Affording Universal Healthcare

A Private Sector Alternative to Mandates

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INTRODUCTION

On the morning of June 28, 2012, in a 5/4 decision, the Supreme Court of the United States upheld the mandate in the "Affordable Care Act" (labeled "Obamacare" by its critics) that, among other things, requires employer plans to offer contraception coverage whether or not doing so goes against fundamental religious beliefs of the employer. This should concern all citizens, religious or not, as it violates an American citizen's freedom of choice and religious liberty, both presumably guaranteed by the Constitution that the Supreme Court is sworn to defend and protect.

By upholding a mandate in the matter of healthcare enforced on all employers except those meeting an extremely narrowly defined exemption, the Supreme Court has violated freedom of choice for every person, religious or otherwise, who is forced to pay into an insurance pool offering such coverage, whether or not that particular individual him- or herself elects that particular coverage. The Court has violated religious liberty by validating the presumption that the federal government can decide what constitutes religious practice (thereby establishing religion), and thus what qualifies for an exemption from the law on religious grounds.

The American Catholic hierarchy and representatives of other faiths have been vocal in their opposition to the mandate. This is because, in effect, the Supreme Court of the United States has decided that institutions carrying out millennia-old religious practices, such as education, caring for the sick, feeding the hungry, clothing the naked, and the other corporal works of mercy recognized as meritorious by all faiths, are not engaged in the practice of religion, and therefore do not qualify for a religious exemption to the mandate.

The equivocation by Chief Justice Roberts that the mandate is really a tax, not the penalty actually specified in the law, not only rewrites the language of the Act itself, but appears to be based on a fundamental shift in the theory of constitutional law that guided the Framers of the Constitution.[i] As the *Wall Street Journal* pointed out,

> According to Chief Justice Roberts, the penalty is merely a tax on not owning health insurance, no different from "buying gasoline or earning income," and it thus complies with the Constitution. This [is] a large loophole. The result is that Washington has unlimited power to impose new purchase mandates and the courts will find them constitutional if Congress calls them taxes, or even if it calls them something else and judges call them taxes.[ii]

Going by Justice Roberts's reasoning, Congress can impose a tax for *not* doing something. This is contrary to the basic principles of taxation of Efficiency, Understandability, Equity and Benefit (see Appendix B). It is also contrary to Justice Roberts's claim that it is no different from "buying gasoline or earning income."

This claim is specious. You are taxed *for* buying gasoline or earning income, not for *not* buying gasoline or earning income. This is similar to the situation that prevailed when some countries had "established churches" that functioned as branches of the government. Citizens could be fined or imprisoned for not attending State-sanctioned or official State worship services.

The problem is that, despite their determination to resist a violation of religious liberty and freedom of choice, American Catholics and others opposed to the mandate have no realistic alternative to offer, much less something that respects freedom of choice and does not violate anyone's conscience. Further, neither the Affordable Care Act nor competing proposals have given realistic answers to the question of how the cost of universal healthcare would be covered without mandates or other coercive measures. Any political candidate that does not simply oppose the current law but presents a viable alternative would have a good chance of being elected in November over current incumbents.

This paper presents such an alternative.

People generally agree that universal healthcare is a desirable goal. There are, however, two concerns that many others feel are not adequately addressed in any proposal or existing system. The first of these is who is to pay for it. The second is who is to determine what is included in a program intended to apply to everyone.

For many people the answer to both questions is "the State." The problem with State financing of anything, however, is that taxpayers foot the bill for direct funding out of taxes, while everyone pays through the "hidden tax" of inflation if the State monetizes its deficits. Further, if the State decides what is included in universal healthcare and backs it up with its coercive power (as it must, if it is to be enforceable), there is a significant danger that those with political power will use that power to force others to pay for or participate in acts that the others find morally repugnant.

This paper answers the questions of who is to pay and who determines what is covered in a program of universal healthcare by proposing reforms to the Federal tax system and monetary policies that ordinary people be put in the position of being able to afford their own healthcare, without interference either from their employers or the State, reducing costs both on employers and the State.

This can be done (as illustrated in Appendix A on "Capital Homesteading") by implementing an aggressive program of empowering every man, woman and child with direct ownership of newly formed productive capital. This would generate faster annual rates of economic growth, supported by a fundamental tax reform (Appendix B). Capital acquisition would be financed on credit repaid with future earnings of the capital itself (Appendix C). Thereafter the capital would generate new wage and dividend incomes adequate for meeting ordinary living expenses, including education and healthcare. An expanded ownership program would also provide retirement incomes for all citizens that do not add to production costs and prices.

The State would be restricted to its role of regulating the system instead of trying to control it. State control of the healthcare system or any other mandate would become moot as people became able to meet their own needs out of their own after-tax earnings. This would be a natural consequence as the new growth strategy transitions into a new system in which every citizen would have an equal opportunity to become an economically independent capital owner. During that transition and afterwards, public assistance and private charity, would be relegated to short-term aid as an expedient.

The proposed new and simplified tax system would, among other changes, encourage non-inflationary growth, and provide a meaningful personal exemption for every citizen, including a variable portion to cover education and healthcare costs. This exemption would enable most people under ordinary circumstances to meet basic health, education and other living needs, including charitable contributions, while eliminating the complex array of other "tax expenditures" that perpetuate injustices in the current Federal tax system.

Federal deficits would be avoided by taxing all citizens on their incomes from all sources above their personal exemptions. The rate would be set at whatever single rate is necessary to balance whatever budget Congress approves. The budget itself would include a provision (probably through a voucher system) for meeting the basic needs of those whose wage and capital incomes are insufficient, including education and healthcare, when private charity is inadequate.

