The Role of Gift and Estate Transfers in the United States and in Europe

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Abstract

Most European countries have legal institutions regarding gifts and bequests that are more constraining than the United States.

The purpose of this paper is to see whether those institutional differences generate differences in behavior. The paper focuses on the comparison between the United States and France, and on a number of specific issues: the relative importance of bequest in wealth accumulation, the compensatory role of gifts and bequests, the actual way the estate is divided among heirs, and the relative importance of alternative types of inheritance.
1 Introduction

In Europe, like in the United States, inheritance is generally not a big issue in the political debate, except when there are plans for reforming estate or inheritance taxation. In the near past, one of the major themes of the United States presidential campaign, as well as the Italian parliamentary campaign, was whether or not to phase out what has been dubbed the “death tax”. G.W. Bush and S. Berlusconi, the proponents of such a drastic reform, both won.

It was interesting to hear the same arguments on the legitimacy of death taxation in both countries. The proponents for repealing it claim that it would remove an unfair, immoral and inefficient tax. According to them this tax adds to the pain suffered by mourning families; it hurts people of equivalent wealth differently depending on their acumen at tax avoidance; it penalizes the frugal who pass wealth on to their children; it reduces everybody’s incentive to save and to invest. Supporters of the tax, by contrast, argue that it is fairly based on the equal opportunity principle, that it is a small but effective counterweight to the concentration of wealth, and that it has few disincentive effects since it is only payable at death.

Can we say that the issue of inheritance: its economic effects, its legitimacy and its tax treatment, are perceived the same way in different countries? As we indicate below, the legal institutions regulating gifts and bequests are quite different in the United States and in Italy. Can we assert that institutions don’t affect behavior, which would be surprising in the light of recent developments in political economy?

The truth probably lies somewhere in between as this paper shows. Europe, or rather continental Europe — since the United Kingdom is closer to the United States than to most European countries — has specific legal institutions regarding inheritance that are quite different from those in the United States, and this may explain some limited divergence in behavior.

Our quantitative knowledge of inheritance is not very good. Comparisons are not easy. This is why we mainly deal with France and whenever possible with other Continental European countries to contrast and compare with what is happening in the United States.

The rest of this paper is organized as follows. Section 2 presents a taxonomy of legal institutions regulating gifts and bequests, and it also summarizes the main types of bequests since we know that the economic effects of private intergenerational transfers depend on the motives governing them. Section 3
deals with particular questions to which the United States and Europe might
give different answers: the quantitative importance of bequests, the effect of
bequests on inequality, the compensatory nature of gifts and bequests and
the way they are divided among heirs. A final section concludes.

2 Institutions and motives

2.1 Legal institution and the legitimacy of inheritance

Political economy, a growing field, deals with the effect of institutions on
policy outcomes. There has been a lot of work done linking budgetary institu-
tions and budget deficits, fiscal federation and the size of the government,
electoral rules and fiscal policy, to take three well-known examples.\(^1\) In the
same vein, it would be interesting to study the link between the legal institu-
tion regulating bequests and the actual practice of gifts and estate transfers.

Legal institutions vary quite a lot across countries. To characterize the
institutional setting we are concerned with we focus on two dimensions: free-
dom of bequest and taxation of transfers. Table 1 puts together these two
characteristics, and shows how countries such as the United States and the
United Kingdom can be contrasted with France and Germany.\(^2\)

There are two main types of wealth transfer taxes at death. There is
the estate tax which is levied on the total estate of the donor regardless of
the quality and the quantity of donees. This is the tax in use both in the
United States and in the United Kingdom. There is also the inheritance tax
which is levied on the share received by the donee. Inheritance taxation
typically includes a variety of rate scales and thresholds that depend on the
relationship between donor and donee. Most European countries, with the
exception of the United Kingdom, have inheritance taxation. Either type of
tax generally provides special treatment for surviving spouses.

In general estate taxation gives one total freedom to bequeath one’s
wealth to anyone or anything. Disinheritance is possible but it requires an
explicit will. Inheritance taxation, on the other hand, often comes with the
obligation to bequeath one’s wealth to one’s children, if any, and with equal
sharing of most of the estate. There is some freedom to do as one wishes
with small fraction of the estate, but this fraction declines with the number

\(^1\) Persson and Tabellini (2000).
of children. As the relation between donee and donor gets more distant, the inheritance tax treatment becomes less and less generous.

