

Greg David columns:

January, 22, 2007 (mandatory): **The rise and fall of Bruno & Co.**

Business leaders don't always follow the ins and outs of politics and government — sometimes because the maneuvers are too arcane, and sometimes because they are embarrassed by their own role in the unseemly dealings that characterize government in Albany. That attitude is clearly demonstrated by the current lack of interest in the fate of Senate Majority Leader Joseph Bruno.

So here's the inside story.

Mr. Bruno's future hangs by a thread, and groups that have slavishly supported him could soon find themselves out in the Albany cold. The biggest threat to the 77-year-old power broker comes from a widening federal investigation into his personal finances.

Most local observers thought they knew Mr. Bruno's modus operandi: He protected the interests of those who gave heavily to the campaign funds he used to preserve GOP control of the Senate. Beneficiaries included business organizations like New York's landlords group, as well as trial lawyers, labor unions for city workers — and especially the city's hospitals and its health care workers union, which for years have had their way regarding health care policy.

Now, it is evident, Mr. Bruno's deal-making went far beyond political fund raising. He arranged to get state funds and did other favors for companies that hired his consulting firm, which he operated out of his home.

The senator claims that he did nothing wrong. Legally, prosecutors will have to show that companies were clearly awarded state grants as a quid pro quo for hiring Mr. Bruno.

But whether the lawyers succeed seems almost irrelevant. These arrangements are unethical: They enriched the senator at public expense and made his interest in personal wealth paramount in Albany decisions. The fact that no one knew about the transactions shows plainly that the participants didn't think they could stand public scrutiny.

While the probe continues, Mr. Bruno's majority in the Senate could slip away. Sen. Michael Balboni, a Long Island Republican, resigned to take a job with the Spitzer administration — a sign that at least that rising star lacked confidence in the majority leader's prospects. The Democrats, with strong backing from Eliot Spitzer, have a good chance of winning Mr. Balboni's seat in a special election next month.

If that happens, the Republican majority in the chamber will be only 33-29. Given such a thin margin, Democrats will try to lure two Republican senators to their side of the aisle. Many GOP senators are barely hanging on in districts that vote Democratic for most other offices. The Democrats hold every statewide office. Who wouldn't consider changing parties to join the winners?

The businesses that supported Mr. Bruno could be in quite a bind. Their protector will have been vanquished, and the victorious Senate Democrats will remember all the years they were treated with disdain. It may not be so easy to buy their loyalty with checks. Mr. Bruno's demise could pave the way for campaign finance reform.

It's a tight spot for businesses that supported the senator, but it's the inevitable consequence of their unholy alliance with Mr. Bruno.

*June 18, 2007: **Converting hotels into bad journalism***

Alarm bells went off here in early 2005 after a series of hotel owners decided to convert their rooms to condominiums

The city appears to have lost more than 3,300 [hotel] rooms in the past few years. Hotel union officials and some hotel owners find the trend appalling, because of the loss of jobs, and because of what it could mean to the city's plans [to expand its convention business]."

--*The New York Times*, March 6, 2005

"Manhattan will gain 50-plus hotels and 8,000 rooms over the next three years. ... The increase is the largest ever."

--*Crain's*, June 4, 2007

This is a tale of economics and journalism.

Alarm bells went off here in early 2005 after a series of hotel owners decided to convert their rooms to condominiums, lured by escalating prices for high-end residential real estate. The hotels themselves were regarded as luxury destinations, but the label was more historical than accurate. While they charged high room rates, most of the accommodations were neglected and run-down. Their clientele was in on the secret and had abandoned them for new entrants that actually were luxurious, like the Four Seasons and the Mandarin Oriental.

The issue reached a fever pitch when news broke of conversion plans for the Plaza, which had been purchased by Israeli company Elad. The boss of the city's hotel union led a PR campaign to block Elad's plans, as well as any similar efforts. The city's media followed his lead. The hand-wringing *New York Times* story that appeared in March, which concentrated on the possible dire consequences, bore the headline "If they come, where will they sleep?"

Unfortunately, reporters had stumbled into three classic pitfalls of journalism: failing to probe a source's bias, accepting what's easy to count and not considering how the economy works.

