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Inheritance and inheritance tax: an ethical analysis

Ethical Annotation #3

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**Utrecht
University**

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**Originally published November 2017,
translation March 2023**

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** This Ethical Annotation is based on another text that we wrote at the request of Janneke Plantenga. We thank Rutger Claassen, Martin van Hees, Patrick Loobuyck, Janneke Plantenga, Dick Timmer, and Bruno Verbeek for their comments on the earlier version. We would also like to thank Petra van der Kooij for reading through this Ethical Annotation. Ingrid Robeyns is grateful to the European Research Council for research funding under the Horizon 2020 Research and Innovation Programme (agreement No 726153).*

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Inheritance tax, of all taxes, is probably the one that populations resist the most (Prabhakar 2015). Some of the common arguments against inheritance tax are that people should have the freedom to decide what they want to do with their own assets that they have worked hard for (e.g. consume or bequeath them), that as parents you should have the right to give your child the best possible start in life, and that an inheritance tax that is (too) high would damage our prosperity because people would have less incentive to work hard and save (Cunliffe, Erreygers, and Reeve 2013). Politicians also regularly state that they find inheritance tax unjust. Mark Rutte, the Dutch prime minister, once called inheritance tax ‘the most unjust tax there is’.¹ Donald Trump said during the most recent US presidential election that he intended to end ‘the death tax’. He said, “It’s just plain wrong and most people agree with that. We will repeal it.”² And David Cameron, a former prime minister of the UK, stated, “I believe that in this country, if you work hard and you save money and you put aside money and you try to pay down your mortgage on a family home, you shouldn’t have to sell that or give it to the tax man when you die. You should be able to pass it on to your children. It’s the most natural human instinct of all.”³

However, there are reasons to limit the inheritance of wealth. First, there is the concern that the current practice of inheriting wealth

and the relatively low (effective) tax burden on inheritances is partly at the root of the existing wealth inequality (Piketty 2014). The practice of inheritance ensures that wealth is concentrated in the hands of a small group of people. This not only creates unequal opportunities, but can also undermine democratic processes and values (Christiano 2012; Robeyns 2017b). In addition, which family someone is born into is completely random, and we could therefore ask ourselves whether we actually (morally) deserve an inheritance that we receive.

In this Ethical Annotation, we analyse the various reasons that are relevant when asking whether inheriting wealth and taxing it is just or unjust. The primary purpose of this Ethical Annotation is to provide an overview of the most important ethical considerations regarding this question. However, not all the reasons are equally strong and convincing, so it is not enough for us simply to provide an overview of the various arguments involved in the debate. In a number of places, we will therefore argue which considerations are more or less relevant and which arguments are more convincing or less convincing. In addition, we will make some comments on the current practice of inheritance and inheritance tax in the Netherlands. However, our aim is not to make a final judgement on the fairness of inheritance tax but rather to make an inventory of the most important considerations that are relevant in order to reach such a judgement.

¹ Quoted in [/www.volkskrant.nl/binnenland/wvd-wil-erfbelasting-fors-verlagen--a869238](http://www.volkskrant.nl/binnenland/wvd-wil-erfbelasting-fors-verlagen--a869238) (accessed November 2017). The argument that Mark Rutte mentions is the one concerning double taxation, that is, the idea that you have already paid income tax and wealth tax and ‘when you die, the tax authorities will come for a third time’. However, it is unclear why the double or triple taxation of income and/or capital should be problematic in itself (Murphy and Nagel 2004: 143). Even if you spend your wealth instead of leaving it to someone, you pay tax again (e.g. VAT) and this does not provoke the same resistance, which seems to indicate that there are other arguments underlying this position than the double taxation argument. We will discuss these arguments in this Ethical Annotation.

² www.nytimes.com/2017/02/18/your-money/taxes/once-again-the-estate-tax-may-die.html (accessed November 2017).

³ Cameron made these statements during an election debate on 29 April 2010 on the BBC. The transcript of the debate can be found at: http://news.bbc.co.uk/2/shared/bsp/hi/pdfs/30_04_10_finaldebate.pdf (accessed November 2017). A similar idea is also expressed by Lord Grantham in the *Downton Abbey* series: ‘I am a custodian, my dear, not an owner’ (*Downton Abbey*, 1:4).

In section 2, we briefly outline the Dutch legislation at the time of writing (2017) regarding inheritance tax. We then look at inheritance and inheritance tax through the moral lens of freedom (section 3), merit (section 4), equality (section 5), efficiency (section 6), and the value of the family (section 7). Finally, in section 8, we consider some of the implications of our ethical analysis for the current legislation.

Before proceeding, it might be helpful to say something about the focus and scope of this Ethical Annotation. First, the focus is specifically on inheritance. However, most of the ethical considerations that we will discuss also apply to gifts. Unless explicitly stated otherwise, we will be assuming that the considerations discussed apply not only to inheritances but also to gifts or donations. Second, we will also assume that taxation is in principle morally justifiable. We will then focus on ethical considerations that specifically address the fairness of taxing inheritances and gifts. We therefore do not discuss various positions, such as ‘philosophical anarchism’ (Dagger and Lefkowitz 2014), that reject *any* form of taxation, be it income tax, consumption tax, or wealth tax, or any other form of tax.

The current situation in the Netherlands

In this section we briefly outline the current legislation in the Netherlands. The purpose of this section is not to give a complete overview of gift and inheritance tax but to highlight a number of points to which we will return later in this Ethical Annotation.

