

Center on the American Governor
Governor Christine Todd Whitman Archive

FORUM ON THE WHITMAN ADMINISTRATION'S ECONOMIC POLICIES

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Governor Christine Whitman: I just want to thank Rutgers for doing this, not on the Whitman Administration, per se, but on governors, in general, because there is no kind of school for governors, and it probably would help you avoid some mistakes and help you plan a little bit to have something where you can go and see what other governors have faced and how they've dealt with it. So I also was thinking about it coming up here, "What do you expect?" We did so much because that's what we needed to do, and we said we were going to do it and we did it! And I don't know that we've ever really taken much time to stand back and reflect about what the impact was or how we accomplished it, and we did some really good things. But I'm always surprised when I hear somebody say, "Oh, you know, you did thus and such." And I said, "Oh, we did? That's good! Great! I'm glad!" So it's an interesting opportunity to put some of these things on the record and bring them all together and get an understanding of how these things mesh. Different governors have very different approaches to cabinets and to how they manage. Hopefully this will be just one part of a style that other people can look at with other styles that will also be part of these archives, and can help inform future generations, and also remind people of what it was we actually did manage to accomplish in our somewhat backward and haphazard way. So I will turn it over to Judy, because she ran everything anyway, followed by the other Chiefs of Staff. I was along for the ride, and we'll see where we go. The only thing I will say is we know we've already had a problem-- we already have issues before us in order to get this going, because Hazel and John should never, ever sit together. We decided that a long time ago, and there they are. So right there, you know, we really relinquished control. <laughter>

Judy Shaw: Just a notice to the camera people. Don't encourage them with a bright lens. So, let us start. We're starting, you know, kind of 50,000 miles out in space and we're going to work right down to the nitty-gritty, and with that, the good doctor, James Hughes, the Dean of Bloustein School of Planning and Public Policy here at Rutgers is going to start us off with an overview of national and state economies at that time.

James Hughes: We've prepared a handout, so I'll be going through the charts sequentially. And this really is going to be a very big picture of the trajectory of the economy, starting from a decade earlier through the present day. We'll be looking at some metrics, performance of the economy, as measured by employment. And then some other key factors as we go through it. In the first table, which is Private Sector Employment Change '80 through 2012, New Jersey had a troubled decade in the '70s. We were once a manufacturing state, a blue-collar state, and I'll come back to that subsequently with some detailed data. And we really weren't developing a white-collar economy to replace it. We had a very mild '81-'82 recession, and then we exploded out of that recession, as you see in 1983. We added 148,000 private sector jobs. That was the greatest job growth year in the state's history. Now one of the reasons for that--

John Whitman: May I ask what the number of jobs was? The total number of jobs?

James Hughes: About three million at that time.

John Whitman: Okay, so taken in context, these changes are pretty small.

James Hughes: Oh, but they're significant.

John Whitman: Didn't say they weren't significant.

Unidentified man: Five percent.

John Whitman: Yeah.

James Hughes: Part of the reason was change in federal legislation, it was the 1981 Economic Recovery Tax Act, or ERTA, and one of the features of ERTA was 15-year commercial depreciation. And that set off an office building frenzy, a commercial frenzy. It was really a bicoastal phenomenon. And the key feature of that really was the great office building boom in New Jersey. And one of the models nationally, the nation's cutting edge model, was suburban oriented growth corridors, also known as Edge Cities. And that became New Jersey's core economic competency. And one of the reasons was in the late 70's, AT&T opened up its global headquarters in Basking Ridge. And that proved you could create a suburban office economy, you could have the labor force to create that economy. Before that time,

95 percent of offices were located in New York City or central cities, so we had that great office building boom. By 1988, 80 percent of all the office buildings ever built in the history of New Jersey had gone up in the '80 to '88 period. In 1980, we were a non-player in the regional office market. Manhattan had over 90 percent of the office space. By 1988, the 11-county Northern and Central New Jersey market area was the fifth largest metropolitan office market in the country. Larger than Metropolitan Boston, Metropolitan Dallas, etcetera. We also had a home price bubble between '80 and '88, home prices nationally went up 45 percent. In New Jersey they went up by 145 percent. So people who owned their own home during the boom probably made more money going to sleep at night than going to work during the day. It really was unprecedented. Unfortunately, it was a bubble, both in the office market, and the home price market. So in 1989, '90, '91 New Jersey had its worst recession since the Great Depression. You can see the size of the red bars. Oh, please forgive me. There's no political significance to this. But in these charts, blue is good and red is bad. <laughter>

Judy Shaw: You're just saying.

James Hughes: But that really set the stage, I think, for what the Whitman Administration had to confront when it came into office. Our housing industry at that point in time wasn't simply in recession, it was in depression. The industry almost collapsed. It was the worst downturn in the construction sector, I think, probably since the Great Depression. As we proceeded, '93/'94, pretty good job growth. And then all of a sudden the pause button was hit in '95. We can thank Alan Greenspan for that. He thought the national economy was starting to heat up, so he started to reverse his interest rate course, and immediately it caused a national slow-down. So he immediately changed tactics and started loosening up. And then from '96 to 2000, we had a pretty, pretty good recovery. Not only in suburban growth corridors, but also really the renaissance along the Hudson River/Gold Coast/Jersey City and the like. And I think some state policies there, and state economic development programs were instrumental in a lot of the development that took place along the waterfront. But to illustrate some of the difficulties that we started with, it took us until 1997 to recover all the jobs lost in that great recession. It took us until 1998 to get back to the home prices of 1988. Now a good thing Gil isn't here, because he's taken this chart-- I'd given it to him-- but he always adds onto it an arrow with his name-- Gil Medina was Commerce Secretary during all those positive blue bars, and the like. And also we built the light rail system along the Hudson River waterfront, and those public investments were instrumental, I think, in the development that ensued there. We then hit the 2000/2001 slowdown. Particularly 2001. That was a national recession that we were pulled down. And then we had the recovery of 2003 to 2007. And that was the weakest recovery on record. And so if that's a metric of the performance during the

'90s, it suggests the '90s performance was pretty exceptional. And then we had the great national recession of '08 and '09. And only in 2012 did we get back to respectable job growth. But clearly, just point out the political ads, and it's true, 2012 was the best job growth year since the year 2000, so that's a fact. It's not just an opinion. Now I've summarized this in the second table, giving the specific recession expansion dates and the like. And you can see the '92 to 2000 period was extraordinarily strong. And those two unique periods, '82 to '89 and '92 to 2000 really was the total reinvention of the New Jersey economy. And that's really a dynamic that swept through the final two decades of the 20th Century. And a good part of that was the State losing its manufacturing base, and subsequently replacing it with a knowledge-based economy. And certainly that transition had its most profound effect during the '92 to 2000 period. The third chart amplifies that and shows the dramatic change that has taken place.

In 1943, 55 percent of all jobs in New Jersey were factory jobs, manufacturing jobs. So we really were a blue-collar state compared to 38 percent of the nation as a whole. Manufacturing employment, as we'll see in the next slide peaked around '69 and '70, but because we were adding retailing, service jobs and the like, manufacturing share fell to 35 percent, compared to 26 percent nationally. By 1990, New Jersey for the first time had proportionally fewer jobs in manufacturing than the nation as a whole. We had 15 percent, the nation had 16 percent. And that downward trajectory has continued every since. We're now seven percent-- in 2010-- seven percent manufacturing compared to nine percent for the nation as a whole. We can also look at this in absolute numbers. Manufacturing History—in '69 we had over 890,000 manufacturing jobs. By 1995 that had halved. So technically, it had a half-life of 26 years. I don't have the latest 2013 numbers, but we're almost halved again, because we're way below 250,000 in manufacturing jobs. So we had a huge hole to fill as we went through the final two decades of the 20th Century.

The next gives some detail on this transformation, and this does not correspond exactly to the administration's, but I've been using this chart to compare the final decade of the 20th Century to the first decade of the 21st Century. So dragging down the numbers a little bit of the '89/'92 recession, since I'm starting it in January, 1990, that was the first year we had this new data set (we got the data set in 2002), it's known as NAICS, North America Industrial Classification System. It replaced the old SIC codes. And the jobs-- these are all known as the Super Sectors. Basically we divide total employment into total private sector, and into government. And then in the private sector, we break it down into goods producing and private service producing. And as you can see, within the goods producing sector, we had been hemorrhaging jobs, particularly in manufacturing in that '90 to '99 period. We lost 125,000 high-paying manufacturing jobs. And the current

average annual pay is in the far right column. So those manufacturing jobs, that 76,000, were way above the overall private sector average of 58,000 jobs. So we were losing good jobs. However, we were more than making those up in the private service providing sector, particularly in two components. Financial activities at \$97,000, we added over 24,000 jobs. A lot of those were Wall Street type jobs on the Hudson River Waterfront—essentially, Wall Street West—also professional and business services, which is a full array of white-collar jobs, legal services, accounting services, engineering services, R&D services, and the like. So those two combined are 165,000, and that certainly was greater than the 125,000 lost in manufacturing jobs. Now, critically important for that 1990s period was the ratio between private service providing jobs, or total private sector jobs, and state and local government. State and local government added 24,000 jobs during that period. That really was reasonable growth, because we added over 240,000 private sector jobs. So we added ten private sector jobs for every state and local government job. And that's certainly a sustainable pace of government expansion. You can envision that as those ten private sector jobs supporting the public sector jobs. Fast forward ten years to the first decade of the 21st Century, we lost-- this was the lost employment decade. We lost 156,000 private sector jobs, but look at the government sector at the bottom. We added over 77,000 government jobs. So that was more than triple the government growth of the preceding decade. But at the same time we lost 179,000 private sector jobs. So during the decade for every state and local government job we added, we lost two private sector jobs. And that's not a sustainable pace of growth. And that certainly led to some of the current problems that we had during the basic decade. Let's see. Okay, pharma is another broad swinging sector, because New Jersey, historically, was the nation's medicine chest. Does anybody know what this building is?

Unidentified man: Merck.

James DiEleuterio: Jim Hughes' office. <laughter>

James Hughes: It's the Merck headquarters in White House Station. This is real-- it opened up in '92, really a corporate palace, about 900,000 square feet. Had 7,000 employees. It's now down to 2,000 employees. People are rattling around in that structure.

Governor Christine Whitman: Or they're leaving it entirely.

James Hughes: Yeah. It will be vacated in 2014. They're a little schizophrenic, they were going to move to Summit, because it's close to a vibrant downtown. They

had second thoughts, they're moving to Kenilworth now in a congested suburban area. And the Summit Campus is going to be vacated along with the Merrill Lynch Campus. Let's look at the next one. Some of the pharma trends. In 1990, New Jersey had-- this is not all the pharma jobs that exist. We do have some definitional problems with the NAIC System, because they pull out corporate headquarters functions as distinct from other functions, so there's a special category under professional and business services. That accounts for corporate headquarters and the like. But you don't know what industries the corporate headquarters are in. So if some pharma numbers are in there. This is also the biggest pharmaceutical and medicine manufacturing. So there are other pharma activities, such as R&D that are not included here, if they are not directly related to the manufacturing process. So the new system has given us less information about this critical industry. But in 1990, we really were the nation's medicine chest. We had 20 percent, one out of five of the nation's jobs in that sector. Now, as a bench-mark, we account for three percent of the nation's jobs that would be our expected share in any sub-sector if we were just average related to the nation. So the 20 percent concentration was unprecedented. We're now down below ten percent. Now that's still pretty good. It's triple our expected share. But it's not the industry we once had. Now there's several reasons for that. Some are state caused-- perhaps policy actions in the 2000s. There are two other primary reasons. One is the process of mergers and acquisitions, which has been proceeding over the 20 years and caused some of the decline in the '96/'97/'98. It did rebound by 2000/2001. Those were largely various takeovers and mergers. Along with some of the Clinton healthcare proposals, which thinned out the pharma industry in '93/'94/'95, but it bounced back from that. But then post-'06 we really started hemorrhaging. Part of that is the shift from small molecule pharma to big molecule pharma. From chemistry-based to bio-technology and the like. So that was New Jersey's core competence. Chemical-based pharma research, and the like.

But also telling-- this is a little story-- I live in East Amwell, so I'm on a direct line between New Brunswick and New Hope in Bucks county, and two summers, or three summers ago, I noticed at quarter-to-six every single night, this blue helicopter flying over coming from New Brunswick to Bucks County. It was the J&J helicopter. And Bill Weldon, the CEO, publicly said, "I've moved to Bucks County, because of the half-millionaires tax." And he convinced eight of the Top 10 J&J executives to move to Bucks County, so that they could commute in by helicopter and have business meetings. I know John Papa, the Treasurer-- maybe I shouldn't mention his name on this-- said, he loves Far Hills, so he wouldn't go. He wanted to stay in New Jersey, he'd pay the taxes, or whatever. But that's pretty telling of the impact, I think of some of the policies in the 2000s compared to quite different policies in the 1990s. So, I promised earlier, I'd finish on time, no matter how long I took. <laughter> I'd finish on time, hopefully on budget.

Judy Shaw: Great, thank you, Jim. So with that as the backdrop with candidates on both sides of the aisle thinking about making this race, or defending their incumbency, you can imagine within the bowels of a campaign, you begin to think about what your position is going to be relative to the facts on the ground, and your view of the world, and how it might work better. And with that, we're going to ask John Whitman, who's for the sake of the archive, his education, experience, expertise has always been in the field of economics, the world of Wall Street, investment banking, things of that nature, which made him a very, very welcome addition to our kitchen cabinet.

Governor Christine Whitman: He's the fount of all knowledge, according to some of the press. <laughter>

John Whitman: Can't remember.

Judy Shaw: Waiter, another bowl of gold milk. <laughs> So John, do you want to start us off thinking about how you began to put a policy and a platform together?

John Whitman: Well, I think looking at the second slide is really the way to start this conversation, because I don't think we realized how bad it was at the time. We realized it was bad, but we didn't realize how bad it was. If you look at the slide, over the four years of the Florio-- well, actually, it doesn't quite fit the Florio administration, but it's close. There was a 7.8 percent drop in employment, if you take the static three million employees in New Jersey versus for the grand recession of 2008 and '09, there's only 7.4. So the recession-- and I think Jim made this point-- was the biggest for New Jersey, ever. Much bigger-- well, not much bigger, but bigger than even the 2008/2009. So if you then correct it for inflation, and all the rest of it, this thing is absolutely huge. And really, I think, was a major factor in causing Florio to lose. Now, he exacerbated the problem, as we know, and handed us a bunch of things like the toilet paper tax, and things like that, which we were able to use. But basically, what it really did was give everybody in the State, a reason to change. And that's probably the most important factor. Remember that not only was Christie the first lady, but she was the first person to beat an incumbent governor. And that could only happen if you had an economic environment like this. Again, I don't think we realized it at the time. I mean, we knew things were bad and it was clear to everybody in the State that it was bad-- but I really just since looking at this chart, I've been trying to remember, and somebody else should maybe help me with this, did we realize how bad it was at the time? Does anybody remember?

Governor Christine Whitman: Well, we knew it was bad enough to premise most of the campaign around doing something about it, tax cuts and changing the business environment. I'm not sure it would have made a difference to know how bad it was. Knowing it was bad enough to focus the major part of the campaign, we had those booklets for every issue under the sun, which nobody ever looked at, but we had them. We had blueprints for everything. But the main thing was the economy. And again this is looking at it from hindsight, it was much worse than we knew it was, but I'm not sure that would have changed anything that we were proposing.

Harriet Derman: Can I say something? I was in the legislature at that time and I think the legislature, the Republican-controlled legislature-- an anomaly-- was very focused on economic recovery. Many, many committees. Whatever they were related to, appropriations, energy, anything would have somehow have a meeting on economic recovery, and tried to get some legislation, whether it was recognizing S-corporations and LLCs, anything at all that could remotely help in bringing down unemployment rates. So I think the legislature at that time-- this is '91/'92-- was focused on that. It was out there.

John Whitman: I think Governor Florio actually exacerbated all of this. He did exactly the wrong thing from an economic point of view and those of us who think maybe the current Fed has done too much. He said, "Well, we're going to increase taxes on everything. We're going to cut spending. We're going to do all of these things." All of which made this worse. And I don't know whether you have any thoughts on this, and I'm not trying to have a political discussion, but it does seem to me that part of this, as Christie reminded me on the way down, New Jersey usually leads the region out of a recession. And in 1991 and 1992, we were behind New York coming out this time. And so what's the difference? Why would we normally lead people out of a recession, and be behind in this case? And you have to say that at least part of it would be public policy. In fact, the things that the Florio administration was doing was actually hurting the economy as opposed to allowing it to recover the way it normally would.

