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REMARKS AT THE COMMONWEALTH CLUB
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Thank you, Tom (Waller). I appreciate both your generous introduction and the invitation to speak with you this evening at this remarkable forum.

As you know, for more than 100 years, the Commonwealth Club has played a vital role in fostering a better informed public and an important dialogue of ideas and policies for our state and our nation.

It was here, in 1919 that Woodrow Wilson laid out his vision for the League of Nations.

And it was here, in 1932, that Governor Franklin Roosevelt delivered his speech calling for a "New Deal" for the American economy.

The Commonwealth Club is one of California's most important and respected institutions, and I'm honored to be here with you today.

My colleagues and I believe that, in its own way, City National Bank has become another of this state's premier institutions. For over half a century, City National has been growing with and working with California's entrepreneurs and professionals, and their businesses and families, who -- like so many of you and so many other hard-working Californians -- are the engines of our economy and the creators of quality jobs and tax revenue for our communities.

Let me address one question that people ask: Even in this economic climate, City National has no credit crunch, no subprime mortgages or CDOs, and we are making credit available to our clients.

We've been here in Northern California for over eight years now, and we serve San Francisco, the Peninsula and the East Bay, through 7 offices and a talented team that delivers a full complement of outstanding financial services from what we believe is California's Premier Private and Business Bank.

As one of the two largest independent banks headquartered in California City National has a unique perspective on the economy of California and a responsibility to speak out on important issues that affect our state and our nation.

Today, our state is facing both a large budget shortfall and the very real prospect of economic recession – or at least stagnation.

But, to borrow a phrase from Bill Clinton: There's nothing <u>wrong</u> with California that can't be fixed by what is <u>right</u> with California.

Our state is the eighth largest economy on earth. It is the breadbasket of America and the birthplace of modern technology, the manufacturing center of our nation and the entertainment capital of the world.

No other state attracts as much foreign direct investment. No other state has a higher concentration of engineers, scientists, mathematicians and skilled technicians.

California is renowned for its innovation. More patents are filed and issued here than anywhere in America, and our state receives nearly half of the entire nation's venture capital investments.

As strong as it is, California's economy is not something we can take for granted. It has to be nurtured and developed.

And, to that end, I think California needs and deserves a stronger partner in the federal government.

That's something I'd like to talk about this evening. Government at all levels must be fairer, more focused and more proactive in growing the economy and creating jobs. In addition to the teeter/totter economy we are now experiencing, cities like San Francisco are now competing with cities around the world – from Mumbai to Shanghai -- for jobs, investments and tax dollars.

Tonight, I'd like to propose three things that the federal government should so:

1. One, provide California with its fair share of federal spending;

2. Two, pass a second federal economic stimulus program that is less expensive, more focused and more cost-effective than the one just passed and targeted at the crises we face today in our economy;

3. And three, "spend smarter." Leverage government assets in partnership with the private sector and build on the many economic strengths of this great nation without raising taxes.

Let's first focus on how California is being unfairly shortchanged by the federal government and so many of the Congressmen and Senators from across this state and nation … leaders and lawmakers that so many Californians support with their donations and votes.

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Right now, California is faced with a $16 billion fiscal emergency. It's something that lawmakers in Sacramento will soon have to come to grips with.

But as they debate the need for service reductions and tax increases, those legislators and all Californians should also take time to ask why California is not getting its fair share from Washington DC.

Let’s consider a few facts:

Californians pay more in taxes to the federal government than the residents of any other state. And every year we send over $50 billion more in taxes to the federal government than we get back in the form of federal grants, payments and other services.

The fact is, for every dollar that we Californians pay to Uncle Sam, we get back just 79 cents. Only five states receive less.

Is this fair? Does it make sense? Do 44 other states deserve a larger share of federal tax dollars than California?

The answer is no! The fact is, an average state like Texas gets its money’s worth from Uncle Sam – a dollar’s worth of benefits for every dollar paid in taxes.

I happen to believe that California is well above average, but if our state were getting only as much as the average state receives from Washington, we would be able to invest an additional $52 billion a year in our schools, homeland security, roads, levies, bridges, healthcare and much more. We might even pay down the state’s debt and lower its interest costs by improving its credit rating or even reducing its income taxes.

Unfortunately, political leaders in Washington are taking California for granted, and they are underestimating the negative impact of their decisions, both on this state and on the nation as a whole.

California is responsible for 13 percent of America’s gross national product. In this competitive global economy, our state is home to critical American industries like technology, entertainment and agriculture.

It is also America’s gateway to the Pacific. California’s ports handle 43 percent of all U.S. waterborne trade. If crowded roads slow down the movement of goods or, worse, if a terrorist attack interrupts their operations, our entire nation will suffer.

