FREE WILLS

INHERITANCE WITHOUT TAXATION

by Barry Bracewell-Milnes

Office Copy.

Free Wills:

Inheritance Without Taxation

by

Barry Bracewell-Milnes

ADAM SMITH
London

All taxes upon the transference of property of every kind, so far as they diminish the capital value of the property, tend to diminish the funds destined for the maintenance of productive labour. They are all more or less 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.

Adam Smith, *The Wealth of Nations*, Book V, Chapter II, Appendix 1 and II.

Further reading: For a fuller treatment of the material in the present text, the reader should refer to Dr Barry Bracewell-Milnes, *Will to Succeed: Inheritance Without Taxation*, (Adam Smith Institute, 1994). For ease of reference to this longer report, the figures in that report have been retained in the present text and not updated; updating would not significantly affect the argument.

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SUMMARY

1. Inheritance tax is an old-fashioned tax that *has lost any rationale it may have had in earlier times.*

2. Inheritance tax yields a very small proportion of total tax revenue. *Its costs of collection are exceptionally high.* It imposes a large burden on those who pay the tax.

3. When account is taken of the effect on other taxes and on economic activity, *the yield of inheritance tax to the Treasury may well be zero or negative.*

4. The yield of estate duty may well have been negative in each of the hundred years since its introduction in 1894. *Inheritance tax has served to increase unemployment,* and the present economic recession would have been less severe if death duties had been abolished a generation ago.

5. The damaging *short-termist distortions* caused by inheritance tax should be removed by the abolition of the tax.

6. It is not only heritage assets and family firms and farms, but assets in general, that are best and most efficiently looked after by long-term family owners acting to some degree in the quality of stewards. *This socially desirable activity of stewardship is inhibited or prevented by death duties.*

7. Death duties also damage the economy by frustrating *the creation of wealth through giving and bequest.*

8. The *redistributive effects of inheritance tax are perverse,* in that it cheapens the rich man's spending relatively both to his own saving and to the spending of the poor. It is thus the exact opposite of a sumptuary tax. Inheritance tax is a tax on middle wealth and rising wealth. Among other perverse consequences, inheritance tax militates against giving employees of unquoted companies an interest in these companies as shareholders. And taxes on personal ownership and giving are taxes on vocation and commitment.

9. *All taxes on saving should be abolished. As between the various taxes on saving, the abolition of inheritance tax has top priority.* There is perhaps no major competitive advantage inside and outside the European Union that the United Kingdom can secure more cheaply than through the abolition of inheritance tax.

10. A rising standard of living should be reflected in ownership of assets increasing from each generation to the next through the institution of *inheritance without taxation.*

1. INTRODUCTION

Inheritance tax is a form of death tax introduced in the United Kingdom in 1986. Like its predecessors, capital transfer tax and estate duty, it is levied on the estate of the deceased; no separate charge is incurred by the heirs. By way of support for the death tax, inheritance tax is also levied on gifts made within seven years of death.

At the time of writing, it is charged at a proportional rate of 40 per cent above a threshold of £154,000. Some 650,000 people die in the United Kingdom each year and less than 25,000 estates pay inheritance tax (4 per cent); the remainder fall below the threshold or within one or more of the various exemptions.

Although the rate of tax is still historically high, the yield, at £1.3 billion in 1993-94, is relatively low, less than a penny on the basic rate of income tax and 1.7 per cent of total Inland Revenue tax receipts (it was 19 per cent in 1908-09). Post-war attempts to increase the yield have had limited success, not least because death duties are avoidable through emigration and other forms of taxpayer resistance.

Possibility of change

For several decades after the War it was widely regarded as politically impossible to make substantial reductions in the rates of death duties. Even if this was true at the time, it is no longer true now.

As a result of increases in the prices of shares and residential property, more taxpayers are liable to inheritance tax than ten years ago. Death duties have few committed supporters outside (or perhaps even inside) academic, political and other specialist circles. The cuts in the top rate of tax to 60 per cent and then to 40 per cent were well received. Candidates supporting the increase of business and agricultural property relief to 100 per cent considered this measure an electoral asset in the 1992 General Election. Critics of inheritance tax are increasingly confident and assured in calling for its abolition.

Similar trends have been found elsewhere: in recent years, death duties have been abolished in Australia, Canada and much of East Asia and the Pacific, and these reforms have generally been well received.

Cultural and social costs

The increase in business property relief to 100 per cent enacted in 1992 (though only for holdings in excess of 25 per cent) was a response to the increasing recognition by government of the damage done by death duties to family firms. *In many parts of the country, the culture of long-term family businesses has been largely destroyed by death duties*; and for shareholders with interests of 25 per cent of the shares or less death duties remain the "killer" that the National Association of British Manufacturers called them many years ago.

When family firms go under through death duties, the loss is social and cultural as well as regional and economic; in particular, when an unquoted family company is bought by a quoted company, the time-horizon shortens and the economic activity, if it continues at all, becomes exposed to short-termist pressures to which it was largely immune before.

Similarly, if death duties compel a taxpayer to part with assets of heritage character, there is often no one else who will look after them as well or as cheaply as the owner, and they may be lost through neglect and decay.

Inheritance tax is also an immoral tax in the precise sense that it punishes virtue and rewards the government for the dereliction of its duty. A charge to inheritance tax may be incurred by a taxpayer killed in an attempt to save somebody's life or by a taxpayer killed in street violence which it is the government's duty to prevent.

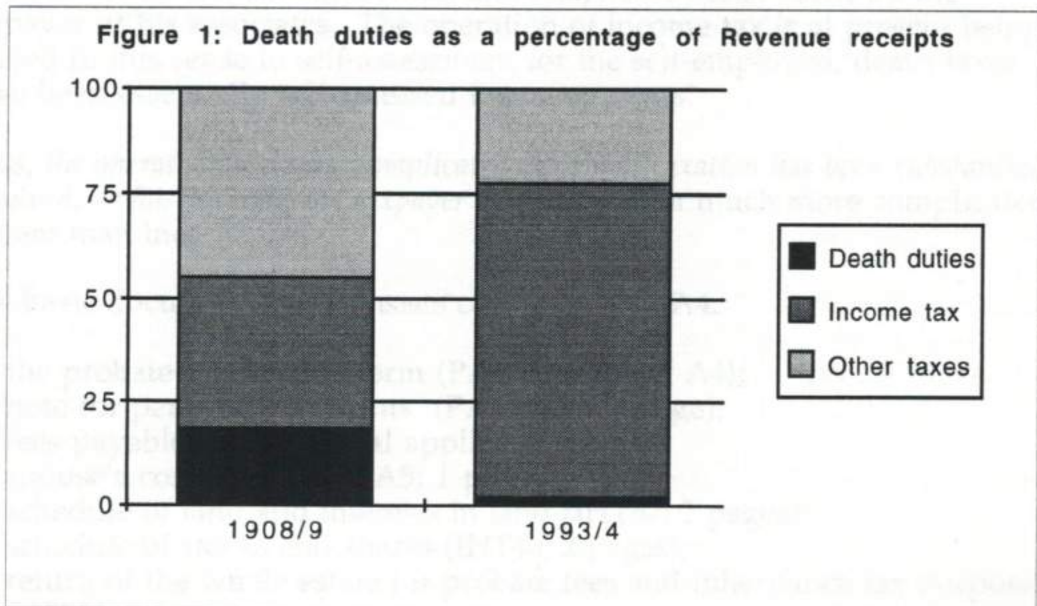
If inheritance tax did not exist already, it is unlikely that it would be introduced now. Its main support is political inertia. But the arguments for abolishing the tax are stronger than the arguments for retaining it in a number of different dimensions.

