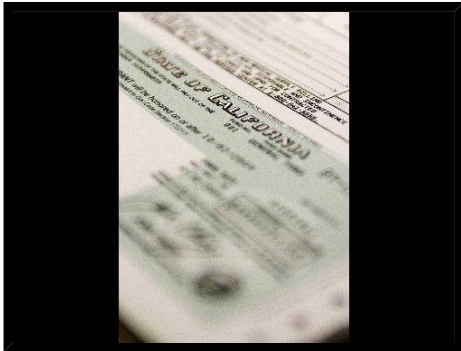




California's Nightmare Will Kill Obamanomics: Kevin Hassett

[Share](#) | [Email](#) | [Print](#) | [A A A](#)

Commentary by Kevin Hassett



July 6 (Bloomberg) -- Last week, we discovered that the state of California will gladly pay you Tuesday for a hamburger today.

With California mired in a budget crisis, largely the result of a political impasse that makes spending cuts and tax increases impossible, Controller **John Chiang** said the state planned to issue \$3.3 billion in IOU's in July alone. Instead of cash, those who do business with California will get slips of paper.

The California morass has Democrats in Washington trembling. The reason is simple. If Obama's health-care plan passes, then we may well end up paying for it with federal slips of paper worth less than California's. Obama has bet everything on passing health care this year. The publicity surrounding the California debt fiasco

almost assures his resounding defeat.

It takes years and years to make a mess as terrible as the California debacle, but the recipe is simple. All that you need is two political parties that are always willing to offer easy government solutions for every need of the voters, but never willing to make the tough decisions necessary to finance the government largess that results. Voters will occasionally change their allegiance from one party to the other, but the bacchanal will continue regardless of the names on the office doors.

California has engaged in an orgy of spending, but, compared with our federal government, its legislators should feel chaste. The **California** deficit this year is now north of \$26 billion. The U.S. federal **deficit** will be, according to the latest numbers, almost 70 times larger.

Bleak Picture

The federal picture is so bleak because the Obama administration is the most fiscally irresponsible in the history of the U.S. I would imagine that he would be the intergalactic champion as well, if we could gather the data on deficits on other worlds. Obama has taken **George W. Bush's** inattention to **deficits** and elevated it to an art form.

The Obama administration has no shame, and is willing to abandon reason altogether to achieve its short-term political goals. **Ronald Reagan** ran up big deficits in part because he believed that his tax cuts would produce economic growth, and ultimately pay for themselves. He may well have been excessively optimistic about the merits of tax cuts, but at least he had a story.

Obama has no story. Nobody believes that his unprecedented expansion of the welfare state will lead to enough economic growth. Nobody believes that it will pay for itself. Everyone understands that higher spending today begets higher spending tomorrow. That means that his economic strategy simply doesn't add up.

Character Deficit

Back in the 1980s, Reagan's own economist, **Martin Feldstein**, spoke up when he felt that the Reagan administration was pushing the deficit too far. Where are the economists with such character today? Apparently, the job description for economists has transformed from recommending policies that are defensible to defending whatever policies that the political hacks in the West Wing dream up.

As bad as the California legislature has been over the years, it has never entered a fiscal crisis like the one that we face today and then doubled down with a massive spending increase. In the end, when times got tough, patriotic and sensible

Californians of both parties stood up and began acting like adults.

Maybe the same thing is starting to happen in our nation's capital. The key players in Washington are Senator **Evan Bayh** and 15 Senate Democrats who joined him this year in forming a coalition of moderates. One thing that has distinguished moderate Democrats from the garden variety of the species is heightened concern about fiscal responsibility.

Off a Cliff

With the price tag of Obama-care likely to exceed \$1 trillion, moderate Democrats face a simple choice. They can jump off the cliff with the president, or they can stay true to the principles that they have espoused throughout their careers.

There are reassuring signs that principle is winning. One of the most expensive components of the Obama plan is the so-called public-insurance option, which opponents fear would result in massive government subsidies. Senator **Mary Landrieu** said that she is "not open" to a public option that will compete with private insurance.

Many other Democratic Senators, including **Ben Nelson**, **Blanche Lincoln**, and **Tom Carper**, also oppose the public option. As the cost estimates increase and support wanes, the Senate Finance Committee is even going as far as to pursue its own health-care plan, meaning that the health-care end game is now in sight.

Tax Bite

Moderates might support Obama's health-care objectives if the bill also included tax increases to cover the spending increases. But those **tax** increases would likely be unpopular, making it almost impossible to pass a bill.

Given the increasing public concern about deficits that heightened significantly last week because of the California crisis, there are only two possibilities left. Either the Obama plan will come crashing down or Senate Democrats will concoct some bill that has health in the title but costs almost nothing and does even less. With **Al Franken** arriving in the Senate and providing Democrats with a crucial 60th vote, the latter seems most likely.

(**Kevin Hassett**, director of economic-policy studies at the American Enterprise Institute, is a Bloomberg News columnist. He was an adviser to Republican Senator John McCain of Arizona in the 2008 presidential election. The opinions expressed are his own.)

To contact the writer of this column: **Kevin Hassett** at khassett@bloomberg.net

Last Updated: July 6, 2009 00:01 EDT