Firstly, inheritance tax is progressive: assets valued above 120,000 euros are taxed at 1.5 to 2 times the rate of assets valued up to 120,000 euros. Secondly, there are different tax rates and different exemptions depending on the relationship between the deceased and the heir.⁴ The lowest rates and the highest exemptions apply to the partner, then to the parents, children, or grandchildren, and finally for other possible heirs (including brothers and sisters). There is a higher exemption for a child with a disability (60,000 euros versus 20,000 euros for a child without a disability).

There are two other exemptions worth mentioning. In addition to the standard exemption for children (20,000 euros for an inheritance; 5,000 euros per year for gifts), a one-off gift exemption of 100,000 euros has recently been introduced and applies if (the majority of) the gift is used to purchase a home of one's own.⁵ In addition, there are special exemptions when it comes to business succession, for example in the case of a family business.⁶ There is a 100% exemption up to approximately 1 million euros. For every euro above 1 million euros there is an 83% exemption. If a daughter inherits a company from her father worth 2 million euros, she will therefore only have to pay inheritance tax on 170,000 euros of that value; the remaining 1,830,000 euros are exempt from tax.

Value of inheritance (2017)	Partner Cohabitant (Foster) child Child with a disability	Grandchildren and further descendants	Other heirs Relatives with another relationship to deceased (such as siblings, parents)
€ 0–€ 122,268	10%	18%	30%
€ 122,269 and over	20%	36%	40%

⁴ For tax rates see: www.belastingdienst.nl/wps/wcm/connect/bldcontentnl/belastingdienst/privere relatie_familie_en_gezondheid/erven/erfenis_krijgen/hoeveel_erfbelasting_moet_u_betalen (accessed November 2017). For exemptions see: www.belastingdienst.nl/wps/wcm/connect/bldcontentnl/belastingdienst/privere relatie_familie_en_gezondheid/erven/erfenis_krijgen/vrijstelling/vrijstelling (accessed November 2017).

⁵ www.belastingdienst.nl/wps/wcm/connect/bldcontentnl/belastingdienst/privere relatie_familie_en_gezondheid/schenken/schenking_krijgen/belastingvrij-schenken-vrijstellingen-2017/algemene-vrijstelling-schenkbelasting-2017-/schenkingsvrijstelling-eigen-woning-2017/schenkingsvrijstelling-eigen+home-2017 (accessed November 2017).

⁶ www.belastingdienst.nl/wps/wcm/connect/bldcontentnl/themaoverstijgend/brochures_en_publicaties/erf_en_schenkbelasting_en_de_bedrijfsopvolgingsregeling_2016 (accessed November 2017).

Relationship with deceased. You are:	Amount of exemption 2016	Amount of exemption 2017
Partner	€ 636,180	€ 638,089
Child or grandchild	€ 20,148	€ 20,209
Parent	€ 47,715	€ 47,859
Child with a disability	€ 60,439	€ 60,621
Other heirs (including brother and sister)	€ 2,122	€ 2,129

Advocates of inheritance argue that individuals should be able to decide for themselves what to do with their property and that any restriction of this freedom violates their fundamental rights.

An important moral consideration, especially in the context of a liberal society, is the individual freedom of the giver of an inheritance. Advocates of inheritance argue that individuals should be able to decide for themselves what to do with their property and that any restriction of this freedom violates their fundamental rights (see, for example, Rothbard 1978: 49–50; Friedman 2002 [1962]: 164). Some people spend their money on expensive hobbies or holidays, but other people choose to save their money so that they can leave it to their children or other people. This argument is particularly advanced by so-called libertarians, advocates of a form of liberalism in which individual freedom and the right to private property are central (Vallentyne and Van der Vossen 2014). However, individual freedom is not only recognised as important by libertarians but also by every liberal, including those that emphasise equality (see section 5). Libertarians distinguish themselves by considering inheritance solely from the perspective of the individual freedom of the giver.

At first glance, the argument that individuals should be able to decide what to do with their wealth — consume or donate — seems a strong one: there seems to be much to be said for the idea that people should have the freedom to do with their money as they wish and that the giver should be treated equally if he or she were to spend it on consumption or if he or she were to spend it by giving it away. If we assume that the

person has legitimately earned the money in question, then it should be a matter of choice whether he or she gives it away during their lifetime or after they have died, or spends it on consumption. Everyone should have the opportunity to choose how they spend their money, and people's wishes, ambitions, and choices should be respected as much as possible.

Yet this conclusion is premature. First, strictly speaking, the argument based on freedom is not an argument for inheritance tax or against it. Indeed, arguments based on freedom seem to equate inheritance with consumption, or at least to understand them analogously (recall the examples of hobbies and holidays). And almost all forms of consumption are taxed, so inheritance-as-equivalent-to-consumption could be too. When you buy a bottle of whisky, you pay VAT and excise duty. When you buy an airline ticket, you pay airport tax, and so on. If we think that taxes charged on consumption are justified and that inheritance is a similar transaction to consumption, we can also justify taxes being charged on inheritance. Of course, one could argue that consumption and inheritance differ so one should be taxed (consumption) and the other (inheritance) should not. The point here is simply that the argument based on freedom is not in itself an argument against inheritance tax — especially if the argument relies on the equivalence of inheritance and consumption.

It is also worth noting that the argument based on freedom would have important consequences for Dutch legislation on inheritances. Currently,

there are significant exemptions for inheritances left to, for example, partners (638,089 euros) and (grand)children (20,000 euros). From the perspective of the giver's freedom, such exemptions are arbitrary: why should the taxation be lower when I leave my money to my child than when I leave it to the son of some neighbours? In section 7, we will discuss possible arguments concerning why there should be a distinction between taxes paid on inheritances left by a parent to a child and those left to people who are not family members. For now, it is only important to note that, taken on its own, the argument based on freedom does not justify this distinction; if we want to preserve and justify the distinction made between the inheritance tax rates that apply between parent and child and those that apply between non-family members, we will have to offer reasons other than those based on freedom, because the freedom-based argument leads to the suggestion that this distinction should not be made.