2. YIELD AND COSTS

Inheritance tax is not important as a revenue raiser; but the direct and indirect costs that it imposes are high by comparison with its yield.

Modest yield of inheritance tax

Estate duty was introduced in 1894 and was replaced by capital transfer tax in 1975, which was in turn replaced by inheritance tax in 1986. By 1908-09, the yield of estate duty had risen to £18 million, which was more than half the yield of income tax (£34 million) and 19 per cent of the total yield of Inland Revenue taxes. By 1993-94 death duties in the form of inheritance tax had risen to £1300 million; but income tax had risen much faster to £57.5 billion: inheritance tax was 2.3 per cent of income tax, 1.7 per cent of total Inland Revenue taxes and 0.6 per cent of taxation in total. For some years inheritance tax has yielded less than an extra penny on the basic rate of income tax. (Figure 1).



Source: Inland Revenue Statistics.

In 1989-90, 276.4 thousand estates passing on death had a net capital value of £20,122 million. 45.3 per cent of assets were UK residential buildings, 21.4 per cent cash and interest-bearing accounts, 12.4 per cent listed company securities, 20.9 per cent other. Net receipts from inheritance tax were £1232 million; 50.4 per cent of tax came from estates under £500,000.

Administrative costs

Administrative costs for all Inland Revenue taxes totalled £1003.5 million in 1986-87 or 1.76 per cent of the £57,156 million total tax revenue (excluding NICs). The corresponding figure for 1992-93 was 2.09 per cent.

The cost of administering inheritance tax/capital transfer tax/estate duty was 2.4 per cent of the yield in 1986-87 and 2.16 per cent in 1992-93. This 2.4 per cent was more than a third above the average of 1.76 per cent in 1986-87, although death taxes are self-assessed. The Inland Revenue are involved in the administration of inheritance tax on large estates and in the valuation of significant holdings of unquoted company shares; but for the majority of estates inheritance tax relies on the complete and accurate disclosure of wealth by the executors of the estate.

Similarly, there were some 220,000 excepted estates in 1991-92, or nearly 10 times the number paying inheritance tax. An excepted estate is one with a gross value (before deduction of debts) below a figure which for 1992-93 to 1994-95 is £125,000 (or five-sixths of the £150,000 threshold). The Capital Taxes Office check a sample of about 2 per cent of excepted estates by calling for accounts from the executors.

Compliance costs

CT Sandford, in his 1988 report for the International Fiscal Association, divides the costs of *operating* a tax system into *administrative* and collection costs, borne by the tax authorities, and *compliance* costs, borne by the taxpayer or his associates. The operation of income tax is at present being altered in this sense to self-assessment for the self-employed; death taxes have been essentially self-assessed for many years.

Thus, the operation of a very complicated system of taxation has been substantially devolved, or foisted, onto the taxpayer. It is indeed a much more complicated system than income tax.

The basic documentation consists of 23 pages of A4:

- the probate application form (PA1; 4 pages of A4);
- note for personal applicants (PA1 notes; 1 page);
- fees payable by a personal applicant; 1 page);
- spouse's contributions (PA5; 1 page);
- schedule of land and interests in land (IHT37; 2 pages);
- schedule of stocks and shares (IHT40; 2 pages);
- return of the whole estate for probate fees and inheritance tax purposes (IHT44; 8 pages);
- do you need to complete an Inland Revenue Account before probate? (IHT205; 4 pages).

In accordance with usual practice, the taxpayer is threatened with penalties if he makes any mistakes in the course of completing this paperchase. Many of the executors required to fill in these forms are

people who have no regular dealings with the tax authorities because they have income from employment, taxed under Pay As You Earn, or from investments taxed at source.

The *administrative cost* of inheritance tax was 2.4 per cent of the tax revenue in 1986-87. But the *compliance cost* of inheritance tax is particularly high, partly because it is so near the logical extreme of self-assessment. The complications of the tax may be illustrated by case studies cited in Appendix 1 of the Comptroller and Auditor General's 1992 report. Case Study D: "It took seven years (1984-91) for the value of share holdings in two companies owned by the deceased to be agreed between Share Valuation Division and the solicitors ..... The agreed value of the holdings was £20,000". Case Study E: "This case was opened in 1986. It took until 1991 for the Capital Taxes Office and the solicitor to reach a compromise agreement on entitlement to agricultural relief. The estate was valued at £364,000."

The compliance and operating costs of inheritance tax might be estimated as follows. In 1991-92 there were less than 25,000 taxpaying estates. A small number of estates would have had to do computations to see whether they were excepted or not, bringing the total from less than 25,000 to say 25,000. Another 5,000 or more estates between the exception level (£125,000) and the threshold (£150,000) would have had to submit a return, bringing the total to say, 30,000. If the cost of executors' time is put at £1000 per estate, this gives £30 million. Add another £30 million for valuation disputes and another £30 million for larger and more complex estates. Total £90 million. Add a further £30 million for lawyers' and valuers' fees. Total £120 million. Add £31.2 million for Inland Revenue administrative costs (= 2.4% x £1.3 billion); round down to £30 million. Total £150 million or 11.5 per cent of the yield of £1.3 billion.

Costs of direct tax allowances and reliefs

The tax-free band below the threshold (£154,000 in 1995/96) cost the Revenue about £4500 million in 1991-92 or about three and a half times the yield of the tax. *Thus, this is a tax like the pre-war income tax, paid only by a small minority and levied on a fraction of its potential base.* Since 1938-39, death duties have fallen from 15 per cent to less than 2 per cent of total Inland Revenue taxes, while income tax has become payable by almost everyone in a full-time job.

The present reliefs have been conceded in response to persistent pressure and are unlikely to be restricted; indeed, business and agricultural reliefs have been steadily enlarged. So, given the national and international tendency to broaden the bases of existing taxes, is there a place in the system for a tax whose yield has shrunk under political and economic pressure to less than a fifth of its potential?

3. SECOND-ROUND AND SUPPLY-SIDE ARGUMENTS

Multiple taxes on saving

Since saving has a time dimension, which spending has not, it is more vulnerable to attack by the tax authorities. Saving may be taxed when it is invested (stamp duty), while it is held (income tax, wealth tax), when it is given away or bequeathed (inheritance tax) and when it is reinvested or realised (capital gains tax).

Wealth tax has never been levied in the United Kingdom, although it was at one time considered a serious possibility.

Stamp duties are levied on the acquisition of certain assets; although they yielded some £1700 million in 1993-94, they are ignored here because (1) they are not an annual tax, (2) the rates of duty are relatively low and (3) they may be abolished in a few years on the acquisition of stocks and shares. In what follows, we are therefore concerned with the interplay of inheritance tax with income tax and capital gains tax.

Capital gains tax is not charged on death, and to this extent capital gains tax and inheritance tax are alternatives. Lifetime gifts attract a charge to capital gains tax as well as a potential charge to inheritance tax: if a taxpayer makes a gift and then dies the next day, the estate is allowed a deduction but not a relief for the charge to capital gains tax in the computation of the inheritance tax liability. Since gifts made more than seven years before death are not liable to inheritance tax, the effective rate of inheritance tax on the transfer of assets varies between zero and 40 per cent (gross) of the value of the estate.

Total burden on taxpayers

The combined weight of income tax, capital gains tax and inheritance tax can be many times the yield of a taxed asset.

