

THE BROOKINGS INSTITUTION

RESTORING FISCAL INTEGRITY AND ACCOUNTABILITY:
A DISCUSSION WITH GOVERNOR CHRIS CHRISTIE (R-NJ)

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Introduction:

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CHRIS CHRISTIE
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P R O C E E D I N G S

MR. WEST: Good morning. I'm Darrell West, Vice President of Governance Studies and Director of the Center for Technology Innovation at the Brookings Institution. And today we are pleased to welcome Governor Chris Christie to the Brookings Institution.

As all of you know, he was elected Governor in November of 2009 and sworn in as New Jersey's 55th Governor in January of 2010. He graduated from the University of Delaware and attended the Seton Hall University School of Law. Thereafter, he joined a Cranford law firm and was named partner shortly thereafter.

He started his political career by being elected as a freeholder in Morris County and serving as Director of the Board in 1997. In 2001, President George W. Bush nominated him as U.S. Attorney for the District of New Jersey, a position that he held through 2008.

It was in that role that Governor Christie drew national attention for his efforts at battling political corruption, corporate crime, human trafficking, and gang violence. He directed his attention to ethics during his tenure and spearheaded a number of aggressive investigations against corrupt public officials. And he was able to build an impressive 130 convictions during this time period. But what you may not know is that, like many true New Jersey natives, Governor Christie is a dedicated Bruce Springsteen fan. To date, he's attended 129 Springsteen concerts. That dates over 36 years, he told me in advance, so that is a bipartisan issue on which everybody can agree.

This morning, Governor Christie will make opening comments and then we will have a moderated discussion led by Brookings Senior Fellow, Ted Gayer. Ted co-directs the Economic Studies Program at Brookings.

This event also is being web cast, and viewers can post comments and

ask questions during the discussion at twitterhashtagbichristie, that's bichristie. So please join me in welcoming Governor Christie to the Brookings Institution.

(Applause)

MR. CHRISTIE: Thank you for your introduction. Thank you for welcoming me here today, I appreciate it. I appreciate the opportunity to speak to all of you about what's been going on in New Jersey and how I think it applies to what we need to be confronting and discussing, not only in states like New Jersey, but in all the states across the country, and our federal government, as well.

Two weeks ago I signed my third balanced budget in a row since becoming governor. It's a budget that increases spending on K to 12 education to a record level, \$8.8 billion this year in state aid to K to 12 education. It increases aid for tuition assistance for children who need it to head to college, supports our most vulnerable, including our veterans, individuals facing disabilities, the working poor, and makes a down payment, a significant down payment on our pension obligation, in fact, the largest single contribution that any governor has made to our state pension system in its history, \$1.1 billion this year.

At the same time, I used my line item veto authority to veto \$360 million in special interest spending so that our budget this year, in fiscal year 2013, which has just begun, is still smaller than the fiscal year 2008 and 2009 budgets signed by my predecessor, Governor Corzine, pretty good budgetary success. We're happy with it. We feel we could do better, but there's one thing that did not happen that I think should have happened and we're going to continue to talk about, and that's tax cut for middle class New Jerseyans.

That's kind of interesting that I hear this morning on my way in that the President is now going to propose today extending tax relief for middle class Americans,

yet in New Jersey, despite promises that we've had for a tax cut to happen, that tax cut was left on the table at the last minute.

Let me give you a little background. I started off in my job in January of 2010, or January of 2012 rather, advocating for a 10 percent across the board income tax rate reduction. New Jersey has the third highest income tax rate for any state in America, behind only California and Hawaii. Our top rate is just a shade under nine percent. And we believe that reducing rates across the board would be one of the best ways to make New Jersey more competitive with our neighbors.

To give you some example, our tax rates are higher than the State of New York, higher than the State of Connecticut, and our neighboring Pennsylvania has a top rate of three percent. And so when you're competing in the kind of job market that we're all competing in right now, states are fiercely competing with each other in basically two ways beside the normal type of services that states provide, infrastructure and higher education, those type of issues, you're really competing on two levels, tax competitiveness, which has two parts to it, what tax incentives are you willing to give to either retain companies or to attract new companies there, and what is the tax environment for that company once it is there both for them and their employees who they'll be asking if they're moving into your state, to relocate from one state to New Jersey.

That's the reason why I think tax reductions are so important in our state in the current environment, it's because we're competing. We're competing with these other states that have significantly low rates in some instances like Pennsylvania and Delaware, and we're not competing well in that regard because of the atmosphere that's been created over a period of years, and so I advocated for an across the board income tax cut.

I have, by the way, a state with a great sense of humor, as some of you may know, not just because of native sons like John Stewart, but also because our voters elected a conservative Republican Governor and retained a Democratic legislature. And so I think they just wanted to see what would happen, and we'll talk a little bit about that this morning.

But the State Senate President came back with a counter proposal which is essentially an income tax credit of 10 percent against whatever amount of property taxes you pay in our state up to a cap of \$1,000 per taxpayer.

There were certain limits, and I'll get into the weeds about it. There were certain limits that were put on it in terms of income eligibility, et cetera. And so as we moved along through the spring, I began conversations with him about finding some way to compromise, to be able to bring a tax cut package to the people of the state.

And we came to agreement in the late spring of this past year, on a 10 percent income tax credit that would be capped at folks with incomes under \$400,000 a year, would exempt any business income that they made from Schedule C on the federal returns, and would apply equally to all those people under \$400,000 a year, and we would increase our earned income tax credit. So we have a state earned income tax credit, it would be increased from 20 percent above the federal level to 25 percent.

This was going to mean everybody, \$400,000 a year under, who was employed in New Jersey, would be getting tax relief, and we phased it in to be fiscally responsible over three years so the hit to the budget would not be significant.

We had an agreement until normal politics set back in. And when the Senate President went back to his caucus and went over to the Assembly, the lower House, they decided that what was much more important, and this has been reported in the newspapers, extensively New Jersey, was that it was more important for me not to be

able to go to the Republican National Convention in Tampa and say that I got a tax cut for the people of our state than it was to actually give the people of our state a tax cut.

