

California or Delaware?

Obama emulates the wrong state.

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What do Delaware and California have in common? Not much: One is very small, one very large, but more important they have over time followed very different economic policies that explain the direction of the Obama administration's economic thinking.

Many years ago Delaware's economic policies were much like California's today. It had the highest personal income tax rate (19.8%), the second-highest unemployment rate, and the lowest credit rating. Government spending rose at triple the rate of inflation for four years, and the state budget had five deficits in seven years. Two governors of different political parties had presided over this decline, and so the state found itself sliding down the slippery slope toward depression.

The next administration took a different economic course. (Disclosure: That administration was mine; I was elected governor in 1976.) Spending was held nearly flat for eight consecutive years, the budget was balanced every year, and income tax rates were cut almost in half--from 19.8% to 10.3% in the top bracket. The next governor made further cuts, down to the current 5.95% for the top tax bracket. The result was real economic progress. Jobs increased substantially, income tax revenues increased by 200% over the next 20 years, and there were no budget deficits in any of those years.

The other side of the coin is modern California, which now has the country's highest income tax rate (10.4%) and lowest credit rating, has raised state spending about 7% a year for four years (twice the inflation rate of 3.5%), and has been prone to running deficits in many years

So which of these states' economic policies, Delaware's back then or California's now, has been the model for the new Obama government? That's easy: The federal government has been enacting policies similar to those of shaky California, not successful Delaware.

President Obama said earlier this month that he "doesn't believe in bigger government," but federal government is predicted to be up 32% in one year. Domestic discretionary spending will increase by 80% in fiscal 2009, from \$378 billion to \$680 billion, including a 45% increase for agriculture; 91% for labor, health and social services; 139% for transportation and housing; and 151 percent for energy and water.

Mr. Obama proposes to raise tax rates for the highest-income families (and is likely to do so on middle-income families, too), which would reduce consumer spending and economic growth. His proposed limitations on tax deductions for mortgage interest and charitable contributions would mean downward pressure on house values and less assistance to worthy causes.

Of course raising taxes in the midst of a recession hurts rather than helps the economy. But Mr. Obama's budget argues that doesn't matter, because tax rate reductions for successful people are a bad thing, "a legacy of irresponsibility and it is our duty to change it." Never mind that George W. Bush's 2003 tax cuts helped *increase* revenues by \$785 billion.

The president's \$3.6 trillion budget is more than just a budget, it is a redefinition of government's role in America. The national debt in dollars would double in the next six years. In 10 years it is projected to have risen from 41% to 67% of gross domestic product. This year's deficit will be the largest since World War II.

The budget proposes to cut defense spending as a percentage of GDP to pre-World War II levels while increasing nondefense spending (both in dollars and as a percentage of GDP) to the highest level in history.

Finally, the administration advocates destructive energy policies, from an expensive cap-and-trade policy that would substantially increase fuel prices (and maybe force some energy plants to shut down), to lack of enthusiasm for building nuclear power plants, and the intention of the liberal establishment, lead by NASA climatologist James E. Hansen, to shut down our country's existing coal-fired plants. President Obama insists that we must "break free from oil that's controlled by foreign dictators." That could be done, but not if we cannot drill for much of the 85 billion barrels of oil and 420 trillion cubic feet of natural gas that are on the Outer Continental Shelf, or the 10 billion barrels of oil that are in Alaska. But we can't, for the Obama administration is opposed to such a break-free opportunity.

With the president's spending increases, tax increases and increased government regulation of energy (not to mention health care and education), we will soon have a new America, or as National Journal's Stuart Taylor put it, "he may be deepening what looks more and more like a depression and may engineer so much spending, debt, and government control of the economy as to leave most Americans permanently less prosperous and less free."

That is not where we should end up. America needs more Delaware and less California public policy thinking.