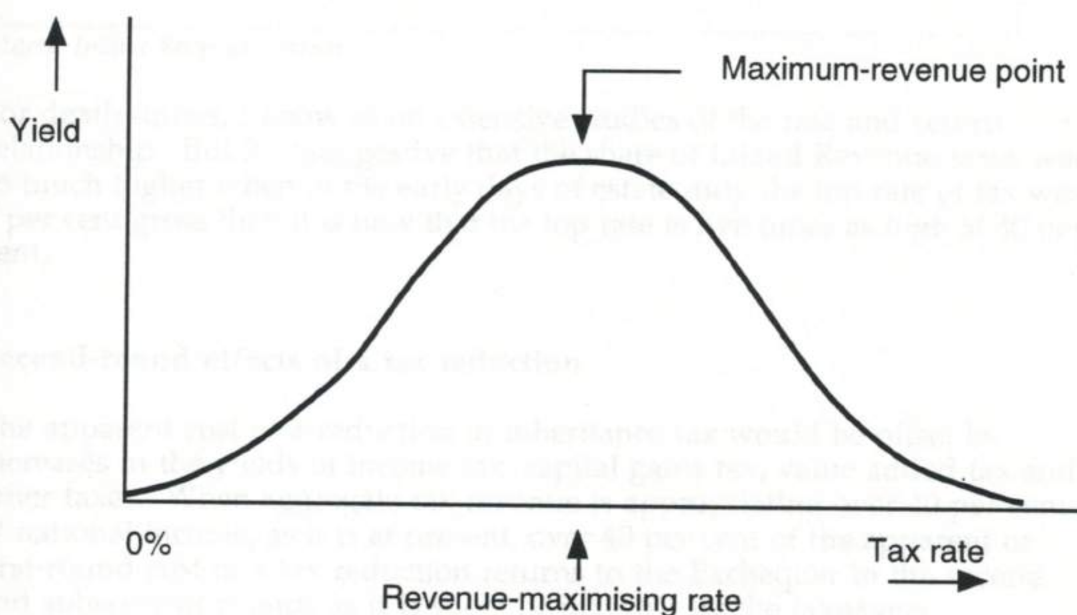
However, each of the three taxes on saving reduces the scope for the other two and the maximum rates at which they can be imposed. Income tax, capital gains tax and inheritance tax are all taxes on the original act of saving and their effect is cumulative: each increases the burden imposed by the others, measured in terms of the yield. Moreover, many assets that escape capital gains tax on death attract a charge to inheritance tax and many assets that escape inheritance tax attract a charge to capital gains tax, so that the two taxes complement each other in increasing the burden of tax

on the original act of saving.

Dupuit/Laffer curve

The idea that taxation can be too heavy, not only for the taxpayers but also for the taxgatherers, was known even to the ancients The concept was given mathematical form by the French engineer A.J.E.J. Dupuit in the mid-nineteenth century; and the curve of tax revenue, rising from zero to a maximum and falling to zero again as the tax rate increases, has been popularised in recent years by the American economist Arthur Laffer. (Figure 2).

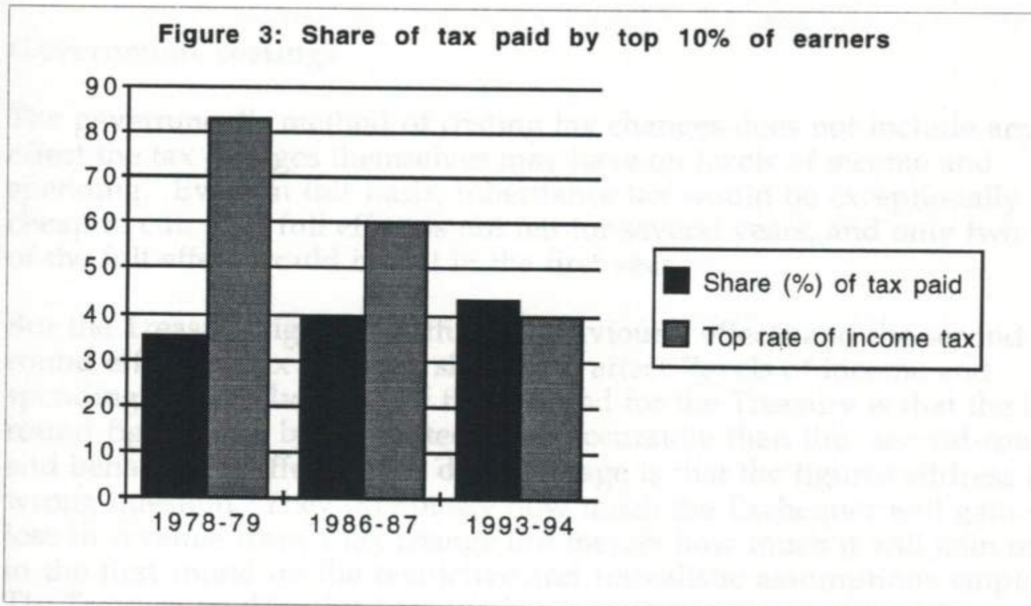
Figure 2: The Dupuit/Laffer Curve



The empirical evidence supports the theoretical argument that the combined taxes on saving reach a revenue maximum at or below about 50 per cent gross.

As long as income tax is charged at up to 40 per cent, there is little room, if any, for taxes on inheritance and capital gains.

The UK figures confirm the Dupuit/Laffer principle. For income tax, including income tax on earnings, the Inland Revenue publishes figures breaking down the shares of total tax liability by percentile. As Figure 3 shows, the share of the top 10 per cent rose from 35 per cent in 1978-79 (when the top rate of tax was 83 per cent on earned income and 98 per cent on investment income) to 39 per cent in 1986-87 (when the top rate was 60 per cent) and to 43 per cent in 1993-94 (when the top rate was 40 per cent).



Source: Inland Revenue Statistics.

For death duties, I know of no extensive studies of the rate and return relationship. But it is suggestive that the share of Inland Revenue taxes was so much higher when in the early days of estate duty the top rate of tax was 8 per cent gross than it is now that the top rate is five times as high at 40 per cent.

Second-round effects of a tax reduction

The apparent cost of a reduction in inheritance tax would be offset by increases in the yields of income tax, capital gains tax, value added tax and other taxes. When aggregate tax revenue is appropriating over 40 per cent of national income, as it is at present, over 40 per cent of the apparent or first-round cost of a tax reduction returns to the Exchequer in the second and subsequent rounds as it is spent or invested by the taxpayers concerned. *The true cost of a tax reduction, including a reduction in inheritance tax, is thus much less than the apparent cost.*

Inheritance tax is levied disproportionately on the most entrepreneurial elements of the economy. Inheritance tax is thus exceptionally damaging per pound of revenue yield by reason of the activity (and associated tax revenue) that it frustrates; and reductions in inheritance tax are correspondingly cheap (or self-financing).

Similarly, new investment can be attracted from abroad by a relatively favourable inheritance tax regime; an unfavourable regime is an incentive to emigrate or keep funds abroad. For bequests in the direct line to children and grandchildren (the most important single category of bequests) the United Kingdom tax regime is one of the harshest in the European Community.

Government costings

The government's method of costing tax changes does not include any effect the tax changes themselves may have on levels of income and spending. Even on this basis, inheritance tax would be exceptionally cheap to cut. The full effect is not felt for several years, and only two-fifths of the full effect would be felt in the first year.

