October 31, 2011

Nile Gardiner calls attention to a disturbing poll.

This week, The Hill newspaper published a poll that is dispiriting to anyone concerned about the future of America as the world's leading power. It was one of the most damning yet, illustrating just how far most Americans believe their country has fallen in recent years. According to The Hill:

"More than two-thirds of voters say the United States is declining, and a clear majority think the next generation will be worse off than this one, according to the results of a new poll commissioned by The Hill.

A resounding 69 percent of respondents said the country is "in decline," the survey found, while 57 percent predict today's kids won't live better lives than their parents. Additionally, 83 percent of voters indicated they're either very or somewhat worried about the future of the nation, with 49 percent saying they're "very worried."

The results suggest that Americans don't view the country's current economic and political troubles as temporary, but instead see them continuing for many years. ..."

Peggy Noonan compares the constant campaigner to Paul Ryan.

... Mr. Ryan receives much praise, but I don't think his role in the current moment has been fully recognized. He is doing something unique in national politics. He thinks. He studies. He reads. Then he comes forward to speak, calmly and at some length, about what he believes to be true. He defines a problem and offers solutions, often providing the intellectual and philosophical rationale behind them. Conservatives naturally like him—they agree with him—but liberals and journalists inclined to disagree with him take him seriously and treat him with respect.

This week he spoke on "The American Idea" at the Heritage Foundation in Washington. He scored the president as too small for the moment, as "petty" in his arguments and avoidant of the decisions entailed in leadership. At times like this, he said, "the temptation to exploit fear and envy returns." Politicians divide in order to "evade responsibility for their failures" and to advance their interests.

The president, he said, has made a shift in his appeal to the electorate. "Instead of appealing to the hope and optimism that were hallmarks of his first campaign, he has launched his second campaign by preying on the emotions of fear, envy and resentment."

But Republicans, in their desire to defend free economic activity, shouldn't be snookered by unthinking fealty to big business. They should never defend—they should actively oppose—the kind of economic activity that has contributed so heavily to the crisis. Here Mr. Ryan slammed "corporate welfare and crony capitalism."

"Why have we extended an endless supply of taxpayer credit to Fannie Mae and Freddie Mac, instead of demanding that their government guarantee be wound down and their taxpayer

subsidies ended?" Why are tax dollars being wasted on bankrupt, politically connected solar energy firms like Solyndra? "Why is Washington wasting your money on entrenched agribusiness?"

Rather than raise taxes on individuals, we should "lower the amount of government spending the wealthy now receive." The "true sources of inequity in this country," he continued, are "corporate welfare that enriches the powerful, and empty promises that betray the powerless." The real class warfare that threatens us is "a class of bureaucrats and connected crony capitalists trying to rise above the rest of us, call the shots, rig the rules, and preserve their place atop society."

If more Republicans thought—and spoke—like this, the party would flourish. People would be less fearful for the future. And Mr. Obama wouldn't be seeing his numbers go up.

Christopher Caldwell writes on the Greek bailout for the Weekly Standard.
As they do every few weeks, the leaders of the European Union met in Brussels on Wednesday, October 26, to solve their finance problems once and for all. As the sun rose on Thursday they emerged with a document that resembled an Obama budget—crystal-clear about its aims and aspirations, opaque about how it intends to achieve them. There is a reason for that. It is that these aims and aspirations are growing less and less realistic.

Back in 2010, when the crisis seemed confined to the Greek government's inability to repay its lenders, the Europeans thought they could fix things by having its various neighbor countries chip in 45 billion euros ($65 billion) to throw at the problem. Eighteen months later, the crisis is as complicated as a Rube Goldberg machine and more dangerous. The particular corner of it they dealt with last week has three intertwined aspects, and to solve one of them is to exacerbate the other two: ...

Debra Saunders and student debt.
One of the great things about America, President Obama told students at the University of Colorado, is that no matter how humble your roots, you still have a shot at a great education. He also told students that his goal is to "make college more affordable." Alas, the president's prescription for making higher education affordable seems likely to yield the same results as his plan for curbing health care costs - that is, it is likely to drive prices higher than inflation.

The nation's next fiscal nightmare may well be a higher-education bubble.

Americans now owe more on student loans than on credit cards. As USA Today reported, America's student loan debt is expected to exceed $1 trillion this year. Rising costs have left many graduates in a deep hole. Many of last year's graduates walked away with a diploma and, on average, $24,000 in student loans. The default rate on student loans rose to 8.8 percent in 2009. ...

Continuing on the theme of impossible debt, **Steven Malanga** writes for the Journal on Harrisburg, PA.

During an April 2009 debate among candidates vying to be mayor of Harrisburg, Pa., one aspirant suggested that the financially troubled city should sell some of its valuable historical artifacts and use the proceeds to finance a "Harrisburg Museum of Bad Ideas." One compelling exhibit would be the city's recent decision to file for bankruptcy protection.

Harrisburg, the capital of Pennsylvania, is drowning in debt. City officials have known for more than four years that they'd have to deal with the fiscal mess, but they punted. The state has engineered a bailout plan, but the city council rejected it. Instead it has asked creditors to forgo as much as $100 million of the debt. Essentially, the city council is engaged in a giant game of brinksmanship with the state and creditors, daring them to come up with something that's less onerous than the current state plan, which involves asset sales and renegotiating union contracts. ...

Perhaps you've heard of the Fisker Karma. That's the $80,000 car financed by federal loans, but built in Finland. Our idiot government has tagged this luxury vehicle as a "sub-compact." We get the story from **Green Auto Blog**.

