

CAPITAL HOMESTEADING FOR EVERY CITIZEN

**A Comparison with Leading Proposals
for Saving Social Security and Medicare**



Comparing Alternative Plans for Saving Social Security

	Peter A. Diamond and Peter R. Orszag, Democratic economists	Peter J. Ferrara, an economist who wrote the first book for the Cato Institute about personal accounts.	Edward M. Gramlich, Federal Reserve Board governor	Robert M. Ball, former Social Security Commissioner	Robert Pozen, an investment executive who served on Bush's Social Security Commission	President Bush	Norman Kurland President, Center for Economic and Social Justice Former Deputy Chairman of President Reagan's Task Force on Project Economic Justice	
THE PLANS	The Balancer	Ultimate Private Accounts	Add-On	Ultimate "Tinkerer"	Small Private Accounts With Progressive Indexing	Bush Plan	Capital Homesteading for Every Citizen	THE PLANS
Includes private accounts	No	Yes—an average of 6.4 percentage points of 12.4% payroll tax.	Yes—"Add-on" benefit would supplement trimmed government benefit.	No	Yes—up to 2 percentage points of payroll tax.	Yes—up to 4 percentage points of payroll tax.	Yes—newly issued shares for growth financed by Fed-monetized credit through Capital Homestead Accounts (CHAs).	Includes private accounts
Raises taxes	Yes—lifts cap to 87% of wages subject to payroll tax (about \$105,000 now) plus 3% tax on all earnings above cap. Increases payroll tax to 12.7% in 2025, 13.7% in 2020 and 14.2% in 2055.	No	Yes—workers would contribute an extra 1.6% of wages now subject to a mandatory private account.	Yes—lifts cap to 90% of wages subject to payroll tax (about \$145,000 now).	No	Possibly—Bush willing to consider lifting wage cap.	No — eliminates payroll tax and substitutes a flat tax on all consumption incomes above the poverty level to cover Social Security and Medicare promises.	Raises taxes
Cuts benefits	Yes—by average of 0.6% for workers currently 45; 4.5% for 35 year olds; 8.6% for 25 year olds. Low-wage workers' benefits would rise; affluent workers' would be cut.	No. Plan would guarantee that benefits would be no less than currently promised.	Yes—raises retirement age and trims benefit for upper-income beneficiary.	Yes—lower cost-of-living increases.	Yes—most cuts aimed at affluent workers; low-income workers would not get cuts.	Possibly—Bush willing to consider raising retirement age or linking initial benefits to inflation rates rather than wage increases.	No — plan would guarantee that benefits would be no less than currently proposed.	Cuts benefits
New government borrowing	No	Yes	No	No	Yes	Yes	No — plan would shift from government deficit borrowings to private sector borrowings for financing broadly owned growth and dividend incomes.	New government borrowing
Details	All new state and local government employees participate in system. Retirement age would rise with changes in life expectancy.	Would cost nearly \$7 trillion over 75 years—well more than Social Security's actual \$3.7 trillion deficit. Proponents say costs would be covered by other government spending cuts and taxes on increasing corporate profits. Opponents say that magnitude of borrowing could destabilize economy.	Retirement age increases to 67 and then rises with increases in life expectancy.	All new state and local government employees would participate in the system. All inheritance taxes on estates worth \$3.5 million-plus would be dedicated to Social Security.	Upper-income beneficiaries would have initial benefit set according to inflation rates. Middle-income workers would mix inflation index and wage index. Poorer workers would remain in wage-indexed system.	Beginning in 2009, workers could divert 4% of their wages subject to Social Security taxation into private accounts. Promised benefits would be reduced by an amount equal to the account deposits, plus 3%.	Would finance Social Security and Medicare benefits from appropriated funds derived from general tax revenues. Through local banks, every citizen would receive annually \$3,000 of Fed-generated credit to invest in new capital formation, with each loan repayable using pre-tax dividends (future savings) over an average of nine years.	Details
Goal	Maintain current system structure while enhancing benefits for vulnerable workers.	Ultimate expectation is government system would be replaced entirely with private accounts.	Maintain basic system structure while raising national savings rate.	Change current structure as little as possible.	Balances political interests of both parties while minimizing borrowing.	Introduce robust private accounts while maintaining some social safety net.	(1) Accelerate non-inflationary private sector growth. (2) Reduce the pressure for redistributive taxation. (3) Generate a tax-sheltered accumulation, from birth through age 65, of an estimated \$200,000 of wealth-producing assets capable of earning annually \$30,000 of taxable dividend income, plus dividends of \$750,000 distributed during a 65-year period.	Goal
Solvency date	In perpetuity	In perpetuity	Not scored	2078	In perpetuity	Unknown	Immediate and continuing.	Solvency date
Major Supporters	No congressional support so far	Rep. Paul Ryan (R-Wis.) and Sen. John E. Sununu (R-N.H.)	Gene Sperling, President Clinton's economic adviser and Rep. E. Clay Shaw Jr. (R-Fla.) have expressed support for this type of approach.	Rep. David R. Obey (D-Wis.)	White House aides have expressed interest.	GOP establishment	Backed by the newly formed American Revolutionary Party. Not yet examined by Congress	Major Supporters

SOURCE: Revised from The Washington Post, February 24, 2005

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Projected Wealth and Income Accumulations Under Capital Homesteading

