

**Keeping America Competitive, Prosperous, Entrepreneurial, and
Enterprising: Why Capitalism Works
An Address by Former New York City Mayor Rudolph Giuliani
Wednesday, July 22, 2009**

Arthur C. Brooks: Good morning. I'm Arthur Brooks, president of the American Enterprise Institute and it's my pleasure to welcome you this morning to an address entitled, "Keeping America Competitive, Prosperous, Entrepreneurial, and Enterprising: Why Capitalism Works." This address will be by former New York City Mayor Rudolph Giuliani.

Today, America faces a major cultural struggle. This is not a struggle, in my view, over guns and abortions and gays. This is a struggle over the heart of free enterprise, which we, at the American Enterprise Institute, believe is the true cultural bedrock of this nation. The current struggle is not an argument over economic details or government accounting minutiae. It's not a small difference of opinion over a couple of percentage points on the marginal tax rate. Rather, what we face today is a choice as to whether America will go the way of other developed nations, with expanding bureaucracies, overwhelmingly unionized labor and government-controlled corporations, or whether we will remain the America of entrepreneurs, individual opportunity, and limited government.

Former New York City Mayor Rudolph Giuliani is a leader who has a proven record of turning around misguided policies and transforming the public sector. He joins us this morning with his thoughts on the current policy crisis facing our nation and on the leadership that America needs right now. After his remarks, Mr. Giuliani will take a few questions, which I will moderate. Mayor Giuliani.

Rudolph Giuliani: Thank you. Thank you very much. Thank you for having me here. I really appreciate the opportunity to talk to all of you and I will try to be as brief as possible and then we can have as much time for questions because I really am interested in what you have to say.

There is no question that we're going through a very transformational period of time. Our economy is under great stress and we may or may not be recovering. I learned in 2008 a great deal of humility about the economy, which is nobody understands it and anyone who thinks they do probably has too much arrogance and needs to be corrected. All we have are our approaches to it, our philosophies, our theories, and the things that have worked for us in the past as a guide for this very, very complicated and ever increasingly complicated mechanism.

So I think a lot of the problem that we're facing is that we incorrectly, or at least the administration and many of the

people in leadership today, incorrectly assessed the reasons and the causes for the economy having the problems that it had in 2008, and it's reacting to its incorrect description of the problems and when you do that, you then come to the wrong conclusions about how to fix it. If you don't diagnose the disease correctly, you don't cure the disease. Instead, the disease gets worse and you probably create some other disease, which is I think the analogy for what's going on right now in the policies of this administration and its approach to the economic problems that took place last year.

So I'm going to start by giving you, at least my own background and how I look at it, which is shaped very much by what I did and didn't do as mayor of New York City because I was elected mayor of New York City for a very simple reason. Things were so bad they decided they wanted to elect even a Republican. And I was the Republican they selected. The theory was we can't do any worse than we're doing right now. We're the crime capital of America. We have somewhere between 1,800 and 2,100 murders a year, 11,000 felonies a week. We have 11 percent unemployment, which kind of puts it in perspective. Our unemployment now is less than that. We had lost 400 or 500,000 jobs and we had a deficit of somewhere between \$2 and \$3 billion and gosh, even the radical idea of electing a Republican in New York made sense. I like to say

that I was the first Republican elected in 25 years and the first one to remain a Republican in 50.

But I looked at the situation in New York City. I studied it really carefully before I became mayor, did a lot of work with think-tanks because being in isolation, you get a chance to think a lot about, particularly with the Manhattan Institute, and trying to figure out, gosh, if the strange thing came about of being able to run the city, what will we do with it? And it left us with a great many ideas about how to change things.

And I remember, right after I got elected, I was presented with a report that had been, I guess, commissioned by the prior administration about how to fix the tremendous deficit that I was facing, basically the economic problems that I was facing, and it had about 20 or 30 recommendations and they essentially were the same things this administration just did over the last six or seven months. The recommendations were to increase government spending to stimulate the economy of New York City. I couldn't actually figure out how I was going to increase spending with a deficit but the idea was to increase government spending to stimulate the economy and then to increase taxes in order to pay for the government spending and to increase fees and tolls and everything imaginable and then I could balance

the budget. I could pay for the increased spending. I could pay for the deficit.