But the Treasury ignores both the behavioural effects and the second-round effects of tax changes, since both affect "levels of income and spending". The advantage of this method for the Treasury is that the first-round figures can be computed more accurately than the second-round and behavioural effects. The disadvantage is that the figures address the wrong question. They do not say how much the Exchequer will gain or lose in revenue from a tax change but merely how much it will gain or lose in the first round on the restrictive and unrealistic assumptions employed. *The Treasury would rather be precisely wrong than approximately right.*

The assumption that income is unchanged also leads to a serious policy error. Experience over the last fifteen years has shown that mobile international capital is substantially beyond the reach of taxation at least in the host country or country of source. Much of the inheritance tax base is likewise internationally mobile and its owners likewise wish if possible to preserve its net-of-tax value or at least to escape the tax. The low yield of inheritance tax at the high rate of 40 per cent suggests that they are largely successful, whether through emigration, tax planning, concealment, spending or otherwise.

Exchequer risk and reward

Inheritance tax at present yields some £1.3 billion a year, and this is the first-round cost of its abolition. Much of this cost would be offset in the second and subsequent rounds by additional tax on the additional spending and investment funded by the abolition of inheritance tax. *With tax in total taking some 40 per cent of national income, these second-round offsets amount to some £520 million, so that the net cost is some £780 million a year in 1994 values, say £800 million. This is the maximum cost to the Exchequer if there are no further offsets.*

However, the assumption of no further offsets is a logical extreme. In practice, it is to be expected that personally owned capital will increase by more than the additional saving funded by the abolition of inheritance tax: the inward movement of capital will rise and its outward movement will fall; saving and investment will rise at the expense of spending, which is taxed less heavily; efficiency will improve with the reduction of tax distortion; and there will be less concealment and evasion.

The Exchequer may gain instead of losing from the abolition of a tax; and on less conservative assumptions the gain could be more, perhaps much more, than the £1.3 billion first-round cost of abolition. In Australia and Canada, the forces of tax competition left the states and provincial

governments, respectively, with little choice but to abolish death duties; and there is no reason to believe that tax competition is less powerful in Europe.

4. CASH FLOW AND ACCRUAL

Another reason why the real cost of abolition could prove negative is the difference between cash flow and accrual.

The accounts of commercial firms that are subject to professional audit are drawn up on the accruals basis, that is, after inclusion of increases and decreases in creditors and debtors. But it is a requirement of business survival that a firm's cash flow should be satisfactory as well as its accrual-based accounts. Both are necessary. If its profit projections are healthy but not its cash flow, it may fail because it cannot pay its day-to-day bills. If its cash flow is adequate but not its profit projections, it is living on borrowed time and storing up trouble for the future.

Central government accounts in the United Kingdom are still prepared and published on the basis of cash flow. This procedure has numerous inconveniences. On the expenditure side, there is no effective distinction between current and capital spending nor between cost-reducing capital expenditure (such as some forms of office equipment) and cost-increasing capital expenditure (such as on schools or hospitals). On the revenue side, it precludes the policy option of investment in a tax reduction.

As has been recognised from the beginning of estate duty, death duties take productive capital from individual owners and transfer it to the government to spend as income. The uneconomic and destructive character of a tax on death takes four separate and cumulative forms.

- First, it is a tax on capital the proceeds of which are available to be spent as income.
- Second, it removes capital from the hands of those who know best how to use it productively.
- Third, once the holdings of personal capital have been destroyed they no longer exist to be taxed a second time (as is confirmed by the disappearance of many landed estates and family firms).
- Fourth, it discourages or prevents the accumulation of new holdings of capital to take the place of those that have been taxed away.

Death duties are like a firm's reduction of advertising, research and development in order to improve its short-term cash flow and bottom line. In the first year or two the firm's policy is almost certain to succeed, although the more far-sighted commentators and analysts may have misgivings. Sooner or later, however, the firm will go under unless the policy is revised. The government, of course, does not go under: it simply makes up the shortfall with yet more taxes.

The present cash-flow method computes each year on the basis of receipts during that year without taking account of future offsets (lower future receipts offsetting higher current receipts), whereas the accruals method takes immediate account of future offsets at the appropriate rate of discount. There is reason to believe that the accrued damage inflicted by death duties not only on the economy but even on the Exchequer has outweighed the first-year or cash-flow benefits to the revenue for many years.

After the centenary of estate duty in 1994, it is none too early to suggest that, *if the government had imposed on itself the discipline of accruals accounting, which is a necessary condition of survival for commercial firms, the yield of estate duty would have been negative in each of the hundred years since 1894*. Death duties are a tax on seed corn, and it is to be expected that they will damage not only the economy but even the Exchequer.

In many parts of the country, such as the West Midlands or the East Riding of Yorkshire, many or most of the long-term family companies that used to be the typical form of business organisation have been driven out by death duties and acquired or replaced, if at all, by quoted companies or their subsidiaries. Quoted companies have been shedding labour in recent years and the unquoted sector is the principal source of new jobs in the market economy. Inheritance tax has thus served to increase unemployment, and the present economic recession would have been less severe if death duties had been abolished a generation ago.

Similarly, there is usually no one who will look after heritage property so cheaply or efficiently as the historic owner; but only a small proportion of heritage property is covered by reliefs from death duties, and the already difficult task of keeping up large properties has often been made impossible by taxation. Important properties have decayed or been abandoned or have required subsidy from the public purse. Here again, the losses to the economy and the Exchequer have been substantial, to say nothing of the reduction in the quality of life.

5. SHORT TERM AND LONG TERM

It is sometimes said that the purpose of saving is to increase future consumption; but I have argued that ownership has an economic life and value of its own. Ownership is a use of funds alternative to consumption, now or in the future. *Capital is indeed a source of potential funds for spending; but the capital may never be drawn down, and there may be no intention ever to draw it down. The accumulation of capital to generate additional income is saving in perpetuity, a concept quite different from that of saving for future consumption.*

Temporary saving and ownership are producer activities. Saving and ownership in perpetuity are a mixture of producer and consumer activities. They are producer activities in so far as they require effort (the forgoing of present or future consumption). They are consumer activities in so far as they yield economic satisfaction.

But the quality of production predominates, as it does when people enjoy their work: work sold on a free market is still production even if it is enjoyed. The enjoyment reduces the economic cost, effort or disutility of the work and may turn it negative; but the value of the output is still positive.

So it is with saving and ownership in perpetuity. Ownership in perpetuity creates wealth because the money works twice, once for the saver and once for the owner, even though they are the same person; the more the enjoyment, the more the owner gains.

In practice, the United Kingdom government conspires against this process of wealth creation, making saving expensive through the taxes it imposes. Despite the political rhetoric, governments of both Parties have been and remain in practice, with limited exceptions, hostile to the principle of personal ownership. With personally held wealth of some £2500 billion, the potential losses from present policies towards personal ownership are very substantial.

Tax distortion

The bias of policy against personal ownership is found in a number of tax distortions, each of which has caused a significant loss of economic wellbeing. Inheritance tax, in particular, does not destroy wealth in the material sense of iconoclasts desecrating churches or muslim fundamentalists smashing bottles of alcohol; but it distorts choices and annihilates immaterial wealth in the mind of the taxpayer, and the effect on economic wellbeing is no less

damaging.

The simplest example of a tax distortion is the effect of inheritance tax on the choice between spending and saving. "That men labour and save chiefly for the sake of their families and not for themselves," says Alfred Marshall in his *Principles of Economics*, "is shown by the fact that they 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... The chief motive of saving is family affection."

