

Funding Formula Under the Health Care For All Ohioans Act: A Response to Those Who Say that the Formula is Unfair to the Wealthy

By Jerry Gordon

Part 1

The Health Care For All Ohioans Act (HCFAOA) has one major objective: to guarantee comprehensive health care coverage for every Ohio resident from cradle to grave, regardless of income, employment status, pre-existing conditions, or anything else. The funding formula is obviously important but, as I will show, it is incidental to the overall objective. Private health insurance companies oppose the SPAN plan because they are driven by their desire to maintain the status quo or some variant of it, which enables them to siphon off hundreds of billions of dollars annually in profits at the expense of patient care. They will attempt to pick the plan apart, provision by provision. They want to divert attention from the immorality and unsustainability of the present system and get people to focus on the alleged "unfairness" of our plan. If people buy into their propaganda, nothing will change.

The HCFAOA provides a **framework** for universal health care. It does not definitively settle on a funding formula. Nor does it purport to address numerous other questions that arise in supplanting the market driven, for-profit system we live under with one that is publicly funded.

In short, the HCFAOA seeks to establish as a matter of **principle** that everyone in our state has the **right** to medical coverage. All the details of the plan should be considered within the context of that guiding principle.

Now let's go back to the funding formula. If you read Sec. 3922.28 of the Act, you will note that it speaks of a gross receipts tax that "shall not exceed" 3% and a payroll tax that "shall not exceed" 3.85%. *It does not state what the tax shall be*, it only sets limits which cannot be exceeded.

It is clear from this that the Act contemplates follow-up action by the state legislature. Therefore, people truly committed to universal health care should support the HCFAOA as it is written and then, after the Act is approved by the voters, they can go to the legislature and raise whatever concerns they have regarding the funding formula. This includes the 5% surcharge for income in excess of \$200,000 annually.

For anyone who says, "I don't agree with the Act's funding formula, therefore I won't support it," we ask, "Well then, what do you support? And what are you doing to relieve the plight of the uninsured and the underinsured?" People who are serious about winning health care for all, even if they believe the Act is flawed to one degree or another, understand that it provides a framework and whatever flaws there may be can be worked out later.

Part 2

The Health Care For All Ohioans Act (HCFAOA) does not impose higher direct taxes on low and middle income Ohio residents. It does, however, ensure that the wealthy pay their fair share.

The SPAN funding plan should be considered in the context of the dramatic changes that have been taking place in the U.S. and Ohio over the past several decades regarding who shoulders the tax burden. There has been a consistent pattern of continuing tax cuts for the rich and the super rich, while the tax burden on the working class and middle class has correspondingly increased.

Corporate taxes used to supply a hefty chunk of federal revenue. In 1945, taxes from that source constituted 47% of such revenue. By 1977, corporate taxes had plummeted to 15.44% of federal revenue. In 1982, the figure dropped further to 7.97%. According to the 2004 Statistical Abstract, the corporate tax level declined further in 2003 -- the latest year for which figures are available -- to 7.1% of federal revenue. In other words, it was less than 1/6 of what it was in 1945. We are talking here about some very big bucks. In 2003, the federal government took in \$1.78 trillion. Imagine 7.1% of that amount compared to 47% and you can see how many hundreds of billions of dollars corporations have saved.

In addition, big corporations have been the beneficiaries of "corporate welfare." This includes tax breaks for raids on workers' pension funds, tax loopholes, tax abatements, tax rebates, countless tax avoidance schemes, subsidies, incentives for investment and research, special deductions, and sales of public lands and resources for a pittance. Congress finances 125 subsidy programs for the largest corporations at an enormous cost to the public. In their 1996 book, "Take the Rich Off Welfare," Mark Zepezauer and Arthur Naiman estimate the federal portion alone of corporate welfare (tax breaks and direct subsidies) costs us at least \$448 billion a year. An estimate of the state portion is an additional \$20 billion to \$50 billion per year.

Of course all of this costs taxpayers heavily -- an estimated \$1,500 a year per person for corporate welfare.

Then there are the big companies that avoid paying *any* income tax. In 1993, a U.S. Government Accounting Office study revealed that 1,555 of the largest corporations (those with assets of \$250 million or more) paid no income tax at all.

Consider this:

-- On average, the 2003 tax cut has already given \$93,500 to every millionaire. It is estimated that 52% of the benefits of George W. Bush's 2001-03 tax cuts have enriched the wealthiest 1% of Americans (those with an average annual income of \$1,491,000).

-- On average, the 2003 tax cut gave \$217 to every middle-income person. By 2010, it is estimated that just 1% of the benefits of the tax cut will go to the bottom 20% of Americans (those with an average annual income of \$12,200).

