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Remarks at Town Hall Los Angeles: "With Weather Like This, Why Worry? ... A Call to Action for California's Business Climate"
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[Introduction by Carol Schatz, Central City Association ...]

Thank you. I want to express my appreciation to Carol for that kind introduction, and to Adrienne for inviting me to speak at Town Hall Los Angeles this afternoon. I also want to thank each of you for taking time out of your busy day to be here. And I especially want to salute the many clients and colleagues of City National who came here today.

I appreciate the privilege of being invited to speak to Town Hall Los Angeles. I learned Town Hall has played host for nearly seven decades to some of the world's legendary leaders, people like John Kennedy, Margaret Thatcher and Mikhail Gorbachev.

Town hall has also hosted a less exalted category of speakers, like Dan Quayle, who could not spell "potato," and Jean-Marie Messier who ran Universal for a French minute and is now under investigation.

Clearly, I'm not in the first group of speakers and I'm trying hard to stay out of the second.

After 70 years, the concept of town hall is appealing and still appropriate. Certainly, Los Angeles is not a small New England village, but the need for candid conversations about our community has never been greater.

So, in the spirit of a concerned citizen of Los Angeles who has the privilege of representing the largest local bank still headquartered here, with about 2,400 colleagues and almost 200,000 California clients, I would like to talk today about the California economy.

At City National Bank we are committed to the way up for the remarkable entrepreneurs, business owners, professionals and investors who are City National clients and, as Californians, we all need to be committed to the way up for our state's economy.

Now just because I'm a banker doesn't mean this speech is just going to be pro-business. Rather, it's time we talk about being both pro-business and pro-labor by focusing on protecting and growing our economy and its jobs. It's time to move beyond labels that limit all of us ... like Democrat and Republican ... and talk more about being Californians and what's fair for us as Americans.

I want to ask you to think about the need for all of us to focus on growing California's economy and to have higher expectations from all of its stakeholders – the private sector, local government, and politicians in Sacramento and Washington, D.C.

Any discussion of California's economy must begin by noting how truly remarkable it is. California's 35 million people drive the sixth-largest economy in the world and the state has the largest economy and population in the U.S.

There are more than 800,000 small and mid-sized companies here and just about a quarter of the Forbes 400 live in California.

There are more Inc. 500 companies (59) in California than in any other state.

The port of Los Angeles/Long Beach is the No. 1 port in the nation and No. 3 in the world.

California is both the entertainment capital of the world and the technology center of the world.

It is the No. 1 state in the nation for agriculture and a leader in innovation and invention in everything from design for apparel, cars, toys and laser-guided missiles to cellular phones ... from aerospace and defense to biotechnology ... from wine to wet suits.

As you all know, we are blessed with great weather, great universities and the most beautiful state in the nation.

Here in downtown Los Angeles we especially have much to be proud of ... the new Walt Disney Concert Hall, Staples Center, MOCA (the Museum of Contemporary Art), the new Cathedral of Our Lady of Angels, the beautiful Riordan Central Library, the Alameda Corridor, the resurgence of residential living downtown and plans for much more in the works.

We should all give credit and support to the remarkable business, civic and community leaders who made these things happen ... and to advocates like Carol Schatz ... and to organizations like Town Hall, the Central City Association, the LAEDC (Los Angeles Economic Development Corp.), and many, many others.

After being in downtown L.A. since 1967, we at City National Bank are very pleased to add to that momentum with our move into City National Plaza.

To be sure, there are a lot of good things going on here in L.A. and across California.

We even have the No. 1 college football team in the nation right down the street.

So what is the problem? Some of our small and mid-sized businesses, professionals and entrepreneurs who help drive California's economy ... some of them are having doubts about living and doing business here. And many of them are being unduly hampered in their ability to get things done.

Bain & Company recently conducted a survey on behalf of the California Business Roundtable that suggests:

- More than one-quarter of the jobs here in California are defined as “mobile,” which means they can easily be moved out of California.
- And nearly 40 percent of those mobile companies surveyed say they may do just that. Some companies have already done that, like Bank of America, which moved its headquarters to North Carolina. Other California companies, like Intel, AMGEN and Countrywide, have announced that any future expansion will take place outside of California, taking good jobs and tax revenue with them.

Now, you can question the numbers, but even if they’re only directionally correct, we should ask, why?

According to the survey:

- The cost of doing business here in California is 30 percent higher than in its neighboring western states.
- California’s regulatory costs alone are 105 percent higher than the western state average.

If California’s economy grows more slowly than it could or should, then there are fewer good jobs and lower tax revenues than there should be.

And the people in this state who need a job or a better education or health care or air quality or decent transportation will be diminished.

There’s no question that California is an incredible economic force in this country and in the world at large. At City National Bank, we are very bullish on California. California has a \$1.4 trillion market and per capita income that is ninth highest in America.

