Chapter 2: Bequests: An Historical Perspective

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When we look at the system of bequests as it operates in the United States today, most of us would be willing to accept five broad conclusions:

- Bequests play an important but not an overwhelmingly decisive role in the wealth accumulation of any particular cohort.
- Bequests play an important but not an overwhelmingly decisive role in the creation of wealth inequality within any particular cohort.
- People leave bequests – especially large bequests – for three reasons, in declining order of importance: (i) to make their children – all their children – better off and happier, (ii) to use the carrot of a promised bequest to make their children (or other descendants) behave appropriately, and (iii) to insure against inequalities of skill or fortune that give some of their heirs better life-chances than others.
- There is seen to be something "dirty" about bequests – something that contradicts American values – and the high notional marginal tax rates on large-scale bequests that have ruled in America since the Great Depression are from a sociological perspective a way of expressing this distaste for bequests and inherited wealth.

- Yet – as one would expect of any arena for political decision in which a few are massively affected by public policy – the details of America's estate tax have kept its bite relatively weak, and its leveling effect on the distribution of wealth relatively small.

It is the purpose of this paper to argue that all five of these major aspects of our system of bequests today are relatively new: that all five of them were not present four, three, or even one century ago. In the past, the system of bequests worked very differently, had a very different place and role in economic and social life, and was built on top of very different assumptions about what bequests were *for* – what their basic purposes were.

To demonstrate these points, this paper takes a brief tour of bequests in the Anglo-Saxon world in the post-Medieval past. The first stop is early modern England. In early modern England bequests played an absolutely decisive role in the wealth accumulation of each cohort; they played an absolutely decisive role in the creation of wealth inequality within each birth cohort; their fundamental purpose was not to make all one's descendants better off, or to induce one's descendants to behave appropriately, or to compensate for inequalities of nature or fortune, but instead to maximize the wealth and power of the eldest male head of the lineage in future generations. Primogeniture (the principal that the eldest son got nearly everything) and entail (legal institutions that bound the current possessor to transmit the principal value of the estate unimpaired to his heirs) made the current “owner” not the master of the property but the servant of the male lineage’s long-term wealth accumulation program. There was back then nothing distasteful or contrary to established values in bequests.

Indeed, in practically every pre-industrial revolution society, bequests were of decisive importance to every rich lineage. Low rates of net saving meant that the overwhelming bulk of the wealth holdings of any cohort came through bequests. With few opportunities to accumulate wealth save through bequests, those particular lineages that adopted primogeniture-based bequest systems were likely to see their positions in the relative wealth distribution rise. To the pre-industrial revolution rich – and to the pre-industrial revolution middle class and poor as well – the stakes at risk in the bequest game were relatively large, and the prizes very uneven. How well one manipulated the bequest system was nearly the only factor in whether one’s children rose or fell in the ranking of wealth and status.

The second stop on our tour is nineteenth century America, in which the pieces of the early modern English pattern of bequests were broken, and the shards reassembled into the pattern that still dominates American inheritance today. A rapidly-expanding economy meant that bequests were no longer the only factor affecting each birth cohort’s total wealth accumulation, or affecting the distribution of wealth within each particular birth cohort. The conditions of America assisted in the collapse of primogeniture and the elimination of doctrines like entail. But nineteenth-century America also saw the rise of an ideology of wealth that put inherited wealth under particular suspicion, and rendered it and its possession somewhat dubious.

The migration to the New World appears to have been accompanied by a rapid shift in the perception of the purpose of bequests. In a matter of two or three generations, a bias toward primogeniture (almost everything to the eldest male) was replaced by a presumption of multigeniture (equal division among the children – or at least among the male children). The migration from a land-scarce, slowly-growing economy to a land-rich, rapidly-growing frontier-settler economy significantly reduced the relative role of bequests as a determinant of peak wealth accumulation. Clearing and improving local land, or moving to the frontier were strategies for upward mobility at least as effective as plotting how to inherit from a rich father or how to marry the lord of Pemberly with an income of £10,000 a year.

In short, even while America remained a primarily agricultural society, the place of bequests in its economy and society had already profoundly shifted. An economy in which the rich were the lucky – those who had chosen the right parents – had been replaced by one in which, in theory at least, the rich were supposed to be those who had demonstrated thrift and industry, and also had more than their share of entrepreneurial luck as well.

The coming of the industrial revolution to America brought still further changes in the system of bequests. Large increases in the economy's capital intensity and an extraordinary rise in the concentration of wealth during the Gilded Age did raise the salience of bequests as a determinant of the distribution of wealth within any particular cohort, even if it did not reattain its early dominance as a determinant of the total wealth of any cohort. The industrial statesmen, or robber barons, of the late nineteenth century had staked their claim to the legitimacy of their accumulated wealth as the result of acts of bold foresight, Schumpeterian innovation, and a little luck. This made things somewhat difficult for their heirs: the passing-on of the Rockefeller, the Mellon, and lesser fortunes did not seem to fit with the ideology of America as a land of equality of opportunity.

Thus the coming of social democracy to America brought with it high notional statutory rates of tax on bequests. The standard Lockeian arguments[1] did not seem to establish a right to this particular form of property. However, the standard legislative

1. That rights to property are derived from everyone's right to whatever he or she has created. See John Locke (1689), ch. 5, §27: "The labour of his body, and the work of his hands… are properly his. Whatsoever… he hath mixed his labour with… thereby makes it his property…. [F]or this labour being the unquestionable property of the labourer, no man but he can have a right to what that is once joined to, at least where there is enough, and as good, left in common for others."

dynamics gave concentrated interest groups a good chance of rewriting the legislative fine print in their favor, so that the base on which the estate tax was levied was narrow. Opportunities to avoid the estate tax remained ample: at the end of the twentieth century, a couple with five married grandchildren could transfer $4 million over twenty years to them estate tax-free[2] – plus additional transfers to other descendants, payments for education and other expenses, and other tax avoidance strategies. From at least one perspective, the estate tax at the end of the twentieth century is best seen not as a revenue-raising measure but as a symbol of social disapproval of inheritance, and an attempt to alter the incentives of the rich in such a way as to encourage charitable giving.

It is in this context that we look forward to the promised and now enacted repeal of the federal "death tax" to take effect in less than a decade – to be immediately followed by the reimposition in the following year of today's current estate tax laws and rates. The sharp rise in income and wealth inequality in the 1980s and 1990s raised the salience of the estate taxes among those who might wind up paying them, and strongly increased the demand for estate tax repeal. The narrow base of the estate tax meant that revenue losses from estate tax repeal were not large, and limited the potential for forming coalitions to maintain current estate tax law in the interest of avoiding the further impairment of federal revenues. Nevertheless, it remains odd that the bold assertion that

2. Using the gift tax exemption allowance for each grandparent to give $10,000 a year to each grandchild

one of the rights of Americans was to inherit a large fortune did not call forth the same ideological counterreaction that the transmission of the large fortunes of the Gilded Age had. Perhaps we are today seeing the beginnings of another shift in how inherited wealth is viewed in America – a shift of the same order of magnitude as that which shattered the English system of inheritance in the first generations after the migration to the New World.

