

THOUGHT PROVOKING IDEAS OF THE GLOBAL ESSAY COMPETITION 2022

A Universal Basic Inheritance: The promise of Empowerment

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"We do not inherit the earth from our ancestors, We borrow it from our children."

– Native American Proverb

Introduction

The intergenerational contract promises that the next generation cares for us once we are old, as we cared for the previous one (Intergenerational Commission, 2018). However, today we see this promise put in question. Members of the young generation raise concerns that their futures are being compromised. These concerns are increasingly being taken into consideration in present-day policymaking, and the intergenerational contract is being extended to new promises, such as those of environmental and economic sustainability.

However, what about the intergenerational contract's core promise? That the next generation will care for us in retirement as we

care for the current generation. The first time I learned about the intergenerational contract, I was promised that my pension would not be enough. The problem lies in the demographic changes that countries increasingly experience. For instance, more people in Germany retire than enter the workforce every year since 2017 (Groll, 2022). This means that fewer young adults work for the pensions of more elderly. As a result, most Germans who start working today will have to organize a private pension next to the public one. Those that cannot afford to do so often must leave their homes, re-enter the job market, or face poverty in old age. These developments are not unique to Germany. An increasing number of countries struggle with similar demographic changes.

Therefore, the intergenerational contract needs to be revised. In the current environment, in which young adults are asked to care for the old and save for themselves,

the intergenerational contract must include the promise to empower the young to do so. This essay discusses the proposal of a universal basic inheritance as a policy instrument to achieve intergenerational fairness.

What is a universal basic inheritance?

A universal basic inheritance is a one-time, lump-sum payment to young adults in the way of an “inheritance for all”, independent of family wealth or status. American political activist Thomas Paine first suggested it in 1797. Everybody would receive 15 Pound (1,179 EUR in today’s value) when reaching the age of 21, financed by raising estate taxes on the wealthy (Martin, 2022). Two hundred years later, Page 2 of 6 British economist Sir Anthony B. Atkinson took up the idea of an “inheritance for all”, paid for by raising inheritance taxes (2015).

Today, the perhaps biggest supporter of an “inheritance for all” is French economist Thomas Piketty. For Piketty, the idea of an “inheritance for all” is the next layer of the welfare state. According to Piketty, access to education, health care, and fair wages provide only limited opportunities if half of that wage must be paid in rent. In contrast, those that inherit large assets benefit from this start-up capital and have better life opportunities. To counteract this inherited inequality, Piketty suggests a one-time state payment of 120,000 EUR for all citizens at 25. Like Atkinson’s, Piketty’s proposal is to be financed from the inheritance tax, though he also considers including a wealth tax (Gavalakis, 2020).

Unlike Paine’s first and short-lived proposal in 1797, Atkinson’s re-discovery of the “inheritance for all” has increasingly caught the interest of scientific and academic circles, though not yet political ones. So has the German Institute for Economic Research (DIW Berlin), an institute that formulates policy advice, taken up Atkinson’s and Piketty’s idea and published its proposal of a one-time payment of 20,000 EUR per person between the ages of 18 and 25 (Hosan, 2021).

While there are different approaches vis-à-vis the size, the organization, and the financing of the “inheritance for all”, the idea constitutes an innovative, and perhaps radical, contribution to the discussion of welfare reform.

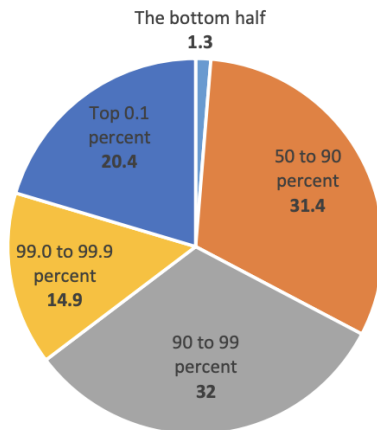
Why do we need an inheritance for all?

The intergenerational contract is being challenged by the demographic changes that societies are experiencing. However, the consequences of this are not equally felt throughout society. Increasing inequality has created winners and losers in the intergenerational transfer of wealth. Thus, tackling the problem of inequality will allow us to renew and strengthen the intergenerational contract as well.

Wealth was extremely concentrated within a small, ruling elite for most of human history. In Capital in the 21. Century, Piketty (2014) explains, by analyzing data from Europe and North America, that when the rate of return on capital (dividends, rent, and other income) exceeds the rate of economic growth, the result is the concentration of wealth, which leads to social and economic instability. By studying Parisian society in the early 19th Century, Piketty identifies the inheritance system as a major cause for the endurance of societal inequalities across generations (Piketty et al., 2014). Even though the turmoil of the two World Wars and the post-war economic boom helped redistribute some of the concentrated wealth, Piketty sees a return of this “patrimonial capitalism” and the dominance of inherited wealth (Piketty & Goldhammer, 2014).

In Germany, wealth has become extremely concentrated (see graph).

Wealth Distribution in Germany
In percent of total wealth (as of 2019)



Source 1 Data according to DIW Berlin

The bottom half of the population holds no notable assets (1.3% of the total). On the contrary, the top 0.1% owns 20.4% of total wealth. Moreover, the richest 10% hold two-thirds (67%) of all private wealth, with more than one-third (35%) concentrated in the richest 1% of the population.

The DIW Berlin identifies several causes for this concentration of wealth: 1) A low rate of homeownership in international comparison. The share of the population that owns property accumulates wealth by saving for and paying off real estate. 2) The social security system a) does not encourage private savings and b) requires high contributions paid in proportion to earned income, which makes wealth accumulation for the low-income earners more difficult. 3) Germans keep their savings primarily in fixed interest investments (savings, checking accounts, etc.), which do not yield significant returns (Bach, 2021; Hosan, 2021).

