

Georgetown University

From the Selected Works of Karl Widerquist

2008

Problems with Wage Subsidies: Phelps's economic discipline and undisciplined economics

Karl Widerquist, *University of Reading*



Available at: <https://works.bepress.com/widerquist/16/>

An Introduction to Citizens Capital Accounts

Karl Widerquist¹
Department of Politics
University of Reading
Karl@Widerquist.com

¹ This article is a significantly shortened and slightly altered version of an article entitled, "Citizens Capital Accounts: A Proposal," which will appear in a forthcoming issue of the *International Journal of Green Economics*. The idea for this paper grew out of discussions at the Real Utopias Conference on Reinventing Redistribution at the University of Wisconsin in Madison, WI, May 3 to 5, 2002. Thanks to everyone who participated in those discussions, especially Erik Wright, Anne Alstott, Philippe Van Parijs, Bruce Ackerman, Michael Lewis, and Julian Le Grand. The idea first appeared, in slightly different form, in a USBIG working paper titled "Stakeholder Accounts." Thanks to everyone who discussed that paper with me especially Hillary Silver, Diego Hernandez, Alan Halfpenny, and the participants at the USBIG conference.

An Introduction to Citizens Capital Accounts

National wealth is the market value of the gifts of nature and of the durable value of ideas and labors of the current generation and all past generations. In 1998, the wealth of the United States was 26.2 trillion dollars, 18.6 trillion of which was privately owned (U.S. Census Bureau 2000). The distribution of wealth is far more unequal than the distribution of income and inequality of wealth is increasing more rapidly (Wolff 1995; Wolff and Leone 2002). By 1989, the top 1% of American households held 39% of total wealth and 48% of financial wealth. The top 20% held 94% of financial wealth (Wolff 1995). The problem with unequal wealth is not that some have too much, but that some have too little. There is nothing wrong with people wanting to save and accumulate wealth to benefit their children and their descendants, but if ownership is absolute most of our natural wealth ends up in the hands of a few, while others have little or nothing.

Although to some extent wealth is a gift of nature, people with low incomes are unable to build up a stock of wealth (even by retirement). They have to depend on wealthier people for employment, and they have little or nothing to fall back on in a financial crisis except for the government welfare system, which treats them like misbehaving children rather than people in distress. Thus, there are reasonable competing claims for how wealth should be distributed: Children ought to begin life as equals before the law, which requires an equal share of wealth,² but parents ought to be able to use their wealth to benefit their own children. This article proposes a way to balance these competing claims to national wealth by using redistributive mechanisms to ensure a national minimum level of wealth.

² Or at least an equal share of natural wealth

“Citizens Capital Accounts” (CCAs) redistribute wealth as wealth. At birth each child receives shares in a government held and managed account in a fund of diversified investments such as stocks, real estate, commodities, and government bonds. The key feature of CCAs is: the account owner has access only to the returns in her account not the principal. A fixed amount of the returns must be reinvested. These Mandatory reinvestments become part of next year’s principal to ensure that the principal increases every year. The account holder can withdraw her available returns each year, month, week, or day, or she can let the returns accrue for later.

CCAs combine some elements of Basic Income (Tobin 1968; Van Parijs 1995; Fitzpatrick 1999; Van Parijs 2001; Standing 2002; Van Parijs 2002), Stakeholder Grant (Ackerman and Alstott 1999; Ackerman and Alstott 2002) or a Baby Bonds (Le Grand 2002), and the Alaska Permanent Fund (Goldsmith 2002). Basic Income distributes a uniform benefit to every citizen in cash on a regular basis (weekly or monthly). Most Basic Income proposals finance it out of current income tax revenue, but the Alaska fund finances a basic income out of the interest of a fund created by royalties from the sale of oil drilled in the state (Goldsmith 2002). Stakeholder Grants give all citizens a lump sum when they reach a certain age. Ackerman and Alstott (1999) propose a grant of \$80,000 at age 21. The Blair government’s Baby Bond proposal would give each child a bond of £250 – £400, which reaches maturity when the child reaches 18, thereby taking advantage of years of compound interest before granting money to the beneficiaries (Le Grand 2002).

Like baby bonds, CCAs use the accrual of compound interest to help fund the benefits, but they differ from baby bonds in that account owners have access only to the returns on their account not the principal. Account owners may use the returns as a lifetime basic income. But, unlike basic income, which automatically distributes the

income to recipients, CCAs allow account holders the option of leaving their returns in their account allowing them to accrue guaranteed interest for later. At the account holder's death, the entire principal is returned to the national fund to help finance the next generation's accounts. Available returns and compound returns from all optional reinvestments remaining in the account become a part of the account holder's estate and taxed as any other estate asset.