<table>
<thead>
<tr>
<th>Taxation</th>
<th>Freedom of bequest</th>
<th>No Estate taxation</th>
<th>Inheritance taxation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Absolute</td>
<td>Canada</td>
<td>US, UK</td>
<td></td>
</tr>
<tr>
<td>Restricted to children</td>
<td>Primogeniture</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(if any)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Restricted to children</td>
<td></td>
<td>France, Germany</td>
<td></td>
</tr>
<tr>
<td>and equal sharing</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 1: Legal institutions regulating wealth transfers

The relative merits of the estate-type and of the inheritance-type taxation are clear. The first is simple and easier to administer, leaving all discretion to the donee to dispose of his wealth as he wishes. This means that it is possible to compensate some children over others for differences in income or needs. There is also the possibility of disinheriting one’s children.

By contrast, the inheritance tax is more equitable than the estate tax to the extent that it lightens the tax load of large families. Yet, it does not allow for compensatory treatment of children with uneven endowments.3

Basically, the estate taxation reflects a conception of the family and of the state that is quite different from the one behind the inheritance taxation. If one trusts in the fairness of parents in disposing of their estate, and if one believes that intrafamily inequality is as important as interfamilly inequality, then what is desirable are both freedom of bequest and a very low estate tax. On the other hand if one does not trust parents to make compensatory transfers within the family, and there are huge differences of wealth across families, then high inheritance taxation with mandatory equal sharing seems to be the best solution.4

The regulation of estate division can have surprising implications. It has been shown that in agricultural France equal sharing has induced families

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3 In Cremer and Pestieau (1988) it is also argued that tax rates decreasing with the degree of consanguinity can be redistributive.

4 See on this Cremer and Pestieau (2001).
to have fewer children than total freedom of bequeathing. Traditionally, in such an environment the objective of parents has been to keep the estate undivided. This was possible with primogeniture but not with equal sharing. Thus, the only choice left was to have one or at most two children.\(^5\) In the English Middle Ages, the frequency of remarriages, along with the existing values, led to the mistreatment of stepchildren by stepparents. To avoid disinheritance, equal division was imposed. When both the demographic and the societal evolution made such situations less likely, England moved back towards unrestricted bequeathing. By contrast, most of Continental Europe maintained restrictive equal-sharing.\(^6\) Why such a contrasting evolution? Answer to that question is clearly outside the realm of this paper.

### 2.2 Transfer motives and implications

To understand the importance and the role of gifts and estate transfers one needs to have a better grasp of the donor’s motives if any. Consider two examples concerning gifts and bequests. First, suppose that we observe gifts, but we don’t know whether they are true gifts due to altruism or really involve some sort of exchange (the donee providing services to the donor). It is clear that a number of effects would differ under the two cases. Second, consider some bequests but we are uncertain whether they are left accidentally because of the incompleteness of annuity markets or intentionally for some type of altruism. Again, depending on the case, the effects of bequests on income inequality, capital accumulation, education could be quite different.

We examine briefly a number of bequest motives that have been offered in the literature and sketch their implications focusing on those that are testable and that can separate the United States and Europe.\(^7\)

- **Pure dynastic altruism. Altruistic bequest.**

  Parents care about the likely lifetime utility of their children, and hence about the welfare of future generations. Accordingly, wealthier parents make larger bequests and holding parent’s wealth constant children with higher labor earnings will receive smaller bequests. There is also a tendency for parents to leave different amounts to different children in order to equalize their

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\(^7\)This is developed in Masson and Pestieau (1997).
incomes. Finally, pure altruism leads to the Ricardian equivalence: parents compensate any intergenerational redistribution by the government through matching bequests.

- Joy of giving. Paternalistic bequest (also called bequest-as-last-consumption).

Parents here are motivated not by altruism but by the direct utility they receive from the act of giving. This phenomenon, also referred to as "warm glow" giving, can be explained by a virtuous feeling connected with sacrifice, a need to help one’s children, or control their lives. Formally these bequests appear in the utility function as a consumption expenditure incurred in the last period of life. Ceteris paribus, they are subject to income and price effects, but don’t have any compensatory effect.

- Exchange-related motives. Strategic bequests.

