BOOK EXCERPT by Bruce Ackerman and Anne Alscott
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The Stakeholder Society

Bruce Ackerman and Ann Alstott offer a neo-liberal alternative to the welfare state.

It's a lot harder to get worked up – or at least easier to feel sanguine – about economic inequality in America than it was a decade ago. Unemployment is near record lows, the black middle class is expanding, wages are rising and millions have left the welfare rolls without much evidence of serious hardship. Contrast that with continental Europe, which is staring at 20 percent youth unemployment, or Japan, which seems to be reinventing the Great Depression.

But you still don't have to be a weatherman to tell which way the wind is blowing. Technology, international competition and the decline of unions have all conspired to drive a wedge between the financial prospects of the skilled and unskilled, while housing inflation and retirement entitlements negotiated long ago have widened the wealth cleavage between the young and the old. High-income workers are marrying other high-income workers, creating a new meritocratic elite that will no doubt pass on the privileges of membership to their kids. "Winner-take-all" phenomena are concentrating success in fields ranging from law to basketball.

Meanwhile, there seems to be little collective will to interfere with market-driven outcomes or old-folks' entitlements. Commutarian fixes intended to take the sting out of inequality – more spending on public parks and culture, public service mandates for the young – are deeply out of fashion. So, too, are policies designed to redistribute income through more progressive taxes or government wage subsidies.

But Bruce Ackerman and Anne Alstott, liberals tempered by conservative times, aren't giving up on the idea that capitalism is compatible with older notions of social justice. And the two Yale Law School professors bring formidable credentials to the table. Ackerman is the author of a dozen books on political philosophy and public policy. Alstott earned her bones as an attorney in the U.S. Treasury's Office of Tax Policy.

Check out this adapted excerpt from *The Stakeholder Society*, which has just been published by the Yale University Press.

America has become a three-class society. 25 percent of its children now graduate from four-year colleges and move into the privileged class. Their increasing prosperity stands in sharp contrast to the grim picture of life at the bottom. The lowest 20 percent inhabit a world of low wages, dead-end jobs and high unemployment despite the economic boom.

And then there are those in the 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 20 percent have captured all of the growth in the nation's wealth since the early 1980's. While income trends have been somewhat less extreme, family income for the vast middle is only modestly higher than in 1973. Even treading water has been tough. Average real wages for men have declined by nearly 15 percent, and it is only the massive entry by women into the workplace that has taken up the slack.

Trickle-down economics has utterly failed. And it will continue to fail in the globalizing economy. The past is prologue: By 1995, the top 1 percent owned 38.5 percent of the nation's disposable wealth, up from 33.8 percent in 1983. During the 1990's, the share of total income earned by the top 20 percent has risen to its highest point since 1947.

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. But 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 an extra $350 from new tax credits for children and education, but the rich gained thousands of dollars from the capital gains tax cut and other goodies.

The result is simmering resentment and a ready reception for 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 insure that every American gets a fair start in life?

Our plan seeks justice by rooting it in capitalism's pre-eminent value: the importance of private property. It points the way to a society that is freer, more democratic and more productive. 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.

Our 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 2 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.

Stakeholders may use their money for any purpose they see fit: to start a business or pay for more 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 stake-holding fund, in short, is enriched each year by the ongoing contributions of property owners and by a final payback at death.

There are many possible variations on the stake-holding 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? Stake-holding liberates college graduates from the burdens of debt, often with something to spare. It offers unprecedented opportunities for the tens of millions who don't go to college and have often been shortchanged by high school education. 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 Americans have high school degrees by the age of 21, this single requirement will prevent massive "stake blowing" 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. But 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 21 and 24.

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.

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 jobs and work more hours. It should be no surprise, then, that lower-class kids are much more likely to delay enrollment and less likely to earn degrees than their richer peers. They are also more likely to attend two-year institutions, rather than four-year schools. For this large group, stake-holding 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, stake-holding would 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 signifi-cant resources and an incentive to shop carefully. No longer would state universities or community colleges have a captive pool of low-income students without other options. These people could now choose a school in another community or across the country or even overseas.

This option will be especially valuable to people interested in two-year degrees. At present, two-year colleges provide much smaller subsidies to their students than do more traditional universities. But 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. But 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 who decide that college – even a two-year college – isn't 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 into the marketplace unaided, while their upwardly mobile peers are given federal scholarships and state-subsidized tuition.