And I looked at that. I read it. I was not much of an economist then. I had to hire people who were really experts because that wasn't my strength. My strength was law enforcement and I knew I could solve the crime problems of New York City. I had great confidence about that because of being U.S. attorney and being involved with policing from the time I was -- I just can't even remember. But I had a lot of fears about the economy. I didn't really understand it and so I used something else and I tried to hire really good people and then I tried to use something else which is in short supply. Common sense.

And I looked at it and I said, "This doesn't make sense." It doesn't make sense that if we have a deficit we're going to spend money. And basically, it makes sense if you have a deficit to reduce the amount of money you're spending. It doesn't make sense to me that I'll be able to tax my way out of this problem because I think I'll tax people away from New York City, and that's what we've been doing for 30 years. Our population was decreasing. We had lost 400,000 jobs. I don't think we had gained a Fortune 500 company in 20, 25 years so it seemed to me that what I had to do was totally the opposite and I threw the report in the garbage and made a big display of it.

And I lowered taxes. I lowered spending. I created a friendly business environment by reducing regulations and it really worked. It worked to such an extent that within two or three years, I had major surpluses rather than deficits. I had a population that grew by about 800,000 people. I increased jobs by 400 or 500,000 and got unemployment down to about five percent. And it worked because I believe what I did was I stimulated the private sector to solve the problem, as opposed to build this big government bureaucracy.

And what I'm afraid of is that this administration and the people who guide it define the problem we had differently, incorrectly, and therefore, are trying to solve it -- basically, I think, to simplify it, their theory is the private sector caused this problem, capitalism failed, and now, government is going to solve the problem, as if government wasn't a big part of the problem in the first place.

So let's take a look at a couple of the areas for a moment because I think there's a common theme that runs through all of them because I think that the same problem, in terms of thinking and feeling and attitude, existed at all different levels of our society for a long time.

The subprime mortgage problem. The subprime mortgage problem, I believe, was created by government. I don't think it's a private sector problem, at least initially or primarily.

It ultimately played itself out in the private sector. Banks do not, by their nature, intuitively want to loan money to people who can't pay. I mean, that isn't like the nature of a bank. You don't give mortgages to people who have no assets, who have no ability to repay. The only real hope that they're going to repay is that the economy is going to make massive increases each year and they're going to be beneficiaries of that, which is always worrisome, right?

So why did banks give mortgages to people who put up no cash and who didn't necessarily have a good job and didn't fit any profile of being able to repay the loan? They did it because the government put tremendous amount of pressure on them to do it, to the point of requiring them to do it, and probably, they fell into the theory of the ever rising economy, which is, after all, not a capitalist principle at all. It's just an unwise reckless idea. The principle that you should draw from studying capitalist economies is just the opposite. It's a cyclical self-correcting economy that has huge swings, and a wise conservative person, not just politically but economically and culturally, would have a hedge against that. The hedge against that is, in the case of mortgages, some cash. Ten percent, 20 percent shouldn't have a mortgage. If you can't put up ten or 20 percent, you shouldn't give one, unless the person could put up ten or 20 percent or 30 percent in cash

so that there is a hedge against something going wrong in the person's life or something going seriously wrong in the economy. The hedge was removed. And why was the hedge removed? It was removed because government told banks, required banks, almost legislated banks to do it. So the idea that the government had no part in this is simplistic and just a product of seeing the world through an ideological prism rather than seeing the world realistically, that really existed.

So now, we get to credit card debt. So subprime, you can say is the issue that exists at the lower economic levels of our society or our country. Credit card debt exists at all levels, lower, middle, upper. We just let credit card debt get out of control. Credit card companies did. People did. And let it get out of control probably, again, on the same theory of the ever rising economy, so you float a big long credit card line. Everything's going to work out next year because you're going to get a ten percent increase in wages or your investment is going to go up by ten or 15 percent and maybe you can't pay it this year but you'll be able to pay it next year. Again, a very unwise nonconservative approach to your personal finances or your business, the idea of the ever rising economy.

And then finally, at the upper levels, economically, of our economy, the real estate transactions and the business

deals that were done, really, going back to the '90s and then the dot-com boom and then the bust and then continuing through the 2000's. I know several real estate transactions. I'm going to tell you about one because it illustrates it best of all. I won't tell you who it was but somebody bought a building in Manhattan a few years ago and the building was bought for about \$2.1 billion and it was worth \$2.1 billion only if you did the following projection: you assumed that rents were going to go up for the next five, six, seven years by the same rate at which they went up in the prior five or six years before that. Now, isn't that just kind of a contradiction of what a capitalist economy is all about and something we should learn from? I will get to that. What lessons do you learn from this? So if you don't define the problem correctly, you learn the wrong lessons. If you define it correctly, you learn the right lessons and fix the problem.