THE CRISIS

Throughout the nation there is a growing realization that America's healthcare system is financially unsustainable. The annual *per capita* cost of healthcare in America is in the neighborhood of $7,000 for every man, woman, and child — a total of approximately $2.1 trillion. Some analysts are predicting massive increases of as much as 300% to 1,000% over the next decade.[iii]

Forty-seven million Americans today are not covered by any form of health insurance or cannot afford quality health services. A "hidden debt" in the form of $74 trillion (approximately $250,000 per man, woman, and child) is projected for the present value of the under-funding in Social Security and Medicare, according to reports from the Social Security and Medicare Trustees in early 2004. This has resulted in an entitlements package amounting to two-thirds of the total Federal budget.[iv] Meanwhile, healthcare costs continue to rise at faster rates than family incomes. As economic commentator Robert Samuelson observed a few years ago:

> "Health spending already totals more than $2 trillion annually, about 16 per cent of national income (gross domestic product). By 2030 it could easily exceed 25% — one dollar out of four — projects the Congressional Budget Office. . . . Most Americans think that someone else will pay for their care."[v]

Only a small fraction of these projected cost increases will be due to the demographics of a rising aged population. Most of the future cost hikes will be tied to advancing health technologies and pharmaceuticals, and other anticipated costs of providing universal healthcare. All of the candidates who sought the presidency in 2009 elevated the healthcare issue to the top of America's political agenda, and it bodes well to be the pivotal issue in 2012. None of the proposals, however, addressed the systemic flaws underlying the crisis, which have impeded economic growth and have concentrated wealth and economic power. All of the proposals from both major political parties and all third parties from left to right continue to reflect conventional "wage system" ("JOBS, JOBS, JOBS") economic thinking that increases the powers of the Federal government *vis-à-vis* the individual citizen.

Anyone looking to the Social Security and Medicare systems to take up the slack in other government entitlement programs is being unrealistic. A March 9, 2005 Associated Press article reporting on debates concerning getting the budget under control quoted David Walker, retired head of the General Accountability Office, as saying that this debt and other Federal deficits are unsustainable:

> The partisan differences persisted despite sobering testimony from Comptroller General David Walker, the leadoff witness at the first Social Security hearing of the year at the House Ways and Means Committee.
>
> While the program faces no immediate financial crisis, he told lawmakers, "time is working against us. The sooner you act, the less dramatic the changes that have to be made."
>
> Beyond that, he said Congress faces a larger challenge. Social Security, Medicare and Medicaid combined "represent an unsustainable burden on future generations," said Walker, who heads the Government Accountability Office, a nonpartisan congressional agency.
>
> "Absent meaningful changes to these programs, the nation will ultimately have to choose among persistent, escalating federal deficits, huge tax increases, and/or dramatic budget cuts."[vi]

In response to this grave concern, the Center for Economic and Social Justice (CESJ) developed its "Capital Homesteading" plan for comprehensive Federal tax, monetary and other reforms[vii] needed to address the unsustainable flaws in Social Security, Medicare, Medicaid, Veterans Health, S-CHIP and other health-related and retirement programs.

The Magnitude of the Problem

To quantify the magnitude of the problem, CESJ has been using $2 trillion as a rough estimate of the value of the annual "growth ring" of new capital formation in the United States, or approximately $7,000 per man, woman, and child in America.[viii] This includes new plant and equipment, new labor-displacing technologies, new rentable space and new infrastructure added each year in both the public and private sectors. At $2.1 trillion, the annual cost of medical care thus exceeds the annual investment in new capital that produces the goods and services that generate the income to pay for food, clothing, shelter, education — and medical care. As a July 2007 article in the *Wall Street Journal* noted,

> According to the Kaiser Family Foundation, 60% of businesses offered health benefits in 2005, down from 69% in 2000. Employer premiums for family coverage rose 81% since 2000 to $11,480 annually.[ix]

Obviously these figures can only approximate the full cost of healthcare in the United States. They are based solely on reported government figures (many of them estimates to begin with), not on audited financial or population data.

These estimates, however, highlight the fact that doing nothing, applying traditional solutions more intensely, or implementing universal healthcare through the private sector without a fundamental restructuring of the economic system, is heading toward a political and financial meltdown.

This paper proposes a radical free enterprise alternative that would restore the soundness of the American healthcare system while reversing the tendency toward concentrated government power. It would decentralize economic power, in such a way that all Americans, including the poorest of the poor, could pay for their own high quality healthcare through universal healthcare insurance provided by the private sector.

With minimal government intervention, this new approach would lead to, or be done in tandem with, a restructuring of the Internal Revenue Code, Federal Reserve monetary and credit policies, and other basic economic institutions. This would be in ways that could finance universal healthcare, promote sustainable economic growth, and provide new private sector jobs and second incomes for all Americans through universal access to participation in private ownership of America's future capital formation. In the process of solving the healthcare crisis, the restructuring changes needed would also create a *genuine* "ownership society," lifting up "have-nots" without taking property rights away from "haves."

Rather than blindly following the conventional solutions that would increase levels of income or wealth redistribution, perhaps it is time for America to return to its roots and founding ideal of universal access to ownership of productive assets as a fundamental human right. It would also demonstrate the moral power of Section 17 of the Universal Declaration of Human Rights that states: "Every person has the right to own property, individually as well as in association with others." Regretfully, since that document was signed on December 10, 1948, every government on earth, including that of the United States, is completely indifferent to its duty to lift artificial barriers to universal fulfillment of that goal.

Solving the healthcare crisis could be the bridge to restoring America's status as a global exemplar for economic justice and economic democracy. Thus, a cure to America's healthcare system would also help cure other systemic ailments in our free enterprise system.

Areas of Concern

Aside from the larger question of the role of the State overall, we need to look at how we can address the healthcare crisis with a minimum level of government intrusion into people's daily lives. To do that we need to focus in on three areas:

1) Curing the System

How do we cure America's healthcare system? The sheer magnitude and complexity of today's crisis requires a holistic, not a piecemeal, solution. Temporary measures or expedients won't save our ailing healthcare system. The patient is dying.

The health system *and* the economic system supporting it need fundamental reforms to address the basic needs of all citizens in a just and economically viable way. The solution must restore, not sever, the sacred doctor-patient relationship.

Finally, the solution must be one that keeps economic and political power spread democratically, not monopolistically concentrated in the State or a private elite.

2) Paying for the System

How do we pay for it? Only an aggressive bipartisan national program of market-based economic growth in which all citizens participate through ownership of both labor and capital has the potential to provide the resources to allow each person to make his or her own healthcare choices without bureaucratic interference or dependency on the State. Capital Homesteading tax reforms (see Appendices A and B) would not only cover the budgetary requirements of universal healthcare coverage, but would ensure that there is sufficient revenue to cover all costs, while creating a more simple and fair tax system to balance the Federal budget.

