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# Reply to Comments

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CHAPTER 18

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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

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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