However, there are also more principled objections to the freedom-based argument. The most important principled counterargument is that individuals should not in all cases have free choices to do what they want with their property, for example you should not have the freedom to use your wealth to bribe politicians or to finance terrorism, etc. (Mulligan, unpublished manuscript).⁷ Of course, this does not answer the question of whether or not people should have the freedom to leave an inheritance to someone, but it does show that an appeal to individual freedom is not in itself sufficient as an argument for inheritance.

In addition, it is questionable whether we should evaluate inheritance and inheritance tax solely from the perspective of the individual freedom of the giver of the inheritance, as libertarians usually advocate. In the next sections, we discuss possible reasons that might lead us to argue for a restriction of that freedom.

⁷ Haslett (1986) makes similar direct comparisons with the practice of inheritance: 'Abolishing inheritance is, I suggest, analogous to abolishing discrimination against blacks in restaurants and other commercial establishments. By abolishing discrimination, the owners of these establishments lose the freedom to choose the skin colour of the people they do business with, but the gain in freedom for blacks is obviously greater and more significant than this loss. Likewise, by abolishing inheritance the gain in freedom for the poor is greater and more significant than the loss in freedom for the rich' (136). However, in our view, equating bequeathing an inheritance with discrimination goes too far: unlike discrimination, there is nothing inherently morally problematic about bequeathing an inheritance (although it may have morally problematic effects. We will discuss these effects below). However, the example does show that an appeal to individual freedom can never stand alone but must be weighed against the other relevant values.

***An appeal to individual freedom
is not in itself sufficient as an
argument for inheritance.***



From the perspective of the giver of an inheritance, one can regard the transfer of an inheritance as an exercise of his or her individual freedom. From the perspective of the recipient of an inheritance, however, an inheritance seems to be a clear case of unearned wealth. There are different ideas about the exact meaning and basis of merit, but what they have in common is that they refer to a certain characteristic or activity of an individual. For example, you earn an income because you have worked hard for it, because you have done something useful for society, or because you were prepared to take financial risks by investing in a business.

Opponents of inheritance argue that receiving an inheritance is unearned, regardless of how you understand merit (Haslett 1986; Lazenby 2010). For instance, you have not worked for an inheritance and it is purely coincidental which family you were born into. If we assume that merit should play an important role in the distribution of wealth, then according to this argument one could question the inheritance of wealth.

The strength of the argument against merit-based inheritance is that it appeals to an ethical consideration that is shared by a large number of advocates of inheritance (for exceptions, see below). Consider, for example, the politicians mentioned in the introduction: political leaders such as Rutte, Trump, and Cameron often argue in favour of low income taxation based on the idea that people earn their income because they have

worked hard for it. The opponents of inheritance try to use similar arguments to argue in favour of high inheritance tax: if merit is an important consideration when arguing in favour of *low* income tax (because income is earned), why shouldn't it also be a reason to argue in favour of *high* inheritance tax (because inheritances are unearned)?

One important reason why matters are more complex is that the perspective of the recipient of the inheritance will have to be weighed against the perspective of the individual freedom of the giver of the inheritance. Apart from that, it is questionable how solid this argument concerning merit actually is. In his criticism of this argument, Milton Friedman starts from the observation that we normally accept that inequality in wealth caused by (genetically transmitted) talent is justified (Friedman 2002 [1962]: 164–66). The example Friedman uses is someone who has inherited a special voice from his parents. According to Friedman, the ability that someone can acquire via his or her special voice would belong to him or her. Friedman then states that there are no ethically relevant differences between inheriting a special voice and inheriting capital. If we think that you are entitled to the fruits of the innate talents that you inherited from your parents, then, according to Friedman, you are also entitled to the fruits of your parents' labour. Friedman thus argues that we can indeed make a legitimate claim to an inheritance even if, strictly speaking, it is not 'earned' but the result of luck.

Robert Nozick has similar objections (Nozick 1974: 238). According to Nozick, it is not unfair that a child who grows up in a house with a swimming pool can swim every day even though, strictly speaking, he or she does not deserve it. Nozick goes on to say that if we accept this, we should also have no problem with a situation in which a child inherits a swimming pool. In other words, even if the child does not deserve the pool, it is not unfair if the child can use the pool or if the child will inherit the pool.

But for those who defend inheritance tax on the grounds that the recipient has not earned it, Friedman's and Nozick's attempt at rebuttal are unconvincing. Friedman and Nozick simply assume that you are entitled to the fruits of your talent and to the fortuitous circumstances in which you find yourself (such as having a special voice or a house with a swimming pool). This is questionable, of course: why should we accept that someone has a right to the fruits of the talents he/she happens to be born with and/or to the benefits that come from the lucky circumstances in which someone is born? This is one of the moral issues that is under discussion when we talk about the distribution of wealth in a society, including the distribution of wealth through inheritance. Therefore, we cannot simply assume that a particular answer to this question is the right one. This does not mean that it is impossible to argue for the proposition that you are entitled to, for example, the fruits of your talent. But we should give arguments for such a view, rather than assuming it as a conclusion — and the

philosophical literature on this subject shows that these arguments are highly contested.⁸

In addition, one may wonder whether there are indeed relevant differences between, for example, inheriting talent and inheriting wealth. A possible problem with taxing income resulting from your talent is that it is difficult to determine exactly what can be traced back to your inherited talent (the luck/coincidence) and what you yourself are responsible for. Having a special voice is clearly a case of good luck, but what about people who can work hard, who can concentrate well, or who need little sleep — are these luck factors or can these people take credit for those characteristics, or is it a combination of both? This problem (of drawing a line between luck and merit) does not exist in the case of inherited wealth, because inherited wealth, from the recipient's perspective, is clearly a matter of luck.