Thus saving in perpetuity is the preferred use of funds for the majority of families. This preference is distorted and frustrated by inheritance tax, since the taxpayer expecting to pay the tax can have £100 of spending for each £60 of net-of-tax bequests.

It is also paradoxical that under a regime of inheritance tax at 40 per cent, the poor man's spending costs him £100 whereas the rich man's spending costs him only £60.

Unquoted companies

Another distortion inflicted on the economy by inheritance tax is the burden it imposes on unquoted companies and other owner-managed family firms from which quoted companies are effectively exempt. In quoted companies death duties fall nominally and effectively on the shareholder; the shareholder can sell shares to defray the tax charge, and the company may be little affected, if at all. In unquoted companies death duties fall nominally on the shareholder but effectively on the company itself: the shareholder seldom has cash resources to meet a significant liability, and the liability has to be discharged either indirectly and expensively through the company (which weakens the company financially) or through sale to outsiders (which alters the company's character). *The quality of owner-management, which gives unquoted companies and other unquoted businesses their long time-horizons, thus attracts a discriminatory tax charge to which quoted companies are effectively immune. Once again, inheritance tax makes the economy more "short-termist".*

The liability of unquoted companies to inheritance tax in the absence of entitlement to 100 per cent business property relief is particularly damaging given the dominant motivation of long-term family companies. For all the family firms in a 1984 sample by Donald Hay and Derek Morris, the primary answer was unequivocal. They desire to maintain control, and to pass on a secure and sound business to the next generation. In these circumstances, inheritance tax casts its shadow and distorts behaviour many years in advance of a taxable transfer and does damage out of proportion to its modest yield. The perception of the tax as an ever-present threat may be more important than the reality, especially as its real incidence depends on the lottery of death.

Damage to the capital market

There are wider effects. At least until recently, the personal ownership of shares has been in decline for many years: the Stock Exchange survey of the ownership of listed equities showed 54 per cent as held by individuals in 1963 and the Dewe Rogerson survey published in *The Shareholder* in April 1989 estimated that personal holdings in the FT-SE100 (accounting for around 70 per cent by value of all listed equities) had fallen to 18 per cent at end-1987; although the figures are not strictly comparable, the order of magnitude (a reduction of some 35 points in 25 years) is not in dispute.

The reason for the decline in the personal ownership of shares has been above all the disadvantageous tax treatment of the personal owner by comparison with the institutional owner: in particular, the personal owner is liable to inheritance tax and is subject to capital gains tax on rearrangements of his portfolio.

The decline of the personal owner also has "short-termist" implications. On balance, personal share ownership has a longer time-horizon than institutional ownership. Loyalty to companies in the portfolio must inevitably rank low in the value scale of fund managers, whereas it may rank high in that of individuals. Cultural and legal biases in favour of institutional ownership relatively to individual ownership may increase the volatility of share prices and otherwise aggravate the problem of "short-termism" and hostile takeovers.

Conclusion

The policy implication of the argument is therefore that the damaging distortions caused by inheritance tax (and other taxes on saving) should be removed by the abolition of the offending taxes.

The advantageous treatment of financial institutions relatively to personal owners may be corrected by curtailing the tax privileges of the institutions or by extending them to natural persons. But it is clear that saving is taxed too heavily, not too lightly, and indeed that there is no satisfactory way of taxing savings: aligning the tax treatment of institutions and natural persons should therefore be achieved by extending to natural persons the favourable treatment at present enjoyed by the institutions. This argument has been discussed at length elsewhere.

6. OWNERSHIP AND STEWARDSHIP

The short-term or temporary owner, who saves and invests merely to increase his spending in years to come, is Rothbard man, a simple or simplistic maximiser of his own satisfaction through the consumption of goods and services. But most people do not resemble this logical extreme. As Marshall says, most people accumulate capital and live on the income, in so far as taxes permit them to do so; saving in perpetuity is the rule rather than the exception.

Benefit to society

Where the owner is saving in perpetuity rather than for additional consumption in later years, he may come insensibly to regard himself as a steward rather than an outright owner and to behave accordingly: in particular, he is reluctant to draw down capital even though his heirs may well enjoy a higher standard of living than his and his needs are in this sense greater than theirs. Alternatively, he may be drawn into the role of steward by a prudential aversion to living from capital. If the estate is a house and a portfolio of financial assets, the concept of stewardship need not be formal or explicit, and leaving the capital intact may be the result of habit rather than original intention.

It is otherwise if the owner owns a historic house or a family farm or firm. Here the moral obligation is clearer and more tangible: to maintain and improve the property and hand it on to the next generation in so far as market forces, costs and death taxes permit.

The advantage of the owner's acting as steward is the economy of the arrangement. He fulfils two roles for less than the cost of one: the steward's work he does for nothing and as owner he takes less from the estate, perhaps much less, than he could. Since he is doing both jobs himself, the lines of communication are shortened, and since he is a volunteer, there is no conflict between his two capacities. The arrangement avoids the hazards of the agency principle (that the agent always follows his own interest in some measure and never entirely that of his principal). The owner has a longer time-horizon than any other steward.

For land and family firms, the advantages of personal stewardship can extend to third parties such as employees and neighbours. The reality of these advantages is shown by the regret that is often expressed when a long-term landed estate or family firm goes under, whether through death duties or for other reasons. And the reality of the financial sacrifice made

by the owners of landed estates and the owner-managers of family firms in continuing to act in these capacities is attested by the substantially higher incomes or levels of personal spending that they could generally obtain by relinquishing their responsibilities, selling out and reinvesting the proceeds.

Tax implications

There is no taxable capacity in the capital value of an asset held in perpetuity. This is illustrated by the "farmer's paradox": if an asset is held in perpetuity and is subject to death taxes, a rise in its value that apparently makes the taxpayer richer in reality makes him poorer. Most assets passing on death are held in perpetuity, and attempts to levy tax on a base without taxable capacity cause disproportionate damage elsewhere.

7. GIVING AND WEALTH CREATION

Giving not a zero-sum game

The idea that the ownership of riches confers economic enjoyment independent of the income they produce is of great antiquity as well as being common sense. By contrast, in mainstream economic doctrine, giving has been treated as a zero-sum game in which the gains of the recipient are matched by the losses of the donor: gifts are a form of transfer payment; and in the conventions of national accounting, wealth is neither increased nor diminished by transfers from one economic agent to another.

The gains of donor and donee are analysed in my monograph *The Wealth of Giving*. The position of the donee is the simpler of the two, in that he may be assumed to gain by the market value of the gift. But the donor gains too: he controls the funds he owns and can use them for spending, saving, investing, lending, hoarding, gambling, giving. It is not rational for him to give unless the satisfaction (utility, welfare) he obtains from giving exceeds the satisfaction obtainable from alternative uses. Far from contributing to a zero sum in which the gains of the gainers exactly match the losses of the losers, the act of giving at least doubles the value of the gift.

The argument holds good only for voluntary giving and does not apply to involuntary transfers like taxation. The argument thus gives strong support to the substitution of charitable funding for the funding of public causes from pooled tax revenue. Voluntary giving is economically productive as well as having a moral or ethical dimension which compulsory payments like taxation inevitably lack.

Quantification

Some £75 billion a year passes in lifetime transfers and bequests. This is 12.6 per cent of gross domestic product in 1992 and compares with the yield of income tax at £57.7 billion in the same year and the yield of value added tax at £41.4 billion. The wealth created by giving is at least twice the amount given, or £150 billion a year. This is the amount that would be jeopardised by a deterioration in the tax regime for giving and bequest.