The fact is, California lacks the revenues needed to appropriately finance its most pressing needs, including some that truly are federal responsibilities like homeland security, the costs created by immigration, an aging interstate transportation system and power and water infrastructure, and the many other needs created by the dynamic growth of the largest state in the country and the 35 million Americans who live and work here.

By the year 2020, projections say that California will be home to roughly 45 million people. That’s 10 million more than today, an increase as big as the population of Michigan.

Between now and then, we're going to see even larger enrollments in our public schools and universities – as well as our prisons and emergency rooms – more cars and trucks on the roads and more containers and ships in our ports.

We're going to see significant growth in the number of older Californians, which will put an added strain on Medi-Cal and in-home care and other support services.

More Californians, more tourism and more global trade will create demands for more roads, expanded mass transportation, and greater supplies of clean water, fresh air and undeveloped land. It also means more people and planes moving through our major airports.

Here in California, we have more than 1,000 miles of aging levees -- levees that protect our transportation system, our power grid and our communities from devastating floods and tainted water supplies.

The federal government typically provides about three quarters of the funding for levy projects. In recent years, however, the feds have not come up with the money that California deserves.

After California spent roughly $285 million of state funds, the federal government has only contributed about $40 million. This inequity underscores the importance of securing California's fair share.

Our state is faced with an important question: How are we going to finance the critical resources and improvements needed for our growing population?

California's heavy tax burden should preclude significantly raising state or local taxes. Otherwise, we risk becoming uncompetitive in attracting and retaining huge numbers of quality jobs and businesses.

So what's the solution? Continue to pare down essential investments and services in California, or demand fairer treatment from Washington? Raise taxes or help grow the economy?

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In the interest of facilitating a productive public dialogue, City National Bank commissioned a statewide survey on this topic to see what Californians think. We learned some interesting things, which I would like to share with you tonight:

We learned that although nearly three-quarters of the Californians we surveyed read or watch the news every day, <u>fewer than half</u> of them knew that California pays <u>more</u> in federal taxes than it gets back.

We also learned that when we laid out the facts, 68 percent of them <u>disapproved</u>, and well over <u>half</u> said they want to see this issue addressed by the candidates running for office in the next election.

By the way, this is <u>not</u> a partisan issue. Both Democrats and Republicans responded to our survey questions the same way.

Our 53-member delegation in the U.S. House of Representatives is the largest by far. Seven of them serve on the powerful House Appropriations Committee. Three Californians chair House committees.

California's Congressional Republicans and Democrats have to start working together to do what's right for California.

Obviously, this is an election year, and candidates for federal office are regularly visiting our state to ask for our votes – and our financial support.

Over the next eight months, we need to make those candidates running for the presidency, the Senate and the House – whether from California or not – understand that California is <u>not</u> getting its fair share from Washington and that it deserves their commitment to fund California fairly if they want our contributions or our votes.

If you do talk with these candidates, I would expect you to discuss whatever issue is your top priority, as you should. I respect that of course.

But in addition, I urge you to <u>ask</u> them what they will do for California.

Ask the candidates: if elected, will you seek our fair share of education funding?

Will you change the federal formulae that short-change us on roads, Medicaid and children's health insurance?

Will you ensure that California receives federal matching dollars for badly needed levee repair and construction?

Will you see to it that California is reimbursed for more of the immense costs associated with health care, education and law enforcement as the result of legal and illegal immigration across our nation's borders?

There has been some good news. Just last month, the new port security allocations were announced and California saw its share of port security money double from $32 million to almost $65 million. Bay Area ports will receive more than $25 million of that funding,

That's a step in the right direction, but we need to make our case more aggressively and consistently. There are billions at stake -- $52 billion, in fact.

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California also deserves its fair share of something else from Washington, and that is vigorous federal enforcement of the laws intended to protect intellectual property rights.

California is the most innovative state in the nation. As of 2006, nearly 350,000 patents were issued to California companies. Hewlett Packard alone HOLDS 30,000 patents worldwide.

But according to the California Chamber of Commerce, the California economy loses $34 billion per year to patent and copyright infringement, the manufacture and distribution of counterfeit films, music, computer software and other I.P. products.

The federal government's failure to adequately protect America's intellectual property around the world hits California especially hard. In so doing, it also denies the U.S. government billions in taxes and worsens our trade deficit.

If China was siphoning off 20 percent of the oil in Texas for free, wouldn't the federal government find a solution?

While we're prodding our political leaders to provide California's fair share of federal funds and intellectual property protection, we should also be asking them what else they are going to do to help jumpstart our sputtering national economy.

The California and U.S. economies are interdependent. There is little doubt that that our nation is experiencing a serious economic downturn. Many experts think we're either headed into recession -- or something that feels a lot like one.

It has been triggered by the subprime mortgage debacle and subsequent credit crunch.

Here, I should add that City National Bank does not make subprime loans. We also don't hold any subprime collateralized debt obligations or structured investment vehicles.

