

## Isaac Marks Memorial Lecture

# YOUR STAKE IN AMERICA

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America has become a three-class society. More than twenty-five percent of its children now graduate from a four-year college and move into the ranks of the symbol-using class. Their increasing prosperity stands in sharp contrast to the grim picture of life at the bottom. The lowest twenty percent inhabit a world of low wages, dead-end jobs, and high unemployment despite the economic boom.<sup>1</sup>

Then there is the vast majority. Over the past quarter century, they have endured a long period of economic stagnation. Despite optimistic rhetoric from the right, economic growth has bypassed these forgotten Americans. The richest twenty percent has captured virtually all of the growth in the nation's wealth since the early 1980s.<sup>2</sup> While income trends have been somewhat less extreme, family income for the vast middle is only modestly higher than in 1973. Even trading water has been tough. Real wages for men have declined by nearly fifteen percent, and it is only the massive entry by women into the workplace that has taken up the slack.<sup>3</sup>

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1. See REBECCA M. BLANK, *IT TAKES A NATION: A NEW AGENDA FOR FIGHTING POVERTY* 57–68 (1997) (describing trends in wages and unemployment for low-skilled workers); Peter Passell, *Benefits Dwindle Along with Wages for the Unskilled*, N.Y. TIMES, June 14, 1998, at 1 (noting that the 1990s economic boom has not reversed the long-term trends); see also KATHRYN EDIN & LAURA LEIN, *MAKING ENDS MEET* 69–73, 128–31 (1997) (discussing dead end jobs and little room for advancement); Gary T. Burtless, *Welfare Recipients' Job Skills and Employment Prospects*, 7 *FUTURE CHILDREN*, Spring 1997, at 39, 44 (describing limited prospects for advancement in low-wage work for women).

2. See Edward N. Wolff, *Recent Trends in the Size Distribution of Household Wealth*, 12 *J. ECON. PERSP.*, Summer 1998, at 131, 136 tbl. 2 (noting that from 1983 to 1995, only the top five percent experienced an increase in net worth; in every other group, wealth declined, with the bottom forty percent experiencing the sharpest decline).

3. See BLANK, *supra* note 1, at 60–64; Peter Gottschalk, *Inequality, Income*

Trickle-down economics has utterly failed and will continue to fail in the globalizing economy of the future. The past is prologue: By 1995, the top one percent owned 38.5% of the nation's disposable wealth, up from 33.8% in 1983.<sup>4</sup> During the 1990s, the share of total income earned by the top twenty percent has risen to its highest point since 1947.<sup>5</sup>

Our politics has not caught up with this three-class reality. On the one hand, we heap large subsidies on the college-bound. On the other, we target the underclass with diminishing amounts of assistance. However, we have done little to aid the vast middle. While the rich have been showered with tax breaks, the middle has been treated to a series of symbolic gestures signifying nothing. The 1997 "middle-class tax cut" hid a darker agenda. The average family took home a few hundred dollars in new tax credits for children and education, but the rich gained thousands of dollars from the capital gains tax cut and other goodies.<sup>6</sup>

The result is simmering resentment and a ready reception of the protectionist nostrums of Ross Perot and Pat Buchanan. The current boom will hold these economic nationalists in check for a while, but it is past time to search for a more constructive response to economic inequality. How can we use the benefits of globalization to ensure that every American gets a fair start in life?

This is the question we set for ourselves in our new book *The Stakeholder Society*.<sup>7</sup> Stakeholding seeks justice by rooting it in capitalism's preeminent value: the importance of private property. It points the way to a society that is more democratic, more productive, and more free. Bear with us, and you will see how a single innovation once proposed by Tom Paine can achieve what a thousand lesser policies have failed to accomplish.

The basic proposal is straightforward. As young Americans rise to maturity, they should claim a stake of \$80,000 as part of their birthright as citizens. This stake should be financed by an annual wealth tax, equal to two percent of every individual's wealth in excess of \$80,000. The tie between wealth-holding and stake-holding expresses a fundamental social responsibility. Every American has an obligation to contribute to a fair starting point for all.

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*Growth, and Mobility: The Basic Facts*, 11 J. ECON. PERSP., Spring 1997, at 21, 21-40.

4. See Wolff, *supra* note 2, at 136 tbl. 2 (stating that from 1983 to 1995, only the top five percent experienced an increase in net worth; in every other group, wealth declined, with the bottom forty percent experiencing the sharpest decline).