Yet, there is no question that we have to tackle some significant economic issues. Unfortunately, many in California have grown complacent about the economy of the Golden State.

Let’s face it: For many years, California was able to attract business and create jobs on the appeal of our climate and the abundance of our natural and human resources.

That’s just not true anymore. Both the private and public sectors need to realize that other states and other nations are trying to take for themselves the prosperity and jobs and investment capital that too many Californians take for granted.

California has to make more of an effort to protect and grow its economy, its jobs and its tax base as well as our quality of life.

I'm here today to serve as a voice for the many clients and colleagues of City National and others throughout this state who are simply too busy doing their jobs and taking care of their families and their businesses to tackle issues like these themselves. I'm here to ask you to add your own voices to this dialogue and to set higher expectations for the public and private sectors to better protect and grow California's economy for the future.

Today I want to suggest five things that should be done to enhance California's economy:

1. State and local government must regulate the economy and its businesses more responsibly and reasonably, more productively and competitively;
2. Government must invest our tax resources more wisely;
3. State and local government – like private enterprise – must take a fresh look at how it operates and is structured in order to become more productive;
4. California needs to get its fair share of support from the federal government; and
5. Business, labor and the nonprofit community also need to work together – beyond the old labels – to get these things done.

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First, let's talk about regulating more responsibly. We all know California is not an easy or inexpensive place to do business.

The Wall Street Journal reported a couple of years ago that executives ranked California's business climate as the nation's worst.

I don't think that's true, but when corporate executives see that, what do you think it does to their decision to move into or out of California? Who in California is really doing something about it?

Please don't misunderstand what I'm saying. I'm not opposed to government regulation. To its credit, California is a truly compassionate state, often on the leading edge of the great issues of our day. I'm proud that we have higher expectations for our environment, for a decent minimum wage, for adequate health care, and so forth.

But California can't afford to create a regulatory system so complex and expensive that it drives companies – and jobs – elsewhere and overly burdens Californians' ability to get things done. We are in a competitive race and we can only carry so much weight before we fall behind.

Mandatory health care ... paid family leave ... inflexible overtime rules, workers' compensation benefits ... they are all good ideas and well-intentioned, but does anyone in Sacramento stop to ask how we can make them all affordable?

Does anyone stop to ask whether it's fair to pay for so many of these initiatives with hidden and not-so-hidden taxes on small business owners and their employees? And now some would have us believe that so-called inclusionary zoning is an answer to our need for more affordable housing.

I have a modest proposal: I believe the state Legislature and local government should be required to produce an "economic impact report" for every legislative proposal they are considering.

Just as an environmental impact report anticipates the consequences of major land developments, this requirement would calculate in advance the impact of proposed governmental regulations and programs on California jobs and its economy.

Doing this may seem like just common sense. You and I weigh all of the costs and benefits of our decisions every day before we make them. Our lawmakers should do the same.

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Second, we must ask government – at all levels – to invest our scarce tax resources more wisely.

Decades ago with a much smaller population, California prioritized big investments in its infrastructure.

When people began to arrive here by the millions, California government built freeways, aqueducts, state-of-the-art schools and a university system that promised tuition-free education to every student who qualified.

We have not done a good job of maintaining, renewing, expanding and modernizing California's infrastructure.

This presents a challenge we need to address. Now.

Just read about the latest elementary school test scores ... try to drive a freeway to work ... take a second look at your company's energy bill ... or try to get a qualified kid into a U.C. classroom.

I hope you don't need to go to the emergency room of a hospital in L.A. County any time soon because six have closed in just the past 15 months.

Beyond the poor performance of today is the crush of population growth ahead. Demographers project that California will add as many as 20 million people by the middle of the century. By mid-century, we'll have 55 million people.

The state's own infrastructure plan says we'll need to invest \$54 billion for education, transportation, water, public safety and the like ... in only the next five years.

And Sacramento is borrowing billions now just to pay for the status quo.

Government needs to make better use of its resources. Let me give you two local examples:

- One is our airport, which is so central to trade and tourism, commerce and our quality of life. The city of Los Angeles has already spent 10 years and \$130 million on plans that have gone nowhere.
- A second example is the L.A. Unified School District, which ranks among the lowest in the nation in spite of a \$13.4 billion annual budget.

Surely, we can do better. We must have higher expectations – and results – from government.

But the problems certainly reach beyond L.A. The State New Economy Index measures the educational attainment of workers in California. In 1998, according to the formula, our state ranked fifth. Today, we're 28th.

The index also examines the proficiency with which our students use new technologies. California ranks last among the 50 states.

Surely, the private sector can also provide help. Companies with their headquarters in California, like HP and Yahoo!, coupled with schools like Stanford and U.C. Irvine, can do more to help solve this technology education gap.

Other states like Massachusetts, with its "Young Entrepreneur Program," are doing just that by training high-school students in the classroom and the workplace.

To support a growing population and meet the demands of today's competitive world, we must make better use of what we have, which is the envy of the world. We can encourage the public and private sectors to team up for smarter solutions.

