

THE FINANCIAL FREEDOM ACT



A NEW OPERATING SYSTEM
FOR THE AMERICAN ECONOMY

SCOTT ANDREW SMITH

THE NEW BENEFITS WE CAN AFFORD
WHILE PAYING LESS IN TAXES
THAN WE DO TODAY

INTRODUCTION

ON THE BRINK OF PROSPERITY

OUR ECONOMIC problems today are like the enormous challenges we faced with horses in 1900, when four million pounds of horse manure was being deposited on the streets of New York every day. The manure was piling up faster than it could be hauled away, so you could smell the city for miles around. There were so many horses packed in the city they could not be properly rested, and as a result, thousands of horses dropped dead in their tracks from exhaustion each year, blocking the streets and snarling traffic.

There was a great public outcry over this situation, and New York's city leaders hastily convened an international conference to find solutions to what was heralded a global crisis, as the problem was mounting in cities throughout the world. The conference was a complete failure, though, as the world's experts concluded there simply was no answer to the problem.

Soon after, the automobile surprised everyone as being the answer. Even though a few cars were already on the road when the conference was held, none of the experts could see them as being the solution. Instead the paradigm shift took place right under their noses, and what was once a problem was soon forgotten.

Just as the car solved the problems that we faced with horses more than century ago, a transformative new solution to our economic problems is emerging today. In a few years we may forget we ever paid high taxes, had a deficit, or owed trillions of dollars in national debt. For a hint as to why, let us take a look at the deficit in a new light.

Consider for a moment, that if we really could not afford the schools, roads, and aircraft our government set out to build each year, we would run out of human and natural resources before they were complete. That does not happen, of course. And since we do not actually lack the resources to finish such projects, there must be something seriously wrong with *how* we are going about paying for them that causes the deficit. Perhaps a tweak or two to our financial system could fix the problem.

I saw this same problem in a different way when I met with Alan Stern, who led the New Horizons space mission to Pluto. He said the most difficult part of the entire project was financing the mission. Though ironic for a program that tested the very limits of technology, it did not surprise me. Many projects fail only for lack of money. I asked Alan what the limits to space exploration would be if money was not the issue. Did we have the ability to launch a new probe to Pluto every year? “Of course!” he replied, “That would be easy! We just don’t have the money.” That begs the question of what our lives would be like if we solved this problem. *In other words, how much are we missing out on today because of our archaic financial operating system?*

THIS IS THE QUESTION that sent me on a mission to find answers to our nation’s top economic problems. I wanted solutions that would appeal equally to both conservatives and liberals. From the perspective of physics, you might say I was seeking a unified field theory: a general principal that could serve as a new solution to a wide range of problems. I wanted an overarching answer to poverty, Social Security, the decline of our middle class, our deficit, our skyrocketing national debt, and the high cost of taxes, healthcare, and college. At first, all these problems seemed intractable, until I found some solutions to our social problems that satisfied both left and right. But that left me with the most daunting challenge of all: *how to pay for everything.*

For many years I was at a loss as to how we could fund the programs we need while reducing taxes and balancing the budget. Based on the solutions I had found I knew what the new budget would be, and it was clear we could not fund it under our existing tax system. It was not until the Federal Reserve joined the Bank for International Settlements to study the flow of money in our economy that an alternative became apparent. The data from that study, which the BIS publishes annually in its *Red Book*, is the basis for the plan presented in this book—a paradigm shift that would provide a new era of prosperity for all.

Currently I am codifying the plan into a bill called the Financial Freedom Act. If the bill is passed by Congress, you would receive basic income, a guaranteed retirement, free basic healthcare, and free college. In addition, the act would balance the budget, and pay off the national debt. Remarkably, the act would even greatly reduce your taxes, since it eliminates the need for any income, sales, and property taxes at both the federal and state levels. Instead, the act relies on a small payments tax that would enable us to afford the benefits described above without having to pay high taxes. In this way, the act serves both rich and poor, young and old, liberal and conservative.

The reason we do not have win-win economic policies today is because we approach taxation, and policy in general, as being a zero-sum game; in other words, a gain for one group of people means a loss for someone else. But the history of progress is not about winners and losers. It is a tale of disruptive technologies that made life better for all. We enjoy what we have today not because anyone lost out, but because progress improved life across the board. When someone builds a house, for example, the crew that works on the house also benefits. The owner of the house does not receive a new house because someone else took a fall. That would be absurd, and yet our current economic policies are not founded upon this principle.

We are shackled to the zero-sum policies that we have today because we have failed to grasp the relationship between the “material economy” and the “monetary economy.” The material economy is tied to consumption and production, which depends upon labor, technology and natural resources. The monetary economy is tied to money and securities, which depend on a different set of rules.