... See, the EPA has a strange methodology that bases vehicle classes on interior size, and the Karma isn't exactly spacious inside (the upcoming Fisker Surf has more luggage space). As AutoObserver notes, since the Karma has less than 100 cubic-feet of space, it fits nicely into the subcompacts class. Go figure. ...

Telegraph Blogs, UK

Why Barack Obama is the decline and despair president

by Nile Gardiner

This week, *The Hill* newspaper published a poll that is dispiriting to anyone concerned about the future of America as the world's leading power. It was one of the most damning yet, illustrating just how far most Americans believe their country has fallen in recent years. According to *The Hill*:

More than two-thirds of voters say the United States is declining, and a clear majority think the next generation will be worse off than this one, according to the results of a new poll commissioned by The Hill.

A resounding 69 percent of respondents said the country is “in decline,” the survey found, while 57 percent predict today’s kids won’t live better lives than their parents. Additionally, 83 percent of voters indicated they’re either very or somewhat worried about the future of the nation, with 49 percent saying they’re “very worried.”

The results suggest that Americans don’t view the country’s current economic and political troubles as temporary, but instead see them continuing for many years.

At the same time, international perceptions of American power are also worsening. A September report conducted by the Pew Global Attitudes Project found a growing number of respondents in 18 countries questioning America's ability to remain ahead of its main competitor China. As Pew found:

Across the 18 countries surveyed by Pew in both 2009 and 2011, the median percentage saying China will replace or already has replaced the U.S. as the world's leading superpower increased from 40% in 2009 to 47% two years later. Meanwhile, the median percentage saying China will never replace the U.S. fell from 44% to 36%.

Looking specifically at economic power, many believe China has already assumed the top spot. In the 2011 poll, pluralities in Britain, France, Germany and Spain named China – not the U.S. – as the world's leading economic power. Remarkably, a 43% plurality of Americans also named China; just 38% said the U.S.

The Hill's pessimistic survey of US domestic opinion encapsulates the sense of malaise and decline running through Barack Obama's America, nearly three years into his presidency. You won't necessarily see it in downtown Washington DC, now the richest city in the nation thanks to the relentless rise in federal spending, but it is starkly evident across most of the United States, from the poverty-ravaged suburbs of Cleveland, Ohio to the US foreclosure capital of Las Vegas, Nevada.

The dire state of the economy is at the heart of the public's disillusionment with the course their country is taking. A recent *CNN* poll found that 90 per cent of Americans believe the "economy stinks," and seven in 10 declared that President Obama has not helped the economy in a *CBS News* survey. With 14 million Americans out of work, millions of families struggling to pay the mortgage, the prospect of a double dip recession on the horizon and the biggest budget deficit since the Second World War, it is not hard to see why fewer than one in five Americans believe the US is heading in the "right track" in the latest *RealClear Politics* poll of polls.

According to Gallup, Barack Obama's personal approval rating has now fallen to the lowest point of his presidency, based on his quarterly average job approval ratings. As Gallup notes, *"his 41 percent approval average is down six percentage points from his 10th quarter in office, and is nearly four points below his previous low of 45 percent during his seventh quarter."* Placed in historical context, Obama is without doubt one of the most unpopular American presidents in post-war history at this stage of his time in office. In Gallup's view:

Only one elected president since Dwight D. Eisenhower, Jimmy Carter, had a lower 11th quarter average than Obama. Carter averaged 31% during his 11th quarter, which was marked by a poor economy and high energy prices.

… From a broader historical perspective, Obama's 11th-quarter approval average of 41% ranks 220th out of the 262 presidential quarters for which Gallup has data since the Truman administration. That translates to the 16th percentile, placing it in the bottom fifth of presidential quarters. Thus, Obama's recent approval ratings are well below average.

Instead of hope and change, the Obama presidency has delivered decline and despair on a scale not seen in America since the dying days of the Carter administration. Both at home and abroad, the United States is perceived to be a sinking power, and with good reason. The big-spending interventionist economic policies of the current administration have been little short of disastrous, and have saddled the US with its biggest debts since 1945. The liberal experiment of the past few years has knocked the stuffing out of the American economy. Job creation has been barely non-existent, and millions of Americans are now significantly worse off than they were a few years ago. Even *The New York Times* has acknowledged "soaring poverty" in Obama's America, citing a Census Bureau report showing the number of Americans officially living below the poverty line (46.2 million) at its highest level for more than half a century, since 1959.

Despite the bleak outlook, America can and must rebound later this decade, but it certainly won't be capable of doing so in the hands of the current president. Levels of public disillusionment with the federal government have never been higher, and almost everything the current White House touches ends in failure. It will require another epic Reagan-style revolution to turn this great nation around and get it off its knees. Fortunately, what China lacks, the United States still has in abundance – the spirit of individual freedom, the love of liberty, a sense of justice and fair play, freedom of speech and worship, and an instinctive desire to act as a powerful force for good on the world stage. America must continue to lead the world, for the alternative is too grim to contemplate. But it can only do so on the foundations of a strong economy with low taxes and limited regulation, free of the shackles of towering debt as well as the deathly hand of big government.

WSJ

The Divider vs. the Thinker

While Obama readies an ugly campaign, Paul Ryan gives a serious account of what ails America.

by Peggy Noonan

People are increasingly fearing the divisions within, even the potential coming apart of, our country. Rich/poor, black/white, young/old, red/blue: The things that divide us are not new, yet there's a sense now that the glue that held us together for more than two centuries has thinned and cracked with age. That it was allowed to thin and crack, that the modern era wore it out.

