Governors and State Finance: Kean Administration

Transcript of Excerpts

Interview with Governor Thomas Kean
June 23, 2010
Interviewed by Michael Aron

Michael Aron: What did you say about taxes in that campaign?

Governor Kean: I was against them. I didn't like taxes, but I said, "You can't get rid of the income tax," but we're going to-- actually I said we've got to have a tax position here that's competitive. At that point a number of people, very much like now, a number of businesses had rated New Jersey as one of the worst states to perform in, and part of it was taxes; part of it was just climate; part of it was they didn't think they were treated very well. And the economy was the issue in a recession. And we had an economy that was really going downhill, and you could see jobs disappearing almost week by week. And so every single thing I said in that campaign had a basis in the economy. I talked about the environment. I talked about the environment in terms of having a place people wanted to live, that if you didn't preserve open space, and have clean water, clean air, and so on, that would attract businesses and attract people. I talked about exploding the budget on tourism. I talked about it because it was our largest employer in the state, and we couldn't let that go. We had to keep it. I talked about the arts. I talked about bringing in three dollars for every one that you spent on the arts, and why we were so cheap on the arts, how much it was hurting particularly urban economies. I talked about cities. I said if we don't revive the cities you're never going to really revive the state's economy. If you're really going to do it, you got to start where the people need the jobs the most, and that's the cities. And every single thing I talked about. I talked about education in terms of the economy. I'd always been interested in education, but I talked about, you know, if you don't educate-- the one thing that we have in New Jersey is we have an educated citizenry. That's how we compete with the right to work states in the south, because even though we have higher salaries, and higher pensions, and all of that, it's a much more educated workforce, and we can show that, demonstrate it. So education is very, very important, particularly education of people who are economically disadvantaged, because we're wasting them otherwise, and the economy is going to have to take educated people. And so everything I said about higher education, about the nexus between higher education and the research facilities in New Jersey, the drug industry, all of that, every single thing I said in that campaign had its roots in bringing jobs back to the state, some of them long term, some of them short term, but everything.

Michael Aron: Is it possible to say what Florio was offering the public, or what issue he highlighted?

Governor Kean: My memory is Jim was fixated on Washington. He was very, very opposed to Reagan's economic policy, just thought it was wrong. That's what he wanted to talk about. So we ended up that first debate, a lot of the debate was on Ronald Reagan, not about the state, and what Ronald Reagan's, what supply side economics was.

Michael Aron: Were you a supply sider in that campaign?

Governor Kean: Oh, yes; oh, yeah. I was one of the first supply siders in the country at that point. I had read Laffer. I had read all of that stuff. I believed it. I mean, I believed it. I still believe that if you don't stimulate the supply side, particularly in states, it's not going to work.

Michael Aron: If you lower taxes you increase revenues?

Governor Kean: You can, yes, yes, and just the opposite. If you raise taxes, particularly beyond that of a neighboring state, you lose revenues, and that it's very much a balance. I always felt, and don't know if I said this in the campaign, but I always felt as governor when I needed to worry about taxation, I'd always look at what Connecticut was doing, Pennsylvania was doing, New York was doing, because it was the states around us who were competing. Somebody wanted to move down to a right to work state in the south, you couldn't compete with that if that's what they really wanted to do. But particularly when people leave New York City, a lot of them don't want to leave the area, so it's New Jersey, or it's Connecticut, or Pennsylvania, or one of those states, so I always looked very carefully at what their tax structure was, and made sure that our tax structure was just a little bit below them, and that's what I meant by supply side in the states. I'm not sure it always works in the federal level. In the states it does. You've got to make things incentives. People do operate on incentives, and if you're thinking about locating a business here, one of your big costs is taxes. One of your big costs is transportation. When you look at what the costs are, and if you can make sure those costs are lower than neighboring states, you help enormously. I mean, when I was elected it was the middle of the, say, the worst recession since the Great Depression. We had a billion dollar budget deficit, which in those days was a lot of money. I cut a business tax or two in my first year in the face of that just simply as a sign to the business community that things were changing, and we had to start to do things to get them back interested in the state.