In their canonical form, exchange-related models show children choosing a level of "attention" toward their parents in exchange for the prospect of a potential bequest. Such exchanges can involve all sorts of non pecuniary services and can be part of a strategic game between parents and children. Strategic bequests, as originally presented, imply that parents extract all the surplus from their children by playing them against each other. Strategic or exchange bequests depend on the wealth and the needs of the donor; they are not compensatory and they don’t need to be equal.

- No motive. Accidental bequests.

Up to this point bequests are planned. Whatever their motive they are voluntary. We now consider unplanned or accidental bequests that result from a traditional life-cycle model. Accordingly people in the main save during their working lives in order to finance consumption when retired. Bequests only occur because wealth is held in bequeatable form due to imperfections in annuity markets or the need for precautionary savings. The main implication of this form of bequest is that even a 100% estate tax rate should have no disincentive effect on the amount of bequest.

Table 2 gives an overview of some of the implications of wealth transfers for each of these four types of motives.
### Types of bequests

<table>
<thead>
<tr>
<th></th>
<th>Accidental</th>
<th>Altruistic</th>
<th>Paternalistic</th>
<th>Exchange</th>
</tr>
</thead>
<tbody>
<tr>
<td>Effect on intrafamily disparity</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Disparity between parents and children</td>
<td>neutral</td>
<td>equalizing</td>
<td>neutral</td>
<td>neutral</td>
</tr>
<tr>
<td>Disparity among siblings</td>
<td>neutral</td>
<td>equalizing</td>
<td>neutral</td>
<td>neutral</td>
</tr>
<tr>
<td>Equal estate division</td>
<td>yes by default</td>
<td>no by default</td>
<td>yes</td>
<td>no</td>
</tr>
<tr>
<td>Effect on social inequality</td>
<td>uncertain</td>
<td>positive</td>
<td>moderate</td>
<td>weak and uncertain</td>
</tr>
<tr>
<td>Effect of fiscal policy</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Public debt on consumption</td>
<td>positive</td>
<td>neutral</td>
<td>positive</td>
<td>positive</td>
</tr>
<tr>
<td>Inheritance taxation on saving</td>
<td>nil</td>
<td>negative</td>
<td>negative</td>
<td>negative or nil</td>
</tr>
</tbody>
</table>

Table 2: Implications of bequests motives

### 3 Economic effects of wealth transfers

#### 3.1 Quantitative importance of bequests in wealth accumulation

This issue has raised a hot debate between Kotlikoff (1988) and Modigliani (1988), the former claiming that the share of inherited wealth in the United States is close to 80%, the latter estimating it as being below 20% (it would be nil if there was only saving for retirement). How to account for such a huge

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8Some parts of this section are further developed in Arrondel et al. (1997).
discrepancy, which shows that empirical measures are also "theory laden"? Indeed, the two authors agree neither on the relevant unit of decision and the definition of a transfer, nor on the way to evaluate the actual contribution to wealth accumulation of a transfer received in the past (Kessler and Masson, 1989; Kessler et al., 1991).

On the first point, Modigliani considers only inheritance and major gifts (i.e., that "add to children's wealth, not to consumption") between independent households. Kotlikoff wants to add all transfers received above 18 years of age ("adulthood"), including notably college education fees, which means twice as many transfers. Given the conventional definition of bequest, we have to side with Modigliani, while allowing for the fact that his evaluation may be somewhat underestimated.

On the second point, Modigliani wants to impute to the contribution of bequests to total saving only the sum in real terms of received transfers. Kotlikoff wants to add to this the accumulated interest on transfers — once again doubling the figures (hence the discrepancy in the results is on the order of one to four). Who is right? Apparently no one since each convention relies on an arbitrary, accounting decomposition of wealth in inherited and self-accumulated shares (Blinder, 1988).

With such a range of estimates, comparison is not easy. Studies for other countries indicate a greater share of inherited wealth. Davies and St-Hilaire (1987) apply an accounting approach to Canadian data. They find a 35% share for inherited wealth without capitalizing and a 53% share when inheritances are capitalized. Laitner and Ohlsson (1977) find that the inherited wealth of households as a fraction of their total wealth in Sweden was 51% in 1981. Using similar data and computations for the United States, they estimate that share at 19% in 1984.

Kessler and Masson (1989) measure the decrease in total saving that would follow a uniform reduction in bequests. Estimates derived with this approach are comprised between 40% and 35% for France, and lower for the United States.