What was the glue? A love of country based on a shared knowledge of how and why it began; a broad feeling among our citizens that there was something providential in our beginnings; a gratitude that left us with a sense that we should comport ourselves in a way unlike the other nations of the world, that more was expected of us, and not unjustly—
"To whom much is given much is expected"; a general understanding that we were something new in history, a nation founded on ideals and aspirations—liberty, equality—and not mere grunting tribal wants. We were from Europe but would not be European: No formal class structure here, no limits, from the time you touched ground all roads would lead forward. You would be treated not as your father was but as you deserved. That's from "The Killer Angels," a historical novel about the Civil War fought to right a wrong the Founders didn't right. We did in time, and at great cost. What a country.

But there is a broad fear out there that we are coming apart, or rather living through the moment we'll look back on as the beginning of the Great Coming Apart. Economic crisis, cultural stresses: "Half the country isn't speaking to the other half," a moderate Democrat said the other day. She was referring to liberals of her acquaintance who know little of the South and who don't wish to know of it, who write it off as apart from them, maybe beneath them.

To add to the unease, in New York at least, there's a lot of cognitive dissonance. If you are a New Yorker, chances are pretty high you hate what the great investment firms did the past 15 years or so to upend the economy. Yet you feel on some level like you have to be protective of them, because Wall Street pays the bills of the City of New York. Wall Street tax receipts and Wall Street business—restaurants, stores—keep the city afloat. So you want them up and operating and vital, you don't want them to leave—that would only make things worse for people in trouble, people just getting by, and young people starting out. You know you have to preserve them just when you'd most like to deck them.

Where is the president in all this? He doesn't seem to be as worried about his country's continuance as his own. He's out campaigning and talking of our problems, but he seems oddly oblivious to or detached from America's deeper fears. And so he feels free to exploit divisions. It's all the rich versus the rest, and there are a lot more of the latter.

Twenty twelve won't be "as sexy" as 2008, he said this week. It will be all brute force. Which will only add to the feeling of unease.

Occupy Wall Street makes an economic critique that echoes the president's, though more bluntly: the rich are bad, down with the elites. It's all ad hoc, more poetry slam than platform. Too bad it's not serious in its substance.

There's a lot to rebel against, to want to throw off. If they want to make a serious economic and political critique, they should make the one Gretchen Morgenson and Joshua Rosner make in "Reckless Endangerment": that real elites in Washington rigged the system for themselves and their friends, became rich and powerful, caused the great cratering, and then "slipped quietly from the scene."

It is a blow-by-blow recounting of how politicians—Democrats and Republicans—passed the laws that encouraged the banks to make the loans that would never be repaid, and that would result in your lost job. Specifically it is the story of Fannie Mae and Freddie Mac, the mortgage insurers, and how their politically connected CEOs, especially Fannie's Franklin Raines and James Johnson, took actions that tanked the American economy and walked away rich. It began in the early 1990s, in the Clinton administration, and continued under the Bush administration, with the help of an entrenched Congress that wanted only two things: to receive campaign contributions and to be re-elected.

The story is a scandal, and the book should be the bible of Occupy Wall Street. But they seem as incapable of seeing government as part of the problem as Republicans seem of seeing business as part of the problem.

Which gets us to Rep. Paul Ryan. Mr. Ryan receives much praise, but I don't think his role in the current moment has been fully recognized. He is doing something unique in national politics. He thinks. He studies. He reads. Then he comes forward to speak, calmly and at some length, about what he believes to be true. He defines a problem and offers solutions, often providing the intellectual and philosophical rationale behind them. Conservatives naturally like him—they agree with him—but liberals and journalists inclined to disagree with him take him seriously and treat him with respect.

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But Republicans, in their desire to defend free economic activity, shouldn't be snookered by unthinking fealty to big business. They should never defend—they should actively oppose—the kind of economic activity that has contributed so heavily to the crisis. Here Mr. Ryan slammed "corporate welfare and crony capitalism."

"Why have we extended an endless supply of taxpayer credit to Fannie Mae and Freddie Mac, instead of demanding that their government guarantee be wound down and their taxpayer subsidies ended?" Why are tax dollars being wasted on bankrupt, politically connected solar energy firms like Solyndra? "Why is Washington wasting your money on entrenched agribusiness?"

Rather than raise taxes on individuals, we should "lower the amount of government spending the wealthy now receive." The "true sources of inequity in this country," he continued, are "corporate welfare that enriches the powerful, and empty promises that betray the powerless." The real class warfare that threatens us is "a class of bureaucrats and connected crony capitalists trying to rise above the rest of us, call the shots, rig the rules, and preserve their place atop society."

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Weekly Standard

Forgive Us Our Debts

Europe runs out of money.

by Christopher Caldwell

London

As they do every few weeks, the leaders of the European Union met in Brussels on Wednesday, October 26, to solve their finance problems once and for all. As the sun rose on Thursday they emerged with a document that resembled an Obama budget—crystal-clear about its aims and aspirations, opaque about how it intends to achieve them. There is a reason for that. It is that these aims and aspirations are growing less and less realistic.