Interview with W. Cary Edwards
December 22, 2008
Interviewed by Michael Aron

Michael Aron: In your first year in office, you had to hike a tax, and I think Kean proposed one tax increase…

W. Cary Edwards: Gas tax.

Michael Aron: … a gas tax.

W. Cary Edwards: In the first budget.

Michael Aron: And the legislature turned around and made him hike the income and the sales tax or one of the two? They rejected the gas tax?

W. Cary Edwards: Our first budget was $188 million in the deficit. That was a lot of money in those particular days. As best we could put the budget—I could put the budget together with the people from budget and accounting—this was before we created OMB—we proposed to dedicate a $0.05 gas tax to fund transportation projects. We were unable to get the votes necessary to pass that, and it failed by one vote, passed it in the assembly, and we lost it in the senate because Republicans wouldn't put any votes up, not to Democrats. And Carmen Arecchio and John Russo would not oppose the bill unless we put up like six Republican votes, and the Republicans were one vote light on a Monday. By the time they came back on Thursday, they were worried about passing a tax in this no-tax position, and so we lost the gas tax. So we had to cut government, significantly reduce the size of various programs, which we did, and we did it through the line-item veto when the budget was passed, and we did something else very significant. I got together with Mike Cald , who was still in the AG's office, and we crafted a line-item veto package where we line-item vetoed every particular and specific type of appropriation that you can do, knowing that that would aggravate Alan Karcher significantly enough that he would file suit against us to overturn us in abusing our line-item veto power. The case is now referred to as Karcher v. Kean, and it's a seminal case on the power of the governor to line-item veto language in the budget. If you have an appropriation that says you shall not spend any money on this project, we can scratch off the "not" and say, "You shall appropriate," which means it gave us the ability to rewrite that budget literally and structure the spending programs for the state the way we want. We won that case in the Supreme Court. What winning that case did was allow us to reduce the budget the way we wanted to reduce or we thought we had to from a priority perspective, which ran right into the Democrats' face. And by December 31 of our first year, they were trying-- we had called the legislature back into session to deal with certain shortfalls and program problems, and we had ordered them back, which the governor has a right to do. They'd come and object and walk out. They'd convene and leave. There was a battle going on between us and the Democratic legislature about modifications to our taxing policy and our spending policy that we thought were significant. We had commissioned various studies about our taxing structure in New Jersey and what affected our economy and what didn't affect our economy and what taxes, if they were passed, would affect us and what taxes wouldn't. So we had standing to know how we were going to effect our economic growth. Ultimately, by about four a.m. on December 31, I arrived at a deal with the legislature that the governor reluctantly said he would sign that modified about eight or nine taxes, reduced a couple but raised others, all in conformity with this study, these economic studies, about what would affect the economy and what wouldn't. If you raise the sales tax above a certain amount, you lose money. We knew what all those numbers were, and that was what the real debate was. If they wanted to restore the dollars, we would listen to them, but they would have to do it within the confines of this definition that we had laid out.

Michael Aron: As I recall, I think you had to hike the top limit on the income tax a little bit or--?

W. Cary Edwards: Sales tax.

Michael Aron: On the sales tax.

W. Cary Edwards: We did not change the income tax.

Michael Aron: You did not change the income tax.

W. Cary Edwards: And there was estate taxes we reduced, some taxes that we increased. There was a package, and I don't remember all the details of it, but I do remember it passing at the end of it, and Tom-- this was the debate that Tom and I had had. I was communicating with the legislature for months now and things we'd accept and we wouldn't, and it was a really solid give-and-take on that. There was finally an agreement. I remember Chris Jackman [Democratic Assembly leader] was one of our go-betweens, as a matter of fact, in the legislature, and he eventually passed out, and they took him out in a stretcher and put him back, and oh, it was a wild night. I had 102 temperature. I had the flu that night, and Tom came. In the final analysis, we passed the bills at 8:30 in the morning. We had stopped the clock because various taxes-- alcohol, cigarette taxes-- were part of it that took effect on January 1. And I'll never forget sitting in the Assembly chambers, and I had talked to Willie Brown. Now, Willie Brown was an ardent objector to the sales tax, being from Newark. He had a whole lot of philosophical. I said, "Willie, we've been doing this for four months. I've got a fever. Don't get up on the floor and say anything." And I remember the Assembly chairman's little bench in front of the speaker's party. I'm sitting on the bench waiting for this vote to finish. They called for various people to speak, and it had all been orchestrated at that point, and Willie raised his hand and gave a 30-minute dissertation on the sales tax. I went up to him later, and he smiled back, and he said, "I couldn't help myself," he says, he couldn't. Kind of the atmosphere that was going on at the time, there was a knowledge that we had arrived in agreement, not one that everyone was happy with. We took the bills back to Tom. He had been sitting in the office all night, and he went out and had a press conference, and he held his nose and signed the bills…