Back Before the Industrial Revolution

Bequests versus Accumulation

In chapter 3 of *Pride and Prejudice*, Jane Austen introduces her hero, Mr. Darcy.[3] The last, by far the most lengthy, and by far the most important part of her initial description of him is "…the report, which was in general circulation within five minutes after his entrance [into the ballroom], of his having ten thousand a year." Mr. Darcy has inherited an estate, Pemberly, from his late father. From this estate he derives an income of £10,000 a year.[4] It is this inheritance that leads "the ladies… [to declare] that he was

and their spouse tax-free.

3. Austen (1813).

4. That is, if landed wealth is capitalized at the conventional twenty years' income, Mr. Darcy's fortune is worth some £200,000. According to Lindert's (1986) estimates, the average holding of the top 1 percent of households at the time Jane Austen was writing was £100,000. This makes Mr. Darcy quite a catch, and

much handsomer than [his friend] Mr. Bingley." Mr. Bingley, by contrast, has inherited only half as large a fortune from his late father. Note the striking disjunction between how virtually everyone would be introduced today – in which the principal question to be answered is "what does he or she do?" – and the introductions in the still overwhelmingly pre-industrial world of Jane Austen, in which the principal question is "what has he inherited?" (or "what will he inherit?").

The explanation of this is straightforward. Jane Austen's novel is mirroring the world in which she and her ancestors lived. Back before the industrial revolution, the relative distribution of wealth was much more dependent upon bequests than it is today. Indeed, it is not going too far to say that bequests were *the* crucial factors influencing the distribution of wealth – and thus the distribution of economic (and often political) power. A much greater proportion than today of society's wealth was acquired by the members of any particular birth cohort through bequests than through accumulation or entrepreneurship or any alternative channel.

Sound quantitative estimates of the share of inherited wealth in any birth cohort's total wealth accumulation or in the proportion of wealth inequality generated through bequests are not available for pre-industrial early-modern England. But a few illustrative calculations will convincingly demonstrate that the role played by bequests must have

puts him at roughly the 99.75 percentile of the British wealth distribution: perhaps 5,000 households in all been overwhelming. Societies before the Industrial Revolution saw shorter life expectancies and generation lengths. They saw a ratio of non-human capital wealth to production that was surely not less than is seen today. And they saw extraordinarily low rates of net capital accumulation. These three features of pre-industrial societies together guaranteed that bequests were the single most important factor determining the wealth and wealth distribution of any particular birth cohort.

First, begin with the length of a "generation," that is how long the average piece of wealth remains in the possession of a member of one particular birth cohort. The shorter is a "generation," the more important will bequests be in the relative wealth accumulation of any cohort. The amount of wealth gained through bequests is equal to the total capital stock divided by the length of a generation and the amount of wealth gained through accumulation is simply equal to net investment, and it is invariant to the length of a generation. At first glance, it is not clear what effect the longer life expectancies found today – life expectancies at birth in the 70s compared to pre-industrial life expectancies at birth in the 30s, according to Livi-Bacci – have on the length of a generation.[5] One retains one's wealth until one is older, yes, but one also receives one's inheritance when one is older. However, it is clear that primogeniture played an important role in shortening pre-industrial generation length: bequests descended

Britain were richer.

overwhelmingly from the deceased male wealthholder to his eldest male child (or other eldest male heir).[6] Today, by contrast, inheritances descend from the deceased wealthholder to all his or her children (or other heirs) in approximately equal shares. With roughly equal numbers of children surviving to adulthood today and in the pre-industrial past, the spread in years between the eldest surviving male and the middle child makes it overwhelmingly likely that pre-industrial generation length was shorter by a matter of years.

Second, consider rates of population growth back before the industrial revolution. The consensus estimate of population growth in Eurasia in the 1500-1800 period average is some 0.25 percent per year.[7] Angus Maddison's estimate of the rate of growth in output per worker over 1500-1800 is some 0.125 percent per year.[8] This is an upper limit to pre-industrial revolution early modern growth rates: any faster rate of growth over the period 1500-1800 would imply that standards of living in the period 1000-1500 would have been too low to support human life.[9]

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5. Livi-Bacci (1992).
6. With the only significant exception being the provisions for widows discussed by Peter Diamond in his comment – of especial interest because these widows' provisions were a non-marketable right that survived the extinction of other customary, feudal, and non-marketable restrictions on property for centuries.
7. See Livi-Bacci (1992). Moreover, even that low rate vastly outstrips what demographers believe were average rates of population growth found back in the pre-1500 Middle Ages.
8. Maddison (2000).
9. See Pritchett (1997).

Assuming a constant capital-output ratio, the slow rate of growth of total output of approximately 0.375 percent per year places stringent limits on the amount of net investment possible in any pre-industrial society: because the capital stock grows at the same rate as total output, the share of output devoted to net investment equals the proportional rate of growth of output times the capital-output ratio. At a society-wide reproducible capital-to-annual-output ratio of 2:1, such rates of growth imply net investment shares of 1.5 percent of output. At a society-wide reproducible capital-to-annual-output ratio of 3:1, such rates of growth imply net investment shares of 2.2 percent of output. The conclusion is inescapable: except in those few pre-Industrial Revolution economies experiencing extraordinary mercantile booms in trade and population (like fifteenth-century Venice, seventeenth-century Amsterdam, or eighteenth-century London), the accumulation of capital through net saving was simply not large enough to be an important component of any birth cohort's wealth.[10]

By contrast, back before the industrial revolution bequests were a major component of acquired wealth. With a society-wide total capital-output ratio of 3:1 and a generation length of 25 years, roughly 12 percent of a year's output will change hands

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10. Why were rates of investment so low? That they were low cannot be doubted. The population history of humanity is well-known (see Livi-Bacci (1992)), and the near-stagnation of material standards of living and productivity for the bulk of the population is recognized by an analytical tradition dating back to Malthus (1798), recently reinforced by Pritchett (2000). Economic historian Gregory Clark has speculated that substantial rates of capital depreciation, perhaps half again or more higher than today's benchmark rate of

and pass down through the generations through inheritance every year.[11] With a society-wide total capital-output ratio of 4:1, some 16 percent of a year's output changes hands through inheritance every year. Estimates of the ratio of wealth to output before the industrial revolution are guesses. How many years' worth of output was the stock of reproducible capital? How many years' worth of output was the capitalized value of land? How many years' worth of output was the capitalized value of labor control rights?[12] My guess is that every year bequests turned over to the receiving cohort were equal to between 16 and 24 percent of annual output. This is more than ten times the contribution of net investment to wealth.

