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The State Budget Virus

by John Hayward (more by this author)
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Mulling over the possibility of a municipal bond crisis in the United States, Pat Buchanan compares the situation to Europe, with tottering states like California and Illinois standing in for European basket cases like Greece and Portugal. The essential dilemma is the same: bankrupt entities poised to place a catastrophic drain in a larger structure when they fail. The unsustainable spending and lunatic policies of the worst states will become a virus that spreads to more responsible states, if the most badly broken state governments fail, and the federal government moves to bail them out.

Joe Tauke at *The Daily Caller* expands on the problem, pointing out that money from the big “stimulus” program is about to run out, and the expiration of the Build America Bonds program will increase the cost of financing state and municipal debt. Tauke quotes Tad DeHaven of the CATO Institute says that “State and local government employees and other special interests have been allowed to gorge themselves over the years at the expense of taxpayers,” indulged by local governments that “think they’ll get a federal bailout of some sort.”

The shakiest states also have to deal with the exodus of taxpayers and businesses brought about by their policies. States that land on top lists of both largest budget gap, and greatest population loss in the latest Census, include Illinois, Iowa, Massachusetts, New Jersey, and New York.

New Jersey Governor Chris Christie has been making headlines with his stalwart efforts to bring his state’s budget under control, but some states need even tougher austerity measures. A recent article by Kerri Shannon of *Money Morning* relates some shocking news about Illinois: it spends money twice as fast as it collects revenue, has $5 billion in past-due bills, finds that some vendors won't take state credit cards any more, and has state legislators getting evicted from their offices due to unpaid rent. Meanwhile, the Pew Center on the States released a report back in February that says state retirement benefits and pension plans are collectively underfunded by over a *trillion* dollars.

When you start talking about trillions of dollars, you're talking about federal money. The collapse of some state governments appears all but inevitable, perhaps beginning in 2011. The kind of austerity measures needed to save the worst of them would rival the riot-spawning reforms that produced massive demonstrations in France, Greece, Italy, and even the United Kingdom. The temptation to alleviate that pain by petitioning the federal government for relief will be irresistible, especially with the electoral votes of large states on the line. Few in Congress will relish being on the wrong end of headlines screaming that they told California or New York to pound sand.

The urge to bail out the states *should* be resisted, loudly and often. The legislators who caused these problems should not be allowed to proceed on the assumption Washington will save their bacon. It would be the height of tyranny to expect the residents of solvent states to pay for the folly of distant politicians they were never allowed to vote against. It also wouldn't *work*. If there's one thing the era of bailouts should have taught us, it's the futility of pouring money into a broken system. The federal government doesn't have the money to bail out disintegrating state budgets. It's already running trillion-dollar deficits and a $13 trillion debt on its own. The implosion of state budgets, and the collapse of municipal bonds, is a crisis we haven't heard nearly enough about. The day of reckoning is at hand. In fact, it might have passed some time ago.

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