This is 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 have to wait until their early 20's to gain access to their stakes. Indeed, some may want to require young adults to wait until 25 or so before they get any of their money. We would be happy to compromise so long as our basic principle remains intact. The decision to go to college should not be required for an American to gain the 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 chances 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 stakes. Despite pervasive media images, the size of the so-called "underclass" is quite tiny – less than 4 percent of the population. And most of these people would be excluded from full control of their stakes by the requirement of high-school graduation.

We refuse to 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 stake-holding society, but who are now becoming the forgotten citizens of our globalizing economy. We should confront this problem now before the gap widens to Latin American proportions.

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. Won't this allow us to redistribute wealth and make sure the money is spent well?

This question bears the mark of the bureaucratic mindset that has haunted so much policy making in the 20th century. Our goal is to transcend the welfare state mentality, not transform stake-holding into another exercise in paternalistic social engineering. The point of stake-holding 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 20's can't be treated as adults, when will they be old enough?

While the rich have been showered with tax breaks, the middle has been treated to a series of symbolic gestures signifying nothing.

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 privileged class. It is one thing to make a mess out of your life, quite another to never have had a fair chance. Indeed, the real problem with our program is that it does not go far enough to redeem America's promise of an equal opportunity society. Doesn't the $80,000 stake come too late for all those who have been shortchanged as children?

While we certainly favor more spending on Head Start and the like, 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 proved 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.

A Profile in Freedom

To help readers imagine what stake-holding might mean to young people, we offer a file of our own devising. Bill and Brenda are fictional, but their situations represent reality for millions of Americans in the 20th through 40th percentile of income distribution. Bill and Brenda are a married couple in their mid-20's. Like 32 percent of their contemporaries, they graduated from high school but did not go on to college. Their working-class high school wasn't particularly inspiring, and they weren't inclined to see college as the key to their dreams. Instead, they found work similar to that of other young high school graduates.

Bill has had a series of jobs as a construction laborer. When construction slows, he often works as a clerk in a hardware store. Bill's income varies, since he sometimes spends months unemployed. In a good year, he can make as much as $20,000, but in a bad year he earns very little.

Brenda works as a home health aide. She receives assignments through an agency and mostly serves as a companion to elderly clients. She helps them with the tasks of daily living that they can no longer handle themselves. A typical assignment might last from a few weeks to six months, and although the work is exhausting and sometimes depressing, she does earn $8 an hour – better than the $6 or so she might make as a grocery cashier or fast-food worker. The work is pretty steady, although there are occasional periods of down time between assignments. She routinely earns $15,000 a year.

When they are not working, Bill and Brenda spend their time in church activities, hobbies (Bill is a talented amateur auto mechanic who collects of old cars and fixes them up) and taking care of their son, Peter, who is 4. Until now, Bill's mother has been minding Peter while his parents are at work. But Grandma's arthritis is worsening, and she is having a hard time keeping up with an active grandson. Bill and Brenda are worried about how they will afford tuition at a day-care center.

Bill and Brenda save money by living in a rented apartment in a rundown neighborhood. But their family is quickly outgrowing the two-bedroom unit, and they would like to buy a house, although they haven't saved much for a down payment, and they fear that their income is too irregular to qualify them for a mortgage.

They are also worried about Peter's education. They can tell that he is extremely bright, and they want him to have the best. They would like to put Peter in an excellent private preschool this year, but the tuition is expensive. Over the longer term the best local option is parochial school, which also costs something. Or they could move to a better neighborhood with better public schools – but "good" neighborhoods have few apartments.

Money is a constant problem. In lean times, it is sometimes a challenge to meet the rent and to pay for heat, food and doctor's visits. (Brenda has health insurance for herself through her agency, but the cost of family coverage is too high.) Even in good times, they clip grocery coupons, drive old cars and buy clothes at Wal-Mart.

To this point, we have said nothing about the stake. But now assume that stake-holding became a reality and that Bill and Brenda had each received $80,000. How would their choices change?

Let's assume that Bill and Brenda have invested their money conservatively. By their mid-20's, they have a principal balance of $160,000 and are earning about $8,000 a year in interest, which they are spending for furniture, car repairs and living expenses during hard times. Just this year, they invaded their stake and spent an extra $10,000 to cover costs during one of Bill's longer layoffs. The decision caused them great anxiety. They know that their remaining $150,000 offers a lifetime opportunity – but what to make of it?

Bill would like to get out of construction and into a more secure and better-paying job. He has tried to get work as an auto mechanic, but employers tell him he needs formal training. So one option is for Bill to enroll in a training course and apprentice for a year or two. Another is for Brenda to go back to school. In two years at the community college, she could earn an associate's degree in nursing and qualify for a higher-status job with better pay. Their stakes would allow Bill and Brenda to pay tuition and living expenses while one of them is in school. And over the long term, a better job for Bill or Brenda would mean extra security for the family.

