NATIONAL DEBT-FREE DAY

A NEW NATIONAL CELEBRATION

During our recent 2012 presidential campaign we heard a lot of talk from both parties about reducing the deficit. The Democrats talked of increasing taxes for the rich. The Republicans explained how tax cuts for the rich will stimulate the economy. All of this talk has been pretty ineffectual, because nobody seems willing to produce a solid plan to eliminate the rapidly-growing **U.S. Federal Debt**, which is now over $16 trillion. Playing brinkmanship at the edge of a dizzying fiscal cliff is not the way to run the government of such a creative and powerful nation as we enjoy.

WHY NOT GET CREATIVE?
LET'S PAY OFF THE ENTIRE FEDERAL DEBT
IN ONE DAY
AND KEEP IT PAID OFF!!
WE SIMPLY DO BOTH PLANS AT ONCE!!!
WE CAN DO IT. HERE'S HOW.

The top 1% richest people in our country control almost 35% of the total wealth of the country. The top 20% richest people in our country control over 85% of the wealth of the country. These people have done very well indeed and deserve the opportunity to prosper even more in the future. They will not be able to prosper in a balanced manner if the national debt reaches the point where our currency collapses and social instability occurs. It is in the best interests of the wealthiest people to invest in the future of the country that gave them the freedom and opportunity to become as successful as they are. On the other hand, it is not fair to burden the wealthy with bearing an excessive amount of the cost of managing our country year after year. To resolve this conundrum requires a three-step approach: 1) Debt Removal; 2) Budget Reform; 3) Tax Reform.

1. Debt Removal: The One-Day Plan

The "one-day" approach gets the job done quickly and then honors and rewards the decisive doers with what they desire. **In a nutshell the plan is to have the 20% of the population that is most wealthy pay off the national debt in one stroke so we may all enjoy a new national holiday, Debt Free Day, and ever after honor on that day the civic-minded people who made it happen for their own benefit and for all our heirs.**

Each wealthy person (or corporate entity) who completes paying off a portion of the national debt according to his (or her or its) level of wealth on National Debt-Free Day then receives a special permanent annual tax break that renders that individual or corporation more competitive in business enterprise. The "one-time" approach neatly combines both the Democrat agenda (tax the wealthy who have the means) and the Republican agenda (provide big tax cuts for the wealthy to stimulate the economy).

Here is a proposed schedule for the payments. The levels may be graduated in more detail and adjusted up or down, but this is the general idea. The numbers here are based on a population of 315 million people, with 3.15 million extremely wealthy individuals.

Tier	# of Individuals/Entities	Payment per Indiv/Entity	Total Funds
1%	3,150,000	$1,500,000	$4,725,000,000,000
4%	12,600,000	$750,000	$9,450,000,000,000
5%	15,750,000	$500,000	$7,875,000,000,000
10%	31,500,000	$100,000	$3,150,000,000,000
20%	63,000,000		$25,200,000,000,000

These one-time payments are to be above and beyond the individual or enterprise's normal amount due according to the tax schedules. As this special schedule shows, the total funds raised will go well beyond the $16.3 trillion currently listed as the national debt. The above estimate is based on the assumption that it may take a while to organize for the plan's implementation during which time the federal debt will continue to increase. Also we can use the extra revenues to pay down some of the huge additional federal liabilities that are not listed as official national debt or to retire state debts, which are also not inconsiderable. Otherwise the entire schedule could be scaled down a bit.

To generate incentive, the future tax break that a wealthy individual or corporation receives will be based on how much that entity puts up on Debt-Free Day. For example, perhaps a payment of $1 million will result in a 10% tax break. Multiples of $1 million result in multiples of the 10% tax reduction, so that for a one-time payment of $10 million the entity will in future have no income tax to pay -- a very attractive option for a very wealthy individual. Large corporations may end up paying their taxes via the salaries of their employees. For debt payments that are fractions of $1 million the entity receives a corresponding fraction of a 10% tax break (e.g., for $500,000 the entity gets a 5% tax break).