3) Sustaining the System

How do we sustain it? The healthcare system is part of a larger economic and social system. Thus we need to create a system that reduces the pressure on an overburdened tax system that has been expanded far beyond its proper role of raising funds to cover legitimate government expenditures. Using the tax system to redistribute incomes or stimulate private sector growth is self-defeating. The tax system depends upon the private sector to generate the tax revenues to pay the cost of government and social programs in the first place. A sustainable solution would create widespread purchasing power among citizens so that they are freed from dependency on employers, government, or charity.

PRINCIPLES FOR A SOLUTION

The first step in healthcare reform is to have a viable framework for a solution. The Center for Economic and Social Justice (CESJ) promotes an approach called the "Just Third Way."[x] The Just Third Way is based on the overall global vision and three interdependent principles of economic justice developed by Louis Kelso and Mortimer Adler, and embodied in what CESJ calls the "Four Pillars of a Free and Just Market Economy." The three principles of economic justice are:

- **Participation.** "Participation" is the input principle that all people have a right to live in a culture that offers them equality of dignity and opportunity to contribute their labor as well as their capital, to the production of marketable goods and services. This requires equal access to the means of acquiring property in income-producing capital. As technology displaces or replaces labor, the ownership of capital becomes essential for a person in the modern world to earn a living from capital ownership. Such social means are necessary for all members of a society or institution to exercise their fundamental rights to become empowered to contribute to the success of the social order as a whole and to their personal success.

- **Distribution.** "Distribution" is the out-take principle — based on the exchange value of one's economic contributions — that all people have a right to receive a proportionate, market-determined share of the value of the marketable goods and services they produce with their labor, their capital, or both. Under Kelso's binary theory of economics, every person is entitled to earn both from their human or "labor" contributions and from their capital contributions (non-human things in the form of productive land and humanly-created capital assets) that combine to produce all goods and services sold in the market. Kelso rejected the "Labor Theory of Value", which ignores the reality of ever-advancing technologies that continue to eliminate many jobs throughout the world. Further, distribution based on need, rather than on contribution, is valid for charity. Charity, however, should never be a substitute for justice that could reduce the need for charity.

- **Social Justice.** Formerly referred to by Kelso and Adler as the principle of "Limitation," "Social Justice" (a more-encompassing concept) is the feedback principle that balances "participation" and "distribution," as well as "production" and "consumption." Under monopoly capitalism, for example, where ownership accumulations of a tiny elite have become so concentrated that their consumption power is vastly greater than their human capacity to consume, the principles of Participation and Distribution are automatically violated. The principle of Social Justice calls for restorative or corrective action when either essential principle is violated by a system. Social Justice includes a concept of limitation that discourages personal greed and prevents social monopolies. Social Justice holds that every person has a personal responsibility to organize with others to correct their organizations, institutions, laws and the social order itself at every level whenever the principles of "participation" or "distribution" are violated or not operating properly.

The four pillars of a free and just market economy (in contrast to all forms of socialism and monopoly capitalism) are:

- A limited economic role for the State,

- Free and open markets within an understandable and fair system of laws as the most objective and democratic means for determining just prices, just wages and just profits (the residual after all goods or services are sold),

- Restoration of all traditional rights and powers of private property, especially in corporate equity and other forms of business organization, and

- Widespread capital ownership, individually or in free association with others. This is achieved through tax and monetary reforms that provide universal and equal access to capital credit repayable with "future savings" (profits) from the future goods and services for which each new growth investment is expected to be produced. Thus, without redistributing property rights of current owners, the poor and middle class without past savings are enabled to acquire direct ownership of capital in an advanced economy.

These "pillars" are more fully explained in *Capital Homesteading for Every Citizen*.[xi] The last-named pillar is ignored or tacitly and erroneously rejected by so many otherwise well-intentioned and serious commentators on the right as requiring some form of redistribution.[xii] It does not. Rather, this pillar is based on equality of opportunity to become an owner. Paradoxically, it also challenges the anti-property biases of the left and the traditional adversarial wage system bargaining patterns between organized labor and corporate management. These assumptions explain why labor costs rise with no corresponding increase in the productiveness of labor inputs.

Power, Property and Ownership

Some people soft-peddle the monopolization of economic power under capitalism. They refuse either to recognize or address artificial barriers to universal access to the means of acquiring and possessing private property stakes in wealth-producing assets. Others highlight these barriers as evidence that a greedy elite in the private sector is reinforcing the current system to perpetuate the ever-widening gap in income and economic power between the few that own and the many who do not own. They counter private sector greed with public sector envy, thereby justifying increasing the power of the State, resulting in an ever-growing citizen dependency on government with redistribution and non-productive or "make-work" job creation schemes.

The essential flaw in both positions is that neither views equal access to the means of acquiring and possessing private property — widespread capital ownership — as a critical and just means for closing the wealth gap in an increasingly capital-intensive world. They do not acknowledge Daniel Webster's dictum that "power naturally and necessarily follows property." They do not, therefore, acknowledge the need to lift systemic barriers to equal ownership opportunity and the financing of sustainable cost-saving health and other life-enhancing technologies.

Consequently, as the *Wall Street Journal* pointed out the day after the Supreme Court's ruling on the Affordable Care Act, "If there is a modicum of hope in Chief Justice John Roberts's inglorious one-man opinion Thursday, it is that Americans were reminded again that they cannot count on others to protect their liberty."[xiii] As history has proven time and again, the only real protection for life and liberty is widespread directly owned capital; propertylessness leads inevitably to the destruction of humanity's inalienable rights. As Heinrich Rommen, the German jurist who was imprisoned by the Nazis for his opposition to Hitler, explained,

> Liberty is closely connected with property; this is true philosophically, not only in our bills of rights. It is common theory that the idea of property follows immediately from the idea of person. It is philosophically a necessary consequence of it. The right to property is simply an enlargement of the person, and the right of liberty is realized in the right of property. Therefore the institution of property, the *suum* as related to things, is presupposed by the legal order. The bills of rights do not create it, even as they are not competent to destroy it. The institution of property is like a dowry of the personality.[xiv]

This proposal attempts to demonstrate that efficient delivery of universal quality healthcare should be based on universal access to affordable private sector health insurance, a minimal role for government and private sector intermediaries between physicians and patients, and maximum freedom of choice for every citizen to pay for and choose his or her own doctor, other healthcare providers, and health insurer.