James Hughes: I think I agree with you there. The increase in the State income tax rate from three-and-a-half to seven percent in the midst of a recession is exactly the wrong type of policy action. But there's also a parallel to 2002 to 2003 when we instituted the half-millionaire's tax, and you can see by the size of the blue bars, its partial impact on the economy. There were other factors in there. But both of those were signals, I think, to Corporate America that New Jersey was not friendly to business, for the most part. We're still bearing the burdens of those decisions.

James DiEleuterio: Well, if I could for a second interrupt. The 2.8 billion dollar Florio tax package never produced 2.8 billion dollars, because of the drop in economic activity that surrounded that.

John Whitman: It killed the economy, and it didn't work. <laughter>

Judy Shaw: And I think there was a thought that he would be reelected, and a lot of first time governors will make some relatively draconian moves that they intend to make up for in their second term, when they can show the benefit of the monies raised through a tax increase, and that will be all well and good. Well, a) he didn't get to succeed himself; and b) as Jimmy said, some of these things didn't materialize. But I know as we talk in the afternoon, there will be some discussions about kinds of balloons that came due, that would have been in the second term, ended up being in Christie's first term.

Woman 2: He also increased the sales tax, don't forget that, too.

John Whitman: Well, that was the toilet paper tax, I think.

Woman 2: The rate went up.

John Whitman: But they also put it on a whole bunch of new things.

James DiEleuterio: Again, Pete just reminded me of all the truckers that were stopped in the Poconos, refused to come into New Jersey because of an increase in taxes. Boat manufacturing came to a halt in New Jersey. An absolute halt.

Woman 2: It was Federal and State at the same time.

Peter McDonough: Yeah, there was the Federal luxury tax.

James DiEleuterio: Right.

Judy Shaw: The Federal luxury tax that killed <inaudible>.

Harriet Derman: But the legislature rolled back the tax.

Michael Torpey: Right, the State sales tax rollback. I was just going to make a comment that just for the sake of the archive is stating the obvious. But the Florio tax policies defined the politics of the early 1990s. And there's just no two ways about it. Whether it was the income tax rise, which was supposed to fund the QEA, the Education Funding Policy. That then was supposed to offset property tax increases, which never materialized. So there were a whole series of tax policies and economic policies of the Florio administration that ultimately led to these reactions, led to obviously the '91 legislative landslides for the Republican majorities. It absolutely defined your run against, Senator Bradley, which obviously defined that race. And then defined the '91 legislative elections. And from that, there really was no turning back. These were the defining issues for the entire campaign. There was also something that John just said that occurred to me, too, in terms of campaign tactics. I know that was one of the issues raised here-- it wasn't just that you were going to cut taxes-- but I think this notion that not only were you going to cut taxes, but the taxes that were raised did not produce the positive effects Governor Florio had proposed. And that change in messaging, I think, later in the campaign was one of the key changes that ultimately produced the public's change. Initially there was a lot of skepticism about the tax cut proposal. You had made it early on, then you defined it later on in September. But there was still a high degree of skepticism about that. Politicians making those promises and campaigns, etc. But it was that change in message towards the end of the campaign that reminded people, "By the way, I'm going to cut taxes. The former policies, did not produce what you were promised." And I think that was a key change as you went to the end.

Judy Shaw: Let's go back to John.

John Whitman: Yeah, because now, looking back at it, we ended up with Larry Kudlow and Steve Forbes. And they were the intellectual justification of the fact that you could prime the pump by lowering taxes, not increasing them. One of the things you can say about Governor Florio is he made up his mind, he stuck with it, even if it meant going down with the ship. And he was going to do that. And he was sure he was right. And as a candidate without a track record, we needed to have some heavyweight support for an idea that was controversial. This was really very controversial that you could actually increase taxes by cutting--

Governor Christine Whitman: Increase revenues by cutting taxes.

John Whitman: I'm sorry?

Governor Christine Whitman: Increase revenues by cutting taxes. Not increase taxes.

John Whitman: And so the heart and soul of this comes back to, from a political point of view, how do we tell the people of New Jersey that first of all, the current policy isn't working, because Florio's got the bully pulpit.

Hazel Gluck: Well, they do that.

John Whitman: And he can say whatever he wants. And how do you take a neophyte, if you want to call her that. I mean at the time.

Governor Christine Whitman: Sure, go ahead.

John Whitman: Remember, it was 20 years ago. <laughter> Look around the room. Everybody was a neophyte. <laughter> And convince people that (it wasn't so hard) that a change would be good.

Hazel Gluck: No.

John Whitman: But to convince them to go on what was a controversial path at the time.

Governor Christine Whitman: And proposed by a woman.

John Whitman: Proposed by--

John Whitman: So, that's where Steve Forbes and Larry Kudlow sort of gave us some intellectual cover, if you want-- I'm not sure that Larry Kudlow gave anybody cover. <laughter> But in any case, at the time—I keep coming back to this theory. Because when you're living through it, you certainly don't have the luxury of looking at this kind of data and seeing what happened. But I think the political ramifications of this downturn really were the heart and soul of the campaign. And it's not surprising, because that's the way it was.

Judy Shaw: I think one of the pictures that we had once discussed, probably with Mike Murphy, the most irreverent political consultant, was that every day there were stories in the paper about businesses leaving New Jersey. And I think it was Mike that suggested to you, Governor, that we get a moving van and we park it in front of the State House, and with a sign on the side that said something like, "North Carolina, here we come!" and signed by the North Carolina governor, like thanking us. But the Governor was good enough to resist what would have been a comedic moment. But I think that was the sense that people had at the time that jobs were leaving the State, companies were leaving the State. They might not know economics or macroeconomics.

Mark Magyar: I covered the campaign as a reporter. In September of 1993, there was a sense that the economy was turning around somewhat. And I think you were down 20 points in the *New York Times* poll, 21 points in the *New York Times* poll, before the tax cut came out. And I think if there had not been a concrete tax cut proposal, Governor Florio would have won that reelection. I think without something giving an alternative to voters it was enough of a democratically-leaning state that I felt the tax cut really turned around the campaign completely.

John Whitman: And building on that, Mark, you had to have the worst economic environment in the history of the State in order to unseat an incumbent Governor.

Governor Christine Whitman: I agree.

John Whitman: I don't care whether it comes from this point of view. If this chart had moved one year forward, it would have been almost impossible for anybody to have beaten Florio.

Mark Magyar: I agree.

John Whitman: So there's another point to make in this, which is, luck-- or if you want-- timing is as important as anything. Because what were the forces that came together that allowed an inexperienced woman to get elected to the State against the most powerful State governor.

Hazel Glock: Well, they knew how bad it was.

Mark Magyar: He's on your side, by the way. I want you to know that.
<laughter>

John Whitman: Well, no-- but I'm trying to do political consulting sitting in 1992.

Governor Christine Whitman: But you're not. <laughter>

John Whitman: Well, luckily.

Hazel Gluck: Yeah, right!

John Whitman: But in any case—and this is true almost of anybody who gets elected to any of these governorships—the set of events that contribute to it, is not predictable, and not controllable. The things that have to happen, or the things that do happen that allow certain people to win, versus other people, it's a "Decision Tree." And the Decision Tree has a couple of things on it. It has decisions you make, and it has events that happen that you have no control over. And in order for anybody to get from Joe Citizen to Governor of New Jersey, the number of things that have to happen here, or if you want to look at it, the probability of Joe Citizen getting to--

Governor Christine Whitman: Josephine, in this case. <laughter>

John Whitman: All right, Josephine Citizen, I don't care, but the probability of anybody getting from there to there, is so infinitesimally small, by the time you take all the probabilities of the things that have to happen along the way-

Hazel Gluck: That's why we only ask guys like you to run campaigns. <laughter>

John Whitman: No, no, but remember somebody's gotta get there.

Mark Magyar: How far back was the tax cut planned?

Governor Christine Whitman: We started talking about it in August.

Michael Torpey: In order to refresh my memory on this, I went back over the weekend and took a look at some things.

Judy Shaw: Yeah, let's make the switch to Mike Torpey.

Michael Torpey: Yeah, from the legislative standpoint, Harriet and I were involved in that as well. But when I went back and looked at this, I think you first said something in June, about the need for the tax cut. And then the counsel was put together with Kudlow and Forbes, and then you announced it September 22nd, I believe it was.

Peter McDonough: September 21st at 2:30 in the afternoon in Suite G in Clark, and reported in the newspaper on the 22nd. <laughter>

Michael Torpey: I knew I could count on you, Pete.

James DiEleuterio: And yourself.

Harriet Derman: And the next day we flew to Washington with Cliff Sobel to the Holocaust Museum and Chuck Haytaian. Check that out.

Michael Torpey: But you know, I know we're talking about economic policies, but in the context of an election, there's obviously all these other events that you're referring to, John. And one of the things was the real challenge was becoming the credible alternative to an upcoming Governor. And truth be told, the campaign had trouble getting footing on that subject. As I look back on this, and this observation, I think, was made actually by you, Hazel, in a post-election roundtable, that your credibility really started to move following the first debate, where you really impressed me. Everyone thought that was a knock-out punch. The post-debate polls showed you were the winner, clearly. And that was the first-- and by the way, the numbers that I saw, the people who watched these debates were astounding. They said, almost one-third of all New Jersey television sets were tuned to the first debate. That's one of the statistics that I saw about a million sets. So there was an enormous focus by the public on these debates. And the first debate you won hands-down. And that was the beginning, as I looked back and saw this trend-line of you establishing your credibility as being the credible alternative. And it was a series of events that followed. And by the way, sticking to the tax cut plan, even in the face of some severe criticism, that I'll note for those of us who were dealing with the legislative elections, I remember sitting, not too far from here, in the hotel

in East Brunswick. We're sitting around with Bobby Franks, Chuck Haytaian and the Senate guys. And we'd bring all the campaign managers in from the key races, the legislative races a month before the election. It was a weekend of running through one campaign after the next, after the next-- and there was serious consideration given to cutting and running from the Governor on the tax cut. Not so much from the Assembly side, but from the Senate side. And Bobby Franks and Chuck Haytaian.

Governor Christine Whitman: Guess why we put out that retroactive tax cut at the inaugural-- they were still doing that!

Michael Torpey: That's right. And they went pretty firm. The Assembly races kept very closely linked to your race. Some of the Senate races deviated thereafter. I'm talking about in terms of campaign strategy. And it remained controversial right through election day. The only other thing I saw afterwards, there was some exit polling done, actually showed that the tax cut was not a popular proposal. Better than some others, but the exit polling showed that this was a net-negative. So you stuck with it, and still it carried-- so 51 percent was one of the exit polls that people were skeptical. Something like 30 percent for, 51 percent against. So even through all that-- and you won. And my opinion is that part of that had to do with just your commitment to it. And your strength of character. You were able to overcome.

Governor Christine Whitman: No, it was Kate's ad. Kate Whitman's radio ad.

Michael Torpey: By the way, Kate's ad was another one of those events.

Harriet Derman: Kate's and the worst Governor ever in the history of New Jersey, remember that?

Governor Christine Whitman: Yes, right, yes.

Harriet Derman: Seriously, Kate's ad really humanized you, I think.

Governor Christine Whitman: It was the second worst. Benjamin Franklin's brother was worse. He was run out of town on a rail, tar and feathers.

Harriet Derman: But I remember that Kate's ad was very effective.

John Whitman: And of course, got stolen by DeFazio.

Hazel Gluck: With a little diversity.

Governor Christine Whitman: Well, it was, because I did something with the team that had been against us, Carville and Begala. I did something with Begala afterwards and he said, "We don't know how you survived that, because we wanted people not just to vote against you, we wanted people to actively dislike you." They did everything they could to make people think that I was a really bad person. Drove drunk every night with my Uzi and shot up watermelons. What's not to like? <laughter>

John Whitman: Your Playboy husband had to get rid of his Ferrari.

Governor Christine Whitman: This is for posterity, would you be quiet? <laughter>

Judy Shaw: Let's make a transition. <laughter> Let's start to talk about--

Carol Cronheim: Hey, Judy, can I say one thing on the campaign, too? And the assembly was really critical to that. Because in my mind, that's where the intellectual power of the legislature was at the time—they supported tax cuts and these sort of things. And from the primary perspective, sitting in a little room, your policy and detail-oriented nature is what I think also added to it, because it wasn't just the big tax cut that we were selling. I do think they did read the Blueprint for Economics. At least I hope so. And all the other menu items. You had a smorgasbord of things that would appeal to everyone. And your campaign reached out in roundtables and everything else, to work with all those people who had an interest. So there was a lot of retail politics going on. I'll never forget filling out the Coin Operators Associations Survey. And they were so grateful, because nobody from the other campaign got back to them. And we filled out every single survey-- and we said your tax cuts and what you will do. But it was that detail and the focus on it, that I think really helped. Because we had a menu of things. "Okay, you don't like the tax cut. You don't think she's ever going to cut taxes. How about this? Do you think S-Corps should be doing this? And do you think the environmental reg-- Blueprint for the Environment, you think they should be doing this?" There were all these different economic policies filled in those blueprints, that I think we could appeal to somebody. So anyone who called or wrote, you know, we had a response. Because you focused on every single issue. So that helped.

Harriet Derman: This just jogs your memory. Initiative and Referendum was very, very important. There was that group out there. Now they seem so benign compared to the Tea Party. Hands Across New Jersey? They were somewhat of a powerful force. And they had captured 101.5, which was also a very important station that people were listening to then. And so you appealed, I think, to that audience, and you stuck with the initiative and referendum and again, the Assembly was very, very supportive of that. And I also think that that Women for Whitman event was just a spectacular event. I think you can't believe--

Hazel Gluck: <inaudible>

Governor Christine Whitman: You *can* say so yourself.

Harriet Derman: You can't leave the campaign without talking about that event. It was very, very energizing. I don't think I've ever seen a women's event like that again. Helen Reddy, remember? "Hear Me Roar." Although they--

Judy Shaw: I'm going to roar from the moderator's standpoint.

Carol Cronheim: Okay.

Judy Shaw: And let's return to fiscal policy. And switch now-- we've gone through Jim's exposition. And we come to understand through John how different people came to the table and formulated the policies that eventually made it into campaign language and into platforms, and eventually policies. The Governor's now elected. We had the wonderful optics in the inaugural of signing-- was it an executive order to create the Economic Master Plan. And also announcing the retroactive tax cut in view of the fact that then President Clinton had had a retroactive tax hike.

Governor Christine Whitman: Increase.

Judy Shaw: Which really set it off. And one of the things that I--

Governor Christine Whitman: Well, we were hearing from the Senate side that there was some question about whether we really were going to cut taxes.

Judy Shaw: And then we gave instruction to some staffer to wait until the cannon sounded after the inaugural, and he went and hung a sign on the Governor's office door that said, "Open for Business." <laughter> So I think that really kicks us to then, but maybe backfilling a little bit, Hazel, you and John Sheridan who managed the transition, how do you take these kind of lofty ideas, and turn it into personnel who can enact them?

Hazel Gluck: Well, John, this is going to be more of an art than science. Because I think when you're interviewing people, and I don't think we interviewed anybody in this room-- thank God. Harriet. Harriet, yeah.

Harriet Derman: Big mistake. <laughter>

Governor Christine Whitman: Harriet was a big mistake? Okay.

Harriet Derman: I mean, not interviewing people.

Hazel Gluck: Anyhow, knowing the Governor's position, her fiscal policy, what we tried to do in most of the interviews is sort of flush out in different ways whether the cabinet officer or the potential cabinet officer, would be into following the Governor's orders, First Woman. And reduce people on their staff. Or how they felt about reducing taxes. In other words, you know, everybody has to march to the same tune. And whether there would be a lot of resistance from cabinet officers. Now you don't think that's important, but it is. It is very important. And both John and I had the experience of-- fortunately of being cabinet officers. We also sort of tested people's egos, in the sense that they could downsize their departments without worrying about whether DOT was bigger than they were or whatever. And manage budget cuts and could work with a woman. I know that sounds crazy, but we didn't do this directly, "Can you work with a woman?" You know, when you get in conversation, you kind of get a sense of somebody, and as I said, with all due respect to Jim and to John, this is an art-- it's not a science. And when you get a sense of a person, and what they're capable of-- for instance, Brian Clymer came in, and he wanted to be DOT Commissioner. By the time we got finished, we decided that maybe he should be Treasurer. And our charge was to send three people to the Governor for her final approval. And that's what we tried to do. And I think the cabinet pretty much was, you know, successful in that they could do things on their own, but they knew what the parameters were, and what the governor wanted. And that's the end of my story.