5. See SHELDON DANZIGER & PETER GOTTSCHALK, AMERICA UNEQUAL 42 tbl 3.1 (1995) (showing that in 1947, the richest 5% of U.S. families received 17.5% of aggregate income; in 1989, 17.9%; in 1991, 17.1%); U.S. BUREAU OF THE CENSUS, STATISTICAL ABSTRACT OF THE UNITED STATES 470 tbl. 725 (117th ed. 1997) (showing that in 1993, 1994, and 1995, the top 5% received 20.0 to 20.3% of total income).

6. For a description of some of the 1997 changes, see MARVIN A. CHIRELSTEIN, FEDERAL INCOME TAXATION 183-87, 322-24 (8th ed. 1999). For a distributional analysis showing that the top one percent of taxpayers will capture nearly one-third of the tax cuts in the 1997 legislation, see Center on Budget and Policy Priorities, Distribution of the Budget Agreement's Tax Cuts Far More Similar to Congressional Bills than to President's Plan (July 31, 1997) <<http://www.cbpp.org/731taxba.htm>>.

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

Stakeholders are free. They may use their money for any purpose they see fit: to start a business or pay for higher education, to buy a house or raise a family or save for the future. But they must take responsibility for their choices. Their triumphs and blunders are their own.

At the end of their lives, stakeholders have a special responsibility. Since the \$80,000 was central in starting them off in life, it is only fair for them to repay it at death if this is financially possible. The stakeholding fund, in short, will be enriched each year by the ongoing contributions of property-owners, and by a final payback at death.

There are many possible variations on the stakeholding theme, but we have said enough to suggest its broad political appeal. How many young adults start off life with \$80,000? How many parents can afford to give their children the head-start that this implies?

Stakeholding liberates college graduates from the burdens of debt, often with something to spare. It offers unprecedented opportunities for the tens of millions who do not go to college and have often been short-changed by their high school educations. For the first time, they will confront the labor market with a certain sense of security. The stake will give them the independence to choose where to live, whether to marry, and how to train for economic opportunity. Some will fail, but fewer than today.

We should, of course, structure the program to maximize the successes. For starters, no stakeholder should be allowed free use of his \$80,000 without completing high school and passing a state or national qualifying examination. High-school dropouts would have their stakes held in trust, and would have access only to the annually accruing interest. Since only three-quarters of American teenagers have high school degrees,<sup>8</sup> this single requirement will prevent massive "stakeblowing" by those least capable of handling adult responsibilities. It will also provide a beacon of hope to kids locked in rural poverty or urban ghettos. Stay in school and graduate, and you will not be forgotten. You will get a solid chance to live out the American dream of economic independence.

Timing is also crucial. High school graduates should get immediate access to their money if they want to spend their \$80,000 on college. Those choosing other paths should be obliged to learn a few lessons in the school of hard knocks before they can get their stakes—in \$20,000 annual payments between the ages of twenty-one and twenty-four. The result will change the way young people think about themselves, their options, and their obligations to society.

Begin with the college-bound. Poor kids confront hardships unknown to their better-off peers—juggling schoolwork and jobs in ways that easily overwhelm self-confidence. The endless rounds of scholarship applications, and intermittent failures to pay tuition, take a toll by themselves. Statistics confirm that students in two-year colleges are even harder-pressed: a much higher percentage live at home, hold a job,

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8. See CHRISTOPHER JENCKS, *RETHINKING SOCIAL POLICY: RACE, POVERTY, AND THE UNDERCLASS* 171 (1992); U.S. DEP'T OF EDUC., NATIONAL CENTER FOR EDUCATION STATISTICS, *DIGEST OF EDUCATION STATISTICS* 17 tbl. 8 (1997).

and work more hours.<sup>9</sup> It should be no surprise, then, that lower-class kids are much more likely to delay enrollment, and less likely to earn a degree, than their richer peers. At the end of the day, fifty-one percent of students from the top quarter earn bachelor's degrees, compared to twenty-two percent of middle-status students, and only 7.2% in the lowest socioeconomic quartile.<sup>10</sup> For this large group of college-bound students, stakeholding will work a genuine revolution. It would allow all young men and women to focus their energies on academic work and compete with their peers on relatively equal terms.

