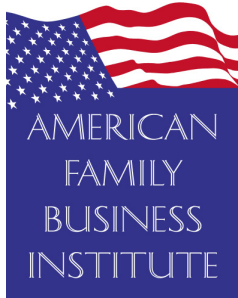


# One-Page Policy Brief



## Estate Tax Increases Wealth Concentration and Income Inequality

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**Summary:** It is sometimes alleged that the estate tax reduces wealth concentration and economic inequality. The facts, however, indicate that the estate tax in fact increases wealth concentration and inequality. This is largely due to the fact that the estate tax hampers entrepreneurial activity, thereby reducing economic mobility and increasing wealth concentration. The best way to encourage wider dispersion of wealth is to unshackle creativity, economic growth, and economic mobility by repealing the estate tax.

**Economic Mobility on the Rise:** A 2007 Treasury Department study found that over a ten-year span, more than half of the lowest income earners moved into a higher income bracket and nearly a quarter of the lowest income earners moved into middle or upper-middle income brackets. The only income bracket to see a loss was the top income bracket.<sup>i</sup> This study reinforces a 2003 study, which found that the most economic mobility occurred in the lowest wealth brackets.<sup>ii</sup>

Intergenerational wealth is equally dynamic. Two-thirds of children of parents in the poorest quintile ended up in a higher quintile than their parents, while children in the highest wealth quintile had a 64% chance of ending up in a lower wealth quintile.<sup>iii</sup>

**Inheritances Encourage Economic Mobility:** Leading economists agree: inheritances promote economic mobility. Joseph Stiglitz, chairman of President Clinton's Council of Economic Advisors, stated that inheritances might actually reduce income inequality.<sup>iv</sup> Alan Blinder, a former member of President Bill Clinton's Council of Economic Advisors, stated that only 2 percent of inequality is due to the unequal distribution of inherited wealth.<sup>v</sup>

**Estate Tax Hampers Small Business Economic Mobility:** When small business owners face estate tax penalties on intergenerational capital transfers (for instance, from a business owner father to his children), it often makes the firm less competitive against larger, corporate firms. A study by economist Antony Davies found that for each average annual increase in the estate tax, 6,000 small firms were destroyed or absorbed into larger firms.<sup>vi</sup>

**Conclusion:** Inherited wealth does not hold anyone back, but often improves the lot of the poorest. By helping heirs – especially small business heirs – move into higher income brackets, inheritances encourage economic mobility. When the heirs are small business owners, inheritances allow them to create more jobs. By confiscating inheritances, the death tax hampers small business survival, economic mobility and job creation.

*Citations on reverse.*

## **Citations**

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<sup>i</sup> “Income Mobility in the U.S. from 1996 to 2005,” Department of the Treasury, November 13, 2007, <http://www.treas.gov/offices/tax-policy/library/incomemobilitystudy03-08revise.pdf>.

<sup>ii</sup> Ana Castaneda, Javier Diaz-Gimenez and Jose-Victorios-Rull, “Accounting for the U.S. Earnings and Wealth Inequality” *Journal of Political Economy* 111, no. 4 (August 2003): 848.

<sup>iii</sup> Kerwin Kofi Charles and Erik Hurst, “The Correlation of Wealth Across Generations,” *Journal of Political Economy* 111, no 6 (December 2003): 1155-1182.

<sup>iv</sup> Joseph E. Stiglitz, “Equality, Taxation and Inheritance,” in *Personal Income Distribution: Proceedings of a Conference Held by the International Economic Association, Noordwijk aan Zee, Netherlands, April 18*.

<sup>v</sup> Alan S. Blinder, *Toward and Economic Theory of Income Distribution* (Cambridge, MA: MIT Press, 1974).

<sup>vi</sup> Antony Davies and Pavel Yakolev, “Myths and Realities Surrounding the Estate Tax,” *American Family Business Foundation*, November, 2009.