Right now the government pays over $258 billion in interest to service the Federal Debt each year. Paying off the debt will free up at least more than a quarter of a trillion dollars in government revenues that can be used for eliminating what is now deficit spending and perhaps even for actually running the government. That savings could show up as tax cuts for middle class and lower income people. Tax cuts for businesses that pay off the debt in one fell swoop will lead to greater future competitiveness plus the ability to expand business and hire more employees for their enterprises -- all of which will generate more tax revenues for operating the government.

Those who put up the most toward the achievement of National Debt-Free Day will be hailed as national heroes and go down in our history as bold leaders of our country. They will become models for average citizens burdened with debt as well as other debtor nations in the world, demonstrating to all that it is not that hard to become debt free.

2. Budget Reform: An Automatically Balanced Budget

The second component of this plan is to end deficit spending. Removing the old debt is of no use if we simply borrow it back again by continued deficit spending. The end of deficit spending is attained by establishing an Automatically Balanced Budget.

To achieve a balanced budget we take the budget decisions out of the hands of the legislators, who all too often bow to the powerful vested interest lobbies. In this plan we put most of the budget decisions into the hands of the people and businesses who sooner or later must end up paying off any federal debt with their tax monies or through inflation. The role of the legistlative members of government is to represent their constituents in discussions of national policy with the executive branch and to craft the laws of the land, not to manage budgets.

The first step toward managing the budget according to the will of the people who are ultimately responsible to pay for it is to create a list of departments that are considered necessary functions of the federal government: education, transportation, foreign affairs, defense, national park service, environmental protection, and so on. Certain items such as the social security and health insurance programs may have a fixed minimum budget schedule. Each year when people and businesses file their tax forms, they will also fill out a one-page form in which they allocate the percentage of their tax dollars that are to be spent for each item on the budget list in the following year. They may not allocate more than the percentage of their tax payments that remain after the percentages for any minimum fixed budget items are deducted, but they may voluntarily add to the minimum percentage alloted to fixed budget items.

For example, if social security withholding is 15% of gross income, a person may choose to pay 17%, but the extra 2% is a voluntary additional personal contribution toward the person's own retirement fund unrelated to the federal tax dollars he owes. On the other hand, if a minimum of 10% is earmarked for defense, a person might assign an extra 3% from the discretionary portion of his tax dollars. The extra 3% for defense means that fewer of his required tax dollars may be assigned to other budget items.

In this way taxpayers will **vote** for the government's annual budget allocations with their tax dollars and the government will only be able to use the tax monies submitted by taxpayers as indicated by the taxpayers on their tax forms. The federal budget simply will be 100% of all the revenues generated by the government in this way through individual and business taxes plus any additional revenues raised by the various departments of the government through the charging of tariffs and other fees for government services. Each government department will then as much as possible be self-sustaining from the fees it charges plus any tax funds voted to it by the taxpayers. That way each component of the government will be run like a business that makes its income by providing valuable goods and services to its customers rather than the current system of gathering all the tax monies into the treasury and then having legislators decide on budgets that are completely unrelated to the tax income and therefore pretty much guaranteed to run constant deficits with extreme amounts of waste along the way.

If taxpayers become unsatisfied with the performance of a department on the budget list, they may redistribute their tax monies differently the next year, dedicating more tax dollars to areas they feel need more attention and withholding dollars from departments that function inefficiently or are not even considered necessary. This will encourage each department of the government to excel in the performance of its intended duties in service of the people to be sure that it attracts the funding it feels it needs from the people.