Stakeholding would also inaugurate a new era of healthy competition in higher education. While colleges might try to raise tuition, they would face countervailing market pressures to keep costs low. 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 without other options. These people could now choose a school in another community, or across the country, or even overseas.<sup>11</sup>

This option will be especially valuable to people interested in a two-year college degree. At present, these colleges provide much smaller subsidies to their students than do more traditional universities.<sup>12</sup> However, under the new system, students at two-year colleges will have the same buying power as their more academically inclined age-mates. To be sure, they will be utterly unwilling to spend their entire \$80,000 on a couple of years of post-high school education. However, their stakes will create new incentives for serious programs directed at their distinctive concerns. Over time, two-year colleges will emerge from the shadow of their bigger brothers, and build their students' skills and self-confidence with increasing imagination and vigor.

We have left the best for last. Consider the millions of Americans who decide that college—even a two-year college—is not for them. These are today's forgotten Americans. Many of them have already been denied the decent high school education that should be every citizen's birthright. Now they are tossed unaided into the marketplace, while their upwardly mobile peers are given federal scholarships and state-subsidized tuitions.

This is just plain wrong. Joe Sixpack is every bit as much of an American as Joe College. And for the first time, his claim to equal citizenship will be treated with genuine respect. Since these high-school graduates are not going to college, they will

9. U.S. DEP'T OF EDUC., NATIONAL CENTER FOR EDUC. STATISTICS, ACCESS TO POST-SECONDARY EDUCATION FOR THE 1992 HIGH SCHOOL GRADUATES tbl 7 (1997) (stating that 69.6% of public two-year college students live at home; 79.5% work an average of 27 hours per week).

10. STEPHANIE CUCCARO-ALAMIN, POSTSECONDARY PERSISTENCE AND ATTAINMENT, CONDITION OF EDUCATION 1997, at 7 (1997).

11. Colleges would also be competing for the stakeholding dollar with other kinds of enterprises. In contrast to traditional education programs, stakeholding allows young adults to spend their money elsewhere if the price of college rises too much.

12. In 1983, a typical public four-year university received \$3843 per student in public subsidies, compared to \$1846 for public two-year colleges. CHARLES T. CLOTFELTER, ECONOMIC CHALLENGES IN HIGHER EDUCATION 116 (1991).

have to wait until their early twenties to gain access to their stakes. Indeed, some may want to require young adults to wait until twenty-five or so before they get any of their money. We would be happy to compromise so long as the basic principle of universal stakeholding remains intact. The decision to go to college should not be required for an American to gain his country's support for the pursuit of happiness. All Americans have a fundamental right to start off as adults with a fair chance at making a decent life for themselves.

For all our precautions, some will fail to make good use of their stakes, and in ways they will bitterly regret. But the predictable failures of some should not deprive millions of others of *their* fair chance to pursue happiness. Each individual citizen has a right to a fair share of the patrimony left by preceding generations. This right should not be contingent on how others use or misuse their stakes.

Some poor Americans do face multiple social problems—inadequate education, drug or alcohol abuse, a propensity to violence—that leave them ill-equipped to handle financial responsibility for their stake. Despite pervasive media images, the size of the so-called “underclass” is quite tiny—less than four percent of the population.<sup>13</sup> Most of these people would be excluded from full control of their stake by the requirement of high-school graduation.

In addition, we propose a cautious use of stakeholding as a sanction in the criminal law justice system. At the present time, the only way we have to punish young adults is to deprive them of their personal liberty. Stakeholding will, however, for the first time, also allow us to use financial sanctions against youth crime. For example, we would put nineteen year olds on notice that participation in the drug-trade would mean the loss of all or part of their stakes. For many people of eighteen or nineteen, such a threat might have more deterrence value than a prison term.

In any event, the important point is this: We should not allow trendy talk of “underclass” pathologies to divert our attention from the central problem posed by our emerging three-class society. Quite simply, there are tens of millions of ordinary Americans who are perfectly capable of responsible decision making in a stakeholding society, but are now becoming the forgotten citizens of our globalizing economy. We should confront this problem now before the wealth gap widens to Latin American proportions.

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13. Studies that measure the “underclass” confront two key issues. First, does the term describe individuals or neighborhoods? The neighborhood approach unconscionably lumps together very different people—poor and nonpoor, jobless and employed, criminal and law-abiding—simply because they live together. We reject this approach. Individuals should be evaluated on their own merits and not by the habits of their neighbors. Second, what exactly does “underclass” mean? For some, it simply means poor people; others require joblessness. We reject these criteria as far too broad: in an era of extreme inequality of opportunity, we refuse to treat the jobless poor as per se “irresponsible.”

