Reply to Comments

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I would like to thank all of the participants for their useful comments on my proposals for Citizens' Capital Accounts (CCA) and reply briefly to each of them.

I appreciate Michael W. Howard's desire to phase-in CCAs as quickly as possible. As Howard and I argued previously, a quick start-up is important to making any proposal of this sort relevant and politically strong.[1] But I strongly disagree with his suggestion of a very high, onetime jubilee wealth tax of 29 percent. That's simply too high for a wealth tax. While an income tax at that level is bearable, wealth is very different from income, and has to be treated very differently from income. Invested wealth typically returns 4 percent to 7 percent per year. On a bad year it could be less. An investor having an especially good year can do much better, but only a few investors manage this. An extremely high income tax of 90 percent will take only 0.9 percent of the returns if an investor makes 1 percent per year, 6.3 percent if the investor makes 7 percent, and 18 percent if the investor makes 20 percent. Even though the tax is enormous, all of these investors remain in the black. But a 29 percent wealth tax would put all of these investors into the red. The investor making 1 percent would have to turn over all profits and sell 28 percent of the business. Even the investor making a very high return of 20 percent would have to turn over all profits and sell 9 percent of the business. A tax that caused almost every business in the country to lose money—even for only one year—would cause capital flight and massive equity and efficiency problems. A very important principle that any progressive policy maker needs to follow is that tax and regulation policy needs to be simple and predictable. Huge sudden shifts in the rules can be more burdensome than the level of tax or the strength of the regulations.

Although I disagree with Howard's solution, the problem he addresses is a difficult one that requires more thought. How can we phase-in CCAs more quickly without causing enormous problems for business? For one answer, I refer to another lesson from the concluding chapter from our earlier book: look for opportunities.[2] Alaska could have phased-in something very big like CCAs in the early days of the oil boom, but it chose instead to eliminate the income tax. I haven't looked at the numbers, but the United States might have had the opportunity when it introduced digital television broadcasting, but it chose instead to give away this valuable resource for free. The 2008–2009 financial meltdown might have been a great opportunity for the US government to buy banks at fire-sale prices instead of subsidizing those banks, but, again, I haven't looked at the numbers. Opportunities do come along, but can we jumpstart something as big as CCAs without some unusual opportunity. I think there are ways, but any particular proposal should be looked at with strong skepticism and studied carefully, because the damage to the economy could be severe.

Jason Berntsen (chapter 15) has two closely related comments on my argument for CCAs. He asks for clarification of my contention that the restrictions on CCAs are arguably paternalistic only in a small way, and argues that someone might support the idea that a portion of the resources existing at the time of an individual's birth rightfully belongs to that individual, but he rejects the idea that such ownership is custodial.

A response to both comments requires a clarification of the difference between a stock and a flow variable. A flow variable is a rate; it can only be measured per unit of time. A stock variable is not a rate but a flat amount unrelated to the length of the time unit in which it is considered. The number of apple trees in an orchard is a stock variable. The rate at which those trees bear fruit is a flow variable. The purchase price of a home is a stock variable. The rental price of a home is a flow variable. Personal or national wealth is a stock. Personal or national income is a flow. Wealth is the amount of money a person or an institution has at any given time. If my wealth did not change at all last year and it was $200,000 on any given day last year, it was also $200,000 on any given week, month, or for the whole year. Income is the rate at which a person or an institution has money coming in. If my income did not change at all last year, and it was $100 dollars per day, it was also $700 per week, $3,000 per month, and $36,500 per year. Even though my income did not change last year, the numbers in which it is reported differ by orders of magnitude depending on what unit of time we use to calculate the rate.

The principal of a CCA is a stock variable, the rate of return on a CCA is a flow variable. With this in mind, consider the large restriction on CCAs: account holders cannot withdraw the principal (the stock variable). The small restriction is that the government will not enforce a loan collateralizing future returns (the flow variable). I will argue that the large restriction is not in any way paternalistic. The small restriction could be interpreted as paternalistic, but even then, I do not think it is correct to call it paternalistic.

Paternalism is in the motivation. Suppose I won't let you play with my gun because I think you'll shoot yourself, and I don't want you to hurt yourself. In this case, I am being paternalistic; I am protecting you from you. But suppose I won't let you play with my gun because I think you'll shoot yourself, and I don't want you to waste the bullets I intend to bequeath to my offspring. In this case, I am *not* being paternalistic toward you; I am protecting future generations from you.

The restriction against individuals accessing the principal of their CCAs is similarly motivated. The principal of your CCA represents your share of the capital and resource stock that exists at the time of your birth. It would be a very bad thing for all of us and for future generations if large numbers of people tried to convert the capital and resource stock that existed at the time of their birth into present consumption—as they could if they had a full property right over this stock variable. This restriction protects their interests. It also protects their rights. People who are arbitrarily born in year X have no more claim to the capital and resource stock of the earth than people born in year X+1. If people born in year X choose to destroy that stock by turning it into present consumption, there will be no capital or resource stock left for future generations to get a share of. They will violate the rights of future generations to a share of that stock. Therefore, I conclude that the big restriction is in no way paternalistic.