Similarly, a minimum figure can be calculated for the wealth destroyed by the existing inheritance tax, which yields some £1.3 billion a year (1993-94). I have shown in *The Wealth of Giving*:

- (a) that a tax on giving cannot be more than partially absorbed by the donor;

- (b) that a tax on giving always causes a social loss, through the destruction of donor's countervalue and surplus;
- (c) that the social loss (or wealth destroyed) always at least equals the revenue yield.

Thus the wealth destroyed by inheritance tax (excluding the transfer payment represented by the yield of the tax) is *at least the £1.3 billion yield of the tax* and may be *up to three times as much.*

In addition, there is the wealth destroyed by economic distortion and behavioural changes in response to the perception of the threat of inheritance tax. Inheritance tax casts its shadow for many years before it is charged and can influence behaviour throughout this period, generally for the worse, as is normal for a tax distortion. Although it is not possible to quantify this tax distortion, the length of the period over which it operates suggests that it is likely to be a multiple of the revenue from the tax. *Thus, the wealth destroyed by inheritance tax could easily total five times or more the yield of the tax.*

8. REDISTRIBUTION IN REVERSE

The original purpose of death duties was to raise tax revenue at a time and in a manner convenient to the government. Death duties of a few percentage points were like stamp duties at similar rates on the passage of title and left the bulk of the estate intact.

In the latter half of the nineteenth century, death duties acquired the additional rationale of *redistribution*. The idea gained currency that significant holdings of personal wealth were a proper target for taxation. Rates of death duties were raised, in the United Kingdom and elsewhere, a process which continued in the twentieth century.

Concentration of wealth

One argument used to support this policy was that wealth had a natural tendency to become overconcentrated. But it is ironical that the "problem" of the overconcentration of wealth was first identified some time after it had already been solved. It is true that there can be an overconcentration of wealth caused by restrictive systems of property rights and other forms of government economic intervention, as in the *latifundia* of classical Rome and (more recently) parts of Latin America. *The remedy is to remove the restrictions, not to tax their beneficiaries.* In an entrepreneurial society, old money will have difficulty in maintaining its position in the face of competition from new money. *This is the free-market solution to any problem of the overconcentration of personal wealth.*

There is indeed a problem of the overconcentration of wealth and power in present-day Britain. *Too much money is owned and controlled by pension funds and other financial institutions, whose beneficial owners, the pensioners and others, have little or no control over what is done with their money.* This unsatisfactory situation is largely the result of a system that charges individuals with death duties and other taxes from which financial institutions are exempt. What is required to correct this distortion is a removal of the present bias that taxes personal holdings of financial assets more heavily than institutional holdings. This means the abolition of inheritance tax.

It is also ironical that *inheritance tax militates against plans and arrangements for giving employees of unquoted companies an interest in these companies as shareholders.* In a fiscally neutral system, that is, a system without inheritance tax, family companies can strengthen the community of interest between family and employees by means of an employee shareownership

scheme. For family companies subject to inheritance tax, however, this is difficult or impossible. The employee shareholders, like shareholders in general, will wish to see their shares rise in value. But the family shareholders, as savers in perpetuity, have no such interest; on the contrary, as we noted from the farmer's paradox, an increase in share value makes them worse off, not better off, if the transfer of shares is subject to inheritance tax. The employee shareholders wish to maximise and the family shareholders to minimise the value of their holdings: the existence of inheritance tax makes employee shareownership a source of conflict rather than harmony.

Concentration of tax

Just as death duties serve to concentrate wealth and power in impersonal financial institutions rather than in the hands of individuals, their redistributive impact is similarly perverse.

At the lower end of the scale, estates are exempt from inheritance tax below a threshold (£154,000 for 1995-96). At the higher end of the scale, there is scope for avoiding the tax by transferring assets to the beneficiaries more than seven years before the death of the transferor. Between £154,000 and £500,000, however, there is little escape: neither of these defences is so effective. The taxpayer needs somewhere to live: a lifetime gift of the home in which he continues to live does not secure an exemption from inheritance tax. He also needs a modicum of free financial assets to secure his independence. So it is often difficult or impossible to reduce an estate to anywhere near the threshold of £154,000; and at 40 per cent the tax is heavy where it falls.

This concentration of the tax burden in the middle of the range could be corrected by reducing the burden in the middle of the range or increasing it at the top. The former of these alternatives is preferable to the latter.

Spending and saving

If the purpose of fiscal redistribution is to make living standards more equal, a tax on capital may be perverse in the sense of achieving the opposite.

All taxes may be classified as *taxes on spending* or *taxes on saving* or a combination of the two. For every taxpayer, spending and saving are alternatives: they have a rate of exchange against each other, like the rate of exchange between the pound and the dollar. In a tax-free world the rate of exchange is 1: that is, £100 of spending can be exchanged for £100 of saving and *vice versa*. A tax system is impact-neutral between saving and spending if both are taxed at the same rate; if saving and spending are *both* taxed at 25 per cent net, the rate of exchange remains 1, as in a taxless world.

At present nearly half consumer spending is untaxed; most of the remainder is subject to value added tax at 17.5 per cent; petrol, spirits and

tobacco are subject to tax at several hundred per cent. Overall, the net rate of tax on spending is of the order of 10 per cent. Saving is much more heavily taxed, since it is subject to income tax at 25 or 40 per cent gross (33 or 66 per cent net) plus capital gains tax plus death duties.

It follows that a tax on saving reduces the taxpayer's cost of spending: using real-life figures reveals that he can have more than two and a half units of spending for each unit of saving ((100-10)/(100-66)). This severe fiscal distortion is a strong discouragement to save and encouragement to spend.

Saving is predominantly an activity of taxpayers above the median. Cumulative and graduated taxes on investment affect these above-average taxpayers more than those lower down the scale. Rich and poor appear to pay the same for their spending; but the rich taxpayer pays much less for his spending than for his saving and much less for his spending than does the poor taxpayer. In this sense the tax system "subsidises" the rich taxpayer's spending relatively both to his own saving and to the poor taxpayer's spending.

This result, which is to be found in other industrialised countries as well as the United Kingdom is by redistributive standards perverse: *if redistribution has any rationale, it is to increase the spending of the poor, who need it more, at the expense of the rich, who need it less* and, in particular, *to discourage the spending of new money in the manner of a one-generation society. The present inheritance tax does exactly the opposite.*

Impact and incidence

Taxes often affect many people other than those they target. This is certainly true of inheritance tax.

Ownership and giving, as we have seen, create wealth; but they have no corresponding taxable capacity: the wealth created is in the mind of a personal owner and cannot be appropriated in taxation. Attempts to tax personal assets inflict losses on the economy when the assets are destroyed through underfunding and neglect or when the state has to pay for their upkeep which a personally motivated volunteer owner would have undertaken for nothing.

It follows that *taxes on personal ownership and giving harm the economy as well as the taxpayers on whom they are levied*. Taxes on personal ownership are taxes on vocation and commitment: they reduce or destroy the economical activity of the personal ownership of personal assets and replace it with a more expensive or less effective government substitute: either way, society loses. Moreover, taxes on perpetual ownership impose on borrowers repayment obligations that would be unnecessary otherwise. The additional wealth created by giving is a *public good* and as such is an unsuitable base for taxation: inheritance creates wealth which cannot be captured by taxation, only destroyed.