The contribution of bequest to capital accumulation appears therefore more important in these two European countries than in the United States, and quite substantially so. Faster growing and predominantly private economies such as the United States relative to France and Sweden seem to have a higher share of aggregate wealth associated with lifetime accumulation.
3.2 The importance of gifts relative to bequests

The importance of inter vivos gifts is a very controversial issue in the United States. So much so that the differences in definition are insufficient to account for the conflicting conclusions.

In various papers, Tomes states that gifts about which he has no information will not invalidate his results as they are probably only of minor importance, with the only possible exception being those of the wealthiest individuals. Bernheim et al. (1985) see "the apparent insignificance of gifts" as an element supporting their model of strategic bequest. On the other hand, Kurz (1984), Cox (1987, 1990), and Cox and Raines (1985) claim that an enlarged conception of inter vivos transfers, including in kind or in cash transfers received by an adult child (over 18) even in the same household, make them more important than inheritance (in a ratio of 3 to 2). More surprisingly, Gale and Scholz (1994), considering only inter-household transfers worth more than $3,000, find that inter vivos transfers "account for at least 20 percent of United States wealth and possibly more" (p. 156), and inheritances roughly 30%.

In France, estate duty statistics indicate that the total amount of declared inter vivos transfers represent each year approximately one third of the total amount of declared inheritances (or one quarter of total transfers). However this evaluation is incomplete since small inheritances, as well as many gifts (especially those handed over directly), and various parental aids (sometimes important) are not declared.

In any case, it is clear that in France the rate of diffusion of gifts, and their relative importance with respect to inheritance, have increased over the last 40 years. Reasons for the long-term development of gifts other than the increase of average households wealth may include the rise in life expectancy and the lengthened period where generations (parents and adult children) overlap, and perhaps also the development of social security. However over the short run, the frequency of gifts appears quite sensitive to changes in taxation: their number was greatest in 1981, before the introduction of the wealth tax, declined afterwards until 1986, and rose again with the reestablishment of tax advantages on gifts relative to inheritance (Laferrière, 1991).

Gifts in France seem to be an upper class phenomenon. Among the people who died in 1987, less than 10% had made gifts. But the corresponding proportion is more than half among the top 1% of the bequest distribution; moreover, this privileged group accounts for 19% of total bequests, but for
more than 54% of the total amount of gifts (Arrondel and Laferrère, 1994).

Gifts appear also more frequently among farmers and wealthy self-employed people who bequeath their professional assets, as well as among widow(er)s. A great number of these gifts are of small value, especially landed property. They are less frequent among wage-earners, especially blue-collar workers, where they correspond mainly to an anticipation of inheritance.

3.3 The compensatory nature of inter vivos transfers

Are inter vivos transfers, considered in isolation, dependent upon the economic situation of the recipient, i.e. the size of his income, or the fact that he may be liquidity-constrained? The answer must be twofold: it concerns the probability of a transfer and its amount.

For the United States Cox (1990) and Cox and Jappelli (1990) claim that transfers between parents and adult children (i.e. loans and gifts) are meant for consumers who are liquidity-constrained, insofar as their permanent income (and therefore their consumption needs) exceeds their current resources (income or assets). They find that, for a given permanent income of the child, the probability of receiving a transfer decreases both with current income and with the ratio of financial assets to income. On the other hand, these variables have no significant (statistical) effect on the amount of the transfer received.

However, the picture is different when one does not control for the child’s permanent income. Cox (1987), and especially Cox and Rank (1992) conclude that the transfer decision is compensatory, the probability of receiving a transfer declining, other things being equal, with the recipient’s income. But the transfer amount is anti-compensatory, increasing with the child’s current income. McGarry and Schoeni (1994) find that inter vivos transfers are greater when given to less well-off children.

Finally Hochguertel and Ohlsson (2000) estimate probit and Tobit using United States family panel data on gifts. They find that gifts are compensatory in the sense that a child is more likely to receive a gift if he works fewer hours and has lower income than her brothers and sisters. These results carry over to the amounts given.