CCAs resemble the Alaska Permanent Fund in the sense that the benefits are put into a fund and only the returns of the fund are distributed to individuals. The essential difference between CCAs and the Alaska Fund is in *how* they are individualized. The earnings of the entire Alaska Fund are distributed equally to every Alaskan regardless of age, so that all Alaskans benefit both from the returns to the fund and from additions to the fund from new tax revenue (royalties). In the CCA System, people inherit an individual account within the larger fund. They have sole claim to the returns to their account, but not to new tax revenues, which (after the program is fully phased-in) are earmarked for financing the next generation's accounts. The individualization of the fund allows the account holders to let their returns accrue for later in life, and allows them to hold their account as personal property with all the protection of property afforded by the constitution.

The longer version of this article discusses CCAs in detail. It examines the specifics of how CCAs would work, and includes tables showing the lifetime account profiles of representative account holders. It discusses how CCAs can be financed and phased-in, suggesting that a wealth resources taxes are the best source of funds. It concludes with a lengthy discussion of the pros and cons of CCAs, showing that they have many desirable features including the provision of a stock of wealth available in the event of a crisis.

CCAs, especially if they start small, are not meant to replace other redistributive programs. Like the Alaska Fund, their purpose is not to revamp the welfare system but to provide everyone with a share in the ownership of our nation. They will not make our society perfectly just or eliminate all of our economic problems, but by ensuring everyone a small minimum share of the wealth of our nation they will reduce the severity of poverty and the impact of our most pressing economic problems. Therefore, a CCA system can be a significant step toward a more just society.

Bibliography

- Ackerman, B. and A. Alstott (1999). The Stakeholder's Society. New Haven, Yale University Press.
BI, CCA, Stakeholding
- Ackerman, B. and A. Alstott (2002). Why Stakeholding? Paper presented at the Real Utopias Conference, "Rethinking Redistribution: Designs for a More Egalitarian Capitalism". Madison, WI.
- Cox, R. H. (1998). "The Consequences of Welfare Reform: How Conceptions of Social Rights are Changing." Journal of Social Policy **27**(1): 1-16.
- Fitzpatrick, T. (1999). Freedom and Security: An introduction to the basic income debate. New York, St. Martin's Press.
- Garfinkel, I., C.-C. Huang, et al. (2002). The Effects of a Basic Income Guarantee on Poverty and Income Distribution. Paper presented at the Real Utopias Conference, "Rethinking Redistribution: Designs for a More Egalitarian Capitalism". Madison, WI.
- Goldsmith, S. (2002). The Alaska Permanent Fund Dividend: An Experiment in Wealth Distribution. Ninth International Congress of the Basic Income European Network, Geneva, Switzerland.
- Goodin, R. E. (2002). "Structures of Mutual Obligation." Journal of Social Policy **31**(4): 579-596.
- Le Grand, J. (2002). Implementing Stakeholder Grants: the British Case. Paper presented at the Real Utopias Conference, "Rethinking Redistribution: Designs for a More Egalitarian Capitalism". Madison, WI.
- Shapiro, T. M. and E. N. Wolff (2001). Assets for the Poor: The Benefits of Spreading Asset Ownership, Russell Sage Foundation.
- Standing, G. (2002). Beyond the New Paternalism: Basic security as a right. New York, Verso.
- Standing, G. (2002b). CIG, COAG, and COG: A Comment on a Debate. Paper presented at the Real Utopias Conference, "Rethinking Redistribution: Designs for a More Egalitarian Capitalism". Madison, WI.
- Tobin, J. (1968). Raising the Incomes of the Poor. Agenda for the Nation. K. Gordon. Washington, DC, The Brookings Institution.
- U.S. Census Bureau (2000). Statistical Abstract of the United States: 2000. Washington, DC, U.S Government Printing Office.

Van Parijs, P. (1995). Real Freedom for All: What (If Anything) Can Justify Capitalism? Oxford, Oxford University Press.

Van Parijs, P. (2001). What's Wrong With a Free Lunch? Boston, Beacon Press.

Van Parijs, P. (2002). Basic Income: A Simple and Powerful Idea for the 21st Century. Paper presented at the Real Utopias Conference, "Rethinking Redistribution: Designs for a More Egalitarian Capitalism". Madison, WI.

Williams, F. (1999). "Good-enough Principles for Welfare." Journal of Social Policy **28**(4): 667-687.

Wolff, E. N. (1995). Top Heavy: A study of the increasing inequality of wealth in America. New York, The Twentieth Century Fund Press.

Wolff, E. N. and R. C. Leone (2002). Top Heavy: The Increasing Inequality of Wealth in America and What Can Be Done About It, New Press.