There are other options. Unemployment is a frequent reality for Bill. Just this year, when the construction industry slumped, the stake was a godsend. Without it, the family would have had to make ends meet solely on Brenda's income and a modest unemployment check. Having that cushion may also allow Brenda and Bill to take some time for their family, too. They would like a second child, and the stake would make it possible for Brenda to take a few months' unpaid maternity leave.

Buying a small house is another possibility. Their stakes would allow them to put a sizable down payment on a modest house, with a remaining mortgage that they could afford. And moving to a better neighborhood would insure Peter a higher-quality education. Peter's care is another issue. Their stakes could help them buy day care for their son and send him to a decent preschool.

Brenda's father is urging the young couple to take another route – to save all their money and avoid spending any even during hard times. He warns, "You never know what life holds" and reminds the pair that they have many long years to go until retirement. Of course, Bill and Brenda cannot do all of these things at once – even $150,000 will only go so far. They could take Brenda's dad's advice and bank their money as a rainy day fund. They could continue to spend a couple of thousand here and there – maternity leave for Brenda, school for Peter, extra money when Bill is out of work. Or they could take the leap and make a bigger investment — a house or a training program that might have a major impact on their security, but at the cost of depleting their stake.

We cannot predict which choices they would make, much less how their decisions turn out. We do believe the vast majority of Brendas and Bills would have more self-confidence and more real security. But even if they failed, they would have had the taste of real freedom to make their own decisions about how best to live their lives.

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 I.R.S. 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, stake-holding 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 make the great step toward equality of opportunity that stake-holding 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 stake-holding, many other seemingly impossible initiatives may seem within our grasp.

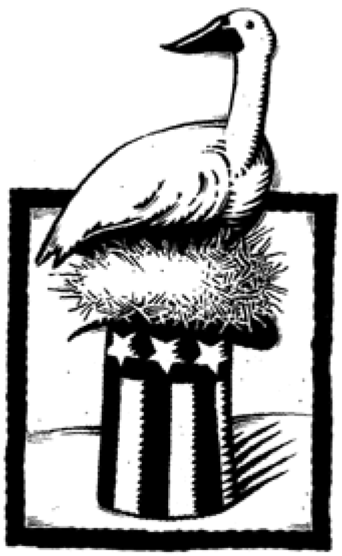
Of course, real freedom and equal opportunity don't come cheaply. Using conservative assumptions, the annual cost of stake-holding today would be about $255 billion. This is a big number, but we have made comparable commitments in the past: Would America have been a better place after the Second World War without the G.I. Bill of Rights? At that time, wealthy taxpayers were a lot poorer than they are today and they were paying far heavier taxes – yet they did not seek to evade their obligation to give the rising generation a fair start in adult life.

The G.I. 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. Our society demands countless small acts of voluntary cooperation, as well as many larger personal sacrifices. If members of the younger generation are denied a fair start, how can the rest of us expect them to reciprocate as the need requires?

Stakeholding would give the lie to neo-conservative banalities about the inevitability of government failure.

For the rest of their lives, stakeholders will consider how their $80,000 contributed to their pursuit 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 stake-holding a concrete reality. Rather than dismissing the Declaration of Independence as boastful words, stakeholders will hear in Jefferson's proud phrases a description of their own lives, and seek to repay their own debt by passing on their great heritage to the future.

There are many ways to raise the needed money, but we believe the best is an annual tax of 2 percent levied on each individual's wealth in excess of $80,000. At present, the wealth distribution is so skewed that 60 percent of all American households would be exempt from the new tax; the next 20 percent would pay an average of $1,100 a year; and the top 20 percent would pay the lion's share. This strikes us as entirely fair. Since wealth is correlated with age, Americans over the age of 50 will bear the brunt of our tax. But it is precisely these people who have participated fully in the great post-war economic boom. The wealthy man or woman who is 60 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 in the early 1960's, 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. But it would be blind for any 60-year-old to ignore the role played by the simple fact that he or she was an American in an American age – and thereby gained the enormous advantages created at great sacrifice by his parents' generation. Given this 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 that the elderly as a group was particularly threatened by the inegalitarian operation of market forces. By responding with Social Security and Medicare, our predecessors insured a decent life for millions today. 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; the number is now about 400 – and more than 600 when the short-term jail population is included. 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 stake-holding society. If inequality increases over the next century, are we really prepared to lock up more young Americans who react with rage at a system that has never delivered on its promises to them? 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 stake-holding 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 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, stake-holding will itself unleash the energies of millions of youthful entrepreneurs – while many will fail, others will succeed in ways that will enrich us all. Two hundred years ago, Tom Paine surveyed the revolutionary world he helped to create and sensed something missing: "A revolution in the state of civilization is the necessary companion of revolutions in the system of government." This could be accomplished, he was convinced, only through stake-holding. Every citizen, Paine insisted, had a right to a stake of 15 pounds sterling "when arrived at the age of 21 years." In a remarkable gesture for the 18th 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" and that the propertyless should be excluded from 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."