There is only one French study, Arrondel and Masson (1991), which tackles this issue. It reaches similar results: the frequency of gifts is compensatory, but the amount bestowed is anti-compensatory. Such conclusions could be more in favor of exchange-motivated than altruistic models of transfers (see
This French study is apparently the only one to consider the relation between different forms of transfers, whether bestowed or received. The results are striking. Parents who have helped their children are more likely to make a gift later on, and to leave a significant bequest at death. Also, the probability of financially helping children is higher for donors. Finally, repeated assistance or gifts over lifetime are quite common. Likewise, already helped children are more likely to receive a gift or to benefit from another form of assistance, and donees are more likely to be helped out or to receive a second gift. Indeed, the probability of receiving a inheritance is higher for donees and heirs. Yet, this complementarity does not extend to amounts: for instance, the amount of gifts bestowed (received) is not significantly higher for helpers (helped out children).

In other words, the same subpopulation of French families appears to monopolize private intergenerational transfers whether received or bestowed, thus combining the different forms of transfers and multiplying them.

3.4 The relation between the number of children and the size of bequests

Few studies deal specifically with the effect of the very existence of children. Using United States panel data, Hurd (1987) has found that on average couples with independent children dissave during retirement proportionally more than childless couples, other things being equal (including the amount of wealth annuities at retirement). Yet, this striking conclusion favoring accidental bequests is not really valid for two reasons: first, couples without children may continue to save for precautionary reasons against major catastrophes (illness, invalidity), while in other families children may provide a "safety net". Second, altruistic parents could decumulate more rapidly during their retirement period because they make (partly unobserved) inter vivos transfers to their liquidity-constrained children rather than passing their wealth to them only at death (see Bernheim, 1991).

On the basis of French estate data Arrondel and Laferrère (1994) have focused on the specific behavior of the rich (the top 1% or so), who are mainly (formerly or actually) self-employed, own most of stock, and make many more gifts and wills than others. The idea is that "the very wealthy (...) may not have an operable bequest motive (...) because they already
consume as much as they want to or can); (...) thus changing the concern they have for the welfare of their heirs will not change their consumption behavior or wealth holdings”. (Hurd, 1990, p. 621). In other words, very wealthy people make capitalist bequests. The empirical analysis corroborates this: below the top 1%, the size of bequests is lower for childless couples and increases with children’s income (anti-compensation); but among the richest per centile, the size of bequests no longer depends on the presence of children, nor on their income.

On the other hand, the relation between bequest left and the number of children is not clear, neither in the United States nor in France. The only exception is the Bernheim et al. (1985) study, which finds that bequests are much more important and sensitive to the level of children’s attention when there are at least two children. In any case, most American studies (Adams, 1980; Tomes, 1981; Wilhem, 1996) as well as French ones (Arrondel and Laferrière, 1991; Arrondel and Masson, 1991) find a significant negative correlation between the amount of inheritance or transfers received by a child and the number of siblings, which is often interpreted as the consequence of the quantity-quality trade-off in the "demand" for children.

Blomquist (1979) estimates Tobit models for inherited amounts using Swedish micro data. He finds that the number of siblings has a significantly negative impact on the inherited amount. Laitner and Ohlsson (2001) also estimate Tobit models for inherited amounts using Swedish micro data. The findings are the same: significantly negative impacts of the number of siblings on inherited amounts. They also get the same result using United States micro data. Finally Alessie et al. (1995) obtain more or less the same result for the Netherlands.

3.5 Equal or unequal shares: does bequest division compensate for children’s unequal incomes?

Bequeathing patterns play an important role in shaping wealth distribution — at least if the contribution of bequest to wealth accumulation is substantial. Their analysis allows an assessment of the specific role of legislation on individual behavior comparing the French and American situations. In France people are forced by law to share their estate equally among their children, and only a limited part of it (called “quotité disponible”) can they allocate freely by writing a will. In the United States equal sharing is the
rule in intestate cases, but people are free to divide their estate as they wish by making a will; moreover, estate taxation is unvariant to the way estate is divided.

The first difference between the two countries. In the United States the proportion of testate cases is two thirds, while it is less than 10% in France, although the proportion increases dramatically for the richest people and for the childless deceased.

Let us consider the United States testate cases. Tomes (1981, 1988), whose work is based on heirs’ declarations, concludes that exact equality is in less than half. Other authors, who confine themselves to information contained in probate records, find a much greater incidence of equal sharing. In families with two children, for example, exact equality is observed in approximately 70% of the cases (63% in Menchik, 1980a; 87% in Joulfaian, 1993) versus only 22% in Tomes. Moreover, primogeniture represents less than 10% of the cases, and the frequency of equal sharing is higher among wealthy households. Finally, the transmission of an indivisible professional asset often leads to unequal sharing only if there is no other wealth to compensate children deprived of the professional bequest.