Goals of a Solution

The principles and goals of our private sector, citizen-owned and -controlled proposal for universal healthcare are consistent with the three principles of economic justice and the four pillars of a free and just market economy and would:

Preserve the Hippocratic Oath

The Hippocratic Oath is an ancient statement of the basic tenets of the practice of Medicine. First and foremost among these tenets is that physicians swear to act only for the good of their patients. As this is the whole intent and purpose of the practice of Medicine, it is critical that this orientation pervade any reform of the healthcare system, regardless of political or financial considerations.

Maximize Empowerment

By "maximize empowerment" we mean returning control over healthcare decisions to physicians, patients, and other healthcare providers. This entails restructuring the system so that a patient's means, or lack thereof, do not determine the level or quality of healthcare offered. Economic empowerment of individual physicians and patients will maximize personal responsibility of all stakeholders to make wise and voluntary choices.

Encourage Lobbying for Capital Homesteading

So that all citizens can begin to earn more incomes to pay for their own healthcare needs, physicians, other health providers and health insurance companies need to take the lead in pushing for the necessary legislative changes in our tax and healthcare systems. Physicians are in a strategically critical position to lead, rally other Americans, and surface new political leaders to market the systemic changes outlined in this paper, including the enactment of a Capital Homestead Act to achieve a more just and free market economy where no citizen would be deprived on income grounds from receiving the highest quality of healthcare services.

Promote Universal Healthcare Cost Coverage

Physicians and other stakeholders must promote universal comprehensive health cost coverage by private insurance or voluntary self-pay options ("self insurance") with guaranteed issuances of insurance for all applicants, regardless of their health conditions.

Address the "Free Rider" Issue

Where a health provider is unwilling to write off as charity, some critics of universal healthcare view those who abuse the healthcare system as "free riders." This paper offers a "solution" to the "free rider" problem for those not willing to pay for health insurance premiums or have too little in savings to cover extremely costly medical bills.

THE PROPOSAL IN BRIEF

Most healthcare professionals agree that the traditional physician/patient relationship as well as quality of service has suffered greatly with the "industrialization" of medicine and the intrusion of power-concentrating private and (especially) public sector monopolies. Nor is the medical profession the only calling endangered by growing State intrusion into medicine and virtually all other aspects of daily life, as the U.S. Department of Health and Human Services mandate demonstrates.

Elements of the Proposal

These proposed reforms would, we believe, not only restore and strengthen the practice of medicine and the quality of its services, but other major aspects of life as well. They would link the maintenance of life (healthcare) to that of at least two other fundamental natural rights, those of liberty (politics) and private property (economics). To do this we propose to:

Avoid Monopolies and Mandates

Avoid mandates and top-down, centrally planned "command and control" medicine by government, the insurance industry and healthcare delivery systems. This would strictly limit the power of the State, a legitimate monopoly over the means of coercion, but nothing else. Centrally controlled systems and monopolies are the *problem*, not the *solution*.

Allow citizens to choose and pay for their own healthcare providers, rather than taxing dollars for healthcare and putting the control over health services in the hands of government bureaucrats and health insurance administrators. This would be done through a generous personal exemption from taxable income, to which would be added a dollar-for-dollar additional exemption for healthcare and education, and accumulation of income-generating assets on a tax-deferred basis to allow citizens to accumulate a viable capital estate.

For those individuals and families with insufficient income to purchase health coverage and whose needs are not met by private charity, the State would provide vouchers as an expedient. In addition, among other benefits that the Capital Homestead Act would provide in financing new technologies and other future capital needs of the healthcare system, healthcare providers would also increase their own future incomes and retirement assets over time. As would be the case with all other Capital Homesteaders, this would be accomplished without increasing labor costs in providing quality healthcare services.

In this way when a person leaves an employer he or she would not lose coverage and would be able to keep the same health providers. This would maintain "portability," consistent quality of care, and a long-term doctor-patient relationship throughout a person's lifetime. This proposal would provide to the individual an improvement over the tax deduction for health coverage now received by employers. Reduced healthcare and retirement costs to employers would increase the rate of job creation and the nation's capacity to compete more effectively in global markets.

Foster Competition

Regulated — not controlled — competition is essential in industries in which most people lack the expertise to judge for themselves the quality of the product and must rely on credentialed professionals. Areas such as accounting, law and medicine are extremely specialized, and most people are not going to have the time, talent or inclination to become experts in these fields. The State may therefore set minimum standards of performance for the practice of medicine, but it should not dictate anything else.

Thus, within proper bounds, competition is essential for increasing choice, quality and efficiency for health consumers. Competition will maximize efficiency and reduce bureaucratic red tape and costs in the operation of all healthcare delivery and in the means for paying for all healthcare costs. This would promote internal controls and a large degree of self-regulation of healthcare providers and health insurance companies.

One private sector proposal that should be examined seriously is for a network of medical services or healthcare clearinghouses to achieve the efficiencies of a single payer system without the necessity of establishing a State- or privately-run single payer system. Rather than deal with each insurer individually, physicians, physicians' groups, hospitals, and other health care providers would join medical or health care service clearinghouses. The clearinghouse would deal with other clearinghouses and insurers on behalf of the health care provider for a small fee for each transaction. Billing and insurance forms would be standardized throughout the system, with the routine matters prepared by the clearinghouse, thereby relieving physicians and other healthcare providers of much of the burden of paperwork. Such clearinghouses would also aggregate data collected from insurance companies and physicians on costs and prices for procedures and treatments after depersonalizing the data, separating it from anything that could be used to identify a specific patient.

Establish Minimum National Standards

Establishing the necessary minimum national standards is not a job for the politicians, any more than the government deciding on the types of healthcare that must be provided or even religious beliefs that must be held. The State has the responsibility for overseeing and maintaining the overall system within which people carry out the business of living, and in providing for the relief of extreme cases of individual distress when private charity is unable to offer assistance. The State is not responsible for guaranteeing that everyone has everything they want or need.

Thus the medical profession itself should be charged with the responsibility of bringing together representatives of the various stakeholder groups. The goal would be to establish minimum national standards for comprehensive healthcare insurance.

