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# Death Taxes: Theory, History, and Ethics

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So long as men are mortal, wealth must be transferred between the generations and so long as parents care for their children, the dominant means of doing so will be through family inheritance. The transference of wealth through family benefits bequestor and heir, strengthens family ties, and increases long-term savings. When the state intervenes in this process, it increases its coffers at the expense of the smooth operation of family, society, and economy.

# Death Taxes: Theory, History, and Ethics

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## A Brief History of Estate and Inheritance Taxation in America[1]

America's first experience with inheritance taxation helped to spark the American Revolution. In 1765 the British Parliament imposed a stamp tax on the colonies which covered newspapers, bills, receipts, college diplomas, and all legal documents including wills.[2] Americans hated the stamp tax and refused to pay it. Tax collectors were set upon by rioting mobs and although the tax was quickly repealed it radicalized future revolutionaries like Patrick Henry who decried any taxation without representation.

John Adams, the Federalist and second President of the United States, brought the stamp tax back in 1797 along with taxes on housing, land, and slaves. These taxes plus Adams's support of the draconian Alien and Sedition acts galvanized Thomas Jefferson and the Republican party. The "revolution of 1800" swept the Federalists out of power and brought Jefferson to the Presidency. Adams had increased taxes so he could raise a military to combat French shipping attacks. Jefferson's isolationist policies, on the other hand, allowed him to cut expenditures, reduce the debt, and abolish all internal taxes in 1802 (except the salt tax which was abolished in 1807).

Until the early twentieth century the history of the inheritance tax was the history of America at war.[3] Thus the pattern of 1797 and 1802 was consistently followed. When America was called to wage war, inheritance taxes were imposed to help cover the extraordinary expenditures but when the wars ended the taxes were repealed. Throughout this period, the main source of revenue was the tariff rather than any internal tax.[4]

The civil war was partially financed with inheritance taxes instituted in 1862 and increased in 1864. The 1864 bill also placed a tax on gifts of real estate. Gifts were an obvious way to circumvent the inheritance tax, so to increase revenue the government had to block off this avenue of escape. These taxes were all repealed in 1870. The Civil War had also brought America's first Federal income tax which the Supreme Court later ruled was unconstitutional.

America's last repeal of inheritance taxes occurred in 1902 when taxes instituted to finance the

[1]The following draws primarily upon Ratner (1967). See also Shultz (1926) and West (1908).

[2]The "stamp" tax required that certain stamps be posted on documents in order to make them valid.

[3]Inheritance taxes were not used to finance every war. They were not used in the War of 1812, although Alexander Dallas suggested them, nor in the Mexican War. When they were used, however, it was to finance a war.

[4]The politics of tariff and income and inheritance taxation were intimately entwined. Import-competing industrialists wanted the tariff for protection but rhetorically they had to support it on the grounds of revenue. The industrialists, therefore, favored repeal of income and inheritance taxes so that a high tariff could be justified as necessary for support of the government. Consumers of manufactured goods and exporters, on the other hand, were hurt by the tariff and wanted to increase income and inheritance taxes so that a lower tariff could be justified. Since the time of John C. Calhoun the industrialists were primarily Northerners and the exporters Southerners. Moreover, wealthy merchants with large incomes and inheritances were concentrated in the North. Thus, the tariff vs. income-inheritance tax debate had a regional aspect.

Spanish War of 1898 were repealed. The modern system of estate taxation, which has gone unrepealed to this day, began, at the federal level, in 1916.[5]

Agitation for new inheritance taxes began almost as soon as the tax of 1898 was repealed. The demand for inheritance taxes during this period, however, differed significantly from that in earlier times. Prior to the turn of the century, inheritance taxes were justified mostly on the grounds of revenue. Like other taxes, inheritance taxes were increased or instituted to finance unusually high expenditures associated with wars and then later repealed or lowered. Beginning with the populists, however, inheritance taxes began to be demanded and justified as a form of social policy.

The growing interest in inheritance taxes as a tool of social policy can be seen in the writings of the period. The "new" school of economists rebelled against the laissez-faire of the classical school by pressing for greater government intervention and supporting inheritance and income taxes. In his famous *Principles of Political Economy*, for example, John Stuart Mill (1848) argued that collateral inheritance should be outlawed and that no family member should be allowed to inherit more than a modest sum.[6] In the United States supporters of the income and inheritance taxes included Richard T. Ely, who studied in Germany under the historicists, and E.R.A. Seligman who together formed the American Economic Association with the official declaration that "We regard the State as an agency whose positive assistance is one of the indispensable conditions for human progress."[7] Max West's important scholarly work on the inheritance tax first appeared in 1893 with a second edition in 1908, W.J. Schultz extended West's work in 1926, and the remarkable British work of Josiah Wedgwood was first published in 1929. Not since these decades around the turn of the century have we seen so many works on the inheritance tax.[8]

[5]Technically the inheritance tax and the estate tax are different although I will use the terms interchangeably, except where the distinction is important. An estate tax is paid out of the deceased's estate before it is distributed. The same total tax is paid, therefore, whether there is one heir or dozens and the same tax is paid whether the heirs are rich or poor.

An inheritance tax is paid by the heir and may vary according to the heir's relation to the deceased, the heir's income and wealth, and the amount inherited. If an inheritance tax is, in any of the senses above, progressive then the total tax paid will vary according to the number of heirs and their wealth.

Since the turn of the century the Federal "death tax" has been an estate tax, although exemptions for close relatives make it more properly a modified estate tax. Seventeen states collect an inheritance tax on top of the Federal estate tax, five have additional estate taxes, and the remaining states collect a cut of the Federal tax as described below (Esperti and Peterson 1993).

Egalitarians tend to prefer an inheritance tax since this gives the deceased an incentive to spread wealth across many heirs (John Stuart Mill proposed an inheritance tax, for example). Pragmatists tend to support the estate tax, however, because it is easier to administer and will tend to raise more revenue than the inheritance tax (precisely because it cannot be avoided by increasing the number of heirs). For classical liberals even the principle of the lesser of two evils does not suggest which of the two taxes is "preferable."

[6]In Mill's *Principles* (Book 2, chap. 2, sect. 4) note that he is proposing an inheritance tax, not an estate tax. Under his procedure a man could give all his wealth away tax free if he had a large enough family. The tax, 100 percent in Mill's proposal, is assessed only if more than a certain amount is given to a single heir. Carroll (1991) has recently proposed a similar scheme.