So this building was bought for \$2.1 billion. The idea was that rents were going to go up anywhere from probably a minimum of seven or eight percent to a maximum of 20 percent per year. As they had been going up from about 2001, 2002, they're going to go up just like that for the next four or five years. Well, you know what happened in 2008, right? Rents didn't go up. Rents went down. People abandoned the building and all of a sudden, this \$2.1 billion building, which was

bought virtually with no cash, just quick credit, which makes no sense, to buy something completely on credit. The building is worth \$1.5 billion. That's a lot of money. That's a very substantial building but that's also a lot of debt and it means that that business either could go under or it has tremendous cash calls and puts tremendous stress on it. Again, same principle that happened with the subprime mortgage, same principle that happened with the credit card debt.

And then you see business deals in which transactions that are done for \$3 billion, \$4 billion with very little cash, almost no equity at all, people really proud of buying businesses with other people's money, which is all, again, premised on the fact that that business is going to grow and that our economy is going to go up. And it got right to the core of the problem, which is the whole way in which we do capital requirements. There's absolutely no reason, shouldn't be any reason, based on the regulations that exist, if they're properly enforced, for any of these financial institutions --

First of all, finance have gone away and gone down, like Lehman Brothers, or to be in peril of going down, like Bear Stearns and Merrill. After all, they have capital requirements. What's the idea of a capital requirement? The idea of a capital requirement is exactly what I'm talking about. It's the wisdom that no matter how good things looked,

they can go bad. Therefore, you have to have a certain amount of capital that protects you against the vagaries of a free market economy.

Well, obviously, the capital requirements for all of these banks and financial institutions were wrong. They were either the wrong formula, or the wrong evaluation of assets, or the wrong assets that were evaluated, or a product of fraud, or a combination of all those things, and in some cases, one and in some cases, the other. But there's one big thing that happened at the government level and that is the formula was changed. The Basel II formula that was used for capital requirements did exactly what I just said. It used the last five years as the indicator of the amount of capital you needed now and theoretically, for the next five years.

So if the last five years were all five to 20 percent growth years, by the time you get to the fifth year, you don't need any capital because things are just going to grow. It doesn't matter. What do you need capital for? So you can be leveraged, like Lehman was, I don't know, 33 times to one? Thirty five? I don't understand. I actually don't understand that. It's like I have a hard time understanding a trillion dollars. I have a hard time understanding how you can be leveraged 35:1 and expect to survive anything but massive increases in the economy. But they were and it came about

again for the same reason. And government participated in all these decisions. Government made some of these decisions and government forced some of these decisions.

And if you think the idea is the government is going to be able to run financial institutions, banks, automotive companies, or whatever else they want to run now, the entire health care industry, or energy, better than private enterprise has been able to do it, even with all the problems private enterprise has had, then go look at what government has run consistently from the beginning. Social Security. And why is Social Security in the problem that it's in? It's in the problem that it's in because the government ran it as a political program rather than an economic program. Rather than as a fiduciary, they ran it as a politician. And the political choices overwhelmed both the sensible economic choices that had to be made as well as the fiduciary obligation that you should have had for the money of the people who were, in essence, investing in Social Security because the Social Security money was spent for all other political purposes that were a lot more attractive to the politicians who get to run it, which is essentially what politics adds to the already existing problems of running a business -- which are substantial -- and adds another one that's catastrophic, which is political choices, political realities.

New York City owns -- here's where I learned that lesson. What I'm telling you is not theoretical. What I'm telling you comes out of my life experiences, not out of just my theories. I have lots of theories. We can be here a long time if I told you those. But this comes out of my life experiences. I ran a hospital system called the New York City Health and Hospitals Corporation. It's the second largest public hospital system in the country, second only to the VA. We have 17 hospitals, 11 acute care hospitals, some of them the best known in the world, like Bellevue Hospital.

When I came into office, they were, without exaggeration, a disaster. Five of them had lost accreditation and they were not hospitals that any of you would want to be in, and they were run by the government and they have been run by the government for some time and they were run by the government as a place to do political patronage. The congressmen who don't have a lot of political patronage, the senators all put their favored people in the hospitals and you could never remove them because then you would have war with this congressman or that congressman or some other congressman. So that was my experience with what government can do when it runs a business.

