Should all Americans be required to have health insurance? The Patient Protection and Affordable Care Act (PPACA) said yes. Its constitutionality aside, is a mandate a good idea?

The short answer is no. There is nothing that can be achieved with a mandate that can't be better achieved by a carefully designed system of tax breaks.

The most common case for an individual mandate is the free-rider argument. Imagine a community in which everyone dutifully pays monthly health-insurance premiums, except Joe. Then one day Joe gets sick and finds he cannot pay the full costs of his medical care. So the rest of us chip in and pay for the remainder of Joe’s care. The upshot: When he was healthy, Joe got to consume all his income instead of paying premiums, and after he got sick he managed to “free ride” on everyone else’s generosity.

Ethically, Joe is getting an undeserved benefit paid for by others, who bear an undeserved cost. Economically, he is imposing an external cost on others. If we let him get away with this, others might emulate his example and the cost for the rest of us could grow.

So is the solution to mandate that everyone have health insurance? On average, people without health insurance consume only about half as much health care as everyone else. Of the amount of care they consume, they pay for about half. Thus the “free ride” for the average uninsured person is about one-fourth of what everyone else spends on health care.

Forcing Joe to buy insurance that pays for the same amount of care everyone else gets would be neither fair nor equitable. To get Joe to pay his own way, we need to take from him an amount of money equal to about one-fourth of the average health-care spending of insured people and either distribute it to everyone else or put it in a fund to pay for the care eventually required by Joe and others like him.

How could that work? Let’s say that SX is the average health-care spending by insured people. One solution would be to make Joe pay a fourth of that in extra taxes each year. Or, we could achieve an equivalent outcome by giving everyone who has insurance a tax break equal to that amount, but deny the break to Joe and everyone else who is uninsured.

This system is not all that different, at least in principle, from our current tax system. For people who get insurance at work, the employer’s premium payments escape individual income and payroll taxes. By contrast, families who are uninsured (and therefore receive taxable wages rather than nontaxed health insurance) face a higher tax bill.

So far, so good. But if we want to build on this

(continued on page 7)
A Health Care Contract with America

With the Supreme Court decision upholding the Patient Protection and Affordable Care Act (i.e., “ObamaCare”), the upcoming 2012 elections will be crucially important in repealing this measure and replacing it with a truly affordable healthcare system. As a result, we have an enormous but time-sensitive window of opportunity to redefine and redirect debate toward market-based healthcare.

Led by our Research Fellow John C. Goodman and based on his new, acclaimed, Independent Institute book, *Priceless: Curing the Healthcare Crisis*, a Health Care Contract with America aims to do this. It comprises five critical principles:

**Fairness:** All families should receive the same tax relief when they obtain private health insurance, regardless of where they obtain it.

**Universality:** Unclaimed tax relief funds should be made available to local safety-net institutions to be used in case the uninsured cannot pay their own medical bills.

**Portability:** Employers should be free to purchase portable insurance for their employees.

**Patient Control:** Patients should be free to manage more of their own healthcare dollars.

**Real Insurance:** Insurance should not just pay for the cost of becoming ill, it should also cover the future costs associated with incurring a pre-existing condition.


To help boldly advance this campaign, please join with us as an Independent Associate Member. With your tax-deductible membership, you can receive a *FREE* copy of *Priceless* (p. 1), *Living Economics* (p. 5), and other publications, including *The Independent Review* (p. 3), plus other benefits (see attached envelope).

David J. Theroux
The Independent Review continues to offer fascinating scholarship on political economy. Its breadth and depth are evident from two articles from the Summer 2012 issue.

Economics versus Environmentalism

Anyone who has watched TV news interviews, read the op-ed pages of leading newspapers, or attended city council meetings has probably noticed two groups of people who can't stop quarreling with each other: economists and environmentalists. Why can't they just get along?

According to Robert Nelson (University of Maryland), the mutual animus of economists and environmentalists stems from their conflicting values about the good and about man’s relationship to nature. In other words, theirs is a conflict between clashing religions, albeit secular ones (“Economics and Environmentalism: Belief Systems at Odds”).

Environmentalists, for example, often view pristine wilderness as sacred and human encroachment on it as a moral transgression. Economists, on the other hand, tend to place a high value on economic growth but make no scientific effort to show that material progress across the board is exempt from the law of diminishing returns. Both sides treat their assumptions as articles of faith. Nelson isn’t challenging these beliefs so much as he is identifying their religious character.

Nelson suggests that greater recognition that economics and environmentalism are secular religions can help foster several benefits, such the crafting of legislation that has a greater likelihood of acceptance by both sides. “Moreover,” he concludes, “it might help to reduce the hypocrisy involved when powerful religious values are advanced in the name of objective economic or environmental ‘science.’”