Back in 2010, when the crisis seemed confined to the Greek government's inability to repay its lenders, the Europeans thought they could fix things by having its various neighbor countries chip in 45 billion euros ($65 billion) to throw at the problem. Eighteen months later, the crisis is as complicated as a Rube Goldberg machine and more dangerous. The particular corner of it they dealt with last week has three intertwined aspects, and to solve one of them is to exacerbate the other two:

(1) Greece is so totally bust that it required not only a fresh bailout totaling $185 billion but also a 50 percent "haircut" imposed on its creditors. In other words, if you lent the Greeks money by buying their government's bonds, you lost half of it. (But don't feel too bad—a lot of Greeks got to retire at 60 with pensions you paid for.) That "solves" the Greek solvency problem for a time, but it is a dangerous remedy.

(2) It is dangerous because it means that loss of confidence in Europe's institutions moves from the periphery (Greece and Portugal, say) towards the core (France and Italy, say). If Greece can stiff its creditors and stay in the euro, might that not be a tempting option for other countries? Consider Italy, the third-largest economy in the eurozone, with a debt-to-GDP ratio over 100 percent. "Contagion" is the word for the presence of nervous thoughts like these in bondholders' heads, and the only way to protect against its spread is to build a "wall of money" around the least reliable-looking debtors. Unfortunately, Europe is out of money. The only "wall of money" it can erect is a virtual wall of borrowed money.

(3) And that adds to a danger that is already present in the Greek bailouts. European banks hold a lot more sovereign debt (government bonds) than U.S. banks do. If some of that is going to get paid back at 50 centimes on the euro, then these banks are neither as wealthy nor as stable as they appear to be. That means banks are going to have to revise their business models. What European authorities insisted on this week was that they raise their capital ratios to 9 percent. There are two ways banks can do this. They can either hold more money or lend less. Europe's leaders pretend they're going to hold more. But since Europeans have already tapped every domestic source of capital, there is no place to get more. That means banks are going to lend less. Which in turn means the risk of recession has just risen significantly.

A lot about this deal makes it likely that Europe's leaders will be back at the negotiating table before their seats have cooled.

For one, the debt of Greeks and others seems to be, as the Germans grumble, a "barrel without a bottom." A European economist told me in the summer of 2010 that a Greek default was inevitable, and that the European bailout was designed to keep the country afloat until it could get back into "primary balance"—i.e., paying its bills except for its interest payments—in 2013. But this new bailout, haircuts and all, does not envision Greece reaching primary balance for a decade, and then only with the help of the most grinding austerity program enacted in our lifetime. At that point, in the 2020s, the country will be back to a situation where its debts are "only" 120 percent of GDP. Is that politically sustainable in a riot-prone democracy like Greece's? One suspects not.

Another problem is that the deal is not having the desired effect in Italy, the primary candidate for contagion. Bond yields in most European countries fell in the immediate aftermath of the agreement, but not in Italy. Italy has the third-largest bond market in the world—almost $3 trillion—and over the summer the European Central Bank bought tens of billions' worth of Italian bonds to keep Italy's borrowing costs down.

Working up an austerity plan for the Italians was a top priority at last week's summit. Silvio Berlusconi's coalition partners have resisted it, and in one sense they are right to see the demand as unfair—at about 4 percent, Italy's budget deficits are low by comparison to the rest of the European Union (and *far* lower than the United States). And there is one boast that Italians can make that few other countries can—its finances are roughly in the same shape they were a decade ago. Under Berlusconi, Finance Minister Giulio Tremonti was a highly capable economic steward. His reputation in Italy has something in common with that of Paul Volcker in the United States. What spooked bond markets over the summer was Berlusconi's quarreling with Tremonti, not the "bunga-bunga" (to use his term) that he indulged in with young women.

At last week's meetings, Europe invited a new player into its finance crisis: China. Europeans have talked about "levering up" their $625 billion European Financial Stability Facility (EFSF), established last year to prevent a Greek contagion. It has been topped up and tapped into since and now has only about half its original lending power. In order to obtain the funds necessary to shore up Italy's bond market, the Europeans reckon they need to more than double the size of the EFSF. Levering up means using the money they have in the EFSF as security to raise even more on the capital markets. In the present depressed state of the world economy, "the capital markets" means China. With an astonishing lack of sangfroid, Klaus Regeling, the head of the EFSF, landed in Beijing on Thursday afternoon to press his case. He must have headed straight for the airport the moment the agreement was signed.

Years ago, China might have fallen for the trick that Europe intends to pull, basically trying to get money for Greece and Italy by waving around the triple-A credit rating of Germany and other countries that have stocked the EFSF. But today it is likely that China will insist on guarantees that it be paid before European taxpayers in any default scenario. In an interview with the *Financial Times* the day after the agreement, Li Daokui, a member of the central bank monetary policy committee, gave evidence of a real canniness. "The last thing China wants," he said, "is to throw away the country's wealth and be seen as just a source of dumb money." Li indicated that the Chinese might ask European leaders to refrain from criticizing Chinese economic policy as part of the deal.

Perhaps Europe has reached the point where its only route out of bankruptcy is this kind of vassalage. To escape a debt crisis, an economy needs to be capable of growing. It is far from clear that Europe can do that. It has two problems. One is technological. Much of Europe lacks the technological wherewithal to claim an ever-increasing share of the world economy. Spain, for instance, during its long, construction-based boom, developed a good deal of national expertise in . . . what? Pouring concrete?

A second problem is demographic. Italians have one of the lowest birthrates known in any society since the dawn of time; what it will look like in 40 years is anybody's guess, but one fairly conservative demographic projection shows its population decreasing by 10 percent, to 54 million, at midcentury. Debt, alas, is contracted on a per-country, not a per capita basis, and this kind of population loss (especially when accompanied by rapid aging) can render debt impossible to pay down.