Ruth Mandel: I'm really curious. So you can't ask that question directly, how did you find out? "Can you work with a woman?" How did you do that? What do you mean by that?

Hazel Gluck: Well

John Weingart: Woman's intuition.

Ruth Mandel: No, you said you got a sense. So you're doing an interview with, you know, XY&Z people, how do you--?

Hazel Gluck: Well, I think if you ask one question like, you know, "Have you ever worked with a woman?" Not, "For a woman," but "With a woman." In other words, some of them said, "No, but it's not a problem." Others just said, "No." I just, you know, you just, I don't know. Gut instinct, I guess.

Governor Christine Whitman: Hazel has great instinct. Well, you consider the three-- they'd always send me three. And I would interview all three. And I'd get a pretty good sense pretty fast. One of the things I was always looking for in cabinet members-- Hazel and John knew this-- was I wanted people that I would have to rein in, not people I had to kick to get things done. And within that, then you run a little bit of a problem with those people we have to rein in who may not think that a woman had all their intellectual power. But I was willing to put up with some of that in some of the more critical places, and some other people had to deal with the same thing. <laughter> We won't name names. But I mean, you get a sense. You get a sense pretty fast who you can work with.

Hazel Gluck: I think you--

Carol Cronheim: And some you don't, and then you get a sense later. <laughter>

Governor Christine Whitman: Then you get another sense. <laughter>

Hazel Gluck: As John just whispered to me, "You can smell a misogynist a mile away."

Judy Shaw: But I think the thing that was important was that many people who interviewed for cabinet jobs, many are building their own political careers. They're looking for fiefdoms. They have a body of expertise, from which they've come in other positions. And we were saying to them very directly, "Look, in this administration, given the environment in which we find ourselves, you may be asked to downsize your department. You may have your department eliminated. Your budget may be cut."

Governor Christine Whitman: It's the ones we really eliminated we didn't tell ahead of time. <laughter>

Jane Kenny: Surprise!

Judy Shaw: And so, you know, "Could you do that? Could you operate in that environment? This is a different growth or non-growth curve than you may have experienced in other jobs."

Jane Kenny: Well, also to answer Ruth's question, I think the tables had really turned, because when this potential cabinet member would walk into the office, Christie Whitman would be sitting there, perhaps Hazel, perhaps Judy. So that's a little different when you're interviewing for a job, and you know you're going to be working for somebody that looks really different.

Hazel Gluck: What I found interesting was that John and I pretty much were simpatico. We pretty much could see, and that's a male and female, you know. And John could certainly work with a woman. And I think the two of us felt the same way about the three we picked and sent over.

Judy Shaw: Peter, let's switch to you, so you can add-to and then lead us off along the lines of actually cutting taxes and growing jobs. You were the liaison to the Treasurer, as well as Chief Counsel.

Peter Verniero: Thank you. And thank you to Rutgers and to Governor Whitman for inviting me here today. But just to pick up on something Jane said, just to remind everybody in this room, the *New York Times* once called me the "token male" <laughter> in the Governor's office.

Jane Kenny: Your wife says that, too.

Peter Verniero: So I must have passed this test somewhere along the way.

John Whitman: We didn't interview him. We were acquainted, buddy.

Peter Verniero: But I mean, Jane is right in terms of it was a new tone of office. And it was not just stylistic, it was not just because of the gender of the Chief Executive, it was because there was a sense very early on, and it really was born of the campaign that there would be fundamental changes in the way that we approached government and problems in governing. And as Pete said, publicly at least it began at Room G in the Ramada Inn, but it really carried over to the very first inaugural speech. Alright, this was an opportunity for the governor to really begin to keep her promises. And you know, the economic tax cut was-- first and foremost it was a substantive economic policy, but it also was a promise to the electorate who had become fairly cynical, that there would be a governor, a politician, who makes a promise and keeps it. And keeping that promise became, in my view at least, almost as important as the substance behind the tax cut itself. Because the economy, as the Dean would tell us, is a very complex thing, and it's not just a matter of cutting taxes, or creating jobs, but it's also creating the mindset and the public confidence and the consumer confidence and the business confidence to communicate that New Jersey, indeed was open for business. So the Governor's first opportunity to do this was in her inaugural address. And now looking back at it, I didn't fully appreciate this at the time, when the speech was getting drafted and so forth, the inaugural address turned out to be one of the most substantive inaugural addresses that any governor up to that point had ever given. If you go back and read the first Whitman inaugural address, it almost reads like a budget address.

Nancy Becker: It's on the website.

Peter Verniero: It is very, very specific.

James DiEleuterio: Good speech writers.

Peter Verniero: And indeed Tom Kean was asked-- and was quoted in the paper the very next day-- that it was the most substantive speech he had ever heard a governor give at an inaugural. And I think that says something very strong and very powerful about the tone of this administration. It was going to be substantive, it was going to be serious, it was going to be tied back to economic policies and promises made, and this was a governor who was going to keep those promises. It

also was a governor who had to-- maneuver is not the right word, it's not the right word-- but be effective with her legislative partners. And there also was the opportunity in the inaugural address. And she surprised just about everybody. And she announced that the first phase of her 30 percent tax cut, which at that stage had become quite famous, or infamous, if you listen to the editorials that surrounded them. Not only was she going to cut taxes, but she was going to do the first phase, five percent, retroactive. Now think about that for a moment. This woman is governor for about 15 minutes, and she proposes something that no one had ever proposed, and probably even thought could be done, which is cut an income tax-- which had never been done in New Jersey up to that point, State income tax. And to do it retroactively. She said it and it was done; three months later in March, she signed the bill.

So that by the time we got to the first budget address, she was already on the second part, the ten percent which got coined the middle class tax cut. So she was already half-way at her 30 percent by the time of her first full budget year. We look back now, and we may say, "Oh, so what?" But ladies and gentleman, that was an extraordinary accomplishment, whether you're a male governor, female governor, that was an extraordinary accomplishment. And I think it really spoke to the fact, and I think John suggested this, the tax cut was not a slogan. The tax cut was a policy rationale that the governor thought could work, should work and needed to work, because we really didn't have a lot of choices at that time. And John, I'm just going to respectfully disagree, on one thing, I do think luck does play a part of it, but I also think substance and vision plays a large part as well. And as Mike Torpey said, the commitment to stay with it. We're all being very polite here when we say there was some grousing when the governor announced this tax cut. Ladies and gentlemen, we were ridiculed. She was ridiculed. I mean, the language in these editorials was-- my lawyer said nothing short of slanderous. I mean, that's how biting the criticism was of these tax cuts.

Looking back in hindsight, perhaps, it suggests the early beginnings-- forgive me, Mark-- of the decline of influence of the print media. <laughter> Because if all we had to go on were those editorials in September and October, Jim Florio would have easily been a two-term governor. So the message of the inaugural was promises made, promises kept, accelerate the pace of what needs to be a full economic plan. And lead by example. And she did all of that.

Now the other point I just wanted to make is-- we were talking about the tax cut, and that really did become a shorthand reference to the first term agenda. But it was really more than just cutting taxes, and it was more than just cutting the income tax. It was cutting a number of taxes, and it was also providing jobs,

promoting jobs, and economic growth, and lessening regulations, and doing all the things you need to do so the CEO of Merck doesn't get in his helicopter at night and fly to another state.

All of that was wrapped up as a short reference, a short-term reference to the tax cut. And the Governor began on inauguration day. She began the first 15 minutes of her term, and she really never stopped. And I know we're just talking about the first term here. But later on in this series, and Dean Hughes had suggested this, the economic data really did bear out the success of the Whitman years. Now it's very complex, as I said, so there's a lot to it, not just her policies. But certainly her policies helped, certainly her policies made things easier in terms of economic growth and so forth. And I think that record is a very laudable one. And it speaks for itself. The last point on that theme, one of the criticisms that we heard in September of '93, when the Governor announced this, and we heard it throughout our administration, was, "Would these tax cuts at the end of the day, in hindsight, would they be a net-plus, or a net-minus for the taxpayers? Would property taxes go up dollar for dollar for every dollar that went down in tax cuts?" We heard that constantly. And I don't know whether Jim is going to touch on this later, but I would commend for anyone's attention, the Manhattan Institute, Professor Goodspeed, a professor at Hunter College, has done a pretty extensive survey of this very question. Did the Whitman tax cuts result in a net gain, or deficit, for the New Jersey taxpayer? And he looked at all the available data, school aid, and so forth. And his conclusion was pretty clear that the Whitman tax cuts and tax policies were a net benefit to the New Jersey taxpayer, and by a pretty decent margin. So for me and the Counsel's Office, it was promises made, promises kept, and the inaugural speech was the first opportunity to show we were on the road to do that, and I think the Governor did that.

Governor Christine Whitman: Of course, I think we made your job a little harder, too, though, and the Chief Counsel's job a little harder, because the legislature wasn't exactly happy with us.

Peter Verniero: You didn't hear me say my job was easy, did you?

Judy Shaw: I was going to ask Harriet, the legislature's reaction. I wish I had seen a video of the inaugural, because we were all facing the audience, and I couldn't see the individual legislators faces.

Harriet Derman: Well, I think it was, "We're going to what?! When?! What year? What year?" <laughter>

Mark Magyar: Actually, I think that Don D. Francesco said onstage, I always knew that <inaudible> I just did not know which year. He had said that immediately.

Governor Christine Whitman: He said that before. And that's why we said, as I recall, we said, "And the bill's on its way." Yeah. "It's going to be on your desk when you get back. The Assembly was okay. It was the Senate that was starting to waffle.

Peter McDonough: Well, the Senate was in a difficult position, too. If you think about how we tried to sell the first tax cuts, and sell the first budgets you had Peter Inverso, and you had Dick LaRossa from Trenton, and their constituents had been convinced completely that if you cut taxes, you'd cut state revenues. If you cut state revenues, you'd cut their jobs. And so they had something to lose. And so the Senate was a very difficult place. And Chuck was a very good supporter in the Assembly, that made it even starker.

Carol Cronheim: And they didn't have the margin of votes.

Governor Christine Whitman: No, they didn't have the margin.

Peter Verniero: And can I just add to that? Institutionally, the Senate is just a different institution than the Assembly-- I mean, I used to joke to myself, "We do not have one New Jersey state Senate, we have 40 New Jersey state Senators." Each senator really did seem independent and an island, and that made it more difficult for sure. And of course, there's the political pressure of dealing with your own party. Because the expectation is that you're all going to get along, you're all going to agree, and you know, if you don't agree, then that's the governor's fault. I mean, that was a dynamic that we had to deal with as well. So I think John, you said it or suggested, this was bold but it also was risky. I think you used the word controversial—it was also politically risky. This whole notion of this type of tax cut. And I think--

Governor Christine Whitman: Still is.

Peter Verniero: It still is.

John Whitman: Even with the whole theory, it's still vilified by the democrats every time anybody talks about cutting taxes, you know, it's going to be good for the economy.

Peter McDonough: It's always easier in New Jersey to incrementally raise taxes, either through the back door, or as a part of a deal, or as part of saying, "Oh, the conditions on the ground are different." Always been easier to raise taxes here than to cut them.

Harriet Derman: Didn't somebody we know call it voodoo economics about another president who espoused that theory? But it worked.

Judy Shaw: Well, let us shift gears at this point. Peter brought us through the optics, and really the substance of the inaugural speech. And the announcement that there would be an economic policy forum created. We knew that there had been many other master plans, environmental and such, planning documents that had sat on various cabinet offices and governor's shelves gathering dust. And I think we were determined that we would be different this time. We wanted to announce it in the inaugural. And Jane, as the Governor's Chief of Policy and Planning, had the responsibility then of herding some cats and getting the right people around the table. And the right focus for what it was they were expected to do. And the timeframe within which to do it, which was tight.

Jane Kenny: Picking up where Peter left off, the promises kept, the governor signs her executive order, actually with a flourish. Peter came up with the papers during her first inaugural. And that was to show everyone she really meant what she's saying, and not only are we going to do these tax cuts, but also that we're going to have a plan for how we're going to do it. We're going to find out from the different sectors that will be represented on this commission, what the issues are, and how the best way to go about cutting government where needed; cutting some of the regulations that are cumbersome, that don't make any sense anymore. And just in trying to run government in a more efficient, effective way where we have limited resources.

Our first couple of budgets were tough. And so where do we allocate the limited resources that we have? So this idea of creating a strategic master plan-- and I don't know if any of you are familiar with some of the plans that the State has undertaken through the years? The State plan, I believe, was started somewhere in the '70s. I don't think we really have one yet, a finished document. We've had different iterations of it. It's on hold right now. The energy master plan changes all

the time. But in terms of a strategic economic master plan, the Governor said, "Okay, this is January," so I would like this delivered by October. Slit my wrist, right, everyone? We were just sort of, "What?! How are we going to put together a commission and get everyone around the table, and get some kind of a streamlined plan that had recommendations that the Governor could then address in her budget and her State of the State? But the overall goal was pretty clear.

We wanted to make this a state that was more hospitable to business. We wanted to stop the bleeding. We wanted to have it a place which, as the Governor said, is open for business. We just started—madly. We had a lot of people helping. You said in this Executive Order that all the departments had to be at the disposal of the commission. We had to put some names together for the commission. And then begin to meet. And we began those meetings very, very quickly. We started parsing it out. We went into different sub-committees, and dealt with different areas. If anyone wants to spark my memory, I remember lots of meetings, sitting with a lot of different people talking about how we're going to make New Jersey better for business and also be protective. Because one of the other things the Governor had talked about was open space preservation. And we weren't out to gut the environment, but we were saying dealing with a lot of paperwork doesn't necessarily clean a river. So let's make sure that when we do this, we are more efficient about it.

Hazel Gluck: I wanted to ask you, at the time you were doing this, it was sort of commensurate with the roundtables, if I remember. And you had roundtables with business.

Jane Kenny: We did roundtables during transition.

Hazel Gluck: Oh, was that--

Jane Kenny: During the transition, we had everyone coming in. Mark, you were very active with the Economic Master Plan. We had a lot of names of people that were coming in during the roundtables, during transition.

Carol Cronheim: I could jog your memory a little bit.

Jane Kenny: Yeah, go ahead, Carol.

Carol Cronheim: I think one of the things that the Master Plan really helped do is organize the Office of Policy and Planning. Because we basically had the policy advisors assigned to sections of the Master Plan. And coming from that, I had a small section in my small policy area. But then-- and this was speech writers-- and Mark, writing and drafting, and Jane is a super editor. And putting it all together. It was sort of a process, almost like knitting together this Master Plan. I can remember right before it was due, a very late night with a bunch of us there. And copying, Xeroxing, editing, tightening this thing up, so it would be one document, instead of a bunch of separate documents that came together. Jane and Mark were very helpful in that. And Ilene McGinnis really a big player in getting that together. And it didn't just sit on the shelf, if Eagleton was involved, I'm sorry, but I know Henry Coleman was. We used to say we didn't want it to be the SLERP Report, because it was so long, and no one ever took it off the library shelf. And this report, we all had copies to start, and we all followed the directions. But as the years went by, for some reason, I was the only one in Policy and Planning who could keep hold of my copy. And I had a drawer where I had--

Governor Christine Whitman: We used to go in...

Carol Cronheim: I had a drawer where I had someone make up a whole bunch of them. Because people would take them. I'll never forget, Bruce probably took-- Bruce Stout probably took eight of my Master Plans away. And then I would never see them again, and he'd come back, and say, "Do you have the Economic Master Plan?" So people really followed it, and it was a great way to organize the office towards a goal, I think.

Judy Shaw: And part of that-- I'm sorry, Caren, please.

