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SHIPMAN: Changing the health care game

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Our yearlong health care debate has exposed some truths that have provided one more reason to conclude that the federal government's finances are out of control. There is too much debt; taxes and spending are too high; and there is no projected end to budget deficits.

In addition, politicians of both parties, over many decades, have made entitlement promises - such as Social Security and Medicare - that cannot be honored. They have borrowed so much from foreign creditors that heretofore sovereign decisions may be influenced by such creditors. Their entitlement promises will burden us with ever-increasing payroll taxes. They have added new tax rules and levies that make the tax code unintelligible. And they have created federal programs that the 10th Amendment to the Constitution ("The powers not delegated to the United States by the Constitution, nor prohibited by it to the States, are reserved to the States respectively, or to the people") intended to prohibit.

If America wishes to change this trajectory, it needs new and bold thinking. Here is one candidate: Repeal the 16th Amendment to the Constitution (ratified Feb. 3, 1913) which gives Congress the power to lay and collect taxes, and replace it with an amendment that requires each state to remit to the federal government a certain percent of its tax revenue. This would change the game. Here's why:

Let's assume that each state would have to transfer one-third (it could be a different ratio) of its tax-and-fee revenue to the federal government. The federal government would have to constrain its spending, for it would not control its source of revenue. New programs would be severely limited because there would be no authority to finance them. This dynamic would force the creation of new programs by the states because they would still have the authority to tax. The federal government could still issue debt, but given the discipline of markets, this would be self-limiting because the government would not be able to tax in order

to pay principal and interest when due. New entitlements would be limited for the same reason. Federal spending ultimately would be limited to the necessities of government. Other spending and programs would now be the states' purview. But here, too, the dynamic would change.

Under the assumption that one-third of state revenue goes to Washington, each state would have to raise taxes equal to 150 percent of any program's cost. This premium would compete in the open market, which could provide the same service for one-third less. States would find it difficult to persuade their residents to pay such a premium. This would be true even if our country had only one state. But with 50 states, each would be constrained not only by the price premium but by the competition from the other 49 states. More goods and services would be provided by the market because the costs would be less. State governments would be priced out because of the one-third transfer, and the federal government would be constrained because it would have no taxing authority, even though it would have tax revenue. Goods and services would be provided by markets through the free decisions of producers and consumers, and at a fraction of government costs.

There would be a temporary martial tax in the case of war, as well as a temporary tax to finance the transition costs of existing entitlements.

I am not aware of any country that has such a system. Perhaps the closest was the United States before 1913, when it had little constitutional authority to levy taxes. But even then, the state tax transfer and its benefits did not exist.

Today's response to our fiscal concerns is primarily political. It is manifested by the Tea Party movement, unusually spirited town meetings, the Massachusetts election of Republican Scott Brown to the Senate and, to some extent, the Virginia and New Jersey gubernatorial elections. There is grass-roots angst, perhaps outrage, but few new ideas that would counter the federal government's unquenchable appetite for ever-greater power, its constriction of individual liberties and its demand for control of the economy.

One may argue that this idea has little chance of becoming law. But every law starts as a creative thought. The Tea Party movement, a political form of spontaneous combustion, should consider this idea if for no other reason than the almost certain fact that entrenched politicians would not. It may be that the health care debate was useful, after all.

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