PARAMETERS (ASSUMPTIONS)

Accumulation Beginning at Age:	0
Annual Capital Credit Allocation:	\$3,000.00
Annual Service and Risk Fees on Outstanding Principal:	3.00%
"Pre-Tax" Rate of Return on "Full-Payout" Shares:	15.00%
Term of Acquisition Loan in Years:	9

Age	Homestead Accumulation	Annual Earnings	Acquisition Debt Balance	Payments of Principal	Service & Risk Fees	Total Debt Service	Residual to Homesteader
Birth	\$3,000.00	\$450.00	\$2,666.67	\$333.33	\$90.00	\$423.33	\$26.67
5	18,000.00	2,700.00	11,000.00	2,000.00	390.00	2,390.00	310.00
10	33,000.00	4,950.00	12,000.00	3,000.00	450.00	3,450.00	1,500.00
15	48,000.00	7,200.00	12,000.00	3,000.00	450.00	3,450.00	3,750.00
20	63,000.00	9,450.00	12,000.00	3,000.00	450.00	3,450.00	6,000.00
25	78,000.00	11,700.00	12,000.00	3,000.00	450.00	3,450.00	8,250.00
30	93,000.00	13,950.00	12,000.00	3,000.00	450.00	3,450.00	10,500.00
35	108,000.00	16,200.00	12,000.00	3,000.00	450.00	3,450.00	12,750.00
40	123,000.00	18,450.00	12,000.00	3,000.00	450.00	3,450.00	15,000.00
45	138,000.00	20,700.00	12,000.00	3,000.00	450.00	3,450.00	17,250.00
50	153,000.00	22,950.00	12,000.00	3,000.00	450.00	3,450.00	19,500.00
55	168,000.00	25,200.00	12,000.00	3,000.00	450.00	3,450.00	21,750.00
60	183,000.00	27,450.00	12,000.00	3,000.00	450.00	3,450.00	24,000.00
65	198,000.00	29,700.00	12,000.00	3,000.00	450.00	3,450.00	26,250.00

"RESIDUAL" INCOME RECEIVED BY HOMESTEADER DURING PERIOD OF ACCUMULATION	\$780,450.00
Gross Benefits to Homesteader by Age 65 (Homestead Accumulation plus "Residual to Homesteader"):	\$978,450.00
Cost to Government or Other Taxpayers (Taxes avoided on "tax free" Homestead Accumulation (28%)):	\$55,440.00
Taxes on Dividend Income (28% assumed rate on all Homestead residual income):	\$218,526.00
Net Tax Benefit to Government due to Homestead Program:	\$163,086.00
Net Benefits to Homesteader by Age 65:	\$759,924.00

[Annual Capital Homestead accumulations would continue after age 65]

Capital Homesteading Accountability and Safeguards

Various private sector players would have an institutional or personal self-interest to guard against fraud and abuse because each would have something to lose in the marketplace for not guarding against fraud and abuse. Private sector safeguards include:

- The individual Capital Homesteader
- Educational system reforms to raise the level of financial sophistication of borrowers and their families
- Competitive financial advisory services, with lawyers, CPAs and other professionals to assist individual borrowers
- The chief financial executive of a new or expanding enterprise in need of new productive assets who makes the initial feasibility determinations of each new CH equity issuance
- The enterprise's outside financial advisors, attorneys and asset appraisers on new equity issuances
- The commercial loan officer of the local bank who determines the commercial feasibility of loans for industrial, commercial, and agricultural projects and local infrastructural improvements and who approves each investment of CH funds
- The local bank, which would lose a small amount (e.g. 20% of the unpaid principal) for bad loans, even with the private capital credit insurance covering most of the loss
- The trust officer of the local bank or financial institution who administers the CH assets as fiduciary on behalf of the Capital Homesteader
- Companies competing for assessing risk categories of newly issued CH shares from growing enterprises, pooling risk premiums paid as part of the debt service payments on CH loans, and paying capital credit insurance to lenders on loans in default
- Capital credit reinsurance companies competing for the CH credit market by spreading further the risk of the growing capital credit insurance industry
- One or more bundlers of bank loans, acting like Fannie Mae or Freddie Mac that help establish standards and uniformity among bank lenders, which would take syndicated CH loans to the discount window of the regional Fed for monetizing expanded bank credit for financing regional growth through CHAs.

In addition, the newly issued CH shares would be full voting, full dividend payout shares, with companies allowed to deduct from corporate tax incomes all dividend payouts. These features, not generally available under the current tax and corporate financing system, would add to the accountability and transparency of corporate governance .

Furthermore, the existing machinery of Federal and state securities, banking and insurance regulators would catch what falls between the private sector "cracks." These agencies include:

- The regional Federal Reserve Banks in regulating and decertifying "member banks" that would make CH loans to Capital Homesteaders
- The Office of the Federal Comptroller of the Currency
- The Securities and Exchange Commission regulating new securities issuances and receiving periodic reports
- Internal Revenue Service, in reviewing tax returns of individuals and businesses, and governing tax-deferred equity accumulators like CHAs, ESOPs, CICs, etc.
- State securities and insurance regulators
- Congressional and state legislative committees responsible for sound economic growth of the private sector

Sources On Capital Homesteading

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