Caren Franzini: You know, and I think from being the practitioner person in the room with it, it was great to have real policy initiatives that were then implemented. And I remember one, in particular, which we'll talk about later, around technology, because to Dean Hughes' point, a lot of it was around pharma, and how do we ensure that we keep this industry here, how do we keep the technology? It was just burgeoning 20 years ago, it wasn't into our vernacular like it is today. And it was a real blueprint, as Carol was saying, of taking a bunch of people sitting around the room from different parts of that sector and then creating real legislation, which came as a result a year later. So we had real legislation come into play that was very reactive to the business community. "You tell us the issues, we'll create the policy around them and create legislation," which then happened. And then you started seeing some of the changes. So from a practitioner, it was great to, not just

go and talk, but to think about it, to have a strategy, and then to go and implement it. And I just remember the technology one sitting around that table and coming out with specifics, which then happened.

Jane Kenny: Well, I think that-- just one second, Mark-- I just think that as policy chief it wasn't hard, because you know, the work was very hard, but I mean, in terms of which policy direction, where do we go here? We really did have direction and you had set the tone. And a lot of what you had done during the campaign in terms of making promises, one of our policy advisors, Liz Murray, Super Policy Advisor, she had the book. And we would all, as policy advisors, you know, we would all say, "Liz, what does the book say?" <laughter> And Liz would get the book out, and she'd say, "Well, this is what we talked about during the campaign. And because, you know, there was that commitment to issues-- it wasn't, you know, it wasn't just promising, it was something I really want to do. Something I really want to make changes for." In some ways we had that blueprint, and so when we were working with people from the outside, all we could do was enhance our own learning, and our practical application, "What is the best way to do this?" And I think also the optics, just to speak crassly, the optics of really bringing in the business community, and they were just pouring into the State House. We would have these meetings all the time and we had subcommittees. They were pouring in from all different sectors; the car manufacturers, and pharma, and the financial services industry, and the banks, and telecommunications. We had all these different people at the highest level. They would often send their senior people to come into the subcommittees. They were in and out of the State House, meeting with our people. So that was another spur in getting people to say, "Oh, okay, open for business. You know, tax cuts. There is real policy going on here."

Peter Verniero: Can I just add to that point, because Jane makes an excellent point. Not only were these business leaders and these other sector leaders coming into the State because they had such a sort of a pent up yearning to speak about what would be needed for a sound economy. But they also felt welcome to come down to Trenton, to give the Governor and Jane and the rest of us their ideas. There was a level of inclusiveness as part of this process that I think became very emblematic of the Governor's term in office. And that's also reflected in the Executive Orders. EO-1, as Jane said, got all the media attention. That was a 12-member commission. But it was followed up very quickly by EO-8, which expanded the membership of the commission from 12 to 18. Again, emblematic of the fact that we wanted ideas, we wanted to include as many folks as possible. And then eventually Executive Order 38, basically made it permanent by setting up Prosperity New Jersey. So it showed a real commitment and a real staying power. This was not just some gimmick in an inaugural speech, it really was the foundation of the administration policy.

Mark Magyar: May I just say a quick point following up on what Jane had said earlier. It was a very extensive process. Committees on real estate, or on international trade. Each of the subcommittees met regularly. They debated back and forth, they argued back and forth over policy issues. There was certainly no unanimity on recommendations. At that point there was a move toward public/private partnerships around commerce. And we looked at Tennessee Tomorrow, and we looked at the public/private partnership that was in existence at the time in Florida. And there were real live negotiations back and forth over just how this would work. How would this work with the Commerce Department remaining as the State agency, and having a public/private partnership also responsible for economic development. I was talking with Gil Medina last week, and he remembered all the negotiations over that. But I think that Prosperity New Jersey was probably the most substantive recommendation that came out of it.

Judy Shaw: I think one of the more interesting things, and I thought it actually was very courageous, because many of these plans try to be all things to all people, and when you produce a document such as this, there's apt to be winners and losers. But as I recall the plan very specifically identified three areas for continued growth and nurturing and legislative attention, and then budgetary backing. I think it was Travel and Tourism, pharmaceuticals, and telecommunications—which is risky, because there are many, many other aspects of business in New Jersey. They don't appear in that list, or under those categories. But it was recognized that these were the areas with the greatest potential, for growth, for sustainability. As Dean Hughes said in the beginning, manufacturing, housing, some of these other industries were changing. And part of the plan coming out of the Economic Master Plan found its way into all of the other departments, and one being education, how do we transition people who have been in one sector into what are going to be the long-term sectors? And I remember one editorial talking about how courageous that was to bite the bullet and say, "These are the three."

John Whitman: The other thing, I remember vaguely "The Ohio Plan."

Governor Christine Whitman: Well, that was the BEIP-- the Business Employment Incentive Program.

John Whitman: Yeah, but I don't remember the chronology when it happened.

Governor Christine Whitman: Well, BEIP came in later.

Caren Franzini: It actually came in 1996.

Governor Christine Whitman: '96.

Caren Franzini: That was two years later.

Governor Christine Whitman: Two years later, right.

Caren Franzini: But it was the most creative economic development plan-- actually it was a fight between Treasury and EDA. And in that sense-- <laughter>. But wait, but the Governor won out, obviously. And convinced the Treasurer to say, "This made a lot of sense." Gil Medina-- before it came to you Governor was a back and forth to Treasury, and finally he went around to Judy.

Governor Christine Whitman: I'd stolen it from George Voinovich. He had mentioned it, and I said, "That sounds like a really good idea. Let's see how we can make it work in New Jersey." So.

Jane Kenny: Gil kept giving Brian donuts. <laughter>

Caren Franzini: But for this incentive these jobs would never be here. And I think the difference, Governor, is that you made it actually a grant, and it was a tax credit in Ohio. And so it put us wow! on the map. So making the tax changes was critical to businesses. Just to be open for business. And then you had the tax change philosophy—we're a high-cost State, because we're in New Jersey and the cost of labor, and the cost of real estate—that program allowed us to be at the table to talk to a company and say, "Yes, we're lowering income tax, we're sending that message, we're dealing with the environment, but now we can be cost-competitive to North Carolina." And that really made a huge difference.

Ruth Mandel: Caren, could you give a two-sentence-- you can do as many as you like, but for people for the record who won't know what you're talking about.

Nancy Becker: We're getting to that in the afternoon.

Ruth Mandel: Oh, okay.

Nancy Becker: We're going to talk about that in the afternoon.

Ruth Mandel: Because she mentioned it and then everyone kind of, "Oh, yeah, that was great," but for the record.

Nancy Becker: It's in this afternoon's part of the program.

Ruth Mandel: Okay. For the record, we promise you this afternoon. <laughter>

Jane Kenny: Stay tuned.

Nancy Becker: Let me just ask a logistical question, this is sort of our natural time to break. We were actually going to move the afternoon session up a little, but we're so close to break time, will we mess up lunch if we break early?

Unidentified woman: I don't think so. Let me just make sure.

Mark Magyar: While we get the need for food, I just want to go back to one other thing in the inaugural speech. Governor Whitman was given a standard campaign inaugural speech, written by a consultant out of Washington. And she scrapped it. And she said, "I don't like this. I don't like this speech at all. I like the one line on the retroactive tax cut, but I want a policy speech." And the inaugural speech was based, in part, on the Judy Shaw memo, and meetings with Judy, and meetings with the Governor, laying out a concrete policy of vision. And that was the Governor's decision that she wanted her speech to be very concrete, very specific on policies. I remember that.

END OF SESSION 1

Judy Shaw: Session two, Revitalizing New Jersey's Economy. This is the shift from the more theoretical, academic, what we think might work, how we're going to set the optics to actually day-to-day governance which is always more art than science I think as Hazel had said earlier. So Jim, if we could start with you as one of two people in the room who have served as State Treasurer, a unique perspective. I'm sorry Beth couldn't be with us today. We thought Beth Gates might also join us. Let's start.

James DiEleuterio: Thank you. I'm struck by the discussion thus far today. Talks a lot about policy and decisions that were made but there are practical realities that occur as a result of all that. And let me go back and review for a minute just the fact that when the Whitman administration came into office, the state budget was being balanced with over a billion dollars' worth of one-shots meaning revenue that was not recurring, revenue from sales of assets, revenue from scraping through different fund balances, revenues that just were not consistent so that was a big deal. The various parts of the state's creditworthiness had been downgraded. There were obvious discussions about changes in tax laws that were about to occur which in fact we did, I believe the number is 47 times. And of course the income tax cuts get the lion's share of the attention but it was things like restructuring the gross receipts and franchise tax for example that I think made major, major changes in policy and budgeting at the municipal level. There were even more, I don't want to call them minor, things like eliminating the sales tax on Yellow Pages advertising.

Peter McDonough: Hard cider tax, hard cider tax.

James DiEleuterio: <laughs> Things that were targeted specifically in helping business and again resulted from a lot of the discussions that occurred with businesses. So my point being that the Governor started out already over a billion in the hole when it came to the budget. By the time she left office there was over a billion dollars in undesignated surplus in the general fund. Taxes as I say had been reduced 47 times. We had reauthorized the transportation trust fund. We built South Woods State Prison which was a billion dollar undertaking.

Governor Christine Whitman: _____ which as I recalled the *New York Times* said "The biggest boondoggle since the Teapot Dome scandal."

James DiEleuterio: Right.

Governor Christine Whitman: Over the top and now you can't get on it.

James DiEleuterio: The distance between where you started and where you ended was absolutely tremendous and a lot of that came from budgeting and taking the months and the meetings and the things that occurred. I mean our fiscal year started July first. It was probably August when we had our first meetings for the following budget. So it was a very involved process and again the influences of so many municipalities around the state depend on state aid, school aid, a number of things that do come out of the state budget. So with all that said I mean I would

like to ask Betsy to jump in here and Roland in terms of what it was like to work with the cabinet officers. It was not always a pleasant conversation.

Betsy Pugh: It was great! <laughs>

James DiEleuterio: To call Jane and say "Okay Distressed City aid is now five million dollars less than it was."

Jane Kenny: And you have to go tell the towns.

James DiEleuterio: Yeah.

Betsy Pugh: Yeah we didn't have the heavy lifting. The Governor and the staff to the Governor had the heavy lifting. You're right, we started in August. I don't think you saw it, Governor until a few months after that but it was in the beginning when we would be making projections as to what the revenues were going to be and of course they were the most conservative not on purpose but because that's the way we think and we would have this huge deficit looming before we even brought you what the situation might be for the following year. I don't remember how long the budget process lasted.

Governor Christine Whitman: Forever.

Betsy Pugh: I know. It was a large bureaucracy that was meeting with all of the junior folks at the different departments who had been instructed by us but really it was from the Governor to make cuts of a certain percentage, we'll say. And I think everybody understood that some places would not really cut by that much and some people knew perfectly well that they could go around the budget department <laughs> which they did all the time. But then it was on a day-to-day basis where the budget staff would work out line-by-line cuts in the budget. It wasn't all people. It was just the most minute, if it was how much paper you bought. It wasn't that bad but it could get down to that level of detail. And then we would meet with the Governor day-after-day, week-after-week, night-after-night and the Governor and her staff would go over the budget line-by-line. I think you were probably the only Governor in the state, not in the state, in the United States that goes over things line-by-line. But it-

Governor Christine Whitman: It was misery.

Betsy Pugh: It was, it was.

Governor Christine Whitman: The first budget as I recall the first budget was actually less than the previous year, the last year-

Betsy Pugh: That's right, it was.

Governor Christine Whitman: Of Florio and the year after that we held it flat.

Betsy Pugh: That's right.

Governor Christine Whitman: It was not a happy time. Nobody liked us much.

Betsy Pugh: I remember saying to you at one point that having come from the private sector where discipline is already built in. If you don't have the revenues you can't have the expenses. It's as simple as that. It's a bottom line. But that's not true in government. So in a state that requires you to have a balanced budget if you don't have the revenues and we projected that you wouldn't have the revenues to cover what we expected would be a higher budget, then you had to cut. It was really the only way I think that you could get a public institution to cut its taxes. I do have to tell you though this did not happen in the beginning, but does everybody remember the year that Viagra was discovered.

Jane Kenny: Where is this going?

Nancy Becker: Is this economics?

Governor Christine Whitman: Betsy, this is getting interesting.

Man 1: You've got everybody's attention.

Betsy Pugh: I'm sure I did. I'm sure I did. We always did a PowerPoint presentation and telling what the major revenue-

James DiEleuterio: No pun intended.

Betsy Pugh: <laughs> Okay sorry about that. Saying what the major revenue factors were and what were the major factors in the budget: where the budget increases were, and the one for Medicare right at the top was Viagra. The cause for increase in the Medicare budget. Isn't that amazing?

Michael Torpey: I just think it's amazing that somebody said something more inappropriate than what I would say.

Betsy Pugh: What were you going to say?

Governor Christine Whitman: Let's not take that any further. Stop, John stop.

Nancy Becker: This isn't edited. This is as it is.

Betsy Pugh: Oh no!

James DiEleuterio: Roland, you want to jump in there?

Roland Machold: I came in of course towards the end of the administration. By that time a team was in place. It was very well managed, very well working together, great teamwork and having actually worked for four administrations I have to say it was very striking in Christy's administration with so many women in the administration—very talented women—there was better teamwork than I had ever seen in a previous administration. It was really true. They were really helping each other out and I say that because it's not that the guys don't like to get together on the team but every one of them wants to carry the ball and sometimes there was a lot of friction between the various cabinet members.

Harriet Derman: I can say it was an absence of testosterone but I might get in trouble for that.

Nancy Becker: I just whispered, I said "It was the Viagra."

Roland Machold: At any rate, any rate,

Judy Shaw: Moving right along.

Roland Machold: By the end of the administration the expenditures had gone up because the revenues were very strong. We had, I think the year before I came in, 11 percent growth in revenues for one thing, and slowly but surely some of the expenditures went up for very good reasons. I don't recall exactly what they were. Two things I might add. First of all I'm estimating this was a really an art form. It was very difficult to come up with good estimates. We had three major sources of taxes and I would say on the corporate tax Dick Klusney used to tell me that the standard deviation of their estimates and their realities was in the order of 20 percent. But sales tax which was much more stable was maybe plus or minus five percent. So you had these very unstable elements in the income tax with plus or minus ten percent. You had these elements in there, and one element in particular in the income tax was very striking. We had enormous capital gains tax revenues that were coming in. And of course I thought if there was a big seller from the market it was going to be great because people would be taking all their profits. It didn't work out that way. I don't know what they were selling but it didn't work out. That was from my successor not me. But we had a billion and a half dollars of capital gains taxes. We had no way of estimating what they were going to be. We estimated that they would be flat for '02. We never got through the full '02 budget and in fact we were way off, very negative.

Governor Christine Whitman: As I recall we revisited those numbers twice before I left to keep shrinking the budget because we knew we were going to.

Roland Machold: Yeah. Well we could see that there were clouds gathering.

Governor Christine Whitman: Yeah.

Roland Machold: I know that for a fact. So alright that was just on the estimating part and the other part is that the budget is very much a gaming process and that is to say it's very dynamic. I'll give you one very small minute instance and that is from the Department of Veteran's Affairs. We got a request for 12 trumpeters. What had happened was the federal government had decided that they were no longer going to provide trumpeters to play "Taps" at the funerals of veterans and many veterans were dying. And so the question was would we actually pick up the slack? And the federal government spends more money on military bands than they do on all the arts projects in the country. It's amazing but it's true. And here we were stuck with having to provide these wonderful veterans with taps. Well they came in for 12 trumpeters and Christy said "Give them six."

Participants: <laughter>

Roland Machold: Well no but then I said-

Woman 1: Well the six days of Christmas, right?

Roland Machold: I was never as serious as I should have been. I said "What are they going to do? Play half of 'Taps'?" She didn't really smile. I mean once you got her game face. No, but then she explained. She took a moment to explain. She said first of all we know they came in with more than they really needed. And the second thing is that there are any number of private trumpet players who could perfectly well provide it and in a pinch there are very good recorded cases of "Taps." So they would get what they wanted in some form but just not the full rate. That is the gaming process. They gamed us and we counter-gamed them. And it went on again and again and again in one little project after another.

James DiEleuterio: And I think another interesting dynamic to that is the months that it took putting that all together and meeting with the governor's office and getting decisions on the overall policy of the budget. Then the Governor obviously would present it to the legislature and we'd have to basically go through the whole act again with the legislature to convince them that the policy decisions were correct.

Roland Machold: But the governor has great power. They have the one-line veto which is a tremendously powerful tool and that's again part of the gaming process. People put things in they know they're going to be vetoed.