Michael Aron: I remember that.

W. Cary Edwards: … because he objected in that political environment to raising those taxes or taxes other than very specific ones for projects, like the gas tax. But he said he would sign them as a matter of compromise with the legislature, and he did, and it was part of that ongoing give-and-take we always had with Alan Karcher and John Russo and Carmen Arecchio.

Michael Aron: I can't remember whether he literally held his nose…

W. Cary Edwards: He did. He did.

Michael Aron: … or whether he said, "I'm signing this while holding my nose."

W. Cary Edwards: No, he held his nose. He actually held it. He actually held it.

Michael Aron: That must've been a picture in the papers the next day?

W. Cary Edwards: Yes, it was, and he really had meant it.

Interview with Governor Thomas Kean
July 12, 2010
Interviewed by Michael Aron

Michael Aron: I also remember from the first year that the tax issue was a big issue in your first year. You had wanted to hike one tax and the Democratically controlled legislature had said, "No, that's not the tax we're going to make you hike."

Governor Kean: Yes, that's right.

Michael Aron: Is that correct?

Governor Kean: Yes, yes, it's a—

Michael Aron: Can you tell that story?

Governor Kean: Yes. We had—I'll tell you, this was a terrible recession we were in. And now it seems fashionable always to say that whenever you have a recession, it's the previous governor's fault. But I never—I don't think I ever blamed it on Brendan. But we had a billion dollar deficit; which in those days was a lot of money. I don't know what it'd be equivalent to now but-- three billion or something, I don't—but it was a huge deficit; and growing. And Ken Biederman would come into my office about once a week and he'd say, "We're down another 150 million" or "We're down another 200 million." And it just seemed like drip, drip, drip; no matter what we did, the state was going—and it was not just—it wasn't the budget that we were working on, it was the previous year's budget that wasn't in balance anymore. So we not only had to come up with money for next year's budget, we had to come up with that year's budget. And so I met with a number of people on the problem, and it was—and I had one choice; two choices rather. We either had to find some new revenue or we had to cut aid to the schools; because, as it is now, that was such a major portion of the budget. So we cut—I had a whole—we did every economy we could. I started something called the Governor's Management Improvement Commission.

Michael Aron: The Governor's Management Improvement Plan, GMIP.

Governor Kean: GMIP. And for GMIP the idea was—it was headed by the leading CEOs in the state: the head of Johnson & Johnson, the chairman of Johnson & Johnson; the chairman of—I think then it was the company in Newark that was huge then—Bob Van Fossan—Mutual Benefit.

Michael Aron: Mutual Benefit Life.

Governor Kean: Mutual Benefit. And there was a third one. But anyway, it was the top CEOs. And then they got the other CEOs. So the whole business community bought into it.

Michael Aron: Was Al DiSolo your manager?