In case of an emergency or for special projects desired by the populace, Congress and the President will be allowed to initiate short-term borrowing by the government, but such debts automatically will become part of the fixed budget for the following year -- to be paid in full or in several annual payments, depending on the size of the loan, and must be retired within a given amount of time -- generally between 1 and 5 years. Such borrowing may not be done again for the same issue, for then it is no longer an "emergency", but has become a regular budget item (along with the several fixed annual payments to retire any such special loans) that must be voted on by the taxpayers when they submit their returns. Alternatively large-scale national projects that require a huge initial investment (such as a space program or harvesting a vast energy resource) may be set up in cooperation with the private sector so that they are funded and become self-sufficient in the manner of normal business ventures. This procedure leads to a consistently balanced budget with built-in flexibility and no accumulation of unpaid debt. Government then operates as a generally debt-free non-profit organization whose function is to promote harmony, cooperation, and increase of the general welfare through the goods and services it provides. Each person decides how the government will serve him and his community, and the federal government becomes rapidly sensitive to the needs and desires of the people it serves. Under such a system vested interests will find it more useful to spend their money as **taxpayers** directing their funds to the government operations they prefer rather than on privately lobbying congressmen to pass budget-related legislation in their favor. They may also lobby the general populace through advertising. If people do not like the behavior of any department of the government, they simply stop funding that department. The department then has to find other ways to self-generate income, cease operation, or turn its operation over to the private sector.

3. Tax Reform: A Graduated Flat Tax System

The third component of this plan is to give our system of taxation a major overhaul. The key is simplicity. The payment of taxes can become a no-brainer instead of the annual headache of wading through thick documents and forms sent out by the IRS. The reformed tax system will be based only on gross income.

The first step toward such a tax reform is for Congress, in consultation with expert economists, to determine the basic financial requirement for individual subsistence. That will be each person's standard deduction and is not subject to taxation. Dependents, the aged, and those with disabilities will be allowed certain other deductions.

Any gross income above the minimum deduction will be subject to a "graduated flat taxation system" that is the same for everybody, including legislators. Here is an example of how it might work.

Gross Income	**Tax Rate**	**Max Tax**	
First $10,000	0%	$0	(Standard Deduction)
Next $50,000	5%	$2,500	
Next $50,000	10%	$7,500	
Next $100,000	15%	$22,500	
Next $100,000	20%	$42,500	

Next $100,000	25%	$67,500
Next $100,000	30%	$97,500
Any additional income	35%	

There will be no deductions for expenses other than the standard deduction for self, standard deductions for dependents, and certain deductions for citizens with disabilities. The rates shown above are lower for lower-income people and higher for higher income people, because there will be no special credits or loopholes except for the tax break for the rich that will be calculated according to the amount they paid on Debt Freedom Day. This will encourage people and businesses to use their incomes more efficiently and also will motivate them to contribute large sums to the One-Day debt payoff so as to lock in a favorable tax rate in the future. The basic tax rate for the first $510,000 (according to this sample schedule) will be $97,500, which is slightly over 19%. For a family consisting of one head of household with a spouse and three children as dependents, the first $50,000 of gross income will be tax free. Social security and national health insurance withholding remain in place.

The tax breaks given to those wealthy persons who choose to make the special contribution to pay off the debt will be applied to their taxes. So, for example, a person who contributes only $100,000 toward retiring the debt and makes a gross income of $1,000,000 per year would normally have to pay $269,000 according to the above hypothetical schedule (26.9%). However, he will also have a 1% tax cut (10% of 10%) that will reduce his tax bill by $2,690. A CEO of a very large corporation with no dependents who makes $50 million per year, would pay the basic $97,500 on his first $510,000 plus $17,321,500 for a total of $17,419,000 in taxes (a little over 34.6% of his gross income). However, if he paid $1,500,000 to retire the debt, he would get a 15% (i.e. $2,612,850) tax cut, which would be $1,112,850 more in tax savings **each year** than what he paid as his contribution toward eliminating the federal debt. He would pay only $14,806,150, which puts him in the 29.6% tax bracket -- a sizable tax break. If he were really smart, he would put up $10,000,000 as his debt payment portion (20% of one year's salary and less than his annual taxes) and then collect his salary tax free for as long as he works. In fact anyone whose income gets significantly into the 35% tax bracket might be motivated to take a bank loan to enable paying the $10 million level (or whatever amount gives the 100% tax cut) on National Debt Freedom Day and then pay off his bank loan with his yearly tax savings in lieu of paying taxes.

