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**NOTHING WRONG WITH UNEARNED WEALTH ?  
A comment on Haslett and Bracewell-Milnes <sup>1</sup>**

*in Is Inheritance Legitimate ? Ethical and Economic Aspects of Wealth Transfers,*  
Guido Erreygers & Toon Vandeveldede eds.,  
Berlin & New York, Springer, 1997, pp. 202-209.

Both David Haslett and Barry Bracewell-Milnes dare to stick their necks out and do so in an articulate, thoughtful way. I like that. Not because I love chopping heads off, but because I strongly believe that an active involvement in public policy debates is an essential part of a scholar's role in today's society. Moreover, I have great sympathy for Haslett's impatience with the great inequalities in life chances that result from a massively unequal access to external assets, while at the same time coming close to embracing Bracewell-Milnes's rejection of the "short-termist, brash, materialistic, aggressively individualistic" market rat race in favour of a "more traditional and stable way of life, more long-termist, more family-oriented, less materialistic, more attuned to spiritual and ethical values, cool or contemptuous towards competitive spending, sympathetic towards conservation and preservation". And yet, I deeply disagree with both. Why ?

By way of prelude, let me first note how ironical it is that authors who reach such opposite conclusions – one argues for the abolition of inheritance taxes, the other for the abolition of inheritance (beyond a strict quota) – should both appeal, at the most fundamental level, to utilitarian premises. Haslett explicitly states that maximizing "overall well-being" or "general welfare" is the ultimate aim. Bracewell-Milnes prefers to speak of "wealth maximization", but it is clear from several of his

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<sup>1</sup> This is a revised version of an oral comment on papers presented in Antwerp on 8 November 1995 by David Haslett and Barry Bracewell-Milnes.

examples – typically, a mutually beneficial trade that increases "wealth" – that the relevant variable is aggregate utility. As our two authors claim to derive incompatible conclusions from the same fundamental normative principle, one of them is bound to be wrong. Obviously, they may also both be wrong. That this is indeed the case, I shall now endeavour to show.

### **To each according to her productivity**

Haslett's argument relies on a rule-utilitarian justification of the productivity criterion – "To each according to the productivity of his labour, or of the property acquired in return for the productivity of his labour" – as a prima facie criterion of distributive justice. The key premise is that, since people cannot be forced to be maximally productive, one must entice them to be so by paying them in proportion to their productivity, the latter being defined as what others would be willing to pay for one's product on the basis of fully informed preferences. Since this productivity criterion is clearly at odds with the possibility of large private gifts and bequests, utilitarians must demand that these be subjected to a stiff (ideally 100%) taxation, at least beyond a threshold fixed at a sufficiently low level to be achievable by most beneficiaries.

His key premise holds fully, Haslett hastens to say, only if a number of conditions are satisfied. In particular, there must be no "unnecessary" inequality of opportunities, i.e. no such inequality stemming from any source other than an unequal endowment in innate talents. There must also be no departure from Pareto-optimality as a result of externalities or other market imperfections. The problem is that, beyond these factors listed by Haslett, there are many more that mess up the connection between welfare maximization and the productivity criterion. For example, a utilitarian is bound to have to pay some attention to the welfare loss that would result from the starvation of the less talented – those who suffer from a "necessary" inequality of opportunities –, or to the welfare loss that would result from overperformance in a "tragedy of the commons" context, or from the failure to systematically overpay some economic agents (relative to their statically defined "productivity") in order to foster alertness and innovation, or again from the suboptimal consumption of leisure by people whom idleness would make awfully happy.

With the key premise left in shambles, there are three ways in which Haslett might try to amend his argument. The first one consists in promoting the productivity principle from a (poor) utilitarian rule of thumb to a principle of justice in its own right. The problem, here, is that my productivity is powerfully affected, not just by what happened to be contained in one cell on a Summer night of 1950, but also by the smiles and patience I was surrounded by as a baby, by the good or bad luck I had with the choice of the teachers I was assigned to at school, by the luck I had when noticing the announcement of a scholarship, and by countless other undeserved contingencies. Hence, I must confess that I cannot even begin to make sense of an ideal of fairness that would consist in matching exactly people's incomes and their productivities, and therefore cannot blame Haslett for dismissing this first patching up strategy.