Unfortunately, this was a reversion back to old politics that had been seen relatively infrequently over the last two and a half years in New Jersey. And so we're going to have to fight about this over the summer, and I'm looking forward to it. I called them back at the special session. They thought they were leaving on June 28th, the end of the session, ready for summer vacation. Our Constitution allows the Governor to call the legislature back in for special session, I did on July 2nd. I gave a speech on July 2nd to them about the importance of trying to reach bipartisan compromise on this issue, that making our state more competitive and giving our taxpayers some relief was extraordinarily important and much more important than the politics of the day, especially for a speech that I had not yet been invited to give, at a convention I know I'll attend, but that I have absolutely no knowledge at the moment whether I'll even be speaking at the convention, but obviously they're real concerned about that.

So I offered my hand in compromise to the Democrats on the issue of taxes, and my hand was slapped back. Now, the question for executive leadership at that moment is, what do you do. There's two options as I see it. Option number one is to go in the corner, hold your breath, say I'm not working with these people anymore because they're mean, and they're not nice to me, and they don't want to compromise, and I'm just going to send out really nasty press releases about them and tell everybody how rotten they are, or you can shrug your shoulders and say that the job you were given is more important than your ego or the politics of the day and continue to try to fight to get compromise reached.

I think the evidence of the last two and a half years will show you that I have consistently, along with a number of leaders of the legislature, picked the latter

rather than the former. I think it's important to review that with you at the moment so you can get some context to the current discussion.

Where was New Jersey when I became Governor in January of 2010? Let's start with the fact that a week into the job, my Chief of Staff and the State Treasurer came to my office and told me that if we did not cut \$2.2 billion from the current fiscal year budget, fiscal year 2010 budget that we were seven months into, within six weeks, that we would not make payroll for the second pay period in March.

Now, imagine New Jersey, the second wealthiest state per capita in America, was going to have to give out IOU's to state employees the second pay period in March. I don't know how you define broke, but that looked like broke to me, from where I sat.

And so we had two choices, we could either negotiate with the legislature, and they made clear at that moment, in the very beginning of my term, that it would have to include tax increases, immediate tax increases, retroactive tax increases, or, because New Jersey's constitution is the most powerful governorship constitutionally in America, George Will calls New Jersey's Governor America's Caesar, I really like that a lot, I could act by executive order and essentially impound funds by executive order equal to the amount of cuts that were necessary. Now, for those of you who have watched me for the last two and a half years either closely or just vaguely, if you believe that I picked option number one, you did not earn your invitation here this morning, you need to leave. There's no chance I was picking option number one. I selected option number two.

I sat down and went through 2,400 lines in the state budget and found \$2.2 billion in cuts and made those cuts by executive order, went to the state legislature and presented them in a joint session speech.

And after I was done with the speech, and essentially the speech was about 40 minutes long, given our time constraints this morning, I'll boil it down to you to about 15 seconds. I went up there and I said, listen, you left me with this huge problem, I needed to fix it, you wanted to raise taxes, I'm not going to, so I just made \$2.2 billion in cuts by executive order, I signed it, I fixed your problem, you can thank me later, have a good day, and I left.

You can imagine the atmosphere on the floor of the legislature after I was done. I was called all kinds of names, things like Neapolitan Bonaparte and Julius Caesar, all those great leaders of the past that I admire so much. And the next day I saw the Senate President, Steve Sweeney. We were coming into the State House at the same time together. Now, you need to understand, Steve is a Democrat from the southern part of our state, he's the Senate President, and as such, the most powerful Democrat in the State of New Jersey, and he is the President of the Iron Workers Local in New Jersey, so, like me, a shy and retiring guy.

I saw Steve on the way in, and I said, Steve, you know, I saw all those things you said about me in the newspaper, you know, today, and you've really turned me around, I'm going to go upstairs and vacate the executive order and I'm going to send this problem down the hall, you guys can fix it.

And here's all you need to know about New Jersey politics for the next two and a half years from that date, Steve looked at me and goes, hey, Governor, don't overreact, you know, I don't think you did all that bad, I mean come on, it's politics.

But we inherited a huge problem, or caused that huge problem, in my view. A hundred and 15 tax and fee increases in the eight years before I became governor, 115 tax and fee increases at the state level in the eight years before I became governor, that's a tax and fee increase every 25 days for eight years.

Now, if you want a definition of how to kill the goose that laid the golden egg, look at New Jersey's economy in the '80's and '90's, one of the top economies in the country among any of the states, and look at what happened when we began to do that in the eight years before I became governor. We had an unemployment rate that was over 10 percent, 155,000 private sector jobs lost under the previous administration, the highest tax burden in the country, the worse climate for small business growth, highest number of government workers per square mile in the country, quite a distinction, and all of those things were dropped in our lap when we came into office.

Now, when you're confronted with that with the Democratic legislature, you'd have to make some very specific and difficult choices, and we moved specifically into fiscal year 2011, which had a projected budget deficit of \$11 billion on a \$29 billion budget, a 37 percent deficit, by percentage the largest budget deficit of any state in the country.

And once again, there was a call for higher taxes. It seemed to me that this call was what had gotten us, at least in part, in trouble in the first place. So what we did was propose a budget that cut every department of state government, every one without exception. And had to make significant cuts, as you can imagine, to close the budget deficit of \$11 billion, but we did.

And the folks in the legislature sent me what's become in vogue apparently lately around – in some parts of the country, they sent me a millionaire's tax surcharge. Now, you've got to understand first before we go too far down the road about the history of a millionaire's tax in New Jersey. We already have a millionaire's tax, but in New Jersey it's very special because we have special New Jersey math, which you don't have to be aware of.

See, in New Jersey, the millionaire's tax applies to all individuals or

businesses which have over \$400,000 in income. That's the millionaire's tax, 400,000 in income. It's a good name, but they couldn't get enough money at a million, so they lowered it to 400,000, which, when you're trying to market your state around the country, you know, raises some difficulty, right. If you have a millionaire's tax of \$400,000, how do you really market your state? This is the way I did it.