How States Can Curb Spending

State governments across the country have adopted more than a dozen types of institutions to help get their spending under control. Examples include: strict balanced-budget requirements, line-item vetoes, and tax and spending limits. Unfortunately, most reforms have yielded disappointing results.

Which measures have succeeded the most? According to Matthew Mitchell and Nick Tuszynski (both with the Mercatus Center at George Mason Univ.), two institutions have been clearly effective in helping state governments get their spending habits under control: the item-reduction veto, and separate spending and taxing committees (“Institutions and State Spending: An Overview”).

How—and how well—do they work? An item-reduction veto is more powerful than a line-item veto. A cunning legislature can diminish the “threat” of a line-item veto by making the governor an offer of take-it-or-leave-it, requiring him or her to put more political capital at risk during negotiation. In contrast, an item-reduction veto allows a governor to cut spending in particular program areas, enabling him or her to negotiate spending proposals more effectively. States with an item-reduction veto reduced spending per capita by $451, compared to $100 for those with a line-item veto.

Having separate spending and taxing committees is even more effective. The reason may be one of incentives: Because tax-committee members can’t easily steer spending toward their own constituents, they have weaker incentives to favor spending bills. Whatever the reason, the fiscal effects of this institution are huge: the latest study found that separate spending and taxing committees we’re associated with spending reductions amounting to $1,241 per capita.

The Independent Institute in the News

Center on Health and the Environment
“Consumer-driven, patient-controlled health care is already here. People are making intelligent choices every day—shopping for the same combination of quality and value they seek in other markets. It’s a tried-and-true method of cost control that needs more widespread adoption.”—Research Fellow John Goodman in The Daily Caller

Center on Education Excellence
“Under tax-credit scholarship programs individuals and/or businesses receive a credit against their state income taxes for donations to charitable organizations that award scholarships so children can attend the private schools of their parents’ choice.”—Research Fellow Vicki Alger in Townhall Magazine

Center on Entrepreneurial Innovation
“This is the law of unintended consequences in action. When you change people’s incentives, you change their behavior. When you give people incentives to make more bad decisions, they will make more bad decisions. Even if we grant that taxes and regulations might be justified in theory, this doesn’t mean they will work in practice.”—Research Fellow Art Carden in U.S. News & World Report

“The United States, responsible for the current mess, may be pressured by the Iraqi central government, other Iraqis, or the international community to return its forces. That doesn’t mean that the United States should tell the Iraqis how to organize themselves, but it could mediate any Iraqi-initiated peacefully negotiated devolution.”—Senior Fellow Ivan Eland in San Antonio News•

Center on Peace and Liberty
“It is just another of the ‘no oversight needed or expected’ approach to defense spending. Sadly, however, there is no evidence that the DOD is wrong to expect no oversight. Despite these and other gigantic flaws in the aviation plan, the noise of screams for more money by spending advocates is exceeded only by the echoes of even louder snoring rattling through the halls of Congress.”—Research Fellow Winslow Wheeler in Time Magazine

“U.S. officials are negotiating with the Afghans to maintain a serious presence there for more than another decade, as though this prolonged engagement will finally bring about whatever the administration hopes to accomplish there. Eventually, the U.S. military will withdraw from Afghanistan, and perhaps from its imperial presence throughout the world. Only then will we be rid of the indecencies intrinsic to war.”—Research Editor Anthony Gregory in The Huffington Post

Research Fellow John C. Goodman on Fox News Channel’s “Fox and Friends.”

Senior Fellow Ivan Eland on Russia Today’s CrossTalk with Peter Lavelle.
Economics provides a powerful framework for understanding what goes on in the marketplace, the voting booth, the family, the community, and every other sphere of social activity. Its greatest teachers—from before Adam Smith on down to the present—have always impressed upon the public their discipline’s explanatory powers and importance for human well-being.

In *Living Economics: Yesterday, Today, and Tomorrow*, Independent Institute Research Fellow Peter J. Boettke contributes to this tradition by discussing the ideas of some of the most important economists of all time—famous and not so famous “worldly philosophers” whose innovative theories shed light on pressing issues such as inflation and unemployment, capitalism and socialism, competition and entrepreneurship, law and politics, and customs and civil society.

These economists—from Smith, Say, and Bastiat of the Classical School, to Neoclassical and Austrian scholars (Menger, Mises, Hayek, Kirzner, and Rothbard) on to New Institutional economists (Alchian, Coase, Demsetz, North, Ostrov and Williamson) and Public Choice theorists (Buchanan, Tullock, and others)—have inspired Boettke’s passion for economics.

In addition to illuminating their ideas, Boettke explains how the conduct of economists, both in classrooms and in scholarly journals, enhances or diminishes the influence of economic thinking on the world of practical affairs.

