonna have a recovery in trading and underwriting, particularly if -- well, I mean, if I'm right, I think you'll have it, and I'm -- my outlook, or forecast, for equity prices, are the success of the financial markets.

This year's gloomier than Chris's, for sure.

And if you have that kind of an outcome that Chris is talking about, you're talking about a pretty good move in underwriting and trading profitability.

There is changes in the structure of how people get paid. And that's, largely, a lot of public pressure on Wall Street.

I mean, deferred -- you mentioned it before, deferred compensation is a very possible takebacks of compensate -- theres a lot of changes that have gone on [unintelligible]. And that's broad -- very much driven by the public outcry against Wall Street.

So -- but I don't think that's changed permanently.

I think that's changed, maybe in an election year, but, I think that's going to -- you know, people on Wall Street, believe me, they go there to

make money. And, they'll find a way to make money.

So, I mean, I just -- I think that the -- I think there are structural changes.

I think the biggest -- the third thing I would mention is, regulation, it's just -- is -- it's very burdensome.

I know -- just speaking anecdotally, I know a lot of people that work on it, including my daughter, who is a lawyer with Citibank. And she have can't figure out whether she's coming or going, with the regulation -- the changes in regulation, what to do.

So, I think those are -- that's probably a significant problem.

But I -- I, frankly, think there's going to be a recovery, which is -- without studying it, that's my view, based on what I think is possibly a positive outcome for the financial market performance for the next two years.

Does that help you?

It's -- you gotta really study it, and quantify it. But [unintelligible].

CHRIS VARVARES: I have a couple of comments.

I think -- I want to echo Ronnie's remark, that, to the extent that financial firms have to

hold more capital, they'll be somewhat less profitable.

So, there's certainly a downside.

I think there's some silver linings in all this.

On the one hand, the very, I think, strong and smart move to better align the incentives of the principals of financial firms with those of shareholders will lead to less volatile compensation.

So, for purposes of trying to make budget forecasts, revenue forecasts, that may be a good thing.

And, otherwise, profitability is very much transactions-based.

So I think, based on the kinds of stock-market forecasts and economic forecasts that we have, we would expect to see transactions rise; and, so, that should be generally favorable for profitability in the coming couple of years.

And, finally, one of the big areas that was a big profit engine, was in mortgage securitization.

We know that's, completely, just dead right now; and, so, we have to fix the mortgage securitization model.

I suspect, that over the next couple of years, that will get fixed and we'll start to come back.

So, it's not going to be like it was before, but I don't think that we're going to be in this slow-growth trap forever.

JAMES DIFFLEY: Yeah, let me say, first of all, although I disagree with Ronnie's forecast --

As I said, I'm taking a more optimistic view of Wall Street.

-- I understand exactly where it's coming from.

I mean, if I were writing a pessimistic forecast for New York City now, I would do exactly what you're doing.

So, the way I would phrase it, is, I would put a fairly high probability on your forecasting, right, although, I'd go with the more optimistic as the baseline.

But I do think, to the question, though, if we go back over the last two decades, we've seen a number of times where the compensation on Wall Street had just exploded, all right, and then crashed down, following the, 2000, 2001 recessions and, you know, dot-com bust.

And then we saw -- I -- so I view, that we're not seeing a sea-change on Wall Street. We're seeing a sea-change in the way compensation occurs, that's true, but, the deferred compensation is going to hit in the future.

In fact, I hate to say it, but I think it makes forecasting more difficult, not less difficult, you know, because you guys have to figure out when that deferred compensation is hitting.

The -- as opposed to the cash payment of bonuses.

But, the -- what we're seeing is a -- what we're seeing is the end of that insane time, during the bubble of 2006 to 2008, before the crash, when compensation really got out well above its historical norms.

And now we're back, ratcheted down to a level that I think persists, but I don't see it as a major change, in terms of the broadest historical spoke -- scopes.

RONNIE LOWENSTEIN: Yeah, I guess the last thing I would say is, just to get the last word in here on this, I'm not counting the industry out by any stretch.

You know, I've seen them come back, like,

time and time again.

We're just not anticipating the same sort of incredible boom that we've seen in recent years, and I think, to some extent, we've all pretty much gotten used to it.

ROBERT L. MEGNA: Thanks.

SENATOR KRUEGER: I have a quick follow-up to that.

So you're all talking about it -- you know, is Wall Street changing its model for good or for short term?

I guess a slight variation, I would ask: Aren't we just seeing people changing how they make payouts, and how they do their books, to avoid taxation, as we have seen corporations do with other models, and now we seem to be doing it with compensation?