Governor Kean: Yes, Al was the guy in the charge of that. And the idea was that they would send people in. The business community would donate people to every single government department and agency, and they would work for—I don't know, what, six months?—I don't know how long it was they would work in that agency. At the same time, everything would be made transparent. So we'd turn over the whole budget to this group of CEOs and their staffs and everything else, for their suggestions. And at the same time, on the other side of it, we had a number of top state workers who went and worked for the private sector for those six months. The idea was for an exchange. And that worked enormously well. I mean, the state employees learned a tremendous amount. I remember the CEOs saying, "Yeah, well, people tell me those are really good people, and we didn't know you till then." They didn't understand how good state employees were, how able these people were. And so that worked well on both sides. And they did; they came up with a long report. Now, some of it was totally impractical because they didn't take into account things like contracts and <laughs> the kind of things that business doesn't always have to deal with but we do in state government. And there were some things that were impractical because, looking at the legislature, there weren’t three votes for them. But others—yeah, we saved a lot of money. I don't know what the exact amount was, but there was a lot of money that was saved by that report. But I wanted to do that first because I wanted to—until you had done that and really gone over the state budget and said, "We've looked at it a fine-toothed comb; these are the savings you can make," you couldn't go ask anybody for the revenues. But once we had done that and the recession was still deepening, there were just two choices. I mean, we could have whacked the state aid to schools. I'd run on education. It was one of the things I'd run on. I wasn't going to do that. And/or you find new sources of revenue. So my first choice, because I thought the recession wasn't going to last that long—I was hoping—and that we could come out the other side if we did some basic taxes that weren't going—of course, like every governor, I thought the gasoline tax was too low, because it was so much lower than all the states around us. So I recommended that, and then a couple minor taxes I think to raise liquor I think maybe and—

Michael Aron: Was it a nickel hike in the gas tax? Do you recall?

Governor Kean: Yeah, something like that. I don't know what it was. But it was enough, if we put all these small taxes together, it was enough to get the budget passed. Legislature wouldn't buy that. They wanted me to do the major taxes.

Michael Aron: Politics? They wanted to force the Republican government to hike the income and the sales tax?

Governor Kean: Yes. Yeah. Well, mainly the income tax, because they knew I really wanted to keep that low. Because I'd made the deal with Brendan Byrne originally, as leader of the Republicans of the legislature, that we were going to have an income tax, but the rate was going to be lower than the states around us, and there wouldn't be exemptions, because I thought rich people would always take advantage of exemptions. So that was the deal that I worked out with Brendan and—

Michael Aron: '76?

Governor Kean: Yeah. And I said, "All right, if you agree to that, then I'm going to free up Republicans who want to vote for it, and protect them," which I did. Against revenge.

Michael Aron: So now we're in '82, and who were the leaders at the time?

Governor Kean: Alan Karcher, and I think maybe Carmen Orechio in the Senate.

Michael Aron: And so they rallied their majorities to force you to hike the—

Governor Kean: It was mainly Alan Karcher, I think. Carmen Orechio was an old friend of mine from Essex County. And they actually—people forget this—the legislature actually passed a graduated income tax and sent it to me.

Michael Aron: To that point, it had been a flat rate tax?

Governor Kean: Not flat, but three and a half top rate or something to one and a half or something. It was graduated, but not much.

Michael Aron: And they made it more graduated, increased the top rate?

Governor Kean: Yeah, they sent me a—it was a—I don't know, it was a big increase in the rates.

Michael Aron: So you conditionally vetoed that?

Governor Kean: No. I totally vetoed it. <laughs> In fact, I vetoed it—I sent it back within the same hour they sent it to me. So that was stalemate. And then of course what happens then, you start the negotiations.

Michael Aron: Who negotiated for you? You, or your staff?

Governor Kean: I think I did a lot of it. I'm sure Cary [Edwards] was involved. He was involved in everything. But I had to do that one really, basically. And my memory is Karcher—Carmen was fine—but you couldn't do anything without an income tax increase as far as Alan was involved, Alan Karcher.

Michael Aron: Was that ideology? Was that politics?

Governor Kean: I think a little bit of both. They really wanted me to sign an income tax increase. And so we finally negotiated, negotiated, and negotiated, and finally I agreed to what amounted to a very small increase in both income and the sales tax. And so I said I'd sign it, but I didn't like it, and it wasn't what I would have done. And I said I was going to say that publicly. So when they sent me the bill, I signed.

Michael Aron: Do you remember what month we might be in, or—we're probably in your first year as governor, 1982.

Governor Kean: Yeah, I think so. Yeah, I think so. Yeah.

Michael Aron: Spring?

Governor Kean: Probably spring. I don't remember exactly. But I remember I signed it holding my hose.

Michael Aron: Literally holding—

Governor Kean: Yes, literally holding my noise.

