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2012

# Citizens' Capital Accounts: A Proposal

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Available at: <https://works.bepress.com/widerquist/55/>

# Citizens' Capital Accounts: A Proposal

This is an early version of the chapter what was later published in the book. Please cite the final version:

Karl Widerquist, "Citizens' Capital Accounts: A Proposal," in *Exporting the Alaska Model: Adapting the Permanent Fund Dividend for Reform around the World*. Karl Widerquist and Michael W. Howard (editors). Palgrave-Macmillan. 2012, pp. 183-204

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This chapter proposes a personalized version of Alaska's Permanent Fund (APF) and Permanent Fund Dividend (PFD) system, called "Citizens' Capital Accounts" (CCAs),<sup>2</sup> which will combine some of the benefits of Basic Income and Stakeholder Grants. CCAs make for a more flexible and meaningful use of revenue than an equal-sized Basic Income, resource dividend, or Stakeholder grant.

The APF is one big, centralized fund. Its managers decide how much of the returns to distribute as dividends at a fixed time each year. Alaskans simply receive checks. The CCA system would personalize the fund by giving each individual an

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<sup>1</sup> This idea grew out of many discussions over a long period of time. Thanks to everyone who participated in those discussions. I can't remember everyone, but I will make sure to name Michael Howard, Erik Wright, Anne Alstott, Philippe Van Parijs, Bruce Ackerman, Michael Lewis, Julian Le Grand, Hillary Silver, Diego Hernandez, and Alan Halfpenny.

<sup>2</sup> The singular form of "Citizens' Capital Accounts" (CCAs) is "Citizen's Capital Account" (CCA). I use them both of them almost exclusively in abbreviation.

account within the larger fund. The account would accrue returns all the time, but within limits, individuals could decide when to withdraw their returns or whether to leave their returns in the account to accrue compound interest that they can draw on later.

Thus, at birth each child receives an account in a government held and managed fund of diversified investments such as stocks, bonds, real estate, and so forth. The accountholder has access to the returns in her account not the principal. Accountholders could have some control over the principal, such as the right to direct some or all of it between competing funds.<sup>3</sup> But accountholders cannot withdraw any part of the principal, because the principal does not belong to them as individuals; it belongs to the community and to future generations. 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. At death the entire principal (but not the available returns) is returned to the national fund to help finance the next generation's accounts. Available returns (including compound interest) left in the account become a part of the accountholder's estate at death. Ideally, in a fully phased-in system, accountholders would receive their principal in one lump-sum grant at birth, and their account would grow only as the returns accrue. But it is equally possible for accountholders to receive small, yearly grants that are added to the principal—as the APF receives from new oil

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<sup>3</sup> I will not discuss whether it is best to allow accountholders to have control over the principal. If they were, it would have to be regulated and limited to avoid risks, especially if returns are insured.

revenues. This chapter mainly discusses one lump-sum at birth, but it also considers yearly additions to the principal.

CCAs combine some elements of Basic Income,<sup>4</sup> Stakeholder Grant<sup>5</sup> or Baby Bonds,<sup>6</sup> and Alaska's Permanent Fund Dividend (PFD).<sup>7</sup> 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 they could be financed by the returns on a fund like the PFD. Stakeholder Grants give all citizens a lump sum when they reach a certain age. Ackerman and Alstott propose a grant of \$80,000 at age 21.

Like Basic Income, the returns of a CCA provide a small lifetime income, but unlike Basic Income, individuals have incentives to leave their returns in their account until they need or want it for a particular purpose. Like Stakeholder Grants, CCAs give individuals flexibility in how they use the money, but unlike Stakeholder Grants, CCAs also provide a small amount of continued economic security. The incentive the CCAs give for accountholders to leave their returns in their accounts means that CCAs are likely to provide greater economic security than either an equal-sized Basic Income or an equal-sized Stakeholder Grant.

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<sup>4</sup> Van Parijs 1995; Fitzpatrick 1999; Van Parijs 2001; Standing 2002; Van Parijs 2002.

<sup>5</sup> Ackerman and Alstott 1999; Ackerman and Alstott 2002.

<sup>6</sup> Le Grand 2002.

<sup>7</sup> Goldsmith 2002.

The rest of this paper discusses CCAs in detail. Part one examines the specifics of how a CCA system would work. Part two discusses how CCAs can be financed and phased-in. Part three discusses the pros and cons of CCAs. Part four concludes.

## 1. How Citizens' Capital Accounts work

The most basic idea of a CCA system is that each individual has an account giving her claim to a portion of national wealth, allowing her to draw the returns but not the principal. It could have many variations. A CCA System I am proposing here has the following features:

- **At birth each child receives an account with a certain amount of money called a “stake” or a “grant.”** The stake could be awarded in a lump sum at birth or in a small amount each year.
- **The account is held in a government-managed investment fund of stocks, real estate, bonds, and other financial assets.** The government can either manage the fund directly or allow competing, regulated companies to manage portions of it. In either case some portion of the returns to the account would go toward the overhead cost of managing the assets in the system.
- **The account returns are divided into two portions, “available returns” and “mandatory reinvestments.”** Available returns are the portion of the returns the owner is allowed to withdraw. Mandatory reinvestments are the portion of the

returns the accountholder must reinvest to ensure that the account grows over time. They include all purely nominal returns and one-third of the “real” (inflation adjusted) yearly returns. The accountholder may leave her available returns in her account. They will continue to earn interest at the same rate as the principal, and they will continue to be available to her at any time. All of the compound returns on past available returns are also available returns. If the account owner chooses to withdraw her returns she can take them at any rate she chooses, yearly, monthly, or even daily.