-- During at least one year since 2000, 82 of the largest American corporations -- including General Motors, El Paso Energy, and, before the scandal broke, Enron -- paid no income tax. [Source: *The American Prospect Magazine*, Vol. 16, No. 7, 2005, Article by Arlie Hochschild, Professor of Sociology, University of California]

Of course, it is not just the top corporations that have made out so well. The tax rates for very wealthy individuals have also been sharply reduced, going from 70% maximum to 28% during the '80s alone.

Meanwhile urgently needed social programs have been subjected to savage cuts. For example, from 1980 to 1990, the government eliminated 73% of spending on public housing and housing subsidies. Children today make up 40% of the homeless.

Most recently, we have witnessed the effects of the George W. Bush tax cuts. Of the three reductions voted by Congress amounting to some three trillion dollars, the wealthiest one percent of Americans have been the biggest beneficiaries, realizing gains of over a trillion dollars. The Congressional Budget Office found fully 1/3 of Bush's tax cuts have gone to people in the top one percent of income, who made an average income of \$1.2 million annually. The top one percent received an average tax cut of \$78,460 in 2004, while households in the middle 20 percent of earnings – about \$57,000 a year – were getting an average cut of only \$1,090. (New York Times, 8/13/04)

The U.S. has the greatest disparity in income of any industrial country in the world. In the last 20 years, the super rich have doubled their slice of the nation's wealth. The way things are going, one percent will soon own over 50% of that wealth. Even 24 years ago, before the latest tax cuts favoring the rich, the New York Times in its February 5, 1981 issue reported that "In the U.S. half of 1% of the population owns more than the rest of the population combined."

By comparison, things have not been going very well for low and middle income Americans. In 1992, according to then Stanford professor Paul Krugman, the government took \$15 in taxes from wage workers for every dollar corporations paid in taxes. Since 1973, real family income has fallen for 60% of all Americans, even as income of the top one percent almost doubled. The U.S. economy has created 202 billionaires since 1989, while during that same period an additional three million people fell into poverty. In the U.S., one percent of the people at the top now take in more wealth than the 100 million people at the bottom.

Add to the above what has been happening in Ohio. Here is how State Senator Leigh Herrington sums it up: "What we have managed to do over the decades is to shift the burden of taxation from millionaires and multi-state and international corporations onto the shoulders of the average Ohioan. We have clearly done that.

I don't think it can be disputed." Two studies (attached) by Policy Matters of Ohio begin with "Compared to individuals, Ohio business is paying a much smaller share of state taxes and local taxes than it did two decades or more ago" and "State and Local Taxes Hit Poor and Middle Class Harder Than the Wealthy."

Add all of this together and economist Lester Thurow's description of the situation is right on the mark: "What we've seen is the largest redistribution of wealth in history without a revolution." Or, as the saying goes, the rich get richer and the poor get poorer.

SPAN Ohio's funding formula is intended in a small and modest way to redress the situation on behalf of the working class and the middle class. The surtax of 5% on income over \$200,000 is chump change to the very wealthy. The 6.2% tax on those whose incomes exceed the social security cap, which today is \$90,000 annually, is a continuation of taxes these high income people were already paying, albeit under the SPAN plan it is regarded as a health care premium and not an addition to the social security tax. The payroll tax not to exceed 3.85%, even when combined with a gross receipts tax not to exceed 3%, is less than what employers pay who today provide their employees with health benefits. (Incidentally, SPAN Ohio is certainly open to making whatever gross receipts tax the General Assembly may enact progressive, thus making life easier for small businesses with thin profit margins.)

It should also be noted that the SPAN health care premium is 5% of total income for those who earn \$250,000 per year, 8% of total income for those who earn \$500,000 per year, 9.6% of total income for those who earn \$1 million per year, and 10.9% of total income for those earning \$5 million per year. Or to look at it another way, after the HCFAOA premium, they'll be left with \$237,580, \$459,580, \$903,580, and \$4,505,800 respectively to pay their other bills. By contrast, for the 50% of Ohio households who earn less than \$30,000 annually, the average \$1,500 per person out-of-pocket medical outlay takes 20% of their entire family income (average family of four) and they'll be left with \$24,000 to pay their bills.

In other words, it's 20% versus 5 to 10%. \$24,000 versus \$237,580 to \$4,505,800. Who's really getting soaked here?

Anyone who says the HCFAOA soaks the rich doesn't have a clue what the word "soaking" means. The wealthy should not be thought of as some kind of oppressed minority. Why do the top 1 to 10% of the country always get to decide what happens to the remaining 90-99% of us?

We believe the SPAN tax formula is fair in all respects. It is, in any event, much fairer than the changes in the tax code enacted over the past decades by both federal and state governments in the interests of the most affluent members of our society.