Europe's leaders are welcome to congratulate each other on finally resolving their debt crisis. They will likely have many more opportunities to come up with such "final resolutions" in the months and years ahead.

San Francisco Chronicle

Student loans - forgive and forget

by Debra J. Saunders

One of the great things about America, President Obama told students at the University of Colorado, is that no matter how humble your roots, you still have a shot at a great education. He also told students that his goal is to "make college more affordable." Alas, the president's prescription for making higher education affordable seems likely to yield the same results as his plan for curbing health care costs - that is, it is likely to drive prices higher than inflation.

The nation's next fiscal nightmare may well be a higher-education bubble.

Americans now owe more on student loans than on credit cards. As USA Today reported, America's student loan debt is expected to exceed $1 trillion this year. Rising costs have left many graduates in a deep hole. Many of last year's graduates walked away with a diploma and, on average, $24,000 in student loans. The default rate on student loans rose to 8.8 percent in 2009.

Occupy Wall Street activists have been calling for forgiveness of student loans.

Congress already passed legislation proposed by Obama to cap some student loan payments at 15 percent of a graduate's discretionary income and to forgive the balance after 25 years. Thursday, Obama pledged to lower the cap to 10 percent of discretionary income - with forgiveness after 20 years.

What next, 5 percent and 15 years?

"And we can do it at no cost to the taxpayer," U.S. Secretary of Education Arne Duncan cooed in a statement.

"That is simply not true," responded Neal McCluskey of the libertarian-leaning Cato Institute. Taxpayers are on the hook for those loans.

Last week McCluskey put out a paper that concluded that when government bestows more aid, institutions benefit far more than students. The phenomenon predates this administration. The College Board reports that for the last decade, college tuition and fees exceeded inflation by 5.6 percent a year. That's where McCluskey believes increased financial aid goes.

"There is no question," McCluskey wrote, "that colleges and universities have been raising prices at a very brisk pace in recent decades and that those increases have largely nullified aid increases."

Rush Limbaugh delights in blaming the rising price of higher education on "greedy academics." Look at the salaries that California's public universities pay administrators. The new Cal Poly San Luis Obispo president is about to take home $50,000 more than the published maximum salary of $328,212. With federal and state student aid dollars feeding the beast, eggheads cash in.

The biggest losers are students who get sucked into colleges, because the federal loans look like free money, only to drop out of school. They get the debt, but no degree. As McCluskey observed, "We give money regardless of their aptitude to do college work."

The other losers are graduates with six-figure debt and little income. The White House is working on a "Know Before You Owe" project to warn students about the cost of student loans.

As a beneficiary of a state university education and a repaid student loan, I don't want to end a program that helped me and can help others. But like mortgages that fueled the housing bubble, there can be too much of a good thing.

The unintended consequences of the steep rise in government financial aid, McCluskey concluded, may well be "sky-high non-completion rates and rampant tuition inflation."

In his 2005 Stanford commencement address, Steve Jobs explained the economic factors that went into his decision to drop out of Reed College. "I naively chose a college that was almost as expensive as Stanford, and all of my working-class parents' savings were being spent on my college tuition."

He actually thought about the money - that sounds so quaint today. I am not suggesting that anyone drop out of the right school. I just want graduates to look back at their education and know in their hearts it was worth it.

WSJ

How Harrisburg Borrowed Itself Into Bankruptcy

Can the capital of Pennsylvania stiff creditors when a credible payment plan is available?

by Steven Malanga

During an April 2009 debate among candidates vying to be mayor of Harrisburg, Pa., one aspirant suggested that the financially troubled city should sell some of its valuable historical artifacts and use the proceeds to finance a "Harrisburg Museum of Bad Ideas." One compelling exhibit would be the city's recent decision to file for bankruptcy protection.

Harrisburg, the capital of Pennsylvania, is drowning in debt. City officials have known for more than four years that they'd have to deal with the fiscal mess, but they punted. The state has engineered a bailout plan, but the city council rejected it. Instead it has asked creditors to forgo as much as $100 million of the debt. Essentially, the city council is engaged in a giant game of brinksmanship with the state and creditors, daring them to come up with something that's less onerous than the current state plan, which involves asset sales and renegotiating union contracts.

"There's no way [state] legislators are going to sit up there and let the capital city of this state go under. They would be the laughingstock of the country," council member Gloria Martin-Roberts said earlier this year.

Under seven-term Mayor Stephen Reed, who governed from 1982 to 2010, Harrisburg had a long love affair with borrowed money, using it to spur projects of dubious value. The city invested millions of dollars in a stadium in the late 1980s to attract a minor league baseball team. When the Harrisburg Senators threatened to leave in 1995, the city bought the team with borrowed money. In 2009, even as the fiscal clouds darkened, it sank another $45 million, including $18 million in new debt, into upgrading the stadium. The team was attracting 2,488 fans per game.

Then there are those historical artifacts. Mr. Reed, once described by a local newspaper as a man who "never met a municipal bond he didn't like," wanted to borrow to open a network of museums. He spent some $39 million on a National Civil War Museum that opened in 2001. It has struggled for years to attract crowds. Undeterred, the mayor borrowed some $8 million to buy artifacts—including a Gatling gun, a Wells Fargo coach and a document signed by Wyatt Earp—for a proposed Wild West museum, though most of the purchases were made without the knowledge and consent of the city council. Plans for a Wild West museum and a National Sports Hall of Fame, financed by a $30 million bond offering, mercifully fell through.

The city even borrowed money to buy a money-losing minor league baseball team.

