

Book Review

Raised on Robbery

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The Stakeholder Society. By Bruce Ackerman and Anne Alstott. New Haven, Connecticut: Yale University Press, 1999. Pp. xi + 296.

We had a little money once
They were pushing through a four lane highway
Government gave us three thousand dollars
You should have seen it fly away . . .

—Joni Mitchell, *Raised on Robbery*¹

In 1980, Harvard University decided to give the great and radical English economist Joan Robinson an honorary degree. Having gotten wind of this event through a leak in one of the world's tightest security systems, I flew to Boston, met up with Mrs. Robinson after the ceremonies, and soon arranged to escort her around Cambridge the following day. Next morning, we found ourselves having to wait some minutes in the lobby of her hotel for, as I recall, a car key. And so Joan Robinson took it upon herself to recite, to me, the entire Nobel lecture that she would never otherwise deliver. All I remember now, is how it began: "When they finally get around to giving me my Nobel Prize, I shall have to say what my contribution was. And I shall say, I invented the distinction between a thought experiment and a hypothesis."

Mrs. Robinson did not have a favorable view of thought experiments. They can be difficult to evaluate, because they live entirely within the terms of reference under which they are constructed. Unlike the hypothesis, the thought experiment is not really about the outside world. It cannot be checked against evidence. It is, rather, an artifact of the imagination, what economists like to

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1. JONI MITCHELL, *Raised on Robbery*, on COURT AND SPARK (EMI Records 1974).

call a “model.” The test of a thought experiment—to the thought-experimentalist, anyway—is the logical consistency of its structure, not its verisimilitude as a description of the physical or social world.²

Bruce Ackerman and Anne Alstott have written, in *The Stakeholder Society*, a book that is best considered as an extended thought experiment.³ It is intricate, detailed, and full of subtle dialectics—thesis (“*We should do X!*”), antithesis (“*Ah, but haven't you considered problem Y?*”), and synthesis (“*Yes of course you silly dolt, and the objection, such as it is, clearly fails on ground Z . . .*”). But it is still a thought experiment. Which is to say, it is an extended speculation on what might happen, under certain assumptions about human behavior, should certain idealized changes in American social policy take place.

The basic Ackerman-Alstott thought experiment takes the following form. First, they would give each American resident citizen high school graduate, beginning at age 18, a cash grant of \$80,000, usable for certain purposes such as education up to the age of 21, and without restrictions thereafter. Those failing high school would get a small annual consolation payment.⁴

Ackerman and Alstott would require that the original “grant” be repaid with interest from the estates of those who die with more than \$50,000 to their name.⁵ To make up for shortfalls, especially in the half century before the first stakeholders die off in large numbers, they would tax wealth, at a flat annual rate of two percent, to cover the provision of new stakes. The wealth tax would be integrated with the income tax, so that the combined rate on capital income would not be higher than either tax would impose separately.⁶

Finally, Ackerman and Alstott would scrap the Social Security System, payroll tax and all. Instead of Social Security, which is tied to work, they

2. Such, at any rate, is the standard logical positivist position, long advocated for economics by Milton Friedman. *See, e.g.*, MILTON FRIEDMAN, *ESSAYS IN POSITIVE ECONOMICS* (1953). For a critique, see TJALLING KOOPMANS, *THREE ESSAYS ON THE STATE OF ECONOMIC SCIENCE* (1957), especially the second essay. JOAN ROBINSON, *ECONOMIC PHILOSOPHY* (1962), provides an introduction to Mrs. Robinson's thought on economic method.

3. BRUCE ACKERMAN & ANNE ALSTOTT, *THE STAKEHOLDER SOCIETY* (1999).

4. Ackerman and Alstott put the consolation prize at \$4,000, or a five percent rate of return on \$80,000. *See id.* at 38. The odd thing about this feature of their scheme is that the present value of this life annuity at the assumed interest rate is, of course, \$80,000. And Ackerman and Alstott make clear that those who refuse the stake would not be subject to any obligation to repay it. *See id.* at 82. Assuming this exemption also applies to those who fail to qualify in the first place, then surely the smart step for anyone who expects to die wealthy would be to skip high school graduation, claim the annuity, and evade the payback tax at death. (All the more so, since Ackerman and Alstott would permit the principal to be invaded, even by dropouts, for buying a house. *See id.* at 38. High school graduation is not, of course, an actual prerequisite for admission to college in this country, as the present author knows from personal experience.)

5. *See id.* at 90. Over an average lifetime, Ackerman and Alstott calculate that the real value of the stake would rise to a payback obligation of \$250,000, ignoring inflation.

6. For a basic outline of the Ackerman-Alstott scheme, *see id.* at 4-5; some details are provided in the Appendix and others are scattered through the text. For a discussion of the integration feature, which is incompletely developed, *see id.* at 107-08.

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would supply a minimal “citizen’s pension” to all retirees.⁷ To pay for this, they would tax “privilege” at what they describe as progressive rates—in the form of an annual levy, a capitation in effect—calibrated to the incomes of the parents of each taxpayer.

The Stakeholder Society has received wide and respectful notices, mainly from law professors, social philosophers, and journalists.⁸ It has been praised as an important book, and as a significant contribution to the national debate over rising inequality and what might be done about it. It has been called a new departure in “liberal” thinking on social policy. But it has not, so far as I am able to determine, been reviewed by an economist. And yet, precisely because it relies so heavily on deductive reasoning from first principles, precisely because it is a thought experiment first and foremost, *The Stakeholder Society* needs to be evaluated for its properties as an economic model.