- **“Principal” is defined as the initial stake, plus all mandatory reinvestments.**

This definition is slightly different than the typical accounting definition of principal, but it is useful to use the term in this way, because it allows the total value of a CCA to be divided into two portions. Available returns, which accountholders can withdraw, and principal, which they cannot.

- **Accounts have a government insured minimum real return of 3 percent per year.** If the national fund succeeds in making more (over the insurance costs and management costs), the additional returns are added to individuals’ accounts. The insured minimum return is necessary for macroeconomic stabilization (see Part 3). The insurance can be financed by premiums taking a portion of returns above 3 percent in good years.
- **Neither the CCA nor any of its future returns may be used as collateral for loans and creditors cannot seize them in the event of bankruptcy.** The reason for this provision is that the primary goal of CCAs is to provide a minimum level of economic security. A balanced concern for opportunity is secondary. The

returns in a CCA can only be taken involuntarily from the accountholder by a legal judgment (such as for child support or damages).

- **At death, the principal is returned to the fund for redistribution to the next generation.** Any remaining available balance can be inherited by the heirs of the accountholder subject to the same taxes as all other inheritance and gifts.
- **CCAs could be financed out of taxes on wealth, natural resources, inheritance, income, or other sources.** Although any type of tax could be used to finance CCAs, and arguments elsewhere in this book point out benefits of resource taxes, it is not the role of this chapter to discuss the best source of funding. The chapter uses wealth taxes as the primary example.
- **The parent who has custody of a child can withdraw the child's available returns for the child's benefit.** Unless the parent is legally found to be neglectful (discussed below), the parent has the discretion to decide what is in the child's best interest subject to two restrictions: First, in the case of joint-custody, both parents must agree to withdraw the child's returns. Second, parent(s) cannot withdraw a child's available returns unless the custodial parent(s) returns have already been withdrawn.
- **Immigrants receive a CCA when they become citizens.** Immigration slightly complicates the system, but for reasons of simplicity, I don't deal with that in this chapter.

For the primary example, I make the following assumptions: (1) CCAs begin with a \$50,000 grant at birth financed by a wealth tax. (2) No additions to principal are made

by the government during a person's life. (3) CCAs make only the minimum return of 3 percent. (4) Mandatory reinvestments are one-third of total return for that year; that is, 1 percent as long as the return remains 3 percent. There is (5) no immigration or emigration, (6) no inflation, and (7) no population growth or decline.

Assumptions 5-7 are for simplicity. The need for mandatory reinvestments is explained above. The assumption that they are set one-third of total returns (assumption 4) is arbitrary. I assume a 3 percent return (assumption 3) to be extremely conservative. Most investment advisors agree that it is safe to take 4-5 percent from an account each year and still expect it to grow in real terms. The Alaska Permanent Fund Corporation reports an average annual real return of about 6 percent, double what I am assuming. I make the assumption of no additions to principal (assumption 2) after the initial grant partly for simplicity. It focuses on changes in the size of the account caused by returns and withdrawals rather than by additional grants. I also make it partly to imagine a fully phased-in system in which all new revenue can be directed to the next generation.

The assumption of a \$50,000 grant financed by a wealth tax (assumption 1) needs a little more explanation. I chose a wealth tax partly for simplicity. It makes for easy calculations. But I also choose it for efficiency and equity. Although resource and rent taxes may be just as good or better, the wealth tax is hard to evade, and it might have a stimulating effect on the economy by giving wealth holders an incentive to keep their assets working. Wealth holding is extremely unequal, far more so than income. Yet, it represents a claim on preexisting property. Taxing it does not tax current productive activity, but the value of all previously accumulated assets, including natural resources



and the things we make out of them. Ed Wolff and others make persuasive arguments for a wealth tax.<sup>8</sup>

The net private wealth of the United States in 2009 was more than \$54 trillion. The population was about 308 million, and there were more than 4 million births.<sup>9</sup> A 2 percent wealth tax (with no exemptions) would raise \$1.08 trillion dollars—more than \$3,500 per person per year, or more than \$250,000 per live birth per year. That is enough for a substantial stake even if substantial exemptions cut into the wealth tax. A \$50,000 stake for each of the 4 million babies born in the United States each year would cost \$200 billion per year—roughly 0.4 percent of national wealth. Therefore, once a CCA system of that size is up and running, the yearly costs would be well within what could be financed by a small wealth tax with substantial exemptions (see part 3 for discussion of financing and phasing it in).

The \$50,000 figure is also useful for comparing the CCA system to the Alaska Dividend. If Alaska were to dividend its \$40 billion permanent fund into a system of CCAs for each of the 700,000 Alaskans, each account would begin with approximately \$57,000.<sup>10</sup> Thus, the round figure of \$50,000 is roughly equivalent to the per capita value of the Alaska Permanent Fund; it gives an idea of what size CCAs Alaskans could have right now.

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<sup>8</sup> Wolff 1995; Shapiro and Wolff 2001; Wolff and Leone 2002.