The Harrisburg Authority, a city agency controlled by the mayor, floated much of the city's debt, including millions on an ill-fated incinerator. Built in the 1970s, it has been plagued by breakdowns and operating losses. Many other municipal governments, including nearby Lancaster County's, have turned their incinerators over to private-sector operators. The Harrisburg Authority spent the 1990s investing millions in a fruitless effort to make the plant efficient and profitable. But default loomed by 2003—when the city was forced to close the incinerator, now saddled with $100 million in debt, because it did not comply with federal clean-air standards.

Next up? A massive retrofit engineered by Barlow Projects Inc., a firm from Fort Collins, Colo. Harrisburg and Dauphin County, where the city is located, agreed to guarantee $125 million in new borrowing that was supposed to be paid back by revenues from the reopened plant. The city's debt load grew to $441 million, about $9,000 per resident.

The project fell behind and Barlow filed for bankruptcy in 2007 after the city fired it before work on the plant was completed. Harrisburg has missed payments on the incinerator debt, and it avoided default on its general obligation bonds in September 2010 only because the state stepped in with aid.

A worried state government enlisted a financial consultant to come up with a bailout plan. Unveiled in June, it involves selling the rights to the city's parking garage revenues to raise money, privatizing commercial sanitation services to cut costs, gaining concessions from city workers on pay and benefits, and raising taxes.

The city council rejected the state plan in July. Mayor Linda Thompson proposed a similar plan. It was voted down in August. Earlier this month the city council essentially threw Harrisburg on the mercy of the federal bankruptcy court, where members hope for a better deal.

The state has already challenged the bankruptcy petition. Gov. Tom Corbett, calling the Chapter 9 filing "illegal," is preparing to take over management of the city. But the city council remains defiant. Its attorney, Mark Schwartz, said that Mr. Corbett "can declare it Flag Day or Pay Investment Banks Day, it doesn't matter. He has to justify [a takeover] before the bankruptcy court."

Harrisburg's creditors, including municipal bond insurer Assured Guaranty Municipal Corp., have also sued the city. The municipal finance industry will be watching what happens with keen interest—because Assured Guaranty had received city and county debt guarantees. The county has lived up to its agreement and made payments to bondholders, but Harrisburg has not.

The Harrisburg case raises fundamental questions about the way cities and states increasingly use debt to finance speculative development that private investors or lenders won't touch. From minor league stadiums to arenas, museums, downtown redevelopment and waste plants with unproven technologies, billions have been spent on schemes of questionable value. Some projects are backed by unrealistic economic projections, which leave taxpayers on the hook for bond payments or operating subsidies. These deals are one reason why state and local debt outstanding has ballooned from $1.3 trillion to $2.5 trillion in the last decade, according to the U.S. Federal Reserve.

Perhaps the country does need a national museum of bad government ideas. Harrisburg would be a good place for it.

Mr. Malanga is a senior fellow at the Manhattan Institute and the author of "Shakedown: The Continuing Conspiracy Against the American Taxpayer" (Ivan R. Dee, 2010).

Green Auto Blog

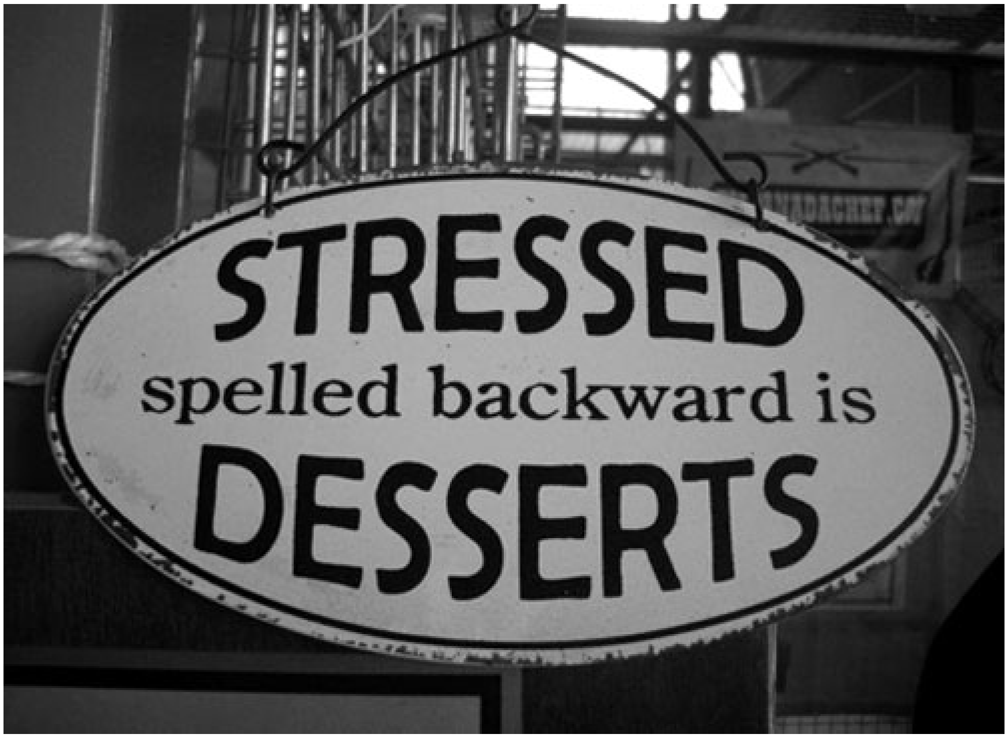
Turns out, the Fisker Karma is a subcompact, says the EPA

by Sebastian Blanco

Look at the vehicle in the picture above. Does that look like a subcompact car to you? Well, if you peer at the Fisker Karma through the regulatory lens of the EPA, then it would.