The present review provides such an evaluation, focusing on the economic aspects of the Ackerman-Alstott argument. Five of these require particular attention: first, the behavioral effects of instituting the stakeholding scheme; second, incentive effects on our higher education system; third, behavioral and social effects of making stakeholding dependent on a high school diploma; fourth, effects of changes in the tax system; and finally, the larger social consequences of redistributing income from the middle-aged and elderly to the young. Each of these is taken up in a Part below.

I. BEHAVIORAL CONSEQUENCES OF THE STAKEHOLDING SCHEME

Let us begin with the concept of a “stake.” In raw terms, Ackerman and Alstott are proposing a capital transfer from working Americans and the elderly to the young. A four-year, \$20,000 annual deposit is to arrive in the bank account of every 18-year-old college freshman, and every 21-year-old citizen-resident high school graduate not bound for college. What may we predict will be the consequence?

Ackerman and Alstott predict an efflorescence of financial acumen and probity among the young. In their own words:

The advent of stakeholding will have a revolutionary impact on education in this country. For the first time, high school students will have an intense and practical interest in fundamentals of economic planning. Classes named “How to Manage Your Stake” will be as eagerly attended as those in driver’s education—a universal rite of passage into the real world If anything, the practical importance of

7. It would amount to \$670 a month, or about \$8,000 per year. *See id.* at 129-31.

8. *See* Jack Beatty, *Against Inequality*, ATLANTIC, April 1999, at 105; Seth Bloom, *Reinventing Equality*, AM. LAW., July 1999, at 55 (critical); David S. Broder, *Spread the Wealth*, WASH. POST, April 18, 1999, at B7; Matthew Miller, *A Stake in Every Pot*, N.Y. TIMES, Jan. 31, 1999, § 6 (Magazine), at 16; Robert B. Reich, *To Lift All Boats*, WASH. POST, May 16, 1999, at B1; Alan Ryan, *Please Fence Me In*, NEW YORK REV. OF BOOKS, Sept. 23, 1999, at 68; Cass R. Sunstein, *Cash and Citizenship*, NEW REPUBLIC, May 24, 1999, at 42.

money management will motivate interest in basic skills like math and reading, not to mention economics.⁹

Among the several curious features of this passage, one may note the odd belief that classes in driver's education are "eagerly attended." They are, rather, *dutifully* attended. This is because they are a necessary condition of passing a driving examination and acquiring a driver's license, without which, in the United States, rather severe penalties are attached to driving.

Ackerman and Alstott do not pursue this parallel. They do not propose to make successful completion of classes in "How to Manage Your Stake" into a prerequisite for receiving the cash. They would write a check to everyone who graduates from high school, whether or not they passed, or even enrolled in, a class in money management. The proper analogy is evidently not driver's education, but *sex education*. No one to my knowledge has ever written, said, or implied that classes in sex education are eagerly attended.

Next, one might ask what the skills of money management actually are. The authors' reference to their "practical importance" suggests the existence of wonderful, but perhaps slightly esoteric, ways to make the stake grow. But in fact, the most basic principle of sound long-term investing is: *leave it alone*. Playing around with your money is costly. Sound investment for those of modest means involves staying away from scams, schemes, fees, active management and entrepreneurial risk-taking of all kinds. This, again, seriously undermines the notion that courses in managing the stake ("*Listen up! Buy an index fund! Leave it alone for thirty years!*") would be well received by the young.

Rather than a revolution in education, an economist might instead predict revolutionary growth in industries catering to the tastes of young consumers. Some of these would be educational institutions; they would upgrade their facilities and, where the market would bear it, raise their prices. Some would be builders of inexpensive housing—the kiddie condos, for instance, that already surround our bigger campuses. Others would be makers of sporty cars and fast computers, impresarios of music, purveyors of alcohol and tobacco, not to mention marijuana and cocaine.

And then, there would be the betting pools, numbers rackets, and day-trading schemes, calculated to separate the would-be investor from his or her money.¹⁰ Needless to say, opportunities for leverage would be quickly pro-

9. ACKERMAN & ALSTOTT, *supra* note 3, at 37.

10. Ackerman and Alstott devote a couple of paragraphs on pages 12-13 to celebrating the Czech "voucher privatization" as a fore-runner of their stakeholding plan. On a point that many might dispute on its merits, they write that the "broad involvement of citizen-stakeholders played a central role in legitimating the country's transition to liberal democracy." *Id.* at 13. Yet in a footnote tucked away on page 232, they acknowledge that "[u]nfortunately, [former Prime Minister Vaclav] Klaus did not combine his support of voucher privatization with a regulatory regime . . . that would have protected the interests of citizen-stakeholders from predictable abuse by insiders." *Id.* at 232 n.14. This rather gives away the game.

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vided to newly minted e-traders; annual installments of \$20,000 would tend to disappear in a few afternoons. Ackerman and Alstott provide a confused account of a scheme to protect youngsters from pre-committing later installments of their stakes to lenders, but they offer no practical way to achieve this.¹¹

This difference of view—between my consumption-and-speculation prediction and Ackerman and Alstott’s education-and-investment prediction—is important. Ackerman and Alstott would give young Americans the freedom to consume their stake, but they go on to write as America’s youth, in their overwhelming majorities, will simply decline to do so.¹² The entire Ackerman-Alstott plan depends not on the consumption of the stake, but on its investment and growth, and not on any kind of investment but on sensible, sound investment that does not entail undue risk-taking. Ultimate repayment, on which tax liability at death would be predicated, presupposes an average rate of return of two percent, after inflation, on the full capital value.¹³ This is hugely improbable, if one assumes that the *average* rate of return on capital will be two percent. Even the most prudent young adult would likely consume, or lose, *some* of the original \$80,000 grant.