Money is the most powerful tool for organizing human activity that man has ever invented. The purpose of the monetary economy is to grease the skids for the material economy. In recent times, though, the monetary economy has grown to be much larger than the material economy. Today it has become the tail that wags the dog, which has serious ramifications. Our latest recessions, for example, have all been because of issues in the monetary economy, such as when unbridled lending led to a liquidity crisis. We do not have recessions today because of problems in the material economy, such as running out of resources, or because people no longer want to work or buy goods.

We would do well to remember the monetary economy is for supporting the material economy, not undermining it. Think of the monetary economy as an operating system that supports the material economy like a computer operating system supports apps. Since our system of taxation and banking was founded way back in 1913, we should not be surprised that our operating system is a little stale.

The good news is we have built a remarkable engine for producing goods and services in the material economy. The work of countless people over many years has brought us to the brink of prosperity. We need only to upgrade our operating system to unleash this engine’s capacity in order to realize the prosperity we are capable of. And that is what the Financial Freedom Act is designed to do. It tweaks our operating system so the monetary economy will do a better job of stoking the material economy.

My earliest inkling that there could be a solution to our government's revenue problem occurred years ago when I attended a dinner in New York with two traders. They were celebrating a series of trades they had completed, the value of which exceeded the world's GDP. I was stunned to hear this, and it proved a pivotal moment for me. I reasoned that if those few trades exceeded the GDP of the world, our collective income must be a very small fraction of the total payments in our economy, and that could be the basis for a better tax system. Perhaps a small fee on the movement of money could replace the crushing burden of taxes, which would supercharge the material economy.

To understand just how well this could work, look at the tables below, which show how the Financial Freedom Act would affect three families. Note that both rich and poor do better. And note that both left and right would be happy with the outcome; greater prosperity coupled with a huge tax break and a balanced budget.

A COUPLE WITHOUT ANY INCOME

	<u>Today</u>	<u>Proposed</u>
Salary	\$0	\$0
Basic Income	\$0	\$48,000
Welfare	<u>\$10,000</u>	<u>\$0</u>
Net Disposable Income	\$10,000	\$48,000

A COUPLE EARNING \$30K

	<u>Today</u>	<u>Proposed</u>
Salary	\$30,000	\$30,000
Minus Taxes	-\$1,000	-\$54
Basic Income	\$0	\$48,000
Minus Healthcare	-\$4,000	\$0
Earned Income Credit	<u>\$0</u>	<u>\$6,000</u>
Net Disposable Income	\$25,000	\$83,946

A FAMILY EARNING \$250K

	<u>Today</u>	<u>Proposed</u>
Salary	\$250,000	\$250,000
Minus Taxes	-\$58,077	-\$450
Basic Income	\$0	\$48,000
Healthcare	-\$14,000	\$0
\$500K Mortgage Payments	<u>-\$32,205</u>	<u>-\$16,667</u>
Net Disposable Income	\$145,718	\$280,883

No doubt you will look at these tables with a degree of skepticism. How could they be possible? The answer is they are only possible if we switch to a more efficient tax system, as it would cost us \$10 trillion per year to pay for the above benefits and balance our budget. Even if we doubled the tax rate under our current system, which would mean a family earning \$250,000 would pay over \$116,000 in taxes, we would still have a deficit. Collectively, we only earn \$16 trillion each year, which is why it is so difficult for us to cover the \$5 trillion our government spends annually at the federal, state, and local levels today.

The solution is found in the amount of payments made in our economy each year, which, according to the Fed, totals over \$5,000 trillion. Compare this to the \$16 trillion we collectively earn, and you find that the payments in the monetary economy exceed the income of everyone in our nation by over 300-times! Even the NYSE, a recent target of liberal tax reform, is only one percent of that.

Simply by placing a small fee of 20 cents on every \$100 that anyone receives, we could drop the tax rate from 39% to 0.2% and eliminate all income, sales, and property taxes. Thus, taxes for someone earning \$250,000 would be only \$450, which would be sufficient to provide \$24,000 per year in basic income for every adult citizen, plus retirement, healthcare and college for all. That is how the above tables are possible.

It turns out the core values of both the liberals and the conservatives are sound. We have merely outgrown our operating system. It is possible to transform the world we live in without slighting either end of the political spectrum. Just like the disruptive technologies that have changed our lives for the better, the Financial Freedom Act is a plan that would improve life for everyone. How we accomplish this is the subject of this book.



For the full document, contact Scott Smith,
Director of the Foundation for a Better Economy.
Phone: 303-817-2741
Email: email2scottsmith@gmail.com