### **Direct utilitarianism**

A second possible strategy consists in discarding the productivity criterion as an unnecessary detour and arguing straight from utilitarian premises for the abolition of (quota-exceeding) inheritance. The most obvious link is provided by a highly plausible factual assumption: as the assets inherited by a person swell, their marginal contribution to that person's utility shrinks. If accepted, this assumption induces a strong utilitarian presumption in favour of an egalitarian distribution of assets. It must, however, be qualified in several ways.

Firstly, utility functions are not identical across people, and those who care more about riches, typically because they were brought up in luxury, should accordingly be allowed to inherit more.

Secondly, the extent to which inheritance is taxed may well have an overall negative effect on savings and the care taken of one's belongings, and this may also largely offset, in dynamic equilibrium, the aggregate welfare gain from a more egalitarian redistribution.

Thirdly – and this is perhaps Bracewell-Milnes's (1982, 1996) most valuable insight –, a significant loss of welfare may arise from the break up or reappropriation of a piece of property, say a family estate, as a result of high taxation preventing parents from leaving it to their children. By no means does awareness of this sort of effect – the destruction of the "owner's surplus" and the "donor's surplus" – validate Bracewell-Milnes's (1996: section VII) sweeping claim that "the

social [welfare] loss [from any tax on giving] always exceeds the [contribution to overall welfare of] the revenue yield [...] except in the limiting case". At the very least, the net effect on overall welfare will crucially depend on the allocation of the tax revenues, and one needs more than a swift appeal to Adam Smith's critique of unthrifty taxes ("that increase the revenue of the sovereign, which seldom maintains any but unproductive labourers, at the expense of the capital of the people, which maintains none but productive" , quoted *ibid.*) to be persuaded that the net effect is bound to be negative.

The bottom line, for a utilitarian, can therefore neither be that all (quota-exceeding) inheritance should be abolished, nor that all inheritance taxation should. The welfare-maximizing gift and inheritance tax is most likely to be positive but fairly low – not just to preserve incentives but also to match the different preferences shaped by different family backgrounds. It will moreover be differentiated according to type of asset – family farm and family mansion, for example, would no doubt deserve a privileged status, relative to anonymous shares or rented real estate. And it may even be designed so as to encourage a better match between the age at which one needs the money and the age at which one inherits – for example, by involving a lower rate on bequests to one's grandchildren than to one's children.

Hence, this second strategy turns out to bring Haslett no more relief than the first one. Even assuming that there is nothing wrong with its premises, it has the great defect of yielding a conclusion that is admittedly a long way from what Bracewell-Milnes would like it to be, but is nonetheless very different from Haslett's bold view.

### **Equal starts**

There is, however, a third way of rearticulating the argument for stiff inheritance taxes that relies neither on a productivity conception of justice nor on the adoption of a utilitarian perspective. It provides an alternative to Haslett's argument, rather than a reconstruction of it, and appeals – unsurprisingly – to a conception of justice as equality of opportunities, a conception left unscathed by Bracewell-Milnes

(1997: section IX) uncharacteristically sloppy treatment of it.<sup>2</sup> This conception, as repeatedly mentioned by Haslett, is not unrelated to his own productivity conception, while sufficiently differing from it to avoid its implausible implications. The central intuition of this alternative way of justifying inheritance taxation is simple enough. If you were born with a nice estate and a huge cheque waiting in your slippers, your opportunities are far greater, *ceteris paribus*, than those of the poor lad who was provided with barely enough to keep him fed through his childhood. It is hard to deny that this massive inequality is also a serious injustice, and the obvious way of redressing it is to share out the estate and the cheque by imposing stiff inheritance taxes.

On reflection, however, this "equal starts" argument for inheritance taxation needs to be strongly qualified. To begin with, as aptly remarked by Bracewell-Milnes (1997, section IX), "most heirs do not inherit significant sums until many years after the start of their careers". When the average heir is over fifty years old, what is all this rhetoric, one may legitimately ask, about inheritance bringing unfairness to the "starting gate"?

Secondly, as remarked long ago by Milton Friedman (1962: 163-5), tough restrictions on the amount of material wealth parents can donate or bequeath to their children will lead them to spend even more – and by the same token even more unequally – on the education of their children. This need not directly bother Haslett, who boldly asserts (section II): "For dependents, gifts that quickly depreciate in value, such as automobiles, or that take the form of education of any sort, are not to count towards the quota". This deep asymmetry may make sense if what one is after is reward according to productivity: "this exception for dependents will not, to any great extent, support idleness from people who otherwise would have been productive". But if one rejects the productivity conception of distributive justice in favour of a far more plausible equal-opportunity conception, this extraordinarily favourable treatment of endowments in human capital makes no sense at all. Those truly concerned with equalizing life chances "at the start" should attach only secondary importance to the unequal bequests people increasingly receive, on average, at an age at which they are already contemplating retirement. They should worry far more about the immensely different opportunities children and young

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<sup>2</sup> The rationale and variants of opportunity-focused conceptions of justice are spelled out and discussed in Van Parijs (1997).

adults are given as a result of their parents spending very unequal sums on their education.