<sup>9</sup> U.S. Census Bureau 2011.

<sup>10</sup> According to the APFC website, the Alaska Permanent Fund was at \$41.08 billion on July 10, 2011.

Table 1 shows the lifetime account options provided by a CCA with a \$50,000 initial grant and a 3 percent return. **Column 1** shows the **maximum balance** of an account owner who makes no withdrawals in her life. She begins with a balance of \$50,000 at birth. Her account grows steadily, doubling about every twenty-four years. It reaches \$93,015 by her twenty-first birthday and \$532,045 by her eightieth birthday.

**Column 2** shows the “**principal**” or minimum balance. It is calculated as the initial stake plus the mandatory reinvestments (1 percent of principal each year). That is, it shows the amount that must be in everyone’s account each year, even if they withdraw all their available funds as they come in. The principal grows at only one-third the rate of the total balance reaching \$61,620 by her twenty-first birthday \$164,058 by her eightieth birthday.

**Column 3** shows the **available returns** of someone who hasn’t made any withdrawals up to that point. This is simply the maximum balance minus the principal. For example, someone who doesn’t make any withdrawals until age 21 can withdraw a lump sum of up to \$31,395. This is not a fortune, but it is a significant amount of money for someone in a financial crisis or who wants to start a family, to invest in education, or simply to take a year or two out of the labor force. It would provide a reasonable cushion in the event of unemployment or the inability to find an acceptable job. Anyone who withdrew her entire balance at age 21 would bring her balance down to the principal of \$61,620—the same as someone whose parents had made the maximum withdrawal every year throughout her childhood. The following year she would be able to withdraw only \$1,232 (column 4). If the accountholder waited until age 30, she could withdraw \$53,971, more than enough to take a few years out to get a child through infancy or to start a

business, travel, reenter education, etc. A person who left her money in her account until age 60 would have available returns of \$203,745 for retirement. This table shows no available returns on the day of the child's birth, and \$1000 available on the first anniversary of her birth, but these returns actually become available gradually over the child's first year of life.

**Column 4** shows the minimum available returns each year or the Basic Income equivalent of the CCA. That is, the amount an account owner can withdraw each year, if she withdraws the maximum amount every year starting at birth. Someone who (along with her parents during childhood) chose to use her account this way would receive an extremely modest Basic Income starting at \$1,000 and rising extremely slowly, reaching only \$1,220 by age 21, and not reach \$2,000 until her seventy-first birthday.

**Table 13.1:** A Citizen's Capital Account: initial grant of \$50,000, 3 percent interest, to age 80

	1	2	3	4
Age	Maximum balance	Principal (minimum balance)	Maximum available returns	Minimum available returns (BI equivalent)
0	\$50,000	\$50,000	\$0	\$0
1	\$51,500	\$50,500	\$1,000	\$1,000
2	\$53,045	\$51,005	\$2,040	\$1,010
3	\$54,636	\$51,515	\$3,121	\$1,020
4	\$56,275	\$52,030	\$4,245	\$1,030
5	\$57,964	\$52,551	\$5,413	\$1,041
6	\$59,703	\$53,076	\$6,627	\$1,051
7	\$61,494	\$53,607	\$7,887	\$1,062
8	\$63,339	\$54,143	\$9,196	\$1,072
9	\$65,239	\$54,684	\$10,554	\$1,083
10	\$67,196	\$55,231	\$11,965	\$1,094
11	\$69,212	\$55,783	\$13,428	\$1,105
12	\$71,288	\$56,341	\$14,947	\$1,116
13	\$73,427	\$56,905	\$16,522	\$1,127
14	\$75,629	\$57,474	\$18,156	\$1,138
15	\$77,898	\$58,048	\$19,850	\$1,149
16	\$80,235	\$58,629	\$21,606	\$1,161
17	\$82,642	\$59,215	\$23,427	\$1,173
18	\$85,122	\$59,807	\$25,314	\$1,184
19	\$87,675	\$60,405	\$27,270	\$1,196
20	\$90,306	\$61,010	\$29,296	\$1,208
21	\$93,015	\$61,620	\$31,395	\$1,220
22	\$95,805	\$62,236	\$33,569	\$1,232
23	\$98,679	\$62,858	\$35,821	\$1,245
24	\$101,640	\$63,487	\$38,153	\$1,257
25	\$104,689	\$64,122	\$40,567	\$1,270
26	\$107,830	\$64,763	\$43,067	\$1,282
27	\$111,064	\$65,410	\$45,654	\$1,295
28	\$114,396	\$66,065	\$48,332	\$1,308
29	\$117,828	\$66,725	\$51,103	\$1,321
30	\$121,363	\$67,392	\$53,971	\$1,335
31	\$125,004	\$68,066	\$56,938	\$1,348
32	\$128,754	\$68,747	\$60,007	\$1,361
33	\$132,617	\$69,435	\$63,182	\$1,375
34	\$136,595	\$70,129	\$66,466	\$1,389
35	\$140,693	\$70,830	\$69,863	\$1,403
36	\$144,914	\$71,538	\$73,375	\$1,417
37	\$149,261	\$72,254	\$77,008	\$1,431
38	\$153,739	\$72,976	\$80,763	\$1,445
39	\$158,351	\$73,706	\$84,645	\$1,460
40	\$163,102	\$74,443	\$88,659	\$1,474