Contrast the dominance of inheritance over net investment before the industrial revolution with the situation today. Today investment is a more important component of a cohort's wealth accumulation than inheritance. Today rates of growth of GDP per capita average 3 percent per year or more, and the population growth rate is approximately 1 percent per year. At a ratio of reproducible capital to output of between 3 and 4, net investment must amount to between 12 percent and 16 percent of total output, while roughly 12 percent of a year's total output passes to the receiving cohort via bequests and

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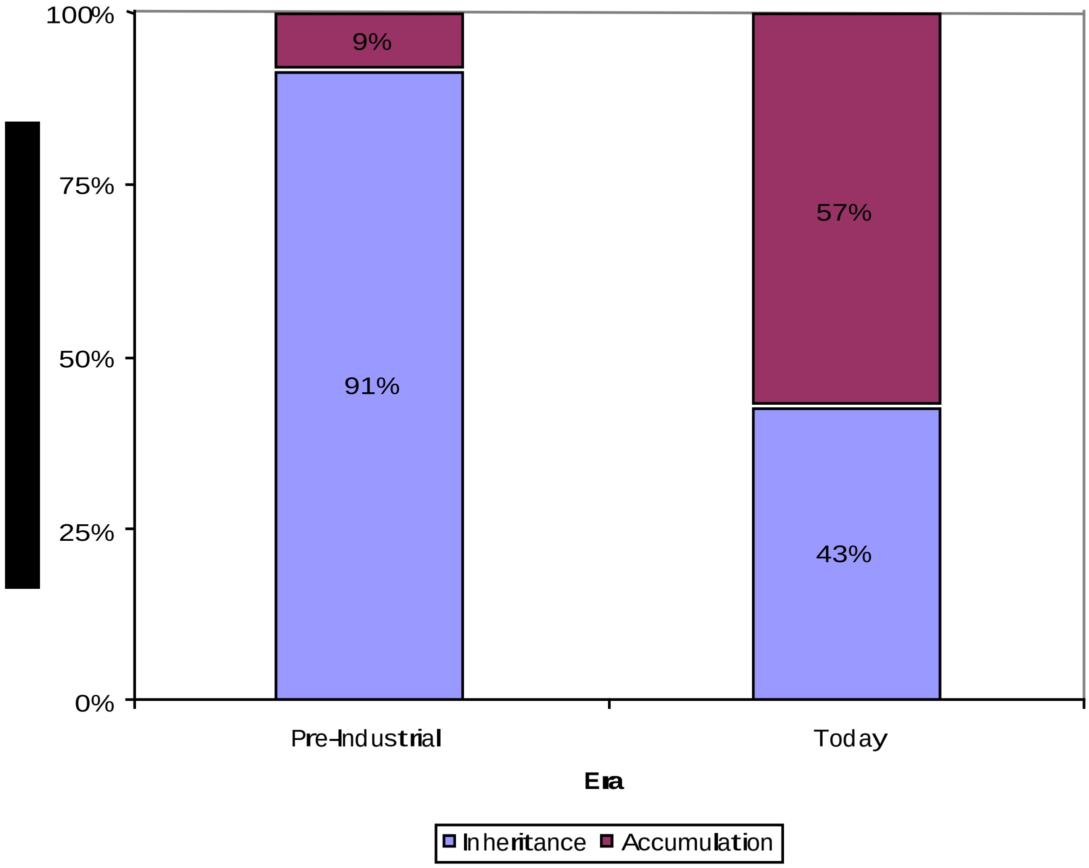
four percent per year, is half of the answer. An absence of opportunities for investments that paid high rates of return must be the other half, but why remains obscure.

11. If one twenty-fifth of society's wealth is held by those who die, this is equal to 12 percent of a year's output. This is, of course, only a rough order-of-magnitude calculation. But it does its job.

inter-vivos transfers. This balance between accumulation and bequests is in sharp contrast to the more than 1:10 ratio of the pre-Industrial Revolution past.

Figure 1: Approximate Net Shares in the Wealth Acquisition of a Rising Cohort



Source: Author's calculations.

12. It is important not to forget that bequests transmitted not just wealth but poverty – serfdom and slavery were inherited as well. Slaves were subject to the same rules of inheritance as other personal property. The

These estimates are illustrative calculations only. Their value lies not in the exact numbers, but in the astonishingly large contrast in the relative role of bequests and accumulation between the slowly-growing, low-net-investment economies of the pre-industrial age and the economies of today.

Primogeniture and the Concentration of Wealth

The much larger relative role of bequests in wealth accumulation is not the only or the major difference between pre-industrial England and modern-day America. Different also was the use – the purpose – of bequests. Today economists model the principal purpose of bequests as that of raising the well-being of one's descendants, and of all one's descendants.[13] It thus seems natural to us today that the ruling principle governing bequests will be that of equal division: equal division of estates follows from what seems to us to be the very basic assumptions of declining marginal utility of wealth on the part of one's descendants and symmetry of one's regard and concern for one's children.

obligations of serfdom followed different – feudal – rules.

13. However, researchers have offered other motives. See Bernheim, Shleifer, and Summers (1986) for a theory of bequests as another tool to be used in the within-family game of influence and control to try to ensure that one's descendants behave appropriately. Becker and Tomes (1976) argue that parents use bequests as a way to insure their children against inequalities produced by nature and fortune, bequeathing

Yet equal division was anathema among the estate holders of pre-industrial England. Instead, the default rule was primogeniture: the unitary transmission of the overwhelming bulk of the property to a single heir, the eldest male in the line of descent.[14] The feudal origins of primogeniture seem reasonably clear. A fief was granted to an individual in return for service – either the service of a knight in a lord's army, or the service of a lord and his knights in the army of some lord further up the feudal pyramid. When one fief-holder died it was natural to look to his heir to step into his place, but the personal and reciprocal nature of the quasi-contract that made up the feudal landholding meant that only one person could fill the role. Hence primogeniture: if you were seeking one child to fill the father's place in the feudal hierarchy, choose a male and choose the oldest male. Certainly Adam Smith saw this feudal-military rationale as the reason for the development of primogeniture after the fall of the Roman Empire, for "when land… is considered as the means… of power and protection, it was thought better that it should descend undivided to one…. The security of a landed estate… depended

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more to poorer children. Menchik (1980), however, finds that at the estate stage (but perhaps not at the *inter-vivos* transmission stage) the norm of equal division to potential heirs is very strong.

14. A variety of considerations of sentiment and utility modified and softened the application of the principle of primogeniture. (references). Dowries for daughters were an expected charge. Estates inherited from an extinct collateral branch of the lineage might descend not to the already well provided for eldest son but to a younger brother (references). Among the rich, marriage bargains would frequently contain provisions assigning life estate interests to the widow – the mother of the heir – allowing her substantial material independence.

upon its greatness" and justified the departure from the principle of equal division, which Smith saw as the "natural law of succession."[15]

Yet this cannot be a complete solution. The feudal rationale for primogeniture may have been its original cause, but primogeniture itself outlived feudalism. The last remnants of feudal military tenures were abolished in the seventeenth century. Nevertheless, primogeniture survived. Thompson reports that in nineteenth-century England the overwhelming majority of even new millionaires – newly self-made men whose ancestors had never kissed the hands of and received a military fief from any of the barons of King John – followed the principles of primogeniture as they handed their estates down to their heirs.[16] Families like the Rothschilds that did not practice primogeniture were the exception, not the rule. The landed rich of England, at least, held strongly to primogeniture for more than half a millennium after the disappearance of its supposed feudal-military rationale.

