Congressman Elijah E. Cummings (MD-07), Ranking Member

Opening Statement

Hearing on: State and Municipal Debt: The Coming Crisis?

House Committee on Oversight and Government Reform

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

Capitol Visitors Center House Room 210

Wednesday, February 9, 2011 at 9:30 a.m.

I thank the Subcommittee Chairman for calling this hearing to examine the important and timely issue of state and municipal debt.

Today, we have the opportunity to get to the root of the states' fiscal problems, and to discuss how best to find serious and effective solutions. I hope that our focus can be about how to support our states with serious solutions that they want and need, and not the alarmist and drastic proposal that has been raised by former Speaker Newt Gingrich and former Governor Jeb Bush to push states to into bankruptcy.

This is an area where we need to listen to our state leaders and hear from them about what they want and need. The bipartisan National Governors Association, has issued a statement opposing proposals for state bankruptcy. They said that: "The reported bankruptcy proposals suggest that a bankruptcy court is better able to overcome political differences, restore financial stability and manage the finances of a state.

These assertions are false and serve only to threaten the fabric of state and local finance."

Barclays Capital has confirmed that drastic interventions in the state municipal bond market is unwarranted, stating that: "Despite frequent media speculation to the contrary, we do not expect the level of defaults in the U.S. public finance market to spiral higher or even approach those in the private sector. We hold this view in large part because of the steps taken [by municipalities] thus far and the control that public entities can exert over the expensive and revenue portions of their balance sheets."

We must examine our solutions and ensure that they do not do more harm than good. This bankruptcy proposal sparks unwarranted fear that the state budgets will collapse, which then results in higher borrowing costs and further limitations on states' abilities to finance projects and meet local needs.

I also think we need to be careful not to blame the financial situation of states on employee pensions. According to the Center for Retirement Research at Boston College, state and local pension contributions constitute a tiny portion of the state and local operating budgets – only 3.8 percent. Furthermore, the underfunding issues that states are facing are largely attributable to the two recessions that have occurred over the past decade, not because of overly generous employee pensions. This is evidenced by the fact that in the year 2000, state and local pensions were, on average, fully funded.

Furthermore, Most states have already taken significant steps to address their pension funding challenges.

Rather than distort the true causes of the states' budgetary problems, let's use this opportunity to explore appropriate ways that Congress can support the states' efforts to become fiscally sound. In the absence of providing additional Federal aid, Congress can help the states overcome the current budget crisis by focusing on job creation and addressing the ongoing foreclosure crisis, which continues to wreak havoc on the housing market and state and local budgets.

On that point, I hope that we will use this hearing to explore appropriate ways that Congress can support the states' efforts, while abandoning proposals, like bankruptcy, that may inflict greater harm by increasing market instability and borrowing costs, further hindering the states' ability to achieve fiscal stability.