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McConnell's Reckless COVID-19 Bailout Claim on Pensions.

Senate Majority Leader Mitch McConnell's suggestion that states financially strapped by the pandemic should declare bankruptcy rather than receive federal aid would further devastate the national economy, destabilize the municipal bond markets and unfairly damage the retirements of government workers.

McConnell, R-Kentucky, says the federal government should not bail out governments of blue states like California because of the past fiscal mistakes they have made, most notably their poorly run public employee retirement promises.

"We're not interested in solving their pension problems for them," he told Fox News. "We're not interested in rescuing them from bad decisions they've made in the past, we're not going to let them take advantage of this pandemic to solve a lot of problems that they created themselves and bad decisions in the past."

On the surface, it's a politically appealing argument to McConnell's conservative base because state and local governments across the country have promised retirement benefits to government workers but failed to properly fund them.

California is one of the worst. The shortfall in its state and local government pensions works out to about $27,500 for every resident. The Golden State needs to clean up its pension mess.

But bankruptcy is not the answer — not for California or any other state. Certainly not now. McConnell's apparent attempt to leverage the coronavirus crisis for partisan purposes, by "stopping blue state bailouts," is mean-spirited and politically misguided.

While California ranks third in the nation in pension debt per state resident, red-state Alaska tops the list and half of the top 14 are red states or swing states, according to pensiontracker.org, run by Stanford's Institute for Economic Policy Research. Twelfth on the list is McConnell's home state of Kentucky.

By the way, if McConnell wants to even the ledger on federal subsidies, that's fine with us in California. As an Associated Press analysis found, "High-tax, traditionally Democratic states (blue), subsidize low-tax, traditionally Republican states (red) — in a big way."

Meanwhile, the most basic problem with McConnell's argument is that states cannot currently file for bankruptcy. That would require federal legislation, which itself would be constitutionally questionable because the U.S. Constitution's contracts clause prohibits state governments from "impairing the obligation of contracts."

But even assuming that it could be done, it would be horrible policy.

The federal government is trying desperately to shore up struggling businesses, large and small, to keep Americans working. Undermining state and local governments, which employ about 20 million people, or about 12% of the nation's workforce, and which have been devastated by declining tax revenues, would be counterproductive folly.

Then there’s the effect on the markets. State and local governments issue bonds to fund capital projects. If they were forced into bankruptcy, it could send the $3.8 trillion muni market into a sell-off.

“It will be highly disruptive to the municipal bond market broadly and will result in significantly higher borrowing rates at a time when those costs are least absorbable,” according to a BofA Global Research report reviewed by Reuters.

Finally, there are the pension plans that are the apparent target of McConnell’s ire. He’s right that state and local governments have promised more than they can afford, pushing retirement debt onto future generations of taxpayers. Yes, state and national pension laws should be rewritten to stop the abuses.

But destabilizing the ability of those local governments to fund those pensions would hurt taxpayers and, in some states, the workers and retirees who earned those benefits, leaving them with less money to spend to help shore up the economy.

Public employee pensions must be reformed. But pushing state and local governments over a fiscal cliff in the middle of a crisis is not the solution.

The San Jose Mercury News

May 3rd, 2020 | by The San Jose Mercury News editorial board

This is an editorial from The San Jose Mercury News.