I would go around the country saying, listen, come to New Jersey, if you're not a millionaire, but you like to feel like one, come to New Jersey because we'll tax you like one. You can tell all your friends, say, yeah, I pay the millionaire's tax, that's right; I pay the millionaire's tax.

So we already had a millionaire's tax which brought us up to 8.97 percent. This proposal was for a surcharge on top of that to raise it to 10.75 percent, which would then place us only below Hawaii at that point, although California caught up quickly, Hawaii, at that point, in terms of top tax rates. I vetoed that tax increase. I vetoed it because I thought it made us non-competitive. And, you know, the Senate President came down before I vetoed it with the bill to deliver it to me, cameras following him, you know, and delivered the bill, and gave it to me and said to me, you know, Governor, here it is, here's, you know, they called it something, you know, there isn't a name for this, they don't call it like the tax increase or the fairness and justice for all act, you know, hey, maybe he won't read it, you know, fairness and justice for all sounds good, just sign right here, Governor, it'll be fine, and so I just wait a second, sit down, Steve, I don't want you to waste your time, I took my pen out, I vetoed it then, I handed it right back to him, and then we went ahead and continued to push for our budget, which they said was going to be dead on arrival without the millionaire's tax surcharge, and that June, we wound up passing it with Democratic votes, with 99.8 percent of the vote exactly as I presented them in February.

I tell you those stories to set up the idea about what executive leadership can do if you set out your principals, but also show that you're willing to compromise where appropriate.

You know, they were testing me in the first six months of 2010. I was a new governor. They were a legislature that had been in charge for a decade. They were the veterans of Trenton, I was the newcomer. Legislatures will always test executives and see how much they can get away with, how far they can push you, are you willing to stand for your principals, or are you not. Now, some people say when you stand up and fight for your principals that way, that you're being an obstructionist, and that becomes true only if you're unwilling to compromise where appropriate to get things done.

And the story of New Jersey in the last two and a half years is really broken up into two parts, that first six months and then the two years since then, because in that first six months, they were testing me, and in the two years afterwards, let me go through with you some of the really bipartisan accomplishments that have been put forward by this governor and the Democratic legislature which I think can be a model for what should be happening all across the country.

After we passed that budget, I called them back into special session again for the 4th of July weekend, because we have the highest property taxes in America, we needed to pass a real cap on property taxes. After a lot of negotiation and back and forth, we passed in a bipartisan way a two percent cap on property taxes in New Jersey, a real cap, a hard cap, with only three exceptions. It's already working.

Last year, property taxes rose, with the program not already fully phased in, only 2.4 percent. That's the lowest increase in property taxes in New Jersey in over 20 years. We then moved to reform the interest arbitration system that drove enormous increases in public sector salaries, five, six, seven percent increases in public sector

salaries. And we capped all interest arbitration no greater than a two percent increase, and created a rocket docket for interest arbitration, capped the amount of money that arbitrators could be paid, to no longer have there be incentive for arbitrators to drag these things on, get paid a fortune, cost the unions a great deal of money. They had a very brief period of time to get the case, make a decision, and they were capped at two percent, and so it's an economic gain.

We then moved to deal with what the biggest problem is, I think, for any of the states in the country and for the federal government, and that is entitlement costs, and in New Jersey, that's represented by our defined benefit pension system and our public sector health care program.

When I became governor, our defined benefit pension system was under funded by \$54 billion. Our public sector health care system was under funded by \$67 billion. That's \$121 billion, that's four years of budgets, of every nickel of state spending in under funding of those two programs.

So in September of 2010, I put forward a very straight forward program on how to deal with pension and benefit reform. It was this, raised retirement age, increase the cuts regions made by employees to the pension system, and until the funds are solvent, over the next, in some instances, 30 years, and increase the penalties for early retirement, and ensure that the state would be making its payments into the system. Secondly, on the health care side, when I became governor, most of New Jersey Republican Police paid nothing for their health insurance, zero, for full family medical and dental coverage. Those programs ran anywhere from \$15 to \$19,000 a year per employee. And they got that from the date they were hired until the day they die. So we needed to do something there.

And what we put forward was a very simple test. We said everybody should pay a

third, pay a third of the cost of your premiums. That seems to be fair. The government will pick up two-thirds, you pick up a third, and somewhat in line with what's going on in the private sector, as well, although many people in the private sector would jump at a program like that at the moment.

And where did I announce this plan? I went to the Firefighter's Convention in Wildwood, New Jersey, on a Friday afternoon. It was quite something. About 2:00 in the afternoon, lunch, I suspect, had been liquid, and those firefighters were ready for their governor. And when I got introduced, they were booing like crazy.

I got up to the stage, got behind a podium like this and I said, come on, you can do better than that, and they did. And I decided just to eliminate the speech I was going to give them, and this is what I said to them, so listen, I understand you're angry and you feel betrayed, and the reason you should feel betrayed is because you've been betrayed, you've been betrayed by governors of both parties who have come behind this podium over the last 25 years and told you they could give you increasing benefits that you wouldn't have to pay for, and they made you those promises to get you to vote for them, and you voted for them, and so I understand why you're angry, I understand why you feel betrayed, here's the only thing I don't understand, why you're booing the first guy to tell you the truth.

See, there's no political upside to be coming into this room and telling you the truth. But 10 years from now, if we do this program and your pension is there to be collected, and you have health insurance to take care of your family, and retirement, you're going to be on the internet looking for my home address to send me a thank you note because we did the right thing and we did it together.

That probably got about 30 audience to cheer after that, which was a monumental achievement, I have to say, and then I got the hell out of there as quickly as

possible. And then I went around the state for the next nine months in over 30 town hall meetings and campaigned for that plan. And ultimately, with thousands of protestors on the front steps of the State House, and in the galleries of both voting sessions, in a bill sponsored by the Senate President, and the Speaker of the Assembly, when only eight of the 24 Democratic members of the Senate, and only 13 of the 47 Democratic members of the Assembly voting yes, those reforms passed in the Assembly and in the Senate and were signed into law by me, and will save, over the next 30 years, \$132 billion for the taxpayers of New Jersey, and will return those funds to solvency.