New York City also ran a radio station. New York City owned and ran a radio station. New York City owned and ran a hotel. It didn't do a good job of making a profit with any of

these because political realities overcame the realities of business. The hospitals didn't have the number of workers that it needed or the skilled workers that it needed. It had to work as the Congressman you-fill-in-the-name wanted it to have because otherwise, it wouldn't get the funding.

And isn't that exactly the same as what Barney Frank attempted to do a couple of weeks ago with General Motors? He wanted to keep a factory in his district that General Motors thought was unproductive. Hard enough to close a factory that's unproductive. When the government is running it, hey, that happened to be congressmen and congresswomen all over the country, I mean, you might not be able to close any factory. And if the union doesn't want you to close it, which is the -- I mean, the majority owner is the United States of America and the minority owner is the union, how are you going to run this business other than the way the government ran Social Security, political choices being more important than economic, or the government ran the New York City Health and Hospitals Corporation, political choices overwhelming health care choices, overwhelming economic choices to the point where it was operating at a \$60 million deficit?

I tried to privatize a lot of these things and I succeeded in some and I failed in others. I succeeded in privatizing the radio station. I thought the only governments that owned radio

stations used to be in the old Soviet Union. I didn't realize New York City owned a radio station. I was uncomfortable having a radio station, not because of politics, because I was very upset with their coverage of the New York Yankees and I wanted them to change. I wanted them to be biased in favor of the Yankees. And so I thought I had to get rid of them and we got rid of a lot of -- we owned 500 gas stations and we got rid of one of the gas stations. This is the product of a city that was a social democracy, that had embraced social democracy in the 1950's and then just kept going in that direction, which is what I'm afraid we're embracing right now. I'm afraid that we're embracing social democracy -- we want to become Europe because Europe has been so economically vibrant. So that's our model.

What I did instead, because I was blocked by the state legislature from privatizing the hospitals, because I think private hospitals run much better than government hospitals, I, all of a sudden, got control of the board and I ran the hospital as if it was a private hospital. I removed 12,000 people, fired them. They followed me for ten years. They have now forgotten about me so I shouldn't repeat this now, but they have forgotten about me. But they used to follow me to every place I went. South Carolina, California, they'd show up all over to explain what a terrible, horrible person I was. They

were all political people. None of them got another job, which is another good indication. When they would show up, I would say I made the right decision. They never got another job. I must have gotten rid of the right people.

And I will tell you, the hospitals became much better hospitals. They became accountable. We required that they have their own budget. They started to become anywhere from profitable to break even, and these are hospitals, by the way, that have to take care of anyone. The law requires them to take care of anyone that walks in. It's New York City's version of universal health care. You get sick in New York City, you walk into Bellevue, they are required by law to take care of you for as long as you have to be taken care of. So they're hard to have hospitals there that don't end up being a big economic burden. But they turned to all be accredited. Some of them turned out to be really good hospitals, all of them decent hospitals, and they started to operate at either a profit, depending on the year, or break even.

It would be a terrible mistake if we allow this to continue with this inexorable -- what appears to be inexorable answer that government can fix this problem. It would defy history. It would defy the facts, which, as a former prosecutor, always bothers me. The facts of what happened. Yes, business bears a tremendous amount of the responsibility

for what happened. Fundamentally unsound decisions. Not decisions that come out of the philosophy of free markets or the philosophy of capitalism. Decisions that come out of recklessness and human behavior and in some cases, fraud, some of the worst frauds I've ever seen. But none of them suggests that capitalism still isn't the best economic system that human beings have invented.

It's like our legal system. My goodness, our legal system is not a perfect legal system. I've practiced in it for more time than I have been a politician and I have seen wonderful results and I've seen very unjust results. I see great inefficiencies. I see things that could be improved, not the fundamental nature of the system, tort reform and things that could be improved in the system. But I wouldn't go scrap the whole system and go adopt somebody else's legal system because there is nobody else's legal system that's better than ours. There's nobody else's economy that is better than ours. There really isn't. We are exceptional.

I know that you're not allowed to say that anymore, that America is exceptional, but we are and it's not arrogant to say it because you say it in a way that you want to share it with people, as opposed to, "Gee, we're better than you," and we're exceptional because we're lucky. We're kind of lucky to have been born here. We're lucky that our parents came here, or

were brought here, or ended up here, or however it happened. We're lucky that we're Americans and we should feel that way and we have something wonderful to share with people.