In other words, any significantly wealthy person under this plan has complete and effortless one-shot legal control over how much or how little he pays in taxes, and can dispense with the army of lawyers and accountants that he hires to juggle his money around in a grand shell game of tax havens to keep the government from grasping his true net worth. Instead he can keep his money on shore, and his assistants can focus attention on finding ways to maximize the efficiency and profitability of his enterprises. He becomes a national hero to boot.

Under this tax system social security and national health insurance withholding from personal income will be retained as usual, subject to whatever revisions are made from time to time by the legistlature. Businesses will be taxed in a similar manner to the above program, but perhaps with a different schedule, and will submit withholding from employee salaries as before. Congress in consultation with the people may adjust the tax schedules appropriately to meet changes in the economy.

Summary

We pay off the national debt in one day, simultaneously turning our wealthy entrepreneurs into national heroes. We establish a balanced national budget that each individual taxpaying citizen controls to his or her liking. We set up a taxation system that is a no-brainer and recycle from red to black the mind-boggling paper diet that the IRS dishes up to us each year. This is a plan that gets the job done once and for all. Our nation becomes a model of intelligent, democratic, free market, win-win financial management for the whole world.

The numbers and percentages provided in the above description of the plan are hypothetical examples and are only intended to demonstrate how doable such a plan is. Financial experts, economists, and tax experts will have to refine the numbers and determine the most practical schedule. Share this idea around, improve on it, or come up with a much better one. Let's eliminate unnecessary fiscal stress and get on with the fabulous future that lies ahead for us as individuals and as a community.

-- Douglass A. White, Ph. D.
12/12/12

Questions and Answers

Regarding the "National Debt Freedom Plan"

Q: What about the Federal Reserve and the way it creates currency as debt?

A: The Federal Reserve Note is a form of debt. The U.S. could return to the issuing of United States Notes directly from the Treasury. Such notes have no debt associated with them and can be used for paying off any extra debt from time to time. They can also be used in future for the government to pay for goods and services it purchases from employees and vendors. It then recollects those notes via fees and taxes for the goods and services it renders to the public. It may be time to consider completely eliminating the Fed. In that case the U.S. Treasury would establish a Central Bank with subsidiaries that would take over the role of the Fed and its subsidiaries in overseeing the supply of money and credit as well as regulating the prime rate. This idea constitutes a fourth major step toward the United States achieving financial freedom: **Currency Reform**. Recently people have advocated minting "Trillion Dollar Coins" to deposit with the Fed and pay down or pay off the National Debt. While legal, this makes no sense unless the government also creates a balanced budget that eliminates future debt except in special emergencies and gives the coins the backing of the products and services rendered by the American people. Otherwise the coins would have no value and would debase the dollar.

This is what a United States Note looked like back in 1963.
It was issued by order of President Kennedy.
President Lincoln also issued such notes.

Q: Would paying off the entire National Debt precipitate an economic crisis?

A: Not necessarily. However, the Debt is in the form of U.S. Treasury Notes that are used widely as a form of investment because they are considered almost as liquid as cash and virtually "risk free". It may be a good idea to maintain a certain amount of debt so that the Treasury Notes can remain useful as a relatively risk-free financial instrument. In that case the idea would be to keep the level of federal debt below a given ceiling that is easily manageable relative to the GDP and tax base rather than to completely eliminate it or even create a surplus. Over the past decade the National Debt has ballooned due to a number of unforeseen circumstances. Now is the time to rein it back in to more easily manageable proportions. If there is no more National Debt, or we move into a surplus, the questions arise as to what instrument will replace the Treasury securities as a benchmark for assessing and determining interest rates on less liquid or safe assets and how the surplus can be reliably invested.

Q: What about business taxes?

A: The Tax Reform component of the basic plan only addresses personal income taxes. Corporate and other types of business income will require a different approach and tax schedule. One of the largest costs of operating a business is paying the salaries of employees. A company pays taxes through the salaries of its employees. The plan (and our current system) already collects income taxes on the salaries a business pays to its employees as well as social security and health insurance withholding. Sales taxes are already levied on the products and services of businesses. Company profits at the end of each year would be divided up equitably among the shareholders and employees. A percentage of the profit sharing also would be withheld as federal taxes, making the government a silent partner in any enterprise. Any business that enjoys the values provided by the government's smooth operation should share its profits with the government and may assign its discretionary portion of the taxes toward the federal budget as it sees fit. If a company makes no profit, then shareholders, employees, and of course the government, enjoy no profit sharing in the venture at that time. If an enterprise wishes to reserve a portion of profits for investment in company growth, that falls under the topic of investment (see next question).