The only paternal utility function that would make sense of such a bequest rule would be one that focussed not on making all of one's children happy, but on maximizing the social position and resources of the eldest male descendant. One derives utility not from thinking about how happy and well-off all your children will be, but from thinking about the wealth and power of your successor as head of the lineage. If one assumes that

15. Smith (1776).

such preferences can be and are culturally transmitted down the lineage, it is reasonably clear how a taste for primogeniture could continue to dominate the economy even given a propensity for what Adam Smith called the “natural law of succession” – equal division of property among all children based on equal natural love for each. Those who divide their property among their children see all branches of the lineage revert to the mean in wealth over time. Those who concentrate wealth in the hands of the eldest surviving son see the rest of their descendants undergo a rapid descent in wealth and social status, but also see a rise in the relative status and wealth of the beneficiary of primogeniture. Following the principle of primogeniture cannot raise the average wealth of one’s descendants, but it does greatly concentrate wealth.

The strength of the concern for the long-term wealth of the lineage was strong enough to frequently override the material interests of even the eldest male heir himself. From the sixteenth through the nineteenth century in England, a large and increasing proportion of landed property came to be held under the form of the “entail.” Under this legal institution the male lineage head and current wealthholder was not the “owner” of the property in any real sense. He could not sell it. He could not mortgage it beyond strict limits. He held a life interest in the property, but was under the obligation to pass it on unimpaired to his eldest son. The eldest son would then in turn be asked to continue the

16. Thompson (1990).

"entail": to assign – before his father died – his ownership interest in the property to his eldest male descendant, and to accept in his turn a life interest only in the property when it came to him after his father's decease. Historians judge that by the middle of the eighteenth century it was more likely than not, that a piece of English property that passed in direct line from father to son was entailed, and thus passed from one life tenant to another.[17]

The purpose of the entail was to eliminate, as far as possible, the right of any eldest male in the chain of lineage descent to do anything to dissipate the wealth and property of the lineage. Thus the aim of the bequet game as played through the legal institution of the entail was not to boost the average utility and material well-being of one's descendants, and not even to boost the utility and material well-being of the heir blessed by primogeniture, but instead to gather and maintain as large and lucrative a property and fortune as possible in the hands of the eldest male line of descent of the lineage.

Indeed, if Mr. Darcy's large inheritance – and the "truth, universally acknowledged, that a single man with a large fortune must be in want of a wife" – is one of the mainsprings of the action of *Pride and Prejudice*, the institution of the entail is the other. The heroine Elizabeth Bennet's father has an estate one-fifth as large as Mr.

17. See Clay (1968).

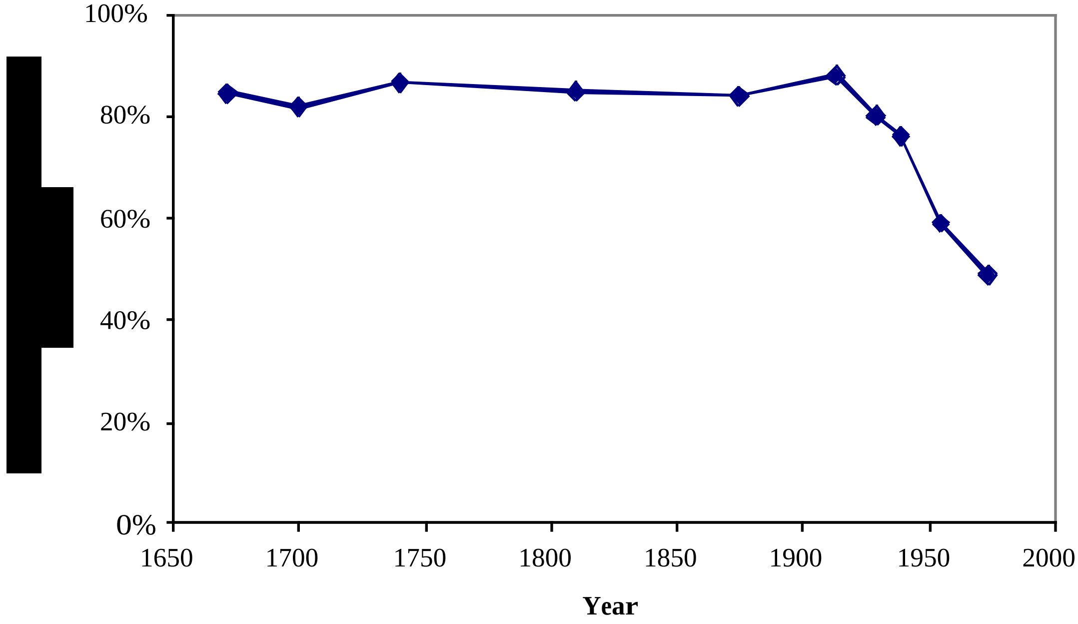
Darcy's, but only a trivially small proportion of that estate will ever descend to anyone of his four daughters, for it is "entailed, in default of male heirs, on a distant relation." Should Mr. Bennet die, his wife and daughters face an 80 percent cut in their income. This is a source of great tension and dismay within the Bennet household: they do not like their distant cousin who is to inherit in the name of preserving the estate and lineage intact, and they are – or at least Mrs. Bennet is – desperate to marry her daughters to men who promise to inherit substantial property before the death of her husband and the consequent financial collapse of the family.

The institutions of primogeniture and entail, combined with the tendency of the heiresses that did exist to marry heirs, appears to have given pre-industrial England an absolutely extraordinary degree of the concentration of wealth. According to Peter Lindert, the top 10 percent of households in England and Wales held between 80 and 90 percent of total wealth between the mid-seventeenth and the early twentieth centuries (Figure 2). The declines in the concentration of mercantile, commercial, and industrial wealth were offset by a secular rise in the concentration of landed property on which entail could bind and for which primogeniture was most often applied.[18] Such levels of wealth concentration were rarely attained in America, only at the peak of U.S. wealth inequality during the Gilded Age, if then. The concentration of wealth in England today

18. Lindert (1986).

is only half as great today, as measured by the share held by the top 10 percent of households.

Figure 2: Percent of Wealth Held by the Top 10 Percent of Households in England and Wales



Source: Lindert (1986).

How much of a difference the bequest system of pre-industrial England – with its three components of the dominance of inherited wealth, primogeniture, and entail – made for the distribution of wealth or indeed of utility in pre-industrial England is unclear.

What is clear is that the particular equilibrium found in pre-industrial England was a sensitive one. It could not survive transplantation to colonial America.

Coming to America

Before the end of the eighteenth century, Colonial America had already broken with the pre-industrial English pattern of bequests along several important dimensions. The first element to fall was primogeniture. The move to America saw the rapid end of the belief that the purpose of bequests was to maximize the social position of the lineage head down through the generations. Equal division, the "natural law of succession" as Adam Smith saw it, quickly took hold. The second element to fall was the centrality of bequests in each cohort's wealth accumulation. The inescapable fact was that a rapidly-expanding frontier-settler economy would inevitably see bequests rank far lower as a component of one's peak accumulation of wealth.

