The Looming Fiscal Train Wreck

U.S. fiscal policy, including the recently concluded "fiscal cliff" debt deal, is placing an enormous financial burden on today's children and on future generations in order to deliver benefits to current middle-aged workers and their elders. Standard government accounting methods hide this "legacy debt" from the public, making it difficult to calculate how large the intergenerational transfer is. In **"Spending Beyond Our Means: How We Are Bankrupting Future Generations"** (White Paper), Jagadeesh Gokhale, a Cato senior fellow and a member of the Social Security Advisory Board, updates earlier calculations of fiscal and generational imbalance measures in order to consider "which generations of citizens are made 'winners' and which are made 'losers,' and whether the sum total of those effects is equitable." Using the Congressional Budget Office's "Alternative Fiscal Scenario," a measure more in line with past congressional practice, Gokhale finds that these policies would

increase the fiscal imbalance to 9.0 percent of the present value of GDP, or 19.7 percent of the present value of payrolls. However, even under the baseline scenario, "today's middle-aged workers would receive such large federal transfers by way of present-valued Social Security and Medicare benefits that their prospective lifetime net tax burdens are almost fully eliminated." These imbalances must be resolved soon through tax increases and spending reductions in order to avoid calamity. Unfortunately, Gokhale concludes, these are "precisely the policies that Congress is seeking to avoid in the short term."

A Dubious Defense of Stimulus

Passed in February 2009, the American Recovery and Reinvestment Act came with a price tag of $831 billion. Yet the economy has not returned to a path of robust economic growth, and unemployment has remained stubbornly high. As Andrew T. Young, associate professor of economics at West Virginia University, argues in **"Why in the World Are We All Keynesians Again? The Flimsy Case for Stimulus Spending"** (Policy Analysis no. 721), this has not stopped the Obama administration from pushing for further stimulus. Whether or not fiscal spending stimulus is effective hinges critically on the size of the spending multiplier. "If individuals anticipate the future tax liabilities associated with deficit spending and/or are 'crowded out' by the deficit

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spending, then the multiplier is likely to be less than one," he writes. Each dollar of stimulus, in other words, increases total spending in the economy by less than one dollar. "The net change in total expenditures, then, falls short of the fiscal stimulus itself," Young adds. He continues by putting the fiscal stimulus in perspective relative to recent U.S. history, discusses the most plausible estimates of the multiplier, and notes that even advocates of fiscal stimulus acknowledge that the long-run consequences for the national debt are often dire. Ultimately, whether the government spending multiplier is less than or greater than one is an empirical question. While no one seriously debates the costs associated with exploding public debt, he concludes, the evidence suggesting significant short-run benefits of stimulus spending is weak.

Education's Online Revolution

As with many other industries, higher education is becoming increasingly unmoored from its domestic roots. With leading institutions starting to offer courses online, we are entering a period of experimentation with new business models for higher education. In **"Liberalizing Cross-Border Trade in Higher Education: The Coming Revolution of Online Universities"** (Policy Analysis no. 720), Simon Lester, trade policy analyst at the Cato Institute, explores what it means when an online education industry will be tradable across borders in a way that it never has been before. He begins by acknowledging that, at this stage, it is not clear what the final higher education product will look like. But regardless of its specific form, there is likely to be more competition, lower costs, and higher quality. "This is great news for consumers of higher education," Lester writes, yet it also points to a lurking problem. "This new trade will be extremely disruptive, and as foreign competition with traditionally domestic institutions grows, the conditions are ripe for protectionism," he adds. Some existing institutions may fare badly in the transition and are likely to call for government support. Yet, it is imperative that we resist these calls for protection. The past few decades have seen great progress in bringing down tariffs and other barriers with the use of international trade agreements. As Lester concludes, "we must not let protectionism hinder what is almost certainly one of the greatest developments in history for education consumers, especially the poor."

Zimbabwe: Growing Despite Itself

Between 2009 and 2011, Zimbabwe's GDP growth averaged an impressive 7.3 percent, making it one of the world's fastest-growing countries. Given its stature as one of the world's worst business environments, this rapid growth might seem like a puzzling reversal. But in **"Zimbabwe: Why Is One of the World's Least-Free Economies Growing So Fast?"** (Policy Analysis no. 722), Craig J. Richardson, associate professor of economics at Winston-Salem State University, explains the dynamics behind this "curious outlier." In 2009 Zimbabwe adopted the U.S. dollar and South African rand as its official currencies—replacing the country's "largely worthless currency and swiftly quell[ing] the rampant hyperinflation." Yet the real reason for the country's rapid growth, according to Richardson, is a series of unsustainable economic developments. First, the country has experienced a 12-fold increase in government expenditures since 2008. In addition, rich Western countries dramatically increased their infusions of "off-budget" grants to Zimbabwe. Finally, the country's increasing reliance on exporting raw minerals—along with rapidly escalating, yet volatile, commodity prices—have left Zimbabwe in a vulnerable position. These artificial financial injections from outside have given its government little incentive to change. Nevertheless, Richardson concludes with cautious optimism: "Economic development is not far beyond Zimbabwe's grasp, as it has the shell of a constitutional framework, a government originally organized along democratic structures, and a previous record of respecting property rights and rule of law."

Obamacare's Vulnerability

The Patient Protection and Affordable Care Act of 2010 (PPACA) depresses economic activity, eliminates jobs, increases health care costs, makes access to care less secure, increases the burden of government, and traps people in poverty. In the process, it also denies states the freedom to tailor health care reforms to their needs. In **"50 Vetoes: How States Can Stop the Obama Health Care Law"** (White Paper), Michael Cannon, director of health policy studies at the Cato Institute, reveals how states can push Congress to repeal this harmful, unstable, and unpopular law. As Cannon explains, the PPACA itself empowers states to block the employer mandate, to exempt many of their low- and middle-income taxpayers from the individual mandate, and to reduce federal deficit spending—"simply by not establishing a health insurance 'exchange.'" To date, 34 states, accounting for roughly two-thirds of the U.S. population, have opted for this path. In addition, the PPACA's Medicaid expansion is now optional for states, thanks to the Supreme Court's ruling in *NFIB v. Sebelius*. In short, Obamacare "is weaker, and the path to repeal clearer, than it ever has been." By refusing to establish Exchanges or expand Medicaid, states can collectively shield all employers and at least 12 million taxpayers from the law's new taxes, and still reduce federal deficits by $1.7 trillion. According to Cannon, a critical mass of states exercising their veto power can force Congress to reconsider—and hopefully repeal—this counterproductive law. "Real health care reform is impossible until that happens," he concludes. ■