And because of this tendency to consume, Ackerman and Alstott would create a society in which *every cohort* of young adults possessed, on average, less purchasing power than the cohort a year younger. Moreover, those not bound for college (and hence not doomed to spend the grant on tuition and fees) would remain substantially more flush than their better-educated *confreres* until well after the latter graduate from college. Seen this way, the income distribution consequences of the stakeholding plan are breathtaking. By passing cash on this scale directly into the hands of the maturing young adult, Ackerman and Alstott would invert the structure of purchasing power in the United States. The elderly (for reasons to be explained below) would move ever more deeply into debt as they grew older. The young would separate from their (mostly middle-aged) parents with a financial bang. No society has ever, to my knowledge, been organized thus, outside perhaps of William Golding’s *Lord of the Flies*.

11. See *id.* at 39, 214. Ackerman and Alstott would require that the stake be invested by those not going to college until they reach the age of 21, but provide no means to prevent encumbering of the eventual payments with loans that would, no doubt, be eagerly provided. In principle, one supposes, young people who fall too deeply into debt could protect themselves by declaring bankruptcy just before their twenty-first birthdays, but this seems an odd incentive to build into the design of social policy.

12. Ackerman and Alstott concede that the evidence from Alaska’s miniature basic income scheme suggests that Alaskans simply consume their annual oil-royalty check. But they then brush off this evidence, arguing that “the grants are just too small to encourage more fundamental reassessments.” *Id.* at 215.

13. See, e.g., *id.* at 243 n.12.

II. STAKEHOLDING AND THE HIGHER EDUCATION SYSTEM

Ackerman and Alstott adamantly defend the principle that the stake should be the birthright of every American citizen, of "Joe Six-pack" as well as "Joe College."¹⁴ Leaving aside the quaint implication of their terminology that college students do not drink, one should consider the incentive implications of this arrangement very carefully.

Today, there are many helpful ways in which government programs assist impecunious students in completing college. There are scholarships. There are loans. There are guarantees. And state governments in particular put vast sums into higher education directly, in ways that permit universities to charge students a fraction of their pro rata share of costs.

Ackerman and Alstott clearly imply—no, they actually state—that stakeholding funds would substitute for much of this money.¹⁵ As to the consequences:

For this large group [lower class students], stakeholding would work a genuine revolution. It would allow college-bound students to focus their energies on academic work and compete with their peers on more equal terms No less important, it would inaugurate a new era of healthy competition in higher education. Every student would enter the market with significant resources and an incentive to shop carefully. No longer would state universities or community colleges have a captive pool of in-state or low-income students who are without other options.¹⁶

This passage will only perplex professors at state universities, particularly in the South and West where state universities predominate. Such universities are patronized overwhelmingly by students who are not poor, and who do have other options. They often could afford private schools. Yet they attend the state university because, compared to the alternative, it is a good value. This suggests that students today already do, in fact, shop carefully. It is not clear why adding \$80,000 to their resource pool would make them more careful, rather than less so. The main point, however, is that state universities thrive today precisely because students do calculate the costs and the benefits of different colleges, and because such institutions are effectively subsidized from public revenue sources.

Given these circumstances, Ackerman and Alstott overlook the direct and straightforward incentive effects of their plan. Today, as they acknowledge, there is a structure of price incentives aimed at *inducing* students to attend college.¹⁷ These are based on differential access to scholarships and to the amenities paid for by state subsidies—*all for students alone*. There are no non-

14. *E.g., id.* at 56, 58.

15. *See id.* at 54.

16. *Id.* at 53.

17. Ackerman and Alstott place direct state expenditures on higher education at \$40 billion, including state support for academic research as well as teaching and student services. *See id.* at 54.

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student scholarships, no non-student loan programs, and very few free non-student swimming pools, libraries, basketball courts, amateur theaters, gymnasias and so on.

The big change Ackerman and Alstott propose is to reduce this differential and thereby reduce the consumption element of the economic incentive to attend college. Both the college bound and the non-college bound would get the cash grant. Those who chose to attend college would be expected to turn it over, at the rate of \$20,000 per year for four years, to the educational institution of their choice. At the end of that time, they would start with a diploma and nothing else. Everyone else could spend the cash, buy a car and a house, or put the money in the bank.

Who would go to college under such circumstances? The technical answer is: those for whom the present value of \$80,000 in hand is less than the present value of the expected increase in earnings that would follow four years in college. Who would that be? Obviously, those with the highest and surest post-college earnings prospects, on the one hand, and the least need for money now, on the other. College would remain an attractive way to pass four years, to those who are not pressed for cash, and who are confident of well-paid professional employment or of a post in Daddy's business, on graduation.

Because the element of differential subsidy would decline (colleges losing their subsidies would tend to price their amenities at cost), the attractions of college to everyone else would be radically less than they are today. If the stake itself came to serve as the principal source of funding for colleges and universities, less well-heeled students would have to ask whether the college experience was really worth giving up—as they do not have to do today—the cash in hand. In many cases, responsible low-income teenagers would reasonably conclude that it is not worth it.