Michael Aron: It's famous that you said, "I'm going to hold my nose and sign it," but I wasn't sure whether that was rhetoric or whether you literally—

Governor Kean: I literally held my nose. And I said to them, I said—when I signed it, I said, "Look, I don't think this recession is going to last forever, and when this state comes back, as it will, I will promise you that we're going to decrease taxes." And the staff thought that I'd finished myself by signing that, by signing a tax increase. And there was no movement in the polls whatsoever. I didn't go up; I didn't go down. I wasn't very high anyway that way. I was about where I was when I ran, but I didn't go down, didn't go up.

Michael Aron: What does that say to you?

Governor Kean: That taxes aren't as—I mean, if you explain to people—I mean, there'd been enough debate. People understood the terrible problem the state was in. I made it clear that the choice was the school kids or the tax. I made it clear I didn't like it, and I made it clear I was going to get rid of it, or if not get rid of it, at least decrease taxes the first opportunity I got. And people bought it.

Interview with Governor James Florio
August 6, 2012
Interviewed by Michael Aron

Michael Aron: So Tom Kean becomes governor and he has a tough first year and then he shuffles his staff and the economy picks up greatly and by the time it's time for him to run for re-election in '85, he's pretty popular in New Jersey. And you sat out '85.

Governor Florio: That's right.

Michael Aron: Because you thought he was unbeatable?

Governor Florio: No, I don't even think it was that. I was just involved with much of the stuff I was doing in Washington, and I just didn't think it was time for me to run again that quickly. It's interesting. You mentioned about the campaign that Governor Kean ran. One of the interesting things is, I was challenged to take a no-new-tax pledge, and I refused to do it because I didn't think it was responsible. Tom—and I tease him about this as well over the years—not only took the no-new-tax pledge, he promised to cut taxes. And of course, they would point out the first two years he increased taxes fairly dramatically at the urging of Alan Karcher, who was the Democratic leader at that point for the most part. But it's interesting, the economy turned around and the last two years of Tom Kean's administration were just swelled with revenues.

Michael Aron: The last two years of his first term?

Governor Florio: That's right. That's where he was able to do a whole lot of good things for teachers, education had money, and so on. So timing is everything in some respects.

Interview with Richard Leone and Cliff Goldman
June 9, 2015
Interviewed by Rick Sinding

Rick Sinding: Now, by the end of the Byrne administration, despite the fact that you had instituted a slightly graduated income tax, and an interesting one because it was on gross income and with no deductions—unusual for a state income tax. Still, by the time Tom Kean came into office in 1982, he was faced with a budget deficit that he inherited. This seems to now have become a tradition in every transition. And Kean approached it in a completely different manner than Byrne had.

Dick Leone: He wanted to preserve his reputation for being against taxes, but we needed to do something so he held his nose—you remember the famous picture—while signing the bill for the nuisance taxes and a variety of other little taxes, that added up to, I think, $350 million.

Rick Sinding: And then an increase in the income tax rates.

Cliff Goldman: Oh yes. But first of all, let me just say, without really knowing, there probably was some deficit in the upcoming budget, but not in the budget in the year that he took office halfway through. That had never happened in New Jersey until he left office, when it happened for the first time in 1989.

Rick Sinding: When Florio inherited a budget that was already out of balance.

Cliff Goldman: Out of balance in the year, but when we came in, they were talking about a $300 million budget gap and so forth. I think it is traditional and I think they might have had one because we were in a deep recession. But the political tactic in that case is to exaggerate because you're going to do it once in four years, so you better do enough. And of course Kean also cut the corporate tax and he raised the welfare payments, which was fine. He's the governor. He does what he needs to do. But part of the supposed deficit was to accommodate those changes. Now I don't know this for a fact, but the story I heard at the time was Kean was for a sales tax increase. He proposed that. Karcher in the Assembly was for an income tax increase. And they fought that out, but unlike the story we told from before, Kean was able to get them to do both. Like, don't throw me in the briar patch. So he got two tax increases and the recession ended and he was rolling in money, which is not good. As a treasurer, it's not good to have extra money. We had the advantage of being able to say to people with good intentions and good ideas, “Sorry, we can't afford it.” But when you can afford it, you have a real problem. And over the years, while he was rolling in all this money, he did some very good things, but by the end it ran out.