An immoral tax

Death duties are objectionable as a lottery, a tax on misfortune and bereavement, a means of redistributing wealth from the sick and unfortunate to the government. They are also objectionable as a tax on heroism and self-sacrifice, as when a man attracts a charge to inheritance tax by dying in an attempt to save the life of another. And they are objectionable because they reward the government for the dereliction of its duty, as when tax is levied on a victim of street crime or burglary. All these distributive results are perverse, although they are generally unintended. To remove them requires the abolition of inheritance tax.

9. FISCAL NEUTRALITY

As well as the removal of the tax distortion between spending and saving, there are many distortions between different kinds of saving to consider too.

Distortions within saving

For example, interest on National Savings Certificates is free of income tax, as is income from Personal Equity Plans (PEPs) and the build-up of pension funds. Capital gains on PEPs and the build-up of pension funds are exempt from capital gains tax, as are the principal residences of individual taxpayers. Private pension contributions are a deduction from taxable income and thus relieved at the taxpayer's highest tax rate, as were subscriptions to the Business Expansion Scheme. Subscriptions to the Enterprise Investment Scheme (Finance Act 1994) are tax-deductible, but only at a fixed rate of 20 per cent. Payments of private pensions are taxable; but the pensioner may encash a quarter or more of his fund free of tax.

For inheritance tax, bequests to spouses and charities are exempt, as are bequests from those dying on active military service. The most important category of exempt assets is agricultural property and business property in holdings of more than 25 per cent. Relief is given at 50 per cent or one half of the rate otherwise chargeable for business property in holdings of 25 per cent or less and for agricultural property not entitled to 100 per cent relief.

The most favoured forms of saving enjoy one, two or even more layers of tax privilege by comparison with the least favoured. All this represents a powerful and effective incentive to move into the savings media enjoying higher degrees of tax privilege.

Income and expenditure

In *Which Road to Fiscal Neutrality?* the Institute of Economic Affairs addressed the question of the relative advantages of the *high road* to expenditure taxation through levelling up reliefs for saving and the *low road* to income taxation through levelling them down until all forms of saving are subject to income tax.

The late Philip Chappell argued for the low road, primarily on the ground that the revenue so generated by this extension of the tax base would make

possible large reductions in the rates of income tax. John Kay argued for the high road largely on the ground that tax reliefs for investment income were now so widespread that an attempt to tax all forms of investment income would cause far more upheaval than an extension of existing relief to savings media that did not enjoy them already.

I maintain that the high road to fiscal neutrality between the various forms of saving is superior to the low road of income taxation by the criterion of neutrality between saving and spending, because income taxation taxes saving twice.

As between the various taxes on saving, the abolition of inheritance tax should have top priority. Inheritance tax is arbitrary in its incidence, depending as it does on the accidents of mortality; and the damage it does to the economy is out of proportion to its yield. The abolition of inheritance tax is thus the first stage on the high road to fiscal neutrality.

Budgetary arithmetic

The £1.4 billion first-round cost to the tax revenue of abolishing inheritance tax (forecast for 1994-95) is reduced when account is taken of what happens to the money so tax-relieved. With tax taking more than two-fifths of national income, two-fifths and more of the yield lost through the abolition of inheritance tax will flow back to the revenue in the form of additional yield from taxes on the additional spending and saving.

Also, a reduction of inheritance tax encourages desirable behavioural changes such as the continuance (instead of the fiscal annihilation) of family companies, the encouragement of the immigration and discouragement of the emigration of capital and the encouragement of a shift from spending to saving. Thus enlargement of the tax base in total could outweigh the "headline" loss of revenue from the reduction of inheritance tax many times over.

As we have seen, on an accruals basis, where future negative yields are taken into account as well as present positive yields, the yield of inheritance tax may be on balance negative rather than positive and the yield of death duties in their various forms may have been consistently negative ever since their inauguration in 1894.

In so far as the abolition of inheritance tax is reckoned to reduce tax revenue, however, this loss of revenue must be set in context. The £1.4 billion first-round cost of abolishing inheritance tax is the estimated full-year cost in 1995-96 of reducing the basic rate of income tax by three-quarters of a penny. The Budget papers show an increase of £53 billion or 18 per cent in general government expenditure planned for the four years between 1994-95 and 1998-99 and an increase of £89 billion or 35 per cent in general government receipts planned for the same period. £1.4 billion is 2.6 per cent of this increase in general government expenditure and 1.6 per cent of the increase in general government receipts. *In the face of these figures it is hardly possible to argue that the government cannot afford to abolish inheritance tax.*

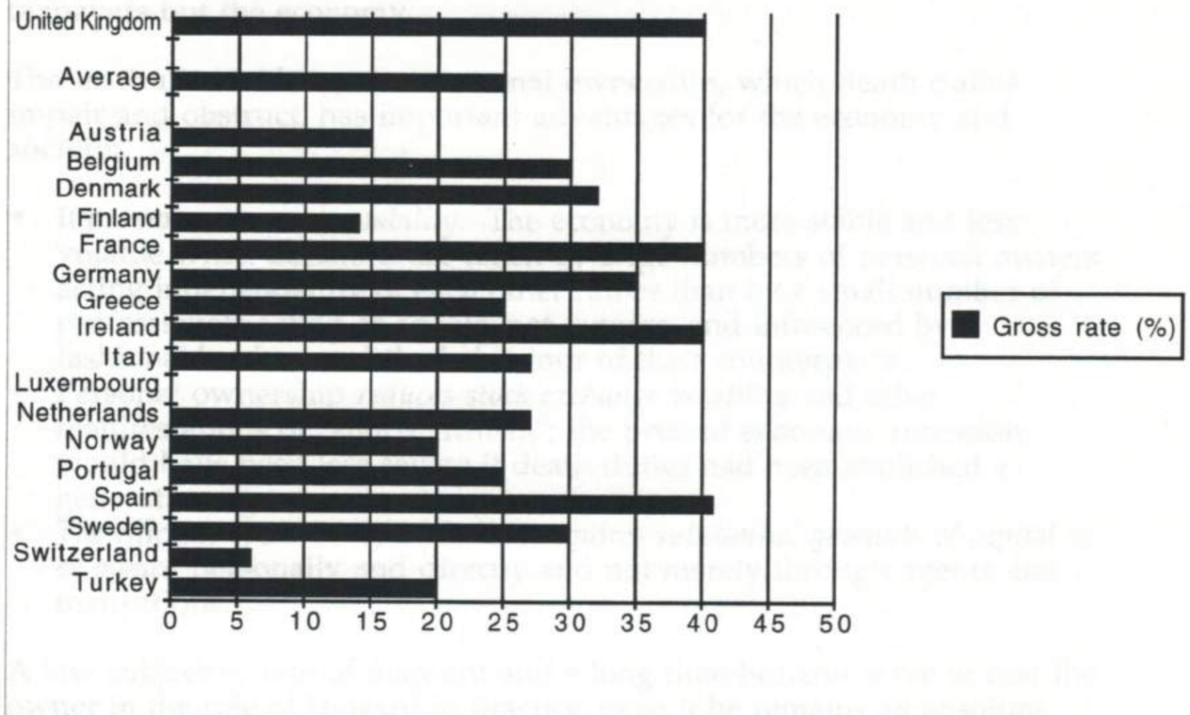
10. CONCLUSION

During most of the postwar period it was widely regarded as impossible to abolish death duties in Britain. Whether or not this was a correct assessment at the time, the truth is now the opposite: *a proposal to reduce inheritance tax would now be a political asset, not a liability.* Most people in Britain now think of themselves as owners with a stake in the country. The increasing popularity of home ownership over the last generation has extended to the ownership of assets in general. *Inheritance tax is perceived as a threat not only to those with estates above the threshold but also to those aspiring to that position.*

The same movement of opinion and policy is to be found abroad. A French opinion poll a few years ago found two-thirds of respondents hostile to all forms of succession duty. Australia and Canada have abolished death duties in recent years, largely as a result of fiscal competition between state and provincial governments respectively. The 1985 Annual Report of the International Bureau of Fiscal Documentation noted: "More and more countries in Asia and the Pacific are abolishing their gift and/or estate duty systems (Sri Lanka, India, Bangladesh, Fiji, Pakistan) or have simplified the rate schedule (Singapore, Malaysia). The revenue from these taxes is very small and often does not justify the cost of collection".

