



Krugman Divulges Real Reason Conservatives Freak Out About California Success Story

Right-wingers just hate when promised catastrophes don't materialize.

By Janet Allon
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Paul Krugman feels terribly sorry for conservatives who predict doom whenever taxes are raised slightly, and social programs are delivered, and then, lo and behold, the promised catastrophe does not materialize. You'd think they'd scurry away, tails between legs, issuing mea culpas and feeling horrible about themselves.

In Friday's column, he discusses California, the "left coast," where Governor Jerry Brown had the audacity to push through a modestly liberal agenda of higher taxes and spending, a higher minimum wage, and enthusiastic implementation of Obamacare.

The horror, conservatives said. As Krugman writes:

A representative reaction: Daniel J. Mitchell of the Cato Institute declared that by voting for Proposition 30, which authorized those tax increases, "the looters and moochers of the Golden State" (yes, they really do think they're living in an Ayn Rand novel) were committing "economic suicide." Meanwhile, Avik Roy of the Manhattan Institute and Forbes claimed that California residents were about to face a "rate shock" that would more than double health insurance premiums.

Well, darned if the catastrophe didn't happen. Krugman offers numbers, as he usually does, to bolster his case:

If tax increases are causing a major flight of jobs from California, you can't see it in the job numbers. Employment is up 3.6 percent in the past 18 months, compared with a national average of 2.8 percent; at this point, California's share of national employment, which was hit hard by the bursting of the state's enormous housing bubble, is back to pre-recession levels.

On health care, some people — basically healthy young men who were getting inexpensive insurance on the individual market and were too affluent to receive subsidies — did face premium increases, which we always knew would happen. Over all, however, the costs of health reform came in below expectations, while enrollment came in well above — more than triple initial predictions in the San Francisco area. A recent survey by the Commonwealth Fund suggests that California has already cut the percentage of its residents without health insurance in half. What's more, all indications are that further progress is in the pipeline, with more insurance companies entering the marketplace for next year.

And, yes, the budget is back in surplus.

But does the stubborn right flank ever examine the actual results, search their souls and reconsider their positions? Ha! Instead they just try to downplay the good news. California is not adding jobs as fast as Texas, they say. Gotta be the tax rates.

Krugman's answer to that:

For the big difference between the two states, aside from the size of the oil and gas sector, isn't tax rates. it's housing prices. Despite the bursting of the bubble, home values in California are still double the national average, while in Texas they're 30 percent below that average. So a lot more people are moving to Texas even though wages and productivity are lower than they are in California.

And while some of this difference in housing prices reflects geography and population density — Houston is still spreading out, while Los Angeles, hemmed in by mountains, has reached its natural limits — it also reflects California's highly restrictive land-use policies, mostly imposed by local governments rather than the state. As Harvard's Edward Glaeser has pointed out, there is some truth to the claim that states like Texas are growing fast thanks to their anti-regulation attitude, "but the usual argument focuses on the wrong regulations." And taxes aren't important at all.

The lesson of the California comeback is a familiar, but it bears repeating. "You should take anti-government propaganda with large helpings of salt," Krugman writes. "Tax increases aren't economic suicide; sometimes they're a useful way to pay for things we need. Government programs, like Obamacare, can work if the people running them want them to work, and if they aren't sabotaged from the right. In other words, California's success is a demonstration that the extremist ideology still dominating much of American politics is nonsense."