The Fall of Primogeniture

In England primogeniture had contributed to the concentration of wealth and the power of the lineage head among the rich, and thus had flourished even after the end of its supposed feudal military rationale. Primogeniture had contributed to the maintenance of farm sizes sufficient to support a family among the yeomanry: division of the farm would, it was feared, soon leave each descendant with too little to maintain a family. Neither of these reasons seemed to have much purchase in British-settled Colonial America. In the northern colonies, primogeniture was never established, and what traces of it did exist vanished almost immediately after the initial settlements. In the southern colonies, primogeniture remained a default legal principle down to the time of the Revolutionary War. Georgia abolished primogeniture in 1777, North Carolina, Virginia, Maryland, and New York in the years 1784-1786, South Carolina in 1791, and Rhode Island – the odd man out – in 1798.[19] However, it is unclear to what extent the Revolutionary War-era end of primogeniture as a default legal doctrine represented a change in practice, or simply bringing lagging legal formalities into accord with actual practice.

Alston and Schapiro speculate that the rapid disappearance of primogeniture in the northern colonies was the result of the need for large amounts of family labor to clear land and establish farms.[20] Younger sons would be more willing to remain and help with the family project if they believed that they were likely to receive a share of the property on their father's death. By contrast, a presumption that primogeniture would apply would send younger sons out in search of other economic opportunities at an earlier age. And a

19. See Alston and Schapiro (1984).

rapidly-expanding economy with a westward-moving agricultural frontier offered many other economic opportunities.

However, evidence in favor of this speculation is relatively weak. Some contemporary observers did see this land-clearing and family-labor motive as a reason to shift from primogeniture to the natural law of succession. At the end of the seventeenth century, Governor Talcott of Connecticut said that: “much of our lands remain yet unsubdued and must continue to do so without the assistance of the younger sons, which in reason cannot be expected if they have no part of the inheritance…” But primogeniture remained the default legal rule in the southern colonies until the American Revolution.[21]

It seems as likely that the shift from an economy in which bequests were the overwhelming source of wealth acquisition by a birth cohort to one in which it was roughly balanced by saving and accumulation played an important role in changing support for primogeniture. As long as bequests are the principal and overwhelming source of wealth, division of the property among more than one (male) heir virtually guarantees that all of one’s descendants will lose relative wealth and social position.

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20. Alston and Schapiro (1984).

21. Alston and Schapiro (1984) hypothesize that the southern colonial attachment to primogeniture arose from two reasons. First, the large-scale availability of slaves diminished the need to tie younger sons to the property being developed in order to mobilize labor for land clearing and improvements. Second, the staple export crops produced by southern slave plantations were produced under substantial economies of scale. Hence, wealth concentration provided extra benefits – and thus bequest rules, like primogeniture, that favor concentration of wealth. It is not clear to me, however, that economies of scale in plantation agriculture are large enough to sustain this hypothesis.

Hence to the extent that maintaining the dignity of the lineage is an important value, wealth holders will have strong incentives to sacrifice the interests of younger sons to that of the prospective lineage head. And sacrificing the interests of younger sons to the wealth of the prospective lineage head will have a large payoff if one values having at least one rich and high-status descendent.

Expansion, Upward Mobility, and Ideology

Once it is possible for descendants to maintain their relative wealth and status without relying almost completely on bequests – as must be the case in a rapidly-growing settler economy – then the factors that always limited and softened primogeniture are likely to come into play. Population in the American colonies had a doubling time of 25 years or less – an annual population growth rate of about 3 percent per year. This means that net investment played at least as large a role in the wealth accumulation of any particular cohort as did bequests.

How did Americans think about upward mobility under the changed conditions of a rapidly-expanding settler economy? In pre-industrial England, upward mobility had been seen as something exceptional and unusual. Class positions and relative economic standing was given by who one's parents were, and what one's birth order was, and thus by what one's prospective inheritance was. With the coming first of the commercial revolution and then of the great nineteenth-century industrial revolution, upward mobility became possible. Long and inconclusive debates have taken place among historians about the extent and possibilities for upward mobility in pre-twentieth century England. I have always been impressed by Thompson's findings that even in the second half of the nineteenth century British millionaires tried, with few exceptions, to adopt the patterns of life and ideologies of the landed aristocracy: primogeniture, intermarriage with the gentry, and "complete withdrawal from [the] business [in which they had made their fortunes] by the second or third generation."[22]

America was very different. Perhaps by the start of the nineteenth century, and certainly by the era of Andrew Jackson, few in the dominant north of the United States wanted to be identified with static class distinctions. By the middle of the century, politicians like Abraham Lincoln would make the fluidity of class distinctions a standard part of their speeches and visions. As Lincoln put it in one of his stump speeches – nearly everybody started out as a laborer and nearly everyone could, with sufficient industry and a small amount of luck, make something of himself: acquire property, learn a profession,

22. Thompson (1990).

or build a business. In Lincoln's words, "the man who labored for another last year, this year labors for himself, and next year will hire others to labor for him."[23]

The divisions between rich and poor in the northern United States, in Lincoln's view, were much more a gap between the established and the young than a permanent gap between those destined to be rich and those destined to be poor for their entire lives. "Southern men declare that their slaves are better off than hired laborers amongst us," Lincoln wrote. "How little they know whereof they speak! There is no permanent class of hired laborers amongst us. Twenty-five years ago, I was a hired laborer… Advancement – improvement in condition – is the order of things in a society of equals."

Lincoln's view was surely idealized, and also out of date. In all likelihood, the top 1 percent of households already held twice as large a share of total national wealth in 1860 as they had in 1774.[24] But Lincoln was not wrong in seeing that America's rapidly-expanding settler economy had fundamentally different dynamics of inheritance, mobility, and wealth distribution than pre-industrial England had possessed.[25] The fact that Civil War-era America defined itself as the land of, in Eric Foner's phrase, "free soil,

23. See Foner (1995).
24. See Jones (1980).
25. Pre-Civil War northern American politicians also liked to draw a contrast between the fluid north and the slave-ridden south, where the existence of slave property reduced the wages of white non-slaveholders and created a nearly impassible class gulf between plantation owners and the rest. It is hard to find large differences in mobility between the northern and the southern white populations before the Civil War.

free labor, free men" was to have powerful consequences for how the twentieth-century American government was to regard inheritance.