⁸ The standard argument in the libertarian tradition is that people own themselves ('self-ownership') and that this also gives people a right to the fruits of their labour. The *locus classicus* of this idea is found in Locke (1988 [1689]). For criticism of this see, for instance, Cohen (1995) or Christman (1991).

Another important ethical argument against inheritance has to do with the implications of inheritance for inequality in a society. By legally enabling inheritance, inequality of wealth is perpetuated or increased. If there were no inheritance, there would still be wealth inequality, but it would be a lot smaller than the large wealth inequality observed in the Netherlands (van Bavel 2014; van Bavel and Frankema 2017). Inequality of wealth is not morally problematic in itself, but it is problematic insofar as it contributes to, for example, unequal opportunities that people have in their lives. In this section, we briefly discuss three interpretations of the idea of equality: luck egalitarianism, equality of opportunity, and sufficientarianism.

LUCK EQUALITARIANISM

Luck egalitarians argue that any form of inequality traceable to bad luck is undeserved and therefore unjust (Lippert-Rasmussen 2014). The basic idea underlying luck egalitarianism is that only inequalities that can be traced back to your own choices are justifiable: the accidental talents you are born with, the family you are born into, or the country you live in should have no influence on the opportunities you have.⁹ But if you choose to work less, then it is fair that you earn less money (and therefore may (later) have fewer opportunities).

At first glance, it would seem that luck egalitarianism provides an argument against

inheritance, since inherited wealth is a clear instance of luck (see also section 4). However, random egalitarianism argues not only that inequalities arising from luck are unjust, but also that inequalities arising from choice are just. If inheritance leads to greater inequality of wealth, then for luck egalitarianism this inequality is unjust if viewed from the perspective of the recipients but just if viewed from the perspective of the givers, at least if testators themselves make a choice about to whom they want to leave an inheritance. The tax system, if designed solely according to the justice principles of luck egalitarians, would therefore run into a dilemma between favouring the perspective of the giver and the perspective of the recipient of an inheritance or gift (Lazenby 2010). Luck egalitarianism does not seem to offer any criteria for determining how this dilemma might be resolved. In other words, luck egalitarianism offers no basis for making a statement about the justice of inheritance and inheritance tax because the two fundamental intuitions underlying luck egalitarianism — individual freedom/responsibility and rectifications for luck — clash in the context of inheritance.

It should also be noted that luck egalitarianism is not undisputed among political philosophers (Anderson 1999; Scheffler 2003). There are also other notions of equality. And furthermore, the same point that was made in our discussion of freedom and merit applies, namely that there are also other important values that need to be weighed against each other.

⁹ Not all forms of luck lead to injustice according to luck egalitarianism, only instances of what they call ‘brute luck’, such as the examples mentioned in the text. Disadvantages that result from consciously made risky choices (‘option luck’) are, according to luck egalitarianism, justified: examples are having higher insurance costs as a motorcyclist (because motorcycling is more dangerous than driving a car) or winning a lottery.

EQUALITY OF OPPORTUNITY

The idea that equal opportunities are important in a just society is something that is not only emphasised by more socially oriented liberals such as John Rawls (1999[1971]) or Amartya Sen (1980), but also by classical liberal thinkers such as Milton Friedman (2002 [1962]) and Friedrich Hayek (1960).¹⁰ Whereas luck egalitarianism argues that we should only compensate for inequality of opportunity that arises from undeserved luck/bad luck, these authors argue that you cannot hold people responsible for having or not having equal opportunities (people are responsible for making use of the opportunities once they are there). The above dilemma that arises from luck egalitarianism is therefore not applicable to equality of opportunity.

There are several ways in which wealth inequality affects the opportunities people have in life. Firstly, money creates opportunities, so people with greater wealth have more possibilities in their lives. In addition, inequalities in income and wealth are often associated with negative effects on social outcomes that are relevant to people's opportunities, such as poorer physical and mental health, more obesity, more violence and crime, more teenage pregnancies, and weaker social cohesion in neighbourhoods (Wilkinson and Pickett 2009). Of course, establishing correlations is not enough to prove causality, but there is also evidence of a causal link between income

inequality and negative social effects with many undesirable consequences (Rowlingson 2011).

Finally, we should not only consider wealth as capital that can be converted into an income stream. Wealth is also, for example, about the possibility of investing in human capital. A young adult who knows that he or she can count on an inheritance can, without worrying, start studying and borrow money to do so, or borrow money to start a business. Knowing that you have a financial cushion means that you have nothing to worry about (in contrast to the worry and stress that young people without a financial cushion can experience) and also means that you can invest in your own development, which generally leads to higher incomes in the long run. This creates unequal opportunities in other spheres of life, which in a just society should be eliminated as much as possible.

Other important consequences for society are the effects of inequality on the functioning of democracy, since in an ideal world democracy presupposes that people have equal opportunities to exert political influence. If financial inequality becomes too great, we risk undermining political equality between citizens (Rawls 1999: 245; Christiano 2012; Robeyns 2017b). For instance, citizens with valuable assets have more opportunities to lobby the government to persuade it to develop the policy they prefer on certain issues or to not develop any policy at all. Wealthy citizens can also filter news coverage and influence discussions in the public sphere by setting up or buying up commercial media. They

¹⁰ For an analysis of the importance of equal opportunities in classical liberalism, see Haslett (1986).

can also do this by setting up and financing think tanks and professorships, which historically have played a significant role in disseminating the economic thinking that underlies contemporary neoliberal policies (Stedman Jones 2012). Wealthy citizens can also influence policy at all levels through a variety of other, more informal, channels, for example through informal networks in which wealthy people introduce their children to other wealthy people.