	1	2	3	4
Age	Maximum balance	Principal (minimum balance)	Maximum available returns	Minimum available returns (BI equivalent)
41	\$167,995	\$75,188	\$92,807	\$1,489
42	\$173,035	\$75,939	\$97,095	\$1,504
43	\$178,226	\$76,699	\$101,527	\$1,519
44	\$183,573	\$77,466	\$106,107	\$1,534
45	\$189,080	\$78,241	\$110,839	\$1,549
46	\$194,752	\$79,023	\$115,729	\$1,565
47	\$200,595	\$79,813	\$120,782	\$1,580
48	\$206,613	\$80,611	\$126,001	\$1,596
49	\$212,811	\$81,417	\$131,394	\$1,612
50	\$219,195	\$82,232	\$136,964	\$1,628
51	\$225,771	\$83,054	\$142,717	\$1,645
52	\$232,544	\$83,884	\$148,660	\$1,661
53	\$239,521	\$84,723	\$154,797	\$1,678
54	\$246,706	\$85,571	\$161,136	\$1,694
55	\$254,107	\$86,426	\$167,681	\$1,711
56	\$261,731	\$87,290	\$174,440	\$1,729
57	\$269,583	\$88,163	\$181,419	\$1,746
58	\$277,670	\$89,045	\$188,625	\$1,763
59	\$286,000	\$89,935	\$196,065	\$1,781
60	\$294,580	\$90,835	\$203,745	\$1,799
61	\$303,418	\$91,743	\$211,674	\$1,817
62	\$312,520	\$92,661	\$219,859	\$1,835
63	\$321,896	\$93,587	\$228,308	\$1,853
64	\$331,553	\$94,523	\$237,029	\$1,872
65	\$341,499	\$95,468	\$246,031	\$1,890
66	\$351,744	\$96,423	\$255,321	\$1,909
67	\$362,296	\$97,387	\$264,909	\$1,928
68	\$373,165	\$98,361	\$274,804	\$1,948
69	\$384,360	\$99,345	\$285,016	\$1,967
70	\$395,891	\$100,338	\$295,553	\$1,987
71	\$407,768	\$101,342	\$306,426	\$2,007
72	\$420,001	\$102,355	\$317,646	\$2,027
73	\$432,601	\$103,379	\$329,222	\$2,047
74	\$445,579	\$104,412	\$341,167	\$2,068
75	\$458,946	\$105,456	\$353,490	\$2,088
76	\$472,715	\$106,511	\$366,204	\$2,109
77	\$486,896	\$107,576	\$379,320	\$2,130
78	\$501,503	\$108,652	\$392,851	\$2,152
79	\$516,548	\$109,738	\$406,810	\$2,173
80	\$532,045	\$110,836	\$421,209	\$2,195

**Column 1:** \$50,000 plus 3 percent interest each year.

**Column 2:** \$50,000 plus 1 percent interest each year.  
**Column 3:** Total Balance minus Principal.  
**Column 4:** Previous year's principal times 2 percent.

From this table we see that a CCA with an initial grant of \$50,000 and a 3 percent return could not finance a generous Basic Income, but it could provide a substantial rainy-day fund for anyone who saves it for when they need it. The modest Basic Income equivalent follows largely from the conservative assumption about the size of the returns. If we assume a 6 percent average return, a \$50,000 initial stake produces a \$2,000 Basic Income equivalent at birth, reaching \$3,000 at age 22 and \$5,000 at age 48. At those interest rates, savers would accumulate more than \$1 million for retirement before they reached their 60<sup>th</sup> birthday. I haven't displayed tables showing such profiles, because I don't want to base the case for CCAs on any more than the most conservative assumptions about the rate of returns.

A larger stake could greatly increase a CCA's impact on financial security. Consider a CCAs system that could be financed by a 1 percent wealth tax with no exemptions (or a 2 percent wealth tax in which half of potential revenue is lost to exemptions and overhead costs). Such a tax would produce \$540 billion in revenue per year, or \$125,000 for each newborn child. Table 2 shows the account profile for selected years of a CCA of this size. It shows that minimum available returns begin at \$2,500 a year and rise to \$4,000 per year by age 50.

**Table 13.2:** A CCA with an initial grant of \$125,000 and 3 percent interest, selected years

	1	2	3	4
Age	Maximum balance	Principal (minimum balance)	Maximum available returns	Minimum available returns (BI equivalent)
0	\$125,000	\$125,000	\$0	\$0
1	\$128,750	\$126,250	\$2,500	\$2,500
10	\$167,990	\$138,078	\$29,912	\$2,734
20	\$225,764	\$152,524	\$73,240	\$3,020
30	\$303,408	\$168,481	\$134,927	\$3,336
40	\$407,755	\$186,108	\$221,647	\$3,685
50	\$547,988	\$205,579	\$342,409	\$4,071
60	\$736,450	\$227,087	\$509,363	\$4,497

**Column 1:** \$125,000 plus 3 percent interest each year.

**Column 2:** \$125,000 plus 1 percent interest each year.

**Column 3:** Total Balance minus Principal.

**Column 4:** Previous year's principal times 2 percent.

Higher returns with an initial stake this size would make for a substantial amount of economic security. A return of 6 percent would double minimum available returns in the first year to \$5,000 and they would rise to \$10,000 by about age 36 even if the accountholder spent all their available returns. At this point it begins to approach the size necessary to cover an individual's basic needs.