The driving force behind the stories was hotel union boss Peter Ward. He's sincere and thoughtful, but his prime concern in this situation wasn't the city's future; it was the loss of unionized hotel jobs. More than anyone else, he knew how difficult and time-consuming it can be to unionize workers. He wanted to protect the members he had, rather than have to find new ones.

The bad-news story he was promoting was easy for the press to document. The union, which had to be informed of potential conversions, was happy to relay the information. Reporters had no such easy source for details on new projects. In fact, hotel chain executives were loath to discuss their plans, because to do so could drive up the price of the sites they wanted and alert rivals to their intentions.

Most important, no one consulted an economics textbook. If supply tightened and occupancy rose, room rates would jump and existing hotels would become more profitable. Not only would they remain open, but operators would look to build more rooms. Funny, that's exactly what happened.

Luckily, little harm came from the cause celebre. Elad found a compromise that preserved part of the Plaza as a hotel, mollifying the union. A panel that Mayor Michael Bloomberg named to study the potential room shortage offered harmless suggestions, long since forgotten. Even Mr. Ward is happy, since he will have so many new members to recruit. Because the trend was allowed to run its course, Manhattan will soon have 72,000 hotel rooms.

Journalism is supposed to be the first draft of history. In business journalism, that goal is achieved only when stories are written with the understanding that economics matter.

July 9, 2007: Commerce lesson worth remembering

Seven years ago, New Yorkers were paying the highest bank fees in the nation and receiving service that was second to everyone else's. Then Vernon Hill brought Commerce Bank to the city and changed everything.

Consumers owe him a debt of gratitude, even though Mr. Hill has been forced out of the bank in disgrace--the likely precursor to Commerce being sold and disappearing.

It's hard to remember how badly banks were fleecing their retail customers at the beginning of the decade. Two big players--Chase Manhattan and Citibank--controlled a third of all deposits, and the top six controlled 60%. Chase required customers to maintain a minimum balance of \$3,000 to avoid a \$9.50 maintenance fee on checking

accounts; the fees were pretty typical. Most branches gave new meaning to the phrase bankers' hours, opening at 9 and closing at 3, Monday through Friday.

Commerce arrived in late 2001 with a new model. No fees on checking, period. Opulent branches open from 7:30 a.m. to 8 p.m. during the week and for six hours on both Saturday and Sunday.

One feature I've always loved is the coin machines: easy to use and free of charge. As Mr. Hill always said, he wasn't going to nickel-and-dime his customers.

With an assist from Washington Mutual, which bought Dime Savings Bank and also offered free checking, Mr. Hill forced the big banks to change.

Today, everyone offers free checking, and longer branch hours are common. Other newcomers, like Bank of America and Wachovia, have brought an emphasis on service from more competitive markets, and banking in the city is no longer a chore.

Shaking up a stodgy industry requires a certain cockiness, but Mr. Hill's confidence was more like arrogance. The Staten Island Economic Development Corp. once scheduled Mr. Hill to precede Alan Fishman on a lunchtime program, forcing the respected CEO of Independence Bank to sit through Mr. Hill's rendition of all the failings of other bankers.

When Mr. Fishman took the microphone, he noted acidly that it was the first time he had ever been called stupid in public. He must be taking quiet satisfaction in the latest turn of events.

Mr. Hill might have gotten away with angering his competitors if his arrogance hadn't been combined with greed. He arranged for his wife to be paid millions of dollars to design Commerce branches. He and a family trust he set up acquired the land on which Commerce built some of its branches.

Why he needed to take advantage of his shareholders this way is a mystery. His stake in the bank was more than enough to make him rich.

Federal regulators seem to have decided that Mr. Hill isn't fit to run a bank, and the Commerce board reluctantly concluded late last month that he had to go. The most likely scenario is that Commerce will now be sold.

While five years from now Commerce may be a distant memory, Mr. Hill's story is a parable about the consequences of arrogance and greed that shouldn't be forgotten.

September 3, 2007: NY's credit crisis: Wait 'til next year

New York seems to be in a state of endless suspense

New York seems to be in a state of endless suspense. The city is transfixed by headlines reporting on the crisis in the credit markets. Wall Street traders claim that they have never seen a situation this bad. But the stock market has steadied. Apart from the employees laid off by a subprime lender on Long Island, few people seem to have lost their jobs. The tightening of mortgage credit hasn't yet harmed the city's real estate market.