But in 1787, this grim prospect could be deferred to the remote future. The founders treated the problem of lack of property 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 19th century moved on, this Jeffersonian vision of a farmer republic became 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, providing free land would no longer suffice. With the closing of the frontier, something like Tom Paine's vision of stake-holding was required to guarantee each citizen a property interest in America.

But 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 stake-holding. Rather than broadening the property-owning base, their overriding aim was to regulate property more intensely in the public interest. But we think that the intellectual climate really is changing.

Capitalism is a Marxist label concealing the vast differences between economic systems – some bitterly

unjust, others striving for a world worthy of a free and equal citizenry.

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, 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, 32 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.

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 7,000 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 or she could use to bid for shares in state companies as they were put on the auction block. An overwhelming majority – 8.5 million out of 10.5 million – took up Klaus's offer and claimed their fair shares of the nation's wealth as they moved into the free-market system. Klaus's creative program helped cement his position as the leading politician of the Czech Republic. More important, the broad involvement of citizen stakeholders legitimized the country's transition to liberal democracy.

Thatcher and Klaus conceived their initiatives as one-shot affairs. But the citizens of Alaska have made stake-holding 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 stake-holding scheme that is now distributing about a $1,000 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.

There is no good reason to limit stake-holding 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 ongoing scheme of social cooperation. The "free" market requires heavy public expenditures on police and 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 do 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 stake-holding assets from the grip of the regulatory state, leaving all citizens free to make their own decisions. Others will be more impressed by the justice of empowering all Americans to share in the pursuit of happiness.

Stake-holding also holds out the promise of political renewal. Nobody we've met has the slightest problem grasping the idea of $80,000 – or the possibility of funding the program by taxing wealth. Lots of people don't like our initiative, but at least they know what they disagree 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.

> **B**oth stake-holding and the criminal law share a common foundation. As stakeholder you are responsible for your life plan, and if it involves criminality, you are justly held to account.

If Beltway babble is the alternative, ordinary Americans will turn with relief to news of the latest personal indiscretion by leading politicos. Only a program like stake-holding 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?

THE STAKE IN CONTEXT

It is time to bring stake-holding down to earth – to consider the tough choices required to transform our idea into an operational reality. It would be foolish to explore every nook and cranny of programmatic detail. But a head-on confrontation with key issues will give real-world substance to stake-holding, allowing a better appreciation of its strengths and weaknesses. Reasonable people will disagree with our answers to particular questions. This is all to the good, as long as these disputes do not defeat the entire project. There is a danger of this happening, but the only remedy is a sense of perspective – remembering to keep our eyes on the whole as we argue about each particular part.

Immigrant Stakeholders?

Imagine a 21-year-old English tourist arriving at Kennedy Airport, hailing a taxi for New York City and making his way directly to the closest stake-holding office. While nobody will have trouble denying the tourist a stake, it is easy to think of harder cases. How strong a connection to America should be required?

Begin with longtime resident aliens. As long as they decline to take the oath of citizenship, we see no reason to extend them rights of economic citizenship.

A harder question is whether all American citizens should qualify. There are two problem cases. The first involves people who make their claim based on the accidents of birth. Suppose that a French graduate student gives birth while studying at Yale in New Haven and shortly afterward returns with her child to Paris. A day before the boy turns 21, he takes the plane from Paris to New York to make his claim at the stake-holding office. Under the 14th Amendment, he qualifies as a citizen by birthright. Should he be entitled to take his $80,000 and return to Paris?

A second case involves citizens by naturalization. Our hypothetical immigrant arrives as a teen-ager and takes his oath of citizenship the day before he turns 21. He immediately proceeds to the stake-holding office to make his claim. Should it be accepted?

It is tempting to err on the side of generosity, but we urge restraint. Start with the naturalization case. In 1996, of the more than one million immigrants who took the oath of citizenship, 10 percent were under the age of 25. If extending a stake to all of them would lead American voters to support a more restrictive immigration policy, we confront a hard choice: Is it better to admit a smaller number of immigrants and grant them $80,000 apiece, or admit a larger number and deny them stakes?

