

U.S. Social Security: Ponzi's Got a Gun

“In December 1919, Carlo ‘Charles’ Ponzi approached a group of friends and acquaintances in Boston with a new investment opportunity,” Cato senior fellow Michael Tanner writes. What followed has become immortalized as one of the most infamous investment scams in history. In **“Social Security, Ponzi Schemes, and the Need for Reform”** (Policy Analysis no. 689), Tanner considers recent calls comparing this fraudulent operation with the current U.S. social insurance program. The two programs, he says, have several similarities. Social Security, for instance, “does not actually save or invest any of a participant’s payments”—relying instead on inflows from future contributors to finance the system. This, in turn, provides “a windfall to the first participants, but declining returns to subsequent joiners”—also similar in operation to a Ponzi scheme. Finally, Social Security is “a system that worked well when demographics were favorable,” yet it’s “facing insolvency as the ratio of recipients to contributors increases.” Despite these



similarities, there is in the end one crucial distinction between the two. “Social Security is not a Ponzi scheme,” Tanner concludes, “because Charles Ponzi didn’t have a gun.” As such, the debate over epithets obscures a much deeper issue: Social Security is unable to pay promised benefits with current levels of taxation. “In short,” Tanner writes, “the program is facing insolvency without fundamental reform.”

Drug Violence Flaring in Mexico

In December 2006, President Felipe Calderón of Mexico launched a military-led offensive against his country’s increasingly violent narcotics trade. In **“Undermining Mexico’s Dangerous Drug Cartels”** (Policy Analysis no. 688), Cato senior fellow Ted Galen Carpenter argues that this campaign is not simply ineffective: “It is a futile, utopian crusade that has produced an array

of ugly, bloody side effects,” he writes. Many are now questioning whether Mexico is on its way to becoming a “failed state.” While Carpenter determines that these fears are overblown, he nevertheless acknowledges that “the overall trend is troubling.” By the same token, he notes that the extent of a spillover of violence and corruption into the United States has been limited—yet the possibility of turf battles becoming proxy wars is “a harbinger of deterioration of the security situation on our southern border.” By examining several alternatives to the current approach, Carpenter finds that one stands out above the rest. “The most feasible and effective strategy to counter the mounting turmoil in Mexico is to drastically reduce the potential revenue flows to the trafficking organizations,” he writes. This hinges on abandoning the prohibitionist model in favor of full legalization. “The fire of drug-related violence is flaring to an alarming extent in Mexico,” he concludes. Restricting the damage will require swift action, “before that fire consumes our neighbor’s home and threatens our own.”

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War and the Practice of Politics

Article I of the United States Constitution vests the power to “declare War” in Congress, leaving to the executive the power to “repel sudden attacks.” But in the years since the Cold War, the practice of initiating limited conflicts has blurred these constitutional distinctions. In **“Congress Surrenders the War Powers: Libya, the United Nations, and the Constitution”** (Policy Analysis no. 687), John Samples, director of Cato’s Center for Representative Government, examines a number of smaller wars—namely, those in Bosnia, Somalia, Kosovo, Iraq, and most recently, Libya—and reaches several conclusions. First, the president has arrogated “largely unfettered powers” to launch wars that are “half-made”—conflicts he feels “are essential to fight and yet beyond constitutional propriety.” Second, while sometimes critical, Congress tends to defer to presidential command when these wars are both brief and popular. Third, Congress’s active “investigations and criticisms can affect the conduct of a limited war but not its inception.” On the other hand, while the public is often skeptical that limited conflicts are worth the cost, their “desire for congressional authorization of such wars goes unfulfilled.” Finally, Samples finds that, in Libya in particular, an incremental transfer of these powers to international institutions—also known as weak internationalism—“contravenes values central to American republicanism.” As such, he concludes, “law becomes over time a function of, not a constraint on, the practice of politics.”

