



TAMPA BAY BANKRUPTCY CENTER, P.A.

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California Against Bankruptcy for States

In the continuing debate over whether states should be allowed by law to seek federal bankruptcy protection, Dan Walters now chips in his opinion, particularly for the state of California. Counties, cities (like Vallejo did in 2008) and local units of government are allowed to file for bankruptcy in some states in the US but not the states themselves. In California's case, the state is so deeply in debt that the prospect of bankruptcy is never far from consideration.

However, for any state (not just California) to file for bankruptcy, it would take a legislation passed in Congress. If some Republicans had their way, this would soon become a reality. Newt Gingrich, former House Speaker and potential GOP presidential candidate is all for the idea. Some Republican congressmen are reported to be drafting legislation to that effect.

The rationale behind this is so that local governments do not burden the federal government with having to bail them out. But it's clear that at

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the same time, this would be a way to undermine public labor unions by allowing states to dodge their obligations under labor union agreements once they are under bankruptcy protection.

Last Monday, the labor unions in California brought the matter up to the Economic Policy Institute, a left-center think tank closely aligned to the labor unions based in Washington. As a result, the EPI spoke to California state treasurer, Bill Lockyer in a national telephonic conference about this issue. Lockyer firmly denounced any intention on the part of the state of California to file for bankruptcy.

Lockyer contends that bankruptcy is the provision for individuals, corporations and local governments that do not have the capability to repay their debts. However, in the case of California and other states, they have the authority to levy whatever rate of taxes to pay off their debts. A good example is California. Its budget shortfall is about \$20 billion a year, which is merely 1% of its economic output. Likewise, the states pension payment debts and deferred payments to schools can be quite easily repaid if there is the political will to do so. Hence, the reason California has not been able to pay off its debts is not a matter of economics, but of politics.

Allowing bankruptcy for the states would result in two things - an instability in the municipal bond market and an abrogation of responsibility by politicians who have handled the state economy poorly. Both results are jeopardizing to the state.

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