

US: Democrats' tax deal ends New Jersey government shutdown

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New Jersey public employees were expected to begin returning to work by the end of this week following the announcement of a deal Thursday between New Jersey's Governor Jon Corzine and state lawmakers on a new state budget. An impasse between the Democratic governor and the Democratic state legislature led to a six-day shutdown that left tens of thousands out of work and curtailed all but emergency services.

On Saturday, July 1 Corzine, a former CEO of Goldman Sachs whose personal assets are estimated in the hundreds of millions, signed an emergency order under the state's Disaster Control Act to shut down "inessential" state services. His aim was to pressure state legislators from his own party into accepting key elements of his budget proposal.

Unprecedented in New Jersey's history, the move furloughed 45,000 of the state's 80,000 employees, depriving them of paychecks while state politicians and the governor continued to engage in political brinkmanship.

Road construction, the court system with exceptions for emergencies, the motor vehicle service, the state lottery, and many state offices closed down. On Wednesday, the dozen major gambling casinos in Atlantic City were forced to close their gaming operations because of the furlough of gambling inspectors. The loss of some \$16 million in daily income for the casinos brought the first major national media attention to the New Jersey crisis.

The suspension of the state lottery cost the government over \$2 million per day, while the shuttering of the casinos was expected to cost an additional \$1.3 million per day in lost tax revenues.

In a July 4 speech to an emergency meeting of the state legislature, Corzine said, "Beginning next week, the state will not have the ability to refund pharmacies for the medicine they are providing to our seniors. New home warranty certifications will be delayed—meaning families will not be able to move into homes they have purchased. Our summer educational camp for the blind and developmentally disabled children will have to be postponed."

Even "high priority" departments told thousands of workers to stay home. The Department of Corrections kept 8,200 out of 9,350, while the Department of Human Services, which includes the state's child welfare agency, told 5,000 of its 22,000 workers to stay home. The Department of Banking and Insurance furloughed all but 7 of its 550 employees and the Department of State kept only 3 of 190 workers.

The governor claimed the move was necessary because the state had run out of operating funds and was mandated by the constitution to pass a budget by June 30. In fact the government has missed the budget deadline dozens of times in the state's history, but this is the first time it resulted in a shutdown.

This was Corzine's first attempt at passing a budget, and he met stiff resistance from state legislators, whose proposals for the budget are different although no less reactionary. Democratic state legislators organized around State Assembly Speaker Joseph J. Roberts Jr. of Camden initially refused to budge on their opposition to the governor's proposal to raise the sales tax from 6 to 7 percent, proposing instead to make deeper cuts in social programs, defer payments to employee retirement funds, raise other taxes, and issue more state bonds.

The stalemate arose as Roberts and Corzine traded accusations of inflexibility. Roberts called Corzine's shutdown "a gun to our heads." Corzine had threatened to veto any proposal that failed to include his proposed sales tax increase, valued at \$1.1 billion, and that did not provide for "recurring revenue matching recurring expenditures" to end the "structural deficit."

Based on 2000 census data, New Jersey has the second-highest per-capita income of all the states, trailing only Connecticut. Why was a relatively wealthy state "out of money" and unable to operate?

In order to understand the intransigence of both sides, it is necessary to look beyond the personalities to the larger interests that they represent. It is instructive to look at the proposals and political history of Governor Jon Corzine and Assembly Speaker Joseph J. Roberts Jr.

Corzine, born in Illinois in 1947, served six years in the Marines from 1969 to 1975. He then began a career in finance, eventually moving to New Jersey to join Goldman Sachs, a New York investment bank. He rose through the ranks to become a partner and then CEO. He presided over the company's conversion from a private firm into a publicly traded company and left the company with a personal fortune estimated in the hundreds of millions of dollars.

He then ran for US Senator from New Jersey, spending an astounding \$60 million of his own money to win the seat. In a twist on the normal relationship between special interests and politicians, he was criticized as a politician who, rather than receiving, *gives* money to many state groups in order to gain influence.

With this history in mind, Corzine's emphasis on fiscal discipline and his close attention to Wall Street's response to state policy is hardly a surprise. In his July 4 speech, he spoke approvingly of last year's budget, saying, "the Legislature passed a budget that was significantly more responsible than in recent years and was rewarded with a credit upgrade from Wall Street."

