

ISSUES IN PERSPECTIVE

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PERSPECTIVE NUMBER ONE

The Standard & Poor's Debt Alert

Last week, Standard & Poor's announced that it might need to downgrade the US government's AAA bond rating for the first time in history, because of the dim prospects for serious debt reduction. This panicked investors, in the short term, who believe that Treasuries are the last safe haven in an uncertain world. A dip in the US bond rating would erode billions of dollars worth of savings in T-bills and raise the future cost of borrowing by the federal government. More than anything in recent memory, this warning points out that the US has a big, unsolved fiscal problem. This announcement follows on the heels of several other warnings:

1. A few weeks ago, Pimco, the world's biggest bond fund, said it was eliminating its holdings of the US government debt.
2. The International Monetary Fund lectured the US in a tone that sounded more like it was addressing a teetering Third World nation, not the fund's largest shareholder—the US. It argued that “a credible strategy” to stabilize the US national debt is “urgently needed.”
3. The S&P announcement cited a “material risk” that there could be no agreement on how to deal with medium- and long-term budget issues by 2013. If nothing happens by then, “this would in our view render the US fiscal profile meaningfully weaker than that of peer AAA sovereigns.” Put another way, the greatest intangible asset of the US could evaporate.

If this downgrading were to occur, what would be the results? It would increase borrowing costs for home buyers and businesses, as well as for government. It would drive down the value of the dollar, add inflation to the nation's woes and perhaps even ignite another global credit crisis similar to 2008.

Finally, as economist Paul Samuelson argues, “We won't make much progress until (a) Democrats concede that spending control requires genuine cuts in Social Security and Medicare, which now total \$1.3 trillion annually and represent 35% of federal outlays; and (b) Republicans acknowledge that, even after significant spending cuts, tax increases will be needed to balance the budget. . . [But] there was little sign of either. President Obama rebuffed Social Security and Medicare cuts. Most Republicans held fast on taxes.” What we have now is a public relations war!! Powerfully and with compelling logic, he maintains that “Our budget problem is conceptually simple. Government's spending commitments, driven by more retirees and uncontrolled health costs, vastly exceed the existing tax base. There is an argument about how fast changes should be made to protect the economic recovery. There should be no argument over the need for changes to prevent a debt crisis: Too many Treasury bonds frighten investors and drive up interest rates. . . We still await a serious debate about which programs to cut and which taxes to raise. Congressional Republicans advance a radical plan for shrinking

government—and are not candid about it. Obama defends the status quo of ever-bigger government—and is not candid about it.” The serious debate has not yet begun, but it must!

Two additional thoughts:

- First, the Obama budget, both the initial one and the revised one, reflect a deep commitment to growth in government spending—something that cannot occur. Put very simply, the US government must function in its spending at 19% or 20% of GDP. Currently, it is functioning at 24.4% of GDP. For both of Obama’s budget proposals, that percentage remains above 22% of GDP. The proposal submitted by Paul Ryan, which the House adopted, would drop US spending to slightly below 20% of GDP. Put rather crassly, both Obama budgets maintain a spending binge by the US government with increased borrowing. Ryan’s proposal reduces both significantly.
- Second, Robert Samuelson correctly suggests that this nation must ask itself four basic questions:
 1. How big of a government do we want? An aging population and high health costs mean that average spending, as a share of GDP, will rise by a third or more in the next 10-15 years if today’s programs simply continue.
 2. Who deserves government subsidies and how much? About 55% of spending goes to individuals, including the elderly, veterans, farmers, students, the disabled and the poor. We must have this conversation.
 3. How much, if at all, should social spending be permitted to squeeze national defense spending?
 4. If taxes rise, how much and on whom? Which taxes would least hurt economic growth?

However, as Samuelson observes, we are not having this debate: “His recent budget speech at George Washington University was a telling model of evasion, contradiction and deception. He warned that by 2025 present tax levels would suffice only to pay for ‘Medicare and Medicaid, Social Security and the interest we owe on our debt. . . Every other national priority—education, transportation, even our national security—will have to be paid for with borrowed money.” But, astonishingly, the president has no plan to balance the budget! The president of the United States is flirting with profound danger and the American people should call him to accountability.

See Robert Samuelson in the *Washington Post* (17 and 24 April 2011); John B. Taylor in the *Wall Street Journal* (22 April 2011); *USA Today* editorial (19 April 2011); and Ruth Marcus in the *Washington Post* (19 April 2011).

PERSPECTIVE NUMBER TWO

Iran vs. Saudi Arabia: A New Middle Eastern Cold War

Last week, Iran and Egypt’s new government signaled they were moving quickly to thaw decades of frosty relations. Iran said it appointed an ambassador to Egypt for the first time since the two sides froze diplomatic relations more than three decades ago. Both the US and Israel are

deeply concerned that such moves indicate that Egypt is reordering its foreign policy, which could further empower Iran and its regional clients Hamas and Hezbollah. For decades, Egypt was a vital player in the regional balance of power. With its large population, US-financed military and diplomatic ties with Israel, it was a counterweight against both Iran and Syria. If this shift goes forward, it will also impact the role of Saudi Arabia as the chief counterweight to Iran.

This shifting balance of power in the Middle East is perhaps magnified in the ongoing struggle between Saudi Arabia and Iran. Let me summarize the depths of this struggle.