Thus there is hardly any doubt that equal sharing is the most frequent official practice in the United States. It remains to be seen whether subjective responses of heirs are truly biased, or if they reflect the fact that parents use unofficial means (assistance and undeclared gifts) to favor a particular child...

In France less than 8% of the estates are unequally divided (Arrondel and Laferrère, 1992). These cases concern mainly the rich (contrary to the United States situation) and the self-employed with several children and a non liquid or indivisible bequest (professional assets, real estate). Moreover, inheritance shares remain generally equal, the redistribution between siblings being achieved mainly through previous gifts (80% of the cases).

There remains the question whether unequal shares compensate the less privileged child. There is some evidence in the United States that girls, assumed to receive less education or to care more for parents, are slightly advantaged, Menchik (1980a) and Wilhem (1996) do not find any significant correlation between children’s observable characteristics and the relative amount of inheritance received. This ambiguous conclusion is also found for France by Arrondel and Laferrère (1992). Indeed, the French or American studies (apart from Tomes’) can explain why unequal estate division occurs, but not the rationale underlying the observed distribution.
3.6 The importance of altruistic bequests in total bequests

Empirical studies of bequest use additional information concerning the composition of wealth, opinion or intention variables, or the influence of the level of parental education.

The composition of bequest or bequeathable wealth should provide some information as to the cause or motive of the transmission. But clear-cut cases — e.g., an estate consisting mainly of life annuities (accidental bequest), a widower declaring an important life insurance (altruistic model), a large fortune composed primarily of stocks and shares and other high-yield assets (capitalistic bequest) — are quite rare. Moreover, the nature of the asset must be precisely determined to be of any value: for instance, the beneficiary of a life insurance should be known.

It is thus not surprising that very few studies use information on the nature of assets held in order to test inheritance models. On the basis of United States panel data, Bernheim (1991) does find that higher social security benefits tend to be associated with a higher level of life insurance purchases. Moreover, the purchase of life insurance is more frequent among older couples with independent children, and especially so when children are worse off than the parents. Clearly, these results are evidence of the presence of altruistic compensatory motives for bequest.

The simplest and most direct way of determining whether future bequests correspond to a genuine transmission motive is to question households about their intentions or opinions on this matter. Economists are often reluctant to use such subjective information in their analyses. Yet, such variables appear in several American studies (Menchik et al., 1986; McGarry, 1996), as well as in some French ones.

Several lessons can be drawn. First, in the absence of an in-depth psychological interview, it is essential, at the very least, that this information is obtained in a favorable context, when people are actually faced with the question. This is one reason explaining that intentions work better than opinions. Also, asking a person, in the abstract, for his general opinion on transmission is not likely to lead to anything not worthy; as amply shown by the econometric significance of the regression in the Menchik et al. (1986) American study. On the other hand, asking a retired person, who has just been questioned on her different assets, as to how she intends to dispose of her estate will undoubtedly provide more satisfactory results, as seen in the

Second, opinions and intentions give more significant results when used as explanatory variables rather than as dependent ones, although the "bequest intent" in French surveys can be quite successfully explained by household characteristics: wealth, income, self-employed status, and especially inheritance received.

Third, the bequest intent is found in France to increase the amount of bequeathable wealth, the level of portfolio diversification and the probability to own homes and hold other non liquid or indivisible assets. But opinions in French surveys, used as explanatory variables, can also have significant effects on the amount of wealth, especially those referring to "retrospective" behavior: "Would it upset you to leave your kids a lesser amount of wealth than you received from your parents?".

If human and non-human transfers are substitutable, the level of parental education should, other things being equal (notably the level of parental resources), reduce the amount of bequests, because more educated parents are more efficient at producing learning or earning skills in their children.

For the United States, Tomes (1981) obtains a specific negative effect regarding parents’ education on the inheritance received by the child. Tomes (1982) shows specifically that the overall amount of the estate and of inter-generational savings are negatively correlated, at given parental resources, with the father or mother’s education. But these results, which lend support to the altruistic model, have been obtained only by members of the Chicago (Beckerian) school.

For France Arrondel and Masson (1991) get mixed or opposite results: a higher level of parental education increases the amount of gifts bestowed; on the other hand, it has an ambiguous effect on the size of bequeathable wealth, depending on econometric specification and population selection.