Rick Sinding: That's an interesting observation because so many people, when thinking about the budget situation that Florio inherited, think about the fact that we were again into recession and that there had to be some kind of cutbacks or some way of easing the problem. But I don't think I've ever heard anybody suggest that the Kean administration had over-budgeted or had spent so much money on different programs that that obligated the state to obligations that it wouldn't be able to meet in subsequent years. Is that the position that you're taking?

Cliff Goldman: I think so. I don't have statistics, but I think if you go back and look at it, the rate of increase in spending was a bit high. I was in favor of a lot of it. I'm not criticizing Governor Kean. I remember I was a consultant then to cities and I came up with Randy Primas, the Mayor of Camden, with a one-page report that said we can't keep going in Camden. You know, in a nice way. Randy Primas was a real gentleman. Whatever you tell me, I'll do, or you can have the keys to the city. But I need $10 million. And if you can show me how to get it down to 3 million I'll do it. And Kean gave him the 10 million and created the Distressed Cities program after reviewing all this information. So Kean was responsive to real needs.

Interview with W. Cary Edwards
December 22, 2008
Interviewed by Michael Aron

Michael Aron: What mistakes were made early on?

W. Cary Edwards: We moved very deliberately and slowly. That didn't turn out to be a mistake in the long run, but in the short run, it gave a lot of angst to a lot of people that first year, as to whether we knew what we were doing. We thought we did. He thought he did. And it took some time to successfully put it all together. The economy did turn around in New Jersey and nationally, but in New Jersey, even more so. And our campaigns to enhance that economy continued to produce dollars. If I think the administration made any mistakes, during the first four years, we took all of those surplus dollars and invested them in one-time expenditures, not in ongoing programs, because they were surplus dollars. And in the second term, he tended to bow to the needs of the urban areas, particularly, and put dollars into ongoing programs in which the surplus would not always be repeated. And if you remember the savings and loan debacle at the end of Kean's first term, the economy turned around and the revenues reduced, and the surpluses weren't there, and the ability to fund those programs didn't continue. I thought we made bad judgments in the last four years on how we spent the excess revenues we were developing by a booming economy and/or by budgets surpluses, and didn't—by committing them to long term projects. And Tom was torn during that period, and I know because we talked about it a number of times, the problems that existed in Newark. I was doing the drug-free schools program. We were trying to put major educational programs within the schools. There were people with the boys and girls clubs in Newark who were also doing the same things, and working to enhance those educational opportunities. Tom said I can't sit here with these dollars and see that need and not do something about it. So was it a mistake? Physically, it was a mistake. Was it a mistake? He would probably say it wasn't, because he was responding to what he thought were the priorities of those kids at that point in time, and we'd work the rest of those problems out later. He also believed—and this is interesting—you didn't have to have a perfect piece of legislation. Nobody should ever watch legislation being made, just like watching sausage. We usually have to do it two or three times before we get it right, legislation. Most major bills get amended two or—he was willing to live with a problem in a bill, knowing that he could come back later and would come back and fix it. The same thing would pop up on these issues of spending. He wanted to deal with the problem and see if there was a solution begun that he knew could evolve into a better one. The spending was a debate between good fiscal responsibility and his personal conscience, or what he thought were real needs. He was a great believer in that the system would fix itself. If you have good people trying hard, they'll find a way. And we shouldn't be worried too much about overly worry. Take care of the problem in front of you today. I used to scratch my head about that a little bit, because my physical accountability was to be sure we had enough dollars to take care of all those people over a longer period of time. And we used to debate that issue. I don't know who was right. Even to this day, I don't know who was right. I can't say he was wrong, but there is another side to that discussion.

Interview with Feather O'Connor Houston
August 9, 2010
Interviewed by Michael Aron

Michael Aron: The Kean administration by and large benefited from a booming economy in the '80s. Is that correct?