James DiEleuterio: Well and the other part is that the governor gets to certify revenues.

Roland Machold: Yeah that's true.

James DiEleuterio: So once the legislature gets the budget they can change things around but only within certain limitations.

Roland Machold: I know we were just about to make the budget thing and Klusney came and whispered in my ear and said "We've got two hundred million dollars more." What a curse. <laughs> Because of course that's just red meat for the legislature.

James DiEleuterio: Well I'd rather have that than-

Roland Machold: Than two hundred million dollars less, yeah.

James DiEleuterio: We've also been through the let's go rob--

Roland Machold: This fund or that fund, yeah.

James DiEleuterio: One day we found several bags of corporate tax returns. There was seventeen million dollars sitting in that bag.

Governor Christine Whitman: Jim, do you remember, Mike, you might remember, which budget year did we bring the pensions onto the budget? Because they'd been counted off budget, the pension obligations, they'd never been considered part of the budget proper. Was it the first budget? The third?

James DiEleuterio: I think it was the third budget.

Governor Christine Whitman: The third budget we did that.

James DiEleuterio: Yeah and we're going to get into the Pension Bond Deal in quite a bit more detail but that was the other thing, we had this four and a quarter billion dollars in unfunded liabilities.

Governor Christine Whitman: And then wasn't there some bond issue too that had just been kept off the books?

James DiEleuterio: Well there was over a billion.

Governor Christine Whitman: It was a billion.

James DiEleuterio: There was over a billion dollars' worth of capital projects that hadn't been recorded.

Roland Machold: Well they were the bonds that hadn't been on the books—the ones of the agencies that were not supported by their own revenues. Those like the Port Authority, I don't know if some of their bonds were supported but not all of them, by any means.

James DiEleuterio: Right.

Roland Machold: The county rules changed in '94, I believe it was, and there may have been a year of grace or something. It wasn't an instant thing but a lot of times the Democrats and others criticized us for increasing the debt supposedly from five point seven billion dollars all the way up to sixteen point seven billion dollars. But in point of fact it wasn't defined the same way because the five point seven did not include insurance. Remember we had that insurance fund that was set up and there was a big deficit.

Caren Franzini: _____ issue were not on the books, and then we worked with taxation and O.M.B. to transfer because you're right, Roland, because of accounting rules to put all those bond issues that were off balance sheet onto the books. They were approved by the legislature though so these were all initiatives that were approved by legislative actions but just weren't on the books.

James DiEleuterio: And let's be clear, I don't mean to imply that anything underhanded was going on.

Caren Franzini: No, it was an accounting procedure.

Roland Machold: And they also brought the unfunded liabilities of the pension funds in that package so that the amount of debt at the beginning of your term was really ten point four billion and it went to about sixteen and a half billion but it was a growth over eight years or seven years of something like seven percent a year.

James DiEleuterio: Well and not only that but-

Roland Machold: Which was much less than our growth of revenues.

James DiEleuterio: We had a reauthorization on the T.T.F. [Transportation Trust Fund] and there were several bond issues that everybody agreed were necessary.

John Whitman: Whatever you say about it we didn't do a good job on P.R.

Caren Franzini: Explaining it.

John Whitman: I don't want to get ahead. Now it's not simple. It's not easy to explain to people and nobody really wants to hear all about-

James DiEleuterio: You're stealing my opening line.

Peter Verniero: Judy, can I go back before we go off this topic of the I'll call it the "creative tension" between the Treasurer and the Governor's office and the Cabinet when it came to budgeting.

Governor Christine Whitman: It was creative at times.

Peter Verniero: Just one very quick anecdote.

Judy Shaw: This is when you had dark hair, right?

Peter Verniero: One very quick anecdote. I was part of a conversation between then Treasurer Brian Clymer and then Attorney General Deborah Poritz about the law and public safety budget. And if anyone knows these two individuals they are very good advocates for their positions, none better. And I remember in her own way Debbie Poritz saying to Brian Clymer, "You know, Brian, just as a reminder you know that the Office of Attorney General is a constitutional office so you can't eliminate it. There's only so much cutting you can do in law and public safety." And without skipping a beat Brian said "Debbie, I can't eliminate it but I can reduce it to one position."

Participants: <laughs>

Hazel Gluck: I guess we did a lousy job interviewing.

Roland Machold: Debbie called me up at one point and said "I've got to talk to you about the budget." That's always dangerous because Debbie is smart as a whip and she'd always end up with the upper hand. And I said "Oh, how are we going to

do that?" She said "Let's go for a walk." Of course you're imprisoned on a walk. Now I have to tell you my stride is about twice her stride. So she she's trotting along and I'm walking along. Well that walk cost the state two million dollars.

Governor Christine Whitman: I'm not surprised.

Michael Torpey: Good thing you ran out of breath.

Roland Machold: Yeah.

Judy Shaw: In this subject matter and for the sake of the archive I'm thinking do some people around the table want to jump in and talk about the difference between discretionary spending and mandated spending? Because I know when we're talking about a state's budget often the public thinks the governor is starting at zero and has the ability to raise or decrease.

Roland Machold: Let me address that.

Judy Shaw: Please.

Roland Machold: Because right away it's management by exception. What we looked at when we went through all of the pages of each budget presentation from each of the departments was not- there were a lot of things that were mandated. They were in place. There was nothing you could do about it and the people demanded they were in place and so forth. So what we were doing is just really controlling the budget on the margin and that was an important margin but there were things. People would come in, I will tell you that I went through any number of Treasurers who said we're going to have a ten percent across the board cut so that's the standard thing. Somebody comes in and they know nothing about government and I say "Well that's great but then you'll lose this compensation from the government. And my division is paid out of the pension fund so you don't get anything back in the budget for that." And I keep going through this list. The only one was the Taxation Division. They were ready to cut that. And then somebody would say yeah, but every tax analyst returns five times over in salary. So it really is not an easy thing. So the second point is the bottom line, people talk as if it's a corporation. You only have so much money, you only spend so much money. But the bottom line is financial, social, political, public relations. There are multiple bottom lines and they all conflict.

James DiEleuterio: And every line item has a constituency.

Roland Machold: Yeah.

Michael Torpey: I think the numbers that I remember, and those who might remember better please jump in, at the beginning roughly a fifteen billion dollar budget is about four billion in direct state services that you would have arguably some control over. So you have a billion dollar problem as we did. Plus coming in and you have four billion dollars to find, that's impossible. So then you come up with other ways of dealing with that which we did over time. I think in '94 those were roughly the numbers.

Governor Christine Whitman: But that was also one of my thoughts—always in the back of my mind—on the tax cuts. It was one way you could generally go to the legislature and say "Guess what, gang, we can't have these programs because you're not going to have the revenues because we're cutting the taxes." Because the return on the tax cuts as far as encouraging business and job growth wasn't going to happen overnight. It wasn't going to be a one-for-one immediately so, to my mind, it gave me some leverage. It gave us some leverage to go to them and say "No, we don't have the money."

James DiEleuterio: My nickname in the legislature was Dr. No.

Roland Machold: Part of what Mike is saying is that seventy percent of the budget goes back to the towns or to higher education. In other words that's the three part and it's really only the remaining thirty percent and the cost of government itself was only seven percent of the budget.

James DiEleuterio: A lot of people don't understand that. I mean there's a lot of cities in this state that get eighty, ninety, ninety-five percent of their budget from the state.

Roland Machold: Yeah. I heard from them, lots of them.

Carol Cronheim: And we had an issue from the campaign about state mandate and state pay because that had been a big issue in the Florio administration that they put all these mandates on the municipalities so we said "We're not going to do that." So in some administrations they could have turned and said "Alright, we're

cutting this but you just find a way to fund that, raise it." But we put through a state mandate state pay rule so didn't have that.

Judy Shaw: And the ability to get rid of one-shots and as the Governor said we had a commitment the first year to bring in a budget lower than the previous budget which had never been done before and the second year held the budget at no increase. Anyone want to speak to how that was accomplished?

Governor Christine Whitman: A lot of pain.

Michael Torpey: Again the numbers that I remember from around that time I think the last Florio budget had about ten percent in one-shots and so that was a big number with that commitment that was a big number to overcome. I don't think we overcame that-- I think we said we'd put that on a glide path and I think by the third budget or so we had gotten it down to zero. It was all recurring revenue.

Governor Christine Whitman: You always wanted one or two percent.

Michael Torpey: We did. In one year we actually got it down to virtually zero but you're right, we would always look for what we would consider legitimate one-shot opportunities. So that campaign promise was again one that was (I guess Pete will do that at the end), one of the promises made, promises kept. And that was a big number because that was about ten percent, one and a half billion dollars of one-shots in the last Florio budget.

Roland Machold: Yeah they started out, they called it "structured deficits" was the actual term that they used.

Michael Torpey: Yeah.

Roland Machold: And the last budget we put in I think the structured deficit was down to twenty million. And must have been some anomaly that created that. You think we would have managed to squeeze that out but it had come way, way down.

Judy Shaw: And we were also working in an environment where the federal government was doing quite well and we were able to ride that wave and the governor often would be good enough to say that, to recognize it wasn't just us

that mandated. The old Ronald Reagan line that "It's easier to ride the horse in the direction it's going." There was a part of that for us.

Governor Christine Whitman: Sure.

Judy Shaw: Which was good but we were smart enough I think to recognize it and to maximize it.

Roland Machold: To game it.

Judy Shaw: To game it.

Governor Christine Whitman: To game it.

Judy Shaw: And to bring home some federal dollars that had in previous administrations been left on the table. I think we were very creative about that.

Governor Christine Whitman: One thing I will say about the budget process is I always used to love the run up to Christmas. I was big on Christmas. I learned to hate it because that's when we were starting the budget, and I always loved the spring when I was not Governor, and when I became Governor I didn't like that so much anymore because then we had to get the budget through.

Roland Machold: You weren't alone, you know.

Governor Christine Whitman: What?

Roland Machold: You were not alone.

Governor Christine Whitman: Sure. <laughs>

Judy Shaw: Anything else on this aspect before we change to some restructuring of government? Jane?

Jane Kenny: No.

Judy Shaw: No, I'm shifting to you.

Jane Kenny: Oh you are?

Judy Shaw: Yeah. I'm going to "Restructuring Government" here and you know discussions about right sizing or downsizing, whatever the language of the day was looking at different departments.

Jane Kenny: Yeah well I hope my colleagues will join in. We obviously were looking to be more business friendly and one of the things we looked at in the beginning was where are the departments. We actually might have been more regulatory. There weren't even regulations, for example, in the Department of Higher Education. So one of the first things that we did quite early on was eliminate the Public Advocate's office or propose to eliminate the Public Advocate's office, the Department of Higher Education. Was there another one, Peter?

Governor Christine Whitman: Just the Chancellor.

Jane Kenny: Oh well yeah. Whoops.

Harriet Derman: What position did Susan Reisner have?

Man 2: She was the Public Defender within the office.

Jane Kenny: Public Advocate, yeah.

Governor Christine Whitman: I mean that was premised on the fact that you had a Department of Law and Public Safety and you had people within that that were supposed to serve that purpose so why did you need an extra office to be the public advocate and with higher education, my mother had been on the Board of Higher Education. Nothing more ridiculous than to think that colleges and universities couldn't even basically turn on the lights in a new building without going through a Chancellor of Higher Education who was the king. So I thought that they ought to be able to act like adults because they were Higher Education. I think it's appropriate now to make some changes there because they haven't exactly lived up to what we hoped they would do.

Jane Kenny: I think one of the ways we came at this was actually there had been an autonomy law for colleges in 1985 or '86 that Tom Kean had signed and a lot of the colleges and universities, when we met with them in some of our listening sessions, we had really felt that the climate had become much more regulatory than was warranted. They felt that they could make decisions on their campuses that were best decisions to make. It really didn't need to come from an entity in Trenton. And we really did meet with a lot of people even though we were on the fast track. A lot of this happened during the transition as well. And it seemed that it was the next, it was sort of a logical next step. There was an 18-member Board of Higher Education. There was a chancellor, and there was quite a sizable department. One of the things that we learned when we started meeting with some of the presidents and the educators was the presidents had never been in a room together before in their history. All the presidents of the colleges and universities in the State of New Jersey including the county colleges, had never been together in a room.

Roland Machold: Except in the Treasurer's office because they'd all come together to ask for money.

Jane Kenny: No, no, but that was after- they never came together. They came separately because they were always advocating for their own. They weren't advocating for a Higher Education budget. They were advocating for whatever their own budget.

Nancy Becker: They were adversarial.

Jane Kenny: Yeah. So it was really to put them on par with what was going on with the private institutions in the state. We were hoping for excellence by having what came to be a proposal that was put together by another task force of people. We put together a President's Council where all the presidents would meet and actually discuss what higher education should look like in the state of New Jersey and how their institution would be representative of that. And new trustees, who would really be approving that, and all these appointments, the governor would be involved in, but at the same time the colleges and universities would have more autonomy to make these decisions. It came to be a very controversial issue in an almost ridiculous way. Remember at the end when we finally got the law passed, David Hespe, who was working with Peter Verniero as one of the Assistant Counsels had done a lot of work on education. Right now he's President of Burlington County College but he was really my partner on the legislative side, and he handed me a booklet with all the articles that were written about disbanding the Department of

Higher Education and the names that we were called. Including, we were compared to Bosnia, what had been done under Nazi Germany, there were just these ridiculous criticisms. First of all just to put it in context, a small political context, the publisher, Mort Pye of the *Star-Ledger* felt that he was very instrumental in helping to found the Department of Higher Education in 1966. And one of his reporters who was actually allowed to report had such strong opinions about it. He would make these-- he would report on this as if they were news stories instead of editorials or opinion pieces.

And so we had a lot of that going on. We had people really worrying about the TAG Grants. We had people really worrying that all of a sudden this meant we weren't going to give out TAG Grants anymore. This meant that we weren't giving out E.O.F. scholarships. So it became a race issue and a minority issue and it became every issue in the book because it was a very misunderstood policy. So we really had to work very hard to set that right. Again the legislature was supportive of us. We never had partisan bickering over this. We had talked to them beforehand and they all agreed that it made a lot of sense. They were there for the autonomy law and they thought this was a logical next step. There was only one legislator that was against it and that was Gordon McGuiness. Everyone else was supportive including John Lynch. We really had worked to get people to understand what we were trying to do. But people were making it into a lot of other things and it became very controversial. Peter you should probably add to it.

Peter Verniero: Yeah just a couple of points and Jane is correct. This became a very controversial issue very early on in the administration, and the reason for that—a couple of reasons. One is, and folks really don't appreciate this until you are living it, a newly elected Governor has only about three or four months to really put together a budget as opposed to the normal year process and ongoing budgetary process. So the Governor was elected 1993, she's sworn in, in January, 1994 and what could take twelve months or should take twelve months she had to do in three or four months. Every new Governor is faced with that compression. So to announce this proposal in a first term administration just increased the difficulty and the complexity of it. Dismantling a department no matter what the reason and however laudatory is a complicated business. So we had to really work very hard and go through a lot of details. We had, as Jane suggested, some very entrenched reporters and journalists who cared very deeply and I give them credit for their principled advocacy, but they cared very deeply about this department and they were watching everything we did, every comma, every sentence in the legislative bill as it went through the process was put under scrutiny. But I think in the end it turned out ok and it's basically held since although there's I guess there's been some reinvention of it. In terms of the Office of Public Advocate this is something that actually Governor Florio, and I give him credit for this, had really started. As I

remember he had, maybe not by design, but he had defunded or was in the process of defunding parts of the Office of Public Advocate. The Governor made her commitment in the campaign, and as I remember there was not the same level of complexity in reducing the Office of Public Advocate. It still had its constituents. It still was somewhat controversial but that process was started prior, and again the proof is in the pudding. We have no Public Advocate today. It kind of got resurrected and now it's eliminated and I don't think it's going to come back any time in the near future because as the Governor said, it was duplicative and the public is still very well-served without a Public Advocate in my opinion. Reducing the size of Governor's office, that hurts. That's your own nickel. And folks don't appreciate that the Governor with all this great constitutional authority, he or she has, needs a staff infrastructure to support it, and any Governor who can reduce the size of the office I think deserves credit.