Now, it took not just good leadership, but courage on the part of Democratic leaders in the legislature to post those bills and to move them forward without a majority of their caucuses voting for them, but they did it because they knew it was the right thing to do, they knew it was what we had to do. That's the environment that we've created in New Jersey, but it would not have happened if the executive didn't lead first.

If I didn't go out to that Firefighter's Convention and put out that plan first and then went around and campaigned for it, it would not have happened. Legislatures don't lead, executives lead, and then legislatures can be persuaded if you're willing to sit down at the table.

This year we've been able to pass a number of important initiatives. I preferred in the State of the State Address that the war on drugs, while well intentioned, has been a failure, and that we're warehousing addicted people every day in the state prisons in New Jersey, giving them no treatment, sending them back out on the street after their term of incarceration, and wondering why recidivism rates go up and why they don't get better, why they commit crimes again. Well, they commit crimes to support their addiction.

You can certainly make the argument that no one should try drugs in the

first place. I certainly am in that camp. But tens of millions of people in our society do every day. And for some people, they can try it and walk away from it, but for others, the first time they try it, they become an addict, and they're sick, and they need treatment.

So I said what we need to do is for all first time non-violent drug offenders, we have to make drug treatment mandatory, because if you're pro life, as I am, you can't be pro life just in the womb, every life is precious, and every one of God's creatures can be redeemed, but they won't be if we ignore them.

And I believe that this program, which was passed overwhelmingly by the legislature this year and will be phased in over the next five years, will allow every person who comes into the criminal justice system in New Jersey with a drug addiction to get a year of mandatory drug treatment in-house. And I believe that the results will show after this is fully implemented will be startling, because people can be treated. And miracles happen every day at these facilities, and lives are restored. Mothers and fathers are restored to the heads of their families, brothers and sisters, and sons and daughters are restored to the families. We return fabric to our families by doing this. And, by the way, for those of you who are concerned about economics, it cost us \$49,000 a year to warehouse a prisoner in New Jersey state prisons last year. A full year of in-patient drug treatment cost \$24,000 a year, so it makes economic sense also. But, to me, that's just a collateral advantage.

The real reason to do it is that we have an obligation to understand that addiction is a disease and that we need to give people a chance to overcome that disease and to restore dignity and meaning to their lives. That's not a Republican or Democratic issue; it's a bipartisan issue that we accomplished this year.

We reorganized our higher education system in New Jersey in a way that three previous governors tried and the special interest beat down every year. How does

executive leadership play in that? I said we have a deadline of July 1st, if we don't do it by July 1st, I will never let it happen during my entire time as governor.

And the press waited and said it's arbitrary, he's rushing, it's terrible, you know, it's like watching sausage being made, all the things they said, but guess what, it got done by June 28th. It wouldn't have gotten down if I hadn't set a July 1st deadline. And if the special interest didn't understand it, if they ever wanted this to happen, it was going to happen now. That motivated the legislature, and I think, to a large degree, it intimidated the special interest, who believe that they can always defeat a legislature and divide them, much harder to find defeat in absolutely committed executive.

We also, for the first time in 100 years, have reformed to our teacher tenure loss. Now, New Jersey's teacher's union is, if not the most powerful, one of the most powerful in America. New Jersey's teacher's union collects \$130 million in dues every year. And they don't spend a nickel on teacher salaries or pensions or health care. All of that money is used to support their political operations.

And they spent, in their first two years as I proposing teacher tenure reform, over \$20 million in negative ads against me on New York and Philadelphia television to try to say that my proposals for teacher tenure reform were anti-teacher and anti-student.

But after two years of doing that and seeing that we continue to press on and move on, guess what happened, the teacher's union came to the table, and we negotiated New Jersey's Tenure Law, which is over 100 years old, the oldest tenure law for K to 12 education in the country, has now been reformed to say that if teachers get two years of partially effective or ineffective ratings, they lose tenure. We're putting accountability back into the system. Student test scores must be accounted for in those evaluations, as well as peer review. And now principals and superintendents are going to have the opportunity to manage their school systems in a way which allow them to put the

students first by putting the best possible teacher they can find at the front of that classroom and not tolerating failure.

Now, imagine that. That was accomplished also in a bipartisan way with Republican and Democratic votes. It took a two and a half year fight, but we accomplished it two weeks ago.

I said around the state that the obligation of a governor is to find that space between compromising your principals and getting everything you want. There is always a boulevard between those two, that's the boulevard of compromise. Sometimes it's narrower, sometimes it's broader, but it is, in my experience, always there if you're willing to push to try to find it.

I would not ask anybody to compromise their principals, there's too much of that in politics today to begin with. But I also have to get everyone to acknowledge you're not going to get everything you want. And once you get acknowledgement on both sides of that equation, you can find and force compromise as an executive. I can walk and chew gum at the same time, okay. I can fight with Democrats publicly and privately over issues of principal where we can't find compromise, and at the same time, hold conversations with them on issues where we can find common ground and force that. This illusion that you see in this town that somehow that can't happen, it's not possible, is just an excuse, it's an excuse of failed leadership by both parties. You have to be able to walk and chew gum at the same time. You have to be able to find compromise.

People send us to these jobs to get things done, so are people in New Jersey noticing? Well, I'd say this, the last public poll before Election Day in 2009, when asked that question, do you think your state is moving in the right direction or is it off on the wrong track, 19 percent of New Jerseyans said they thought the state was moving in

the right direction, that's why I'm here. You're an incumbent with 19 percent in the right direction; it's going to be a tough day on Election Day.

Now, in the last public poll, 53 percent of New Jerseyans believe their state is moving in the right direction. In that same poll, only 36 percent of New Jerseyans believe our country is moving in the right direction. They are discerning between two different approaches to government, the federal approach and the New Jersey approach. What I've just outlined for you is the New Jersey approach, which is to make everyday a happy day. It doesn't make everyday an easy day for sure. But what people in New Jersey are seeing is the government is getting things done for them and the state's getting better; 85,000 new private sector jobs since I've become governor. The best year in home sales this year in 2012 since 2007. Our best job growth year last year since 2000. We had a decade of joblessness in New Jersey. 2000 to 2009 we had 0 net job growth in the private sector in New Jersey.