## Gifts are everywhere

This would seem to suggest that a consistent equal-opportunity reformulation of Haslett's anti-inheritance stance would involve extending to educational expenditure his lifetime inheritance quota scheme and giving this component of what a person receives particular weight because of the early age at which she receives it. Such an extension, it must be conceded, raises serious difficulties of at least two sorts. Firstly, think of someone whose quota has been exhausted, or even exceeded, by great expenditure on a training course that did not boost her earning power in any way, either because she failed the final exam and/or because the skills acquired through the course happened no longer to be in demand when the course was completed. Is it really fair to decree that the "beneficiary" of this quota-busting training is not entitled to any other gift, or even has to pay some of it back in taxes (which is what exceeding the quota must mean)?

Secondly, think of someone of average innate talent whose earning power is high despite fairly low educational expenditure. It is just that her parents spent quite a lot of their time transmitting to her directly some useful knowledge, or perhaps not even that: their daily behaviour provided her unintentionally with the many cues she could easily draw on to build up her human capital. If this unwitting gift produces exactly the same effect on someone's earning power as some explicit cash payment for her education, surely the equalization of opportunities is not consistent with a quota scheme that takes full account of the latter while turning a blind eye to the former.

These two difficulties are serious. But they challenge neither the plausibility of the equal-opportunity conception as such, nor the idea that the opportunities afforded by one's endowment in human capital are no less relevant than those rooted in one's material endowment. They both find a smooth solution once it is realized that the economic life of our societies is packed full of (self-interested) gifts.<sup>3</sup> Compared to the massive heap of treats in the form of (unequally) scarce jobs, bequests are of miserable importance. Unequal access to jobs, whether rooted in differences in talents, in upbringing, in formal education and training, or in sheer queuing luck, is now the main form taken by inequalities in endowments. Hence the

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<sup>3</sup> Very roughly expressed, this is the one big intuition behind my Real Freedom for All (Van Parijs 1995).

following paradoxical proposition. An appropriate taxation of the incomes derived from jobs, including self-employment, is therefore the most powerful tool for equalizing opportunities, including those deriving ultimately from inequalities in what we have been given nearly imperceptibly – and often undistinguishably – by our genes and our upbringing.<sup>4</sup>

If justice is to be interpreted along the lines of this broad opportunity-based conception, it is clear that Haslett is right in his attempt to keep in check the unequal opportunities brought about by inheritance. But he is wrong in focusing narrowly on one particular sort of gift, which is far from being the most significant one in the world we now live in, and in simply condoning thereby most of the massive inequalities in the endowments that underlie people's productivities. One needs to redress this unwarranted bias and distribute the proceeds in a fair, impartial way.<sup>5</sup> Doing so will have a by-product which Bracewell-Milnes should welcome. It will contribute as much as is justifiable to saving his society of stewardship and spiritual pursuits from an irrepressible decay into Haslett's society of maximum productivity and competitiveness.

In this light, and using the concept of wealth in an appropriately expanded sense, our ultimate disagreement can now be rephrased as follows. Bracewell-Milnes is right, against Haslett, in holding that there is nothing wrong with unearned wealth. Yet, Haslett is right in challenging the conservative position Bracewell-Milnes derives from this premise. To back this challenge, however, one must not

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<sup>4</sup> It is of course important that this appropriate taxation should not seize more than the "gift" component of job remuneration. This is guaranteed – at the expense of settling for maximin rather than strict equality – through subjecting the maximization of the tax yield to a ban on involuntary employment and the demand that taxation be predictable (see Van Parijs 1995: 113-119).

<sup>5</sup> More concretely, this means opting for transfers of an unconditional type rather than in the form of an earned income tax credit, as advocated by Haslett (1994: chapter 6)

deny the premise, but instead supplement it as follows: "There is nothing wrong with unearned wealth, except that not everyone has it".<sup>6</sup>

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<sup>6</sup> I am here paraphrasing Samuel Brittan's (1973) lapidary justification of an unconditional basic income: "There is nothing wrong with unearned income, except that not everyone has it."

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