Michael Torpey: Yeah, I'll just make one comment on that. I remember as Chief Counsel at the tail end of the first term Harriet was Chief of Staff and was managing this twenty percent cut and I kept getting fewer and fewer Assistant Counsels on my staff and so I actually asked someone to go-- I think we started out with fifteen or sixteen under Peter. I had eleven and we're in an election year and we were just really spent. I went back and I think we went and presented this to you, Harriet. My recollection is, the cut at that point in time had actually gone well beyond twenty percent. So again, that's one of those promises that was made and kept and I wish we had just kept it and not gone beyond that.

Jane Kenny: That and the helicopter.

Judy Shaw: We did begin every staff meeting with the numbers. How many people are employed? What is the budget because we knew they were looking over our shoulder about that. But I think for me the straw that broke the camel's back was when we shifted from Town Cars to Sables and Drew Karpinski would come into my office every day just crying because he was six foot seven and just couldn't fit in the Sable. I'd say "Drew, sit in the back seat. Put your legs over the front seat. I don't care. You're driving in a Sable," so. But again it was part of the optics of cutting back.

Harriet Derman: Anecdotally I was Commissioner of the Department of Community Affairs and I remember learning that we got newspapers delivered so we eliminated that. We had a water, bottled water, we got rid of that and a plant lady who came and took care of the plants.

Jane Kenny: They were all dead when I got there, Harriet.

Harriet Derman: Now you know why. Plants had no constituency. And also we did some other things which was part of good government and good structuring. We moved the Division of Aging to the Department of Health and it became Health and Senior Services which was a smart move, right. The wonderful Ruth Rita, right?

Governor Christine Whitman: Some of that was also the battle that we had to fight with the legislature on getting the law changed so that we could put in a non-physician as head. As long as there was a physician as Deputy Commissioner because health care was a big business and my feeling was it was a big business. Of course we had a wonderful person that had been presented to put there. It was worth the fight. But it was also the right thing to do. Health and Senior Services—there is so much in Senior Services that has to do with health and is around health and that I think made sense. Then we moved onto that one phone call, one number. That was the second administration. The second term.

Harriet Derman: And if I could go back, somebody raised the point about the municipalities having less money before we had the state mandate, state pay. What we also did for the municipalities, I think there was some tension between local government services. I wish Beth Gates were here. The Department of Treasury that wanted to replicate the same program that we had.

Jane Kenny: Exactly, did you notice that, Harriet? I did too.

Harriet Derman: I noticed that, I noticed that. And what we did is we would send a team in to audit the finances, the budgets of municipalities, of school districts or maybe the Department of Ed did that, and importantly the authorities because you know all the municipalities have these independent parking authorities and other...order and like Parking Authorities have a lot of money and they don't want to use it for their budget. I remember even putting pressure on my own town like "Get the money from the Parking Authority to help balance the budget." But Brian Clymer, and you, Jimmy, and everybody worked on these local government reviews and there was really a great interest in municipalities wanting to be the first town to have its budget audited and we found savings for them. It was very, very effective.

James DiEleuterio: It was significant but under the overall heading of reducing the size of government. Peter just whispered to me about privatization and that's

something that we probably ought to talk about a little bit because I was the one that privatized motor vehicle inspections. <laughs> And that was fun.

Governor Christine Whitman: Yeah, tell me about it. Where was Ilene when we needed her with the hot coffee memo?

Peter McDonough: You had the Privatization Commission that was led by Lew Eisenberg. And I think there were fifty-seven if I'm not mistaken suggestions and they ranged from privatizing medical service for prisoners—prisoners up until that point were getting fee for service medical. I mean those of us in the State Health Benefits plan were all being moved onto managed healthcare and that was the model for the public at large. And yet if you managed to rob a bank or a mom and pop deli you got fee for service without any fee attached to it health care for the duration of your term. Or we had the Garden State Health Plan which was an H.M.O. for Medicaid individuals that the state created at a time when there was no market for that and hats off to Dave Kehler. He ran that privatization project and got everybody in the world mad at him because he ran it exactly like a business deal including not telling everybody everything all the time and belittling people and embarrassing them. But at the end of the day I believe that we got seven hundred dollars a life at the time that the market value or typical market value was four hundred and fifty dollars. And so it was a very good deal. And you could right-size government and still provide better- the same or better services for people and that was an anathema to the previous administration.

James DiEleuterio: D.O.T. had guys that were designing road paving projects and-

Peter McDonough: Light bulb changes.

James DiEleuterio: Yes. <laughs> But I think if I'm not mistaken there were five thousand fewer employees on the payroll at the end of your administration than at the beginning.

Governor Christine Whitman: Yeah. Well also it's funny because the environmentalists particularly were upset at the D.E.P. The cuts we made there were disproportional but when we came into office our D.E.P. was bigger than the state of California's.

James DiEleuterio: Right.

Governor Christine Whitman: And we figured we really didn't need to be quite that big. We weren't quite the same size state, we could probably do the job better and in fact at the end of the day the cut was much less. It was something like— what was it at the end of the day?

Jane Kenny: I can't remember. You probably remember, John because you were there.

John Weingart: I remember the reaction of the environmentalists but--

Participants: <laughter>

Governor Christine Whitman: But overall it was still only about what, four percent or something.

John Weingart: I think so and also that department had gotten a lot bigger in the two, three previous administrations, Byrne, Kean, and Florio.

Roland Machold: Privatization wasn't always the answer. I know a big problem was in computer software and we would try to go out and buy packages and we put it out to bid. Parsons was a case in point with only one bidder. That was typical and it would be the big accounting firms that would come in and they'd try to use something that was on the shelf and it was completely out of date. And this happened again and again and again. And I don't know how you can manage something like that. It was a constant problem. It is now as you know with the federal government. So we actually privatized all sorts of things and some work and some don't. It's not a universal panacea by any means.

Nancy Becker: And some of the things, I'm just going to add something which I usually don't but I was involved in some of this. Some of it you were ahead of the time and the government wasn't ready nor were the people who felt that they were going to be aggrieved. I was involved for a company doing mail order prescriptions. That was the beginning. It failed. It never got off the ground even though the administration was interested in it for saving money but the pharmaceutical companies were all over it. It never got off the ground because they were afraid that it was going to hurt them.

Judy Shaw: And then there are the politics of unionized jobs and the legitimate argument about in which sector do certain things belong? Do you want private sector companies really measuring the cleanliness of water and air? And in who's best interest? And these arguments have not stopped in government at all levels trying to sort it out appropriately. The term "privatization" has a lot of caché. People think it's a way to solve a problem. As Roland said it goes back and forth with some success and some not.

Roland Machold: One of the best examples is they introduced the income tax and you know this better than I do. And we had to get a whole new infrastructure to manage the income tax and they went out for bid to the banks but the Division of Taxation also bid. Their bid was one-third what any of the others was and they've done a great job ever since.

Mark Magyar: That was why we did the privatization commission. _____ had a competitive contracting provision where state agencies or state unions could bid on projects that were proposed for privatization and we went out like Indianapolis and met with the Garment Workers Union that won the contract when it attempted to privatize garbage out there. The unions actually came up with ways to save money even more than the private sector had. So having that competition like in-house competition always was a positive hedge.

Judy Shaw: And in the sense of time we'll move to the Pension Bond Financing.

James DiEleuterio: Oh my favorite.

Governor Christine Whitman: Everybody's favorite.

John Weingart: I believe the administration did not have a management review commission the way both Kean and Florio had to look at the kind of things that led to doing away with departments or consolidating. Was that a conscious decision? There had been GMIP and GMRC, Kean and Florio.

Jane Kenny: Yeah I don't remember making a conscious decision. I think what we were really responding to was all the feedback that we had been getting and all the work that-

Governor Christine Whitman: It was all the roundtables that we put in.

Jane Kenny: We did. I think I did transition for Tom Kean on the way out so Florio on the way in. When I worked for the governor, I was a loaned executive working in Governor Whitman's transition office. I really had never heard or seen that we just had so many people coming in, so many different groups listening. You know these listening sessions which I think you were pretty committed to. I mean very committed to. So we were operating from community outreach that now people do a lot more where you actually have these kinds of sessions, where you bring people in and you learn what works and what doesn't work. And we also felt a sense of urgency because things had been so bad in the state. We felt that these are some of the things we need to get done right away. Looking back at that first year it really is amazing that we weren't more exhausted than we all were because we were just moving very quickly.

Hazel Gluck: I want to add something. Being in the Kean administration we had a program called GMIP, Government Management Improvement Program, some nonsense like that.

Man 3: Al Fasola

Hazel Gluck: Al Fasola, that's exactly right. I don't know whatever happened with it. All I know is I was at the Lottery at the time. He said to me "Are you making money?" I said "Yeah." He said "Okay goodbye." I think it just fell by the wayside. I don't know that you can manage-

Roland Machold: It was really sort of a public relations effort. Florio did the same thing, the same kind of commission.

Hazel Gluck: Yeah and it doesn't work.

Roland Machold: They announce that we're going to go in and the obvious political gambit is to come out and say "We're going to cut government, we're going to cut our budget and the like, but we're not going to cut our services." And the really dumb reporter all he has to do is say "How are you going to do that?" because there is no easy answer. But they say that. So then they set up these commissions and it's really to satisfy what is a public relations gambit. On GMIP, I was the one that had to speak for the Treasury Department and it was to me very amusing because we had this outside fellow from Cambridge that came down and everybody in the state went through a definition of what their job was. The hours on this that they spent, management, actual work, what your spread was, how many people

you supervised, and they had a very good idea, damn good idea and the like. And Kean started to make these announcements. They were going to demote this and we came to the Treasury Department. It turns out that we were much more efficient than either Prudential or Mutual Benefit, who were the two sponsors. See this was paid for by the private sector. And the thing disappeared. And we said "We'll go up there and tell you how to run your business."

Mark Magyar: We did do an internal Reinventing Government initiative starting the first year but that was in Charter One, you had really good people like Brian Baxter and Judy Hall, who understood your government network. It was not bringing in the private sector to advise government. It was to have a veteran government of professionals that work with the agencies. I think that was probably a more effective process.

Carol Cronheim: In a lot of ways we were doing it but—we were doing it but coming from, this time I'll put my speech writing hat on, we just weren't calling it that but we were talking about it all the time.

Judy Shaw: It's a good thing.

Carol Cronheim: And one of the things that we didn't talk about first term besides Advocate and Higher Ed is Banking and Insurance when we were merged. So we were doing this on an ongoing basis. I think we were just using the words "reinventing government." We were just auditing, use the audit team expression but we just didn't say "here's our commission."

Judy Shaw: Now you have to go back to pensions.

Jane Kenny: Can we think of something else to not talk about?

James DiEleuterio: Well this is a proposal that defies explanation in a thirty second sound bite. And I think that was probably one of the biggest problems with it in that it addressed a whole series of financial issues in terms of the state's balance sheet and pensions and whatnot so it probably would be best if I backed up a little bit and talked about some of the things that happened with respect to pensions and pension contributions prior to the Pension Security Proposal and then work our way through in terms of what happened. But the state's balance sheet back in the beginning had what was known as a footnoted liability of four and a quarter billion dollars which basically appeared below the line. So you had assets

and liabilities and then down at the bottom there was an "Oh, by the way, you guys owe the pension systems four and a quarter billion dollars," which strange as it sounds back in those days was a lot of money. Now we talk about four and a quarter billion as the amount of money that the feds spend in thirty seconds. But anyway, state law required that the systems, in essence, pretend that that money was already deposited into the pension funds. So they had to compute a payment towards that four and a quarter billion based on I believe it was eight and three-quarters percent over sixty years and that was the repayment schedule. So that was part of the contribution that the state put into the pension fund every year. The second part of that contribution was the states' self-funded post-retirement medical. So that went into the fund. The third piece of it was what was referred to as the "normal contribution". Now the normal contribution would typically be based on the number of potential retirees and the assets of the system and the actuarial retirement dates, how much would you need to deposit into the fund to pay people that retired. So that was the third piece. Now what pension funds didn't allow at the time, I don't know whether it was a drafting error in prior law or what happened, but the law actually required a normal contribution every year whether the funds were fully funded or not. Every private pension plan in the country can not make a contribution to their system if there are surplus assets in the system. The state didn't enjoy that same privilege.

John Whitman: Nor the taxpayer.

James DiEleuterio: Right, exactly.

John Whitman: Simple.

James DiEleuterio: So that was again one of the problems that we noticed. Also at the time, because if you recall, back in those years there had been a huge run-up in the stock market. Right, and I always give Roland and his folks credit. They did a tremendous job at investing the pension fund assets. And outperformed the market I believe every single year.

Governor Christine Whitman: Yeah they did.

Roland Machold: When I retired believe it or not, I had the best returns. Not I, obviously the markets give it, of any state pension fund even though we used no outside managers. We used nothing but civil servants for ten years.

Governor Christine Whitman: That's why we brought you back.

Roland Machold: <laughs>

James DiEleuterio: Well so again you had this situation where in essence tax payers were over contributing to the pension funds. And frankly looking back on it, I wonder if we had presented it that way whether it would have made any difference.

Governor Christine Whitman: We did not present it well.

James DiEleuterio: No.

Peter McDonough: We did actually present it that way. And Brian used the phrase "intergenerational tax equity." It rolls off your tongue but the idea was should the current tax payers pay to over fund the system to give people in the future a break. And that was all premised on the idea that the market would keep going the way it was going. But we did try that argument.

Governor Christine Whitman: We tried just about everything but unfortunately we tried it after we had basically announced what we were doing.

James DiEleuterio: Well that and the fact that I mean as much as I love Bob Littell his reaction of calling it "whacko" five minutes after it was presented also didn't help.

Governor Christine Whitman: No.

Harriet Derman: But Jim, I thought that the Treasurer presented that there was a seven hundred and fifty million dollar hole in the budget and there was no other way to fill it but this proposal.

James DiEleuterio: I still argue that we did not need the pension security proposal to balance the budget.

Harriet Derman: Well I have to tell you I flat out disagree with you. That Brian Clymer said there was no other way to balance this '98 budget except by using the pension bond proposal.

James DiEleuterio: I don't know.

Governor Christine Whitman: If you looked at the budget that was not the case and John Farmer had that discussion too, that we really didn't have to do it to balance the budget. We could have balanced the budget otherwise but it certainly helped. I mean no two ways about it.

James DiEleuterio: Yeah.

Harriet Derman: Governor, Brian Clymer said-

Governor Christine Whitman: I don't doubt you, I don't doubt you. I'm just saying that he's not-

Harriet Derman: That we would have to lay off a thousand state workers that we were missing seven hundred and fifty million dollars in revenue and when asked if there were other alternatives to fill that hole in the budget he said there were no other methods. I begged him for a one-shot.

Michael Torpey: Here's my recollection. You guys, if there was ever a time I thought my job was in danger working for the Governor, it was during this time as Chief Counsel on point with the Legislature trying to get this thing through. And my recollection is that in December, just prior to Christmas, Brian brought this to the table as a budget solution. Described as refinancing your home mortgage.

Peter McDonough: Exactly, shorter period of time, lower interest rate, shorter period of time.

Michael Torpey: And I think all of us were happy to hear something that would provide us with some budget relief at that point in time. So it all went away for Christmas holidays. At any rate we came back and we had, in fact, a bit of a challenge here. We had a hole that existed.

Governor Christine Whitman: Oh yeah, no we did, yeah.

Michael Torpey: Now we went forward. We did propose it. We did get undermined as Jim just referred to by Senator Littell after providing him with a private briefing with the idea that it would be held confidential. It did not remain confidential for five minutes. And that put us back on our heels from a public relations standpoint, right out of the gate. We then did include it in the budget. As I remember the finances were improving, though, during the course of that spring pretty dramatically.

James DiEleuterio: That's true.

Michael Torpey: And we had gotten almost to the point where we could have closed the budget. We were within two hundred million dollars, a number in my head, and we think we're within two hundred million dollars, we can figure it out. But then the Abbott decision came down and that blew another hole in the budget.

Harriet Derman: Two fifty.

Michael Torpey: And so that number tipped it back in the other direction.

Harriet Derman: Two seventy, I'm sorry, two seventy.

Michael Torpey: And we were at the point, we were pretty much at the point, I want to say roughly this was April, May early May of being able to withdraw it and then the Abbott decision came and it just was too much for us to bite off in the next six weeks and so we went to the mat and frankly it caused more political damage than any single action taken.