The contradictions highlight one of the fundamental facts about New York: The economy most resembles a giant ship. If it's been going all ahead full, slowing down takes an inordinately long time. Making a complete turn can take years.

However, many journalists are fixated on the idea that bonuses will be slashed on Wall Street this year, leading almost immediately to declining prices for apartments in the city and homes in the Hamptons, and plummeting sales of luxury goods. In reality, Wall Street firms made so much money in the first half--Goldman Sachs and Merrill Lynch both posted record profits--that bonuses will still be large, even if they're not at the record levels seen over the past two years.

Furthermore, layoffs will be delayed. The mortgage operations of local companies that are big players in the business, like J.P. Morgan Chase, are located outside New York. There should be casualties soon in the Wall Street units that package loans, but the numbers will be in the hundreds, not the thousands. For 2007 as a whole, the cutbacks may barely put a dent in the statistics, since securities firms added 5,600 jobs in the city in the first six months alone.

Three sectors--tourism, retailing and construction--will be robust for some time to come. While room rates of almost \$300 a night are deterring some visitors, hotel occupancy remains at historic highs. Large retail projects under way promise thousands of jobs: Gateway Center near Yankee Stadium should create 2,100 positions. Current construction projects, including three new sports arenas, the World Trade Center and a score of high-profile residential towers, are doing the same for that industry.

Tax revenues will weaken, because real estate transaction taxes are falling and Wall Street profits will be down. But it won't be enough to trigger alarm bells.

As a result, by year's end, many experts will be offering reassurance that the city appears to have escaped severe harm and that any downturn will be mild. They could be very wrong.

The toll from the credit crisis will begin to show up early next year as a large number of hedge funds find that they must close their doors. With the profit picture for 2008 looking bleak, securities firms will begin making significant layoffs. Spending by Wall Streeters will drop, not because their bonuses have disappeared, but because they fear for their jobs.

If chief executives throughout the city reassess their prospects--as they did immediately following the 2001 terrorist attacks--expansion plans will be shelved. By the second half

of 2008, both the office and the residential markets could weaken dramatically, and the city and state budgets might suddenly be engulfed in red ink.

Everyone wants to know right now what the impact of the credit crisis will be. Unfortunately, it will be a long time until we are certain.

Alair Townsend columns:

January 15, 2007 (mandatory): **What Gov. Spitzer forgot to mention**

Spitzer's agenda is so overarching that what he did not mention stands out in stark relief

I watched Eliot Spitzer's State of the State address with a list by my side. I had written down a reformer's dream agenda — about a dozen high-priority issues I hoped he would address.

Down the list he went. Check, check, check. More charter schools. Money for the Campaign for Fiscal Equity. Reform in campaign finance, redistricting, public authorities, merit selection of judges, workers' compensation, Medicaid, ethics, the Wicks law and the budget process.

There were more items — such as the consolidation of local governments — that rarely make the news, however worthy they may be.

The law facilitating the siting of power plants will be renewed. Everyone will have broadband access. Brownfields will be cleaned up. Millions will have health insurance coverage. Stem cell research will be encouraged. There will be billions of dollars in property tax relief.

Spitzer's agenda is so overarching that what he did not mention stands out in stark relief. What he didn't mention was anything serious concerning the power of public employee unions.

Mr. Spitzer proposes special aid to distressed cities. But he didn't propose a new, less generous pension tier for government workers that would treat taxpayers more fairly and, over time, reduce the cost of state and local governments.

Pensions for these employees are defined benefit plans. They allow the employees to retire after making lower personal contributions — with fewer years on the job, cost-of-living adjustments and the presumption that any of a host of ailments are job-related. These benefits are costing New York City alone \$4.9 billion this year.

Part of Albany's dysfunction is that public employee unions use campaign contributions to buy pension sweeteners from the state Legislature. What they fail to win at the bargaining table they get from the state Legislature in special pension legislation.

Since pension promises for workers with even one day on the job are protected by the state constitution from ever being reduced, enactment of a new pension tier is the only means of reforming this costly system.

Government unions are major sources of campaign funds for state and local politicians. Since January 2004, the health care workers union has given \$1.9 million, corrections officers \$653,000 and city firefighters and officers \$385,000. So when Mr. Spitzer discussed campaign finance reform and proposed lower donation limits for individuals and businesses but failed to include unions, it was a glaring omission.

