What would happen if there were a one hundred percent inheritance tax?

"A power to dispose of estates for ever is manifestly absurd. The earth and the fulness of it belongs to every generation, and the preceding one can have no right to bind it up from posterity. Such extension of property is quite unnatural."[1] - Adam Smith

The talisman of free market economics himself was clearly averse to large sums of inheritance. John Locke, the defender of property, arguably stands with Smith's statement. Locke expressed that, "As much as any one can make use of to any advantage of life before it spoils; so much he may by his labour fix a Property in. Whatever is beyond this, is more than his share, and belongs to others. Nothing was made by God for Man to spoil or destroy."[2] This quote introduces two arguments. The first argument is that mixing labour is necessary for one to acquire and use goods, and the second is that people should only receive what they can use to its potential and not squander it. Considering that receiving inheritance requires no effort, and that 70% of wealthy families lose their wealth by the second generation, squandered through questionable decisions,[3] it is clear from this quote alone that Locke would likely have been against inheritance — an assertion we will of course examine in greater detail later. Today, inheritance tax is used by 24 out of 36 OECD countries to clear up problems of replicated wealth down generations.[4] The subject of inheritance and how to deal with it comes with quite a lot of controversy. On the one hand, inheritance gives some support to the recipient, and can be used justifiably insofar as it is a reasonable amount. At the same time, inheritance only benefits some, causing economic and social segregation, which would suggest a call for control over bequeathed wealth to be advantageous. Inheritance tax is the only form of tax that penalizes unearned profit and only taxes the wealth of the dead[5]. There is no crystal ball for what will happen if a 100% inheritance tax is introduced. This essay will, therefore, focus on what *could* happen, what the world will most likely look like with no direct conferral from the previous generation. For the purpose of this essay, inheritance will be defined as property passed down at death, lifetime gifts, and/or bequest. It is beyond the scope of this essay, however, to suggest whether a tax on inheritance, bequest, and/or lifetime gifts is more beneficial, so we shall crudely assume the effects to be the same. Aside from the, hopefully metaphorical, pitchfork uprisings and heads

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[1] https://www.conlaw.org/Intergenerational-II-2-4.htm (accessed March 25th)
[2] http://www.let.rug.nl/usa/documents/1651-1700/john-locke-essay-on-government/index.php (accessed 9 March 2022)
[3] Taylor, Chris. 2015. "70% of Rich Families Lose Their Wealth by the Second Generation". *TIME,* (accessed 15 April 2022), <https://www.time.com>.
[4] OECD (2021), *Inheritance Taxation in OECD Countries*, OECD Tax Policy Studies, No. 28, OECD Publishing, Paris, https://doi.org/10.1787/e2879a7d-en, 3.1.1 https://www.oecd.org/tax/tax-policy/inheritance-taxation-in-oecd-countries-brochure.pdf
[5] Matthews, Dan. 2014. "Why Isn't Inheritance Tax 100%?" (accessed 29th March 2022) <https://www.forbes.com/sites/danmatthews/2014/07/24/why-isnt-inheritance-tax-100-per-cent/?sh=1361a8791d29>

on spikes, this essay suggests three likely consequences of a 100% inheritance/bequeathal tax: reduction in inequality, financial benefits to society, and a happier society overall.

To begin with, inequality will be reduced when inheritance tax is 100%. Inheritance gives extreme financial advantage to some people over others, causing economic segregation[6]. This is attributable to the fact that there is an economic gap between families, and bequeathed wealth infinitely carries it on to the next generation. As a result, when inheritance tax collects all bequeathed wealth, people can be born substantially more equal. The current tax system is designed to help a small percentage of the population. North Carolina's 1784 statute supports this idea[7]. It explains that the passing of wealth down generations served "only to raise the wealth and importance of particular families and individuals, giving them an unequal and undue influence in a republic" and endorsing "contention and injustice." When unbalanced wealth causes social hierarchy, society is unjust. Adam Smith wanted a society where estates could fragment into relatively small portions that could be held by a relatively large number of people with an incentive to improve his or her wealth[8]. The money could be used for the beneficiary's own good, and also for their children. "Informal conferrals", which is not the direct inheritance of wealth but the usage of one's wealth for the child, could be used to benefit the children immensely[9]. For example, children could gain more experience by learning how to play the cello or go to a museum. Therefore, a 100% inheritance tax is not completely eradicating the ability of the rich to benefit their children, but rather incentivizing equipping children to make their own wealth. Bequeathed wealth also puts beneficiaries in a higher social position. Social hierarchy from wealth is not eliminated immediately after wealth loss, and inheritance helps maintain social hierarchy further[10]. In fact, certain surnames exist in different social groups, proving inherited wealth gives social privilege[11]. Social as well as economic gaps will be decreased with full inheritance tax. It is clear why inheritance itself is unequal. Receivers put no effort into earning the money. According to the luck egalitarian principle, it is unequal when people receive brute luck in group membership[12]. John Locke supports this argument in his second treatise of government, stating that people must mix their labor for it to be their property[13]. Another Lockean idea explains why beneficiaries do not deserve inheritance. Locke expresses the limitation of inheritance in the first treatise; just because the father is good at ruling, it does not mean the offspring is[14]. When the inherited asset is an organization like a business, it is hard to separate