[7]For inheritance and income tax proposals of U.S. political economists see Ely (1888, 1914), Seligman (1916), Read (1918), King (1915), and Bouroff (1900).

[8]Much of the animus against the inheritance of wealth was because of an increasingly egalitarian ideology as well as changing circumstances in the economy which increased the number of large fortunes around the turn of the century. Bad economics, however, also played a role. As late as 1929 Wedgwood (1929, p. 4), coming out of the London School of Economics, could without hint of qualification, argue that marginal utility theory implied utility was maximized with an equal distribution income. He even gives a rough estimate of the pleasure available, "the total amount of 'pleasure' or 'material welfare' derived from the aggregate of private tax-free income is only 77 percent of what it would have been if the incomes had been equally distributed."

It was also at this time that the distribution of income first became a subject of intense discussion. Articles with titles like "The Owners of the United States" and "The Concentration of Wealth" began to appear in the popular press and social science journals.[9] One step below these quasi-scientific works were the articles of the muckraking journalists who vilified industrialists and bankers like J.D. Rockefeller, Andrew Carnegie and J.P. Morgan. Harlan Read went so far as to compare inheritance with cannibalism and called for the "emancipation of the masses" in his 1918 work, *The Abolition of Inheritance*. Ratner (1967, pp. 258–59) sums up this literature well when he writes, "Scores of articles appeared each year during this period on the dangers or responsibilities of great wealth, the number and power of millionaires, the menace of riches, the evils of extravagance," and the necessity of taxes and government intervention to cure these evils.

These forces were evident in the rapid increase in inheritance taxes at the state level. In 1885 the tax was virtually unknown, by 1900 more than twenty states had some inheritance tax and by 1908 thirty-six had inheritance taxes (Lutz 1947, pp. 487–88). Progressive taxation was another innovation of this period. Ohio introduced a progressive inheritance tax in 1893 and other states quickly copied Ohio's innovation.

Theodore Roosevelt first made inheritance taxes an issue of Federal politics with his famous "muckraking" speech of 1906. Roosevelt called for inheritance taxes on those fortunes "swollen beyond all healthy limits." Significantly the justification was not to raise revenue but to appease the radicals and to preserve "equality of opportunity."[10] The press was quick to note the revolutionary import of this new justification. The *Philadelphia Record* went so far as to declare that Roosevelt gave "more encouragement to state socialism and centralization of government than all that frothy demagogues have accomplished in a quarter of a century of agitation."[11] Roosevelt was unable to have the new taxes passed despite repeated calls for them in his Presidential addresses. Nevertheless, Roosevelt's rhetoric made it possible to advocate inheritance taxes for social purposes.

The estate tax, passed in 1916, began in the traditional pattern. The war in Europe disrupted trade and drastically lowered tariff revenues and Wilson feared that America would eventually be called into the war. A series of emergency war preparedness acts were passed culminating in the Emergency Revenue Act of 1916 which raised income tax rates (the 16th Amendment of 1913 made income taxes constitutional) and instituted an estate and gift tax. When America finally entered the war the rates were doubled.

Unlike after previous wars, the estate tax of 1916 was never repealed. From this point forward the story of the estate tax is one of mostly increases, a few decreases, and some fiddling with provisions. Only a few highlights from this period will be discussed.

The Revenue Act of 1924 let individuals reduce their Federal estate taxes by up to 25 percent for any state death tax which was due. In 1926 this was increased to 80 percent. This meant that if the Federal tax was $100,000 then up to $80,000 in state taxes could be deducted. Contrary to first appearances, the intended effect of this credit was to increase, not decrease, the total tax burden. The purpose of the credit was to destroy competition among the states for wealthy residents. Florida, for example, had made inheritance taxation unconstitutional in 1924 and Nevada had abolished its inheritance tax in 1925. With the credit in place, however, a state could tax up to 80 percent of the Federal tax without increasing the decedent's total tax burden. By refusing to tax estates, Florida was giving the Federal government money and seeing no benefit because the

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A few years later Lionel Robbins, influenced by Ludwig von Mises, made his classic statement on the unscientific nature of interpersonal comparisons of utility (Robbins 1932).

[9] See Ratner (1967, pp. 219–22).

[10] Speech to National Editorial Association, Jamestown, Virginia, June 10, 1907, in *Presidential Addresses and State Papers* 6, pp. 1322–23.

[11] Quoted in Ratner (1967, p. 260).

total tax burden on residents wasn't lower. Florida repealed its prohibition in 1930.

Competition among local governments is often called Tiebout competition or "voting with one's feet." Tiebout (1956) proposed that local governments would efficiently provide public goods and not exploit their citizens if the citizens could discipline governments by the threat of exit. Tiebout, however, did not discuss the incentive for local governments to pressure state and federal governments into creating local government cartels, as occurred in the case of estate taxation.[12]

The Revenue Act of 1924 also instituted a gift tax which was repealed in 1926 but passed again in 1932. Gift giving was an obvious way for individuals to pass on their wealth without the government taking a cut out of their generosity the gift tax ended this possibility.

The gift tax has two interesting properties. Like the estate tax, the gift tax is a tax on a transfer of property which falls on the estate of the giver, not on the beneficiary of the gift. In practice this means that the rate of the tax is determined by how much has been given in the past. The more that has been given in the past the higher the tax rate on any additional gift.

The definition of a gift created much inequitable taxation (Esperti and Peterson, 1993). A gift is defined as any transfer of property where the donor receives less than the full value of the property in return. Until the 1981 tax legislation, this meant, for example, that if a man bought a house which was placed in joint ownership with his wife he would have to pay gift taxes on half the value of the house. Many families did not realize this until the IRS tracked them down and demanded the gift tax plus all the interest which had accrued on the tax. In the 1981 Economic Recovery Tax Act (ERTA) families were finally treated as a single economic unit as far as the gift tax was concerned.[13] Many states, however, still charge spousal gift taxes and the tax still applies to property held jointly by non-spouses.