2011 was our best year of job growth since the year 2000 and 2012 is now outpacing 2011 already. People are noticing and things are happening inside our state. In the end, my message is that leadership is the only thing that will make the difference. It is the only thing that will make the difference. And leadership is not just about obstructionism. Leadership is also not about caving every time you get pushed. Leadership is about nuance and about understanding and communicating to people, here is what I stand for, and on these issues I will not be moved.

But then on other issues, leaving room for discussion and accomplishing principle to compromise where it can be. That's why I have great respect for the Senate President, Steve Sweeney and the Assembly Speaker, Sheila Oliver. They're democrats. We don't agree on a lot of things, but we've worked together. We've made it our business to put the people's business first, put politics second, which is why it is a little bit

disturbing to me what they've done with the idea of tax reduction.

It seems to me the closer we're getting to a presidential election in 2012 and gubernatorial election in 2013; the old politics may be creeping back in. That's when it's even more important for the executive to fight to continue to find compromise, not to throw up your hands and give up. And I think all too often in executive leadership positions across this country, executives have decided just to throw their hands up and say, they're bad, I can't deal with them. Then don't ask for the job. No one ever told you it was going to be pleasant or easy.

The job of an executive is to make sure that you get the job done, that you force people into a room and you find a way to get to compromise. Not on every issue. Some there will be impossible to find compromise, but my experience is more times than not, you can find it. And so I hope New Jersey is setting an example, and I trust it is for the rest of the country. In states across the country, I think you're seeing more and more of this, and hopefully, this infection of compromise will eventually spread here.

I'm not nearly as hopeful about that as I am that it will spread to the other states, but we need to continue to talk about it. And that's why I'm here. I am coming to this place, not meaning Brookings but Washington D.C., because I want people to know that their government can work for them. But they need leaders who are willing to take a risk. Risk with their own parties and a risk with the public who votes for them.

Because in end -- here's my philosophy on why I have this reputation around the state and around the country I guess now, of being pretty blunt and direct and people wonder, like where'd that come from? It's really simple. We all come from our parents, right? I mean, we're all parts of our parents whether we like it or not, for good and for bad. I have an Irish father who's 79-years old and if he were here today, you

know, he would be sitting right up in the front, he'd greet all of you afterwards, he'd tell you all about his grandchildren, and whether you wanted to or not he'd be hugging you at the end of the conversation.

On the hand, I had a Caecilian mother. Now for those of you who have any Caecilian relatives, you know this is an entirely different kettle of fish. In the automobile of life, my father was a passenger. My mother was the driver. My mother was judge, jury, and executioner. She particularly liked that last job, and she set the rules around our house. She was the person who set the tone, set the rules. Now I said I had a Caecilian mother because she passed away about 8-years ago. She died of lung cancer, she was a lifetime smoker.

And at the end of her life, I was a U.S. Attorney's National Conference in San Diego, and my brother called me and told me that she was back in the hospital and really in grave condition and if I wanted to see her, I needed to get home right away. And so I took the red-eye home that night from San Diego and flew back to New Jersey, got in the car and went to the hospital. When I got there she was sleeping, so I waited by the bed for a little while and finally she woke up. And without saying hello to me even, she looked at me and said, what day is it?

I said, it's Friday. She said, what time is it? I said, it's 9:30 in the morning. She said, go to work. And I said, well mom, I decided to take the day off to spend with you, so I'm going to stay here. And she said, Christopher, it is a work day. You go to work. I said, are you afraid of not getting your taxpayers money's worth today, because you know, I'll make up the time, don't worry about it. And she reached over and she grabbed my hand and he said, go to work, it's where you belong. There's nothing left unsaid between us.

She was giving me permission to let go, and it was the last great gift she

gave to me. But that's more important not just for that moment, but for what it says about the way she raised us. My mother taught us that in a trusting relationship that there should be nothing left unsaid between you and those people that you love and trust. That you shouldn't wait for the deathbed moment to get everything out because you might not make it. And that you need to tell them when you're happy and when you're angry, you need to tell them when you feel great and when you feel terrible.

You need to share everything with the people who trust you. And I know that if my mother were still alive to see this circus that my life has become, that she would be saying the same thing to me. She would be saying, Chris, these people trusted you to give you the most important job that they can give to anybody in New Jersey, to make them their governor. Tell them what you think, tell them how you feel. And I think that's what leadership needs to be about, especially in really difficult times like we are today.

We shouldn't be listening to political consultants whispering in our ear to tell us, say as little as possible. We shouldn't be listening to those voices who say, just use the party doctrine and don't stray. We tell people how we think and how we feel and let them judge us up or down. Because in the end of the day, listen, I love this job, but I've got plenty of great titles already. I was U.S. Attorney, and most importantly, husband, father, son. If it means that I lose if I chose to run for re-election, so be it.

But at least I'll be able to tell my children that the time I spent, I spent trying to do something significant. And I'll be able to say to the voters, when you go in the voting booth the next time, if I'm on the ballot you won't be able to say, I wonder who this guy is and I wonder what he really thought. They'll have a belly full by that time and I'll either be their cup of tea or I won't be.

But I won't be a mystery. You can't lead by being a mystery, you can't lead by being an enigma, you can't lead by being aloof, you can't lead by being

programmed. I think you have to lead by being yourself and who you are, and then people will trust you. And when they trust you, they'll follow you. And so that's the experience in New Jersey and I'm happy to take some questions with the time we have left. Thank you all very much.

MR. GAYER: Thank you, Governor. And thank you for coming to Brookings today. We really appreciate your visit. I'm going to -- we have a little bit of time. I'll start with one question --

MR. CHRISTIE: Okay.

MR. GAYER: -- and then we'll kind of, hand it off. I love the theme of your speech. The lessons from New Jersey, what can they teach us here in D.C., and especially as everybody knows, the most pressing problem we face is with our fiscal unsustainability. So clearly, any guidance you can offer through your speech and through your questions obviously is most pressing. I did want to ask you -- you stated that the first job is to set out your principles.

