



Written by [Bob Adelman](#) on December 23, 2010

Reality Checks from New Jersey, Illinois

Steve Kroft called it “The Day of Reckoning” on his “60 Minutes” segment on Sunday, but many weren’t buying it. Despite persuasive statistics showing that states have overpromised and overspent, Kroft’s conclusion about time having run out on the states was met with denial, even anger.

He interviewed Meredith Whitney (who accurately predicted the decline in bank stocks as far back as 2007), who reiterated her conclusion that states debts are the next big bubble to burst. Her biggest concern is complacency:



The most alarming thing about the state issue is the level of complacency. [The states budget shortfalls have] tentacles as wide as anything I’ve seen. I think this is the single most important issue in the United States, and certainly the largest threat to the U. S. economy.

There’s not a doubt in my mind that you will see a spate of municipal bond defaults. [By that I mean] you could see 50 sizeable defaults. Fifty to 100 sizeable defaults. More. This will amount to hundreds of billions of dollars worth of defaults.

Almost immediately, denials issued from [Bloomberg](#) and [Fortune](#) claiming that Whitney overreached with her conclusions and that investors should stop panicking over potential municipal bond defaults. Joe Mysak called this Whitney’s boldest, most overreaching call of her career.”

Hundreds of billions of dollars? The one-year record, set in 2008, [was only] \$8.2 billion. That number is in the realm of the fabulous.

Cyrus Sanati called Whitney’s estimate far overblown, observing that while there may be smoke in the building, it’s not likely to burn down.

In fact, Moodys has counted just 54 defaults in the muni market from 1970 to 2009. That’s it 54 out of the hundreds of thousands of bond offerings that have ever been issued to the public over the last 40 some odd years.

In the real world, however, Kroft was able to talk to individuals facing the huge budget shortfalls on a daily basis, such as Illinois State Comptroller Dan Hynes. Illinois currently spends twice as much as it is taking in from taxes, and is falling further and further behind in paying its bills. At the moment, the state owes \$5 billion and Hynes doesn’t have the money to pay the bills some of which are six months old.

Kroft: How many people do you have clamoring for money?

Hynes: It’s fair to say that there are tens of thousands if not hundreds of thousands of people waiting to be paid

Kroft: How are these people getting by?



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Hynes: People borrow money. They borrow in order to get by until the state pays them.

Kroft: They're subsidizing the state. They're giving the state a float.

Hynes: Exactly.

Those waiting for their money include the University of Illinois (\$400 million) and Mayur Shah, a pharmacist in Chicago who has been waiting for months for his \$200,000 reimbursement in Medicaid payments. What can Hynes do? He says, The first words out of my mouth are usually an apology, because they have been, you know, put in this situation [and] that is really unacceptable. And you know there is very little I can do or say other than apologize.

Hynes went on to explain the impact such red ink is having on day-to-day operations. There are Illinois legislators who have been evicted from their offices because the state couldn't pay their rent. State troopers have been turned away from gas stations which have refused to accept the states credit cards.

Kroft: The states a deadbeat.

Hynes: Yeah. I mean, the state of Illinois is known as a deadbeat state. This is a reputation that has taken us years to earn and we've reached, you know, the heights ... I think, become the worst in the country.

When Kroft asked New Jersey Governor Chris Christie (above left) about the situation there, Christie replied bluntly, The only choices left are choices that people previously have said were politically impossible, that you couldnt do. You couldn't cut K to 12 education funding. You couldn't talk about pension and benefit reform for the public sector unions. [These were considered to be the] third rails of politics. We are now left with no alternatives.

After summarizing New Jerseys difficult situation left behind by former Governor Jon Corzine, Kroft then reviewed what Christie has already done to begin to right the ship of state: He slashed the states budget by 26 percent, including a billion dollars in cuts to education which forced the layoffs of thousands of teachers. He eliminated 1300 state workers and reduced financial assistance to cities, counties and villages. And yet, despite those actions, Christie faces another \$10 billion shortfall in 2011.

In a remarkably candid interchange, Christie indicated what its going to take for the states to turn things around.

Kroft: \$46 billion unfunded liability for pensions? Sixty-six billion unfunded for healthcare liability?

Christie: Yes, sir.

Kroft: This is unsustainable, right?

Christie: Totally unsustainable. We have a benefit problem. Its not an income problem its a benefit problem. And so we gotta change those benefits.

Kroft: Public reaction?

Christie: Well, it depends on where you sit. I mean, I think the general public thinks "I cant believe anybody gets a pension anymore. Ive got a 401 (K). It got killed in the stock market. I don't know what I'm gonna do for my retirement. I cant believe people get a pension anymore." So I think amongst the broad, general public, they've said, "Amen." [But] among the public sector unions, they are yellin and screamin.



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During one highly publicized confrontation with a school teacher, Christie was challenged: You're not compensating me for my education and you're not compensating me for my experience! To which Christie replied, Well, you know what? You don't have to do it!

In defending his strong and provocative stands, Christie says he expects those unions to share the pain of downsizing.

This is what I say to public sector unions: "Listen. You can boo me now, but I'm the first governor who has walked into this room in ten years and told you the truth. And here is the truth. If you don't partner with me to get this done, in ten years you won't have a pension. And that's the truth."

The five stages of reality are 1) denial, 2) anger, 3) bargaining, 4) depression, and, finally, 5) acceptance. Whitney's study of states' finances is a dose of reality, denied by many, angering others, forcing still others to bargain, causing depression among others, and, finally, acceptance of reality. Hynes has accepted reality. Christie is doing something about it. Kroft is right: the day of reckoning is here.



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