In 1976 the gift tax was integrated with the estate tax so that presently there is one lifetime exemption on property transfer, either through gifts or estates. The same marginal rates are also applied.[14]

In 1916 the estate tax was relatively modest. Following an initial exemption of $50,000 marginal rates began at 1 percent and rose slowly to a maximum rate of 10 percent on estates of $5 million or more. Very quickly, however, the rate was increased. By 1932 the maximum rate was 45 percent and by the mid-1970s the tax was confiscatory. In 1974 after a $60,000 exemption, marginal rates rose sharply from 3 percent to 77 percent on amounts of $10 million or more. Even worse than the direct increases were the indirect increases in the tax because of inflation. From 1916 to 1974 inflation reduced the value of a dollar about fourfold. The $60,000 exemption of 1974 was equivalent to $15,000 in 1916 dollars and $10 million 1974 dollars are worth about $2.5 million 1916 dollars. Or to put the issue the other way, if there had been no indirect increases in the tax the 1974 tax would have begun at $240,000 and the maximum rate not reached until $40 million. Throughout the 1970s inflation continued to raise the estate tax and wreak havoc on family fortunes, and Congress continued to directly increase taxation as well. Frustrated with taxes, the energy crisis, and inept foreign policy, voters elected Ronald Reagan in 1980.

The Reagan revolution failed. Reagan passed the largest tax increase in history, and government spending (the single best measure of government intervention), was higher when Reagan left office than it had been under Carter. Even measuring spending as a percentage of national product, the Reagan revolution could not claim to have reduced

[12]Since this time the Federal tax credit has been lowered, but the states have managed to maintain their collusion and most now tax in excess of the Federal credit.

[13]This applies only when both spouses are U.S. citizens.

[14]If gifts and bequests were perfect substitutes it would still be better to transfer property by gift because this avoids paying tax on any appreciation that occurs. Gifts and bequests, however, are far from perfect substitutes, as is discussed below.

the reach of government into economic life. Marginal tax rates in the Reagan years were lowered, however, and the estate tax was modified considerably. Some of the most important changes will be briefly mentioned.[15]

The ERTA raised the basic exemption to $600,000[16,17] and lowered top marginal rates to 55 percent.[18] Significantly, the tax on estates going to a U.S. spouse was entirely eliminated. Today, a husband or wife can leave his entire estate to his or her spouse without being subject to Federal taxation. The elimination of this part of the tax was a long overdue acknowledgment that the family is the central economic unit in our society and must not be destroyed by the IRS.

## Economic Issues

The estate tax is a tax on net worth, the value of all property owned minus debt and any estate expenses. Essentially the tax is an "everything tax." It's a tax on cash and bank accounts, stocks, bonds, real estate, businesses, equipment and machinery, automobiles and other property, life insurance policies, artwork, even personal belongings. Calculating the tax requires that the deceased's property be taxed at so-called "fair market value." In practice this means that the deceased's estate agent must battle on behalf of the heirs with the IRS, which pushes for higher valuations on difficult-to-value property like businesses and personal belongings.

Estate and inheritance taxes are an example of what Murray N. Rothbard (1970) has called triangular intervention, coercive intervention between a pair of exchangers—in this case the bequestor and the heir.[19] The estate tax harms the heir and (*ex ante*) the bequestor. The heir is made worse off because his/her inheritance is lower than it otherwise would be. The tax harms the bequestor because it impairs his ability to help his children or other heirs. In addition, because large amounts of wealth are often involved, the estate tax harms the heir's family. Typically, as discussed below, the heir will not consume all of his inheritance. Like his own parent the heir will choose to make a bequest to his children. The taxation of the original bequestor, therefore, is also likely to harm the heir's children.[20]

In addition to these direct harms there are indirect effects on society. The estate tax, for example, can lower the amount of savings and reduce the amount which is given to charity. These indirect harms are discussed below.

## How Important Are Inter-Generational Transfers for Capital Accumulation?

In modern times the funds raised by the estate and gift tax have accounted for only a small

[15]Esperti and Peterson (1993) provide a readable account of recent changes in estate and gift taxation.

[16]This was done over a period of several years.

[17]Recall that this exemption is for all transfers of property through estates or gifts. Thus, the increased exemption is significant but not as high as one imagines on first glance.

[18]Some notes: (1) The rate was scheduled to fall to 50 percent by 1993, however, the ERTA had scheduled the rate to fall to 50 percent by 1985, but this reduction has been twice delayed and pushed off to the farther future. We may never see the 50 percent rate promised in ERTA; (2) Marginal rates begin at 37 percent after the first $600,000; and (3) There is a peculiar non-linearity in the schedules so that the tax rises to 60 percent between $10,000,000 and $21,040,000 but then falls to 55 percent again. It's unclear why this non-linearity exists.

[19]Actually Rothbard (1970) classifies the estate tax along with other types of taxes under binary intervention. Estate taxation is closer to price control, however, as the government is intervening to increase the price of bequests.

[20]This does not imply that once-earned wealth perpetuates itself forever. On the contrary, even if a fortune were completely immune from risk it would tend to quickly dissipate so long as there is more than one heir in each generation. In a free market wealth is continually changing hands. Increasing and even maintaining a fortune requires entrepreneurial skill (Mises 1981, pp. 338–40). Consider how much easier it is to waste a million dollars than it is to make a million dollars. Nevertheless, wealth will typically last more than one generation so it is reasonable to argue that at least two generations of heirs are significantly harmed by the estate tax.

proportion of government revenue.[21] Inspite of the best efforts of social engineers, the estate tax also has not had a revolutionary effect on aggregate income inequality, although some families have been devastated by the tax. These facts continue to inspire many left-liberals to demand higher estate, inheritance, and gift taxes and a renewed commitment to eliminating income inequality.[22]

Adam Smith and David Ricardo both argued that the inheritance tax reduced savings.[23,24] Since the 1950s, however, the dominant opinion among economists has been that the bequest motive has little to do with saving and capital accumulation. So even if true, the slight sapping of savings by estate taxation was not to be worried about. Recent work, however, challenges the dominant view of savings.[25] The debate between the "life cycle" theory and the "bequest" theory of saving has not concluded, but the bequest theory has gained many adherents in recent years. If the bequest theory is correct new estate and inheritance taxes could significantly reduce the already low U.S. savings rate. In the next section I review the price theory arguments on savings and estate taxes and discuss the importance of these arguments in light of the life cycle vs. bequest theory debate.[26]

A tax on the transfer of property between the generations can affect savings by changing the behavior of the bequestor or the heir. The effect on the bequestor is composed of two parts, the price effect and the wealth effect. The tax raises the price of bequests and therefore reduces the desired bequest.[27] The effect on savings, however, is ambiguous. Imagine that a man wishes to bequeath an estate of $1 million to his daughter. If there is no tax he must save $1 million, but if there is a tax of 50 percent and he still wishes to bequeath $1 million he must increase his savings to $2 million. In most circumstances the bequestor will want to reduce the amount of bequest, but so long as the reduction in final bequest is less than 50 percent the price effect works to increase saving. The price effect can be summarized in terms of elasticities. If the demand to give bequests is inelastic the price effect works to increase savings. Little data exist on this elasticity but as a theoretical matter as the tax increases it becomes more and more likely that bequest demand is elastic. A demand curve must be elastic above some price otherwise a consumer could be made to spend all of his income on the single taxed good (Wagner 1977, p. 19). At today's rates of 55 percent the demand for bequests is probably elastic and there is little doubt that if the rates were raised by any significant degree the amount of savings would be reduced.