We focus instead on those estimates that attempt to identify individuals with “multiple social problems,” as evidenced by a *combination* of single parenthood, welfare receipt, dropping out of high school, and unemployment. There are obvious problems here as well, but these definitions are the best available. This methodology suggests that between 0.5% and 3.5% of the United States population fall into this group. See ACKERMAN & ALSTOTT, *supra* note 7, at 40 n.49.

In our many conversations on the subject, somebody invariably suggests the wisdom of restricting the stake to a limited set of praiseworthy purposes—requiring each citizen to gain bureaucratic approval before spending down his \$80,000. Would not this allow us to redistribute wealth and make sure the money is well spent?

This question bears the mark of the bureaucratic mindset that has haunted so much policymaking in the twentieth century. Our goal is to transcend the welfare state mentality, not transform stakeholding into another exercise in paternalistic social engineering. The point of stakeholding is to liberate each citizen from government, not to create an excuse for a vast new bureaucracy intervening in our lives. To be sure, the construction industry, the university sector, and the brokerage houses would prefer a plan that limited stakeholders' choices to home-buying, education, or investment. But if stakeholders want advice, they can buy it on the market. If people in their twenties can not be treated as adults, when will they be old enough?

We do not deny the need for a "social safety net" for Americans who make particularly bad choices, but this is not our primary focus. We are concerned with providing a fair opportunity for success for all Americans, and not only those lucky enough to be born to parents of the symbol-using classes. It is one thing to make a mess out of your life; quite another, never to have had a fair chance.

Indeed, the real problem with stakeholding is that it does not go far enough to redeem America's promise of an equal opportunity society. Does not the \$80,000 come too late for all those who have been shortchanged as children?

Our short answer is yes. As a consequence, we certainly favor more spending on better versions of Head Start and the like. Nonetheless, we are skeptical of the egalitarian potential of enormous new investments in primary and secondary education. So long as suburbs can insulate themselves from central cities, there is only so much that money alone can accomplish. And, the upper classes have proven themselves adept in channeling federal aid for the disadvantaged into their own local school systems. Worse yet, school decentralization and privatization seem to be the order of the day—rather than a movement toward metropolitan-wide school systems and greater national efforts to provide poorer regions of the country with greater educational resources.

By contrast, it would be relatively easy to realize the goals of a stakeholder society. To a very large degree, the institutional infrastructure is already in place. We already have an Internal Revenue Service and a Social Security Administration. Although it is fashionable to denigrate these "bureaucracies," both agencies are full of competent people whose tasks might easily be broadened to encompass the jobs of identifying eligible stakeholders and paying out benefits. Unlike a comparable educational reform, stakeholding will not require a massive reorganization of the existing institutional framework. It builds on what we already have.

Americans could, in relatively short order, actually achieve the massive step toward equality of opportunity that stakeholding makes possible. This breakthrough, in turn, would give the lie to neo-conservative banalities about the inevitability of government failure. Having established that Americans *can* succeed in redeeming their

fundamental ideals by inaugurating stakeholding, many other seemingly impossible initiatives may seem within our grasp.

Of course, real freedom and equal opportunity do not come cheap. Using conservative assumptions, the annual cost of stakeholding today would be about \$255 billion—a little less than we spend on national defense.<sup>14</sup> This is a big number, but we have made comparable commitments in the past: Would America have been a better place after the Second World War without the GI Bill of Rights? At that time, wealthy taxpayers were a lot poorer than they are today. They were paying far heavier taxes, and yet they did not seek to evade their obligation to give the rising generation a fair start in adult life.

The GI Bill represented the payment of a debt for the sacrifices that our soldiers made during the war. Today the ties that bind older to younger are less obvious—but no less important. Day after day, our society demands countless small acts of voluntary cooperation, as well as many larger personal sacrifices. If the younger generation is denied a fair start, how can the rest of us expect them to reciprocate as the need requires?

For the rest of their lives, stakeholders will endlessly consider how their \$80,000 contributed to their individual pursuits of happiness—and at the same time reflect on their good fortune in enjoying this precious right of economic citizenship. Except for the most hardened cynics, this will lead to a deep and sustaining loyalty to the country that made stakeholding a concrete reality. Rather than dismissing the Declaration of Independence as boastful words on paper, stakeholders will hear in Jefferson's proud phrases a description of their own lives, and seek, as best they can, to repay their own debt by passing on their great American heritage on to the future.

We have talked enough about the potential benefits of stakeholding. Let us move to the revenue-raising side of the equation: How are we going to come up with the necessary quarter of a trillion dollars a year?