SUFFICIENTARIANISM

Both luck egalitarianism and theories of equality of opportunity state that opportunities in a society should be equally distributed. The only difference is that for luck egalitarianism, inequalities of opportunity resulting from one's own choices are not unjust. According to both these theories, receiving an inheritance is therefore unjust insofar as it leads to unequal opportunities. However, there are also egalitarian theories that focus only on inequalities up to a specific threshold that specifies a sufficient quality of life (Arneson 2013). This view is called *sufficientarianism* in academic philosophy. According to these theories, not all inequalities or all inequalities arising from luck are unjust, only those inequalities that cause people to fall below a certain threshold of quality of life. Examples of *sufficientarianism* are the poverty line but also, for example, Martha Nussbaum's capability approach (Nussbaum 2006), or theories that emphasise human rights (Gewirth 1978).

According to these theories, the unequal opportunities that result from the practice of inheritance are not inherently unjust; they are unjust only insofar as they contribute to people being situated below the relevant threshold. For example, based on such a theory, one could argue that the tax exemptions for companies are unjustifiable in a society in which, at the same time as these exemptions exist, there have been so many cuts to services for the most vulnerable citizens that large groups of people are (or are threatened to be) left out. In a society where every individual has at least a sufficient quality of life, there would be nothing wrong with a practice of inheritance that leads to inequality of opportunity above the threshold.¹¹

We conclude that the practice of inheritance is at odds with the idea of equal opportunity and possibly with the idea that people should at least have a minimal quality of life. And although luck egalitarianism finds itself in a dilemma when it comes to justice, the practice of inheritance is also unjust according to luck egalitarianism, at least from the perspective of the recipient of the inheritance. From the point of view of equality, therefore, there is a strong case for increasing inheritance tax.

¹¹ This does not apply to situations where the existence of an inequality causes people to fall below a threshold. For example, take the influence of wealth inequalities on political opportunities that was discussed above: when wealth inequality is significantly large, it not only leads to unequal political opportunities but perhaps even to a situation where one can question whether people have any real possibility of exerting political influence at all.



Opponents of (high) inheritance tax often suggest that this tax has negative effects on the economic welfare of a society and is therefore inefficient. Two different criticisms can be distinguished, both related to the effects of inheritance tax on welfare: on the one hand, there is the general claim that inheritance tax, like all other taxes, leads to welfare losses, and on the other hand, the more specific claim that preventing the inheritance of a business and any other forms of productive capital would harm a country's economic production.

INHERITANCE TAX AND EFFICIENCY

The first criticism can be found in both academic discussions on inheritance and in the public debate. The central idea is that people would work less (hard) and save less money if inheritance tax (that is too high) is levied (Haslett 1986; McCaffery 2000). This has consequences for the prosperity of a society because less wealth is created and, for example, less capital is available for investments and loans.

The idea behind this argument is that although (high) inheritance tax contributes to more equality in a society, at the same time it makes everyone worse off. This is an example of a more general '*levelling down objection*' against ethical theories that only attach importance to equality. The *levelling down objection* states that if a certain tax or other institutional measure aimed at eliminating inequality results in people making much less effort, this will result in greater

equality but also in a lower level of welfare for all. It is as if you have cut a cake into pieces more equally, but at the same time the cake itself shrinks and all the pieces become smaller as a result. In the same way, according to opponents of inheritance tax, it would be undesirable to equalise wealth because we would all lose out.

However, is it true that people would work less (hard) if their assets went to the government rather than their heirs after their death? Empirical research suggests that the negative effects of inheritance taxes on the labour supply of the recipients, and on the saving behaviour of future testators, are small (at least much smaller than the behavioural effects of taxes on labour). Economists studying the structure of the optimal income tax argue for a higher tax on capital (including inheritances) and a lower tax on labour — rather than the reverse, which is currently the case (Conesa, Kitao, and Krueger 2009; Piketty and Saez 2013). Thus, from an economic perspective, inheritance tax seems to be an effective and efficient tax because it generates much smaller behavioural effects than other taxes, such as income tax, VAT, or excise duties.

More generally, one could ask whether even if the case arose that (high) inheritance tax would lead to lower levels of economic prosperity, this would be undesirable in all circumstances. The countries in which citizens are happiest, or have the greatest quality of life, are not always the countries with the highest gross national product per capita (UNDP 2016). In addition, there is a strong correlation between wealth creation and

the depletion of natural resources and global warming, which is why there are increasing calls to decouple the creation of well-being and the good life from economic growth (Jackson 2016).

The question of whether a decline in economic prosperity is morally problematic depends largely on what people can actually do with the welfare that exists rather than (only) on the size of the total economic welfare that is realised. Economic welfare is the input (or resource) of our quality of life and does not coincide with it. For example, it is also possible to increase our quality of life with less labour on the labour market and more non-market activities, and such a change would perhaps be more in line with what environmental sustainability requires of our economic behaviour (Robeyns 2017a). In other words, if more taxes are levied on inheritances (especially on the larger inheritances that may contribute proportionally less to the happiness or well-being of those who inherit them) and the government invests meaningfully in social services that make a substantial difference to the well-being of large groups of the population, then these inheritance taxes might even lead to efficiency gains. It all depends on what one sees as the ultimate goal of our economic activity — is it the accumulation of money, material prosperity, or human happiness or some other interpretation of well-being?