In the absence of a larger initial stake or higher returns, CCAs have two important uses. First, an additional income of \$1,000 to \$2,000 per year is a substantial income supplement, which could make an important difference for the working poor. Second, CCAs (at this level) can probably have their most important effects as a rainy-day fund. For example, notice (in Table 1) that the available returns of someone age 25 (who has made no withdrawals to that point) are more than \$40,000, and that they rise to nearly \$70,000 by age 35. A family of two would have access to more than \$80,000 at 25 or nearly \$140,000 at 35. This is more than enough money to weather a significant financial crisis. Someone could live off this amount of money for several years if they had to.

Many people would probably use this money as a down payment on a home or as income-replacement during a substantial parental leave. If they do, it won't be available as a rainy-day fund, and therefore, we cannot think of CCAs as a replacement for the welfare system or for a comprehensive healthcare system, although it can reduce substantially the cost of welfare and the need for people to rely on the welfare system. CCAs are structured in a way to increase people's economic security, but the program lets people assess their own needs. It gives people greater options, and using it for one option necessarily precludes using other options.

Consider someone who withdraws their entire balance once every 10 years until age 50. She (or more correctly her parents) can withdraw nearly \$12,000 at age 10. She can then withdraw \$13,000 at age 20, \$14,000 at 30, \$16,000 at age 40, at \$17,000 at 50. The poverty threshold for single person in 2009 was \$10,830, and nearly 40 million Americans lived in poverty at the height of the 2009 recession. Thus, even the small yearly income allows people the flexibility to live at an above-poverty standard without working one out of every 10 years. The option does not enable people to live permanently without working, but it better enables them to do so for limited periods of time whether by choice or by necessity.

The money is available whether the accountholder needs to draw on it, or simply wants to. Of course, a CCA of this size does not provide as much flexibility and security as a Basic Income of \$10,000, but it provides much more security than she could get from an *equal-size* Basic Income. Without the protected savings opportunity, and the default of leaving the money in the account until the holder taxes it out, a Basic Income of \$1000 or \$2000 per year gives people very little ability to weather an unexpected financial crisis.



## **2. Why Citizens' Capital Accounts**

This section discusses the merits of CCAs. Most of the section evaluates CCAs relative to Basic Income and Stakeholder Grants, because I see CCAs as something in between those two proposals. However, this section addresses other concerns as well.

The main goal of the CCA system is to provide a method of sharing part of society's wealth with all people in a way that lets individuals judge their own needs. Some of the case for this has come out in the explanations above. Rather than passively receiving a check, as people eligible for the Alaska Dividend do, accountholders in a CCA system decide when they want to take a dividend and when they'd prefer to let the returns accumulate for later.

Because people have an incentive to let their returns accumulate, CCAs can provide more economic security than an equal-sized Basic Income or resource dividend. Even at a low level discussed above (equivalent to a Basic Income of only \$1,000 per year) they provide a small income supplement for some, a periodic lump sum for others, or a safe retirement savings account for others. Of course, those most in need will have to draw on their yearly returns, and will not have a large lump sum available for a financial crisis, and therefore CCAs cannot be a replacement much of the welfare system at this level, but they can do some of what a means-tested redistribution schemes can do with much less overhead. And CCAs can do one thing that the welfare system does not do: provide funds to be used for any sort of need whether or not it fits a need anticipated by the welfare system. The larger the account the more opportunity it gives people to use

some of it as an income supplement, some for a sudden crisis, and some for retirement savings.

Basic Income supporters might ask: why is it necessary for people to receive the additional incentive of interest on their unspent BI, when BI is structured so that people who earn more receive more (net of taxes and transfers)? One answer is that it gives the CCA system more popular appeal: it is more truly universal with tangible benefits reaching higher up the income spectrum. CCAs give the middle class options when they are young that they would not otherwise have and reward those who can afford to save their returns with compound interest. Very few people can draw \$40,000 out of their savings at age 30, but CCAs would make that possible for anyone who managed not to draw on their account up to that point. Although Basic Income is universal in the sense that it pays a benefit to everyone, someone who pays \$20,000 per year in income taxes and receives a \$5,000 Basic Income may not feel that she benefits from this universality. She may surmise that if the Basic Income were cancelled her taxes would go down by at least \$5,000 and possibly much more. She may feel that she cannot really benefit from the Basic Income unless she quits earning income, and if she doesn't find that possible, she may feel that she's paying for privileges that someone else can take advantage of and she cannot. However, a CCA would give her a growing account financed out of the wealth of society that existed when she was born. If she does not need the money right now, it stays in her account and rewards her with more in the future. There is something in it for her and little in it for her to resent in others.

Looking ahead from birth, withdrawal patterns of a spender (who takes the maximum withdrawal every year) and a saver (who doesn't make any withdrawals until

age 65) have equal present value, but looking back at age 65, they are very different. The spender receives a total of \$90,937 over 65 years. The saver would have access to a lump sum of \$246,031 at age 65. That is, her lifetime return would be about \$155,000 more than the spender's—well more than twice as much. And the lump sum has available more than 120 times the \$1,890 the spender has access to at age 65. Therefore, the saver has a powerful reason to support the program and no reason to resent those who choose to spend their entire balance each year. It is hard to believe that CCAs would involve any kind of stigma. No matter how accountholders spend their returns, it seems unlikely that they will be viewed as “recipients” or anything but “owners” who exercise one of their many options for the use of their property. CCAs meet the conditions that I’ve discussed elsewhere in this book for attracting growing support. If they prove popular, there will be support for allowing the system to grow to the point at which the account alone would be large enough to meet a person’s most basic needs.

