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Governor Corzine's Testimony to the House Appropriations Committee on the Impact of Recession

December 11, 2008

Thank you, Mr. Chairman - and thank you to the entire committee for inviting me to testify on the impact of the recession on state and local communities.

I think it's a testament to the Chairman's leadership that he's focused on ways that the federal government and the states can partner in fixing our broken economy.

I do have a serious message from the people of New Jersey to the people of Wisconsin - and I hope it's one that Chairman Obey and Governor Doyle will appreciate:

Thank you for Brett Favre.

Governor Doyle already underscored many of the problems that the states are dealing with through his detailed description of the situation in Wisconsin. His concerns reflect common challenges for most, if not all, state and local governments.

In New Jersey, we're also facing one of the biggest fiscal crises in our state's history.

Like most states, we are constitutionally required to spend only as much as we take in.

In the budget year that ended last June, we collected and spent \$33.5 billion.

In the current year, we will have reduced expenditures by almost \$2 billion to \$31.5 billion

The budget I'll introduce to the legislature in February will require upwards of \$2 billion in additional reductions as the recession cuts deeply into our revenues.

That's a decrease of \$4 billion in just two years, or a 12% reduction.

These cuts are measured in absolute numbers. They make no allowance for increases in health care spending, contractual wage hikes for public employees, or safety net resources, which increase in times of recession. If we used baseline growth - rather than absolute numbers - to calculate our current and future budget cuts, the total reduction would be over \$8 billion over two years, rather than \$4 billion.

To compensate for the decline in revenue, we've had to cut through the fat -- and we're now dangerously cutting into the bone.

We've cut the state payroll by four thousand people over three years.

We reached a collective bargaining agreement with state employees that increased pension contributions and mandated cost-sharing for health care.

And we've consolidated departments and agencies to streamline the way state that government works. We've reduced aid to our colleges, universities, and municipalities.

The next round of cuts are bound to depress our economy and hurt the people who least have the ability to speak up for themselves.

There are large portions of our budget that we simply cannot cut if we're to maintain a civil society.

We can't shut down our prisons, cut public safety, eliminate services for the developmentally disabled and mentally ill, or shutter our child welfare agencies.

We have to make good on our debt service obligations.

What's left on the chopping block are fundamental programs like Medicaid, higher education, and aid to municipalities. Cutting upwards of \$4 billion from these services will impose a terrible hardship on our state's most vulnerable citizens . . . and the education of our children.

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And it will sap our economy of much-needed counter-cyclical spending.

And we're just one state.

Multiply these cuts times 50, and we're removing hundreds of billions of dollars from our national economy - offsetting much of what Congress and the new administration might try to accomplish through a stimulus package.

Which brings me to my central point...

Any federal stimulus package targeted to the states must include help on both the operating side and the job-creation side.

There's been a lot of talk about concentrating the federal stimulus package on infrastructure spending. And that is a positive element of putting people to work. I fully support an investment in jobs and infrastructure.

But unless we help the states plug the hole in their operating budgets, any good we do through infrastructure stimulus will be offset by cuts in vital social services and education.

To put it another way, you can spend \$300 to \$400 billion over two years on infrastructure, but if the states and local governments cut roughly an equal amount from their operating budgets, it's a wash. What has been accomplished?

We're not talking about a blank check - we're talking about aid to public colleges and universities, health care for children and seniors, and assistance to our towns and cities.

We need each other. The states have the delivery systems, programs, and infrastructure in place to deliver a broad-based stimulus package. The federal government has access to the resources to make it happen.

We are - and we must continue to be - partners in restoring our economy.

On the operational side, New Jersey and other states could significantly benefit the federal government to fully funding its obligations for programs like No Child Left Behind and IDEA. For special education, the federal government funds a woefully inadequate 17 percent of our total per-pupil costs, when it's committed to covering 40 percent. Since the inception of NCLB, the federal government has underfunded the program by \$1.2 billion in New Jersey. That needs to change.

Above and beyond redressing unfunded mandates, we need help meeting the ever-growing demands on our safety net programs.

Over the past five months, an additional 40,000 people have enrolled in New Jersey's Medicaid program Making steep cuts in Medicaid and children's health at the same time that people are losing their jobs is the wrong direction to go.

We need an increased FMAP match now, not months from now after the unemployment rate is likely to top 8 to 9 percent.

Similarly, we know that our hospitals have been struggling in recent years - and now more than ever, we need help with charity care funding while we develop a long-term fix for the uninsured.

Recently, I spoke about the need for a comprehensive federal program to address the housing crisis at its root - and to provide money to allow state housing agencies to modify housing loans. This can be done by providing money to state Housing Finance Agencies.

While there might be some debate, we also have an obligation to those who've been left behind. This week I attended an anti-poverty conference at our state capital where I heard first-hand accounts from people who struggle in the real world for adequate food, shelter, and job opportunities.

I think we all agree that this is the worst recession since the Great Depression, so we need to bridge the human gaps in TANF, food stamps, workforce development, and unemployment insurance - including the states' trust funds. It's not just the right thing to do. Any economist worth his salt will tell you that these programs have a high multiplier impact that will stimulate growth.

Even as the states and the federal government partner in meeting the social needs of our citizens, we can put people back to work by committing to a significant investment in our infrastructure.

Not only will this policy create jobs - it will lay the groundwork for decades of economic growth and prosperity.

Over the next year, New Jersey is accelerating \$2.8 billion in roads, bridges, and mass transit, in addition to \$1.9 billion in school construction.

The state is already accelerating projects to meet \$25 billion in needed school construction.

So we're not just talking about projects that are shovel-ready - though they are. Our projects also conform with our broader policy goals: creating green industries, cutting greenhouse gases, reducing our dependency on foreign oil, and modernizing our educational facilities.

Case in point: my state has already committed \$5.7 billion toward the largest transit project currently under design - a new mass transit tunnel under the Hudson River. This project will create 6,000 construction jobs annually for ten years and 50,000 permanent jobs in the region. When completed, it will also carry 45 million passengers annually. It's ready to go.

Projects like the mass transit tunnel mirror the transformative public works programs of the New Deal - programs that helped bring us out of the Great

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Depression.

Think of the Lincoln Tunnel. The electrification of the railroad between New York and Washington. The Golden Gate Bridge. These projects put people to work, and they continue to pay handsome dividends even today.

New Jersey, like other states and local governments, has a long list of shovel-ready infrastructure projects that range from roads and bridges, to sewer and water, to deferred maintenance on college campuses, to modernizing our energy grid. As an addendum to these remarks, I'm submitting a list for the record.

Let me close . . .

Getting out of the current economic mess is going to be expensive and messy. But we have the opportunity to lay the groundwork for both recovery and a generation of prosperity.

The great economist John Maynard Keynes knew a little bit about how to get out of a recession. He said, "The importance of money flows from it being a link between the present and the future."

It was true then, and it's true today. Let's join together and build a more prosperous and secure future for all the citizens of the United States.

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