Q: How is investment to be handled? If taxation is on gross income what happens to the sheltering of investment money?

A: Investment in the startup of new business ventures and in the expansion of existing enterprises is an important method of stimulating economic growth that can be handled directly by individuals and the private sector without involving the government (except of course in its regulatory capacity). Therefore investment can be treated as part of the discretionary section of the budget. In other words, one of the items on the budget list can be private investment in the form of purchasing stock or other financial instruments (including internal investment within a company). A taxpayer may choose to dedicate up to 100% of his discretionary (i.e. all amounts above the fixed minimum) budget allocations to investment. The requirement in this case is that the investment must be properly documented since it is not within the government's direct purview. Corporate self investment can stay within the company but must be documented.

Q: What about charitable, educational, religious, and other nonprofit organizations?

A: First let's consider nonprofit status relative to tax obligations. It is not fair for organizations to take advantage of the benefits of government without contributing to the operation of government. It makes no sense for a group of people to declare that because they have a set of beliefs they should be exempt from taxation and receive preferable treatment. Everybody has personal beliefs and groups that claim to share certain beliefs do not thereby merit special treatment. If beliefs merit tax exemptions, then everyone can claim tax exempt status and the government will have no ability to tax its citizens for the services it renders. All religious organizations should be subject to taxes. (That will raise hackles with religious groups that have been avoiding taxes by claiming special spiritual status.) Educational institutions also must pay taxes, but can elect to allocate all their discretionary budget to scholarships, specifically tagging their own institution as a qualified recipient, so that those funds do not have to move. Charitable organizations (including those affiliated with religious groups) are basically an outsourcing of government welfare programs. They can assign their discretionary budget to welfare programs, earmarking their own organization as a qualified recipient so that those funds do not have to move. Churches in general are not to be tax exempt, although they may be allowed to omit certain fixed budget items on their returns that their participants object to on religious grounds (not taxes, of course).

Q: In the past gold and silver were used as standards to back our currency. What can we use today as a standard to back U.S. currency?

A: There is no reliable resource or product to use as a standard of value. The true basis of U.S. currency is the creativity of its citizens, both in terms of ideas and in terms of the ability to implement those ideas in practical ways. This conforms to a real-world definition of money as a claim on human labor. The claim may be in any time frame (past, present, or future), and expressed as any form of direct or indirect work performed in any domain subject to the attribution of value. Such claims may be met or unmet and rules may be established to handle various outcomes. For example, when I buy a gallon of gas, I am satisfying the claims for the labors of prospectors, engineers, equipment designers, transporters, refiners, packagers, regulators, and so on -- all of whom will receive a small portion of my gas money -- when I receive fuel sufficient to move my car so many miles, and thereby save myself the trouble of walking so many miles and carrying various objects such distances by hand or paying even more money to hire someone to transport me and my things the same distance. Work is a force through a distance. Money is an efficient tool that allows us to decide how to apply a force of some kind to move something through a distance of our choosing. Honest and creative human labor is a renewable and expandable resource that forms a reliable basis for a currency that supports the free exchange of values in a society. It also allows for an intelligent and industrious individual to become completely or almost completely self-sufficient.

Q: How might labor be used as a currency standard?