One might argue, if wealthier people make fewer withdrawals, CCAs distribute more money to those already well off, and a smaller, targeted system could have the same impact on poverty while costing less. This argument is reasonable, but the larger returns available to someone who does not use them earlier in life come entirely from interest, not from tax revenues. The tax revenues that support CCAs are distributed equally to everyone, and the added benefits of interest are necessary to achieve the universalizing effects discussed above. Despite the effects of compound interest, the CCA System would have a substantial equalizing effect on income and wealth, and many of those who will get the highest returns from their CCAs are likely to be the people who pay most of the taxes that support the program. It is possible to subject either withdrawals or returns

to income tax, which would also increase the equalizing effect. But it is important to remember that any program that taxes property and distributes the proceeds equally is *progressive*. If the goal is to make the system more progressive, it can be achieved by creating a larger CCA system.

The CCA funding system weakens the “exploitation argument” used by critics of Basic Income, because it does not redistribute income from current workers to nonworkers. Instead, it redistributes a portion of existing wealth equally to everyone in the current generation. For a worker to claim exploitation under this system, she would have to claim that if the system were not in place she would have been able to appropriate more of the wealth that existed at her birth than she has in her CCA, and that this appropriation of wealth represents the just return to her labor. That is a very difficult case to make.

One advantage of CCAs is that—unlike Stakeholder Grants—they actually redistributed wealth as wealth. Guy Standing<sup>11</sup> criticizes Stakeholder Grants for being less of a true “stake” and more of a “coming of age grant” or “COAG.” Recipients *could* use their \$80,000 COAG to purchase a stake in our national wealth but it *is* simply a temporary income. Many will spend it, blow it, be swindled out of it, or lose it in legitimate but unsuccessful investment before it does them any real good. A grant of even \$80,000 can be trivial once it is spent or lost, and it is hard to see a pressing need for a program that might have trivial effects on a large portion of the intended beneficiaries. One cannot lose the principal of a CCA and one can only lose the returns a piece at a

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<sup>11</sup> Standing 2002b.

time, each providing a potential lesson in how to manage future returns. By focusing on financial security rather than a one-time, fragile opportunity, CCAs address a more important need than Stakeholder Grants.

One might argue that CCAs are simply Stakeholder Grants with paternalistic restrictions added. Stakeholders could invest their grants in safe accounts and reap the benefits claimed for CCAs, if they believe that is the best use for their money. I will argue that to a small extent this perception is true, but the restrictions are necessary, and to a great extent this perception is false. This perception is true only to the extent that it is impossible to enhance lifetime security without restricting people from borrowing against that future security or somehow converting those benefits into cash. If this is paternalism, CCAs have one small restriction that is paternalistic. However, even Ackerman and Alstott<sup>12</sup> admit that Stakeholder Grants of any size cannot be a substitute for the current welfare system, which has many paternalistic restrictions that CCAs do not have. Therefore, the entire redistributive system they advocate is paternalistic when taken as a whole, and probably more paternalistic than either Basic Income or CCAs would be if they were large enough to replace substantial parts of the welfare system.

Even so, I am not sure that “paternalistic” is the right word for the restriction on borrowing against future returns. Consider this example. You have a contract with a health insurer. You are eligible for a procedure that costs \$10,000, but you decide that you would rather have the cash. Is the health insurer necessarily being “paternalistic” if it refuses to give you the cash? I don’t believe so. The insurer’s refusal might be motivated

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<sup>12</sup> Alstott 1999.

by a concern for your wellbeing, but might simply be motivated by the belief that it only owes you healthcare. If you don't want the healthcare, it doesn't owe you money to pursue other opportunities. I believe that society owes individuals some amount of economic security and that this duty takes precedence over a duty to provide lesser important kinds of economic opportunity.<sup>13</sup> If so, allowing individuals to trade economic security for opportunity is failing to provide what is owed.

Another feature of CCAs that might be interpreted as paternalistic is the protection of returns—insured against recessions and protected against creditors. But I do not believe this feature is paternalistic at all, because CCAs offer a desirable option that is otherwise unavailable. Any diversified investor might like to have some money in a financial asset as safe as CCAs, protecting them from creditors in the event of bankruptcy. It is quite possible that investment advisors would recommend keeping the maximum balance in CCAs.

The largest restriction on CCAs is the rule prohibiting accountholders from spending the principal. A restriction like this could exist for paternalistic reasons, but it exists in this proposal not for paternalistic reasons but because at death the principal no longer belongs to the deceased but to the next generation. Ackerman and Alstott rely on repayment at death for future funding of Stakeholder Grants, but they have no penalty for those who do not repay their stakes, and so we can expect limited compliance. Prohibiting spending the principal ensures perfect compliance with the payback rule.

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<sup>13</sup> This article is not the place to argue this point, but I have argued it elsewhere, including Widerquist 1999; 2006; and 2010.

Although this restriction might have effects that could benefit the accountholder, its main function is not to protect the accountholder from herself but to protect future generations from the accountholder.

