

Good afternoon.

This is a very impressive audience. You all probably know more about economics than most people.

But I have to tell you, in the last three years I've gotten a better education than anyone could ever get at some of our most distinguished higher education institutions.

If you hang around economists like Tom Stinson and Art Rolnick you learn pretty quickly.

But probably more than anything, I am fortunate to have a Commissioner of Finance like Pam Wheelock.

Over the past three years I have relied on her counsel and advice many times. Of course, I don't always take her advice—but that's another story.

The old adage 'you are only as good as the people around you' is true and I am very grateful to a very capable staff and group of commissioners.

Of course over the past few weeks they probably wish they were somewhere else.

Believe me, cutting budgets is no fun.

Handing out those rebate checks and cutting taxes is definitely more fun.

But the fact is, as a result of a national recession and the affects of September 11, we must make the tough decisions—and I assure you—we will.

On January 10 I announced a comprehensive, long-term solution to the budget deficit.

I believe it is a well-balanced approach that will get us through this recession—not without pain—but with some certainty and fairness.

Clearly, I don't want to raise taxes.

But by raising the cigarette tax, the gas tax and extending the sales tax to some services, we can at least spare areas like education and nursing homes from absolutely devastating cuts.

But as you know, the legislature is not agreeing.

They simply avoid the long-term problem so they don't have to make the tough decisions.

I don't believe the people will be fooled.

School districts and local government surely ought to figure out that if the legislature doesn't balance the budget for the next biennium they will be in for some very tough times.

How tough? Well, we don't know and apparently that's the way the legislature wants it.

Keep everybody guessing.

The Senate passed a bill that would balance the budget in the short term but it uses every single dollar we have in reserve and would cause us to start fiscal year 2004 flat broke.

The House solution cuts spending significantly, claims to save about \$100 million with a hiring freeze, and as the Senate does, simply ignores the inflation factor built into the forecast for 2004 and 2005.

But of course, the real problem isn't their proposals—the real problem is getting the two of them to agree on a compromise.

In the beginning they were pledging to cooperate with each other and everything was hunky-dorey. But they've been in session now for three weeks and it's pretty evident that they hate each other more than they hate me.

On Monday I met with four very distinguished economists to discuss the recession and the deficit.

They made it clear to me that this is not a one year problem—it is a five year problem.

Federal Reserve economist Art Rolnick pointed out that if the legislature ignores the inflation factor for the next biennium they must assume that the recession will continue and therefore we will have even less money than we are now forecasting.

Does ignoring inflation make economic sense?

You know, they know and eventually the people will figure out, that it simply does not.

Does it make political sense?

Ah, yes of course.

Why didn't I think of that?

I'll tell you why. Because I will not let politics drive my policy decisions.

I could doctor up this budget, ride off into the sunset and wave back with a 'what me worry' attitude.

But I won't.

I will make the tough decisions.

I will not try to pretend that they don't impose some degree of hardship on those affected.

But given the alternatives, I believe my solution is reasonable and fair.

Thank you.