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Governors Oppose Bankruptcy for States

On the ongoing debate in Congress regarding legislation to allow states to seek federal bankruptcy protection, the governors of the respective states have got this to say - “We don’t want any of it” (paraphrase mine).

For example, Utah governor had this to say at a panel of the state of public finance at the National Governors Association (NGA) winter meeting, “Suggestions have been brought forward and some speculation that states are teetering on the brink of bankruptcy. I’m here to say I believe that’s a dangerous development. It has risks to our municipal markets, to those who invest in our states wondering about the economic viability of our states. This is coming from incomplete and in many times inaccurate information.”

Herbert chairs the NGA and opines that Congress’ deliberations on giving the states the option of bankruptcy will do nothing but bring jitters to the marketplace and may trigger an interest rate hike not to mention increase the cost of state government.

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Congress has already held hearings to consider legislation for allowing states to file for bankruptcy. Advocates for the idea including prominent GOP lawmakers, Newt Gingrich and Jeb Bush say that allowing bankruptcy gives state governments the chance to reorganize their finances without being encumbered by union obligations. Gingrich and Bush wrote, “In such a reorganization, a state could propose to terminate some, all or none of its government employee union contracts and establish new compensation rates, work rules, etc. The lucrative pay and benefits packages that government employee unions have received from obliging politicians over the years are perhaps the most significant hurdles for many states trying to restore fiscal health.”

At the same time, having bankruptcy as an option means the state governments do not have to rely on the federal government for bailouts as a solution to their financial problems. But the governors at the NGA view bankruptcy as a bane rather than boon to their economic development.

“The reality for all of us is this whole conversation about bankruptcy has chilled some of the economic development conversation,” North Carolina Governor Bev Perdue said. She went on to state, “These are dangerous times that we live in when we have people fueling things that really can hurt our states’ economic bases. Bankruptcy ... is simply not an option that any governor would ever pursue.”

Most financial experts believe, however, that the prospect of bankruptcy for states is remote.