Well, there is never a good time for a tax hike, but now is the best time we will have for a long time. To be sure, we would not bet the ranch on the optimistic budgetary projections coming out of Washington right now. Since both Bill Clinton and Congressional Republicans are happy to take credit for restoring the nation to fiscal health, neither side emphasizes how much a sharp recession or two might dent their happy predictions of multi-trillion dollar surpluses over the next decade or so.<sup>15</sup> More importantly, short-term surpluses will be swamped in the longer run. Depending on what we do with Medicare, the deficits looming by mid-century may well be

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14. For the relevant calculations, see ACKERMAN & ALSTOTT, *supra* note 7, at 221–22.

15. See EXECUTIVE OFFICE OF THE PRESIDENT, OFFICE OF MANAGEMENT AND BUDGET, ANALYTICAL PERSPECTIVES: BUDGET OF THE UNITED STATES GOVERNMENT FISCAL YEAR 1999, at 27–31 (1999) (showing that alternative assumptions about tax collections, the use of the surplus, and productivity growth can significantly reduce the size of the surplus even in the short term, and can have a dramatic impact in the long term).

horrific.<sup>16</sup> Nevertheless, the happy numbers of the next decade should provide us a much-needed pause for reflection on our long-run fiscal responsibilities.

Stakeholding makes an initial intellectual contribution by exposing a question-begging assumption behind the emerging debate surrounding the budget surplus. Too often, the talk proceeds as if the only serious question is how much of the surplus should be used to save Social Security and Medicare. This begs the question whether our only exigent fiscal priority is aid to the elderly or whether the time has not come to emphasize the competing claim of the generation only now rising to maturity.

In raising stakeholding as a serious alternative, we do not suggest that it should automatically trump the claims of the older generation to a decent level of income and medical care. But we do believe that both social justice and social peace require America to redeem its promise of equal opportunity to the young no less than its promise of decency to the old. If we can not afford to do both, it is not obvious that we should entirely ignore stakeholding and lavish the lion's share of the surplus on the old.

America *is* rich enough to do both. Despite the fog of anti-tax rhetoric, our taxes remain far lower than those imposed by other rich Western nations, and they would remain so after we have paid the quarter-of-a-trillion-dollar annual bill for stakeholding.<sup>17</sup> Obviously, there are lots of different ways of raising the money. For example, we would favor a hike in the income tax or a new national consumption tax whose revenues were dedicated to the stakeholding fund. But, so far as we are concerned, the best way to proceed is through a new comprehensive tax on wealth similar to the ones currently imposed by twelve other countries in the elite club of first-world nations called the Organization for Economic Cooperation and Development.<sup>18</sup>

We have built many conservative assumptions into our economic analysis of the revenue-raising potential of such a tax.<sup>19</sup> We have also allowed every American an \$80,000 personal exemption, thereby eliminating the bottom sixty percent of the population from all liability. Nevertheless, our analysis reveals that an annual tax of two percent would be enough to fund the entire program.

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16. See *id.* at 27–32 (showing that the budget will show a deficit by 2060; and that if spending, particularly on Medicare, grows rapidly, deficits will appear as early as 2040).

17. In 1994, U.S. taxes at all levels were \$1.885 trillion, or 27% of GDP of \$6.936 trillion. U.S. BUREAU OF THE CENSUS, *supra* note 5, at 447 tbl. 692 & 844 tbl. 1358. Adding \$255 billion in new revenues for stakeholding would mean a total tax burden of \$2.14 trillion, or 31% of GDP. In 1995, the OECD average tax burden was 37.4% of GDP, and several nations—including Sweden (49.7%), France (44.5%), Italy (41.3%), and the Netherlands (44.0%) were well above that level. OECD (ORGANISATION FOR ECONOMIC COOPERATION AND DEVELOPMENT), REVENUE STATISTICS 1965–1996, 74 tbl.1 (1997).

18. See OECD (ORGANISATION FOR ECONOMIC COOPERATION AND DEVELOPMENT), TAXATION AND HOUSEHOLD SAVING 210–57 tbls. A1.1–A1.24 (1994) (documenting different tax systems in various countries); see also OECD (ORGANISATION FOR ECONOMIC COOPERATION AND DEVELOPMENT), TAXATION OF NET WEALTH, CAPITAL TRANSFERS, AND CAPITAL GAINS OF INDIVIDUALS 30–75 (1988) (discussing wealth tax in eleven countries).