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[6] Halliday, Daniel. 2020. *The Inheritance of Wealth*. Oxford: Oxford University Press (pp 1-2)
[7] Lexington. 2010. "You can't take it with you". *The Economist,* (accessed 20 March 2022), <https://www.economist.com>.
[8] Halliday, Daniel. 2020. *The Inheritance of Wealth*. Oxford: Oxford University Press (pp 37)
[9] Halliday, Daniel. 2020. *The Inheritance of Wealth*. Oxford: Oxford University Press (pp 129-135)
[10] Halliday, Daniel. 2020. *The Inheritance of Wealth*. Oxford: Oxford University Press (pp 148-151)
[11] Clark, Gregory. 2014. *The Son Also Rises: Surnames and the History of Social Mobility.* Princeton, NJ. Princeton University Press.
[12] Halliday, Daniel. 2020. *The Inheritance of Wealth*. Oxford: Oxford University Press (pp 152-154)
[13] http://www.let.rug.nl/usa/documents/1651-1700/john-locke-essay-on-government/index.php (accessed 9 March 2022)
[14] Locke, John. *Of Government: Book 1*. In *Economic Writings and Two Treatises of Government (1691).* Volume 4 of *The Works of John Locke in Nine Volumes*. London: Rivington. 1824. Online Library of Liberty. In the Public Domain.

from authority[15]. Inheritance is also unfair from the perspective that people need to leave enough resources for others, as it helps families hoard wealth down generations. Locke said that people must leave behind "enough as good" for others, and intergenerational transfers stop this from happening[16]. It is also worth considering that older capital usually comes from injustices such as slavery or racist laws[17]. In the past, it was much easier for powerful people to gain wealth by exploiting others. Society did not take away most of the accumulated ill-begotten money when such practices were abolished, and a lot is still owned by descendants of the people who wrongfully earned the money. To sum up, society is clearly unequal, and this is exacerbated and perpetuated by inheritance. A 100% inheritance tax could reduce inequality.

Secondly, a 100% inheritance tax will award financial benefits to society. The fact that people cannot bequeath their wealth means that they have to use it during their lifetime. If they do not, the entirety of the money would be given to the government. It would lead people to use the money in the market, boosting retail sales. If more money flows in the economy, it creates an incentive for more people to work hard, further improving the economy. People gain more consumer confidence, calling for economic growth and preventing recession[18]. Charities could also benefit, as some people would want to use the money to help people in need. Instead of simply passing down inordinate sums of money to one's children, it could actually be used for the greater good. The merit is even more profound when compared to what happens when large amounts of inheritance is received. Beneficiaries who know they will inherit wealth from their parents feel that they do not have to work, promoting idleness. Mill stated that:

> The heir of entail, being assured of succeeding to the family property, however undeserving of it, and being aware of this from his earliest years. has much more than the ordinary chances of growing up idle, dissipated, and profligate.[19]

Mill clearly agrees that people are much more productive when they do not receive inheritance. The rich are more likely to be skilled, or at least have a sufficient background to have great talents. Rich children are the beneficiaries of lots of investment from their parents throughout their youth through informal conferrals such as private education and social activities. Not only that, but they also have the capacity to try again and make up for their mistakes when they fail to achieve what they aimed for. This is why so much is lost when the rich do not try because of the assurance of their inheritance. Since the potential of the beneficiaries gets wasted, many innovations and a great amount of labor that could have benefited society are gone. Nearly 70% of millionaires are worried about giving too much

[15] Halliday, Daniel. 2020. *The Inheritance of Wealth*. Oxford: Oxford University Press (pp 31-32)
[16] http://www.let.rug.nl/usa/documents/1651-1700/john-locke-essay-on-government/index.php (accessed 9 March 2022)
[17] Halliday, Daniel. 2020. *The Inheritance of Wealth*. Oxford: Oxford University Press (pp 159-160)
[18] Britannica. https://www.britannica.com/topic/consumer-confidence (accessed April 23rd)
[19] Mill, John Stuart. 1848. *Principles of Political Economy (V): On the Influence of Government, vol 5.* London. John W. Parker.

money to their children at death[20], fearing that their children will use the money irresponsibly or that they would become lazy. Regardless, inheritance is still given and the potential of heirs is still wasted. Levying a 100% inheritance tax eliminates all the problems of inheritance causing idleness. Therefore, the removal of inheritance benefits society.