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In order to succeed on these fronts, my third suggestion today is that we also need to take a fresh look at the way government operates.

With 58 counties ... 500 cities ... 983 school districts ... 4,700 special districts and 339 state boards and commissions, California's government is hard to understand and difficult and time consuming and expensive to operate. No wonder it's challenging to get things done.

If you want to open a gas station in Sacramento today, you have to register or obtain permits from nine different state agencies.

It doesn't have to be that way.

The state of Washington, for example, has introduced a "Master Licensing System" that boils all of the paperwork down to one form. And it's available online.

We need to make California government more efficient.

I think Governor Schwarzenegger deserves credit for introducing a state government reform package. It's a much-needed start.

We also need to take a hard look at the structure of local government.

Here in Los Angeles, part-time LAUSD board members paid \$24,000 per year are responsible for a budget, as I said earlier, of \$13.4 billion. Meanwhile, the L.A. City Council, which oversees a budget only half as large, is full time, and each member is paid \$144,000 per year.

Surely, something's wrong here.

We need to adapt the rules and structures of government because our economic prosperity and quality of our social services are tied to the accountability and effectiveness of government.

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Fourth, if we are going to fund investment in California, we shouldn't have to do it alone.

We should be able to count on our fair share of U.S. tax dollars to help meet California's pressing needs.

Every year, Washington, D.C. doles out \$400 billion to the 50 states.

In 2002, Californians sent about \$60 billion more to our nation's capital in federal taxes than the state received in federal spending.

For every tax dollar that we send to Washington, D.C., you and I are getting back 76 cents. By that measure, California ranks 45th among the 50 states.

By comparison, the citizens of New Mexico got \$2.37 for each \$1 they sent.

And Texas received 92 cents.

If California had collected the same 92 cents as Texas, we'd have received \$40 billion more per year than we did.

The fact is that California is now subsidizing the rest of the nation ... and we've been doing so for a long time. Here are two examples of the inequities we face:

1. **Security** – We are home to some of the country’s most notable and vulnerable landmarks (LAX, Library Tower, Golden Gate Bridge, Disneyland, Port of Los Angeles/Long Beach) and yet a state like Wyoming will get seven times more – on a per capita basis – than California in allocated Homeland Security funds. California is in the bottom 20 percent of per capita funding for homeland security, according to *Time* magazine.
2. **Federal Funding** – The formulae created in Washington to dole out federal funds also work against California. Whether it is our demographics that don’t skew toward the elderly or large rural areas, or because we are large and therefore don’t meet the small state minimum standards, or because we have fiscal taxing capacities that exceed other states, we have been put at the short end of the stick by congress and the White House over many years when it comes to federal funding for roads and transportation, for Medicaid matching funds, for immigration and, now, even for Homeland Security.

It’s time to have higher expectations from Washington and to expect our congressional representatives there to do a better job for California. We have the largest delegation in the House of Representatives with 53 members. They need to work together as Californians more, and less as political opponents.

It’s worth noting that Californians last year donated \$153 million to the two major political parties. We all need to start demanding that if politicians want donations from Californians, they have to treat us fairly after the campaign is over.

Let me give you one last example:

Entertainment and computer software are America’s No. 1 export today. Copyrights are bigger than any other American export industry and in helping our balance of trade. They produce billions of dollars in revenue and profits, much of it payable to Californians, and much of it subject to tax in California.

But billions of dollars are being stolen by piracy and theft. It’s costing the U.S. and California billions of dollars in tax revenue.

And Washington is doing very little to protect us. If China were siphoning one-fifth of the oil out of Texas without paying for it, I suspect we’d do something pretty drastic. Why are they not protecting California’s resources more aggressively?

To do that, we – as Californians – need to demand that the U.S. government and its political leaders do more to uphold the laws of the U.S.

It’s time that federal lawmakers stopped taking advantage of California.

The House members from California should become united and active in order to get California a fairer share of support from Washington.

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To support a growing population and to strengthen California's ability to compete for jobs and economic growth, government, business and labor need to join forces.

And every one of you can help.

I urge you to engage voters and lawmakers at every level with this message: A strong California economy is not something we can take for granted.

California's ability to create jobs and fund critical services depends on a robust and growing economy – an economy that must be nurtured, funded more fairly and regulated in a more balanced way. We must spend our tax dollars more wisely, and with an eye to improving this economy and the infrastructure it depends upon.

Fortunately, California today still has a great economy – it is diverse, creative and strong – with many cutting-edge, globally successful industries and companies, led by thousands of successful entrepreneurs and professionals. There is, in fact, no better place in my view to live and work than California. But we can't let the success of California today be taken for granted or unduly burdened in the future.

We all need to insist that our elected officials know that California can do better. And they need to be part of the solution, not part of the problem. They must meet higher expectations. That's the way up for California.

Thank you.

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