A: The treasury does not just print dollars and release them helter-skelter into the marketplace. If a nation's currency is based on productive labor, a rise in productivity automatically increases the amount of money available in the economy. At minimum the Treasury removes old bills from circulation and prints new debt-free ones to replace them. It also tracks the GDP and adjusts the money supply to match the estimated dollar value of the GDP. The money in circulation should not exceed the conservatively estimated value of the GDP or inflation will occur. If inflation occurs, the GDP has been overvalued and must be discounted. The value of a dollar is determined by the value of a good or service generated by the nation's citizenry as recognized in the marketplace. If a company makes a product that is used by the government in its service to the public, the government can pay the vendor company for its labor expended to produce those products with U.S. debt-free currency (up to a certain percentage of the budget allotted by taxpayers to the branch of government that purchases the product). Banks create new money by lending a portion of the money deposited with them to worthy projects that expand the productive economy and then charging the borrowers reasonable fees and interest for the use of that money over time. Banks can capitalize beyond the accounts deposited with them by customers when they borrow from the Treasury or Central Bank at lower interest rates than the local bank charges its customers for purposes of its local lending. The Treasury lends out its debt-free currency at the lowest prime rate to be invested through local banks at slightly higher interest rates to support the creative productivity of local citizens (either directly in business ventures or indirectly by helping citizens buy houses, cars, and other assets with the fruits of their viable productive labors). The value created by healthy loans (collateralized by assets with tangible market value) thereby expands the money in circulation, but the Treasury itself never suffers from debt. The government generally pays its various employees and elected officials with money collected through taxes and fees levied for its services to the public and thereby "voted" for those employees and officials by the taxpayers. When business is productive (providing people with goods and services at reasonable prices), revenues from sales taxes, employee income taxes, and business profit sharing taxes will increase. Businesses will also invest in growth. When businesses earn surplus foreign exchange by selling their goods and services in international markets, they can be paid by the foreign customers in dollars that are circulating in foreign markets (thereby making dollars abroad rarer and thus more valuable) or they can be paid in some foreign currency. Businesses can take the foreign currency they have earned to a Treasury bank and exchange it for crisp new debt-free U.S. dollars (or their electronic equivalent). Of course, if the country runs a trade deficit, dollars flow out of the country and reduce the domestic money supply. That puts incentive into at least balancing foreign trade. Domestic businesses already have incentive to make money in the domestic market. If a company makes no profit, it goes out of business. The government does not try to stimulate the economy by pumping vast sums of money into the system through boondoggling projects or extra welfare benefits. Bailouts for those "too big to fail" are in the form of Federal Loans that must be repaid with interest. The way to stimulate the economy is to provide incentives for bright minds and skilled hands to produce creative goods and services that satisfactorily benefit the domestic population and the world. This expands the GDP, and the money supply grows with it along with the general prosperity of the populace.

Q: What about the fractional reserve system used by banks?

A: Some groups have proposed that we drop the fractional reserve system and require banks to keep 100% reserves to cover deposits. The Treasury would provide extra capital for the banks to give out loans and would back them 100%. This would prevent runs on banks and render the banks virtually risk free. The problem with this approach is that it would turn all banks into parts of the Federal Bureaucracy and remove incentive for caution in the granting of loans. A private bank is an enterprise like any other business and deserves the right to create its own wealth by providing intelligent financial services. A business that creates a successful product has generated money out of "thin air". Banks can do the same thing when they partner with businesses by providing capital. Banks are conservative investors; venture capitalists take a higher risk posture, but also engage more directly and deeply in their investments. However, a fractional reserve of about 10% is way too low. A reserve of perhaps as much as 80% keeps a bank stable and allows it to absorb safely losses on a certain number of defaulted loans. They can also carry insurance against some losses. So there can be a proper mix that allows the private banks to bear some risk and also generate greater profits while still providing the security that depositors desire.

Addendum to the 1-Day Plan

Another idea to consider for the future once we demonstrate a viable, stable, vibrantly creative, debt-free economy is to set up every 10 years or 20 years on the anniversary of

Debt-Free Day an opportunity for a whole new generation of upwardly mobile wealthy people to buy into the low- or no-tax status by One-Day financing of huge multi-trillion dollar federal or even international cooperative projects such as Ocean Thermal Energy Conversion, Colonies on Mars, Toxic Material Neutralization, the Geopolymer and Advanced Ecosustainable Materials Construction Revolution, and so on. The continuing group of ultra wealthy already with preferred status of course may wish to become involved in such projects as investors with an eye to sharing financially in a handsome return on such investments.