But even if it were true that (high) inheritance tax leads to a reduction in welfare, and even if this reduction in welfare is in itself problematic, this does not necessarily mean that we should not levy a (high) tax on inheritances. Instead, we would

have to make a trade-off between equality on the one hand and efficiency or wealth creation on the other. There are various proposals as to how we should do this. John Rawls' difference principle — the principle that says inequality in a society can only be justified if that inequality benefits those who are worst off — is one way of making this trade-off.¹²

FAMILY FIRMS AS DRIVERS OF THE ECONOMY

The second criticism states that if the inheritance concerns family businesses, it is economically harmful if they are (heavily) taxed. In the Netherlands, family businesses are often seen as the engine of the economy and employment. It could fatally damage those businesses if they cannot simply be transferred to the next generation of entrepreneurs. This is also one of the motivations behind the large exemptions for family businesses. But this claim and argument can be criticised in various ways.

Firstly, it is questionable whether the children of business owners also have the necessary skills to run a business. Perhaps it would lead to much higher productivity and thus economic prosperity if the best entrepreneurs for that particular business continued to run it — and why should the children always be the best business successors? This idea was put forward by liberal thinkers in the eighteenth and nineteenth centuries to argue against inheritance and for a (progressive) inheritance tax. Adam Smith

¹² Rawls writes the following on inheritance and inheritance tax: 'The unequal inheritance of wealth is no more inherently unjust than the unequal inheritance of intelligence. It is true that the former is presumably more easily subject to social control; but the essential thing is that as far as possible inequalities founded on either should satisfy the difference principle. Thus inheritance is permissible provided that the resulting inequalities are to the advantage of the least fortunate and compatible with liberty and fair equality of opportunity' (Rawls 1999 [1971]: 245).

(1723–1790), the well-known defender of the free market, criticised the practice of inheritance because, in his view, it would lead to a loss of wealth. Someone who inherits a piece of land, Smith argued, often does not have the motivation or the capacity to cultivate the land (Smith 1978: 169). And the liberal philosopher J.S. Mill (1806–1873) wrote the following: ‘The heir of entail, being assured of succeeding to the family property, however undeserving of it, and being aware of this from his earliest years, has much more than the ordinary chances of growing up idle, dissipated, and profligate’ (1909 [1848]: V.ix.11). In other words, classical liberals feared that inheritance would lead to laziness and a loss of productivity. Very rich people also warned about this danger. Andrew Carnegie, for instance, argued that a (large) inheritance ‘generally deadens the talents and energies of the son, and tempts him to lead a less useful and less worthy life than he otherwise would’ (1891: 371). If Carnegie’s insights are correct, then inheriting capital leads to lower economic productivity rather than higher productivity. In any case, we can conclude that bequeathing farms (or farmland or other forms of productive capital) to the children of farm owners does not guarantee the most optimal match of new entrepreneurs with that capital.

Secondly, the tax-free (or minimally taxed) inheritance of businesses leads to unequal opportunities between entrepreneurs who inherit a business from their parents and entrepreneurs who have to build their business from scratch or

buy it from an entrepreneur who is selling his business rather than leaving it to his children. This inequality is not only problematic from the perspective of fairness, but also from the perspective of efficiency, which requires fair competition. And therefore it is also a question of possibly lower efficiency, because the entrepreneur who received his business without being taxed, or who only had to pay a very low level of inheritance tax, has a better starting position that is not due to his efficient way of doing business and creating wealth. If Hans inherits a bicycle shop worth 1 million euros from his parents and does not have to pay a cent in inheritance tax on it, and Gerard inherits a million euros in cash from his parents and pays 183,730 euros¹³ in inheritance tax, they are in unequal starting positions for starting a business. It is not self-evident that this is a good thing for the welfare of the population: selling the parents’ bicycle business to the highest bidder (which could be Hans himself) would not only be fairer, but probably also just as efficient (Haslett 1986).

Thirdly, having a lower inheritance tax on businesses than for other inheritances leads to the unequal treatment of heirs. How can we justify the fact that a child who inherits a million-dollar house must pay 183,730 euros in tax, while someone who inherits a million-dollar family business does not have to pay any tax at all? Moreover, this creates an incentive to shape inheritances into companies (so-called incorporations) to avoid inheritance tax. Since it is not unlikely that wealthy people in

¹³ Calculation made using www.belastingdienst.nl/rekenhulpen/erfbelasting (accessed November 2017).


particular will find it easier to seek advice on how to arrange such inheritance tax avoidance, this therefore leads to an increase in inequality: smaller inheritances will be taxed according to the usual tax rates, while larger inheritances will be able to avoid these inheritance taxes, including through incorporations. The ethical ideal of equal opportunities is thus put under even more pressure. According to our analysis, the lower inheritance tax for companies is therefore not only unjust; the claim that it is justifiable on grounds of economic efficiency is also questionable.

A fourth criticism of the exemption from inheritance tax on the transfer of businesses was clearly made by Hans Gribnau (2012: 19–21). He cites the ruling of *de Raad van State* (the ‘Council of State’) that there is no empirical basis for the proposition that inheritance taxes on businesses would jeopardise their continuation. In his conclusion, Gribnau stresses that this is a form of unjust exemption and also that it has the potential to undermine tax morale in general: ‘This totally unnecessary tax subsidy is simply a tax privilege. Such a gift at the expense of the treasury, i.e. at the expense of (other) taxpayers, is bad for the legitimacy of the tax system and detrimental to tax morale’ (Gribnau 2012: 21; translation IR).