- First, Iran has longed pursued a nuclear program that both the US and Saudi Arabia contend is aimed at producing nuclear weapons. Were this to occur, Saudi Arabia may need to pursue its own nuclear program. The Saudis have relied on the US nuclear umbrella and on antimissile defense systems deployed throughout the Persian Gulf region. These systems are intended to intercept Iranian ballistic missiles that could deliver nuclear warheads in the not too distant future. This basic balance, with Saudi Arabia relying on the US, could break down if indeed Iran acquires nuclear weapons.
- Second, there is a basic difference in the type of Islam represented in each nation. Saudi Arabia is a Sunni kingdom, while Iran is the world's leading Shiite kingdom. These differences exacerbate the ongoing struggle between Arabs and Persians for control of land and resources. The holiest sites of Islam (Mecca and Medina) are under the care of Saudi Arabia. The holiest sites of Shiite Islam are overseen by Iran.
- Third, they differ in terms of geopolitical arrangements. Iran has strong allies in Syria and of course Hamas and Hezbollah. Saudi Arabia has close allies in the Persian Gulf emirates and monarchies, Morocco, Egypt and the Fatah organization of the Palestinian Authority. As reporters Bill Spindle and Margaret Coker argue, "The Saudi camp is pro-Western and leans toward tolerating the state of Israel. The Iranian grouping thrives on its reputation in the region as a scrappy 'resistance' camp, defiantly opposed to the West and Israel." In addition, both prefer to work through "proxy politicians and covertly funded militias, as they famously did during the long Lebanese civil war in the late 1970s and 1980s, when Iran helped to hatch Hezbollah among the Shiites while the Saudis backed Sunni militias." Even as far away as Indonesia, Iranian clerics are expanding their activities.
- Finally, the Saudis view much of the current unrest in the Middle East as Iranian meddling. For that reason, the Saudis have helped in Bahrain, where many Shiites openly nurture cultural and religious ties to Iran. Iran uses "state media and the regional Arab-language satellite channels its supports to depict the pro-democracy uprisings as latter-day manifestations of its own revolution in 1979." Nothing of course could be further from the truth. Iran is not interested in democracy, only in fomenting more unrest so that it can take advantage of the unrest. But neither are the Saudis interested in democracy. So, the two giants of the Middle East come to the same conclusion but from very different perspectives. Saudi Arabia will remain pro-western and will remain the principal bulwark against Iran in the Middle East. There will remain a "cold war" of sorts between Iran and Saudi Arabia.

But neither of these giants is that secure. Major changes could be sweeping through the Middle East with tremendous uncertainty about where it will all end.

See Spindle and Coker's very helpful essay in the *Wall Street Journal* (16-17 April 2011) and Matt Bradley on Egypt in *ibid.* (19 April 2011).

PERSPECTIVE NUMBER THREE

The Futility of Human Control and Manipulation

With the advent of modern technology, humanity has sought increasing control with the goal being manipulation of nearly everything for the good of the human race. Since the eighteenth-century Enlightenment, several historical developments have produced an openness in Western Civilization toward seeking to control and manipulate humans. First is a mechanistic view of human beings. For example, with organ transplants in medicine, the maintenance of organ donor banks, sperm donor banks, discussion about the harvesting of organs from cadavers, etc., it is not an immense step to view humans as near machines which, when one part breaks down, another is ready to replace it. This is not medicine's intent, but the level of expectation is that somewhere there is a "part" for me. What naturally follows is to view the human body as a machine that with proper maintenance and repairs can keep on functioning. This produces an openness to accepting conception and genetic manipulation in the culture. Another development is the increasing human control over nearly every aspect of life. We live in climate controlled buildings, drive climate-controlled vehicles, access voluminous amounts of information, worldwide, at the click of a mouse, can travel anywhere in the world in less than a day and are living longer than at any time in recent human history. The reason? Technology. Because of human dependence on technology, there is the natural expectation that all human problems can ultimately be solved by technology, including infertility problems, health problems and emotional problems. The concept of the scientific imperative is another cause of modern technological openness. This concept assumes that because technology has made a particular procedure, invention or practice possible, we therefore as a civilization must go forward with it. The scientist's "can" becomes the civilization's "ought." This is a powerful assumption that is pervasive in Western Civilization. The invention of a deadly weapon or procedure, even something as unthinkable as chemical and biological warfare, relentlessly presses on until someone determines we must produce these weapons. The same logic drives conception and genetic procedures. Once the procedure is developed, it is nearly impossible to stop someone, somewhere from using it. Another development producing this openness toward technological manipulation is the modern emphasis on pleasure and pain reduction as virtual moral imperatives. Think of common, everyday headaches. The typical drug store in America is filled with dozens of remedies that can treat the headache. Pain and discomfort are foreign to our lifestyle and our expectations are that "there be a pill somewhere for this ailment." This expectation transfers as well to the "good life" that modern conveniences have produced. We expect, almost demand, ease, comfort and daily pleasure in the forms of good food, entertainment and self-indulgence. In the words of Francis Schaeffer, "personal peace and affluence" drive Western Civilization. The result is an openness toward and the positive expectation about technological manipulation of human beings.

However, we are now facing a new reality in the West—the rising risk of antibiotic resistance; or what some are calling the “superbug.” Antibiotics work against bacteria, not viruses. Yet patients press their doctors to prescribe them for viral infections such as colds and the flu. Therefore, the bacteria develop a stronger resistance to the drugs. The result is longer and more serious illnesses, lengthening people’s stays in the hospital and complicating their treatment. An example is reported by *The Economist*: “Nearly 450,000 new cases of multidrug-resistant tuberculosis are recorded each year; one-third of these people die from the disease.” There is little doubt that antibiotic resistance is a growing challenge for the medical community and for world health. As with all things human, there are limits as to what we can completely control and manipulate. Superbugs are not taking over the world but they remind humans that it is impossible to absolutely control everything about our world. Superbugs should also remind us of our humility and our dependence on God as a species living in a fallen world.

See *The Economist* (2 April 2011), pp. 73-75 and James P. Eckman, *Biblical Ethics*, pp. 39-46.