Taxpayer-Funded Research and Development

A basic right of private property is that, as a general rule, if you pay for something, you own it, and are entitled to the "fruits" of ownership, that is, any income generated and control over it. That being the case, medical technology companies and pharmaceutical companies are within their rights to gain patent rights that can exclude their competitors from producing major advances by the patent holder in healthcare. They can then charge higher monopoly prices to healthcare patients who need these advances than would be the case if there were competition in producing these innovations.

The problem is that this drives up the cost of healthcare, sometimes beyond the reach of patients of moderate means. For that reason, a strong case can be made for public funding of medical research. This could be funded and structured like the "Manhattan Project" with top scientists, researchers and engineers within five or so research facilities around the country.

When new technologies and drugs are developed and ready for commercialization, all qualified producers of the new health-related technologies and health breakthroughs would be granted a royalty-free license by the taxpayer-funded project to produce and market the innovations, radically reducing the costs of production to patients compared to monopoly prices that would be charged if the innovations held patents on the innovations. It would also reduce costs of innovation to pharmaceutical companies under the current system.

Health Insurance Available to All

Under this proposal, health insurance would be made available from a national market with minimum federal regulation in setting levels of reserves, disclosure and accountability standards and coverage, and to maximize competitive market rates for health insurance premiums. No individual could be excluded from healthcare coverage because of prior medical conditions or inability to pay. The system would create variations in insurance costs based on usage among subscribers in broad age categories that all health insurers would be required to provide, with costs of each age category determined by competition among health providers.

Providing an additional tax exemption equal to the total actual costs of healthcare (including insurance premiums and other qualified out-of-pocket healthcare costs) to cover healthcare costs of each household member, would leave the cost for each covered member of the family, after the additional exemption, in the pockets of most taxpayers (with the poor qualifying for health vouchers) and enable every citizen above the poverty level to choose among healthcare options. Some specific areas to be addressed are:

(1) Conscientious objectors and those with over $2 million in savings in an approved personal health savings account could elect to self-insure, with the additional annual tax exemption limited to the actual amount spent on healthcare during the year,

(2) Those with more limited savings could purchase a nationally standardized catastrophic health insurance policy to cover single illness charges over some reasonable amount, and self-insure for any additional out-of-pocket healthcare needs, with the amount of the additional tax exemption equal to the premiums paid, plus any additional qualifying healthcare costs. This plan employs a basic principle of insurance: spread out risk by pooling three to five age-designated risk pools in the U.S. population in the annual cost of healthcare for that age category, to determine the *per capita* cost for every individual in that age group, or

(3) Most citizens could choose to pay premiums based on their personal risk pool plus the amount of the annual deductible and co-payments actually paid for any given year under each healthcare policy. The additional tax exemption would be equal to the amount of premiums, plus any additional qualifying healthcare costs.

(4) Citizens choosing not to insure at all (“free riders” or those who, like the Amish, object to insurance on ethical grounds) would be subject to garnishment of their Capital Homestead Account income above what is required to meet debt service payments and administrative costs should they fail to pay for services rendered.

Conclusion

It is undeniable that the crisis in the healthcare system demands a solution. To be just, however, it must conform to the principles on which this country was established. Our inalienable rights to life, liberty and property are not nice-sounding but meaningless phrases to be set aside or redefined whenever it is convenient for those in power. They are, instead, the very essence of what it means to be human.

That is also why a reformed healthcare system is only a part of a larger restructuring of basic institutions like the tax, money, credit, and capital ownership systems in conformity with sound principles that blend efficiency, freedom of choice with maximum justice for all. Above all, however, reforms should take into account the essential principles that define what it means to be an American as found in the Declaration of Independence and the Constitution.

This paper is a call to action for all Americans to come together and present our leaders with a plan that is neither a "liberal" nor "conservative" temporary fix, but a just third way that offers a restoration of the American Dream.

Endnotes

[i] See William W. Crosskey, *Politics and the Constitution in the History of the United States*. Chicago, Illinois: The University of Chicago Press, 1953.
[ii] "The Roberts Rules," *The Wall Street Journal*, 06/29/12, A12.
[iii] http://money.cnn.com/2011/02/28/news/economy/tricare_pentagon_budget/index.htm; http://www.ontheissues.org/Governor/John_Hickenlooper_Health_Care.htm.
[iv] "$74 Trillion = Crisis", by Thomas R. Saving, *The Wall Street Journal*, March 9, 2005, p. A2. Mr. Saving, senior director at the National Center for Policy Analysis, is director of the Private Enterprise Research Center at Texas A&M University. See also: http://dyn.politico.com/printstory.cfm?uuid=D63F5A03-3048-5C12-002D01717879776B; http://money.cnn.com/magazines/fortune/fortune_archive/2004/08/23/379387/index.htm; http://www.abcnews.go.com/Politics/TheNote/story?id=565567.
[v] Robert J. Samuelson, "Rx for Healthcare: Pain." *The Washington Post*, December 6, 2007, p. A29.
[vi] http://www.signonsandiego.com/news/nation/20050309-1443-socialsecurity.html.
[vii] Described in detail in *Capital Homesteading for Every Citizen: A Just Free Market Solution for Saving Social Security*, Washington, DC: Economic Justice Media, 2004, which should be read as an orientation manual for this paper, as well as a source for specific details. A free download of this book is available at www.cesj.org.
[viii] *Ibid*., pp. 44, 106. These figures are based on the 2001 *Economic Report to the President*, and have, in all likelihood, increased since, if only because of inflation and energy cost increases. The lower figure is used in order to be as conservative as possible.
[ix] "Employers Turn To Alternative For Insurance Staff," *Wall Street Journal*, July 30, 2007, p. A-1.
[x] http://www.cesj.org/thirdway/elements.htm.
[xi] *Op. cit*.
[xii] The principle of "distribution" under capital homesteading involves distributing economic opportunity and economic power more equally and justly (*i.e*., removing artificial barriers to achieve equality of future access to economic participation). As such, it rejects all conflict-prone uses of government power to redistribute the property or incomes of others to try and achieve an equality of results.
[xiii] "It's Up to the Voters Now," *Wall Street Journal*, 06/29/12, A12.
[xiv] Heinrich Rommen, *The State in Catholic Thought*. St. Louis, Missouri: B. Herder Book Co., 1947, 188.

APPENDICES

Appendix A: Capital Homesteading

In today's U.S. economy productive capital is growing annually in both the public and private sectors at a rate exceeding $7,000 for every man, woman and child. On our present path, that new capital, the source of America's capacity to produce in greater abundance than other economies, will continue to be financed in traditional ways. These traditional processes will create few, if any new owners.

