

The New "S&L" Crisis: Bailouts for States Likely, Invesco's Garnick Says

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With American voters going to the polls today in [key elections](#), a lot is at stake, including whether to continue Democratic rule in two states and President Obama's overall influence.

The timing couldn't be more crucial. "State and local governments have picked up the slack where companies and consumers have stopped spending," says our guest Diane Garnick, investment strategist at Invesco, which has more than \$400 billion of assets under management.

But as local municipalities continue spending, key tax bases are shrinking as real estate remains weak and unemployment rises. In a nutshell: local coffers are shrinking.

"This [S&L crisis](#) is likely to be the state and local government," says Garnick, who says Americans should prepare for higher local taxes and all kind of creative "user fees."

More bailouts? Looking ahead, Garnick says it's not difficult to imagine direct bailouts for states, when taxpayer-funded rescues were made available for the private sector.

So the good news for investors Now is the time to invest in municipal bonds. "The munis are the place to go. I think we have that safety net from the [Federal] government," says Garnick, whose firm helps manage pension funds for state and local governments.

The bad and the ugly. What's worrisome though is growing public outrage surrounding bailouts, indebtedness and a general suspicion that it never will be an even playing field. As Garnick explains, just as diligent homeowners protested debt forgiveness for delinquent consumers, how will conservative taxpayers feel about rescuing big state spenders like California? Adding fuel to the outrage fires, [The WSJ today reports](#) pensions for top executives are rising and average of 18% in 2008, with more than 200 executives pocketing pension gains of more than 50%.

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