JAMES DIFFLEY: Well, this is not to avoid taxation, necessarily.

I'm not sure how the other people in the room know better how the types of deferred compensation are being offered has to impact tax liability.

But the idea of deferring compensation, and getting away from immediate cash bonuses that outsized is not, by itself, deferring taxation.

It hurts the State in the immediate term, but, those monies are recouped if the income's ultimately taxable, if the same amount of income, overall, were paid over the longer --

SENATOR KRUEGER: I had heard, that at least under federal tax law, if you pay someone with deferred stock, even when they cash it in, it gets counted at the lower late-written level, that it was worth at the time they gave it to you; as opposed to, the amount that it may be worth when you cash in.

So, it actually does prevent having to pay taxes on the larger amount.

JAMES DIFFLEY: That's a function of the stock price.

I mean, by itself, [unintelligible] stock price doesn't change. There's no tax benefit to deferred compensation.

RONNIE LOWENSTEIN: I --

HUGH JOHNSON: Well, I think --

RONNIE LOWENSTEIN: Go ahead.

HUGH JOHNSON: -- [unintelligible] best I can gather.

I was part of many a deferred comp, not that I'm proud of it, but that was all -- that was all

deferred. The public compensation and tax impact was very much deferred.

And it was a way of -- well...

RONNIE LOWENSTEIN: It depends on the duration.

I mean, if -- and I have no expertise in this at all, and I would love deferred compensation. I've just never had it.

But --

[Laughter.]

RONNIE LOWENSTEIN: -- the firms you're talking about, I thought, like, a period of five years, or so.

I mean, we're not talking about deferring this compensation until after you retire and you're in a lower tax bracket.

If it's five years, for example, there's no reason to expect that the tax implications would be different.

But, the State would be getting its part further down the road.

HUGH JOHNSON: The -- no, the idea was -- the idea was -- we deferred compensation, because the idea, you know, I agree, five years, it's probably not going make that much difference.

As it turns out, it didn't make that much of a difference.

But -- thankfully.

But the idea was, is defer -- to just to do exactly that: to defer compensation to a time when your tax rate was lower. Or, your compensation -- you -- we -- the payouts were so large, that it was just common sense.

You didn't need that much money. Let's find a way to defer a substantial percentage of your compensation to a point in time when you were in a lower tax bracket.

That was the idea.

It never worked that way, but that's what --

JAMES DIFFLEY: That type of deferred compensation has been in place for a long time.

HUGH JOHNSON: Yeah. Oh, yeah.

JAMES DIFFLEY: [Unintelligible] the experience with it.

No -- I mean, I'm not sure, institutionally, what they're doing on Wall Street, but, if they are, for instance, lowering cash bonus payments, and granting restricted stock options -- offerings, one year, two year, three years down, there's no tax advantage, other than deferral of when the tax is

due.

All right?

You're taxed at the high rate at that time.

HUGH JOHNSON: I think that may be part of it, but I think it's awful -- also, what I'm gathering, is, not just the tax part of it, but trying to compensate people a little more soberly, or a little bit more sensibly, in the public pressure.

The public pressure on Wall Street is very intense. And, I think that's a big reason for changing things.

But I don't -- I don't know how long that lasts.

SENATOR KRUEGER: Thank you.

RONNIE LOWENSTEIN: If it's also, you know, to encourage employees of the firms to think slightly longer term, I mean, these payouts are so huge. And, that, if you can have a one-year payout, that -- you know, means that you don't care whether you work again, your ability to think long term, for the benefit of your firm, is pretty much nil.

HUGH JOHNSON: Uh-huh.

RONNIE LOWENSTEIN: So I think this was another -- that this, besides public pressure, was a

way for the firms to actually align the incentives for their employees a little bit longer term.

If it works.

SENATOR KRUEGER: Thank you.

Thank you.

ROBERT L. MEGNA: Thanks, Senator.

Other questions?

If --

SENATOR DEFRANCISCO: I have a question.

ROBERT L. MEGNA: Go ahead.

SENATOR DEFRANCISCO: Is that the coin he wants? [gesturing]

[Laughter.]

[All participants talking at same time.]

ROBERT L. MEGNA: Again, I want to thank the panelists, and, thank the legislators, and the Comptroller's Office, for being here today.

And, as always, this is invaluable.

And, thank you very much.

[All speakers say, "You're Welcome."]

(Whereupon, at approximately 4:30 p.m., the conference concluded.)

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