



A classical liberal approach to inequality and inheritance

Is inequality a problem? Patrick van Schie and Mark van de Velde look at whether equality is actually a core value to liberals

inequality is growing. This is increasingly what is being said in the media and as part of the wider public debate. Generally, this is followed up with the idea (implicit or not) that something needs to be done about it and preferably by the public authorities.

Can liberals (classical or otherwise) shrug their shoulders in response to this or should they be concerned about such inequality (averred or not)? Sometimes the response is to downplay inequality and to dispute that it is on the increase. This is also commendable in so far as the claims of inequality (whether growing or not) are incorrect.

Neither the views that are trumpeted loudest nor juggling with figures may disturb our view of the actual situation. At the very least, any political approach designed to reduce inequality would need to be based on the appropriate facts.

Yet liberals would do well to do more than cry, 'It's not that bad'. Even if we agree (with others) on the facts, we need to question whether inequality is actually a problem. Is equality actually a core value to liberals?

A spectre of completely equal people

In 1891 the German liberal leader, Eugen Richter, published a novel called *A Social-democratic Vision of the Future*. In it he seriously considered statements made by contemporary socialist leaders about their equality ideals and he described their implications.

If the socialist ideals that had been proclaimed were to be implemented, no one would be permitted to earn more than anyone else, no one would be allowed to possess more than anyone else – savings would be prohibited in order to achieve this – no one would be permitted to live more expansively or to eat more copiously than anyone else – consequently, it would be mandatory for people to eat in soup kitchens – and so forth.

A sombre, joyless society was the outcome, one in which a constantly expanding police force checked whether everyone was towing the line. Protest was suppressed and one was prohibited from leaving the socialist utopia.

Nowadays, we recognise this as the 'actually existing socialism' in the former German Democratic Republic (GDR) or any other communist dictatorship. As such, the liberal Eugen Richter predicted the unpleasant features of a society in which all are treated equally more than half a century before the GDR was established.

[We believe in] a relationship-neutral inheritance tax which gives heirs an equal tax treatment and allows the testator to choose how he or she wishes to distribute the inheritance, without government interference

Nowadays, social democrats and many others on the left would not countenance such a form of equality enforced in every respect. Nevertheless, Richter's novel clearly shows that such overall equality does not create an idealistic world but a horrific one.

Although few people on the left would still want to make everything completely equal, they would like to see numerous issues become *more equal* in many respects. If there is inequality in relation to income and wealth, they demand levelling.

They would prefer to even out any differences in levels of education through comprehensive school structures. Where men and women engage in different occupations and professions, they are quick to say that discrimination abounds.

And so it goes. Put in a nutshell, while socialists want greater equality, liberals prefer more freedom. However, this does not mean that liberals reject *all types* of equality.

Equality as part of the liberal approach

To liberals, the individual comes first. An individual must be afforded an opportunity to make their own choices in life. In order to do so, it must also be possible for them to make such choices. This is called autonomy. Freedom and autonomy are essential starting points for liberals.

Every individual is entitled to freedom. No individual may claim greater freedom than another. Put another way, in a liberal society everyone has an *equal* right to freedom.

The government must intervene (or be able to do so), if one person's freedom occurs at the expense of another, irrespective of who the latter is. Every person is equal before the law. As such, liberals want *equality under the law*.

As long as the fundamental rule is observed that every person should be able to avail himself of his freedom, the public authorities need to act with restraint. Nevertheless, almost all liberals feel that some important or at any rate essential matters cannot be left to the individual or collaborative enterprises of individuals (associations, foundations, companies and so forth).

Liberals also look to the public authorities when it comes to ensuring safety, establishing infrastructure or providing basic education and the most essential healthcare. In so far as collective decision-making is necessary or inevitable, in principle, they would like all people to be able to influence it in equal measure. As such, liberals also stand for *political equality*.

When it comes to education, we are also touching on an important part of a third aspect of the liberal approach: *equal opportunity*. Where your cradle once stood, should not matter when considering the extent of your potential self-development.

It is not the individual's origins which matter to liberals but their future. The rules differ in what they consider to be required in relation to equal opportunity.

Nevertheless, they will never automatically conclude that there was never any question of equal opportunity merely based on the existence of specific forms of actual inequality. Yet this occurs all too often in the public debate concerning inequality.

Celebrate diversity

The idea that every individual is unique is an important principle to liberals. This does not mean that we do not share common features, nor does it entail that in practice people sometimes – to reflect the statistics – have a tendency to make similar decisions in identical situations.

Even so, no single individual, and this also applies to identical twins, is entirely identical to another. Neither is every situation in one person's life always identical to that in another's.

Individuals differ in terms of their personality, interests, preferences and talents, and in their need or willingness to make an effort, to take risks or to remain calm. Given the freedom to do so, they therefore make very different choices which could logically lead to highly diverse outcomes.

Sometimes luck plays a role in this respect although similarly we – as liberals at any rate – do not begrudge someone the fortune of winning a jackpot in a lottery or the benefits of a coincidental discovery which is cleverly marketed in the same way that we would not find it appropriate for a goal to be disallowed because the ball coincidentally landed in a fortuitous manner before the feet of the goalscorer.