Finally, let us mention a recent comparison Japan-United States by Horioka et al. (2001). They find that altruistic motives are weak in Japan both absolutely and relative to the United States. On the basis of micro data they show that Japanese bequests can mainly be explained by lifetime uncertainty and by exchange considerations during old age.
3.7 Differences in wealth distribution

Wealth distribution figures for the United States and continental Europe inevitably prompt questions about the causes of the observed differences, and particularly the role of inheritance and of estate taxation. Table 3 summarizes the most recent data on wealth concentration obtained from surveys and estate multiplier estimates. The broad conclusion is that wealth concentration is lower in Continental Europe than in Britain and in the United States. In all these countries one has observed a pronounced downward trend in inequality since 1920 with an upturn in the United States since the 1970’s.

Focusing on the comparison between the United States and France, Kessler and Wolff (1991) account for the lower concentration of wealth in France compared to the United States, partly in terms of the lesser importance of corporate share ownership in France due to the greater share of productive capital in the hands of the public sector.

For the downward trend in wealth concentration observed over the past century, the fact that most of the reduction in inequality comes from the falling share of the top 1% suggests that estate and inheritance taxes are influential. This is quite interesting as the effect of inheritance on wealth and income inequality, and that of death taxation on the same variables, is not as clear-cut a question as it appears in political debates.

<table>
<thead>
<tr>
<th></th>
<th>Surveys</th>
<th>Estate multipliers</th>
</tr>
</thead>
<tbody>
<tr>
<td>France (1986)</td>
<td>26</td>
<td>(1977) 19</td>
</tr>
<tr>
<td>Denmark (1975)</td>
<td>25</td>
<td></td>
</tr>
<tr>
<td>Germany (1983)</td>
<td>23</td>
<td></td>
</tr>
<tr>
<td>Italy (1987)</td>
<td>13</td>
<td></td>
</tr>
<tr>
<td>Sweden (1987)</td>
<td>11</td>
<td></td>
</tr>
</tbody>
</table>

Source: Davies and Shorrocks (2000)

Table 3: Percentage of wealth share of top 1 percent of households
Interestingly, Piketty (2000) for France and Piketty and Saez (2001) for the United States have attributed the downward trend to a number of large shocks from which large fortunes never fully recovered because of steep progressive taxation (income more than wealth transfer taxation).

3.8 Estate versus inheritance tax

Wealth transfer taxation is quite different in the United States and in Continental Europe. Besides the difference analyzed above between estate and inheritance taxation, estate taxation in the United States is known to concern only the very wealthy households. Roughly speaking the deductible, that is the amount below which there is no taxation, is 10 times higher in the United States than in France (50 times than in Belgium).

Yet regardless of the type of wealth transfer taxation, the yield is uniformly poor. Table 4 provides the relative yield of wealth of taxation for a sample of OECD countries.

From this table, it is clear that such taxes are not successful if their primary objective has been to reduce reliance on other taxes.

Table 5 provides some information on the structure of inheritance taxation in a number of EU countries. There is some variation from country to country in tax rates applied when wealth is transmitted to children or to strangers "in blood". There are also differences in the level of exemption as well as in the treatment of gifts.

For obvious reasons, the tax treatment of transfers to charitable organizations is quite more generous with an estate than with an inheritance tax. Italy and Ireland are the two countries where wealth transfers to charities are fully tax exempted. In the other countries with inheritance taxation there are at best preferential measures.

It would seem that in the balance between avoidance and evasion, Americans favor the first and Europeans the second. This contrast raises an interesting question. Given that the death tax yield is the same in the US and Europe, is it better to elude its burden by giving away money to foundations, or to invest it in tax heavens such as Luxembourg or Switzerland?

Just as an illustration, Kessler and Pestieau (1991) estimate that the effective inheritance and gifts tax rate are equal to 6.25 % in France, whereas standard statutory tax rates are around 40%.
Table 4 indicates that the yield of the wealth transfer taxation hardly exceeds 1% of total revenue. The range is impressive. It is noteworthy that Italy only collects 0.16%, which means that abandoning the death taxation there would have little consequence, unlike the United States where the yield is 1.12%. Over time the evolution is not uniform, as Figures 1 and 2 indicate. They show stability in Germany, the United States and the United Kingdom after a drastic decline in the early 70’ for the latter. France has seen a slight increase with the arrival of the left in 1981.