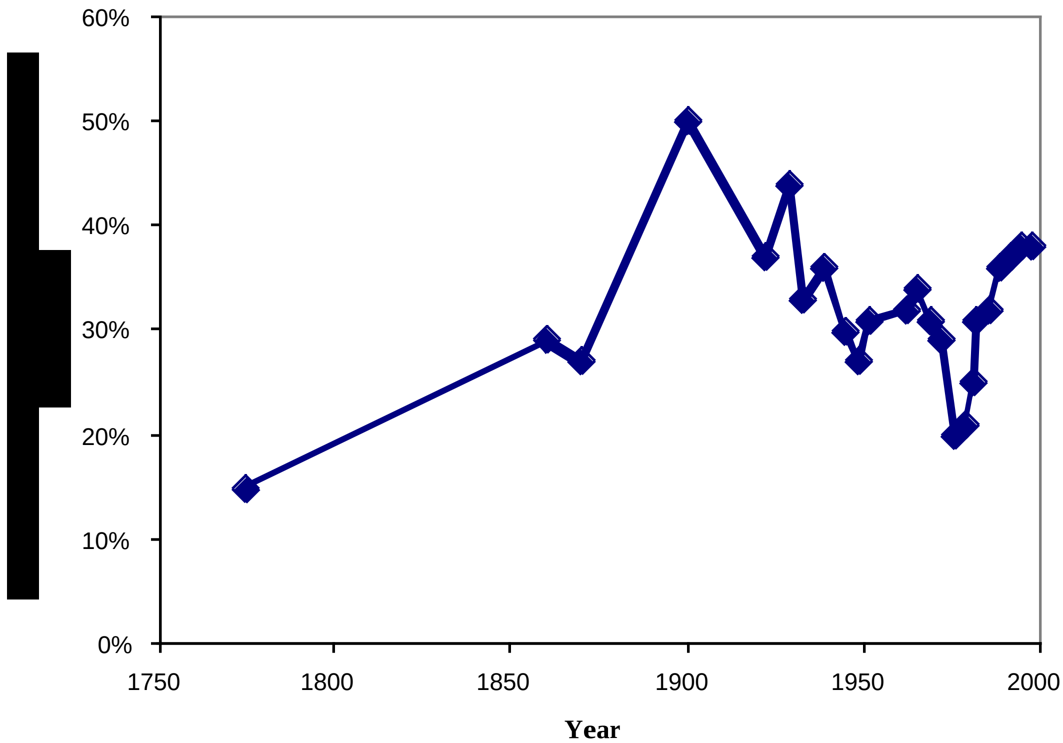
The Gilded Age and After

The coming of the industrial revolution to America in the second half of the nineteenth century brought with it a slow but sustained and large increase in the concentration of wealth. Estimates of the share of wealth held by the richest one percent of Americans on the eve of the Revolutionary War center around 15 percent (Figure 3).[26] Between 1776 and the end of the Civil War the concentration of wealth increased. America in the aftermath of the Civil War was, perhaps, a society whose wealth was as concentrated as it was in the post-World War II era.[27] Then came a second industrial revolution: an enormous upward leap in the economy's capital intensity and in wealth inequality, carrying the concentration of wealth in the decade before World War I to levels that have probably never been seen since.[28] And in the years around and after World War I, as the founding entrepreneurs, plutocrats, and malefactors of great wealth of the Gilded Age died off, inheritance became an important issue not in terms of its

26. See Jones (1980).
27. See Soltow (1989).
28. See Abramovitz and David (1972).

increased quantitative significance in the wealth acquisition of the rising cohort, but in terms of the concentration of wealth.

Figure 3: Wealth Held by the Richest 1 Percent in the United States



Sources: 1774, Alice Hanson Jones (1980); 1860-1870, Lee Soltow (1989); 1922-present, Edward Wolff (1992), as updated by Wolff; 1900, Author’s estimate based on size of largest fortunes.

The great fortunes of the Gilded Age were justified – by the fortune-makers both to themselves and to others – as their just rewards, in a Lockeian sense, for the tasks that they had accomplished. John D. Rockefeller had, it was said, earned his fortune. He had made his money by the sweat of his brow and by his acts of Schumpeterian entrepreneurial vision in grasping the extraordinary economies of scale potentially present in the production and distribution of petroleum and petroleum products (leaving to one side the distribution of well-placed sums to members of the Pennsylvania legislature). Leland Stanford had earned his fortune by masterminding the construction of the transcontinental railroad (never mind that the publicly-traded Central Pacific Railroad had vastly overpaid for the construction services it bought from a company narrowly held by Leland Stanford, Mark Hopkins, Colis Huntington, and Charles Crocker).[29]

But the same Lockeian argument did not seem to apply to the fortune of John D. Rockefeller, Jr., or to the other inheritors of the Mellon, Guggenheim, and other fortunes. The way that the Prince of the Robber Barons, Andrew Carnegie, put it was that an extraordinary entrepreneur was rewarded with an extraordinary fortune because his vision and enterprise had made him worthy of deciding on how such a fortune should be spent to better society. His wealth was a public trust to be used for public betterment – hence the Carnegie libraries, endowments, buildings, and universities that we still see scattered over America. To not spend one's fortune on public improvements but to leave it to one's heirs was to betray this public trust. As Carnegie put it, "he who dies rich" – and leaves a

29. See Josephson (1934).

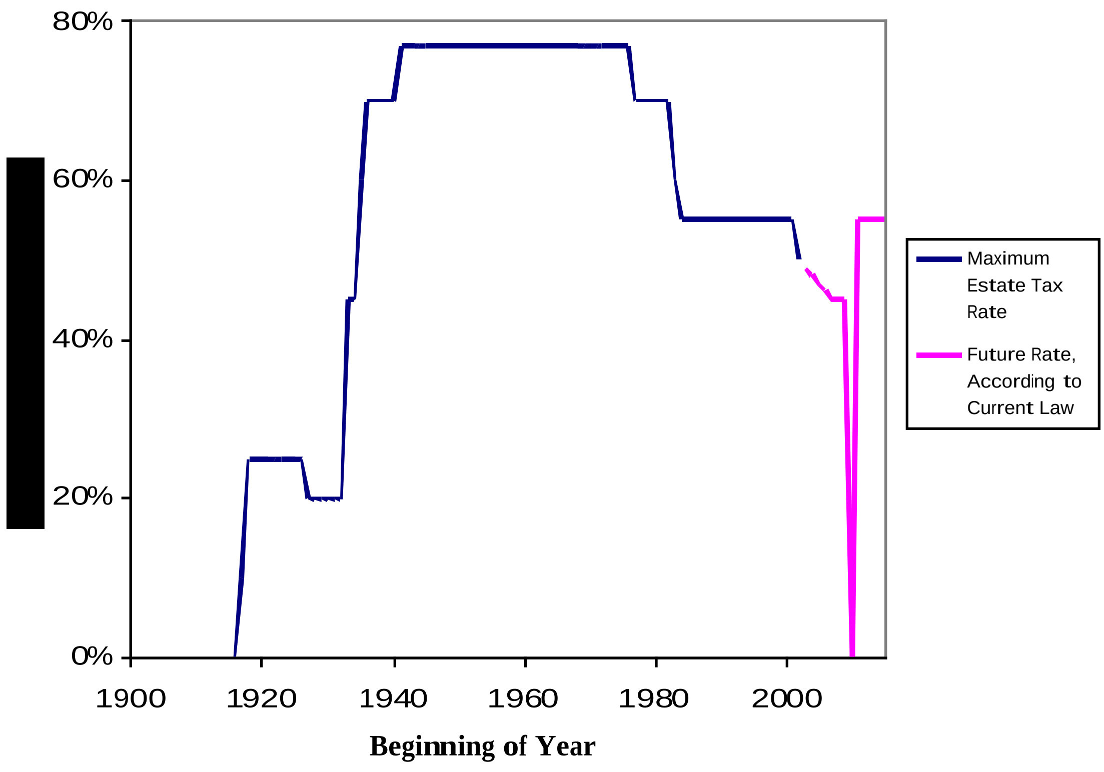
fortune to his heirs – "dies in disgrace." Carnegie applauded the "…growing disposition to tax more and more heavily large estates left at death." He saw this as a "…cheering indication of the growth of a salutary change in public opinion." In Carnegie's view, "of all forms of taxation, this seems the wisest."[30]