In addition, life is not a competition and it is far from certain that success – luck – can only be measured according to the extent to which someone is well heeled.

One person may pursue success through a generously salaried career in a bustling cosmopolitan environment, while another may opt for the peace and space of an outlying area, where life is less hectic and nature is closer at hand.

People are not identical in this respect either, fortunately so. After all, a person is not a number, not a statistical item but a creature of flesh and blood.

Liberals feel that people should be able to develop their potential based on their own aptitude and interests. This produces a pluriform society, the result of acknowledging the unique nature of every individual.

'Correcting' such outcomes, which seeks to eliminate or reduce inequality, amounts to an affront to the dignity of the individual. Brushing away inequality which has arisen due to the different decisions that free people have made is only possible by depriving them of their liberty.

Indeed, it is then that a liberal will opt for freedom rather than equality. No person is identical to another. It is for this reason that we liberals do not deplore and combat such forms of inequality but celebrate them instead.

We concur with Friedrich Hayek (1899-1992) when he says, *"If the result of individual liberty did not demonstrate that some manners of living are more successful than others, much of the case for it would vanish."*

Financial autonomy versus equality of opportunity

It should be acknowledged that some people do not owe their socio-economic position to their own success in life but to that of their parents. Through an inheritance they benefit, without having provided any substantial service, from the dexterity, luck or thrift of the previous generation.

Liberals are traditionally divided as to how desirable this is. On the one hand, it is perfectly natural for parents to want to give their children the best possible start in life, but on the other hand, some children are given an undeserved advantage that is at odds with the ideal of equality of opportunity.

Anyone who had hoped that the left-wing economist Thomas Piketty would have something original to say about this dilemma in his weighty tomes, *Capital in the Twenty-First Century* and *Capital and Ideology*, will be severely disappointed. Piketty worries that inheritances will further exacerbate what he sees as the already excessive wealth inequality and therefore advocated higher inheritance taxes.

However, in most European countries there is no single inheritance tax but rather a complex system with all sorts of rates and exemptions. The essence of such a system is that the further an heir is distanced from a testator, the more they will pay in the way of inheritance tax.

In Piketty's own France, for example, children pay exceptionally little inheritance tax, whereas unrelated heirs (a good friend, for instance) are immediately required to remit 60% to the tax office. Although the differences are less extreme in the Netherlands, there too a friend or acquaintance pays three to five times more inheritance tax than a child.

Are inheritances deserved?

This progression based on kinship is at odds with the most important justification for inheritance tax, which says that if a person is required to pay tax on the financial fruits of their labour, it is perfectly reasonable to require children to pay tax on wealth accumulated by their parents. After all, it is not the child's merit to have a wealthy parent.

Nevertheless, in many countries children are automatically entitled to a certain part of the inheritance and, as mentioned, at a far more favourable rate than those who are not children. There is the rub because, if there is a single category of heirs who can definitely be said to have deserved their inheritance, then it is those heirs who are not related to the testator.

For why would a testator want to leave all or some of their assets to someone who in genetical terms is an utter stranger? Apparently, such an unrelated person has shown themselves to be somehow deserving in the eyes of the testator.

The testator needs to take action (draw up a will) to ensure that such a deserving person obtains an inheritance. On the other hand, parents need not do anything to ensure that their children inherit.

Their estate automatically goes to their offspring upon their death by operation of the law. The fact that unrelated heirs must nevertheless pay much more in the way of inheritance tax is extremely questionable from a liberal perspective.

In his books Piketty constantly casts doubt as to whether someone has actually deserved their wealth in moral terms. For example, in an aggrieved tone he writes that the late Steve Jobs' wealth amounted to one sixth of that of Bill Gates, although Apple's products are considerably more innovative than those of Microsoft, according to those in the know.

Whether he is right in this respect is another matter, but you would expect someone as obsessed with inequality and earnings as Piketty to denounce the tax discrimination against unrelated heirs. Yet he remains completely silent on this matter.

Given a tax rate of 60% in the case of friends and acquaintances, Piketty can probably not imagine any Frenchman wanting to leave money to a person who is not a member of his family, although it would have been to his credit if he had stopped to put himself in the shoes of the growing elderly population without children.

Considering the fact that inheritances for unrelated heirs automatically involve merit – from the testator’s perspective, at least – one could even argue that it is precisely this category of heirs that should actually pay less tax than heirs who are related to the testator by blood.

However, such a system would suffer from exactly the same shortcoming as the current systems in Europe, namely, that the government tries to steer people’s financial planning through rates and exemptions. Whether someone wishes to leave something for their children or for a caring girl in the neighbourhood ought to be a personal decision. And the government should *certainly not judge* whether an inheritance is deserved or not.

It is for this reason that we are pleading for a relationship-neutral inheritance tax which gives heirs an equal tax treatment and allows the testator to choose how he or she wishes to distribute the inheritance, without government interference. Many testators would probably still want their children to inherit, but friends or acquaintances who inherit would no longer be disadvantaged.

An interesting side effect could be a reduction in wealth inequality. After all, if inheritance taxes were to become relationship-neutral, the incentive to retain wealth within the family would disappear. This should be music to Piketty’s ears.■

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