In the introduction to his budget proposal, Corzine points out that New Jersey's debts amassed through bond issuances have more than tripled over the past decade, from \$8.1 billion in 1996 to \$30 billion in 2006. He also includes a chart showing the steady decline in the rating given to New Jersey State bonds by Moody's Investors Service,

complaining that the state has not received a triple-A rating since 1992.

What worries Corzine, above all, is the trend he sees towards the financial insolvency of the state government and the effect this will have on investors in the bond market and on Wall Street. He proposes to cut the \$4.5 billion deficit by attacking social programs and raising regressive taxes.

In addition to the increase in sales tax, he proposed the creation of a new tax on water and raising taxes on alcohol and tobacco. He did not go after any of the major corporations headquartered in New Jersey nor propose a higher income tax targeted at the wealthy.

Furthermore, he proposed \$2.5 billion in cuts to social programs, higher education, public schools, after-school programs in the poorest urban areas, and on spending for prescription drugs for people dependent on Medicaid, the elderly, and state employees.

In the event the legislature had failed to pass the sales tax, Corzine had ordered his cabinet to research possible cuts totaling \$860 million, including \$300 million in municipal aid and \$500 million to public schools.

The proposal amounted to a 2.5 percent reduction of the budgets of operating departments and a 155.6 percent increase in debt service payments.

When it comes to regressive taxes and cuts in social programs, Roberts has no real differences with Corzine. Rather, he had demanded that the sales tax hike be used entirely to offset property taxes, essentially transferring money from the poorest residents to homeowners.

In the end, the two sides split the difference. Under the deal reached on Thursday, the legislature agreed to impose Corzine's increase in the state's sales tax from 6 percent to 7 percent, but half of the money raised will be used to lower property taxes.

Rather than receiving his political education in a multi-billion dollar investment bank, Roberts rose through the ranks of the notoriously corrupt New Jersey county and state governments and the Democratic Party machine.

Gannett New Jersey newspapers, a chain of local papers connected to *USA Today*, ran an investigation into state politics in 2003. Among its findings:

* A third of the 120 state lawmakers hold at least one other public job, and a quarter have spouses in publicly funded jobs. Nepotism is open: one in five has family members directly on their payroll. This allows some lawmakers to collect over \$100,000 in pensions when they retire.

* A third of lawmakers gained their seats through political appointments to vacancies rather than elections. Over 85 percent of incumbents win their elections.

* There are no laws to prevent conflicts of interest in voting, and the financial disclosure forms are extremely vague, with enormous loopholes.

* Unelected political bosses in the Republican and Democratic parties raise millions of dollars and dole it out to the candidates of their choice. Many of these unelected power brokers receive large government contracts.

* No-bid contracts worth hundreds of thousands of dollars are extremely common, often given to campaign donors who gave tens of thousands to incumbents.

Roberts himself was at the center of a recent ethics scandal. In March of 2002, he, along with partners George Norcross, a Democratic fundraiser and unelected power broker known by some as "the Don of South Jersey", Philip Norcross and William Schwarz, received a \$32 million loan from Commerce Bank to buy a company called U.S. Vision. Roberts was a shareholder, George Norcross and Schwarz were Commerce board members, Schwarz was the CEO of U.S. Vision, and Philip Norcross was the bank's campaign finance lawyer. A year later, Roberts attempted to pass a bill that would allow optometrists to conduct laser eye surgery in New Jersey, directly benefiting U.S. Vision.

Commerce Bank holds 20 percent of New Jersey's government deposits in private banks, underwrites and refinances billions of New Jersey's state, county, and municipal bond sales, and sells insurance to various state agencies. Commerce Bank board members have been appointed by previous governor McGreevey to the posts of chairman of the University of Medicine and Dentistry of New Jersey, chairman of the New Jersey Highway Authority, and chairman of the New Jersey Sports and Exposition Authority, all doling out hundreds of millions of dollars in contracts.

While details of Roberts's alternative budget were not made public, it was known that it included no proposals to reverse cuts in social programs or raise taxes on the rich. Roberts most of all feared that a sales tax could shift public opinion enough to give control of the State House back to the Republicans, thereby depriving him of the power to distribute contracts. The sales tax in New Jersey has been raised three times since 1966, and every time the majority party lost at least 19 seats in the following election.

In the reactionary debate between the corrupt layer surrounding Roberts on the one hand, and Corzine and his backers in Wall Street on the other—both utterly indifferent to the widespread suffering caused by the shutdown—the crisis in New Jersey provided a revealing insight into the real nature of the Democratic Party.



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