Roland Machold: It was misinterpreted.

Michael Torpey: I agree, yeah.

James DiEleuterio: I agree. Absolutely.

Roland Machold: They asked me to talk to the Democratic conference. They didn't want me to talk to them. They already had their public relations line, "She's borrowing money to balance the budget."

James DiEleuterio: Which they are still using. I heard a political commercial for Linda Greenstein on the way up here today and it was one inaccuracy after another.

Roland Machold: And I have to tell people that now first of all I said "How much money-- where did the money go from the proceeds of the bond offering and the like?" And they said "They used it to balance the budget." I said "No, not a penny went into that."

James DiEleuterio: No, it was all deposited in cash.

Roland Machold: All went into the pension fund. And then they say "Yeah, but then they invested in stocks and the stocks went way down." I said "No, we were selling stocks then, we didn't invest anything in stocks."

James DiEleuterio: As I'm sure Roland will recall better than most folks, within a day or two of actually producing the cash and depositing it into the pension funds is when we had a stock market crash.

Harriet Derman: Just before the election.

James DiEleuterio: In fact I can remember you calling me out of a meeting and saying "You have to have a press conference now."

Governor Christine Whitman: We made a good move, whew, we just got it out.

James DiEleuterio: Yeah the idea was, we had just deposited two point eight billion into the fund. And you had to explain to folks that you couldn't quite move two point eight billion that fast. The money was still sitting in cash. But let's talk a little bit about what the pension proposal actually did. One of the things that it did was to allow the state to use the value of excess assets in the pension funds, in the pension assets to reduce its normal contribution.

Roland Machold: And also the municipalities.

Governor Christine Whitman: Yeah, it gave them-

Betsy Pugh: That would be why you would say it filled a hole in the budget.

James DiEleuterio: Yeah in essence we didn't have as big a pension—more of a contribution.

Betsy Pugh: Right, that's big.

Peter McDonough: You didn't want to overfund the pension.

James DiEleuterio: That's exactly right.

Betsy Pugh: That's right.

James DiEleuterio: That's exactly right. But in any event for the first time it allowed our pension funds to be on the same par as literally every other pension fund in the country. Now, typically, the government doesn't allow a private pension fund to hide the profits by depositing them into the pension fund and that's why they do that. But in essence it was something that allowed us to reduce the normal contribution. What we also then did was use some of those excess assets to go back to that four and a quarter billion dollars in unfunded liabilities, reduce that to two point seven five, sell bonds for the two point seven five, create the cash, and have a repayment schedule that said okay, instead of eight and three quarters over sixty years, we're going to finance that two point eight billion, well it ended up being seven sixty-four I think was the total all-in cost, which at that time was a wonderful rate. <laughs> But over twenty-nine years. So in essence it was refinancing a mortgage at a shorter repayment schedule and a lower interest rate. Now again, many of the member employers in the pension funds, the state, the locals, whatever, were permitted to reduce their normal contributions over the next few years. Clearly we said over and over again, at some point, you're going to have to start making these normal contributions again.

Governor Christine Whitman: To pay back in.

Caren Franzini: _____ for years and they got into that habit.

James DiEleuterio: Right, now what-

Caren Franzini: _____ zero.

Peter McDonough: It was a hundred and seven million dollars in reduced payments to counties and municipalities in the first year.

James DiEleuterio: Right.

Peter McDonough: And you're right, Caren, they got into the habit and in many ways the state also got into that habit. And it's this sort of notion that threw the pension bond act into other steps that the Whitman administration quit funding the pensions. I mean the cold reality is, I think, that our pension level was one hundred and twelve percent.

James DiEleuterio: At that time.

Governor Christine Whitman: In 2000 when I left.

James DiEleuterio: In fact after not making the normal contributions for several years if you recall there was an S.C.I. investigation.

Peter McDonough: Right.

James DiEleuterio: Not of us.

Peter McDonough: S.E.C.

James DiEleuterio: S.E.C., I'm sorry. Not of anything that we did but into the actions that were taken afterwards. That when Christie Whitman left office, the pension funds were still a hundred and five percent funded. Meaning, if everybody in the pension funds retired tomorrow, there was more than enough money to pay all the pensions.

John Whitman: From the outside we never ever made the argument that we already had that four point five liability on the books. It was never-

James DiEleuterio: I don't argue, John that we weren't successful.

John Whitman: No but from the start without making that liability obvious, that it was in fact a state liability, we allowed the Democrats and anybody else who wanted to, to say that we had created that four point five billion dollars by doing this.

James DiEleuterio: I was accosted in South Carolina in a bar one night by a retired cop from New Jersey.

Harriet Derman: They said a lot of things and none of which are accurate but I don't recall their saying that the Whitman administration caused that four billion dollar deficit.

Hazel Gluck: Oh yeah.

Harriet Derman: I don't--

Hazel Gluck: I had to this day.

John Whitman: Nobody understood.

Harriet Derman: They don't understand it, but they cannot articulate it.

John Whitman: That it was an existing liability.

Hazel Gluck: That doesn't matter, perception is everything in politics. Who needs them to articulate, I'm sorry.

Harriet Derman: But the criticism that they give is not that the Whitman administration caused a four billion dollar deficit. The criticism that they give is enigmatic. They do not quantify it. They can't identify it. Would that they would say that were the cause. They don't know what she did. They just know she did something, but I'm not aware of people saying "She caused the four billion dollar deficit." Indeed, one of the problems was nobody saw this coming because if there were a four billion dollar deficit we assumed that the state workers, the teachers,

the firefighters, the police officers, would be ecstatic at the notion that that deficit was going to be filled. And the N.J.E.A., with whom we'd had a good rapport, they were neutral in the election. We had just come out of negotiating with them, Michael, and giving them two hundred and seventy million dollars we put in for the Abbott districts. They jumped on it right away. Dee Corona said "This is wonderful for our members. This is wonderful."

James DiEleuterio: But Dee Corona also said "What's in it for us."

Harriet Derman: But what did she get?

James DiEleuterio: She got two percent reduction in pension contributions for two years.

Harriet Derman: No, the C.W.A. got a half a percent. They got a half a percent. The C.W.A. got a half a percent.

Roland Machold: And they got better benefits too.

James DiEleuterio: Yeah.

Harriet Derman: And wait--

James DiEleuterio: I'm sorry, with all that said, I think what also became lost in the soup here is the fact that actions were taken after we were in power. The "and over 55" which was basically reducing the retirement computation from 60 to 55, cost billions of dollars.

Governor Christine Whitman: Yeah, I think that's something that first of all is obviously confusing, just by listening to the conversation here, and people's reactions to things. But also there were some very significant changes made after we left that exacerbated-

Hazel Gluck: Absolutely.

Governor Christine Whitman: Well there wasn't that problem because actually I can remember on that last budget when we were reconfiguring the numbers, on the last budget before I left. We were going back to the municipalities and starting to say "Gang, it looks like this is going to be the year." You're coming into this year or the next year. Starting to raise the flag that they were going to have to start paying in again. It was going to be back on the regular schedule because it looked like the budget, the economy was not doing so well.

James DiEleuterio: Frankly in the succeeding administration-

Governor Christine Whitman: The market wasn't doing so well.

James DiEleuterio: When it came time to start making their normal contribution again they bonded.

Governor Christine Whitman: They bonded it.

Harriet Derman: Governor DiFrancesco raised the contribution by nine percent.

Man 4: Yeah, nine percent.

Governor Christine Whitman: The fifty five to fifty and didn't they also lock in? Because we did it on a rolling three year average from the market, or five year. And they-

Peter McDonough: It was five and they mark-to-market.

Governor Christine Whitman: They mark-to-market, yeah.

Harriet Derman: There's more to this story. There's more to this story. With the C.W.A. we actually had a side agreement with them giving them some bennies. We decreased their pension contribution by a half a percent. We promised no layoffs. We'd limit privatization. And we guaranteed benefits of state workers with five years on the job, even if future benefits were reduced. We actually had a side agreement with the C.W.A. The N.J.E.A., they were onboard right away. What was strange in this whole scenario and what caused us problems was the A.F.L.-C.I.O. Young Charlie, Charlie Marciante, I'm going to use my words carefully, for some reason he

jumped on board against this. He used very aggressive language. Very negative language and it was always very mysterious why he was so opposed to what was good for his members. Why was he- I'll tell you afterwards why we think he was opposed to it. But he had his own motivation and he ginned up the legislators to oppose it, but we got it done. It wasn't easy but once it was out there it had to be done and we did get it done.

Judy Shaw: Wasn't there another aspect of this also? They make it look as if it happened during the Whitman years.

Hazel Gluck: Yes.

Judy Shaw: But wasn't there an action taken during the Florio administration where they postponed some requirement for payments that again would have come due in what he thought would be his second term?

Peter McDonough: We had a three hundred million dollar cliff.

Governor Christine Whitman: We had a couple of cliffs.

Peter McDonough: But to John's point.

Judy Shaw: But that gets lost.

Peter McDonough: It all gets lost because whether it's the four billion dollar hole or the cliff that was coming, did it fit into the narrative of people who believed that you couldn't cut taxes and balance the budget. If you cut taxes and try to balance the budget, if you fundamentally believe that that can't be done, then how do you patch it? You patch it by some credit card scheme. And I remember on the Chamber of Commerce trip the little Whitman credit cards. Whitman Express Credit Cards that they had—the Democrats were handing out that was trying to make the case that we were borrowing to cover, generally borrowing to cover up, to pay for cutting the lawn essentially. And this just fit into that narrative whether it was by the Democrats or by a skeptical media or big thinkers. It just fit so perfectly. And our explanations were anything but crisp. God bless Brian. His explanation changed on a daily basis. And finally one of us had to hammer the table and say "Stick with the mortgage." Because it's something that people could understand.

Hazel Gluck: I think that sitting on the outside, I have to say, I'll tell you an anecdote. I went to a barbeque at my neighbor's house about three years ago. We got into a discussion of politics which should have never happened, and one guy there said "That Christie Whitman..." Well you know my hair went, "That Christie Whitman, she borrowed money from the pension fund and she left it with a deficit." And I said "That's absolutely not true," but I couldn't give a simple, not that I understood it, but I couldn't give a simple explanation as to what happened and I think that was a problem because I really don't think that this lady has ever gotten the credit that she deserved for this administration and I sit on the outside looking in and I say what?

James DiEleuterio: You want to know who borrowed money from the pension fund?

Hazel Gluck: Who?

James DiEleuterio: Jim Florio.

Roland Machold: Yeah and the courts came and said "You can't do that."

James DiEleuterio: And the courts came and said "You have to put that back."

Hazel Gluck: Well it's no good for me to know now. I mean-

James DiEleuterio: And that was the cliff.

Hazel Gluck: I always said to Christie every time I saw her "You know there's something between being an Anglo-Saxon Protestant living in the hills and being a Jewish kid from Brooklyn, okay? And in between there somewhere, you have to make a case for yourself."

James DiEleuterio: Well again, you know-

Hazel Gluck: Don't be so self-effacing.

James DiEleuterio: Let me just summarize what has taken me fifteen minutes to explain and again, you go back to the idea that this was a liability that was down below the line, of four and a quarter billion dollars, that the governmental accounting standards board said you've got to move up to long-term debt guys. Now granted, you didn't have to do it right away but-

Governor Christine Whitman: We did it. We chose to do it right away.

James DiEleuterio: Right.

Hazel Gluck: Okay.

James DiEleuterio: So we eliminated a four and a quarter billion dollar below the line debt. And yeah, we increased long term debt by two point eight billion, but instead of sixty years it was twenty-nine years at a lower rate of interest.

Hazel Gluck: But nobody knew that.

John Whitman: Too many things happening at the same time. You started out, Jimmy, saying it's too complex to say we've got a liability, we're going to fund it, and then we're going fund it cheap.

Hazel Gluck: No but you get a dope like me, maybe they can put it into dopey language.

Governor Christine Whitman: Suffice it to say we just didn't do a good job.

James DiEleuterio: I was just going to say a couple more things. I'm sorry.

Michael Torpey: I don't mean to make this sound trite. If one of the purposes of this Center is to inform future governors and learn something, well the message from this is too complicated in an election year, period. I contend that if we did this the next year it would have been fine. We wouldn't be talking about it. It would have been a little controversial, we would have gotten through it. The problem was that in an election year because of its complexity and the ability for it to get picked apart, we tried every single explanation we're talking about here.

Governor Christine Whitman: Oh every explanation, we tried.

Michael Torpey: But the problem was it was just a target-rich environment for our political opponents, and even for those who might not have been opponents but ones who were a little skittish about their own reelection prospects and I'm talking about certain Republican legislators. And the combination of things just made it deadly. It just made it deadly. Too complicated in an election year, a year later it wouldn't have been a problem.

Peter McDonough: You know there were three parts to the proposals and three bills that made up the proposal as I recall and in most of your opponents, our adversaries in the legislature including Jim McGreevey voted for two of the three parts, but not the ultimate funding mechanism. Which is kind of how we got to the situation we were to begin with.

John Whitman: But remember, the reason for that was the stock market was particularly good at the time and you told me you didn't want to miss it because you were going to take the two point eight and put it into the market whereas if you'd waited for another year it turns out looking at your analysis if you'd waited another year or so it the market might have gone away.

James DiEleuterio: In fact when we marked-to-market we said we don't want to take all the value out so we're going to go to twelve months ago and that's what we're going to mark-to-market as.

Governor Christine Whitman: Yep.

James DiEleuterio: Well frankly, John, other than you and Roland and a few other folks at this table, who the hell understood that?

Harriet Derman: I understood it.

James DiEleuterio: Yeah, no I mean that to be argumentative.

Governor Christine Whitman: No but the average person. No he's talking about the average person.

Carol Cronheim: Can I just say that I had to explain it as a speechwriter. I have a speech right here from April 11, 1997 and it's two short paragraphs and still it just seems like what? And we begged, we talked to everybody in Treasury and I think the three of us, by then it was four of us I guess, we pretty much we just kept saying "You can't do this. We can't explain this at all." All we were getting were blank stares. Nobody could get this. And I think if we're looking at a lesson too because it kills me because I feel like they have to criticize you on this because later elected officials feel they had to be bipartisan. So the zeroes were terrible so they have to take it down to the nineties. And so this was the thing they hang their hat on and they always say it wasn't to balance our budget. Now they say it's to pay for your tax cuts. But I think the minute we took one dime for cost avoidance or "budget balancing" or anything like that was a policy mistake because then they were able to say "You balanced your budget with it and you mortgaged your house to pay for your groceries." And that stuck. People understand that. Don't mortgage your house to pay for your groceries. You couldn't beat that. We had no language. We tried. Pete tried because by then I think we were still in policy planning but it was impossible to talk about.

Roland Machold: Yeah I can add a few things to this, one of which is it got worse because the market continued to go up. So the so-called surplus after the deal was done increased which in effect put more money into the hands of the municipalities and so forth but also it in fact embedded something that probably should have ended sooner. The people who were convinced here were the rating agencies. We went to the rating agencies.

Harriet Derman: I'm glad you brought that up.

Roland Machold: Excuse me?

Harriet Derman: I'm glad you brought that up. That was another political.

Roland Machold: Well the rating agencies knew what was going on.

James DiEleuterio: We got our ratings fast.

Roland Machold: And we were upgraded I think four times by small increments during this period of time.

Harriet Derman: With respect to this proposal do you remember there was an incident with Standard & Poor's?

Governor Christine Whitman: Yeah but I talked to them. I talked to them on the phone and they didn't downgrade us. We got three-

Harriet Derman: No, no. They reassigned somebody. Who was it had been assigned to New Jersey?

James DiEleuterio: Sy Grossman.

Governor Christine Whitman: I had a little chat.

Roland Machold: His son was working for somebody.

James DiEleuterio: Not that this is determinative but there's a publication called *The Bond Buyer* that is an industry publication. This got the deal of the year.

Carol Cronheim: But this should have discredited the bond agencies and be criticized for where were they the last four or five years when things were totally off the rails and they were saying _____

James DiEleuterio: Well I will tell you that given the same set of circumstances, I would recommend this again.