Like it or not, political realities force us to take this tradeoff seriously. We believe that it is much more important to keep the door open than to provide stakes to the few who might manage to squeeze in. As a consequence, we would not allow the 21-year-old to naturalize and claim a stake. We would restrict this right to those with deeper roots in this country.

For naturalizing citizens, a residency requirement makes sense as part of a realistic effort to keep the doors open for future generations of immigrants. For birthright citizens, it makes sense to prevent cynical raids on the Treasury. It would be invidious – and probably unconstitutional – to impose different residency requirements for different classes of citizens. If an 11-year residency is demanded of naturalized Americans, it should apply to the rest of us as well.

The Stake as a Deterrent:
Carrots and the Criminal Law

Traditionally, criminal law has treated young wrongdoers as if incarceration were the only alternative to less oppressive forms of control. But stake-holding provides another tool, with distinctive advantages and dangers.

With their stakes, youngsters will suddenly have something to lose other than their freedom. The criminal law of a stake-holding society can threaten them with the loss of some or all of their $80,000. To be sure, this threat will influence the actions of only those youngsters who can look ahead. And the younger they are, the less responsive they'll be to the threat. Thus it would be silly to punish a 12-year-old by declaring his stake forfeit. But this sanction would carry greater force for an 18-year-old.

It would also have a more general educative effect. Impoverished communities would be full of stories about good guys who stayed honest and were now claiming their $80,000, while others tossed away their stakes by dealing drugs.

But there are dangers in an overly enthusiastic embrace. It would be all too easy for politicians to brandish their new tool as a blunderbuss. Rather than using the withholding of stakes as a substitute for incarceration, demagogues might simply add forfeiture as an automatic consequence of every conviction. Worse yet, they might expand the list of felonies in order to deprive minors of their $80,000 when they would not think of imposing a comparable fine on older wrongdoers. The dangers of abuse are magnified by the notorious racial disparities in the administration of the criminal law. It would be tragic to allow stake-holding to become another monument to racial injustice.

Nonetheless, both stake-holding and the criminal law share a common foundation in liberal notions of individual responsibility. As a stakeholder, you are responsible for shaping your life plan, and if it involves criminality, you are justly held to account. There is nothing categorically wrong in using the stake to support the principles of responsibility at the core of the criminal law.

At the same time, we should not allow the criminal law to cheapen the meaning of stake-holding. It would be all too easy to treat the stake as if it weren't really the property of the young wrongdoer and to take away $30,000 or $40,000 for a trivial offense, explaining that a stake is a privilege, not a right. But the entire point of stake-holding is to move beyond the rhetoric of the welfare state.

First, stake-holding sanctions should be reserved for serious offenses and those where an economic deterrent seems particularly appropriate – trafficking in drugs, for example. Second, these penalties should generally serve as an alternative to prison. Third, stake-holding sanctions should come in graduated doses. Except in the most heinous cases, nobody should lose his entire stake for a single offense. Once a convict has lost all hope of getting any of his $80,000, the deterrent value of stake-holding has been exhausted. Finally, youthful offenders should be given a second chance to reclaim their stakes by keeping clear of crime for a substantial period.

Why $80,000?

We have thus far been speaking of the false promise of maturity that confronts the typical young adult in modern society: on one hand, she is held responsible for life-shaping decisions, but on the other, she lacks the economic resources to make them in a responsible way. In setting the size of the stake, we should keep this basic moral dilemma in mind.

The stake should be big enough to provide each citizen with a cushion against market shocks and to enable her to take a long-term perspective as she determines the most sensible ways of investing in herself, her family, her career and her community. This logic suggests that a small sum – say, $10,000 per person – is inadequate to the task, but how high should we go?

The comparison between Joe College and Joe Sixpack helps us set the standard. Eighty thousand dollars is enough to pay for four years of expenses at the average private college in the United States. This means that typical college-bound youngsters will be in a position to graduate debt-free (more or less) if they get good summer jobs or can rely on some parental support. Liberated from the crushing burden of debt, they will confront the future with a precious independence.

Four years at college will not magically eliminate the need for hard choices about career, family and the meaning of life. Nonetheless, the skills and self-understanding these students will gain will place them in a fair position to take responsibility for these choices. In a rough-and-ready way, a college education serves to redeem the promise of maturity in contemporary society. But if this is so, $80,000 should also set the standard for the three out of four Americans who don't earn bachelor's degrees. As equal citizens, they too are entitled to confront their adult years with their heads held high while preparing themselves for the future as they see fit.

A NEW AGE OF FREEDOM

Stake-holding really does bring power back to the people. 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 20 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.