The frustration that I had as mayor of New York City, being mayor of a city that has a lot of poverty because it's so big, was that the reason it was so difficult to elect a Republican in New York City was that the general theory was that Democrats were the party of the poor and the Republicans were the party of the rich. That's how my parents looked at the world.

And I, on a long, long odyssey, because I was once a Democrat, then an independent, and then a Republican, the same odyssey as Ronald Reagan and Winston Churchill, which I'm very proud of. I don't smoke as many cigars as Winston Churchill. Well, almost as many. But the same kind of odyssey. I came to the conclusion that that is all reversed, that the Democrats locked people into poverty and had been doing it since -- I don't think since the New Deal because I think it was really since the Great Society, had been locking people into poverty.

I don't know that they do it because it's politically advantageous for them to do it because it creates a tremendous voter base that they believe can be manipulated and that the Republican approach, which let's call it not even the Republican approach, the free market capitalist approach is the

answer to poverty. What country has ever brought more people out of poverty than the United States of America with our so-called free market capitalist system? No country in the world has moved more people out of poverty, on a secure basis, than we have.

And I thought my mission, as mayor of New York City, for poverty was to make the genius of America available to poor people and not deny it to them because it was being denied to them. And that's how I viewed workfare to get people off welfare, job stat to evaluate -- my welfare work is not based on the number of people they put on welfare but the number of people they found jobs for. That's how I evaluated my approach to homelessness, which was people shouldn't be allowed to live on the street. It's not good for them. If my brother was living on the street, I would get him off the street. I wouldn't tell him, "You have a right to live on the street," because I care about my brother. I don't have a brother but if I had a brother. You're going to say, "The mayor is now lying. He doesn't have a brother." This is a poetic license.

But the reality is that we have to do a better job of conveying that to people. We have the answers to poverty and the answers to poverty are good education, and we can talk about that at length because I think it is impossible for me to understand how, in your life -- like my children are now

virtually at the end of -- my daughter is in her last two years in college so at the end of that period, but my children went to private school in Manhattan because I want them to have the best education, as a father, and I could not understand. That kind of led me around to choice.

I had been an advocate of the New York City school system. I thought I was going to fix it. I realized that I could not fix it enough and I became what I would call a zealous advocate of choice. And part of it was almost a moral decision. If I have to send my children to private school, then how can I force all of the other parents who love their children as much, who may not have as much money as I do or the ability to do it that I do, how can I force them to send their children to schools they don't want to send their children to, if there's a way, even the possibility of a way, that we could fund a choice for them that's better than that?

And there was a way to do it because the New York City budget for schools right now is \$21 billion. It used to be \$14 billion. So you give the parents some money and let them choose the school. These are the things that Americans want. They get blocked for political reasons from hearing it or accessing it.

The beauty of the Republican Party is that I believe, if it's true to itself, and we're not always true to ourselves,

and we're not always on the right track, and we don't always make the right decisions, we don't always present ourselves in the right way but the beauty of the Republican Party is it believes in freedom, really believes in freedom. It believes that people making choices make better choices in government or commissars or directors imposing choices on them. And I describe it, for me, being, as you can tell, a very parochial New Yorker, I describe it like the New York skyline, which people tell me is so beautiful, nobody planned it. It wasn't some government planning agency or a commissar of architecture or a czar. We have 33 czars now. This can be very dangerous. Remember what happened to the last real czar. Thirty three of them all at once, phew. It could really hurt.

But nobody planned it and it's just an expression of what human beings can do if they're free, what human beings can do if they feel empowered, what human beings can do if they're allowed to fail, what human beings can do if they are allowed to dream. All of that ends with a government-dominated economy and we have the architecture of the socialist countries or the social democracies.

And the biggest battles of all, I believe, are over health care and over energy. I think those are the two defining battles. And I believe they are the two defining battles, and we can go into that more in the question and answer, because

those will be the two hardest to reverse. They'll be the two hardest to undo. We'll eventually get to undo all of this. Reagan got to undo most of it. He couldn't undo all of it. Remember, he wanted to do away with the Department of Education. He couldn't do that. When institutions are created, that's then the most difficult. Spending is going to have a terrible impact on our economy, a terrible impact on inflation. We can undo spending.