Roland Machold: And the S.E.C. also looked at it because they were concerned with what would be the arbitrage. That was always an issue and they gave it a pass. There was one issue that isn't mentioned here which is that Doug Forrester had set aside four hundred and forty million dollars for prefunding medical expenses, and what we did then was we looked around, we talked to our actuaries, and they said "Nobody does that in the private sector." So that money was taken back directly as far as I remember. I wasn't on the inside on that but I believe that small portion was taken back and put into the budget. Nobody ever talks about that. Just as well. <laughs>

Mark Maygar: Currently the unfunded liability on that, retiree health benefits is as large as the pension liability. Yeah.

Roland Machold: I have a little chart here, which I only have five copies of, but I don't know if there are five people who want it, but I should pass one down to Christie.

Judy Shaw: We should have one for the archives.

Roland Machold: Do you have this one?

Judy Shaw: No, but I'd like to have it.

Roland Machold: Yeah but this is from *Fortune* magazine so it's not an in-house thing and when she returned we had a surplus. When I retired we were beginning to have a surplus <laughs> but any rate. Here are a couple of them. I'll give one to Jimmy and whoever else wants one.

Judy Shaw: And in terms of the archives also we talk about the Whitman administration it really was a seven year administration. There was a year that followed where a number of incidents-

Governor Christine Whitman: Decisions were made.

Judy Shaw: Occurred, decisions were made that frankly had a negative impact on the record as it stood when Christie walked out the door and unfortunately when they talk about the Whitman administration they talk in terms of all eight years when in fact the last year the word "shenanigans" was used before. There were a lot of shenanigans, again a political year that impacted her and didn't actually impact the person who had caused them which I think is most unfortunate. I just wanted to say that for the record as well. Let's move on because I definitely want to hear from Caren. I know she's got some good information where you talked a little bit about the privatization piece, Caren. But if we could talk a little bit about the role of international trade, the Port Authority regional cooperation, and then down into the BIEP grants and technology funding that should bring us full circle.

Nancy Becker: Can I just before you start, Caren, Jim and I put together something that came from a simple one page from the *Annual Financial Report* from 1997 which is in your packets that tries to explain the pension bond issue.

Judy Shaw: Do not read it now.

Nancy Becker: No.

Judy Shaw: We're beyond that subject.

Caren Franzini: I'm glad I'm following that. We issued the bonds for it and tried to talk about it as well. So on the economic development piece I thought I'd kick off a little bit about international trade but then talk about three programs that I think were really milestones, after some of the policy initiatives that the Governor set forth. On international trade, New Jersey, not since Governor Kean had thought globally until you, Governor. We had a dry period and I think when we look at the economy, it was the first time really thinking about the economy from a global perspective. How do we grow the New Jersey economy not just by stealing from New York but by stealing and growing companies when they decide to land in the U.S. Have them land in New Jersey, not just look at New York or California or Boston. I unfortunately did not have the opportunity to go on any of those trips but I know they were successful in Israel and in South America and others where the whole focus was really about growing the economy by growing internationally. I'd like to talk about three program areas because I think they're important in terms of setting the stage to implement policy recommendations and I'll quickly just describe them. And also the beginning of incentives nationally in the U.S. Incentives weren't a big deal in terms of competing to get companies, but they became so. Three programs just quickly. One is the Business Employment Incentive Program. (We have to come up with better names.) That was known as BEIP. And BEIP was a program that the Governor had heard about from another state. Let's bring that good idea to New Jersey and the difference was in Ohio it was a tax credit, in New Jersey it was a grant. And the BEIP was a grant, a reimbursement of new income taxes collected by the state. So it was a reimbursement. The key was that new jobs had to be created. The C.E.O. had to say that, but for this incentive, we would not create new jobs in New Jersey. So it was, I think, John and I were talking earlier, the Jersey City waterfront at this point in time owes a lot of its development to this program. We saw the back office emerging out of New York into the Jersey City waterfront and all those companies took advantage of the program. So it had two key factors I think were important. One it really gave a greater reward to higher paying jobs and it gets to where Dean Hughes started us. We were losing manufacturing jobs and the target was really how do we get high paying financial services, pharma, technology jobs into our state. It focused on that. It also made companies commit to staying in New Jersey one and a half times the amount of the grant which was key so we got them in for ten years. They had to commit for

fifteen years, so we got paid back in the last five years of the grant because we got full taxes.

Governor Christine Whitman: And it also differentiated the number of jobs we'd have to create in order to qualify depending on whether you were in one of the special needs districts.

Caren Franzini: Exactly, so it was targeted based on industry types. So technology was only ten new jobs and every other company was twenty-five.

Governor Christine Whitman: And also the community in which it was located. It was low-income community, you'd get more.

Caren Franzini: Right. So it had the policy criteria. It wasn't just everyone gets it. It was a policy criteria, the bigger the grant, if you were in an urban setting a vacant residential. That to me was the key fact since the program was created in 1996. It's actually ending this year. It's ending December 31st of this year. But until last year the program created over a hundred thousand new jobs in New Jersey assisting over five hundred companies, and I think the most important was twelve point five billion dollars of private sector investment in the state. That was that program.

The second program which does not get a lot of recognition but I think is equally important, it has a horrible name but it's the Tax Certificate Transfer Program. This program was key and was for the biotech industry. As we were losing pharma jobs the biotech industry was just starting to emerge as a new industry and this program was all about getting tax credits to biotech companies to create new jobs in New Jersey. We knew it was great because every other state was coming to us asking for a copy of the law, but I will recall one funny story. The law was created and it was all about pharma jobs and but it was all about trying to get biotech companies to be in New Jersey. And we were about to go to the E.D.A. board for the first approval offering the program. The program was created in 1997 so Jim, I think you were the person who called me. And in the audience we had J&J, we had Merck, we had all these big companies coming in to take advantage of the program. When the program first passed there was no size determination. So all these big companies pharma came to our board meeting. We had worked with them, got the application. Literally five minutes before the board meeting I got the call from Treasury "Don't take this program to the board. Don't take these companies." I said "You got to be kidding. We got J&J, others." It all got vetted, it's all fine, it's fine. "Don't take it because I'm going to have the Governor veto the minutes." I said "Okay."

Treasurer says don't take it. We don't take it. We ended up changing the law to say it really wasn't meant for these big companies. It was meant for the smaller companies and we got everyone to buy into it and the law was changed to say you had to have two hundred and fifty or less employees. But one of the companies you helped, the gentleman couldn't be here today is Rich Bagger and Celgene. This company was on the verge of going under. They had two weeks left of cash. They took advantage of this program to sell their losses. What it did is allow biotech companies to sell their losses for cash to profit making companies in New Jersey. They are now the second largest worldwide biotech company and it was this program, Governor, that saved them and really created a wealth of biotech.

And the third I think we kind of talked about the high paying jobs. We talked about tech jobs. The third was so important. I spent a lot of time. That's how I got to know Jane on urban initiatives that were so important to you. And we looked at Brownfields as a really important way of helping the economy by utilizing sites. One of the projects we worked on was Jersey Gardens Mall which was a huge project and it was so emblematic of your administration because we got everyone working together. It was D.E.P., it was D.O.T., it was Treasury, it was E.D.A., it was the locals and all sitting to get something done. I think the work around taking underutilized sites and making them profitable was another key factor. So those were the three I think that spoke a lot about your leadership and what we got done.

Judy Shaw: Caren, any sense about working with the Port Authority? Was that a role with E.D.A. or was that pretty much outside of your purview?

Caren Franzini: Yeah I think it really was not at that point in time. The Port Authority was out of economic development per se and really into the port operations but not something we worked with.

Michael Torpey: Yeah, my experience with the Port was in the second term and it was really not the most productive relationship we had. And I don't know whether you really want to get into that or that's a subject of a second term roundtable discussion but in the second term there was a fair amount of conflict that occurred directly with New York. Their interest and ours were not aligned. We were held up on a major lease deal for _____.

Governor Christine Whitman: For dredging.

Michael Torpey: Yeah, dredging. It was just really-

Peter McDonough: Toll increase.

Michael Torpey: It was a very difficult relationship and yeah. The New York Governor-

Governor Christine Whitman: The Governor and I had conversations but those didn't go anywhere.

Judy Shaw: I think there was an expectation when you were elected that we would have Pataki and Giuliani and you, who was the player on the Hudson River waterfront and it was all Republican and somebody thought for the first time-

Carol Cronheim: Schundler?

Judy Shaw: We could- maybe it was Shundler. That's exactly what it was and everybody thought that this would be a great quartet for finally brining the potential of the Port Authority together to the mutual benefit of both states.

Governor Christine Whitman: We tried.

Judy Shaw: I know we tried.

Governor Christine Whitman: We tried.

Michael Torpey: The premise was all wrong mostly because Pataki and Giuliani could not get along at all. There was a constant political battle going on between them making it difficult for us. There was a perception as to whose side we were on in those types of fights. It was really at any rate very difficult.

John Whitman: We got to remember that Giuliani, the Mayor of New York, was not included in the Port Authority-

Michael Torpey: That's right.

John Whitman: For very major reasons.

Hazel Gluck: Right exactly.

John Whitman: Because my grandfather set it up in the first place. And it was explicit that you keep the Mayor of New York, and by that nature any other mayor that has nothing to do with it, out of it. So it was always just between the two Governors.

Governor Christine Whitman: Well you tried to tell when Giuliani

Peter McDonough: It would seem from the press standpoint that anything that we were doing with the Port Authority was more important to New Jersey than it was to New York. So Pataki was always willing to walk away from the table when we really needed this stuff because everything is in your backyard in New Jersey and if you happen to be George Pataki in Westchester County with a summer house in Lake Champlain and you're stuck up in Albany, they would just walk away from things that we needed.

Governor Christine Whitman: They weren't important to them.

Peter McDonough: They weren't important to them.

Governor Christine Whitman: You try to see that the economic growth benefited both sides but that didn't always translate that it would be the city and because Giuliani and Pataki didn't particularly get along that wasn't always in the Governor's best interest to enhance the city's revenues.

Michael Torpey: And to the point that John made about the Mayor of New York not explicitly being eliminated from the consideration of the Port, it was a political punching bag for the mayor as well so it was always an opportunity to this day, it's an opportunity for the Mayor of New York. You want to beat someone up? Beat up the Port Authority and so at any rate that was again not the most in the second term, maybe in the first term. I frankly didn't have much dealing with the first term. Second term not so productive a relationship.

Hazel Gluck: If it makes you feel better—I mean when I served on the Port Authority there was always that imbalance. We were always fighting to get more for

New Jersey because the perception was that New York always got more. That imbalance or that perception of imbalance has been there for a long time.

Judy Shaw: Alright, Pete, are you ready to give us a report card of our hopes and aspirations and best laid plans? How did we do?

Peter McDonough: Well I think we did well. It's just a funny position to be in.

Governor Christine Whitman: Why, you give reports all the time?

Peter McDonough: I know I do.

Governor Christine Whitman: You grade students all the time.

Peter McDonough: But I'm looking at all of our advanced ages and I'm realizing that I'm sitting between us and when the Meals on Wheels gets to our homes.

Participants: <laughter>

Peter McDonough: The difficult part is being next to last going before the Governor because you've all talked about the successes. I think this, right here, this was the campaign book from 1997. So we're four years in deciding what are we going to run on? And this is it. This is promises made, promises kept. Not promises made, promises I hope to keep if you elect me Governor, but this is the promises that were made, they were the promises that were kept. And we're talking about the economy today and taxes. Okay the big promise was the tax cut and why was that scoffed at? You know it was received cynically, skeptically. Well maybe because in 1965 Richard Hughes said "I see no need for a sales tax." And in 1973 Brendan Byrne said "Not for the foreseeable future would there be an income tax." And in 1980 riding on the wave of the Reagan sort of revolution if you will, Tom Kean saw no need for an increase in the sales or the income tax both of which he increased. Jim Florio said he saw no need for tax changes and two point eight billion dollars later he faced Christie Whitman. So the public had been sensitized to candidates for office breaking their promises.

So how surprising was it when the Governor midway through her inauguration has Peter carrying a little Executive Order up there and signing it and she's keeping a

promise retroactively. And then the tax cut, she promised would create four hundred and fifty thousand jobs. Certainly the economic policies, by the time Governor Whitman left office, had created over five hundred thousand jobs. It's not taking credit for it. I think you can certainly take credit for chasing people out. I don't know, you can really take credit for bringing them in. But it happened and you should get credit for it.

Privatization, you promised to right-size government and that happened. On property taxes, although Governor Whitman would be the first to say, state government doesn't raise a penny of property taxes and shouldn't be responsible, doesn't spend a penny of it or some version of that. The fact is you did reign in property taxes and gosh when the legislature was talking about the Governor, this Governor early on in his first term here were breathlessly waving around a four percent property tax cap? That was higher than your average in property taxes which was three point two percent I believe. Put that in by comparison or put that against your predecessors. During Jim Florio's time when the income tax was cranked up dramatically, his average property tax increase was five point four percent. During Governor Byrne's time when he created the income tax to offset the burden on property taxes as we all remember; property taxes increased six point one percent. During the Kean years property taxes averaged an increase of nine point six percent. That's a lot of money. That's another promise that you kept. I think when I look back, I looked back at our polling data and polling data that went from midway in the first term. If you all remember I was in the Treasury and then I got put on work release for about six months up on the fourth floor and then was brought down to the first floor. From that point forward looking at the polling data, the highest numbers that you had were all about personal qualities. It wasn't whether you agreed with the auto insurance plan, the pension bond deal, the tax cuts. It was she understands things that affect me. She's honest. She keeps her promises. Those drove all the reelection effort. Those numbers, that's like the right track, wrong track stuff and that's a credit to not only I think the way that you carry yourself, the fact that you are markedly different from all of your predecessors, and the least difference was gender, by the way in my opinion, although you are dramatically different from them in a gender kind of way.

Governor Christine Whitman: Glad you recognize that.

Peter McDonough: No, I think people were used to being fooled and I don't think you tried to put them through that and the polling data indicates that. This was a little thing we put out. Now we weren't going to let this get away from us without trying to capitalize on it and this was a piece that we did for the 2000 Republican National Convention because we wanted people to very quickly be able to

understand what the Whitman record was about. In fact I think we had ten thousand of these made up. These are not cheap by the way. They are die cut and we had to slide all these things in and we had to make sure it was all true. That was the way we were and it sort of lays out, I can pass it around, and it does in areas where you kept your promises, what you committed to do. This is just on economic matters here today but it goes to reforming welfare, there's two hundred and fifty-seven pages of it. You kept your promises. You kept your promises in a way that no previous governors had and I don't know if future governors will at all. You set the bar very high for yourself by opening up with this "I will not tell a lie; I cut down the cherry tree" thing and sort of opening up your inauguration saying "I am going to keep my promises." Raised and set the bar incredibly high for everything else that you did. I was looking back through the press coverage. It was very typical to measure your performance on an annual basis to the promises that you made. I go all the way forward to 1998 after your second inaugural address. You made thirty-four specific promises in the 1998 inaugural address, and in August of 1998 Ron Marsico did a front-page story for the *Star-Ledger* grading you on how you were doing on those thirty-four promises and we had either kept, "we," the administration had either kept the promises, established, the policy, or we were seventy-five, eighty percent of the way so I give you an A. Does anyone want to vote on that?

Participants: <laughter>

Governor Christine Whitman: Thank you, Peter. Okay well once again thanks everyone for being here for taking the time to do it because I think the thing we ought to recognize is hopefully that there will be something in this somewhere for future people who are considering becoming Governors or people who are starting that journey to learn some lessons. Obviously I think it's pretty clear from the kind of discussion the sort of dynamic that went on in the administration which was to let people- let's hear from people. Let's hear people disagree, agree, but let's have the full discussion and that was always important to me and certainly around the budget which was something that was enormously complicated, had a lot of parts to it, was a pain in the neck when we did it line item by line item. Betsy would come and say "You can't do that." I'd say "Well I want to do that, dammit!" "Well you can't do it." But anyway it takes a lot of people to make anything work and that's what's important. It's the team that does it so most of the people, everybody around this table was part to one degree or another directly with the budget or indirectly, because we touched on the campaign directly, with the campaign and indirectly with the budget. But it takes a team to make it work and in my mind it's always taken a team of people who had their own ideas as well and what you do is you try to set the policy goals of where you want to go and how you want to approach those kinds of things and then let other people who are smarter than you

are tell you how you get there. And so hopefully in the course of the discussion for the purposes of the archives it's been useful. And I just thank everybody for being willing to spend a day doing this and contributing to it and hopefully since it's all of our legacy it's a good thing to do.