The conclusion is inescapable: Ackerman and Alstott have given us a plan for returning college education to its nineteenth-century status, as the preserve of the rich and well-connected. It is troubling that they either do not see this plain implication of their own scheme, or having seen it, decline to spell it out for the lay reader. Certainly it is odd that they lay claim to a liberal's concern with inequality; this economic implication of their plan is as illiberal as it could possibly be.

III. STAKEHOLDING AND THE HIGH SCHOOL REQUIREMENT

Another aspect of the stakeholding scheme merits closer examination than it receives. Ackerman and Alstott would make receipt of the stake contingent on earning a high school diploma. This would, they acknowledge, tend to encourage bogus high schools and pseudo-degrees.¹⁸ But they have a ready re-

18. *See id.* at 38.

sponse:

If these abuses proved serious, the federal government might be obliged to institute a national examination for high school graduates before they could qualify for their stake or to require states to come up with satisfactory exams of their own. Because we favor such an exam on independent grounds, we think that this would be another happy consequence of our proposal.¹⁹

This response overlooks an entirely different and perhaps more serious problem. In fact, many state legislatures are already eager to set high qualifying standards for public high school performance—standards that minority high schools often cannot meet.²⁰ Some conservatives play this game, in part, to maintain distinctions between “good” and “bad” public schools—and in part, one occasionally suspects, to cater to the voucherization lobby.²¹ If the stakes were raised, so to speak, as Ackerman and Alstott propose, the result in much of the country would be “higher” standards on standardized tests, with stronger discriminatory results.

What then? Twenty-five percent of youth already do not graduate high school by the age of twenty, and the minority share of the fifteen percent who never graduate must be very high.²² Ackerman and Alstott would enlarge this population and favor it with \$4,000 a year, creating an instant ethnic underclass. Convicted felons and adult immigrants would, as I understand the scheme, get nothing: a sub-underclass, dominated by minorities, foreigners, and petty drug users.²³

What is astonishing about this system, taken as a whole, is how much less liberal it is than the Social Security System we already have. Social Security taxes and rewards work. It honors labor. As such, it is equally accessible to the high school dropout and the Ph.D. It makes no invidious distinctions based on intellectual ability, book learning, language facility, or quickness on standardized tests. It also protects the disabled, the unemployed, and the ill. Ackerman and Alstott neglect these protections; they remark in a note that Supplemental Security Income would be “restructured” and are silent about disability and survivor’s benefits.²⁴

19. *Id.*

20. Indeed a backlash against this widespread practice is already developing. See Jacques Steinberg, *Academic Standards Eased as a Fear of Failure Spreads*, N.Y. TIMES, Dec. 3, 1999, at A1 (reporting inter alia that “only 1 out of 10 Arizona sophomores had passed a new state math test last spring”).

21. Vouchers were recently adopted in the state of Florida and have been under intense discussion in Texas and many other states.

22. ACKERMAN & ALSTOTT, *supra* note 3, at 40.

23. THE STAKEHOLDER SOCIETY contains a discussion of integrating the stakeholding scheme and the criminal law. See *id.* at 50-51.

24. Social Security is also highly efficient from an administrative standpoint, with operating costs of less than one percent of outlays — far lower than any private insurance plan. The Ackerman-Alstott stakeholding operation, and particularly its wealth tax provisions, would probably be much costlier to operate. An effective annual wealth tax would involve annual appraisals of personal wealth, going far

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In addition, Social Security makes no distinctions based on citizenship. Landed immigrants and even temporary residents and occasional visitors can register, acquire their card, pay their tax, and become enrolled in the system. Such people do not have American high school diplomas and would therefore not qualify for stakeholding even if they later became citizens of this country—or, for that matter, even if they later graduated from an American university.²⁵

When it comes to citizens' pensions, as distinct from the stake, Ackerman and Alstott would not cut them off. But they acknowledge that the concept of a "citizen's pension" raises the question whether non-citizens should qualify, and if so, under what requirements for residency, once the simple and straightforward work-related requirements that presently exist under Social Security are abolished.²⁶ How the long-time permanent resident—the war refugee and the migrant worker, perhaps literate, perhaps not, perhaps only in some other language—would survive under their scheme they can only guess: "Suppose Congress shortchanges the non-citizens or cuts them out entirely. What then? This would be a serious blight on our initiative. Nonetheless, we do not think it would be as invidious as the set of family and class distinctions authorized by the existing program."²⁷ This sounds like a shrug, really: "Too bad."

The larger problems are now apparent, and they are two-fold. Ackerman and Alstott have given us a thought experiment. It is not, however, a very robust thought experiment. It rests on behavioral claims or hidden assumptions that have no foundation in economic theory, among them the notion that a cash grant would be saved or invested in education and not consumed or lost, and the assumption that cost-based pricing of higher education would not seriously affect the economic decision whether or not to attend college. Yet these claims and assumptions are central to their argumentation.

Moreover, their thought experiment is not up to comparison with the social institutions of the real world. *The Stakeholder Society* is very simple. But the design of social policy is complicated—as our discussions of the immigrant question and of Social Security suggest. It requires reference to facts. It requires *hypotheses* and their evaluation. Wild hand-waving about "revolutionary" transformations in education, in other national institutions, and in human behavior is not a serious way to deal with the complexities of actual social life.