Thus, it should be no surprise that the coming of social democracy to America was accompanied by the creation of an estate tax. Such a tax made sense in terms of America's underlying value of equality of opportunity: America's upper class should be made up of those who have been skillful and lucky in their deeds. Those who had chosen the right parents were not automatically entitled. Gradually, as wars and national emergencies came and went, the estate tax acquired higher and higher notional statutory rates. The permanent (so far) estate tax was passed in 1916 in an attempt to compensate for the non-progressive impact of the then-existing federal tax system, based as it was primarily on tariffs and secondarily on excises.[31] The 1916 version of the estate tax had a marginal tax rate on the largest estates 10 percent, which applied to estates over $5 million (in relative income terms, equivalent to roughly $500 million today). During World War I the marginal tax rate on the largest estates was raised to 25 percent, and the

30. See Carnegie (1889).
31. There had been earlier, explicitly temporary, estate taxes passed to raise revenue during the Civil War and the Spanish-American War.

marginal tax rate on the largest estates was then raised to 70 percent during the New Deal and 77 percent during World War II (Figure 4).

Figure 4: Maximum U.S. Estate Tax Rate



Source: Commerce Clearing House.

In spite of high statutory marginal rates on large estates, the U.S. federal estate tax has never raised more than 5 percent of federal tax revenues. A combination of a narrow base confined to only the highest-valued estates coupled with many channels through which income can be transferred down the generations tax-free have kept it from being a major source of federal revenue, in spite of high marginal estate tax rates since the Great Depression. It seems, instead, as though its primary function has been a political statement that “equality of opportunity” is a good thing to aim for – that wealth and economic power should spring from one’s own accomplishments, and not from the fact that one has in some sense chosen the right parents. Its secondary function has been to put a moderately-sized obstacle in one channel for the intergenerational transfer of wealth and power.

In this context the past year’s tax legislation has been especially interesting. It promises the end of the “death tax” in less than a decade, and then its immediate reimposition the following year. The estate tax proposals of 2001 drew remarkably little opposition and remarkably little ideological dissent – but this time there was little opposition to the estate tax’s *repeal*, and little dissent based on the belief that the estate tax is a useful marker emphasizing the core American value of equality of opportunity. Does this represent a temporary change or a permanent shift in Americans’ attitude toward the legitimacy of large bequests?

It may well be that it is the nineteenth-century American belief of Andrew Carnegie and others that inherited wealth – especially large-scale inherited wealth – is somehow illegitimate that is the unusual and temporary view. After all, Adam Smith observed a tendency in human nature to identify with and applaud the happiness of the rich and celebrated.[32] In his view, “a stranger to human nature who saw the indifference of men about the misery of their inferiors, and the regret and indignation which they feel for the misfortunes and sufferings of those above them would be apt to imagine, that pain must be more agonizing, and the convulsions of death more terrible to persons of higher rank, than to those of meaner stations.”

Conclusion

A historical look back at the pattern of inheritance in the Anglo-Saxon world over the past several hundred years has to reinforce one’s sense of how mutable human motivations are, and how different and institution-dependent are the workings of the major forces that govern our economy. Most economists today, when they think about bequests, think that they are (a) an influence but not the decisive determinant of wealth accumulation, (b) an influence but not the decisive determinant of wealth inequality, (c) motivated primarily by individuals’ desires to see their children – all their children – lead better lives, and (d) a part of American economic life that is looked upon with some suspicion. Yet none of these was true in pre-industrial England. Back then bequests were

32. See Smith (1759).

the decisive determinant of wealth accumulation, the decisive determinant of wealth inequality, primarily motivated by a desire to see the power and wealth of future male lineage heads grow, and a very natural and normal part of economic and social life.

Back before the industrial revolution, inheritance loomed much larger as a component of each cohort's wealth in the past than it does today. Low rates of accumulation and relatively high ratios of non-human capital wealth to annual income guaranteed that the overwhelming bulk of wealth came through inheritance. Yet the use that the pre-Industrial Revolution rich made of the inheritance system strikes as us odd: they used it not to enhance the well-being of their descendants as a group, but instead to try to maximize the social position of the prospective head of the lineage – the line of descent of the eldest male.

Eighteenth-century America saw a sharp break with this pre-industrial pattern. Primogeniture remained the default rule longest in the American south, but even in the American south nearly all traces of it had vanished completely by 1800. Equal division (among sons at least) meant that inheritance played a smaller role in the concentration of wealth. And the dynamics of a rapidly-expanding settler economy meant that bequests played a smaller part in the wealth of any cohort.

The Gilded Age of the late nineteenth century in America saw a sharp upward leap in the concentration of wealth accompanied by a substantial increase in the capital intensity of the economy. Thus bequests became more salient, yet they remained embarrassing. The Lockeian argument that John D. Rockefeller had earned his fortune by the sweat of his brow and his acts of Schumpeterian entrepreneurial vision (plus the distribution of well-laced sums to the members of the Pennsylvania legislature) did not apply to the fortunes of his children. Hence the coming of social democracy to America was accompanied by high statutory tax rates on large bequests.

Now we face another turn of the wheel. Current tax law promises the end of federal estate tax in less than a decade – and then their sudden rebirth the following year. Whether we are seeing a momentary blip or a permanent change is not clear. What is clear, however, is that history gives us little confidence that bequests will play the same role – economic, social, fiscal, or ideological – in twenty-first century America that they played in the twentieth century.

The author would like to thank Peter Diamond, Sean Flynn, Alicia Munnell, Christina Romer and Jonathan Skinner for helpful comments.