19. See ACKERMAN & ALSTOTT, *supra* note 7, at 222–24.



Even when we focus on the top forty percent, this tax would have a vastly different impact on different groups. So far as the households falling between the sixtieth and eightieth percentile, the average tax would be \$1100 a year, and the entire group would contribute only seven percent of the total fund. The big tax burden would be borne at the top, with thirty-nine percent of the total tax contributed by the top one percent of American households, whose median wealth in 1995 was \$4.6 million.<sup>20</sup>

The disproportionate impact of the tax on the rich strikes us as entirely fair. Since wealth is correlated with age, Americans over the age of fifty or sixty will bear the brunt of the burden. But it is precisely these people who have participated fully in the great post-war economic boom. The wealthy man or woman who is sixty in the year 2000 was born in 1940—just in time to avoid the agonies of the Great Depression and the Second World War, but just in time to reap the harvest. Graduating from college about 1960, the typical up-and-comer was in a perfect position to take advantage of the rich array of opportunities made possible by America's rise to world power. The best universities, the most advanced companies, the biggest pool of capital—all of these were available for Americans who seized the moment. To be sure, nobody could become wealthy without some combination of effort, insight, and luck. It would be blind for any sixty-year-old to ignore the role played by the simple fact that he was an American in an American age—and thereby gained the enormous advantages created at great sacrifice by his parents' generation. Given their existing balance of generational advantage, it is especially appropriate to ask *this* group of elder Americans to make a sacrifice to sustain the Republic's political and economic equilibrium.

We are calling upon older Americans to remember that they themselves were the beneficiaries of similar acts of statesmanship by earlier generations. During the New Deal and Great Society, Americans recognized the elderly as a group that was particularly threatened by the inegalitarian operation of market forces. By responding with Social Security and Medicare, our predecessors ensured a decent life for millions of elderly Americans today. Without these programs, the distribution of wealth would be even more unequal than it already is. Is it not time, then, for the elder generation to reciprocate when the market threatens to undermine the promise of economic opportunity for millions of younger Americans?

This commitment should not come at the cost of retirees who depend on their monthly Social Security checks. Rather than leading a raid on Social Security revenues, we simply urge prosperous older Americans to recognize the moral claim of younger Americans who will otherwise live out lives of quiet despair.

Or not so quiet despair. After all, the prison population has soared over the last quarter century. About 100 Americans in every 100,000 were in the nation's prisons in 1975; that number is now over 400.<sup>21</sup> Young males, and increasingly females, are the prime targets for prison—men and women who might find it within themselves to take a different path in a stakeholding society. If inequality increases over the next century, are we really prepared to lock up more and more young

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20. *Id.* at 225 tbl.3.

21. *See* U.S. Bureau of Census, *supra* note 5, at 229 tbl.377 (most recent statistics for year 1996) There are an additional 500,000 jail inmates. *Id.* at 228 tbl.375.

Americans who react with rage at a system that has never delivered on its promises? If those with the greatest stake in the system do not take heed, who is supposed to?

It is time for the wealthy to accept stakeholding as part of the social compact. While wealth taxes are unfamiliar in America, they are a fixture of public finance in most other industrialized nations. Of course, every new tax generates the same old cry that it will kill the economy. Rich people are always happy to tell you the story of the goose that lays the golden eggs, but is it just a fairy tale?

Not only has our economy boomed, and busted, under very different levels of taxation, recent empirical research suggests that the link between tax rates and growth is far weaker than implied by the prevailing political rhetoric. Moreover, stakeholding will itself unleash the energies of millions of youthful entrepreneurs—while many will fail, many others will succeed in ways that will enrich the lives of us all.

Two hundred years ago, Tom Paine surveyed the revolutionary world he helped create, and sensed something missing: “A revolution in the state of civilization is the necessary companion of revolutions in the system of government.”<sup>22</sup> This could be accomplished, he was convinced, only through stakeholding. Every citizen, Paine insisted, had a right to a stake of fifteen pounds Sterling “when arrived at the age of twenty-one years.”<sup>23</sup> In a remarkable gesture for the eighteenth century, Paine argued that this expanded stake should go to every man *and* woman. Regardless of his or her claims on private wealth, each should be accorded an economic stake in the commonwealth.