[21] In 1990 death and gift taxes raised just over $15 billion in revenue, approximately $11 billion of which was because of the Federal estate and gift tax the remainder because of state death and gift taxes. See, *Statistical Abstract of the United States, 1990.*

[22] Pechman (1986, p. 9), for example, writes that public education is "urgently needed," to explain "the merits of estate and gift taxes for revenue as well as social purposes." Carroll (1991) calls for a progressive inheritance tax (not an estate tax) that would tax any inheritance above $4 million at 100 percent.

Economist Irwin M. Stelzer (1997) supports a "draconian inheritance tax,." too.

[23] See *The Wealth of Nations* (Book 5, chap. 2, pt. i, appendix to articles 1 and 2).

[24] See Ricardo's *Principles of Political Economy and Taxation*, chap. 8 for his comments on transfer taxes and savings.

[25] See Kotlikoff and Summers (1981), Menchik and David (1983) and the debate between Kotlikoff and Modigliani in *Journal of Economic Perspectives* (June 1988) for the main issues.

[26] Strictly speaking, the modern bequest theory is an inter-generational transfer theory of saving. That is, the theory attaches importance to gifts as well as to bequests. For terminological simplicity the texts refer mostly to bequests and the estate tax. Since the gift tax must move with the estate tax if the estate tax is to be effective this should not cause problems.

It should be understood, however, that gifts play an important role in the bequest theory and what follows should be taken as dealing with gifts and the gift tax implicitly. (In some formal models gifts are even treated as discounted bequests.)

[27] As the following example illustrates it is also possible for the tax to leave the amount of bequest unchanged. Demand curves may be vertical (over some range) without violating the law of demand.

Reinforcing the reduced savings because of the price effect is the wealth effect. For a given size of bequest, an increase in the estate tax is equivalent to a reduction in wealth. The desire to give bequests decreases (increases) as wealth decreases (increases). In other words, bequests are a "normal" good. Thus, as the tax increases, wealth decreases and the desired amount of bequest decreases. Furthermore, the wealth effect is not altered by the elasticity of demand, therefore the wealth effect always works, *ceteris paribus*, to reduce savings.[28]

The effect of estate taxation on the heir's savings decision is important although rarely discussed (even though this formed the focus of Ricardo's comments).[29] An inheritance is a large, one-time increase in wealth. Income smoothing requires that the bulk of this wealth be saved. A decrease in the heir's inheritance is therefore *ipso facto*, a large decrease in savings. Indeed, if the bequestor and heir have similar wealth and value scales, the heir will want to save the principal portion of the estate so that it can be passed on to his own heirs. This is what accounts for the fact that family fortunes are typically the accumulated savings of more than one generation. Bequest-saving tends to be long-term and continuous and therefore allows for what F.W. Taussig (1920, p. 249) called "sustained accumulation and permanent investment." This is especially true when savings are passed along in the form of family businesses.

One reason most neo-classical economists ignore the effect of the estate tax on the heir's saving is the argument that the government can also "save" the estate tax by investing it in capital projects.[30] There are several flaws with this argument. First, the wealthy tend to have low rates of time preference which allows family fortunes to be invested in long-term projects (Taussig's "sustained accumulation and permanent investment").[31] Even assuming that governments were to "invest" the proceeds of the tax rather than spend it on redistribution and pork barrel projects, governments are dominated by politicians whose time horizons are measured in years to the next election rather than in decades and generations. Second, and more fundamentally, there is a crucial difference between government *investment* and private sector *investment*. Only in the latter case can it be concluded that investments are welfare-enhancing (Rothbard 1956). Private sector savings are necessarily allocated to maximize consumer and producer well-being. Government savings are allocated according to arbitrary political fiat.[32] Adam Smith's distinction between unproductive and productive labor was never more apt than when he wrote,

> **All taxes upon the transference of property . . . are all more or less unthrifty taxes that increase the revenue of the sovereign, which seldom maintains any but unproductive laborers; at the expense of the capital of the people, which maintains none but productive.**[33]

Even if a given amount of taxes must be raised it is probably preferable to tax consumption rather than to tax capital accumulation because private savings are the basis of economic growth. The estate tax is among the worst taxes on these grounds, as Rothbard (1970, p. 113) notes: "The inheritance tax is perhaps the most devastating example of a tax on pure capital."

Given the high rate of the estate tax we can be confident that the price and wealth effects of the estate tax combine to reduce savings by the bequestor. As we have seen the estate tax also reduces savings by heirs. On net, therefore, the estate tax

[28]This requires the reasonable assumption that bequests are a normal good. (Unlike, for example, Hamburger Helper, which people may want to buy more of when their wealth falls.)

[29]See note 24 above.

[30]If the bequestor reduces his savings in the face of the estate tax, savings must decline regardless of what the government does with the tax revenue. Hence, this objection, even if accepted, blunts but does not overturn the negative effect on savings derived from the behavior of bequestors.

[31]For evidence on the dramatic differences in time preference between rich and poor see Lawrence (1991) and references.

[32]Rothbard (1970) has made a strong case that so-called government investment is better understood as consumption by government officials rather than saving.

[33]Smith, *The Wealth of Nations* (Book 5, chap. 2, pt. 2 appendix to art. 1 and 2).

reduces social savings. If the estate tax were to be increased this conclusion would only be strengthened. Of course, if most people save for reasons other than the desire to give bequests the effect of estate taxation on saving might be unimportant. The life cycle theory of saving implies that the bequest motive is an unimportant determinant of saving. To evaluate the effect of higher estate taxes it is therefore necessary to examine the life cycle theory.