These problems deepen when we turn from the question of the stake and its effect on the young to questions of taxation and its effect on the old. These oc-

beyond today's cursory real property appraisals for the local property tax. At various points, *see, e.g., id.* at 9, Ackerman and Alstott speak of stakeholding as a device to "liberate" citizens from government, but in fact this aspect of their proposal would make government substantially more obtrusive than it is today.

25. Ackerman and Alstott discuss immigration issues but manage to leave this one undiscussed. *See id.* at 46-48.

26. *See id.* at 149.

27. *Id.* at 150.

copy the second part of Ackerman and Alstott's book.

IV. STAKEHOLDING AND THE TAX SYSTEM

One might have thought that the concept of a "stake" implies a capital grant to the maturing young. In fact, Ackerman and Alstott use this term at the outset of their book, and I have used it earlier in this review. But, as we know, the stake is not a grant. It is, rather, a loan, to be repaid at death, with two percent real interest, from each estate. Thus, when Ackerman and Alstott write that "[s]takeholding liberates college graduates from the burdens of debt,"²⁸ this is in no sense true. What they propose actually is to present each citizen with a zero-coupon obligation, index-linked, a balloon mortgage on life itself, to be called upon demise.²⁹

Ackerman and Alstott become quite blunt, late in their book, as to what this means: "Thanks to the wonders of compound interest and increasing longevity, a stake of \$80,000 received in 2010 implies a payback obligation of about \$250,000 (in real dollars, after inflation is taken into account) when the typical American dies sixty years later in 2070."³⁰ Lest one suppose that they have not thought of the obvious reaction of most Americans to a flat estate tax burden of half a million dollars per married couple, they quickly add: "It will not be enough, then, to apply trusteeship principles to bequests; it will also be necessary to regulate large gifts made before death."³¹ Ackerman and Alstott dress this up in a rhetoric of citizenship and duty, and preoccupy themselves with spelling out details, such as annual gift tax exemptions, a charitable matching scheme, and a small exemption for inheritances before the payback obligation kicks in. They downplay (though they do not deny) the mathematical reality: under their assumptions only a handful of Americans will die with that much in their estate.

Suppose that each and every stakeholder invested each and every dime of her stake. Further suppose that the average rate of return held at the two percent real rate Ackerman and Alstott predict. It will still be true, even then, that more than half of the population of the United States will enjoy real returns to their personal portfolio (of human, physical and financial capital) of *less* than two percent, after inflation. Why? Because returns are unevenly distributed, and the distribution is skewed to the right. The assumed two percent is a mean, not a median figure. It is an average return to all capital, but this average figure

28. *Id.* at 5.

29. *See, e.g., id.* at 83 (describing the payback obligation). By definition, a grant does not have to be repaid, while a loan does. Ackerman and Alstott insist that the stake is not "simply" a loan, but their only basis for this claim lies in the universal entitlement to the stake. *Id.* at 88. A loan without a credit check may be an unwise loan, but it is still, by any definition, a loan.

30. *Id.* at 83.

31. *Id.*

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will be enjoyed by (let us say) thirty percent or so of the population, among whom there will be some with far higher returns. The rest will see average real returns of less than two percent, and a fair number will see no positive real return at all.

It follows that most Americans would not be able to convert their \$80,000 stake into \$250,000 at death, or the required intermediate sums should they die in fewer than sixty years. This would be true in spite of the fact that, under the maintained assumption of zero consumption, Americans would see no actual economic *benefit* from the stake whatsoever.³²

And of course, many Americans would consume part or all of their stake, either in a profligate or misspent youth or as the result of family or medical crises at later points in life. Their accumulations at death, if any, would come from other sources. But very few would have as much as \$300,000 per person. The Ackerman-Alstott formula therefore implies confiscatory taxation of most estates, beyond a \$50,000 exemption. Only fairly large estates, those exceeding \$300,000 per person, would escape under their scheme; such estates would enjoy a zero marginal tax rate after the confiscatory level was passed. And the effective rate would fall below 50 percent at \$500,000—somewhat below the point at which today's estate tax even begins. This is the opposite incidence as under current law and precisely opposite in effect to the liberal rhetoric under which they advance their plan.

The whole great social innovation of stakeholding thus boils down to an almost universally available loan, marked by a very weak credit check and confiscatory partial repayment at death. Why Ackerman and Alstott insist on referring to this institution as a *grant* is, under the circumstances, a mystery. No would-be inheritor in the following generation, faced with the confiscatory estate tax they propose, will be under any such illusion.

In order to deal with the low estate tax yield and bridge the gap until the deaths of the first generation of stakeholders, Ackerman and Alstott would impose a two percent annual flat rate tax on all physical and financial wealth, after an \$80,000 exemption.³³ The simple economics of this are again revealing. Ignoring the income-tax integration, a two percent annual capital levy is roughly equivalent to a reduction in the after-tax real rate of return on capital, from the assumed two percent—to zero. In other words, except for the return on the first \$80,000, Ackerman and Alstott propose to confiscate the entire expected real return on the portfolios of older households. All of it would be siphoned off to the youngsters.

32. A similar logic holds for those who spend the stake on college tuition. In equilibrium this group would obtain a two percent average real return on the increase in their human capital, but even if every such college graduate saved the entire real return, less than half would accumulate the required \$250,000 by payback time.

33. *See id.* at 102-03.