And I want to focus a little bit on taxes because I think that's where a lot of the disagreements come in. I'm curious to know what we think the republican's principles are in federal taxes. We had a compromise a couple of years ago -- a compromised proposal from the Simpson-Bowles Commission which I thought was a pretty good -- had some pretty good principles; lower marginal tax rates but pay for it by raising capital gains taxes, dividends taxes, getting rid of some of our deductions -- some of our popular deductions like charitable deductions, at least pairing them back, mortgage interest deduction.

So you know this had the spirit of principles and the spirit of compromise. I'm curious what you think republican principles are when it comes to federal taxes. Are republicans willing to pay for the reduction in marginal tax rates through such things as

increasing capital gains or reducing charitable deductions or other deductions?

MR. CHRISTIE: Well first I don't think there's one republican position, first off. And so I think -- and I think that's a game that both partisans in each party try to play because they don't want anything to happen, they want division. And at times, that the press tries to play as well. I will tell you this: that I think Simpson-Bowles, while I don't agree with every element of it, I think should have been pursued.

And I think it was an absolute mistake of leadership, a lot opportunity, not to push it. You've got republican and democratic votes on that commission. You didn't get the requisite number, but you got bipartisan support for that. Listen, I think the lowering of marginal rates both the elimination of loopholes and the means testing of other deductions is absolutely acceptable in the current context. I think you also have to get the spending side, as well. And that's where you get democratic opposition. I mean, I don't think that you can just deal with the tax system and get this under control. We have to deal with entitlements.

And if we don't deal with entitlements in an honest way, we're never going to get there. No matter what do in taxes, we're never going to get there. So yeah, I mean, I agree with many of the general principles laid out in Simpson-Bowles and do believe that lowering the marginal rates both on the personal and the corporate side makes sense, but only in the context of eliminating loopholes and means testing other deductions in order to make sure that you have a system that perceives and operates in a fair way. But that has to combined with entitlement restraint because if we don't have entitlement restraint, we're lost as well.

MR. GAYER: So you talked a little bit about your budget, and I'm curious to know whether or not you -- as you know, a couple of weeks ago we had the Supreme Court ruling on ObamaCare, and everyone's talking about the mandate. Is it a mandate,

is it a tax? I'd welcome your comments on that. But the other component of the ruling was on the Medicaid expansion. And this has a direct impact on the states --

MR. CHRISTIE: Yep.

MR. GAYER: -- in that you can now -- opt out of the Medicaid expansion without losing your current Medicaid's funding. Is this something that you've decided in thinking about your upcoming fiscal year budgets or is this a wait and see for New Jersey?

MR. CHRISTIE: Well, a few things. Directly it's a wait and see on us. Just found out about it, so it won't affect our fiscal '13 budget.

MR. GAYER: Future years.

MR. CHRISTIE: We have to look at fiscal '14 and '15 is when they'll really have an impact. But first of all, I was glad that the Supreme Court ruled that extortion is still illegal in America. And that's a relief because ObamaCare on Medicaid to the states was extortion -- you expand you're program to where we tell you and if you don't, we're taking all the rest of your money away. Well, that's extortion. You know, it was in a whole bunch of nice words in a bill, but it was extortion.

So I'm really glad that a majority of the Supreme Court still supports the proposition as a former prosecutor, that extortion is still illegal in the country, even when done by the President of the United States. Secondly, it seems to me that for a place like New Jersey, we have the second most expensive Medicaid program in the country, behind New York. And so our question is going to be, how much more do we really need to expand our program because we have some of the most generous benefits already?

So that's the analysis we're going to make. And we also have to make an analysis on the exchange issue as well, because you know, it can either be state-run exchange or we can let the federal government run the exchange. All these things are

going to be made in the context of two things: what makes it better for the people of our state, and what's the most efficient and effective way to do it from a cost perspective? And so I have our folks working on that. Now that we have a ruling, I have our policy folks working on it and will come to be with an analysis of what they think given the current state of New Jersey's Medicaid system.

MR. GAYER: What's the timeline you think on making this decision?

MR. CHRISTIE: You know, I would think that we we'll probably have to come to some kind of decision by the beginning of '13.

MR. GAYER: Okay.

MR. CHRISTIE: You know, in order to have enough time to plan. But I don't know what other new deadlines the feds may put on as well, so it's there's going to be a -- I'm sure a vigorous back and forth on that between the governors and the administration.

MR. GAYER: Okay. Let's take questions from the crowd and we have microphones coming around also. So if you could state your name and please make it a question.

SPEAKER: David Brazils. I'm not a resident of New Jersey, although --

MR. CHRISTIE: My condolences.

SPEAKER: -- yesterday on the New Jersey Turnpike, I thought I might become one.

MR. CHRISTIE: Well, Sunday in New Jersey. People coming from the Jersey shore. That's the way it goes.

SPEAKER: My question had to do with the federal-state relationship and I just wanted to see if I can get a few comments from you and views from the state's side because here in Washington, we tend to see things differently, particularly in areas like,

let's say, education or more recently, healthcare insurance. You know, in some sense is the federal -- you can call it intrusion, into areas that were more traditionally state responsibilities helpful or hurtful for the state of New Jersey?

MR. CHRISTIE: I think it's generally hurtful. I would say on issues like health, you know, the idea that the federal government's going to give a one size fits all healthcare program and think that it's going to work just as effectively in New Jersey as it will in Montana. Just -- we know that that doesn't make any sense. It makes no sense from just a gut perspective. That the health challenges that I face in the most densely populated state in America, with 8.8 million people in that size of land mass with that kind of urban population, I face some extraordinarily different healthcare challenges than Brian Schweitzer does in Montana.

And so why is it that anyone down here -- and this is the arrogance of the federal government. They believe that down here they can craft a program that's going to work for everybody. And I just think that, you know, you've got to leave more of this to the states. Medicaid should be block granted. Because the way that I can administer a Medicaid program in New Jersey is significantly different than the way Haley Barbour was able to negotiate a Medicaid problem in Mississippi, or Rick Perry in Texas, or Andrew Cuomo in New York.