The Ivory Tower’s Burden

“If you follow higher education—or just live near a college or university—you’ve probably heard the complaint: government keeps axing higher education funding,” writes Neal McCluskey, associate director of Cato’s Center for Educational Freedom, in **“How Much Ivory Does This Tower Need? What We Spend on, and Get from, Higher Education”** (Policy Analysis no. 686). The problem is that there is little evidence to support this claim. While most analysts rely on public funding as a share of overall school revenues, McCluskey examines the burden of postsecondary education borne by

taxpayers—the most direct measure of public support—and one that is “typically ignored in anecdote-driven media stories.” What do these numbers suggest? “No matter how you slice it, the burden of funding the Ivory Tower has grown heavier on the backs of tax-



paying citizens,” he writes. In fact, the burden on the individual taxpayer has risen from \$426 in 1995 to \$532 in 2010, a 25-percent increase. But this is only part of the higher-education story. The real question is whether human capital has expanded along with this increased investment. McCluskey finds that the increased flow of dollars has “underwritten poor academic results, rampant price inflation, and considerable college inefficiencies.” “The money taken from taxpayers,” he concludes, “to ‘invest’ in higher education has been on the rise, and it appears to be hurting both taxpayers individually and society as a whole.”

Malpractice Caps Hurt Patients

Supporters of capping court awards for medical malpractice argue that such caps will make health care more affordable. But is this necessarily the case? In **“Could Mandatory Caps on Medical Malpractice Damages Harm Consumers?”** (Policy Analysis no. 685), economist Shirley Svorny of California State University, an adjunct scholar at the Cato Institute, says that it may not be so simple. In reviewing the structure of the medical liability insurance industry, Svorny begins by offering a key insight. “The decades-old conventional wisdom holds that medical malpractice insurers rarely adjust premiums to reflect an individual physician’s risk,” she writes. This assumption, however, is misplaced. As Svorny illustrates, the industry has developed a complex, “interdependent system of physician evaluation, penalties, and oversight”—all of which is based upon the threat of legal liability for negligence. Patients, in turn, derive protections from this oversight. In short, she writes, “the evidence presented here shows that physicians pay the

price for putting patients at risk.” Svorny draws on interviews with underwriters and brokers, published sources, and an extensive analysis of state insurance company rate filings to make her case—showing that premiums “act as signals that steer physicians toward higher-quality care.” As such, the implication is clear. “Capping court awards, all else equal, will reduce the resources allocated to medical professional liability underwriting and oversight,” she argues, “and make many patients worse off.” The study generated a lively online discussion at the Manhattan Institute’s PointofLaw website.

Lessons from Deepwater Horizon

On April 20, 2010, an explosion on the Deepwater Horizon offshore drilling unit led to the largest accidental oil spill in the history of the petroleum industry. What lessons have emerged in the year since the well has been declared “effectively dead”? Richard L. Gordon, professor emeritus of mineral economics at Pennsylvania State University and an adjunct scholar at the Cato Institute, argues in **“The Gulf Oil Spill: Lessons for Public Policy”** (Policy Analysis no. 684) that the resulting political backlash uncovers longstanding issues with the attempt to regulate commercial activities. “The underlying problem is a mythology that holds that public lands are precious resources needing careful government management,” he writes. This isn’t the case. By examining the political response—particularly the Waxman-Markey bill—he underscores the real issue. “The failure was in fact due to the impotence of the very policy initiatives that the Obama administration wishes to expand,” he writes. Gordon carefully deconstructs the “tangential campaigns” against foreign oil imports, oil consumption, and climate change—making it clear that “the only thing these concerns have in common is their invalidity.” The ideal solution, he contends, is privatization of federal lands. In the interim, Gordon demonstrates that the Gulf oil spill reflects the problems associated not only with our command- and-control energy strategy, but with government oversight in general. “The real lesson of the oil spill,” he concludes, “is the familiar point that bad policies beget bad consequences.” ■