Traditionally many economists believed that the most important reason people saved was to give bequests. Alfred Marshall (1949, p. 227) held that "family affection is the main motive for saving," Schumpeter (1942, p. 160) called the "family motive" the "mainspring" of savings, and F.W. Taussig (1920, p. 249) argued that for long-term savings "the main motives are domestic affection and family ambition." Elsewhere Taussig (1920, p. 509) called inheritance "the great engine for the maintenance of capital," and in his highly regarded principles text, Frank A. Fetter (1913, p. 371) argued that "Much of the existing wealth probably never would have been created if men did not have [the] right of gift."[34]

The theory of saving was the central component of post World War II Keynesian macroeconomics but the bequest theory was completely abandoned during this period. In its place was put the life cycle theory of saving because of Modigliani and Brumberg (1954).[35] The life cycle theory places the main motivation for saving on the desire to provide for retirement. The theory implies that savings should follow a "hump" pattern. Young adults begin the saving process by borrowing; as their career stabilizes they pay off old debts and begin to save, then, when retirement begins, they draw down their savings until they die. In the simple model, everyone wishes to consume up to the moment of death and then die penniless. In more complicated models a bequest motive is tacked on as an afterthought.

Far before the life cycle theory was born Alfred Marshall (1949, p. 228) recognized an important fact which casts doubt on the theory. He noted that men "seldom spend, after they have retired from work, more than the income that comes in from their savings, preferring to leave their stored up wealth intact for their families." In other words, the elderly do not dissave as the life cycle theory predicts. Marshall's observation has been verified by a number of studies in recent years.[36] Far from dying penniless, the elderly often die richer than at any other point in their life.

A related point is the low demand among the elderly for annuities and reverse mortgages. Some economists have claimed that uncertainty about time of death explains why the elderly do not dissave, i.e., consume (Davies 1981).[37] But if this were the motivation for maintaining income in old age we would expect the elderly to invest in annuities and reverse mortgages. An annuity is like life insurance in reverse. A large and certain payment is made today in return for an income stream which lasts until death. Similarly, in a reverse mortgage the buyer promises to will his house to a firm in return for an income stream which is paid until death. If they wanted to do so, the elderly could use these devices to consume their wealth without fear of being destitute in the event that they live longer than expected. The fact that these markets

[34]The entire capitalist order for Schumpeter (1942, p. 160 and passim) is founded on the family motive. When the capitalist-entrepreneur-bourgeois is sundered from long-term family ties he becomes, to borrow a phrase, a wage-slave or bureaucrat-cog easily crushed by the state and its philosophical apparatus.

[35]See also Ando and Modigliani (1963).

[36]See Menchik and David (1983), who note Marshall's contributions, also Danziger et al. (1982–83), Atkinson (1971), and Mirer (1979).

[37]This explanation is implausible for large-and-medium sized bequests. Expected health expenses are potentially large in old age but these expenses are covered under health insurance. The main reason uncertainty might affect savings is the desire to maintain a given standard of living in the event that one lives longer than expected.

Note that if the bequest theory is correct we would also expect extensive gift giving as verified by Kotlikoff and Summers (1981). Extensive gift giving is not a prediction of the life cycle theory or modifies the life cycle theory in the event of uncertain death.

are relatively small suggests that the main reason the elderly do not dissave is to make bequests.[38,39]

Instead of buying annuities, which the life cycle theory predicts, many elderly persons are trying to get rid of annuities the government has forced them to buy. Social Security taxes income in early periods and then returns that income in later periods *in annuitized form*. Imagine that a man has paid $100,000 into Social Security. After he retires, this money begins to return to him in periodic payments. If he lives long enough he may even see the entire $100,000 again, but if he dies after consuming only half of his $100,000 payment he cannot bequest the remaining $50,000. Social Security changes not only the amount of saving but the type of saving which occurs—it favors annuity saving rather than saving in the form of bequestable wealth. To some extent the elderly can overcome this problem by buying life insurance (and many do, see Bernheim 1991) but transaction costs and adverse selection problems make life insurance an imperfect substitute for bequeathable wealth. As a result, many elderly would like to make larger bequests but cannot do so because the government has tied up their wealth in an inconvenient and undesirable form.

In addition to these theoretical arguments recent econometric work by Kotlikoff and Summers (1981) indicates that the stock of wealth is far too large to be accounted for by life cycle reasons. The Kotlikoff and Summers paper has been hotly debated and challenged (for e.g. Modigliani 1988, Kessler and Masson 1989) but bequest wealth is now recognized to be much more important than previously thought.

The theoretical and empirical shortcomings of the life cycle theory indicate that the bequest motive is an important determinant of savings. This means that far from being negligible the estate tax and gift tax could significantly reduce total savings. If the current exemption were to be lowered the increase in the estate tax base would be considerable and savings could be even more adversely affected.

## Effect of Estate Tax on Gifts to Charities

Gifts to IRS approved charities are exempt from the estate tax.[40] Many believe that this has had the beneficial effect of increasing charitable giving.[41,42] This is far from certain. Consider a simple example. A man with an estate of $2 million wishes

[38] There is an additional question concerning whether bequests are purely altruistic or also "strategic." The difference between these two theories depends on a definition of altruistic which is very narrow. Cowen (1992) discusses various notions of altruism and their implications for economic theory. Bernheim, Schleifer, and Summers (1985) discuss the implication of low annuity demand for the narrow altruism vs. strategic bequest model. Under either case, high estate taxation would have a large effect on savings.

[39] Since a pure altruism theory cannot explain why money is held until death instead of given away during life, other motivations must play a role. The benefit to holding wealth until death could be "strategic," to make sure your children do not abandon you, or it could be because of uncertain lifetimes (Bernheim, Schleifer, and Summers (1985) and Davies (1981) respectively). Separating these motivations exactly is impossible because the same money can serve more than one purpose. Money held for bequest reasons is simultaneously money held for uncertain lifetime and strategic reasons. The arguments in the text, however, can suggest which motivations are most plausible. Consider what would happen if a 100 percent estate tax were imposed (or no children were born). The life cycle theory with uncertain lifetimes says savings would not fall by much, the bequest theory in either the strategic or altruistic version says savings would fall by a lot.

[40] In the U.S. the IRS seems relatively neutral in its recognition of charities (although particular cases of bias may exist). In other countries, however, the exemption has been used as a form of systematic discrimination. Shultz (1926, p. 301), for example, reports that governments in predominantly Catholic countries have discriminated against the Church because the Church's countervailing power threatens the state.

[41] See for example Hirsch (1970, p. 66) and Shoup (1969, p. 380).