Over the years this has led to an enormous and growing wealth gap, illustrated by the fact that the two wealthiest Americans had greater accumulations than half the American people combined and the top 10% own 90% of all directly held corporate stock. Most citizens have not accumulated enough assets to meet their household needs for more than a month or so, if they become disabled or lose their jobs. They are wholly dependent on jobs, welfare or charity to meet their needs from birth to the grave. The non-rich have no independent source of an adequate and secure income.

Capital Homesteading is designed to close this growing wealth gap, consistent with free enterprise values of private property, free market competition and minimal government intervention with voluntary choices among producers and consumers. In other words, Capital Homesteading aims to open barriers so that the poor and non-rich people can lift themselves up into capital ownership, uniquely without taking existing property away from the rich.

Like the homesteading of land under Lincoln's Homestead Act of 1862, the Capital Homestead Act is oriented to an open frontier, but one without known limits. This is the technology frontier that can and should be made equally accessible to all propertyless persons as a fundamental right of citizenship. This is the essence of the American Dream that inspired the lovers of freedom and justice everywhere.

A New Path

The Capital Homestead Act is a proposal to provide a package of integrated income, gift, retirement and inheritance tax reforms, combined with monetary policy changes and other structural improvements to national economic policy. These are designed to provide every citizen an equal opportunity to own, control and share profits from productive capital.

The political rationale behind the Capital Homestead Act is that there is no reason that those who already have capital (and collateral to qualify for capital loans) should have a monopoly or be the exclusive beneficiaries of the government's control over "social goods" like money and credit that largely determine who will own future capital. A political democracy cannot rest comfortably and sustain itself on a foundation of government-supported economic plutocracy. Decentralized wealth would counter the corrupting influences of concentrated wealth in campaign financing, as America experienced in its year 2000 elections.

An essential premise of Capital Homesteading is that those who have no capital should have equal access to credit to acquire capital. Financing the capital needs of the productive economy would be carried out as described in Appendix C on monetary and fiscal reform. To address the growing wealth gap in market economies, Capital Homesteading would end the monopoly that those who already have capital (and thus collateral to qualify for capital loans) gain when the government fosters the creation of more wealth through extension of capital credit and tax incentives for investment.

How Capital Homesteading Would Work

Facilitated by the monetization of capital credit under Federal Reserve policy and reinforced by private sector loan default insurance as a substitute for traditional collateral, Capital Homesteading reforms would enable every citizen to establish a tax-sheltered Capital Homestead Account (CHA) at a qualified local lending institution. This would allow every citizen to purchase and accumulate dividend-yielding, full-voting shares to supplement retirement income, relieving the burden on Social Security as the aged population expands.

As with most Employee Stock Ownership Plans (ESOPs) and in contrast to Individual Retirement Accounts (IRAs) under present law, the citizen would put up none of his own money. Through the CHA, he would gain access to self-liquidating capital loans at low service charges to buy equity shares. These shares would be expected to recover their purchase price out of future pretax dividends. The loan insurance, with premiums paid out of dividends, would cover the risk that the loan failed to be self-liquidating. CHA loans could be invested in shares of:

1) The company where the citizen or a family member works, directly or through an ESOP,

2) Companies in which the citizen is a regular customer or supplier, directly or through a vehicle like a CSOP, or

3) A variety of blue-chip growth companies with a track record of profits.

To encourage the issuance of new shares for meeting the financing needs of an enterprise, as is the case under present laws for 100% worker-owned S-Corp ESOP companies, the double tax on corporate profits would be eliminated for companies that sell full dividend payout, voting shares to CHAs. To secure his economic independence, the citizen would be sheltered from taxes on his CHA accumulations below $1 million.

To comply with the universal collateralization requirement that people without existing accumulations of savings cannot satisfy, private sector insurance companies can offer capital credit insurance and reinsurance to repay a portion of a capital acquisition loan on which the CHA trust defaults. Insurers will add another level of scrutiny for CHA loans.

Commercial banks would then bundle and take these securitized CHA loans to the Discount Window of the regional Federal Reserve Bank. The Federal Reserve would treat these insured dividend-backed securities (DBSs) as it currently treats government debt paper, using them as backing for the currency. Then as the federal government pays down the national debt, the productive assets of the economy — the real economy — would stand behind the nation's currency.

Currency linked to productive capital directly owned and controlled broadly among the people would replace gold as a measure of value and as a safeguard against inflation and irresponsible or non-democratic policies by the nation's central bankers. Under Capital Homesteading, money will again be a servant of the people, not their master, and will become an instrument to promote humanity's creative potential and quest for a just market economy.

APPENDIX B: TAXATION

As suggested by Adam Smith, to be just, a tax system must comply with the four principles of taxation[xv]:

- **Efficiency**. The tax system should ordinarily generate sufficient funds for the government to meet legitimate expenditures.
- **Understandability**. An adult of ordinary intelligence should be able to understand the tax code.
- **Equity**. People should be taxed on their ability to pay.
- **Benefit**. People should be taxed in accordance with the benefits they receive.

When Equity and Benefit come into conflict, Equity trumps Benefit as a matter of political expedience.

The U.S. Internal Revenue Code violates every one of these principles. There is a need to simplify and reform the Federal tax system in ways in which all citizens can cover their fair share of government costs by paying a single percentage of their income from all sources (above amounts left in their pockets to cover basic subsistence, shelter, voluntary comprehensive healthcare insurance or mandated catastrophic health insurance, educational costs and access to income-producing assets), with the rate set to balance future government budgets and gradually pay down decades of previous non-productive government debt. We will consider the necessary reforms under each of the principles of taxation.

Efficiency

To replace the existing overly complex Internal Revenue Code, we propose a single rate tax imposed on all income from whatever source derived above a meaningful exemption to allow people to meet common domestic needs adequately. The single tax rate would be calculated to balance the budget while sheltering from any federal taxes incomes to meet every citizen's common domestic needs (including charitable contributions) under a single standard exemption, with additional exemptions for healthcare and education.