Economic education, he argues, is most effective when it focuses on basic principles, such as how the price system coordinates and harmonizes the decision-making of countless individuals, and why the resulting patterns of “spontaneous order” are self-regulating but can fall prey to laws and regulations that create undesirable, unintended consequences.

Boettke’s diagnosis of the current maladies of the economics profession is especially valuable. Modern economics took flight from reality, he explains, as mathematical formalism gained ascendancy, especially after the publication of Paul Samuelson’s highly influential treatise, *Foundations of Economic Analysis*. Abetting this trend were the tacit assumption of “man as machine” and its corollary: the idea that creating prosperity is an “engineering problem” best solved by strong doses of aggregate demand management and cost-benefit analysis, each treatment to be administered by the high priests of the Keynesian-neoclassical orthodoxy.

Boettke concludes by urging his colleagues to return to their discipline’s original mission: to make sense of human action and communicate the findings to a public sorely in need of cogent counsel.

Scholarly and yet highly accessible, *Living Economics* enables readers to see far across the human landscape by standing on the shoulders of giants in the economics profession, as Boettke and his occasional chapter co-authors—Christopher Coyne, Steve Horwitz, Peter Leeson, David Prychitko, and Frederic Sautet—eagerly acknowledge. Its sparkling insights make this book worthwhile reading for economics teachers, students, and anyone interested in exploring the frontiers of the economic way of thinking.

To order this book, visit www.independent.org/store/book.asp?id=98/•

**Praise for Living Economics**

“Boettke’s passion for economics and the clarity of his vision makes *Living Economics* a pleasure to read. No reader will fail to benefit from his broad and deep insights.”

—Steven E. Landsburg, Professor of Economics, University of Rochester

“I am very pleased with Peter Boettke’s book *Living Economics* which has fully captured the essence of my work and that of others on what good economics is all about and why understanding it is so important.”

—Gordon Tullock, University Professor Emeritus of Law and Economics, George Mason University

“Peter Boettke’s book *Living Economics* is a spirited, passionate, and exciting tour of free-market economics. I enjoyed every page!”

—Andrei Shleifer, Professor of Economics, Harvard University; Faculty Research Fellow, National Bureau of Economic Research
Stossel: “Why Free Individuals Succeed”

On April 19, Fox Business television host and bestselling author John Stossel spoke to an overflow crowd at the Independent Policy Forum, “Why Government Fails—but Free Individuals Succeed,” held at the Institute’s headquarters in Oakland, Calif. The event was streamed live over YouTube.

Drawing on his latest book, No They Can’t, Stossel argued that government is ill-suited to fix many problems that we ask it to fix and in fact creates many of those problems. Government failure is common, and yet people keep telling themselves, “There ought to be a law...”—as if good intentions ensure good results.

After the 9/11 terrorist attacks, for example, Senator Tom Daschle said that the creation of the TSA was essential because “you can’t professionalize unless you federalize.” But that argument has been proven false: Security experts found it easier to sneak fake contraband past TSA officers in Los Angeles’s airport than past private screeners in San Francisco’s. Why? Because a private screener has stronger incentives to perform well than does a federal employee.

Just as government failures are all around us, examples of free markets solving problems are also ubiquitous. Stossel offered a wide range examples, including the tendency for people to find products and sellers with a solid reputation; the superiority of automobiles made in Detroit, compared to the “lemons” that were made behind the Iron Curtain; and the steady reduction of workplace injuries before the Occupational Health and Safety Act was passed.

“Government crowds out good things,” Stossel said. “It cuts the tendrils of civil society and sucks the life out of people. That’s why when politicians say, ‘yes we can,’ I want people to go to state capitals and hold up this sign.” The sign’s message: No They Can’t!

Stimulating Conversation with Alex Tabarrok

The Independent Institute held a reception in April at The Infinity Towers in San Francisco featuring Research Director Alexander Tabarrok.

Delighted not only by unique conversations, guests spoke with Tabarrok about his projections for economic growth. As he explained on Ted Talk, “How Ideas Trump Crises,” Tabarrok enlightened guests on how we can use innovation to triumph over the challenges of the 21st century.

In his book, Entrepreneurial Economics: Bright Ideas from the Dismal Science, Tabarrok explains the foundations for optimism towards economics, as described by UCLA Professor of Economics, Armen Alchian:

“Entrepreneurial Economics offers you lively, eye-opening, mind stretching applications of economic principles and analysis. Students who read it will confound teachers who haven’t.”

You can pick up a copy of Entrepreneurial Economics, in either print or electronic form at www.independent.org/store/book.asp?id=28, so that you too can be part of this stimulating conversation!
structure and solve the free-rider problem, there are three fundamental flaws in the current system that need to be corrected.