But we can't undo the commissioner of health choices and the commissioner who decides who gets caps, what those caps are, and the 25 new buildings that would have to be built in Washington to house those bureaucracies. Because if you read that legislation and you've ever run a government and you start translating it into how many people are going to be needed to run this new health insurance program for 30 to 40 million more people that are going to be covered, how many employees do you need to run it, particularly, if you're running it and saving money? I'm trying to figure out how you cover 30 or 40 million new people and save money. I guess by not giving them any real coverage, right? Or by having someone who decides that at 59 years old, you can't get a stent anymore. How about that?

This is scary stuff. This is the reason why nobody -- and they don't even go that far so they're going to get real angry because they don't even go that far. But this is why nobody

goes to Canada or England for treatment and they come here. Well, they're going to be really angry because they're not going to be able to come here anymore. There's not going to be any place where you can get really decent health care, and that's another. Why do we want to scrap a system that is the best in the world with inequities, imperfections, serious problems but the best in the world, go borrow systems that don't work, that people are escaping from, that people are dying from, and superimpose it here, except that ideology has overcome reality? Thank you.

Arthur C. Brooks: Thank you very much. We have time for some discussion and questions and answers. We have microphones that are roving and what I would like to do is ask you to do three things if I call on you for a question. The first is that you wait for the microphone, the second is that you stand up, if you can, and the third is that you state your name and your affiliation. So why don't we start on this side? Right behind you.

William Hicks [Phonetic]: William Hicks, Smithsonian Institution. I just have a question really quick for you about the Federal Reserve Transparency Act. Currently [audio glitch] 200 [audio glitch] [indiscernible] think that it would be a good way for [audio glitch] [indiscernible] --

Rudolph Giuliani: I have no problem with transparency. I think transparency makes a -- I thought transparency was the answer to campaign finance reform rather than limits. I think transparency allows sort of the free market of ideas to operate. What I am very disappointed in, and I mean this sincerely, I thought one of the things that Obama was going to bring to Washington was more transparency and it's actually less. The whole argument for this Health Care Bill is an argument for no transparency. He wants it passed by July 20 -- or August 1st, July 31st or August 1st, August -- well, he wants it passed before they go on recess. Why? If it's so good, if it has its great ideas, what's the rush in passing it? Why not let it be examined in the marketplace of ideas carefully, maybe give him a chance to read it? I think that would be good. Don't you think it'd be good if he -

But what's the rush? Is there fear that there are some ideas there that people eventually are not going to like? So how is that transparent? How is that democratic? Now, the stimulus, which they did the same thing with, and I think the stimulus, so far, is a disaster, but they did the same thing with it. They rushed it through. They only gave people a chance to read it after they said they were going to do the --- at least the stimulus, you had the facial [sounds like] argument that there was an emergency going on. Well, we don't

have an emergency right now. Our health care system has been the way it is for about 20 years and we could take three or four months to try to fix it and maybe we would avoid some horrible mistakes that are hidden in that legislation. And if you had real confidence in what you were doing, I would expose it to the marketplace of ideas.

I was in the Reagan administration when they did tax reform, with a Democratic Congress that was opposed to it, and Ronald Reagan got it passed by having it examined and the American people were won over by it. The Congress was against it and the American people were for it. And he exposed it and overexposed it and it was such a good idea that it had passed. This is let's hide it and let's get it passed as quickly as possible and what's the argument for not -- well, if it goes over the summer, it's going to get stopped. It's going to get stopped because somebody is going to discover something that's terrible and the American people are going to be against it. And he's supposed to be on the other side of that. So transparency is great. I just wish they would really do it.

Barbara Billie Whitman [Phonetic]: Barbara Billie Whitman, with Forest. The other evening, on FOX, Charles Krauthammer said that Michael Steele shouldn't have been campaigning against the so-called health care reform because the Democrats were already shooting each other and we didn't

need to join the fray. I'm glad you don't follow that philosophy but I'd like you to comment on that comment.

Rudolph Giuliani: Well, I agree with both sides. No, in essence, I do. I think we should allow the Democrats to battle it out without getting too involved in their battle because then, when we get involved, the media realizes, or at least the big portion of the media realizes they hate us more and then we become the target. So if we let them battle it out, there must be something really wrong if Democrats are disagreeing. But I do think we have to reemphasize our principles and we can't be nonparticipants in the debate, and I think Michael struck the right tone. I think he did it exactly the right way. He stood up for our principles. He didn't overdo it. He didn't get personal. He didn't become the center of the debate but he participated in it.