Feather O'Connor Houston: Well, it was an arc. The first two or three years were rough, and if you remember, the state had a very poor self-image. I think the governor came in—I can't remember now exactly what happened in that first term, but, I mean, I remember Ken Biederman talking around. At the time I thought it was funny; then I realized it happens every eight years: The new governor comes in and they're shocked at the state of the budget. They are shocked at the size of the deficit, and Ken had to deal with that, with the governor and with Greg [Stevens] and with all the people in that first term. And then it arced up. The economy arced up, and I think there had been some kind of a tax increase. I can't remember in the first term, so by the time I got there, there was lots of money. By the time we left, we were in the tank again, so it was a complete narrative. I think we were pretty conservative about the depth and pretty conservative about the transportation trust fund, precisely because if you build your expenditure rate on a cyclicality of revenue, you are in a very bad position later on. At the end, I can remember that Christmas before the year before the end of the term. I would go into the governor with the economic projections, and he would say, "Feather." He'd say, "I don't know why you're so worried." He said, "I drive by." He said, "The shopping centers are full," and I'd say, "Yeah, Governor, but are they bringing bags out of the stores?" And he'd say, "Yeah." He'd say, "They are bringing bags out of the store." I said, "But they're soft bags. They're clothes. They are tax-exempt. There's no sales tax on them." I said, "They're not buying durables. They're not buying radios," whatever, all the stuff, electronic stuff. And, sure enough, that was the case. I mean, we had a major fall in the sales tax, but at other times he could predict the corporate-estimated taxes better than the economists, because he had lots of friends and he knew long before these guys filed how things were. And there was another time where we said—we went in and said, "Governor, let's raise the rate at which people—the threshold for paying income taxes at all, and we can relieve all these people of paying income taxes." And he said, "Don't be silly." He said, "Almost all of those filers are college kids. What are you doing?" And, sure enough, he was right, so he had a really remarkably intuitive feel for a lot of the internal elements of what the economic dynamic really was.

Interview with Richard Leone and Cliff Goldman
June 9, 2015
Interviewed by Rick Sinding

Rick Sinding: Let's go back a little bit to the second Kean administration and the State and Local Expenditure and Revenue Policy Commission, SLERP, referred to in shorthand as the Feldman Commission as I recall because Matthew Feldman had been a sponsor of it. And the executive director was Henry Coleman, who has since stayed around and gone on to fame in other areas in New Jersey. But that commission, it seems to me, offered a boilerplate of how to go about reforming state and local expenditures and revenues.

Cliff Goldman: We should mention that Bruce Coe was the chairman and he was a terrific guy from the Business and Industry Association. And I was a member. We had 32 members. The report was approved 31 to 1, so it was bipartisan. Henry did a terrific job. And it was the last study of the New Jersey tax system—1988—and there hasn't been one since. Henry tells me that some of the recommendations have since been adopted in pieces, but Kean said it's "dead on arrival."

Rick Sinding: Was it Kean who said that or was it Chuck Hardwick?

Cliff Goldman: It was Kean. He said it's dead on arrival and it was never discussed again. And we really need something like it in New Jersey.

Dick Leone: I think people have been afraid to create such a commission because it would come back before them with tasks that they were afraid to take on. They want to just get through the night.

Rick Sinding: Dick, you've known Tom Kean a long time. He appointed you as chair of the Port Authority. You always had a very good working and personal relationship, as I understand. I don't want to ask you to get inside his head, but why do you think that he was so adamantly opposed to the recommendations of the SLERP commission?

Dick Leone: I think what worries people about these reports in politics is if you open the door, you'll be sucked into an issue. It's like the Middle East. It's not going to be solved in a lifetime, and you'll be fighting a battle on those grounds constantly. So you want to be a reluctant bride. You don't want to go for this too easily.

Rick Sinding: Which he had been in the early part.

Dick Leone: He played that part of it very well—by the way, sharply different from the strategy adopted by Byrne and Florio, which is to go for the big thing right away right behind you. That strategy only works if you get the big thing right away.

Rick Sinding: And in Byrne's case if you have ten other people running against you in the next primary.

Dick Leone: That's one way to look at it. I think that the—I used to say to Tom, "You're for every income tax except the one we're going to vote on next." And I think it was a trap. You step in it and you're stuck.

Interview with Feather O'Connor Houston
August 9, 2010
Interviewed by Michael Aron

Michael Aron: When you were treasurer, and you were treasurer through the whole second term.