However, even if it is clear from the above that inheritances from family businesses should be taxed more, there may be good reasons to give children the opportunity to continue the family business. This could be done, for example,

by giving children the opportunity to buy back a family business that becomes the property of the state after the death of the owner. The government could make this financially possible by providing loans on favourable terms (for an elaboration of this proposal, see Haslett 1986: 138). There are at least two reasons why such a possibility to continue the family business is important. First, for many people a family business has an emotional value as well as a financial value; the business can be part of the identity of a family and the individuals who are part of that family (think, for example, of a bakery that has been in a family for generations). This proposal tries to take this emotional value into account. Second, there is a risk that if the government were to simply sell family firms to the highest bidder, this would lead to a (further) concentration of the production factor of capital, which is undesirable for reasons that have been extensively discussed in the economic and political — philosophical literature (Rawls 2003: 135–79; O’Neill and Williamson 2012; Piketty 2014).

One could ask whether even if the case arose that (high) inheritance tax would lead to lower levels of economic prosperity, this would be undesirable in all circumstances.

An elderly man with a mustache and a young boy are sitting at a wooden table, looking at a collection of old photographs and papers. The man is on the right, wearing a dark jacket, and the boy is on the left, wearing a green hoodie. They are both looking down at the items on the table. The background shows a window with lace curtains and a potted plant.

The idea that there is a special relationship between parents and children that legitimises inheritance seems to be widely shared.

The arguments that have been advanced so far are grounded in broadly liberal principles that emphasise individual freedom, economic considerations, and equality. As we briefly discussed in section 3, such considerations cannot justify why in many countries, including the Netherlands, there are relatively low inheritance tax rates and relatively high exemptions for children compared to other possible heirs (apart from the partner and parents). The question we discuss in this section is whether there are good arguments for this exemption.

The idea that there is a special relationship between parents and children that legitimises inheritance seems to be widely shared (Cunliffe, Erreygers, and Reeve 2013). We can also see this in the statement by Cameron that we quoted in the introduction. But throughout history, philosophers have also thought about this special relationship.

The English philosopher John Locke (1632–1704) provides an argument for this special bond between parents and children. Locke argues that parents have a desire not only to provide for themselves but also to continue their family line. This, according to Locke, gives children a right to subsistence and parents a corresponding duty to provide for this subsistence. That duty, according to Locke, can only be realised if children have a right to their parents' inheritance.

For Locke, these rights and duties are given to us by God. But we can also understand this

Lockean argument without invoking God-given natural rights. The idea underlying the argument is that parents have a duty towards their children and that this duty can be fulfilled after the death of the parents by passing the property owned by the parents to the children. This does not seem to be such a crazy idea.

But here too further discussion is needed. Firstly, one can question exactly how far the right to maintenance and the corresponding duty extends (even if one accepts the argument itself). Does the right to maintenance give a right to the assets necessary for a very basic living standard (what in the Dutch public discourse has come to be known as 'bed, bath and bread'), or also to assets that enable you to lead a life of luxury ('four-poster bed, jacuzzi and caviar')? This makes a big difference when it comes to possible exemptions and the level of tax rates. Locke himself is ambiguous about this: on the one hand he writes that children have a right 'not only to bare Subsistence but to the conveniences and comforts of Life, as far as the conditions of their Parents can afford it' (1988 [1689], I: 89). In other places, however, he argues that children have a right to subsistence only until they can stand on their own two feet (Locke 1988 [1689], II: 78).

Secondly, one can ask why the duty to provide for the maintenance of children lies solely with the parents and not also with the state. That is, if you accept that children have a right to maintenance (regardless of the question of what exactly this right entails), you could also argue that the state should play a role in guaranteeing

these rights so that every child is provided for, not just the children of parents who have enough assets to do so. In Locke's day, of course, such a role for the state was (politically) unthinkable, but times have changed and this is a legitimate question to ask.

A more recent argument concerning the special bond between parent and child is given by Harry Brighouse and Adam Swift (2008, 2016), who have spent years researching what makes the relationship between parents and children so special and what moral and political rights follow from it. They argue that the family is an important social institution because it makes certain valuable things possible that cannot be achieved through other social institutions — the so-called *value of family relationships*. Specifically, the parent-child relationship is qualitatively unique because of the fact that the parent is a unique advocate for the child and can also develop a relationship with the child that is unique because of the special form of intimacy that characterises this relationship. Society should therefore support these family relationships, for example by enabling parents and children to spend sufficient time together.

But what does this mean for inheritance and taxes on inheritance? Brighouse and Swift argue that inheritance undermines the equal opportunity principle and that the competitive advantage that parents can give their children with an inheritance cannot be justified on the basis of the value of the family relationships. It is true that certain specific goods, such as a house

that has been in the family for generations, can play a role in family values and should therefore be able to be bequeathed. However, this does not mean that no tax should be paid on it; by levying (substantial) inheritance tax, the government can protect the equal opportunity principle, but because the specific property remains in the family, the value of specific family relationships is also protected. This could be achieved, for example, by granting heirs who are unable to pay the inheritance tax a postponement of the payment deadline or a favourable loan from the government.

However, the fiduciary role that parents have in relation to their children can lead to exceptions to this conclusion. If parents have a child for whom they see themselves as responsible, and they suspect that their child will not be able to take care of itself (sufficiently) after their death, this may be a reason to justify inheritance. In an ideal world, the government would take over the role of parents of vulnerable (adult) children and parents would not have to worry about the future of their vulnerable adult child after they die. But in the non-ideal world, where many believe the government does not sufficiently care for vulnerable fellow human beings, one could argue that parents of vulnerable children (such as physically or cognitively disabled children, or children with addictions, neurodevelopmental or psychological disorders, or other psychiatric problems) should have the right to care for their children after they die. After all, this is not about trying to obtain a competitive advantage for

their child, but only about ensuring that their vulnerable child will have a minimally good life.