And we have to participate in it, actually, because these are matters of principle for us. These are not just political issues for us. It's a matter of principle for me that we retain a private health care system. I believe that it would be a disaster for this country to go create a government insurance program for ten million people, 20 million people, 30 million people, 40 million people. I don't even think it's a step in the direction of nationalized health care. I think it is nationalized health care. People say it's a step in the

direction. Twenty, 30, 40 million people, we already have millions of people covered by the government with Medicare and Medicaid. This will be the tipping point to government dominating pricing. It already influences pricing too much through Medicaid. If it gets 30, 40 million more people in the government program, we will essentially have government control of pricing in medicine and we will be a nationalized system, just a few more steps to socialized medicine.

Male voice: In terms of reforming and/or shrinking government, I was curious to know your ideas on how to deal with the public sector unions in that regard. I'm thinking, for example, the problems that Schwarzenegger is having in trying to trim the budget deficit in California in the face of their public sector unions.

Rudolph Giuliani: I don't honestly know the powers that the governor of the State of California has. I know the powers that I had as the mayor. And I would do it, first, by negotiation and then by layoffs. I would say to the unions, "If you negotiate with me, you will avoid -- if you let me do it, I'll just get rid of 5,000, 10,000 people. If you want to negotiate it, we'll figure out does it have to be 5,000 or 10,000. Maybe it could be a little less. What kind of package can we have? Can we have a retirement package? Can we do it in a way that makes it easier for them? Can we give them a

chance to come back to government service if, in fact, we need them in the future? We can negotiate a much more desirable exit if we negotiate it than if you just let me do it."

I don't know if he has that power. I had the power to lay people off in most of the agencies, not all. I couldn't do that with teachers, for example. Teachers had tenure so that just inexorably grew. But I could do it with everything else. So that was the leverage that I used and most of the time, it worked, and as you know with the hospital workers, it didn't so I just laid them off. And if you occasionally exercised that power, you become much more persuasive in your negotiations because they know you'll do it. After I laid off the 12,000 people and the hospital workers, I didn't have a problem negotiating with unions after that because they knew that I would do it. Democratic mayors used to threaten it but they'd be afraid to do it because the unions were so much a part of their political base. A Republican mayor didn't have to worry about that. They weren't part of my political base.

But I mean, I would say one of the things that has to be done, and I thought that the Obama administration, by now, would come around to this, is they really have to reduce government spending. When the -- was it the prime minister of China, on his way here about three months ago complained that America is spending too much money? I mean, this has got to be

like a real slap, a wake-up call. For the first time in my life, because I grew up during the Cold War, I agreed with the prime minister of China and I was really shook up. I'm thinking he's right.

And since we've criticized, I would tell you what I think should be done really quickly. First, we should reduce government spending by ten to 15 percent. Second, we should get rid of the idea of nondiscretionary spending. There is no such thing as nondiscretionary spending. That is a category that is created for the purpose of enshrining spending. It has no legal significance. Congress passes a budget every year. Every single thing is passed, with a few exceptions. There are a few exceptions. But largely, all those things described as nondiscretionary spending could be reduced or eliminated. I'm not saying you should do it but if you wanted to do it, you could.

So there is no such thing as nondiscretionary spending except as a political device that's created so that somebody will look horrible or terrible if they tried to examine it. So all spending should be examined and we should end up with a ten to 15 percent reduction in it. That would revive the economy of this country so fast it would be unbelievable. It would revive the dollar really, really quick.

The third thing we should do is we should reduce taxes and put money back into the private sector. We should realize there's a balance between how much the government owns, how much the private sector owns. We should get more money back into the private sector and let them run it. We should retain private health care and fix it and I think we should fix it through the tax code. I think that's the single biggest change that we could make is with the employer deduction and allow that deduction work for everyone so that I could go buy my own health insurance. We should do a group of things like that and we should do real tax reform like a simplified tax. Maybe we're ready to debate a flat tax. If not, a flattened tax, something like that, two rates, a couple of exemptions, not all the ones that we have.