While Ackerman and Alstott write as though this tax would be a great leveling influence, such is not the case. Again ignoring the exemption and integration, the tax would be administered so as to take away two percent of my half a million (ten thousand dollars per year), and two percent of George Soros's billions. It would leave myself, and Soros, in the same relative position as before. And though of course Soros would pay a great deal more, the effect on me would be much more substantial. In order to pay the tax, which would diminish my meager and illiquid estate from one year to the next, I would need to take out a mortgage on my house or a loan against my pension. Soros, of course, can cover from liquid financial reserves, of which professionals have few and ordinary working people typically have none at all.

Ackerman and Alstott are characteristically compassionate about this issue:

But perhaps you think that a tax that might require some elderly people to mortgage their homes is unduly harsh. One way to reduce this burden would be to allow cash-poor retirees to comply by giving the government a first lien on their houses, exercisable on their deaths. The unpaid wealth tax would accrue in the meantime at a market rate of interest, just like any outstanding tax debt. This plan would allow the elderly to continue living in their homes and let the government collect their tax, with interest, before others can share in their estates. We prefer to save the enforcement costs associated with this plan, but offer it as an example of the kind of accommodation that might be made.³⁴

How generous. Instead of forcing elderly people to mortgage their homes, Ackerman and Alstott would have the government issue the mortgage! They do not note one advantage of this idea, which is that it would solve the shortage of public housing. Within a few decades, under this scheme, much if not most American housing would be owned by the government, under defaulted tax liens.

With a flat-rate wealth tax and a confiscatory small-estate tax, Ackerman and Alstott believe that they have successfully financed their stakeholding scheme. But what about the citizen's pension? Clearly, something more needs to be added to the package. So now we come to the final element of the Ackerman-Alstott fiscal package, which is the abolition of the Social Security payroll tax and its substitution by a *privilege tax*.

The privilege tax would be paid by all Americans between the ages of twenty-one and sixty-five. It would be paid at three flat cash rates: in a low-option scenario these would be \$3,800 for the top twenty percent, \$2,090 for the middle 60 percent, and \$380 for the bottom twenty percent.³⁵ For the taxpayer, the bracket for the privilege tax would be assessed *according to "the amount of money that his parents earn while he is growing up."*³⁶ In favor of this idea, Ackerman and Alstott make another of their impassioned pleas:

34. *Id.* at 104.

35. *See id.* at 227-28.

36. *Id.* at 166 (emphasis added).

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Americans don't like to talk about class. But the facts speak for themselves. Millions of Americans get a head start simply because they are born into privileged circumstances. Many others are disadvantaged during childhood and stay that way for life³⁷

. . .

In assessing a higher privilege tax on the children of the rich, we do not need to inquire too deeply into the causes of their enhanced self-esteem, social connections, and economic opportunities. It is enough that they have them, that other citizens don't, and that these differences are attributed not to random misfortunes but to the systematic distribution of advantage from the earliest days of childhood.³⁸

Here again, the devil is in the details, and Ackerman and Alstott have dressed a reactionary scheme in progressive clothing.

Let us leave aside, for the moment, the bureaucratic complexity of attempting to base a current tax on old family ties and earnings records pulled from ancient computer archives. Let us merely note that these records are highly incomplete. Social Security's records are concerned only with the first sixty thousand dollars or so of wage and salary income, and not at all with other sources of income.³⁹ And even the income tax permits large deductions from taxable income for unrealized capital gains, for interest on municipal bonds, for charitable contributions and many other things, all of which flatten the profile of income presented to the authorities by the rich. The basic fact is that the Ackerman-Alstott scheme is not progressive.

By ordinary definition, the Ackerman-Alstott privilege tax is a regressive tax. Compared to the present payroll tax, it is regressive because it falls on all citizens, whether they work and have income or not. At the lowest level, it is a poll tax—the most regressive of all types of tax. The Social Security payroll tax, in contrast, falls only on working people; it is a proportional tax for most of that population, becoming regressive only at higher income levels because the payroll tax is not assessed on wages and salaries exceeding the cap. Although Ackerman and Alstott present a three-bracket structure, this does not suffice to make their tax progressive, and it is substantially more regressive than the Social Security payroll tax.⁴⁰ True, someone whose parents earned just

37. *Id.* at 160.

38. *Id.* at 162.

39. The Social Security Administration is concerned only with the collection of the FICA tax on payrolls; other forms of income and income above the capped level, presently \$72,000 per year, are not reportable to the SSA. See SOCIAL SECURITY ADMINISTRATION, SSA PUBLICATION NO. 05-10094, HOW IT'S FINANCED (1999) <<http://www.ssa.gov/pubs/10094.html>>.

40. The top assessment of \$3,800 on the privilege tax is equivalent to the employee contribution under the present payroll tax at an income level of about \$50,000. For all "privileged" persons with wages and salaries above \$50,000, the privilege tax assessment would be lower than they presently pay, while "privileged" people with lower incomes would pay more than they presently do. Including the employers' contribution to the current payroll tax in this comparison reduces this cross-over threshold to \$25,000. On the other hand, many of the "underprivileged" people assessed at \$380 in Ackerman and Alstott's scheme would still be paying more than they do under the payroll tax, for the reason that many of those people are not employed at all.

above the bracket line would pay at a higher effective rate, for equal income, than someone just below it. But, because the assessment in each bracket is lump-sum, the effective tax rate on current income would decline precipitously past that point, trailing off to negligibility for the rich. To call this progressive is a travesty.

One could go on, but the above is sufficient to establish the true nature of the Ackerman-Alstott stakeholding scheme. Far from being a liberal solution to a serious national problem, it combines libertarian, reactionary, and bizarre features in most of its major provisions.

