

It's the Spending, Stupid: A Looming Fiscal Train Wreck

In “**Bankrupt: Entitlements and the Federal Budget**” (Policy Analysis no. 673), Cato Institute senior fellow Michael Tanner paints a grim picture of America’s fiscal future, but notes that “no one should be shocked to learn that government spending is out of control.”



Under Presidents Bush and Obama, federal spending has nearly doubled over the last decade, with budget deficits at unprecedented levels. While there has been talk in Congress of cutting discretionary spending, the real problem is entitlement programs—particularly Social Security, Medicare, and Medicaid: “In fact, by 2050, these three programs will alone expand to consume every penny that the federal government raises in taxes.” This “looming fiscal train wreck has been amply abetted by both political parties,” Tanner writes, but adds that “the 2010 midterm

elections demonstrated that voters see the debt as a major issue.” Tanner presents the full scope of the deficit and debt and then turns to their common cause: “The reason we have a deficit is pretty simple: government spends too much,” he writes. Tanner closely examines Social Security, Medicare, and Medicaid, mapping their ballooning spending and unfunded liabilities—and shows how the Patient Protection and Affordable Care Act, passed one year ago, will only make the situation more dire. It is not too late to stave off bankruptcy, but it means taking action immediately. “Congress now has an opportunity to change its ways,” Tanner writes. “The coming months will show whether it will.”

Nukes and the Far East

With the New Strategic Arms Reduction Treaty (New START) and the release of the U.S. Nuclear Posture Review (NPR), the Obama administration has elevated nuclear disarmament to the center of its nuclear agenda. But this leaves open the question of “how far should the United

States move beyond symbolism in ‘getting to zero?’” writes Lavina Lee, lecturer at Macquarie University in Sydney, Australia, and author of *U.S. Hegemony and Legitimacy: Norms, Power and Followership in the Wars on Iraq* (Routledge, 2010), in “**Beyond Symbolism? The U.S. Nuclear Disarmament Agenda and Its Implications for Chinese and Indian Nuclear Policy**” (Foreign Policy Briefing no. 91).



Before making this move, Lee argues, the United States should ensure that it “will in fact receive concrete, reciprocal concessions from China and India,” the prospects for which are doubtful. Regarding China, Lee writes, “Given President Obama’s own admission that global zero is unlikely to be achieved in his lifetime, the Chinese have cause to question whether the United States and Russia will voluntarily relinquish their nuclear superi-

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ority any time soon.” And with India worried about the threat of its nuclear neighbors, China and Pakistan, “any commitments India is likely to make on nuclear force reductions will be linked to both of these states doing the same.” Before the United States places disarmament at the center of its nuclear diplomacy, it needs to also be aware of the move’s opportunity costs, for there is “the risk that the United States will offer much with respect to nuclear disarmament and get little in return.”

Fannie and Freddie’s Subprime Disaster

“By most accounts, the subprime mort-

gage market played a key role in the recent financial crisis. Yet there remains considerable debate over what drove that market,” writes Mark Calabria, director of financial regulation studies at the Cato Institute, in **“Fannie, Freddie, and the Subprime Mortgage Market”** (Briefing Paper no. 120). But after carefully examining and presenting the evidence, he finds a clear culprit: “Fannie Mae and Freddie Mac were not only the largest players in the subprime mortgage market, they were drivers of that market.” Nearly one-third of Fannie and Freddie’s direct purchases were subprime, while during the height of the housing bubble, almost 40 percent of

newly issued private-label subprime securities were purchased by Fannie Mae and Freddie Mac. Calabria argues that the failure of Fannie and Freddie and their precipitation of the housing crisis offer a strong rebuke to government attempts to engineer the housing market. “Ultimately taxpayers and the broader economy will only be protected from future bailouts by a full withdrawal of the federal government from housing policy,” he writes. Calabria concludes, “Our financial system would become considerably more stable were Washington to abandon its attempts to direct capital to politically favored segments of the economy.” ■

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ticularly in poor developing countries with questionable human-rights records.

An optional protocol on the right to property would also counterbalance the recently adopted optional protocol to the ICESCR, which allows individuals to complain that their ESC rights have been violated. That protocol is likely to result in decisions that further undermine property rights by reason of the so-called duty to fulfill, which, as discussed above, involves compulsory redistribution of property.

This development has potentially grave consequences for the right to private property around the world as NGOs, international organizations, governments, and courts are influenced by contemporary human-rights standards. Even in the United States, where the reference to international human-rights conventions is very limited at the federal

court level, some courts in states such as New Hampshire, West Virginia, and California have referred to international human rights standards—including the ICESCR and the UDHR—when deciding claims related to adoption, education, and general relief.

An optional protocol affording private property human rights protection would create a line of defense against expropriations based on human-rights claims under the ICESCR. Moreover, the obligations arising out of the ICESCR are much less well defined than those under the ICCPR. The rights in the ICESCR have to be achieved progressively over time, and complaints generally have to show a “clear disadvantage” in order to be admissible. States have a wide margin of discretion in their implementation based on a standard of “reasonableness,” taking into account a “range of possible policy measures.” When it comes to the ICCPR, on the

other hand, states are under an immediate obligation to “respect and to ensure” the rights therein, as well as provide an effective remedy for their violation. Taking into account the clear and immediate nature of the obligations under the ICCPR, it would be possible to argue that from the outset the right to property under ICCPR trumps claims involving the infringements of private property arising out of the ICESCR.

Mainstream human-rights thinking is increasingly hostile to the protection of private property and receptive to the ideas of ESC rights that often conflict with the right to property. Accordingly, those who believe that human rights are essential for freedom and prosperity and that the right to property is an essential human right should urgently focus their efforts on strengthening the protection of the right to property under international human rights law. ■

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point of view.

Another big risk is that we’ll end up with more people in the exchanges—because employers can do arithmetic. They understand that there is so much taxpayer money on the table in those exchanges that it is entirely possible for them to drop their coverage, particularly for anyone under 300 percent of the federal poverty line. It is a no-brainer to drop the coverage, pay the penalty,

give the worker a raise, and allow the worker to take the post-tax wage plus the subsidies and buy insurance at the exchanges that is just as good or better. If you take the population that’s eligible for that kind of bargain, and assume that not even all of them do it, you can double the \$1 trillion cost easily over the first 10 years, or triple it.

I would have loved to have stood here on the first anniversary of a bipartisan health care bill that took care of the costs problems

and enhanced the prospect for coverage in the United States. Instead, we’re celebrating the anniversary of something which represents another missed opportunity in health care reform in the United States, a dangerous step from an economic and budgetary policy point of view, and something that really cannot survive. And regardless of what we call it—repeal, replace, or simply throw up our hands and pray—it will not be this way in the future. ■