The common definition of most forms of property awards the owner a perpetual license to do with it as she pleases with it. She can save it and pass it down to her heirs until the end of time or she can convert it into bananas and let it rot overnight. This view of the right to property has some merit if the owner created the property entirely out of her own efforts and if the property would not have existed if it were not for her. But most of our property is made out of natural resources that belong to all of us as much as any of us and to future generations as much our generation.<sup>14</sup> Your CCA is not your creation; it is your share of the stock of resources and capital that existed when you were born. You are entitled to a share of this wealth, but not as a perpetual owner, only as a custodian who has title to its returns while living but who must maintain the principal and return it to future generations at the end of life.

CCAs, by widening the population that receives inheritance, represent a fresh challenge to the notion that the acceptance of benefits requires a reciprocal obligation. CCAs do not ask the workers to share with the needy; they ask that some portion of existing preexisting wealth should be shared with everyone. For those who are concerned with the right to accumulation of an inheritance, a 1 percent or 2 percent wealth tax in any economy where wealth tends to return far more each year does not greatly restrict the

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<sup>14</sup> See Ian Carter, this volume.

freedom of the wealthy to accumulate and perpetuate wealth, and it provides an important opportunity for everyone else to begin to do the same.

CCAs would have a desirable macroeconomic effect on both the supply and demand side. On the demand side, they would act as an automatic stabilizer in several ways: First, people will withdraw and spend more of the returns from their accounts during recessions, helping to maintain aggregate demand. Second, the insured returns of CCAs guarantee that some portion of every citizen's wealth will be stable during the ups and downs of the business cycle, decreasing the negative wealth and income effects that sagging markets have on aggregate demand. Third, CCAs provide an effective and equitable way to stimulate the economy and inject support into the financial system during a crisis. Instead of bailing out big banks, the central bank could buy financial assets and place them in CCAs.

On the supply side, one concern about redistribution from the rich to the poor is that it takes from those who are most likely to save and invest their income and gives to those who are least likely to do so, possibly slowing the increase in the capital stock and decelerating economic growth. CCAs do not redistribute income; they redistribute wealth as wealth—without allowing the beneficiaries to convert that wealth (the principal) into income. The principal in a CCA is so large compared to most people's stock of saving, that even if it partly crowds out private savings, it will lead to a substantial increase in the average savings rate, which will hopefully translate into an increase in investment and



higher growth.<sup>15</sup> A greater concern with CCAs might be whether they encourage too much savings.

One might criticize the discretion CCAs give parents to withdraw their children's returns, because a few parents will spend their children's wealth on their own consumption, and the children of such parents will have to endure a reduced financial position in adulthood. There are several reasons why this possibility does not mean that we should deny all parents the option of withdrawing a child's returns for the child's benefit. First, child poverty is probably the largest economic problem in the United States. Many families live at the margins of poverty or below, and in such cases, the child would be much better off being slightly less poor in childhood than having a large lump sum of cash at 21. Good parents who are struggling financially need this option. Second, most parents are good parents. Most parents will spend their own returns on their children rather than the reverse. The legal system, which already holds parents to the obligation to meet their children's needs, has not found it beneficial to supervise the spending habits of all parents to preempt the actions of the few who put their own consumption ahead of their children's needs. It has proven much more effective to allow discretion to all parents and to prosecute the few who misuse it. This basic strategy should not change when CCAs are introduced. Third, for those children whose parents do get away with mispending their returns, no lump sum of money at age 21 will make up for that childhood, and it is unlikely that making a neglectful parent poorer (by \$1,000 per year) will make that parent less neglectful, or that childhood any more bearable.

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15 Precautions should be taken to ensure that the increase in savings is not too large.

CCAs could be criticized for not distinguishing between the needy and advantaged or between the deserving and the undeserving. With CCAs in place, people who are lucky enough to have a good job and no major financial crises in life can retire with a large amount of money; people who draw down their balance will retire with less regardless of why they did so—regardless of whether they needed to or simply wanted to make withdrawals. Refer back to Table 1 and compare the accounts of several different people. George, who is of below average ability, gets a series of great jobs thanks to his parents' connections. He doesn't make any withdrawals from his CCA until he retires at age 60 and withdraws his entire balance of \$203,745 to enjoy as a supplement to his other retirement assets.

Consider several other people, all of whom withdraw \$10,000 per year for four years beginning at age 28. This decision reduces their available returns from over \$45,000 at age 27 to barely more than \$15,000 by the time they stop making withdrawals at age 32, when their balance begins to grow again. They will have an available balance of \$105,155 at age 60. Their decision to withdraw \$40,000 between the ages of 28 and 32, cost them an additional \$65,155 in lost returns by the time they reach 60. George has nearly double what they have in available returns at 60. Imagine that all of these people make withdrawal for the following different reasons:

- Pat's partner dies in childbirth. The withdrawals pay for daycare.
- Fran chooses to become a single parent and to leave the labor force, living entirely off the returns and very close to poverty for four years.