Tom Paine was not alone. Our leading Founders acknowledged a deep relationship between property and citizenship. When Madison viewed “the merits alone,” it was clear to him that “the freeholders of the Country would be the safest depositories of Republican liberty,”<sup>24</sup> and that the propertyless should be excluded from the suffrage. Standing before the Constitutional Convention, he did not conceal his anxiety as he glimpsed the dread day when the “great majority of the people will not only be without landed, but any other sort of, property.”<sup>25</sup>

But in 1787, this grim prospect could be deferred to the remote future. The Founders treated the problem of propertylessness in the way they dealt with the curse of slavery. They did not seek a definitive solution, leaving it to some later generation to confront the crisis when it became acute.

This seemed sensible enough. A vast frontier beckoned to generations of yeomen farmers. So long as the government sold virgin land at low prices, the link between property and citizenship could be more or less preserved. But as the nineteenth century moved on, this Jeffersonian vision of a farmer-republic became

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22. Thomas Paine, *Agrarian Justice* (1795), in THOMAS PAINE READER 486–87 (Michael Foot & Isaac Kramnick, eds. 1987).

23. *Id.* at 477–78. We have eliminated the erratic italics and capitalizations of eighteenth century typography.

24. 2 MAX FARRAND, THE RECORDS OF THE FEDERAL CONVENTION OF 1787, 203 (1966) (discussion on Aug. 7, 1787).

25. *Id.* at 204.

increasingly obsolete. By the time of the great Homestead Act of 1863, the statute's provision of free land on the frontier was already out of sync with the needs of the rising urban masses of the East. If the link between property and citizenship were to be sustained, provision of free land would no longer suffice. With the closing of the frontier, something like Tom Paine's vision of stakeholding was required to guarantee each citizen a property interest in America.

By then Paine's voice had become a muffled memory. The mainstream of reform was flowing in other directions: Populists, Progressives, New Dealers, and the partisans of the Great Society sought to regain control over the market economy, but none moved in the direction of citizen-stakeholding. Rather than broadening the property-owning base, their overriding aim was to regulate property more intensely in the public interest.

We think that the intellectual climate really is changing today. Nationalization of industry is on nobody's agenda anymore. People are slowly recognizing that "capitalism" is a Marxist label concealing the vast differences between economic systems built on private property and competitive markets—some bitterly unjust, and others striving for a world worthy of a free and equal citizenry. It is time to stop dreaming about the abolition of private property and get to work creating a commonwealth in which all citizens are property owners.

This intuition has been behind some major initiatives attempted by leading politicians of our age. They have gained great followings through initiatives that bear a family resemblance to our proposal. When Margaret Thatcher became Prime Minister, thirty-two percent of all housing in England was publicly owned. Though bent on sweeping privatization, Thatcher refused to sell off these vast properties to big companies. She invited residents to buy their own homes at bargain rates. With a single stroke, she created a new class of property-owning citizens, and won vast popularity in the process.<sup>26</sup>

A more sweeping initiative took place in the Czech Republic in the aftermath of 1989. The Prime Minister, Vaclav Klaus, was confronting a much larger task than Thatcher's: the state sector contained 7000 medium and large-scale enterprises, 25,000 to 35,000 smaller ones. How to distribute this legacy of Communism? Klaus saw his problem as an opportunity to create a vast new property-owning class.

The mechanism was the ingenious technique of "voucher privatization." Each Czech citizen was encouraged to subscribe to a book of vouchers that he could use to bid for shares in state companies as they were put on the auction block. An overwhelming majority—8.5 out of 10.5 million—took up Klaus' offer, and claimed

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26. See Hilary Silver, *The Privatization of Public Housing in Great Britain, in PRIVATIZATION AND ITS ALTERNATIVES* 163–95 (William T. Gormley, Jr., ed. 1990) (discussing Thatcher's program). In contrast to stakeholding, Thatcher's program was justly criticized for its lack of even-handedness. Not only were poor people living in private housing excluded, but the value of the "Right to Buy" depended on the quality of each tenant's house. Moreover, despite very substantial discounts, many tenants found it difficult to come up with the money needed to exercise their option. As a consequence, Thatcher's program tended to leave the least advantaged as tenants in worsening accommodations. See Rob Flynn, *Political Acquiescence, Privatisation, and Residualisation in British Housing Policy*, 17 J. SOCIAL POL'Y 289 (1988).

their fair share of the nation's wealth as they moved into the free-market system. Klaus' creative program helped cement his position as the leading politician of the Republic. More importantly, the broad involvement of citizen-stakeholders played a central role in legitimating the country's transition to liberal democracy.<sup>27</sup>

