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Obamacare: Left coast rising

By: Paul Krugman
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The states, Justice Louis Brandeis famously pointed out, are the laboratories of democracy.

And it's still true.

For example, one reason we knew or should have known that Obamacare was workable was the post-2006 success of Romneycare in Massachusetts. More recently, Kansas went all-in on supply-side economics, slashing taxes on the affluent in the belief that this would spark a huge boom; the boom didn't happen, but the budget deficit exploded, offering an object lesson to those willing to learn from experience.

And there's an even bigger if less drastic experiment underway in the opposite direction. California has long suffered from political paralysis, with budget rules that allowed an increasingly extreme Republican minority to hamstring a Democratic majority; when the state's housing bubble burst, it plunged into fiscal crisis. In 2012, however, Democratic dominance finally became strong enough to overcome the paralysis, and Gov. Jerry Brown was able to push through a modestly liberal agenda of higher taxes, spending increases and a rise in the minimum wage. California also moved enthusiastically to implement Obamacare.

I guess we're not in Kansas anymore. (Sorry, I couldn't help myself.)

Needless to say, conservatives predicted doom. 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.

What has actually happened? There is, I'm sorry to say, no sign of the promised catastrophe.

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 prerecession 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. Overall, 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.

Has there been any soul-searching among the prophets of California doom, asking why they were so wrong? Not that I'm aware of. Instead, I've been seeing many attempts to devalue the good news from California by pointing out that the state's job growth still lags that of Texas, which is true, and claiming that this difference is driven by differential tax rates, which isn't.

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.

So what do we learn from the California comeback? Mainly, that you should take anti-government propaganda with large helpings of salt. 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.