- Barbara is laid off from her job, spends 18 months trying to find a similar job before she gives up and spends two years in retraining.
- Kate chooses to leave the labor force and spend several years traveling cheaply.
- Joy uses the money to help start a business, and she eventually becomes fabulously wealthy.
- Joe uses the money to help start a business, which fails.
- Bill takes time off to write the greatest novel of the Twenty-First Century.
- Jill takes time off to write a bad novel that no one would willingly finish.
- Jack is just a lazy guy who wants to experience a four-year vacation getting drunk.
- Allison suffers from undiagnosed clinical depression; she can't hold a job and drinks a lot until she finds help.

Although some of the people in this group strike me as more needy or more deserving than others, I would not want to judge them. Treating them all the same may not fully achieve all the ideals of justice, but I would not want to sit in a committee charged with determining the exact amount that each of them justly deserves. CCAs do not anticipate all the needs people might have, and so they cannot replace the entire welfare system. They do not create the perfectly just society, they simply embody the adage “rich or poor, it’s good to have money.” In that way they combine a commitment to universality with respect for diversity.<sup>16</sup> A wealthy person who divides her estate

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<sup>16</sup> Williams 1999.

equally among her children runs the risk that some will face misfortune and others not, that some will use it wisely and others not. She can only hope that the stake she leaves her children is enough to help them through whatever circumstances they might face. An inherent feature of property is that if you save, it grows, but if you spend, it disappears (regardless of why you spend it). CCAs are not designed to change the nature of property, but to address the biggest problem with property—that some people have none. A society with CCAs is simply capitalism in which everyone has a minimum piece of ownership. It is not utopia, but it can help people through the greatest financial risks of capitalism.

### **3. Financing and Phasing-in a CCA System**

After a CCA system has been in place for generations, it will be substantially self-sustaining. The principal returned at death will provide the initial stake for most newborn citizens, and the system will run on the returns to capital. But the same feature that makes the system largely self-sustaining in the long run makes it tricky to get started in the short run. Accounts need a large amount of principal before they can produce significant returns. This fact presents three options for phasing it in: 1 start with high but temporary taxes; 2 start with a small group of people, such as newborns; 3 start with small accounts and gradually increase them over time.

This tri-lemma is the reason that sovereign wealth funds, such as the APF, currently exist almost exclusively in places that have had substantial resource windfalls. Such windfalls provide the opportunity for large, temporary taxation and a good reason to save some of that windfall and spend only the returns. I have argued elsewhere in this book that resource windfalls happen much more often than we realize; we usually let

them pass without taking advantage of them. But as has also been argued elsewhere in this book, a resource windfall is not the only way to create a dividend-paying wealth fund. So, I'll focus on opportunities to create a fund without high temporary taxes.

As I said above, a \$50,000 stake for each baby born in the United States each year would cost \$200 billion per year and could be financed by a small wealth tax. But of course, if we started it only with the babies born this year, more than 35 years would pass before half of the population had a CCA, and the equity problem between a child born this year and one born last year would be substantial. Therefore, although it would be an affordable way to create sizeable CCAs for our children, a generational phase-in would not be the best way to begin.

The third option is to begin with small accounts, gradually increasing them over time. Table 3 shows how to do so with tax revenue the same size as in Table 2: \$540 billion per year—1 percent of national wealth. With a population of 308 million, that revenue provides a grant of about \$1,775 per person per year.

Table 3 shows the first 40 years of an individual CCA profile based on these assumptions. The columns have the same definitions as in Table 1. A minimum interest rate of 3 percent and mandatory reinvestments of one-third of yearly returns would produce first year available returns of only \$35. But the principal would grow each year not only with mandatory reinvestments but also with new additions of \$1,775 to the principal from each year's tax revenue. Therefore, returns would grow much faster over time than in the original example. If left in the account, maximum available returns grow to nearly \$10,000 by age 20 and \$50,000 by age 40. If withdrawn each year as a basic

income, the minimum available balance grows to \$1,000 by the accountholder's late 20s and \$2,000 by the accountholder's mid 40s.

Thus, even assuming an interest rate of only 3 percent, in a few decades, CCAs will have grown to the point at which they would significantly improve financial security for everyone. Even if new tax revenue were then redirected to newborns, CCAs would continue to grow and to become more significant over time for everyone. There may be good reason to redirect most new revenue to newborns at some point. The way CCAs allow individuals to take advantage of accumulated net interest confers a large part of the benefits of the program on them later in their lives. But most people in the United States face their greatest financial insecurity earlier in their lives.

**Table 13.3:** CCAs supported by \$1,775 yearly grants, selected years

	1	2	3	4
Age	Maximum balance	Principal (minimum balance)	Maximum available returns	Minimum available returns (BI equivalent)
0	\$1,755	\$1,755	\$0	\$0
1	\$3,583	\$3,548	\$35	\$35
10	\$22,707	\$20,509	\$2,198	\$371
20	\$50,865	\$41,225	\$9,639	\$781
30	\$88,706	\$64,109	\$24,598	\$1,234
40	\$139,562	\$89,386	\$50,176	\$1,735
50	\$207,908	\$117,308	\$90,600	\$2,288
60	\$299,760	\$148,152	\$151,608	\$2,899

**Column 1:** \$1,775 plus 3 percent interest each year, plus additional yearly grants of \$1,775.

**Column 2:** \$1,775 plus 1 percent interest each year, plus additional yearly grants of \$1,775.

**Column 3:** Total balance minus principal.

**Column 4:** Previous year's principal times 2 percent.

## **4. Conclusion**

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 our economic problems and make our society significantly more just.