Ackerman and Alstott also systematically mischaracterize these features, as close inspection of the various taxes reveals. Although it may lead some readers to question the sincerity of the authors' claim of a liberal approach, a generous hypothesis might be, simply, that the scheme was designed in anticipation of heavy criticism from libertarians and without close attention to the actual operation of the proposed taxes and transfers.

V. STAKEHOLDING AND THE STRUCTURE OF SOCIAL RELATIONS

What of the larger conception of Ackerman and Alstott's work—the idea that the state should reward citizenship, rather than work, support the individual, rather than the family, and assist the young, rather than the old? This, rather than the dry details of their fiscal scheme, is the plane on which much of their argument is advanced, and on which it has been reviewed until now.

Ackerman and Alstott write with the serene confidence of law professors, as if the large changes they propose have few implications for the structure of economic life. We have seen an instance of this already, in their neglect of the effect of changing the structure of demand on the composition of output.⁴¹ Yet their misconstruction of the larger social consequences of their scheme is much more serious than that.

In our present society, we expect the young to become educated and then to work. The purpose of work is social. The product of the working person supports the life of everyone else, and the accumulation of capital and the development of knowledge on which future prospects are based. The motivation for work, on the other hand, is personal. People work for money, and they work for money because they need it. Meanwhile, Social Security operates on the principle that working people support the old, who are free to face their declining years without poverty or penury or even an increasing burden of debt.

Ackerman and Alstott would cut the heart out of this arrangement. By putting the money up front, they would encourage the young to shun the labor market, and it is guaranteed, on the most simple economic principles, that

41. See *supra* note 10 and accompanying text.

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many would do exactly that, just at a time of life when labor market socialization is most important. The burden of work would then fall on those paying for the scheme—on the older worker who would have to take on extra hours, and delay retirement, to meet the tax burdens that Ackerman and Alstott would impose on them to fund the revels of the young.

Meanwhile, family relations would be overturned. Social Security, it might be noted, already did this once, happily revolutionizing the relationship between working people and their elderly parents, by cutting the direct link of dependency of the latter on the former. Ackerman and Alstott would rebuild that bond of dependency while cutting a different one, between working people and their own children. Instead of the moderately depressing situation, common enough today, of adult children turning in times of need to their parents, one would see the humiliation of middle-aged parents becoming dependent, in times of stress, on their barely post-pubescent kids. (*“Sorry, Dad, you can’t borrow the car.”*) The more one examines this, the more preposterous it comes to appear.

Ackerman and Alstott purport to deplore the invidious “family and class” distinctions of American life. But they would not seriously inconvenience the very rich. What they would do is overturn the modest structure of family and class distinctions on which any functioning society depends, the structure of relationships that bond young people to the larger goals of social life, those which are fundamental to the effort required to reproduce society itself. This would be particularly true for poor families, where older children often contribute something to the larger familial upkeep; under the Ackerman and Alstott scheme they would have an especially strong incentive to hive off.

There is one good example in modern political history of a social program with similar effects in general terms, of empowering the young, dispossessing the elderly, and reversing the normal structure of power and economic and family relationships in society. It is the Cultural Revolution in China, from 1966 to 1972. The Red Guard forged millions of young Chinese into a political force, and they took up Chairman Mao’s slogans with all the radical intolerance of the ignorant young.⁴² Quite soon, the economy of China collapsed. The parallel is, perhaps, extreme. But it is not entirely inapt. With their little green dollars, Ackerman and Alstott too would empower the young and dispossess the old.

VI. A CONCLUDING DEFENSE OF EXISTING PROGRESSIVE INSTITUTIONS

It is time to bring this conversation down to earth. Ackerman and Alstott

42. This author’s father-in-law, a Chinese Communist official of courage and integrity and a participant in the “Hundred Flowers” movement of 1957, was one of those who died following six years imprisonment in a re-education camp during the Great Proletarian Cultural Revolution.

present their scheme as though it were a program to rectify the great inequalities of income and wealth that have come to characterize American society since the early 1970s. They write:

Rich kids get a big head start in life—they go to the best schools, the best colleges, get generous financial help from Mom and Dad, and eventually receive a tidy inheritance. But things look different at the bottom, where an increasing proportion of children live out their early years. In 1996, children represented 40 percent of all Americans living below the poverty line—but only one-quarter of the total population. We are reaching the point of no return: it is one thing to tolerate a gap between ideals and reality, quite another to allow the ideal to disappear from our moral horizon.⁴³

Suppose we take this moral commitment seriously? To state the question as it was put by Lenin: what is to be done?

In pointing to the problem of children living in poverty, Ackerman and Alstott finger the most important social problem caused by rising inequality of income and wealth. But their proposal would do nothing to address this issue—unless one believes that the tooth fairy of stakeholding will have magical effects. Many of our poor children are poor because they are themselves the children of the very young. A teenager who herself has children, and who is unlikely ever to finish high school on that account, would do no better under the Ackerman-Alstott scheme than under the present welfare system. Her poverty and that of her children would continue just as before. So would that of the impoverished high school dropout who has children later in life.

Furthermore, one must ask: why is it that the *relative share* of children among the poor is so high? It is because of the success of the Social Security System in reducing poverty among the old. Such poverty rates were above twenty-five percent in the early 1970s, while today they are below the average of the general population.⁴⁴ Ackerman and Alstott would undo this program—the greatest social success story of modern American history—in a rush to transfer funds to a group, the young high school graduates, who are not poor and not at risk of poverty.