He also neglected any mention of labor law reform. State law provides that contracts never truly expire; all the work rules and benefits remain in force until a new wage agreement is reached. That means that antiquated work rules and unaffordable provisions are extremely difficult to excise. In one upstate city, contracts provide for elective cosmetic surgery. Some of its retirees are not required to apply for Medicare; instead, health insurance coverage is paid for by local taxpayers — a perverse, reverse revenue sharing with the federal government.

Mr. Spitzer has presented a full plate of reform proposals. Unfortunately, he has left off some of the meat and potatoes.

*February 26, 2007: **The breakdown on a big birthday***

A birthday brings a full mailbox, thanks to target marketing

I had a big birthday recently. I received more than the usual number of cards from family members and friends. Through the magic of target marketing, I also received a mailing of promotional cards for everything that may ail me now or one day soon.

The cards offered a solution for every stage of the meltdown that the senders anticipate for me. It was all there except

For the promise of a quantity discount on Depends.

Starting with the pleasant side of things — the reward of easy living after decades of hard work — there was an offer for information about retirement in Florida. And, because "You've worked hard to own your own home," now my home can work for me. I can get a reverse mortgage. A nice bank will allow me to receive monthly payments instead of *making* them!

Could it get better than this?

Now, about those creeping infirmities. First, the wrinkles. There's good news! It turns out I don't need Botox, laser peels or other expensive facial treatments. I can try, FREE, DermaGen Anti-Wrinkle Patches, which will bring out younger, fresh-looking skin. There will be a significant improvement in my appearance after only a few uses. I hope they send enough FREE patches.

To solve hearing problems, I can get a 100% digital hearing aid that is preprogrammed to adapt to different noise environments. I can save 42% on Energizer hearing aid batteries. In case I live with someone too proud to wear a hearing aid, I can order TV EARS. TV EARS saved the marriage of Darlene and Jack B. in California.

My teeth are still good, but you never know. Perhaps I should save the card for free samples of Stain Away and Kleenite for dentures.

The cards about sleeping better struck a chord with me. Poor sleep has been a problem for years. Dare I hope that the answer could be a Sleep Number or Craftmatic Adjustable bed?

My prescription drug bills have been mounting, so I was more than a little interested in FREE samples of tablets to relieve too-frequent trips to the bathroom, and fish oil pills that will improve memory and concentration. I was assured that erectile dysfunction is routinely covered by Medicare. Discount Senior Drugs of Cincinnati offered me a lowest-price guarantee on products such as Lipitor and Zocor.

There were many cards for products to combat creakiness and the pain of movement. I can get flexible Featherspring Foot Supports, the Moist Heat Therapy Pump and Pad, the Barlow Knee Support and VeinEase. When mobility becomes a serious problem, I can get a walk-in bathtub at a factory-direct price; the Citia, which will take me upstairs in my Florida dream home while I'm sitting down; and a Rascal or a Hoveround that will restore my freedom to go places.

All this provokes fear, but the cards even covered that problem. I can get ADT Companion Service or Life Alert, allowing me to summon emergency help at the touch of a button, as well as Jitterbug cellular service just for emergencies.

Finally, Lincoln Heritage Life guarantees *Peace of Mind*. It gives CASH for funerals or other expenses, and it's accepted by funeral directors everywhere.

Happy birthday to me.

March 19, 2007: Viewpoint: Rudy supporter leaves the camp

Mr. Giuliani would have to fundamentally change his style to work effectively with Congress and international leaders. I don't believe he can.

Rudy in 2008? not for me.

I voted for him three times for mayor — the first time when he lost to David Dinkins, and his second and third successful runs. I won't vote for him a fourth time.

There's no doubt that Rudy Giuliani left New York a better, resurgent place. He led an all-out assault on crime, throwing resources and sophisticated deployment at the problem he believed overrode all others. He cut taxes and explained why lowering the cost of living and doing business in New York was crucial. He dramatically reduced the welfare rolls, emphasizing work rather than entitlement.

But his abrasive, stick-in-your-eye style wore thin and began to create problems instead of solving them.

I do not believe he has the temperament to be president. He does not work well with others. He would have to fundamentally change his style to work effectively with Congress and international leaders. I don't believe he can.

Mr. Giuliani was able to accomplish much of his local agenda because he was a strong personality in a strong-mayor form of government. He was much less successful in convincing the state Legislature to enact reforms he sought, such as giving the mayor control of the schools.