Brighthouse and Swift thus argue that almost all forms of inheritance are not necessary to maintain what is intrinsically valuable about the parent-child relationship, and that, moreover, inheritance leads to competitive advantages for those who inherit and thus undermines the ideal of equal opportunity. If Brighthouse and Swift's argument is true, how do we explain the fact that virtually all parents have the intuition that they are doing something morally good when they leave money to their children?

Perhaps we can explain this because parenting entails the moral duty to care and promote the interests of one's child. As long as they are alive, parents can try in many ways to help their children who are in trouble. When they are deceased, there is very little that parents can do — except provide money, which may prevent their (adult) children from getting into trouble, or enable them to use those funds to solve their problems. Although this is speculative, it may explain why parents are so keen on leaving money to their children: it is the only thing they can do for them after death. And in the non-ideal world we live in, where there are all kinds of gaps in the social safety net and we cannot insure ourselves individually or socially against all forms of misfortune, parents hope to be able to do something for their children after their death. However, even if this perspective of the parents is very understandable and perhaps noble, it remains at odds with the effects on moral values

that the inheriting of wealth entails (especially increasing inequalities).

It is also worth noting that parents may not only have noble motives for leaving an inheritance to their children. The English philosopher Hillel Steiner (1996), for example, also attributes less noble reasons to parents who want to leave their offspring an inheritance. According to Steiner, an inheritance functions as a form of insurance for the giver of an inheritance: the giver has a big stick with which to influence the behaviour of the recipient of the inheritance because he or she can threaten to disinherit the recipient. Inheritances can thus also function as a lever in the power relations between parents and their (adult) children, and we should ask whether this is ethically desirable.

Does the above analysis provide a reason why children should be able to inherit from their parents, or why the tax rates for inheriting from our parents should be lower than for other inheritances we might receive, for example from an aunt or friend? It is difficult not to question the privileging of the parent-child relationship in inheritance law. It can be argued that it is unfair to testators without children who have, however, taken on a protective role for a person whose welfare they care about — even after their death. Why should the people they want to protect (from being trapped in poverty) receive less for the same pre-tax inheritance amount because inheritance law allows children a higher exemption and lower inheritance tax rates?

So far, we have not found any good reason for privileging the parent-child relationship in inheritance law. Reasons given for the special status of children may also be used to argue for exemptions for cases in which testators have taken on a protective role for a person who is at risk of falling through a gap in the social safety net, including exemptions for parents who want to leave money for a child in need of care. But even in these cases, one might wonder whether it should be the government's task in the first place to give *everyone* the chance to enjoy a minimum quality of life rather than only indirectly, through special tax rates, for those who receive an inheritance (whether from their parents or from another party).

The philosophical and ethical literature is much more critical of the legitimacy of the practice of inheritance and the extent to which inheritances are now taxed than the prevailing sentiments in politics and among the general population. In society, there is overwhelming opposition to inheritance tax, and the practice of inheritance is generally taken for granted. However, in this Ethical Annotation we hope to have shown why, on reflection, there are good reasons to take a critical look at the current practice of inheritance and inheritance tax.

It is not the purpose of this Ethical Annotation to make an unequivocal judgement on the fairness or unfairness of inheritance and inheritance tax. Such a judgement depends on weighing up various moral considerations: merit, freedom, equality, prosperity, and the value of the family. We have described the various moral considerations that are often mentioned in the context of inheritance and inheritance tax, but we have not argued why these considerations should be important. Nevertheless, based on the foregoing considerations, it is possible to make a number of (critical) comments on the current practice of inheritance and inheritance tax in the Netherlands — where we believe it is not just a question of how much importance one attaches to certain values but is also about how we can arrive at clear and unambiguous conclusions.

Firstly, there are good reasons to look critically at the special status of children within inheritance law. It remains unclear why children should enjoy

this special status. In any case, this special status does not follow from the often-heard argument that people should be free to do what they want with their assets (section 3), because from that perspective it is arbitrary whether you leave your assets to your children or to someone else. And although there are arguments in the literature that support the special relationship between parents and children (section 7), it is not evident that these arguments also legitimise the special status of children in inheritance law. Whether that special status is ethically justified depends, among other things, on whether children have a safety net to protect them against risks and bad luck through inheritance that they do not receive from the state.

Secondly, it follows from this analysis that there are good reasons to take a critical look at the exception that applies to business succession. There are arguments against the exception made for the inheritance of family businesses, for reasons concerning both equality and efficiency. The current situation leads to inequality — between those who inherit a business and those who inherit wealth, and between entrepreneurs who inherit a business from their parents and entrepreneurs who must build their business from scratch or buy it from an entrepreneur who sells it rather than leaving it to their children. And in any case, the current situation is not necessarily efficient, because it is not obvious that the heir is the most suitable person to take over the business. We cannot make a balanced judgement here on what the ideal inheritance tax

for business succession would look like, as this also requires more detailed empirical information on the possible effects. But we do think that an open discussion on this subject is necessary.

There are good reasons for other elements of the current situation. The most important is the existing higher tax exemption for children with disabilities — at least in today’s non-ideal world, where the social system has been partially dismantled and where the most vulnerable groups in society are left behind. In situations where people are highly dependent on others for their functioning, and where the social system does not offer sufficient guarantees for vulnerable groups, it should be possible to leave money behind. However, this should apply not only to inheritances that are bequeathed to vulnerable children but also to those that are left to other vulnerable heirs.

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