And the idea that -- you know, I heard the President say to us one time, well you know, I'm afraid you'll take healthcare away from children. I'm like, well you know, what makes you think I'd do that? What in my record tells you I might do that? You know, there's a suspicion that exists which I think drives some of this intrusion. On the education side, I think Secretary Duncan has tried to do some positive things to empower states to do more. But I think overall, trying to manage broad education policy from Washington D.C. for, you know, a school district in Jersey City and a school district

in Tyler, Texas, that's a bit of a challenge. You've got to have quite an ego to think you're able to do that and do it effectively.

MR. GAYER: Any other questions? Right here in the aisle.

SPEAKER: Governor, I'd like to know if -- well, you mentioned 85,000 new private sector employees in your state. But as you know, throughout the country there have been massive job losses in the public sector among states and localities that has led to higher unemployment in this country than would normally be the case. Would you support a request by governors to the U.S. Congress that would request additional federal funds so that states and localities can hire back some of these essential employees they've been forced to let go?

MR. CHRISTIE: No.

SPEAKER: And why?

MR. CHRISTIE: Because all it is is a temporary Band-Aid. We saw this with the stimulus plan. John Corson used a billion dollars in funding to "rehire teachers" that he was supposed to use over two-years. He used it in a year because it was the year before his re-election, and then I was left with a billion dollar hole afterwards. And I had to cut \$820 million from our K to 12 education program in Fiscal Year 2011 to balance by budget.

And the fact is that unless what we're going to do is federalize the states, say you're going to pay for everything, you continue to give us this money, we spend it and hire people for a finite period of time, and then these localities and the state are on the hook then to pay for them beyond the time that the subsidy ends. Where's that money coming from? I mean, you know, I have the highest property taxes in America to begin with, so where's this money going to come from that's going to pay these folks afterwards?

I just don't see it. And you know New Jersey today has fewer employees in the state government than it had when Christie Whitman left office in January of 2001, and I think that's good. And we did it without any layoffs. We did it through attrition. And while there have been some layoffs in our state at the local level because of pressures on the local level, I don't think that's a bad thing. It's regrettable when anybody loses a job. But the fact of the matter is I had more government employees per square mile than any state in America.

Please, don't send me anymore money to hire more public employees. Please don't. I don't need any more. I've got plenty as it is and I don't need any more. They're extraordinarily expensive and extraordinarily difficult to manage and the idea that we continue, you know, to have to deal with some of these issues, I think because of the federal intervention. You know if the President and the Congress want to spend money on something that will create jobs, then spend money on infrastructure, what builds private sector jobs.

Don't spend money on sending me money to hire, you know, more public employees. Do something that will have a multiplying affect -- a geometric multiplying affect in the economy if you're going to do it. But don't do that by the way, unless you're going to do the other things that we talked about up here already, which is to deal with the fairness of the tax system and the structure of it, and to deal with the overall entitlement growth as well.

MR. MITCHELL: Governor, I'm Garrett Mitchell and I write *The Mitchell Report*, and I want to ask you about -- there were two sets of comments that you made that seem to me to frame a larger question about governments in the country. On the one hand, you've demonstrated what can be done in New Jersey with the right kind of executive leadership. You've said that there are certainly other examples around the

country like John Hickenlooper in Colorado and elsewhere. But you are -- I don't think you used the word pessimistic, but you said you were not necessarily hopeful that that contagion will move in here anytime soon.

Given that, it seems to me -- it raised the question of rethinking federalism itself and the partnership between the federal government and the states. And of course the Brookings Alice Rivlin has written a book about that and it is among those who are talking about what steps might be taken, what specific kinds of programs, might it be possible for states to take either all responsibility or greater responsibility for so that the federal government can concentrate on doing the things it does best and states can take the lead? And A, I'm wondering what you're thinking is about that? And B, to the extent that you have specific thoughts, whether you could share them with us?

MR. CHRISTIE: First, I think that we have to have the type of examination. This kind of gets to the point of the question I was answering over here which is, you know, do I think this continued intrusion of the federal government into areas that have traditionally been state is helpful or harmful? And that's why I said, well, I thought it was harmful. I think we do have to have that kind of conversation and we have to lower the level of suspicion that somehow states are going to want to do things that are injurious to their population.

You know, we all get elected too. I mean, so the fact of the matter is, we're going to want to do things that are generally good for the population in our state and will make people feel good about wanting to live there, work there, raise families there. So yeah, I do think we should have that conversation. On the specifics, I haven't given it a lot of thought. So I don't want to -- contrary to my reputation, I don't want to totally shoot from the hip on that.

But I do think that it's worthy of the conversation and I think that that's

part of what I hope we'll grow out of, a vigorous conversation of Simpson-Bowles, because that will force that conversation. Because in an era where you're trying to figure out, what are your priorities, because really the question you're asking is, what should the priorities of the federal government be and the priorities of the states be? And then have them divide responsibilities based upon those priorities. And right now we're just saying everything's our priority.

We're going to do everything. Well man, if you try to do everything, you're probably going to do most of it lousy and it's certainly going to cost you a fortune. And so let's figure out, what are the priorities? It seems to me at the federal level, you start with the National Defense, which only the federal government can provide in an effective way. And you work from there. And so, you know, the state responsibilities should not continue to be encroached on by large federal programs which then blur those priorities even more, which we don't have the money to pay for.

MR. GAYER: I think we have time for one more quick question. Tracy, over here in the corner.

MS. GORDON: Hi, I'm Tracy Gordon. I'm a Brookings, and like you I also spent some time in the other Newark, Delaware I should say.

MR. CHRISTIE: Yes, there you go.

MS. GORDON: So I think these are very essential and important questions that we're talking about right now. I was going to ask a slightly different question, but it gets back to this. I think you probably became governor at the absolute worst possible time for someone to become governor; at the first 6-months of 2010. I wonder about that saying about crisis creating opportunity and how do you sustain these changes going forward? And similarly, in any kind of important topic like federalism, how do you sustain that conversation? How do you keep people focused on the problem?