Each non-dependent taxpayer and spouse could, for example, insulate from taxes to meet his or her own subsistence needs up to the first $20,000 of earnings, plus $10,000 per dependent, with additional exemptions for direct healthcare and education expenses for each person of $7,000 and $3,000, respectively (based on annual *per capita* averages). Beyond this front-end untaxed income, all other personal tax deductions, credits or other so-called "tax subsidies" and "tax expenditures" would be eliminated, radically reducing the complexity of the Internal Revenue Code.

Healthcare and education costs that exceed what can be supported out of current income could be met by liquidating assets in the Capital Homestead Account (below). These, of course, could be replaced by using the annual capital credit allotment, or by "repaying" the money out of future consumption income on which taxes would then be deferred. Ordinarily such liquidations would be taxed as ordinary income, but if used for education or healthcare expenses would be tax free under the additional exemption.

In addition, to encourage personal savings for retirement, taxpayers would also be allowed to defer taxes on an amount not to exceed an aggregate lifetime deferral of $1 million, per household member for income channeled to tax-sheltered health and education savings accounts and income-producing productive assets in Individual Retirement Accounts (IRAs), Employee Stock Ownership Plans (ESOPs), cooperatives and the proposed Capital Homestead Accounts (CHAs).

Understandability

Paying taxes at present not only places a heavy economic burden on most people, it requires great amounts of time and effort as well as expense to meet the filing requirements. Simply paying what you owe is not an option.

A meaningful tax reform would enable all citizens, including the poor, to report their personal incomes from all sources subject to the single rate tax (salaries, wages, commissions, dividends, interest, inflation-indexed capital gains, bonuses, gambling winnings, gifts, inheritances, *etc*.) on a "postcard" sized tax return, and to determine eligibility and amounts for health vouchers and other income supports for the poor.

Equity

Social Security, Medicare and all forms of consumption tax are heavily regressive, imposing an inequitable burden on those who are least able to pay. The solution to this injustice is to eliminate all payroll taxes on employers and workers for Social Security, Medicare and other entitlements in order to leave more consumption incomes in the pockets of all workers to meet their healthcare needs in a more just and participatory free market system. Keep all entitlement promises to workers who contributed to the current unsustainable pay-as-you-go Medicare and Social Security Systems through revenues from the single rate of taxation on all consumption incomes above basic subsistence levels from all sources. These entitlements could in the future be reduced by the growing dividend incomes citizens would receive from their annual allotments of capital credit under the Capital Homestead Act.

Benefit

By levying a single rate tax on all income above the exemptions, this proposal balances the demands of the Benefit and Equity principles as far as can be done within a system in which people all have different income levels and needs. In a perfect system, of course, in which every single person had exactly the same income and exactly the same needs, the most just tax would be an equal amount paid by each citizen. Since that is not and could never be the case, the next best alternative is a tax rate that levies the same proportion of tax on every citizen above an amount sufficient to meet ordinary living expenses.

For example, assume a "typical" family of four, two adults and two dependents, with standard exemptions of $20,000 and $10,000 each, respectively, with each person having additional healthcare costs of $7,000 and education costs of $3,000. Further assume for illustration purposes and for the sake of the example that each family member uses an annual average of $10,000[xvi] to finance the acquisition of capital assets in a CHA. The family would pay a single federal tax rate only on incomes from all sources above $100,000 of "untaxed income," plus an additional tax-deferred Capital Homestead savings averaging $40,000 per year in the aggregate, for a total of $140,000 in aggregate family income before paying income taxes.

Applying the Principles

Two tax reforms that must be given special consideration are, (1) the need to democratize access to financing the expansion and transfers of productive capital, and (2) making dividends tax deductible at the corporate level, but treated as ordinary income at the personal level, unless used to make debt service payments for assets accumulated in a Capital Homestead Account.

Democratize Access to Financing the Expansion and Transfers of Productive Capital. To grow the private sector economy in ways that enable workers to supplement their labor incomes with increasing capital incomes, the proposed tax and monetary reforms would democratize the process of creating money and allocating access to productive (*i.e.*, self-liquidating or procreative) credit to provide more equitable access for all citizens to acquire, receive property incomes and participate as owners of productive capital assets, including technologies and facilities needed for supplying quality health services.

Access to leveraged self-liquidating financing to purchase productive capital assets in well-managed enterprises is common in the business world. Based on the historically sound assumption that productive capital is expected to pay for itself from future profits, the Federal Reserve System should activate the Section 13 discount powers of regional Federal Reserve Banks to create interest-free, asset-backed "new money" to enable local banks to make self-liquidating, non-recourse, privately insured loans to personal Capital Homestead Accounts (CHAs), Citizens Land Banks (CLBs), ESOPs and cooperatives.

Such low-cost financing would enable doctors, other healthcare providers and citizens generally to invest in, among other income-generating investments, newly established mutually or cooperatively owned comprehensive healthcare insurance companies and in the growing technology and facility needs of doctors, hospitals and others in the private sector healthcare industry.

Make Dividends Tax Deductible at the Corporate Level. Like leveraged ESOPs, dividends and profit distributions to CHAs and CLBs would be tax-deductible at the enterprise level (a socially positive incentive for avoiding corporate income taxes) but tax-deferred at the individual level for repaying capital acquisition loans to CHAs. Default risks for self-liquidating capital credit would be covered by private risk insurers.

A separate estate tax would be eliminated except for large accumulations that are not widely disbursed. Instead of taxing the estate, the recipient would be taxed. This would encourage the breakup of large accumulations in order to avoid as much tax as possible.

Such a new source of consumption power among the poor and middle class will fuel the productive sector of the private sector to unharness the hidden productive capacity in today's slow growth economy, similar to what was achieved during the period from 1865 to 1895,[xvii] and during World War II.[xviii]

The policy would also reduce the private sector's dependency on "old money" and existing accumulations for financing growth and assets transfers in the private sector, yet leave America's most wealthy Americans free to invest their savings in high-risk ventures, new health technologies, capital credit default insurance reserves and in other socially positive purposes.

Most important, it would also begin systematically to close the wealth gap between the top 1% of wealth-holders and the bottom 90% of low- and middle-income Americans, without violating property rights of wealth-holders of current assets.

Endnotes

[xv] As derived from and based on the "Four Canons of a Good Tax" in Adam Smith's *Wealth of Nations* (1776).
[xvi] This could include the annual $7,000 capital credit allotment, plus inheritance, gifts, charity, and so on.
[xvii] Harold G. Moulton, *The Formation of Capital*. Washington, DC: The Brookings Institution, 1935, 43-47.
[xviii] http://eh.net/encyclopedia/article/tassava.WWII.