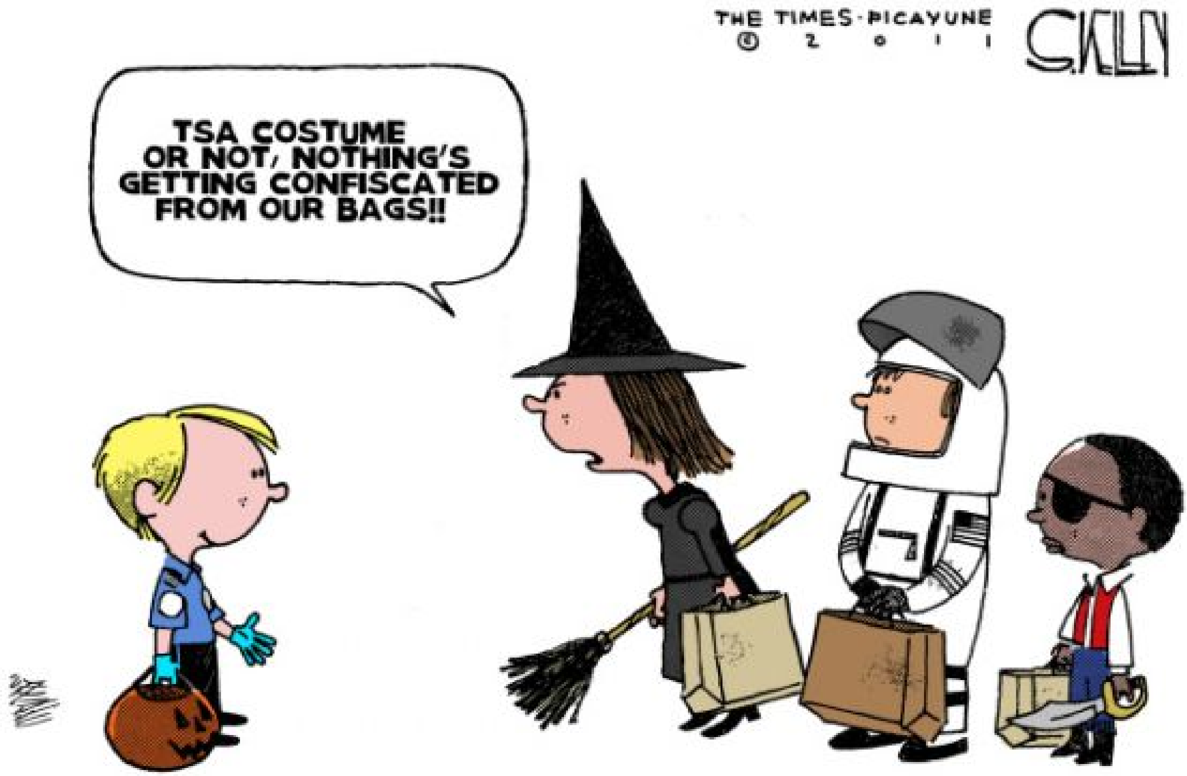
See, the EPA has a strange methodology that bases vehicle classes on interior size, and the Karma isn't exactly spacious inside (the upcoming Fisker Surf has more luggage space). As AutoObserver notes, since the Karma has less than 100 cubic-feet of space, it fits nicely into the subcompacts class. Go figure.

Like with the low drained-battery mpg rating the Karma gets – just 20 mpg – the Karma's potential customers probably won't care what the EPA officially calls this plug-in hybrid. But just imagine if someone were to cross-shop all the cars in the subcompact class: "Let's see, hon, should we get the Karma, the Bentley Continental Supersports or the Mitsubishi i?" Looks like this class has something for everyone.