MR. CHRISTIE: Well, listen. I feel like it was a much better time to become the governor now than I did then. You know, I feel like at the time it was an incredible burden because when you sit down and you're cutting over 2,400 lines to the state budget, every one of those reductions you know. Like I could see those people in my mind that were going to be affected by it. And that's a heavy burden to carry. And my wife could tell when we were doing that over about a three-week period -- we had three meetings a week and they usually ran about 4 hours per meeting which was about all we could take, and then we'd get back the next day to do it.

And my wife could tell without looking at my schedule when I would come that night that I had had one of those meetings. So it was a really difficult time to become governor. But you are right that that type of crisis presents opportunities because everyone knows that, you know, we have limited choices now. All the gimmicks have been played. All the games had been played in New Jersey. I mean, we had bonded our tobacco money, we had borrowed for -- you know, for ongoing spending.

I mean every trick in the book that could be played extended from 20-years to 30-years to balloon payments from -- you know, just every game. So now you were left -- there were no games left in the playbook to use, so you had to actually make difficult choices. The sustainability of those is I think -- the possibility of the sustainability is embodied in that right direction number I told you. Like what the special interest will attempt to do when you make those tough choices is to say, this is the end of the world as we know it.

He's throwing grandma off the cliff, you know? Your children are not going to be able to learn. You know, you will not be able to get into a hospital. You know, the roads will be caving in, the bridges will be collapsing. You know, and there's commercials for this -- 30 second ads for all this stuff. What they've seen in New Jersey

now over the last two and a half years is the sun's still coming up every morning. Their kids are still going to school; test scores are still pretty good in a lot of the school districts.

You know, our roads could be better but they're not awful, our bridges are being repaired, we're doing the things the government essentially needs to do. And we're doing it with less employees than we've done it with since 2001. We've amended the pension and benefit program and you know, no one's visibly suffering from that. Would people like to have more money? Sure they would. But I can't justify any longer to the union carpenter, who's been out of work for two years, and he's trying to keep his house, his property taxes continue to go up because I'm paying for five percent raises for teachers.

I can't justify it anymore. And guess what? Neither can the union carpenter. And so the divide you see in our country in one respect, is the divide between the private sector union movement and the public sector union movement. And the private sector union movement which is dependent upon a vibrant private sector economy to put their people back to work during a downtime like this how can my people survive?

And how come when our pensions go down we have to put more money in, but the public sector workers don't? How come when my healthcare costs go up, I have to put more money in but the public sector workers don't pay anything? I mean, this is an issue of fundamental fairness. And so I think what you're seeing is the sustainability of these changes lie in their common sense and fairness. That doesn't mean they're not hard and it doesn't mean they're not painful, because they are. But they're also fair and they make sense.

And so people are willing to accept that in the context of shared sacrifice. And so in New Jersey we have an extraordinarily progressive income tax code where the

top 1 percent in New Jersey pays 41 percent of the income tax. So it's not like, you know, people are saying, well geez, you know, people are getting away with something. When the top 1 percent pays 41 percent of your income tax, there's shared sacrifice there too. So we're trying to spread that across the entire spectrum. I think that's where you get sustainability.

The last piece to getting sustainability is the last piece I talked about and used the example of my mom. You have to talk honestly to people about it. You can't say to them, don't worry, this isn't going to hurt. It will be fine. You have to look at them and say, this is going to stink. It's going to hurt, we're all going to hurt, but we're going to hurt together. But in the end, we're going to have a better day at the end of it. I don't know exactly how long it's going to take; two-years, three-years, four-years, but it's going to get there.

And I think that's the other thing that sustains it, is a condor with people where you're not trying to protect your own rear end all of the time in elected office with too many elected officials who are obsessed with re-election and that they're willing to do anything to keep their job. That's not the kind of person you want in the executive position or any position for that matter. But certainly, in an executive position right now given the challenges that our country faces. Beware of the person who will do anything to get re-elected, because that means they'll do anything to get re-elected.

And it won't matter. It won't matter what the long-term is. I had somebody tell me when I was talking about these pension changes, they said, why do you want to do this? This is a friend? And I said, well because the pension system is going to go bankrupt by 2018. And he said, Chris, if you're elected to two terms you're out in 2017. Let the next guy deal with it. That's the mentality that has crept into political consulting and the politics of it. Well, if it's not going to blow up on my watch, let

it go.

Only deal with the things that are absolutely going to blow up on my watch. And that's what's gotten us to this spot. And the next explosion that's coming is going to be an explosion that's going to be difficult to contain on the federal level if we don't deal with these issues. You know, it's going to be -- you know, people say, Europe. Look at Europe. Forget Europe. Europe is going to be a picnic compared to what will happen here, because the entire world depends upon this economy.

We start going in that direction, then the ramifications for the entire world are going to be graver than anything we're seeing in Europe right now, in my view. So the sustainability is to say that to people, and to say from behind podiums like this. To look at people and say, you know, hey guess what? Social Security? We're going to have to raise the retirement age. You know, listen, like I said, I was AEI a year or so ago. I said, listen, I just (inaudible) social security (inaudible) and I haven't been vaporized into the carpeting.

I'm still here. You know, we need to be honest about these things. We need to look at wealthy people and say, you know, some of these benefits need to be means tested. I know you paid into it for years. I know you're entitled to them. Guess what? We can't afford it. Sorry. You got screwed. What to -- you know, it happens. I mean, you have to say this stuff to people. And if you're unwilling to say it, in my view, you're not worthy of having the position and you certainly can't call yourself a leader.

You know, a leader is not just somebody who is, you know, whistling a happy tune at the front of the parade. Sometimes that's part of your job. But the grunt work is part of your job too and you've got to sustain the reforms that you're putting in place. You have to sell them to people in a way that they can believe and becomes a part of who they are. Then they'll support you and you know, if they kick you out of office,

they kick you out of office. I mean, it seems to me it's not the end of the world. But for some people, maybe it is. But we should keep those people out of office. So that was a long answer. I'm sorry about that.

MR. GAYER: Governor, thanks for your honest and invigorating comments. This is a great way to start the week for us. So I want to -- I hope everyone will join me and thank you for coming.

MR. CHRISTIE: Thank you.

MR. GAYER: Thank you very much. It's been terrific.

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