APPENDIX C: MONETARY AND FISCAL REFORM

Given that widespread ownership of capital will empower ordinary people with the means to supplement or replace labor income with capital income, the question arises as to how this can be financed. The standard yet erroneous assumption in Keynesian, Monetarist and Austrian economics (as well as their numerous offshoots) is that before there is sufficient savings to finance new capital formation, consumption must be reduced.

This presents ordinary people with a dilemma. Given that income is already inadequate to meet common domestic needs such as food, clothing, shelter, education, and (especially) healthcare, cutting consumption in order to accumulate sufficient savings so as to be able to purchase a meaningful amount of capital is, frankly, ludicrous. Obviously only those who are rich have the ability to save, and, as technology advances and capital becomes increasingly expensive, the richer, the better.

This method of finance necessarily restricts ownership of virtually all new capital to the rich, and concentrates ownership of capital at an increasing rate. And since the very wealthy produce more consumption incomes from their capital accumulations than they can physical consume, overall system growth (which can grow at faster rates when there is a buyer willing and able to consume more — the poor and the middle-class — the overall rate of growth and new capital formation is substantially less than the unemployed labor and ever-advancing technology grows far below the system's full production capacity.

The only thing that can be done within the current framework is for the State to redistribute existing wealth through the "hidden tax" of inflation, or confiscatory direct taxes. Of course, the State must be careful at all times never to redistribute too much. That would leave the private sector with insufficient savings to finance new capital formation and create jobs.

There are two fundamental problems with this analysis. First, as Dr. Harold Moulton, president of the Brookings Institution from 1916 to 1952, demonstrated in *The Formation of Capital*, decreasing consumption in order to finance new capital formation decreases the financial feasibility of the new capital being financed. No businessman will ordinarily form capital to produce marketable goods and services unless a market exists, and if consumption is being reduced in order to accumulate savings, no market exists.

Second, it is possible — indeed, preferable — to finance new capital not by accumulating past reductions in consumption, but by turning the present value of future production into money. That is, instead of using past reductions in consumption, finance new growth using future increases in production. This, as Moulton explained in *The Formation of Capital*, is done through the expansion of commercial bank credit by discounting and rediscounting bills of exchange issued to finance new capital formation.

In the late 1950s and early 1960s, Louis Kelso and Mortimer Adler added the critical feature that for the "pure credit" financing described by Moulton to work, an aggressive program of expanded capital ownership is essential. This was the theory behind Kelso's invention of the

Employee Stock Ownership Plan (ESOP) that has resulted in more than 11 million workers in more than 10 thousand companies becoming part owners of the companies that employ them, but without risking one cent of personal savings or taking any reductions in pay or benefits. Instead, company shares are purchased by a trust, to which the company makes tax-deductible "contributions" (really a share of the profits). These contributions are used first to repay the cost of the shares, and then to provide an accumulation of wealth for workers' retirements.

Unfortunately, at present virtually all new money created by the Federal Reserve is either to cover government deficits or for politically motivated bailouts, both non-productive forms of credit. It is not drawn on the present value of future marketable goods and services and backed by private sector hard assets. It is instead based on the present value of future tax collections, and thus by the ability of the government to collect taxes based on a politician's guess as to what can be levied out of the marketable goods and services the private sector *might* produce in the future.

Monetary and fiscal reform is, therefore, essential to a reform of the healthcare system. The fiscal reform is the simplest and yet, paradoxically, the most difficult: government should live within its means, collecting enough in taxes to be able to meet all legitimate expenses. Government borrowing should be restricted to the short term, and then only as a temporary measure until tax revenues can be increased. All "open market" operations in government securities by the Federal Reserve have to be terminated, if not immediately, at least with a specific, "drop dead" sunset date as soon as possible.

The monetary reform, while it sounds complex, is much easier to accomplish, as it requires primarily a change in policy, with no fundamental change in any laws. The Federal Reserve is already empowered to accept rediscounts of qualified bills drawn on industrial, commercial and agricultural projects originally discounted by member banks, and to purchase on the open market qualified bills issued by non-member banks, companies and individuals. It is only necessary to change policy so that the term of the paper can be extended, and to specify that the term "qualified" includes a provision that the capital financed with the proceeds of the loans be broadly owned, with full payout of corporate earnings attributable to the shares.

The process of money creation under Capital Homesteading is otherwise no different from the way in which money has been created for thousands of years. Someone with a financially feasible capital project prepares a contract ("draws a bill"). The drawer offers this contract to a commercial bank. If the bank considers the offer sound or "creditworthy," it "accepts" the offer and issues a promissory note. It is at this point that "money" has been created.

The bank's promissory note is then used to back smaller denomination promissory notes called "banknotes" (rare these days), or a demand deposit (checking account). Because the amount of the banknotes printed or demand deposits created is almost always less than the amount that the borrower will repay, this process is called "discounting" and "rediscounting."

The borrower takes the money the bank has created and purchases capital. When the capital becomes productive and profits are realized, the borrower repays the loan (buys back the bill). The bank takes back the money it created (money is "fungible," so it doesn't have to be the same piece of paper that was issued), hands back the bill, and cancels the money by canceling its promissory note.

In this way it is possible to finance all capital that is reasonably expected to pay for itself out of future profits, and thereafter yield dividends to the owner. All this can be done without the use of existing accumulations of savings deemed necessary by the mainstream schools of economics. The only use for existing accumulations of savings in this program is collateral, which can be replaced with capital credit insurance and reinsurance, using the "risk premium" charged on all loans as an actual insurance premium. These premiums would then be pooled to cover losses on investments that fail to generate anticipated profits.

If the economy needs additional infusions of money to meet the daily transactions demand for cash, exactly the same process can be carried out using the present value of existing instead of future marketable goods and services. In that case, the instrument the borrower draws up is not called a "bill of exchange," but a "mortgage." The difference is that where a bill of exchange is, ultimately, backed by the creditworthiness of the issuer, a mortgage is backed by a specific existing marketable good or service.

By using bills of exchange and mortgages as media of exchange, no economy need ever run short of "loanable funds," whether to finance capital formation, or to fund consumption, respectively.

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