The small restriction on CCAs is that the government will not enforce any contract in which individuals borrow against their future returns. Berntsen points out that I write, "If this is paternalism, CCAs have one small restriction that is paternalistic." It should now be clear that this is a small restriction because it applies only to the flow of returns to CCAs, but it does not apply to the large restriction on the stock of principal in CCAs.

I should have written, "If this is paternalistic *and* it can be thought of as a restriction on CCAs, then CCAs have one small restriction that is paternalistic." One can construe this policy as a paternalistic feature of CCAs, but I don't believe this policy is best thought of either as a restriction on CCAs or as paternalistically motivated. No CCA rule prevents an individual from promising to pay back a loan from future CCA returns. What is not allowed is for the individual to claim that if they change their mind about paying back the loan, the government will force them to turn over their future CCA returns. This rule is not really a restriction on CCAs, nor is it a restriction on individual behavior at all. It is simply the refusal to aid certain kinds of behavior by positive government action (the enforcement of loans). No bank will write a loan under those conditions, but they have no right to demand that the government take action to create the conditions in which they would make such a loan. There are many loan contracts the government refuses to take positive action to enforce. It will not enforce a contract in which individuals promise to become slaves, to turn over their voting rights, or to sacrifice their free speech rights, if they can't pay back the loan. These rules should not be considered paternalistic restrictions on self-ownership, voting rights, or free speech; they are simply the refusal of the government to aid creditors by forcing debtors to turn over certain forms of collateral.

Furthermore, I do not think that denials of aid, such as these, are paternalistically motivated denials of aid. The government refuses to enforce such contracts because it has no duty to enforce all contracts people might wish to make, but it does have a duty to protect their freedom of speech, the freedom to vote, and the freedom from involuntary servitude. The government's refusal to aid people in signing contracts alienating these rights should not be motivated by a paternalistic concern for their welfare but for a concern for what the government owes individuals.

I have argued elsewhere that I believe society owes people basic security as much as it owes them protection against enslavement. I won't reiterate the reasons here.[3] The duty to protect basic rights and basic security takes precedence over society's responsibility to aid individuals by enforcing loans. Therefore, the government can only give individuals such aid if doing so does not interfere with the basic rights protections that society owes them. The government cannot claim that it no longer has to protect your basic rights simply because it helped you get a big pile of money earlier in life. Any such policy sacrifices the protection government owes individuals for an optional service that the government does not owe them.

Berntsen goes on to make a property rights argument against CCAs and in favor of stakeholder grants. He writes that someone might favor the argument "that a portion of the resources that exists at the time of an individual's birth rightfully belongs to that individual" in the sense of full unrestricted property rights, not in the custodial sense that I considered. Berntsen goes on, "If this person thinks of ownership as something that confers perpetual license . . . her grounds for accepting CCAs will also provide her with excellent grounds for rejecting CCAs in favor of Stakeholder Grants." He even portrays this restriction as being opposed to our general understanding of property, writing "They will wonder, for example, how something can be their property when they cannot convert it into cash and have to eventually give it back, like a library book."

I will respond to the second point first. Now that I have clarified the difference between stock and flow variables, it is more obvious that the property rights conferred on individuals by CCAs are consistent with our normal understanding of property rights. By a custodial sense of ownership, I mean full ownership over the flow of returns to the stock of resources that exist while they are alive, but they have less than full ownership of the stock of resources. This rule is consistent with normal understanding. A person who rents an apple orchard understands that she has full ownership over the fruit the trees bear during the term of her lease, but that she has a responsibility to return the trees in good condition at the end of the lease. A person who rents an apartment understands that even though she must return the apartment to the landlord or to the next tenant at the end of the lease, and even though she must be a good custodian of that apartment during her lease, she understands that during her lease she still enjoys very meaningful rights over that apartment against anyone else, including her landlord and future tenants.

In response to the point that a person could believe that individuals should have full, noncustodial, permanent ownership of the stock and flow of resources that exist at the time of their birth, I argue that this view is inconsistent with *all* people having this right. If people born in the year X have this right, they will take full ownership over the stock resources that exist at that time, and there will be no resources left for the people born in year X+1 or any other year after that. The belief in an equal right to resources is simply incompatible with the permanent ownership over the stock of resources. It can only be consistent with ownership of the flow of returns.