Despite its fragile political support, *inheritance tax is heavy in Britain by comparison with the rest of Western Europe.* The British proportional rate of 40 per cent compares with an average top rate of some 25 per cent elsewhere in Western Europe for bequests in the direct line (children, grandchildren), which are the most important single category of bequests. (Figure 4). The British rate of 40 per cent comes in at £150,000, whereas the German top rate of 35 per cent is not levied on inheritances of less than DM 100 million (about £40 million).

This report has addressed the question whether a tax that is heavy by international standards and lacking in solid political support serves any useful purpose for any interest group. Or do its disadvantages exceed its advantages for all the interested parties, including the Exchequer?



Source: *Taxation of Individuals in Europe*, International Bureau of Fiscal Documentation, Amsterdam.

The yield of inheritance tax is low (Section 2): it represents a small proportion of the *increase* in total revenue or government expenditure from year to year and its abolition can therefore be funded from a small reduction in one year's *increase* in government expenditure. *The administrative costs of collection are higher than for most other taxes, and the compliance costs are much heavier again,* since the tax is both complicated and self-assessed. *The tax is levied on only a small proportion of its potential base,* which indicates a tax lacking any firm political support or clear economic rationale.

Government costings of changes in tax rates exaggerate both the cost of a reduction and the gain from an increase (Section 3). They address the question, *what is the apparent or immediate effect of this change on the tax revenue?* and not the question, *what is the real or ultimate effect?* Second-round effects reduce the cost of a reduction in inheritance tax by some two-fifths; incentive effects can reduce it to zero and beyond, so that the Exchequer really gains even though it appears to lose.

The benefit of death duties to the Exchequer and the cost of their abolition are both also exaggerated by the practice of measuring tax revenue in terms of cash flow (Section 4). On the accruals basis that is normal or even obligatory in commercial life, *the yield of death duties to the revenue may have been negative in every year since 1894,* the positive cash yield in each year being outweighed by the negative accruals in all future years caused by the destruction of the tax base through death duties.

For the individual to have a long time-horizon and discount the future less

heavily than the market is a form of wealth creation which death duties make difficult or impossible (Section 5). The losers are not only the taxpayers but the economy.

The institution of long-term personal ownership, which death duties impair and obstruct, has important advantages for the economy and society:

- It *promotes economic stability*. The economy is more stable and less volatile when decisions are taken by large numbers of personal owners acting independently of each other rather than by a small number of professionals acting as agents, not owners, and influenced by fashionable ideas and the behaviour of their counterparts.
- Personal ownership *reduces stock exchange volatility* and other manifestations of "short-termism"; the present economic recession would have been less severe if death duties had been abolished a generation ago.
- *The efficient operation of capitalism requires substantial amounts of capital to be owned* personally and directly and not merely through agents and institutions.

A low subjective rate of discount and a long time-horizon serve to cast the owner in the role of steward in practice, even if he remains an absolute owner in theory (Section 6). This doubling of roles has large advantages for the economy and for society. The owner-manager of a long-term family company regards the company as not his to sell: his first duty is to hand over the company to the next generation. Society and the economy are enjoying his services as a committed, full-time owner-manager for less than he would be paid as a passive portfolio investor; but this advantageous arrangement is always threatened and often frustrated by death duties.

Similarly for heritage (and other) assets. *Personal ownership is the cheapest and most effective way of keeping heritage assets in good order* and improving the quality of real property and the appearance of the countryside.

More generally, capitalism requires capitalists, not least employee shareholders: it cannot work with full efficiency unless personal ownership is widespread, some of it in substantial holdings. This process of dispersal is inhibited by inheritance tax: wealth is created by the institution of personal ownership and is destroyed by its taxation.

Death duties also damage the economy by frustrating the creation of wealth through giving and bequest (Section 7). Giving is not merely a transfer of wealth but an act of wealth creation, since the donor will not give unless the satisfaction he receives from giving exceeds the satisfaction obtainable from consumption or other alternative uses of the assets. Inheritance tax or any other tax on giving always causes a social loss which at least equals the revenue yield.

The redistributive effect of death duties is also perverse (Section 8). They cheapen the spending of the rich relatively both to their own saving and to the spending of the poor. *Inheritance tax in its present form falls most heavily on estates in the middle range, say from £154,000 to £500,000.* Inheritance tax is

thus above all a tax on middle wealth and rising wealth.

Like other death duties, inheritance tax is also objectionable on moral grounds as a tax on bereavement and misfortune, a wealth tax imposed through the lottery of death. It is fiscal nationalisation without compensation, and its reduction and abolition constitute the fiscal equivalent of privatisation.

The many anomalies and inconsistencies should be removed by the reduction and abolition of inheritance tax and not by its increase or extension (Section 9). *The abolition of inheritance tax would be a step along the high road to fiscal neutrality through the taxation of expenditure.* The £1.4 billion cost of abolishing inheritance tax (forecast for 1994-95) could be paid for by limiting the 18 per cent increase in general government expenditure (GGE) between 1994-95 and 1998-99; it ought not to be difficult to reduce the growth of GGE from £292 billion to £344 billion instead of £345 billion.

Tax reduction is an investment in economic health and future prosperity; and this is pre-eminently true of the abolition of inheritance tax, since money otherwise made available for spending as income by the government remains as productive capital in the hands of the taxpayers.

Outright abolition of inheritance tax is the cleanest and most satisfactory solution to the problem. Abolition would also have the major advantage of securing the position of the United Kingdom against inheritance tax "harmonisation" or other forms of interference from the European Commission. *There is perhaps no major competitive advantage inside and outside the European Union that can be secured more cheaply than through the abolition of inheritance tax*; the United Kingdom would gain doubly, through the improvement in the relative position of British business and through the attraction of internationally mobile funds.

The abolition of inheritance tax would assist business and personal investors to rebuild the capital base which has been so severely eroded over many years by capital taxation and, more recently, by the recession. But the abolition of inheritance tax is not primarily a policy response to current economic underperformance, even though it is helpful in this context.

Inheritance tax is a problem of the long term rather than the short. It is now increasingly accepted that family farms and firms should not be subjected to inheritance taxation because it is economically damaging: it makes no sense to oblige them, as a condition of economic survival, to reinvent the wheel from one generation to the next, when quoted companies are able to expand from year to year without the impediment of taxes levied on death or lifetime transfers.

But the same argument applies to families with passively held assets as to families in trade or business: they do not want to go to the bottom of the snake in a game of snakes and ladders every time anyone dies. Nor is there any reason why they should. Prosperity, in the sense of real income per head, should increase over the years to come. This increase in prosperity should be reflected in an increase in assets per head. A rising standard of

living should be reflected in ownership of assets increasing from each generation to the next through the institution of *inheritance without taxation*.

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