Following this logic, the right solution for poverty among the old is already with us. It is to preserve, protect and defend the Social Security System. Social Security is under attack, and liberals and progressives should defend it: against cutters, privatizers, and its historic enemies who would rather skim the cream of the private life insurance market than see the vast majority of America's aged protected against poverty. Ackerman and Alstott contribute nothing to

43. ACKERMAN & ALSTOTT, *supra* note 3, at 2 (citations omitted).

44. For the best available discussion of Social Security, see ROBERT EISNER, *THE GREAT DEFICIT SCARES: THE FEDERAL BUDGET, TRADE, AND SOCIAL SECURITY* (1997), and COUNCIL OF ECONOMIC ADVISORS, *1999 ECONOMIC REPORT OF THE PRESIDENT* (1999) (discussing the effect of Social Security on poverty among the old). For a new and excellent summary of the attack on Social Security, see DEAN BAKER & MARK WEISBROT, *SOCIAL SECURITY: THE PHONY CRISIS* (1999).

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this goal. Indeed the effects of their proposal aligns them with Social Security's detractors.

Equally, the right solution to poverty among children is not so hard to find. First, all children should have their needs—for health care, for nutrition, for decent child care and for good schools—met. Second, young working parents with low incomes should get a supplement through the tax system calibrated to the number of children that they support. This is called an Earned Income Tax Credit, and it already exists.

What about wages and incomes? I have dealt with this at great length in other work.⁴⁵ Suffice it to say that pay inequality is largely a macroeconomic matter; economic policy and specifically the achievement and maintenance of full employment are most important. But so too are unions, fair labor standards, and a decent minimum wage. Ackerman and Alstott reject raising the minimum wage, on the specious ground that a three dollar increase (which no one has proposed) would be too much, and anything less, too little.⁴⁶ They are silent on full employment, and the word "union" does not appear in their index.

As for taxes, the important point is that they should be both realistic and progressive. Ackerman and Alstott appear to be in doubt about what this means. Their inheritance tax, which would fall to a zero rate at \$300,000 of estate value, is not progressive. Their "privilege tax," which would fall to a one percent effective rate at \$380,000 of income, is not progressive. Their wealth tax is proportional to wealth, and therefore, in principle, progressive with respect to income. That generously assumes the vast problems of valuation and evasion to be solved, but they would not be; Ackerman and Alstott would introduce an impractical proportional wealth tax rather than improve the practical, moderately progressive income tax system that we now have.

Finally, what about the inequality of wealth? This is truly a thorny question, for in all capitalist societies wealth inequalities are destined to be vast. But those that matter most, to most people, can be dealt with. The wealth sufficient to own a house and to provide for one's own decent retirement can be and has been in twentieth-century America widely disseminated to millions. What

45. See JAMES K. GALBRAITH, *CREATED UNEQUAL: THE CRISIS IN AMERICAN PAY* (1998). My work shows that the distribution of pay — not to be confused with the distribution of income or wealth — is in fact closely related to the level of employment. In a full employment economy, workers at the bottom of the pay scale gain ground, relative to those who are better paid. Ackerman and Alstott say nothing at all about policies to assure the continuation of full employment and the process of wage compression that typically accompanies it.

46. Their argument combines the conventional, and dubious, view that a significant increase in the minimum wage would cut the demand for low-skilled labor "catastrophically," with the equally dubious idea that a smaller increase would make no "real difference." ACKERMAN & ALSTOTT, *supra* note 3, at 205. But in fact, there is no proposal afoot for an abrupt three dollar increase in the minimum wage, while increases on the order of a dollar or a dollar-fifty would, in fact, raise wages significantly for millions of low-wage workers. For a discussion of "living wage" proposals, an interesting variant that would raise certain kinds of wages significantly, see ROBERT POLLIN & STEPHANIE LUCE, *THE LIVING WAGE: BUILDING A FAIR ECONOMY* (1998).

is so odd about *The Stakeholder Society* is not only that it disregards this achievement, but that it would in effect undo this success by taxing ordinary accumulations relentlessly and by driving the ordinary American elderly to live on a flat, poverty-level "citizen's pension."

Do I have nothing favorable to say about *The Stakeholder Society*? Virtually nothing. But one has to concede that Ackerman and Alstott did an excellent job of implicating distinguished colleagues in their thought experiment. On the back cover, Deborah A. Stone calls the plan "welfare reform as it should be."⁴⁷ Stephen B. Cohen says it "inspired and challenged me."⁴⁸ In a review Robert Reich calls it (albeit with a certain caginess, in his case) a "big idea" that might "change the course of the nation."⁴⁹ In a column, David Broder simply calls it "a very bold proposal for curing inequality."⁵⁰ It is nothing of the sort.

The Stakeholder Society is at best a sloppy proposal that would replace the set of social programs that built the middle class with another, likely to destroy it. It has received a great benefit of the doubt, particularly from liberals who have allowed themselves to be distracted by the bright light of a "big idea." So great is the appeal of such things to some people that they counsel that one should overlook the most obvious flaws and the foolishness of the Ackerman-Alstott plan, and not "get hung up on the politics right now, or on the details . . ."⁵¹

That is a shame.

47. ACKERMAN & ALSTOTT, *supra* note 3 (hardcover dustjacket).

48. *Id.*

49. Reich, *supra* note 8, at B4.

50. Broder, *supra* note 8, at B7.

51. Reich, *supra* note 8, at B4.