This accumulated wealth is passed down from one generation to the next, maintaining and increasing the concentration of wealth. Data from DIW Berlin shows that everyone should receive an inheritance of 85,000 EUR on average. However, most inheritances are much smaller (50% of all inheritances is below 32,000 EUR). Between 2012 and 2017, only 2% of Germany's poorest 20% received money out of an inheritance (on average 10,000 EUR). During the same period, 7% of Germany's richest 20% received an

inheritance (on average 145,000 EUR) (Pletter & Rudzio, 2021).

Currently, the inheritance system supports the concentration of wealth. The "inheritance for all" aims to reduce inequalities. A one-time, lump-sum payment of 20,000 EUR, as suggested by the DIW Berlin, would immediately reduce the above-mentioned differences in inheritance and address the causes of inequality in Germany (encourage homeownership, create savings, empower financial investments, etc.). However, the benefits of the "inheritance for all" go beyond a financial re-distribution of wealth. They provide a way to create intergenerational fairness by:

- **improving equality in educational and early career development:** Moving out to study at one's desired university or studying abroad remains difficult for those from low-income households. Additionally, while many young adults benefit from a "gap"-year to find out what they truly want to do in their lives, for many more, a volunteering year or work-and-travel remains financially impossible. During one's education and at the beginning of a professional career, many rely on low-paying student and entry-level jobs or need to absolve unpaid internships to have prospects in the job market. Having a 20,000 EUR "financial pillow" at the beginning of the career empowers young adults to a) seek beneficial experiences for personal development through travel, volunteering, and work in culturally diverse environments, b) pursue the educational path most ideally suited independent from the family's financial situation, and c) reject low-paying or unpaid jobs and internships at the beginning of their careers, forcing employers to offer a fair entry into the job market.

- **creating general economic benefits for all of society:** Today, most people are in their 50s or 60s when they receive an inheritance (Hosan, 2021). At that age, they are established in their careers and lives. On the contrary, young adults have a much higher spending potential. Receiving an "inheritance" in their 20s, young adults are at the beginning of their careers and more likely to start an entrepreneurial endeavour, driving

innovation, and economic growth. Additionally, people form a family and/or buy a house at a younger age and less often in their 50s or 60s. Therefore, much of the “inheritance” given to all young adults would be channelled back into the economy, creating growth and prosperity for society.

- **providing additional social benefits**, such as increased philanthropy and generosity that come with financial security. Increased financial security would also permit more people to focus on work-life balance and social relations with friends and family. Especially today, financial security is necessary to do the “right” thing, such as living a sustainable life. Healthy and environmentally sustainable products are often more expensive than their harmful counterparts, and people do not use them because they cannot afford to do so.

The “inheritance for all” is certainly not a silver bullet that solves all our problems. Still, it empowers the young to care not only for the old but also provides life opportunities to build their own futures.

Discussion of counterarguments

Certainly, there are critics to the proposal of an “inheritance for all”. The major critiques are that 1) young people would act irresponsibly with such a large amount of money and squander it and 2) the financing of such an “inheritance for all” would be impossible due to the size of the expenditure it would require.

The first critique can be answered administratively. For instance, it could be paid out not at 18, but at 25, when most young adults are more mature, with an option to receive the money at 18 for a specific reason (such as university abroad). A more restrictive alternative would be to earmark the inheritance either way for expenditures relating to education, professional development, family life, etc.

To answer the second critique, the economists Piketty and Atkinson propose an inheritance tax reform. The DIW Berlin proposed inheritance of 20,000 EUR would cost the state 15 billion EUR/year (Hosan,

2021). In 2019, the amount of taxed inheritance was 39 billion EUR. However, expert analysis suggests that, in reality, annual inheritances are between 250 and 400 billion EUR/year (Pletter & Rudzio, 2021). In comparison, Germany’s entire 2020 budget was 413 billion EUR (Federal Government Page 5 of 6 of Germany, n.d.). A reform of the current inheritance system, which allows many loopholes to avoid taxes, could easily finance an “inheritance” of 20,000 EUR per young adult without the need for a wealth tax and help redistribute wealth through the transfer from one generation to the next; thus creating better opportunities for society’s members on average. Additionally, studies have found that the often-deemed unpopular inheritance tax is accepted by most of society after links between inequality and inheritance are explained clearly (Waldenström, 2019).

Finally, the inheritance tax reform is to be justified on the grounds of the intergenerational contract. Today’s old and wealthy were empowered to create this wealth by a state that provided them with the necessary education and infrastructure to succeed. A fair tax on inheritance is a return on that investment in one generation and empowers the next generation to be as successful and care for their parents and grandparents.

Conclusion

The American Natives have a proverb that we do not inherit the world from our ancestors but borrow it from our children. Even though the intergenerational contract binds together all generations, its focus today is for the young to repay the old, who have built our countries’ economies and, in their time, paid or repaid their parents and grandparents for the same. Currently, emerging demands, such as intergenerational sustainability, ask the older generation to leave a world behind for the younger generation that is as good or better than the one they “inherited” from their ancestors.

The proverb suggests a radical rethinking of this situation. Instead of focusing on what

previous generations have left us (and they certainly have left us a lot), it asks what we borrow from our children. We borrow societal, economic, and the world's natural resources from our children to build our future, but as with everything borrowed, it must be returned.

A universal basic inheritance does just that. It returns the resources we borrowed from our children back to them and empowers them to build their future.

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