First, although the subsidy/penalty system seems to be broadly adequate for the middle class, it is far less so for the rest of the population. For upper-middle-income families, the subsidy for employer-provided health insurance approaches 50%; for lower-income families it is as little as 15%. Generally speaking, we are over-subsidizing the health insurance of the wealthy and under-subsidizing it for the poor. A fixed-sum, refundable tax credit—essentially giving everyone the same subsidy—would solve this problem.

Second, our current system makes no connection between penalties and subsidies. The extra taxes paid by the uninsured (since they don’t receive nontaxed benefits from their employers) go mostly to Washington, while the uncompensated care is delivered locally. The answer to this problem is to put the unclaimed tax credits in a charity pool to be used in case uninsured patients cannot pay all of their medical bills.

Third, although we subsidize employer-paid insurance—in some cases very generously—there is virtually no subsidy for people who obtain insurance on their own. The answer to this problem is to offer the same tax subsidy to all, regardless of how they obtain their insurance.

Contrast these straightforward solutions with PPACA, which imposes undeserved costs and creates undeserved benefits for no morally or economically justifiable reason. Far from solving the fundamental fairness problem posed by free riders, it creates far more inequities than were there before.

Patients, healthcare providers, employers, and employees are all trapped in a dysfunctional healthcare system fraught with perverse incentives that raise costs, reduce quality, and make care less accessible. In my new book *Priceless: Curing the Healthcare Crisis*, I cut through the politics and propose dozens of bold reforms that would free patients and caregivers to be empowered to chart their own lives with affordable, high-quality healthcare.

True reform requires liberating doctors and patients by allowing them to interact in innovative market-based ways to help meet unique individual medical needs.

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**To Our Supporters, Thank You for All You Do!**

We’ve had an incredibly impactful year, thanks to our generous supporters. Without this kind support, our books, events, and media projects would never have had a chance to reach such vast audiences through our Prime Time for Liberty campaign.

Just one example of our influence is with the recently released book, *Priceless: Curing the Healthcare Crisis* by Research Fellow John Goodman. In this timely new book, Goodman presents his vision for a healthcare system grounded in competition and personal choice. Receiving wide acclaim, Goodman has been featured in *Forbes*, *Politico*, and *The Wall Street Journal* and has appeared on national TV shows including: *Fox and Friends*, *Stossel*, *CBN News*, and *The Blaze*!

In reaching out to new audiences, we have been widely successful in gaining thousands of new fans each week on Facebook and Twitter. We are averaging 33,000 likes and 30,000 shares of content from our Facebook pages each week—that’s a huge step forward for the ideas of liberty!

To those who have made these successes possible, thank you! Your generosity has had a real impact on promoting realistic, market-based alternatives to a nation increasingly hungry for real solutions.

In a time when most people have become disillusioned with runaway Washington power and spending, now is the Prime Time for Liberty!

If you’re not yet a sponsor or want to continue your support, you can do so at www.independent.org/donate.
Student Interns, Donors Working Together

One of the most rewarding roles that our donors play is in the intellectual growth and direction of the future generation. Thanks to this support, students gain invaluable learning experiences at the Institute through our internship program:

“My principal responsibility has been the Challenge of Liberty Student Seminars. Since I plan to go into teaching economics, I find working with the students not only enjoyable, but also instrumental in developing my abilities to effectively explain critical concepts.” — Kyle Marchini, Grove City College

“I work to develop scholarship studying peaceful, prosperous, and free societies. I’ve had the privilege to work with a talented team engaged with a thriving community of free-market thinkers and have gained the skills to advance the ideas of liberty in academic literature.” — Nick Geiser, Yale University

“I am working to promote Priceless through marketing campaigns and television pitches. Being surrounded by the ideas of my colleagues inspires me to devote my own studies towards securing individual liberties and a free-market economy for future generations.” — Vivian Chen, Pomona College

“I am working in publications where I assist with website upkeep and putting together materials such as The Independent Review. It is exciting to be a part of these projects that help spread the ideas of liberty in our society.” — Nils Gilbertson, UC Berkeley

W. Colby Pines
Steve Morseman
Kyle Marchini
Nick Geiser
Vivian Chen
Nils Gilbertson

“...The opportunity to work with brilliant people and to discuss major topics of political and philosophical interest is an intellectual privilege for which I am thoroughly grateful.” — W. Colby Pines, Princeton University

“I am working to expand the Institute’s donor base, learn the art of grant-writing, and engage in research that furthers the cause of the Institute. This opportunity to work with such a devoted community is exposing me to invaluable ideas that seldom make their way into the halls of the Ivory Tower.” — Stephen Morseman, UCLA

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