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Subcommittee on TARP, Financial Services and Bailouts of Public and Private Programs

“State and Municipal Debt: The Coming Crisis?”

February 9, 2011

Rep. Patrick McHenry, Chairman

Opening Statement

Today’s hearing is an opportunity to discuss growing concerns over the potential fiscal crisis looming for states and municipalities. Over the past three years we have seen a culture arise where every institution claimed it was “too big to fail.” An all-too-eager President and an all-too-compliant Congress kept putting taxpayers on the hook for trillions of dollars. Our budget deficit has reached an all-time-high, and the national debt is crippling our economy.

Now we are facing the consequences of bad government policy in yet another way. States and municipal governments, who are preparing for aggregate budget shortfalls totaling roughly \$125 billion this year, are struggling under a trillion-dollar burden of unfunded pension liabilities, plummeting tax revenues, and an unforgiving bond market.

We must understand the magnitude of the problem to avoid the reactionary, ad hoc decision-making that fueled federal action in the 2008 financial crisis.

This isn't about one analyst. It's about the looming fiscal crisis in states and municipalities and the lack of transparency in their pension obligations.

The perfect storm is brewing, already state and municipal governments are coming to Washington, hat-in-hand, expecting a federal bailout like everyone else.

But the era of the bailout is over.

That does not mean, however, that Congress must turn a blind eye or deaf ear to the crisis unfolding in state and local governments. The beauty of federalism lies in the fact that the national government does not tell the states how to manage their own affairs. The burden of federalism is that when one state – or all 50 states – are in a crisis, we must work together to solve them for the good of the country.

Since 1990, state and local government spending has increased roughly 70 percent faster than inflation. The vast majority of the states now find themselves in a fiscal straitjacket, caused primarily by the looming burden of paying out trillions of dollars in lucrative public sector union pension and healthcare benefits that come at the expense of taxpayers. For the last three years, funds from the stimulus act have masked the severity of state fiscal problems. In fact, there was \$140 billion in transfers to states included in the stimulus. States now say that more money would help them through their current rough patch. The reality, however, is that the money states received from the stimulus has, in many ways, made them worse off. A lot of the funding came with “maintenance of effort” requirements that force states to keep funding programs after federal funding dries up this year.

More money from Washington would just delay the day of reckoning and only further complicate state fiscal situations. Besides, we don’t have any money to offer. *The simple fact is that government has outgrown our capacity to pay for it.*

There will be severe consequences for not changing course. Young teachers, fresh out of college and ready to give back to their communities, will be told that their school districts cannot provide them with reasonable retirement benefits because they are cash-strapped to pay for the exorbitant benefits of others. Firefighters, policemen, and other public servants – facing the reality that these vital jobs offer no promise of rising standards of living for their families – will simply opt for a different career path.

In the end, people will recognize that their government has failed them. But not only *that*, they will believe that their government has actively hurt them. While we have the opportunity to change that, we are responsible to try.

That is why we are here today: to come to a better understanding of the crisis facing state and local governments, to assess its causes, and to consider available solutions. With this hearing, I intend to shed light on how states arrived at their current predicament. What is the true extent of their fiscal distress? We need to understand all available solutions. My friend and colleague from California, Rep. Devin Nunes, has a proposal that would require greater transparency at the point of most urgent concern, the pension problem. I’ve been happy to work with him on this legislation. I also look forward to hearing from both sides on any and all possible solutions.

Let there be no mistake. Much is required to get our fiscal house in order at the national, state, and the local levels. But reckless spending fueled by bottomless borrowing and guaranteed by endless bailouts is an unsustainable course.