Ayelet Banai (chapter 16) argues that Iraq in general and Kurdistan in particular are good candidates for the introduction of CCAs, because CCAs are individualized, easy to monitor, and less vulnerable to clientelism than many policies often adopted by resource-rich developing nations. I agree, but I believe Iraq embodies the difficult aspects of some of the trade-offs I discuss in chapter 12 of this volume. Infrastructure investment is very vulnerable to clientelism, but, nevertheless, the need for it in Iraq is unavoidable. Furthermore, although Iraq has a lot of oil, it also has a lot of people. It has more than 25 times Alaska's population. Thus, its oil wealth will get spread much thinner. It will need other taxes, whether the kind Flomenhoft mentions in his chapter (chapter 6) or more traditional income and sales taxes to create meaningful CCAs.

Christopher L. Griffin, Jr. (chapter 17) gives me the opportunity to clarify, defend, and perhaps soften my position on parental withdrawals and additions to CCAs.

My original draft of what became this CCA chapter actually included no parental withdrawals. Giving credit where due, it was Almaz Zelleke who talked me into allowing them.[4] The reasons are strong and I believe good, as I outline them in the original paper. Few things are more damaging to an adult's life prospects than childhood poverty. No amount of money later in life can make up for it. Any policy that risks greater childhood poverty to ensure greater financial support for the same people in adulthood is, therefore, foolish.

The common response is that at least some parents will use the child's CCA for their own benefit, and therefore, supposedly, we should supervise every account holder's parent. But supervision does not follow. We know that some doctors, lawyers, stockbrokers, and business owners neglect their children and spend too much of their income on themselves, even though they have a legal responsibility as parents to spend sufficiently on their children. Yet, one never hears proposals to garnish the salaries, capital gains, profits, and bonuses of all upper-class parents to put that money into a special account that will be specially designated for the children and closely supervised by social workers. Why not? Hopefully, because we know neglectful parents make up such a small portion of parents that such cumbersome oversight would be a waste of time, at best, and likely to cause more trouble than it is worth, at worst. Instead, we have laws to prosecute the small percentage of neglectful parents.

Yet, when it comes to policies to ensure that poor parents are less poor, suddenly proposals for prior supervision of all parents become ubiquitous. This inconsistency, I believe, stems from an undue suspicion of the poor. I believe most of the poor are people like everyone else who happen to be in more difficult circumstances. Most of the

poor do not abuse or neglect their children. It would be the same foolishness to subject all of them to humiliating oversight, as it would be to oversee the spending of all upper-class parents. If parents show probable cause of neglect, their CCA withdrawals should be one of the things investigated, but simply prohibiting parents who may need to withdraw from their children's CCAs to provide them with basic necessities would be counterproductive.

I will soften my position on this issue in two ways. First, perhaps too many parental withdrawals relative to the parents' income might be interpreted as a sign of neglect and could be one factor in establishing probable cause for investigation. I fear that such a policy could be abused by investigators, but it might be worth it if it helps neglected children. Second, children should be able to sue their parents, or request an investigation, if they believe the parent has misused their CCAs, once they are old enough to understand and are into adulthood. Parents' CCA returns should *not* be a protected asset against a ruling that the parents have misused their children's CCAs. Of course, by the time the child gets any restitution, their most vulnerable years will be over, but knowledge of the possibility will hopefully create an incentive against indefensible parental withdrawals.

As for parental additions, I am all for them, and I am for individual additions during adulthood as well. There are two intertwined questions about additions. First, do we need some kind of restrictions on them to prevent abuses such as dodging taxes or creditors? Second, which of the features of CCAs should apply to additions? I cannot give a definitive answer to these questions in this space, but I can begin the discussion.

Normally, CCA principal can never be withdrawn by the account holder, and it is completely protected from creditors and lawsuits. Normally, available returns from CCA can be withdrawn at any time and are partly protected from creditors and lawsuits. The more people add to CCA principal, the stronger the CCA system will be in the long run, because the principal is turned over to the next generation of CCA holders at death. Therefore, we should look for ways to encourage people to make additions to CCA principal. However, we wouldn't want them making additions to CCAs simply to avoid creditors, lawsuits, assessment for back taxes, and so on. If people were willing to deposit money into CCA principal without receiving the protection from creditors for that portion of the principal, I see no reason for any limits to additions. Limits should be only for the amount that can be added and remain available and/or protected from creditors and other seizures. More work will have to be done to consider the best rules, but I think it should be done on the basis of searching for the best way to incentivize people to add as much as possible to the principal without giving them unfair protection against creditors. I think a good policy might be that X percent of every deposit into a CCA becomes part of the principal. I don't have room for a more thorough treatment here, but I think an investigation of appropriate rules would be a fun paper to write.

NOTES

[1] Widerquist and Howard 2012c.
[2] Widerquist and Howard 2012c.
[3] Widerquist 2007; 2010; 2011.
[4] This was during a break after I had presented the draft at the US Basic Income Guarantee Network conference at the Eastern Economic Association a few years ago.