Our balance sheet is strong. We're a double-A rated bank, and in all the time that City National has been originating home mortgages (only for its private banking clients), we've never foreclosed on any of them. So I want to be clear that my comments regarding mortgages have nothing to do with City National's self interest.

There are <u>three ways</u> the federal government can help the U.S. economy.

The Federal Reserve Board has aggressively lowered short-term interest rates 225 basis points since September, they have proposed important new regulations to correct many abuses in the mortgage process, and they have lent banks – not ours – over $160 billion. And today the Fed took further positive steps to enhance liquidity in the capital markets.

On the fiscal side of the equation, Congress and the Bush Administration recently agreed to a $168 billion economic stimulus package. Their intent – to stimulate economic growth with an injection of capital from the federal government – is good.

Fortunately, the recently enacted stimulus bill increased the number of loans eligible for coverage by the Federal Housing Administration. It also allowed Fannie Mae and Freddie Mac to buy larger mortgages from banks and lenders and to guarantee them against default. But in my view, the package they passed hasn't focused enough upon the real problems.

The stimulus package is comprised mainly of tax cuts; the equivalent of a double-shot of espresso – good for a short-term boost, but unlikely to provide adequate economic sustenance into 2009.

To begin with, according to one study, only 21 percent would spend the money quickly, and a full 32 percent of Americans said they would save the money.

Spending some of that money at WalMart for goods made abroad or at the gas pump for oil imported from abroad is not going to do a lot to help generate jobs or economic growth, and saving it will do even less.

And that leads me to my second point this evening: Congress and the White House need to agree on a second, more targeted economic stimulus package. Call it "Stimulus II."

Unlike the first federal stimulus plan, a second stimulus package should be directly targeted at the problems. If your arm is cut, is it better to place a tourniquet above the wound or, as they did, cover your body with band aids?

A second, highly focused stimulus package should meet two criteria:

First, it has to address the challenges of the housing market created by the subprime mortgage crisis, and second, it must leverage federal spending with targeted investments that both stimulate the U.S. economy and address the nation's longer-term needs – like reducing our $1-billion-a day-bill for imported oil.

Let's start with the housing market:

Foreclosures are on the rise, an estimated 1.8 million homes are now in default. Housing values nationwide have declined by $2 trillion. That also negatively impacts the wealth effect and consumer confidence.

In California, home sales in January tumbled to their lowest levels in more than 20 years. And one in five of the homes sold in January has already been foreclosed upon.

In 2007, more than 84,000 homes in California were repossessed.

The crisis is hitting the Bay Area, with foreclosures up nearly 500 percent in the fourth quarter of last year, compared to the previous year. And local home prices have fallen nearly 11 percent.

The foreclosure rate in San Joaquin County is the second highest in the nation, behind only Detroit.

Just last week, Federal Reserve Chairman Ben Bernanke said that "more can and should be done" to help mortgage borrowers who are in distress.

The current administration should learn from history and from that promising presidential candidate who spoke here at the Commonwealth Club 76 years ago.

In 1933, President Roosevelt and Congress responded proactively to the rising tide of foreclosures by creating the Home Owners Loan Corporation. This agency bought up some of the mortgages held by banks and issued new loans to homeowners.

At one point, almost one of every five mortgages in America was owned by the Home Owners Loan Corporation.

By the time the agency closed its books and went out of business in 1951, it had helped millions of Americans with their home loans.

The agency even managed to turn a small profit, which goes to show you how effective and helpful an activist federal government with a focused mission targeted at a critical economic challenge and the economic staying power to bring stability, creativity and liquidity to the housing crisis can be.

Fortunately, a few people, including Senator Dodd from Connecticut, are calling on Washington to re-create the Home Owners Loan Corporation, or something like it. This idea deserves serious consideration, and so do others that provide relief for homeowners who need it – but not for speculators.

Last week, Martin Feldstein, chairman of the Council of Economic Advisors under Ronald Reagan, proposed a voluntary loan substitution program that could lower the mortgage payments of many people who might otherwise face default. He outlined details of the plan on the op-ed page of last Friday's Wall Street Journal.

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A "Stimulus II" package should also move our nation towards its environmental goals by investing our federal stimulus dollars in programs that not only stimulate the economy and create ideas, but also make our public facilities more energy efficient or increase the number of clean air vehicles our governments purchase.

Such an investment strategy would have positive impact on our environment and help wean us off foreign oil.

Today, the U.S. imports more than 58 percent of its petroleum. The U.S. Department of Energy estimates that this will rise to 75 percent by 2010.

Our nation needs an energy strategy that will move its economy away from fossil fuels.

There are many economic and environmental benefits we could reap if the federal government provided taxpayers with financial incentives to change their behavior and buying habits. For example, converting to more energy-efficient light bulbs manufactured in the USA.