<table>
<thead>
<tr>
<th>Country</th>
<th>% of Total Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>1.12%</td>
</tr>
<tr>
<td>France</td>
<td>1.08%</td>
</tr>
<tr>
<td>Belgium</td>
<td>0.75%</td>
</tr>
<tr>
<td>Netherlands</td>
<td>0.67%</td>
</tr>
<tr>
<td>Spain</td>
<td>0.57%</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>0.56%</td>
</tr>
<tr>
<td>Germany</td>
<td>0.30%</td>
</tr>
<tr>
<td>Italy</td>
<td>0.16%</td>
</tr>
</tbody>
</table>


Table 4: Share of gift and estate taxation in total revenue

Figure 1
Figure 2

Table 5: Wealth transfer taxation. Tax rate and exemption

<table>
<thead>
<tr>
<th>Country</th>
<th>Exemption (Euros) (3)</th>
<th>First rate (Euros) (3)</th>
<th>Minimax (2) (Euros) (3)</th>
<th>Top tax rate</th>
<th>Preceding rates</th>
<th>Preceding years</th>
<th>Higher/ included</th>
</tr>
</thead>
<tbody>
<tr>
<td>Belgium</td>
<td>12,400</td>
<td>3</td>
<td>495,600</td>
<td>30</td>
<td>30-80</td>
<td>same</td>
<td>3</td>
</tr>
<tr>
<td>France</td>
<td>72,280</td>
<td>5</td>
<td>1,707,500</td>
<td>40</td>
<td>60</td>
<td>same lifetime</td>
<td></td>
</tr>
<tr>
<td>Germany</td>
<td>306,800</td>
<td>7</td>
<td>25,565,000</td>
<td>30</td>
<td>17-50</td>
<td>same</td>
<td>10</td>
</tr>
<tr>
<td>(204,100)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Netherlands</td>
<td>266,700</td>
<td>266,700</td>
<td>761,900</td>
<td>27</td>
<td>41-68</td>
<td>same</td>
<td>2</td>
</tr>
<tr>
<td>(7,780)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Spain</td>
<td>15,980</td>
<td>7.65</td>
<td>696,500</td>
<td>34</td>
<td>same</td>
<td>same</td>
<td>3</td>
</tr>
<tr>
<td>(47,808)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Smith (2001)
(1) Amounts in brackets are the allowances for children where they differ from the spousal allowance.
(2) Minimum taxable amount at which the maximum rate applies.
(3) Converted using exchange rates as of July 1, 2001.
(4) Special maintenance allowances are available to spouses and children under 18.
(5) Gifts from parents to children are exempt to EURO 7,700 over two years, and once in a child’s lifetime may give EURO 19,000 if the child is between 18 and 35.
(6) Dependents under 18 are exempt. Those over 18 are treated the same as the spouse.
(7) If a child is under 13 the allowance is EURO 47,800, and for those over 13 it is EURO 15,900 plus EURO 4,000 for each year.
(8) Disabled heirs or donees may receive an additional amount from EUR 47,800 to EURO 149,900 depending on the disability.
(9) Effective rates are higher because there is no basic deduction.

4 Conclusion

What can we conclude from this survey? There are very little precise findings, which is not surprising. Even in the United States where the academic debate over the motives and the implications of inheritance is more intense than anywhere else, most questions are still widely open.

By comparison European countries lack data, which make it impossible to test theoretical hypotheses. It is interesting to note that in many instances European economists who study the issues of inheritance use United States data. When they don’t, they are very much influenced by the dominant paradigm, and their main concern is to show that their own country behaves like the United States. Finally, as the French case shows, research is often restricted to a limited number of closely connected people and this cannot lead to controversy. One can hope that, with the development of research networks supported by the European Commission, there will be in the near future a substantial effort to develop data bases that are complete and comparative.

Despite all these problems we can assert a few things.

Voluntary bequests seem to play a slightly more important role in Europe than in the United States, which is not surprising. The role of the family
in Europe is still very important in a number of areas. Moreover lifecycle accumulation relative to wealth transmission is lagging.

Having said that there is wide consensus that such a thing as a Ricardian equivalence based on pure altruistic transfers exist neither in Europe nor in the United States.

Regardless of the legal setting, one observes equal sharing and poor yield of wealth transfer taxation everywhere.
References