[42] It is unclear why charity to an institution is to be preferred to charity in one's home. Even assuming that wealth inequality is bad, it is far from certain that a gift to an opera house or university reduces inequality.

to leave $1 million to his son. With no estate tax he leaves $1 million to his son and the remaining $1 million to charity. If an estate tax of 50 percent is introduced he leaves the entire $2 million estate to his son so his son inherits $1 million and the charity receives nothing. If the estate tax is raised to 100 percent he can no longer leave his son any inheritance and the entire $2 million goes to charity. Depending on the level of the tax the charity receives $1 million, $0, or $2 million.

As with the savings decision the total effect of the estate tax can be decomposed into the price effect, the wealth effect, and the often-ignored base effect (the effect on the heirs). The exemption reduces the price of charity bequests relative to family or other bequests. If the tax rate is 25 percent, for example, a dollar given to charity costs 75 cents in family bequests. If the tax rate rises to 75 percent a dollar given to charity costs only 25 cents in family bequests.[43] As the price of giving to charity falls more is given to charity relative to family. The price effect always works to increase charitable giving.

As the estate tax rises, the testator's real wealth declines, this gives rise to the wealth effect. Bequests are a normal good—as wealth increases bequests increase—so the decrease in wealth caused by the tax causes all bequests including bequests to charity to decline. Because the price effect and the wealth effect work in opposite directions no theoretical prediction can be made about the combined effect. Boskin (1976) and Barthold and Plotnick (1984) try to estimate these effects empirically. Boskin's calculations suggest that the combined effects create a small increase in charitable contributions while Barthold and Plotnick's calculations show a medium-sized decrease.[44]

Both Boskin (1976) and Barthold and Plotnick (1984), however, fail to consider the third effect of taxes on charitable contributions, the base effect. Family fortunes are often amassed over generations, thus if the father's estate is taxed the son's estate will be smaller than it otherwise would be. The estate tax, therefore, reduces the size and number of family fortunes (the base from which the tax is collected). Since charitable contributions increase with wealth, the reduction in the number and size of family fortunes reduces charitable contributions. No data to my knowledge exists on this effect.[45] But including the reduction of the tax base in the above calculations pushes one towards the conclusion that the estate tax reduces charitable giving even with the exemption.

## Income, Wealth, and Liquidity

The estate tax can be particularly inefficient when illiquid forms of wealth are taxed. Imagine that the estate of a famous painter contains a valuable painting which the painter has willed to his son. The son values the painting immensely because of its sentimental value and if the son had a choice he would not sell it for the $100,000 it commands on the art market. Unfortunately for the son, the painter's estate will be taxed according to the market value of the painting, regardless of the son's income. To pay the tax the son may have

[43]Since the estate tax is progressive in the size of the estate, the larger the estate the smaller the marginal cost of a charitable gift. This makes any calculation of the total effect of the tax on charitable giving difficult because the price of giving changes with the size of the estate and also preferences for giving change with the size of the estate (charitable bequests increase with wealth). See Boskin (1976) for some calculations of this type.

[44]Barthold and Plotnick's calculation for the substitution effect (near zero) is suspiciously low. They use a different data set from a different time period than Boskin so their result may reflect uncompensated changes. Since the price effect is non-linear, changes in the estate tax could also be responsible.

My calculations from Boskin are based on a 50 percent tax rate.

[45]Amazingly, I can find almost no research on the effect of the estate tax on family fortunes. Any research would have to take into account possible non-linearities in the effect of the estate tax.

Very large fortunes, for example, may escape relatively unscathed because of the use of complex estate planning while medium-sized fortunes could be hit hard. Brittain (1978, pp. 81–82) has a brief discussion based on the British work of Harbury and McMahon (1973) and Harbury and Hitchens (1976) which suggests the estate tax has had a large and also non-linear effect.

to sell the painting even though he values it more than others are willing to pay. This sort of loss is much more likely to occur when illiquid wealth is taxed than when income or liquid wealth is taxed.

The example above is less fanciful than it might at first appear. Landowners are often in the same situation. A farmer, for example, may wish to pass his farm on to his sons but the sons could be forced to sell the farm just to pay the tax.[46] Similar problems occur with other family businesses. In these cases, all of society may lose because businesses are sold to people who value them less than the original owners which suggests that the new owners are less efficient than the original ones.

## Critique of Buchanan

Nobel prize winner James Buchanan (1983) has questioned the assumption that unrestricted opportunities to transfer wealth promote efficiency. Buchanan's argument is based upon Tullock's (1971) notion of rent seeking.[47] Tullock (1967) argued that the inefficiencies created by tariffs and monopolies were underestimated. In addition to the traditional "dead weight loss," resources are wasted when firms and individuals compete to be on the receiving end of government largesse. If government has the power to grant a monopoly worth $1 million, individuals and firms will lobby politicians and bureaucrats until they spend in total about $1 million. In its most general form Tullock's argument says that any uncompensated transfer (rent) will be wasted away (at least partially) by rent competition or "rent seeking."[48]

Buchanan argues that inheritances are rents, thus there will exist wasteful rent seeking or in this case wasteful inheritance seeking. By limiting inheritances, Buchanan suggests that some of this waste can be eliminated and, if the limitation is clever enough, both the testator and the heir can be made better off. Some of the limits Buchanan has in mind are an inheritance tax or a limitation of inheritance above a certain value (a 100 percent tax). (Buchanan has been a sharp critic of the notion of a public interest state but here he does not pause to consider how such policies are to be enacted without special interest group lobbying and political rent seeking.)

Buchanan's analysis is unconvincing for several reasons.[49] First, much of what Buchanan calls rent seeking could actually be exchange.[50] If a child of rich parents writes them letters, visits them on holidays, and respects their wishes is this wasteful rent seeking or a welfare improving exchange? Some letter writing must be exchanged else the parents could avoid rent-seeking problems altogether by giving their wealth away instead of holding it until death. Indeed the Coase theorem suggests that rent seeking is unlikely to exist in family situations. To say that the child rent-seeks means that the child engages in some costly action which increases the probability of receiving a large inheritance but gives no benefit to the parents. It is difficult to think of what such action might be, but let us suppose it exists (perhaps the child maligns his siblings). Whatever the action is,

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[46]Some special provisions have been made for farmers in the tax code because of this problem (see Esperti and Peterson, 1993). The problem, however, is general and not unique to farmers.

[47]Ironically Tullock (1971) argues that inheritance taxes are always inefficient.

