Will Hyper-Inflation "Solve" States' Debt Woes?

California is drowning in public debt. The California Legislative Analyst's office, which is nominally nonpartisan and objective, projects that for the fiscal year ending June 30, 2011, the state will have a deficit of $6.1 billion — over $150 for one year for every man, woman, and child in California.

The office also projects that by the end of the following fiscal year, the deficit for that year will be $19.3 billion or almost $500 for every soul in California, with higher deficits each year through at least State Fiscal Year 2016.

The issues facing Californians are no longer simply trimming public funding here and there. The state, for the first time in American history, will actually lose one congressional seat in current census projections. Despite being blessed by almost every advantage that Providence could provide — beautiful coasts, magnificent harbors, gentle climates, a phenomenal agricultural cornucopia, majestic mountains, abundant natural resources — even the Golden State has been sucked dry by the greed of statist leeches. And the voters seem no more willing to confront the problems than their politicians.

Is there a reason why the printing presses of the U.S. Treasury seem, despite all good economic common sense, to be flooding the world with dollars? California would be close to the top of the list of individual reasons. No one wants to buy its debt anymore. No one trusts that the money will be properly and promptly repaid. With inflation, however — even the sort of hyper-inflation which brought down the Weimar Republic of Germany — then the task of politicians in California (also New York, Illinois, and other improvident governments who spent to buy votes and now lack the money to make good their markers) will be simplified.

California is attempting to unload almost $14 billion in bonds in the next few weeks. State Treasurer Bill Lockyer has said that he expects to sell about $10 billion of RANs or "Revenue Anticipate Notes" next week in two series — one maturing next May and the other maturing next June. His office will also sell $2 billion of "Build America Bonds" next week (which are subject to federal taxation) followed by $1.75 billion dollars of ordinary bonds whose income is tax exempt. How borrowing instead of dramatically reducing government expenditures in California is going to save this bastion of Obama support is anyone's guess … unless someone is thinking that $1 billion today may be reduced in real terms, by government-created inflation, to be worth about $400 million in a year.