And here's the most important thing. This is very complicated because we need fewer but more relevant and better enforced regulations. We don't need deregulation. But deregulation was not the cause of this problem. Lehman Brothers was heavily regulated. Bear Stearns was heavily regulated. AIG was heavily regulated. Everybody was heavily regulated. They were just regulated incorrectly. In fact, they were regulated so much that you created a needle in the haystack situation. And I know this from being a U.S. attorney and prosecuting white collar crime and regulatory crime and as

mayor with a city that had too many regulations. If you have 1,000 regulations, 999 of which are irrelevant, and you have one really important one, you can't enforce the one really important one because you can't find it. Well, there was one really important one called capital and that was not enforced properly. If that one regulation had been enforced properly, about 2/3 of what happened wouldn't have happened.

Now, we're going to do the same thing we did, if we're not careful, after Sarbanes-Oxley or after Enron and WorldCom. We're going to do a Sarbanes-Oxley. We're going to pass a thousand regulations, most of which have no meaning, some of which are insane, like requiring a CEO to certify the books of a company. Any CEO who can really honestly sign that can't be the CEO, can't possibly do the job of being CEO. How the heck does he know if five apples came in on June 30th or if the receipts were \$2327.14 in the subsidiary in Wasilla, Alaska, just to pick a place? But we've got to sign in this stuff. They're actually signing all this stuff and they have scores of lawyers, thank God, and accountants and they're paying them for this. We're going to do the same thing again. We're going to do -- the idea is government can solve it. Regulation can solve it. Let's have many, many more regulations. Let's make sure they're absurd and irrelevant and then the few relevant ones that we have, we won't be able to enforce. The wisdom

here is to define the regulations that are really important and to enforce the heck out of them, I mean, and really be tough about that. But no one can be tough about it.

Arthur C. Brooks: We'll take one last question here, as the mayor is engaged after this. So let's come around here, this gentleman here in the front row.

Charles Chen [Phonetic]: Charles Chen, freelance correspondent. Mayor Giuliani, first, thank you for your service to New York City and the country and also welcome you here. It's good that you mentioned subprime mortgage. It is crime [sounds like] and very expensive. We just heard yesterday from top inspector general told the Congress we spent \$50 billion, that's a big B, to allow the subprime mortgage payment. And in your personal opinion, what would be the consequence of printing so many money, so much money? Thank you.

Rudolph Giuliani: This is a very difficult kind of prediction into the future, for me. I'm a very -- I love America, like you all do, and I believe in the principles of the Republican Party and I believe I'm right about how the economy should be managed because I've managed a very complicated economy and I've managed businesses so I think I know what's right and what's wrong, and everything that I can see that's being done is fundamentally flawed to a very serious

extent. Yet, as an American, I hope it works because we're going to be in terrible shape a year or two years from now if that's not the case.

But that's sort of a romantic hope. My mind and my reason have to take over and I think everything that's been done so far has taken this recession and extended it, instead of the prediction, the wildly reckless prediction, by the way, that the stimulus would reduce unemployment and would have an immediate fix and would have an immediate impact from the stimulus. We have had an immediate impact from the stimulus. Unemployment has soared and our economy has gotten worse and there's nothing long term in it that will help our economy.

And the worst part of it is when it does help our economy, which will happen at some point because our economy will revive because it's bigger than any of us, we're going to have terrible inflation, which is what I think you're talking about. You can't possibly account for this kind of spending even if health care -- if health care happens and cap and trade happens, you magnify the problem by ten times. But even without that, there's only one way you can deal with the \$1.5, \$1.6 trillion that even the administration will accept it's added, even with heavy taxes.

And Pelosi is moving the rate up of people that she is going to tax that there'll be only about five people making

that amount of money and they're all going to go to Australia. So she's going to -- I mean, they're going to outfox her. I mean, she's going to move it up. The people know exactly who they are and they'll just move and then she's going to have to tax everybody, which is what they're going to do ultimately anyway. They're going to tax everybody. But you can't tax your way out of this. You can't tax your way to getting this money. He doesn't want to reduce spending so he has to print money and we're doing it right now. And the impact of that inflation will probably take about two years to really feel but there is no economist that I talk to, of any type or in any country, that doesn't believe that inflation is inevitable. And that is exactly why the Chinese prime minister made the statement that he made because he's holding more American dollars than just about anyone and he doesn't want the American dollar to shrink right in his hand, which is what he thinks is going to happen.

Arthur C. Brooks: Thank you all for coming today and please join me in thanking the Mayor for taking his time.

Rudolph Giuliani: Thank you.

[End of transcript]