SCARY

www.investors.com/cartoons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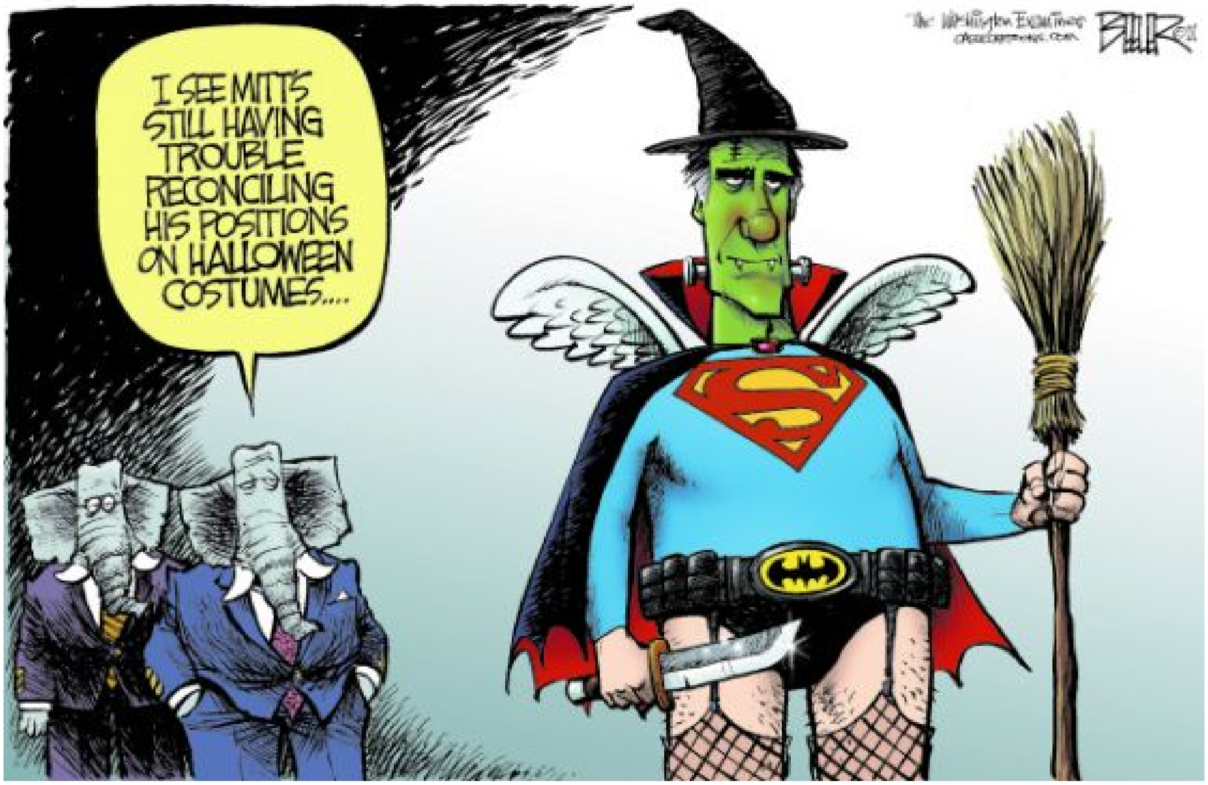
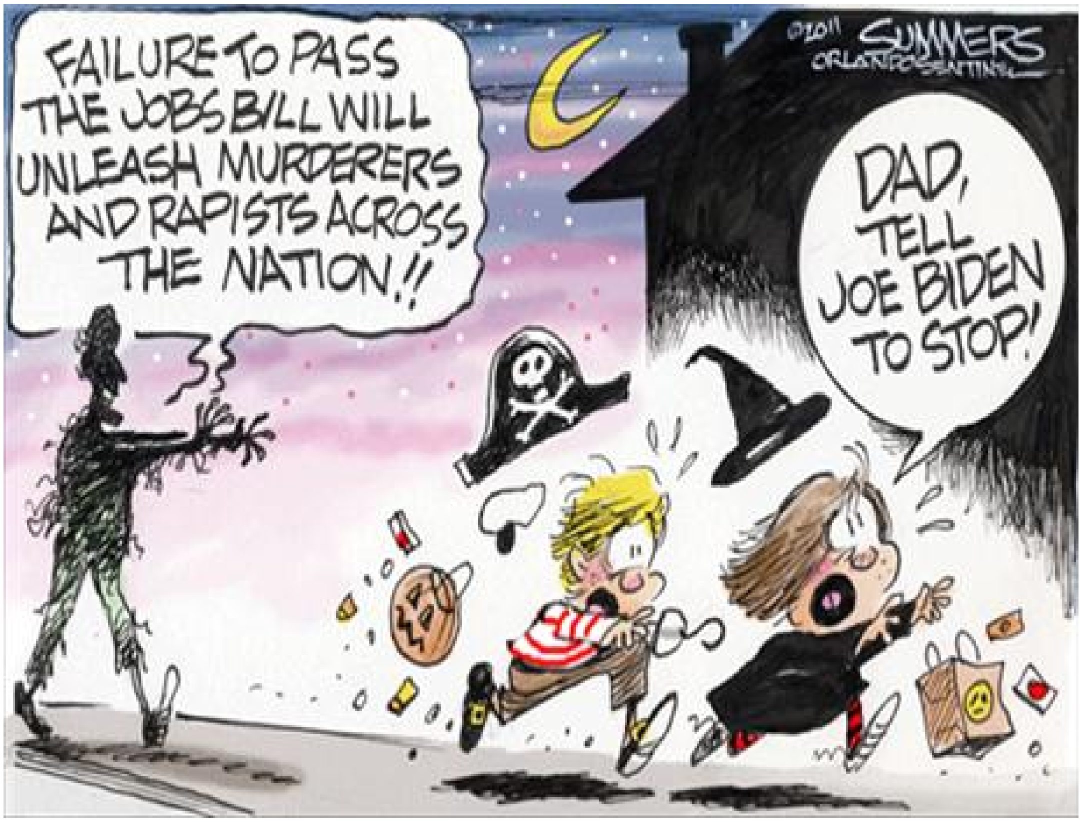
TSA COSTUME OR NOT, NOTHING'S GETTING CONFISCATED FROM OUR BAGS!!


"THE REPUBLICANS WANT TO POISON THE AIR, STARVE THE POOR, KILL THE ELDERLY, RAPE WOMEN....
I JUST WANTED SOME CANDY.
YOU SHOULD HAVE JUST SAID, "TREAT."



"SHEESH...SOME PEOPLE JUST DON'T KNOW WHEN IT'S OVER...."


FAILURE TO PASS THE JOBS BILL WILL UNLEASH MURDERERS AND RAPISTS ACROSS THE NATION!!
DAD, TELL JOE BIDEN TO STOP!
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THIS IS THE THIRD YEAR IN A ROW YOU'VE WORN THAT COSTUME KID... AND EVERY YEAR IT GETS UGLIER.
ECONOMY

"HE MUST BE GOING AS ONE OF THOSE 'OCCUPY WALL STREET PROTESTERS'."