Lastly, everybody would become generally happier if there were a 100% inheritance tax. When the government spends money on public finances, people become happier, as we shall see later. For starters, government spending helps people in need. It provides welfare for the poor, healthcare for people in need of treatment, and more infrastructure. It is not just the poor who benefit from the government's spending. The rich also benefit from cheap tuition costs, superb public services, affordable healthcare, long paid vacations, and more. Even if they technically have the money to pay for it, many will not be happy to pay medical bills and tuition. In addition, economies of scale provided by government spending benefits everyone. "“Big government” programs benefit everyone for the obvious reason that they reduce poverty and alienation, thus lowering the social problems such as crime and suicide that these conditions produce."[21] Aside from this, people feel that their society has high equality and they feel social trust towards the government when large amounts of public finance is used. This is empirically true. All of the top 10 happiest countries have higher taxes than the 2014 average except for New Zealand. New Zealand however disproportionately uses its tax money and public finances for schemes such as welfare and public healthcare when compared with other countries who collect the same amount of money[22]. This is beyond coincidence. In addition, inheritance tax is one of the most progressive taxes we have, unlike the far less controversial VAT which disproportionately affects the poor. An article in the peer-reviewed journal *Psychological Science* found "unequivocal court evidence that progressive taxes "are positively associated with subjective well-being."" "This conclusion holds not just when using simple correlations. It also holds under sophisticated statistical analyses that control for other national factors, such as GDP per capita and income inequality, as well as for individual factors like income, gender, age and marital status."[23] Inheritance will make a big difference when all of it is used for society at large. Inheritance tax will be a substantial contributor to the public purse when it becomes a collection of all inheritance. If we look at only the 6 Americans out of the Forbes 400 rich list that died in 2020-2021, their combined wealth was equivalent to 9% of US public education spending in the same year[24].

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[20] Vega, Nicholas. 2021. "Nearly 70% of millionaires are worried about leaving 'too much' money to their kids, survey finds" (accessed May 4th), <https://www.cnbc.com/amp/2021/09/19/millionaires-are-worried-about-leaving-their-kids-too-much-money.html>

[21] Krassa, Michael. 2017. "Why tax cuts make us less happy" (accessed May 12th) <https://theconversation.com/amp/why-tax-cuts-make-us-less-happy-85947>

[22] Bloom, Ester. 2019. "Here's what Norway and the other happiest countries in the world have in common" (accessed May 10th), <https://www.cnbc.com/amp/2017/08/09/the-happiest-countries-in-the-world-also-pay-a-lot-in-taxes.html>

[23] Krassa, Michael. 2017. "Why tax cuts make us less happy" (accessed May 12th) <https://theconversation.com/amp/why-tax-cuts-make-us-less-happy-85947>

[24] Wealth of deceased billionaires was calculated using: Bousquette, Isabelle. 2021 "Obituaries: Remembering The Forbes 400 Billionaires Who Have Died In The Past Year" (accessed April 5th), <https://www.forbes.com/?sh=601c78062254> Spending on public education data taken from: Hanson, Melanie. 2022. "U.S. Public Education Spending Statistics" (accessed April 5th), <https://educationdata.org>

This clearly indicates the marked effect that a 100% inheritance tax could have on public spending, which would benefit society as a whole. Thus, if inheritance tax were to be increased to 100%, it would make society as a whole happier.

Inheritance exacerbates and entrenches inequality, harms society, and stops everybody from being happier. If a 100% inheritance tax were to be levied, these problems could be significantly improved. These taxes can be used to greatly benefit society as a whole, by reducing poverty and, therefore, the ill effects that are often caused by poverty, like crime. On the surface, taking away the right to bequeath wealth might look like it goes against the right to property. However, even in a meritocratic society, the right to property is not absolute. If it were, then all forms of tax would be unjustifiable. When considering that inheritance confers an excessive amount of privilege to those who receive a lot of it, it is clear that removing conferrals at death completely would significantly benefit society, including, potentially, the children of the wealthy, who could live far more fulfilling lives.

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