Retail spending, manufacturing and job creation here would get a boost, consumers would enjoy long-term energy savings, and the resulting conservation would benefit our environment and reduce energy consumption. It also would ease oil prices and pressure on the dollar.

They say that if every American household installed just one compact fluorescent bulb in place of an ordinary 60-watt bulb, we'd save enough energy to power a city of 1.5 million people. Using one of these bulbs in every American household would be the equivalent of taking 1.3 million cars off the roads, which means burning significantly less oil and emitting fewer greenhouse gases.

The second round of stimulus measures should also provide incentives and subsidies for the U.S. auto industry to fast-track efforts to improve energy efficiency.

More than a quarter of all of the energy used in the U.S. goes to moving people and goods around, and all but 3 percent is derived from petroleum. Transportation accounts for one-third of all of U.S. CO_2 emissions.

What better way could there be to stimulate the national economy and create U.S.-based jobs than to speed up efforts to improve transportation and energy efficiency?

Unlike Stimulus I, which – like so many things from this administration -- is paid for totally with more federal debt, Stimulus II could be paid for by eliminating subsidies and tax breaks for oil companies and cutting farm subsidies. With food and energy prices at all time highs, they don't need that any more.

Those funds and tax expenditures should be re-directed and would be better spent to help struggling homeowners and consumers.

The president and congressional leaders should go back to the table and work out a second stimulus package – a smarter, more targeted plan that encourages long-term economic growth and does more than just cut taxes.

Let me turn to my third and final point.

Government at every level should "spend smarter," leveraging the assets at their disposal and joining forces with the private sector.

I hope you don't mind if I borrow an example from Southern California. About a year and a half ago, L.A. Mayor Antonio Villaraigosa called together 26 business and labor leaders. He asked us to make very specific recommendations that would strengthen the city's economy and encourage the creation of new high-quality jobs.

I had the privilege of chairing the committee, and a few weeks ago we presented the mayor with our report. It recommends 100 specific actions and 10 broad economic development strategies that don't raise taxes or increase City spending.

Our three top priorities called on the Mayor and the City Council to more smartly leverage huge economic assets that are already owned and operated by the City of Los Angeles.

First, we're calling on the city to modernize L.A. International Airport and make it a world class airport for the 21st century. Over the course of one year, adding one daily international flight at LAX generates more than $600 million in economic output and 3,000 jobs.

Second, we're urging the city to clear the way to pay for growth – green growth – at the Port of Los Angeles. The port and LAX are each responsible for close to a half million jobs.

With a private public partnership, the port can grow in an environmentally sound way that facilitates more international trade and creates more jobs and economic growth and more tax revenue without costing the City anything.

Our report also includes a plan to help with the revitalization of an economically distressed portion of South Los Angeles. We want to promote the mixed-use development of city-owned property – property that's located centrally in the goods movement corridor between the port, the airport and downtown L.A.

If it's done right, the City – at no expense to itself – will turn blocks of concentrated poverty and shabby public housing into an economically vibrant "walk-to-work" community with new affordable housing, retail, new warehouses and small business facilities.

In developing this last recommendation, our committee actually borrowed from some of the ideas that you've implemented successfully here in San Francisco with the SF program.

Some of our recommendations can be implemented quickly and easily. Others will take more time and effort. But all of them are within the city's power to achieve.

Many would simply make the most of assets that government already has at its disposal – a policy option that is too often overlooked, in my view. So we're not talking about any big tax increases or new spending programs.

It is especially critical in this economy to use every tool in the government and private sector toolboxes to help stimulate the economy – at all levels of government.

Despite today's challenges, we can't forget how fortunate we are to live and work here in California. We're blessed to live in a state and a nation with great beauty, cultural diversity, intellectual capital and economic strength.

But we can't take all this for granted. We all have a responsibility to help preserve and nurture and build upon the strengths and address long-term needs of California and the U.S.

We owe the people of this state our energy, our commitment and our voice. We need to speak up and make ourselves heard.

At City National, we want to be “The way up” for our clients, our colleagues and our communities.

And when you think about it, that’s what we’re talking about here tonight: Three important opportunities to improve the economy of California and the U.S. and prepare us to compete in an increasingly competitive and challenging global economy on The Way Up in the 21^{st} century.

First, the way up for this state is to successfully work with our leaders in Washington, D.C. to get for California its fair share of federal revenues.

Second, the way up for this nation is to implement a Stimulus II package that truly invests smartly in our economic and environmental future.

Third, the way up for all of us is to encourage government at all levels to work creatively with the private sector to leverage resources along with government-owned assets and facilitate the kind of economic and job growth that capitalizes on the many strengths of our entrepreneurial and innovative economy.

For all that to happen we all need to press our public officials to act upon this agenda and I hope you will urge them to do so.

Thank you very much for your time and attention this evening.