Thatcher and Klaus conceived their initiatives as one-shot affairs. However, the citizens of Alaska have made stakeholding a regular part of their political economy. Once again, the occasion was the distribution of a major public asset, in this case the revenues from North Slope oil. Rather than using it all for public expenditures, the Republican leadership designed a stakeholding scheme that is now distributing about a \$1000 a year to every Alaskan citizen. Once again, the system has become broadly popular, with politicians of both parties regularly pledging that they will not raid the symbolically-named Permanent Fund.<sup>28</sup>

There is no good reason to limit stakeholding to physical assets like housing or factories or oil. Americans have created other assets that are less material, but have even greater value. Most notably, the free enterprise system did not drop from thin air. It has emerged only as the result of a complex and on-going scheme of social cooperation. The "free market" requires heavy public expenditures on police, courts, and much else besides. But without billions of voluntary decisions by Americans to respect the rights of property in their daily lives, the system would collapse overnight. All Americans benefit from this cooperative activity—some much more than others. Those who benefit the most have a duty to share some of their wealth with fellow citizens whose cooperation they require to sustain the market system. This obligation is all the more exigent when the operation of the global market threatens to split the country more sharply into haves and have-nots.

This view gives our proposal a different ideological spin from those pioneered by Margaret Thatcher and Vaclav Klaus. Surely there will be some on the Right who will blanch at the implications of our proposal. But we hope that many others will come to see its justice. We expect a similar split on the Left. Some will be deeply suspicious of liberating stakeholding assets from the grip of the regulatory state, leaving each citizen free to make their own decisions. Others will be more

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27. See ANDRZEJ RAPACZYNSKI & ROMAN FRYDMAN, *PRIVATIZATION IN EASTERN EUROPE: IS THE STATE WITHERING AWAY?* (1994); Nemat Shafik, *Making a Market: Mass Privatization in the Czech and Slovak Republics*, 23 *WORLD DEV.* 1143 (1995) (discussing privatization efforts). Unfortunately, Klaus did not combine his support of voucher privatization with a regulatory regime—like the American Securities and Exchange Commission—that protected the interests of citizen-stakeholders from predictable abuse by insiders. This failure has led to increasing public dissatisfaction with Klaus, but it would be a mistake to allow it to cast a shadow upon his earlier successes as a policy innovator.

28. See William S. Brown & Clive S. Thomas, *The Alaska Permanent Fund: Good Sense or Political Expediency?*, 37 *CHALLENGE* Sept.–Oct. 1994, at 38, 43. The popularity of the program is so great that some believe that it prevents the use of the funds for more important purposes. Compare Brown & Thomas, *supra*, at 43–44, with J. Patrick O'Brien & Dennis O. Olson, *The Alaska Permanent Fund and Dividend Distribution Program*, 18 *PUB. FIN. Q.* 139 (1990) (arguing that the fund has increased personal income and employment while mitigating recessions). While this may be correct in the Alaska case, we will argue the value of stakeholding is sufficiently great to justify a priority over most other competing programs.

impressed by the justice of empowering all Americans to share in the pursuit of happiness.

Stakeholding also holds out the promise of political renewal. Nobody we have met has the slightest problem grasping the idea of \$80,000—or the possibility of funding the program by taxing wealth. Lots of people do not like the initiative, but at least they know what they are disagreeing with—and this is absolutely essential for a rebirth of democratic politics in this country. Unless progressives come up with projects that are transparent to the common understanding, the politics of scandal will have no real competitor. The general public has no patience for a policy debate that speaks a technocratic language accessible only to people with advanced degrees.

If Beltway babble is the alternative, ordinary Americans will turn with relief to news of the latest personal indiscretion by leading politicians. Only a program like stakeholding can focus the public mind on the prospects for real change. It raises—in a straightforward and concrete way—the leading questions of our age: Is America more than a libertarian marketplace? Can we preserve a sense of ourselves as a nation of free and equal citizens?

Stakeholding really does bring power back to the people. It marks a radical break with the elitist tradition of social engineering. We do not need a host of experts to minister to ordinary Americans. Give citizens their stakes and let them inaugurate a new age of freedom.

This call can unify a badly fractured nation. Even many Americans in the top twenty percent may recognize its power. Do they really want their own children to live in gated communities locked away from the rest of American life?

The stakeholder society is no utopia, but it does provide an alternative to our current moral drift. Perhaps we will never fully realize the American Dream of equal opportunity. But without that dream, this country will become a very ugly place.