Feather O'Connor Houston: Through the four years, yeah.

Michael Aron: What issues were you involved in?

Feather O'Connor Houston: Well that's a—you have to sort of think about it in terms of the pieces. We went—the budget is in the Treasury, we had a very, very strong Budget Secretary, Dick Standiford, who pretty much ran the budget process with the internal agencies. But there came a point, when we were essentially, really rolling in money, where my job was to provide credence to the notion that we shouldn't spend it all, that we really—it was, that we had to maintain a lot of fiscal discipline, because of the potential—the obvious point that the economy was going to change. And I was quoted in one paper, as saying, "Quoting Cole Porter, 'It's too hot not to cool down.'" So that fiscal role of that, and then, at the same time, when the economy crashed, I spent a great deal of time—

Michael Aron: When did it crash?

Feather O'Connor Houston: About a year—about ten months before we left office, so it would have been in early '89, and that was an extremely difficult budget. By then Debbie Poritz was Chief Counsel, and so she and Dick and I, mostly, I would have to say, Debbie, even more than Dick, made—finally brought the budget together that year. It went to July 2nd, and we spent a great deal of time figuring out—

Michael Aron: Two days past the constitutional deadline.

Feather O'Connor Houston: Yeah, right, and because of the way we do a lot of our long term financing in New Jersey, we were in technical default on billions of dollars worth of appropriation dependent debt. But leading up to that point, but it was a holiday weekend, which is what saved us. But leading up to that, we were lapsing money like crazy, just to keep the budget and the state solvent, and I spent half an hour on the phone every Friday afternoon with Hy Grossman, who was the head of S&P, the Managing Director of S&P, who watched New Jersey like a hawk, convincing him, reporting to him and essentially keeping the Triple A alive during that period. So you had the budget stuff, the pension was very well funded then, and one of the things that we did, with the governor's blessing, was to recognize all of the retiree health benefits as part of the accounting for what the pension funds had an obligation for, so that we fairly represented the true obligation, forward obligations of the taxpayers and the pension funds. That caused a lot of consternation with some of the unions, particularly the corrections and police, because they wanted 20 and out, you know, they wanted early retirement. And we basically said, we have health benefits to pay, they more than take up the excess fundedness of our pension funds, and we essentially countered them with that. I mean, that wasn't the reason we were doing it. We were doing it because, as a fiscal matter, we really should recognize the health benefits downstream. But it was a lot of conflict, and I had-- I've forgotten his name, Bill—I've forgotten his name. Bill Faulkner, something like that, who was head of corrections?

Michael Aron: Fauver, Bill Fauver.

Feather O'Connor Houston: Fauver, Bill Fauver. And the union corrections leader were good friends during that period, because I was very stubborn about it. I felt very strongly about how we should do it.

Michael Aron: They wanted 20 and out, and you wanted what?

Feather O'Connor Houston: I wanted—I said, no, because I felt that the pension fund, even though it looked healthy, and it might absorb additional pension benefits, did not recognize, at that point, the mandated retiree health benefits that were really an obligation of that fund, and so, in fact, now, the new GASBY obligations require public pension funds to count up and measure the cost of those health benefits, just as I was trying to do in our—as we worked through the fiscal condition of our—at the end of the term, I was so concerned about the way the pension funds became a sort of a—gotten into a tug of war with different interests, that we hired two different actuaries that were not already associated with the New Jersey pension funds, and had each of them look at, I guess it was probably the PERS, yeah, the main one, had them look at it. One of them was an actuary, typically hired by labor unions, and the other one was typically hired by management, and we spent a day. We invited the new—the Florio team in, Sam Crane, and whoever else I can remember as part of the transition, and we spent a day with the dueling actuaries, because I wanted them, coming in, to understand what had taken me several years to learn, which was, it all depends on how you play the numbers, what message you get. And that put them in a position of being able to make really good—Rick Wright was there—make good choices, knowledgeable choices about what they wanted to do with the pension funds, and with the pension assumptions.

Michael Aron: Pension fund must have looked awfully healthy back then, compared to how it looks 21 years later.

Feather O'Connor Houston: Yes, it was probably one of the best funded in the country.