He was critical of community leaders such as Al Sharpton, whom he considered a mere rabble-rouser. He also refused for years to meet with African-American elected officials, such as state comptroller Carl McCall and Manhattan Borough President Virginia Fields.

He withheld routine information about governmental operations from other elected officials, civic groups and the news media until he was repeatedly sued and ordered by courts to release it.

He was intransigent in dealing with state-controlled entities such as the Jacob K. Javits Convention Center and the Port Authority of New York & New Jersey. His style was not to negotiate on behalf of the city but rather to confront or demand, or maintain a stony silence. That approach meant missed opportunities for the city.

Mr. Giuliani set himself up as an arts arbiter by threatening to cut funding for a local museum because of a painting he labeled antireligious. The leaders of a number of arts organizations courageously signed a protest letter. Others did not. Those who signed and those who did not shared the fear that the mayor would cut their funding in reprisal.

After I wrote about this battle, I received many letters from businesspeople citing their fear of speaking out and the specific areas in which they felt vulnerable to retaliation.

Mr. Giuliani dispatched an aide to tell Yasser Arafat to leave a concert at Lincoln Center celebrating the 50th anniversary of the United Nations. I was no fan of Mr. Arafat, but he had an invitation from President Bill Clinton. Lincoln Center was not Mr. Giuliani's living room, and the mayor's action did nothing to advance progress in the Middle East.

For the past seven years, we have had a president who has shared some of Mr. Giuliani's least admirable traits. Mr. Bush seems to live in a bubble, closing himself off from people whose opinions could be helpful. He has shown recklessness in taking the nation to war. Our standing in the world reflects this. I don't want more of the same.

*May 14, 2007: **Gay marriage as a business issue***

Allowing gay couples to enter into civil marriages would give New York a competitive advantage

Gov. Eliot Spitzer has proposed legislation to allow gay couples to enter into civil marriages — the first governor in the United States to do so. Why should businesspeople in New York care?

They should care because it would give New York a competitive advantage. Any edge in recruiting and retaining top talent would redound to our benefit.

The competition for the best and the brightest is intense and is growing more heated daily. Just ask any IT administrator, accounting recruiter or advertising sales manager. Desperate employers are posting job openings on Facebook and using gym memberships and free iPods to lure candidates.

Much of the country is extremely hostile territory for gays. A number of states fail to offer basic legal protections, and sexual preference is not a federally protected right. At least one candidate for president, former Wisconsin Gov. Tommy Thompson, said in response to a question during the recent Republican debate that discriminating against a gay employee was a private matter for a businessperson. He later said he misunderstood the question.

New York has a strong base on which to build. The city has the largest gay population in the nation, because it is more welcoming than most places. Sheer numbers mean that gays can find more support here, including gay professional associations, advocacy groups and companionship. They can live more open and personally fulfilling lives.

There are gay employees in every sector, from financial services to real estate, and from publishing and media to accounting and law. And it is impossible to imagine Broadway and the apparel and design industries — hugely important segments of our economy — without gay workers.

Many companies here recognize the needs of all their employees and offer partner benefits. That's better than nothing, but no company can provide the full range of legal protection that is required, as spelled out in the press release announcing the governor's legislation:

"Under current law, partners unable to enter into a civil marriage — and their children — lack legal protections taken for granted by married couples. In such areas as property ownership, inheritance, health care, hospital visitation, taxation, insurance coverage, child custody and pension benefits, married couples receive important safeguards against the loss or injury of a spouse, and crucial insurance against legal intrusion into marital privacy."

Mr. Spitzer uses the term "civil marriage" for two reasons. First, his bill would not — could not — require religious institutions to marry gay couples. Second, he wants to ensure that all of the legal rights available under state law to married heterosexual couples are conferred. He could have used the term "civil unions," but that would reduce the dignity and solemnity of the bonds.

Mr. Spitzer's bill faces intense opposition. Joseph Bruno, the leader of the Senate Republicans, calls himself pro-business, but he is opposed to this measure, which would enhance our competitive position. Assembly Speaker Sheldon Silver has avoided the matter thus far.

This is an issue where strong business support could make a difference. If executives aren't compelled to take a stand based on the belief that all their employees deserve fair treatment, they should consider their own self-interest.