[48]It is often objected that the rents are not really wasted because "lobbying" benefits bureaucrats and politicians. This just pushes the argument back a stage. If politicians receive rents there will be rent seeking to become a politician. If competition is "perfect" all rents will be eroded away regardless of how many stages we have to consider. If competition is not perfect in some sectors then some rents may be captured. A stable hereditary monarch, for example, can sell monopoly rights to the highest bidder and receive all the rents without waste.

[49]Buchanan recognizes a number of critiques of his argument and on these grounds he suggests his paper is a technical addition to the rent-seeking literature and not a motivation for policy reform. He seems to prefer to base policy reform on the "gross and apparent injustices" that would emerge from "unrestricted transfers."

[50]Bernheim, Schleifer, and Summers (1985) discuss whether or not bequests are purely "altruistic" or whether bequests are part of an exchange. This has important implications for Barro's (1974) overlapping generations model of Ricardian equivalence.

unlike actors in the political system, parents and children have low transaction costs and can easily reach mutually beneficial agreements. The Coase theorem says that if mutually beneficial agreements exist they will be exploited.[51] The theorem applies with special force in these circumstances because by assumption the parents want to benefit the child. Any costly action the child takes means a smaller total inheritance and the parents want the child to have as large an inheritance as possible (all else equal). To eliminate the waste the parents could tell the child that if he does not engage in the costly action the parents will increase his probability of receiving a large inheritance. Or they could ask the child to do something which benefits the parents instead of wasting resources in costly behavior. Everyone can be made better off by such policies.[52]

There are other critiques of Buchanan's thesis, but consider instead a logical extension of the thesis. Numerous areas of private life involve "rents." The actors and actresses in Hollywood struggling to become stars, the kids practicing basketball on the school block trying to make it to the NBA, the women chasing after rich husbands and the men chasing after beautiful wives, all are engaged in rent seeking. Buchanan's analysis suggests that "efficiency" could be improved if we limited the number of movie and basketball stars, taxed rich bachelors, and forbade beautiful women from wearing beautiful clothes.[53]

Austrian economists have long argued that concepts like efficiency and utility maximization are applicable only to observed market exchanges (Rothbard 1956, 1979). Moreover, the coercive actions of the state are in no way comparable to voluntarily private acts of exchange. The wisdom of such a position becomes evident when neo-classical economists blithely recommend inoperative, coercive, and wealth destroying policies on the basis of other-worldly concepts of optimality.

## Carnegie, Charity, and the Wastrel Son

At the turn of the century Andrew Carnegie, one of America's richest men, campaigned vigorously for the estate tax in a series of influential articles in the *North American Review*.[54] Carnegie had two main arguments in favor of the tax. First, Carnegie argued that a man's wealth should go to the community (from whence it came) on his death.[55] Throughout North America one can find hundreds of libraries and public works testifying to Carnegie's generosity and the sincerity of his beliefs.[56] Whether Carnegie is right to assume a zero-sum society and to place the claims of community above those of family will not be dealt with here. What is tragic about Carnegie's belief is that by equating the community and the state, Carnegie worked to deprive others of the opportunity to be as generous as himself. A dollar paid in tax is hardly the same as a dollar sent to the Salvation Army. Had Carnegie faced an estate tax of his own devising his estate would have flowed

[51] In most circumstances this is a trite statement of the essence of economics. Ronald Coase's theorem has received so much attention, and brought Coase the Nobel prize, because Coase suggested that profitable exchanges would occur even in the presence of externalities, a point which had been denied prior to Coase.

[52] Buchanan (1983, p. 77) argues that parents do not have enough information about their children to institute such policies. He thinks the state, however, does have the required information.

Buchanan is incorrect when he suggests that utility interdependence and information are needed for such policies to work. The former is not required. The second policy I suggest in the text, for example, does not require utility interdependence to be profit maximizing.

[53] Improving efficiency requires some sort of restriction like the ones I have mentioned as being illustrative.

[54] First published in the 1890 June and December issues of the *North American Review* articles were often reprinted and republished in pamphlet form.

[55] Carnegie's articles bear marks of guilt and self-loathing. In one article he writes that by "taxing estates heavily at death the state marks its condemnation of the selfish millionaire's unworthy life" (quoted in West 1908, p. 197). This is remarkable not only for its self-loathing but also because it suggests that it is the state which sits in judgment of a man's life.

[56] Great as Carnegie's charitable works were they pale in comparison to the good he wrought by revolutionizing the steel industry. Carnegie's industrial genius was the fountainhead from which his charitable works flowed.

into the anonymous coffers of the government never to be seen again.[57]

Carnegie's second argument was that inheritance is a burden on the children because "it deadens the talents...and tempts [the heir] to lead a less useful and less worthy life."[58] We are all familiar with famous heirs who led worthless and parasitical lives. Worthless heirs are a staple of biographies and gossip columns because the contrast between the virtues of the founding generation and the vices of the heirs is so stark. The prurient public is less interested in the lives of decent and industrious heirs who carry on and extend the work of the founding generation. Yet the latter group far exceeds the former. The adage says that wealth corrupts; perhaps, but wealth has no monopoly in this regard. It is easy enough to lead a worthless and parasitical life without an inheritance; I have seen neither argument nor evidence which suggests having an inheritance increases this possibility. Indeed, reason suggests the opposite. Those who are able to bequeath a material inheritance are also often able to bequeath a sound moral and educational inheritance. Along with pecuniary and physical capital the founding generation bequeaths human capital. In a capitalist society, therefore, the institution of inheritance is more than a moral institution, it is part of the process whereby wealth is transferred to those who can best use it to serve the wishes of consumers.

Consider the following three proposals and ask yourself which will cause the most efficient distribution of wealth according to the wishes of consumers? (1) Inheritance according to the will of the owner, (2) Inheritance to a randomly picked individual, or (3) The state takes the inheritance as tax revenue.[59]

In the long run only the market can reveal who possesses the entrepreneurial spark. But when wealth must be passed from one generation to another the institution of inheritance is both moral and efficient.

### Ethical Justifications for Death Taxation: Equality of Opportunity and the Notion of Desert

Economists and other writers often ethically rationalize the estate and inheritance taxes by appealing to the principle of equality of opportunity.[60] Surprisingly, this appeal is prevalent among writers who may be loosely referred to as classical liberals (even more so than among writers of a more leftist bent). James Buchanan (1975, p. 3030), a conservative economist, and his co-author Marilyn Flowers, for example, argue that a guarantee of ("some") equality of opportunity is "inherent in the political philosophy of the free society." And Groves (1939, p. 248) correctly notes that equality of opportunity is often accepted as desirable "by the most 'rugged' of individualists."

Closely linked with the idea of equality of opportunity is the principle of desert. Many who reject as morally repugnant confiscatory income taxes accept the inheritance tax because the individual does not "earn" his inheritance and is therefore undeserving. Harlan Read (1918, p. 279) stated the thesis baldly in his *Abolition of Inheritance*, "All estates are unearned by the heirs and should therefore, be taken by taxation." From the correct idea that a man deserves what he earns he draws the incorrect conclusion that a man does not deserve what he does not earn.

The principle of equality of opportunity and the principle of desert are both inimical to the free society. In the next section I discuss the flaws in these moral principles.

### Equality of Opportunity

The allure of the equality of opportunity norm is because of two sources. Stated in a certain

[57] Carnegie held that an inheritance tax was equivalent to a gift to the community. The existing tax, however, recognizes the distinction by exempting all gifts to charities.

[58] Quoted in West (1908, p. 198).

[59] Those who pick the second alternative might want to investigate the history of lottery winners. How many of the thousands of winners have transformed their winnings into thriving business enterprises?

[60] See for example Due and Friedlander (1973, p. 438), Buchanan and Flowers (1975, p. 303), Groves (1939, p. 248), and Read (1918).

fashion it appears inherently just and when contrasted with equality of condition or outcome it appears manifestly superior. Equality of opportunity is often presented in the context of lack of opportunity. The intelligent child of the inner city who is unable to excel because he lacks a good education is contrasted with the luckier child of the suburb. Why should forces for which the child is not responsible and does not control be such a large factor in his life? Why are otherwise identical individuals placed in such differing circumstances? In this context equality of opportunity seems compelling. I would argue, however, that what is compelling about these anecdotes is the lack of opportunity of the inner-city child and not the notion of equality of opportunity. Let us establish equality of opportunity by ruining the schools for all. Only the spiteful and envious could prefer such a situation to that reigning when the children were unequal. Yet, such must be the argument behind inheritance taxes because taxing the rich does not improve the lot of the poor.[61]

The issue of opportunity must be separated from that of *equality* of opportunity. To increase opportunities for individuals to excel is a worthy goal but to restrict the opportunities of some in order to create "equality" among all is monstrous. Among the opportunities it is desirable to increase is the opportunity to inherit wealth.

The second reason equality of opportunity is highly regarded is that it is often favorably contrasted with equality of condition or outcome. Equality of opportunity, it is said, allows men to rise as far and as fast as their talents allow so long as each generation begins the race on an equal footing. Equality of outcome, by contrast, is inefficient, coercive, and totalitarian. In actuality, equality of opportunity is nothing but equality of outcome applied at the beginning of life rather than throughout life. Both forms of equality are coercive and totalitarian.

Taken seriously, equality of opportunity requires that all inheritance—monetary, genetic, and experiential—be abolished. Of the three forms, monetary inheritance is the most obvious but probably the least important creator of inequality. Genetic inheritance is the least obvious but is likely of the greatest importance with experiential inheritance (the informal education and training given by one's parents) falling close to that of genetic inheritance.[62] As a mere beginning creating equality of opportunity would require a massive program of eugenics and the raising of children communally.[63]

Far from being opposing forces equality of opportunity and equality of outcome actually support one another. Achieving equality of opportunity is obviously futile so it becomes a justification for pursuing equality of outcome. Thus "affirmative action" is justified on the grounds that racism and history make equality of opportunity a chimera. The principles of equality of opportunity and equality of outcome are equally inimical to the free society.

### Desert

Like the notion of equality of opportunity, the idea of desert appeals to some defenders of the free market. It is certainly true that a man deserves what he earns but this principle does not justify inheritance taxes and is not a foundation of a free society. Consider first the issue of inheritance taxes. Let us pass over the difficulties of defining "deserve" and "earn" and assume that in some sense the heir does not deserve his inheritance because he has not earned it. How does it follow from this that the state deserves the inheritance? It is the owner of the estate who earned it and not the government. Furthermore, if the owner of the estate earned it and thus deserves it he must also deserve the right to allocate the estate as he wishes. Who else could deserve this right? Thus, even accepting that a man does not

[61] Even if the taxes raised from the rich were redistributed to the poor, instead of wasted or spent on consumption by the state, the wealth of the poor would not increase but trivially.

[62] It is difficult to separate these influences because they are positively correlated.

[63] Eugenics is still a subject of taboo but public schools, which make the communal raising of children a partial reality, are often justified on the grounds of equality of opportunity.

deserve what he does not earn, this is no justification for inheritance taxes.

The entire notion of desert as a justification of ownership, however, is flawed.[64] Consider a manual laborer in India and a similar worker in America. The worker in America earns hundreds of times the salary of the worker in India and has a far higher standard of living. In what sense does the American worker "earn" or "deserve" this greater salary? By assumption, the workers have equal abilities, education, work ethic and so forth. The American worker has a higher standard of living not because of innate qualities but because he was lucky enough to be born in America and not India. To be more precise the American worker has inherited physical and intellectual capital from previous generations of Americans. If the worker has no claim to this "inheritance" then he can have no claim to anything.

The argument that desert justifies ownership is entirely misplaced. It is not a man's duty to "justify" his claims to the state or to other men. It is the state which must justify its takings. The notion of desert as justification implicitly regards ownership as a gift granted by the state and given only so long as a man can "justify" such ownership to the state's inquisitors. It is the inquisitors who must be questioned. The state justifies its existence only to the extent that it protects the rights of individuals. This is the meaning of the Declaration of Independence when it declares that every man has,

> certain unalienable Rights, that among these are Life, Liberty, and the Pursuit of Happiness—That, to secure these Rights, Governments are instituted among Men, deriving their just Powers from the Consent of the Governed, that whenever any Form of Government becomes destructive of these Ends, it is the Right of the People to alter or to abolish it.

## Conclusion

So long as men are mortal, wealth must be transferred between the generations and so long as parents care for their children the dominant means of doing so will be through family inheritance. The transference of wealth through the family benefits bequestor and heir, strengthens family ties, and increases long-term savings. When the state intervenes in this process it increase its coffers at the expense of the smooth operation of family, society, and economy.

[64] See also Rothbard (1970, p. 888) and Hayek (1976) on this point.

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