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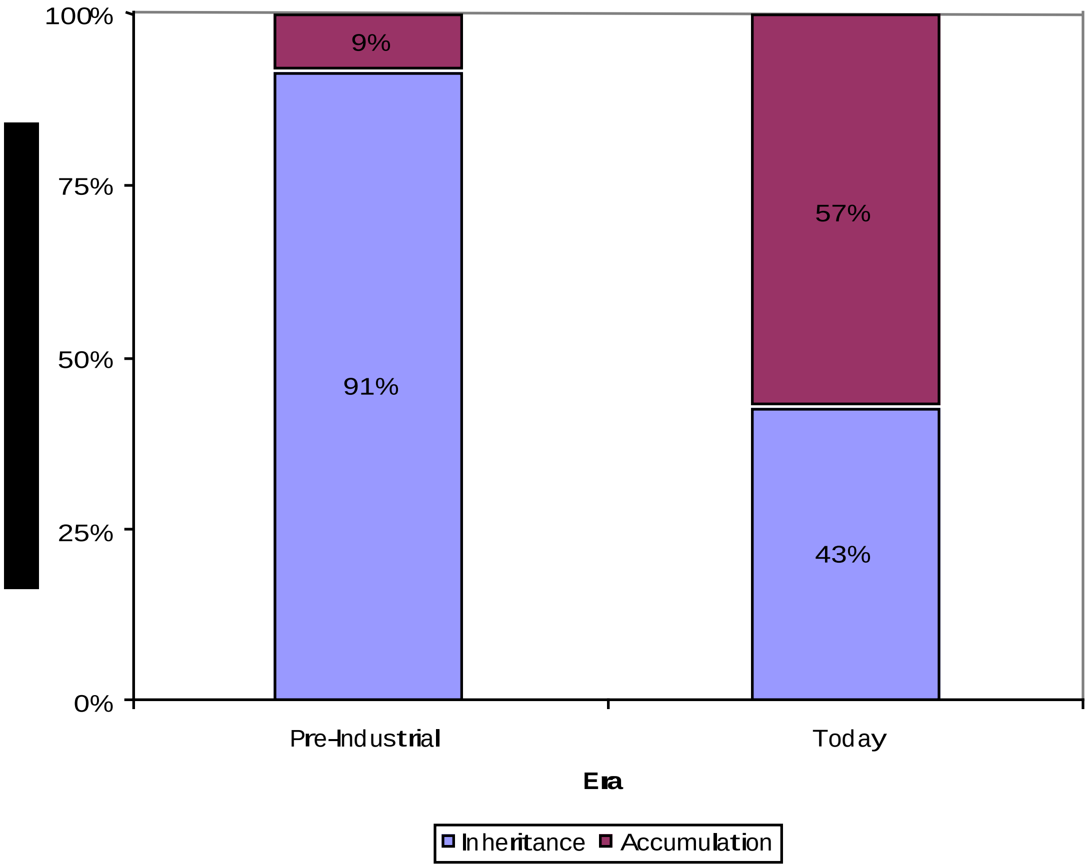
Figure 1: Approximate Net Shares in the Wealth Acquisition of a Rising Cohort



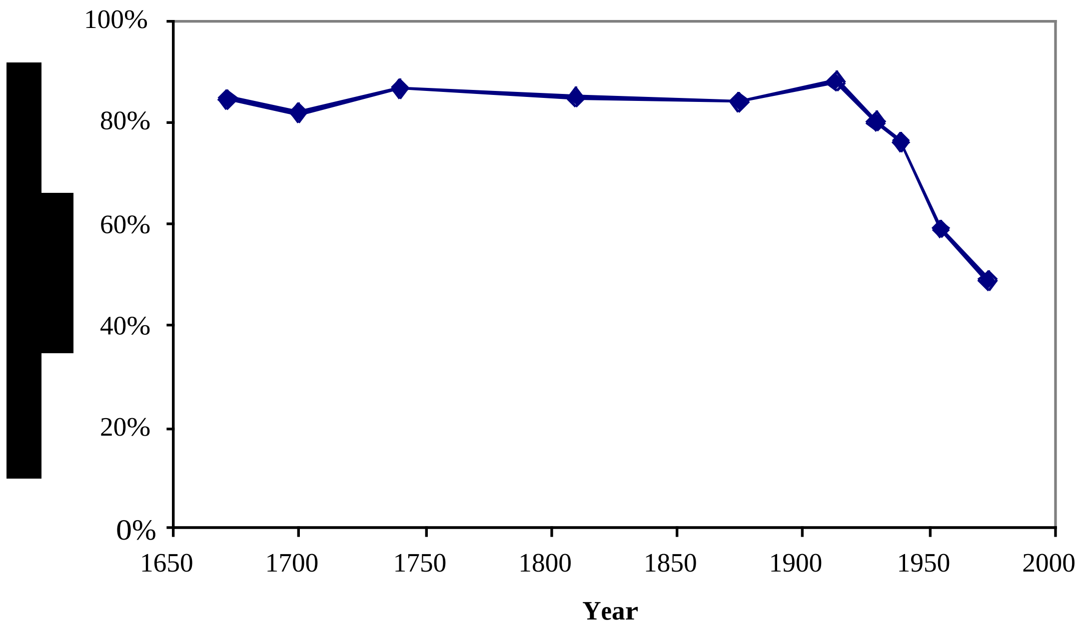
Source: Author’s calculations.

Figure 1 Plotting Points:

Pre-Industrial: 9% Accumulation, 91% Inheritance

Today: 57% Accumulation, 43% Inheritance

Figure 2: Percent of Wealth Held by the Top 10 Percent of Households in England and Wales

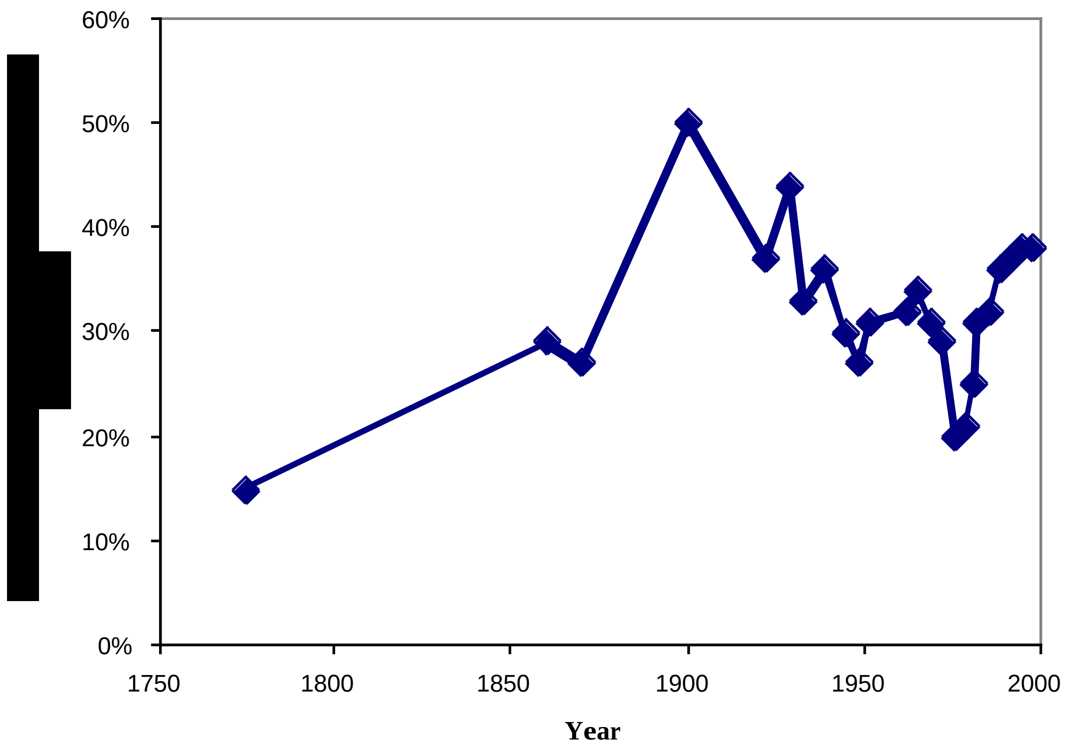


Source: Lindert (1986).

Figure 2 Plotting Points:

Year	Wealth Share of Top 10%
1670	85%
1700	82%
1740	87%
1810	85%
1875	84%
1913	88%
1929	80%
1939	76%
1955	59%
1973	49%

Figure 3: Wealth Held by the Richest 1 Percent in the United States

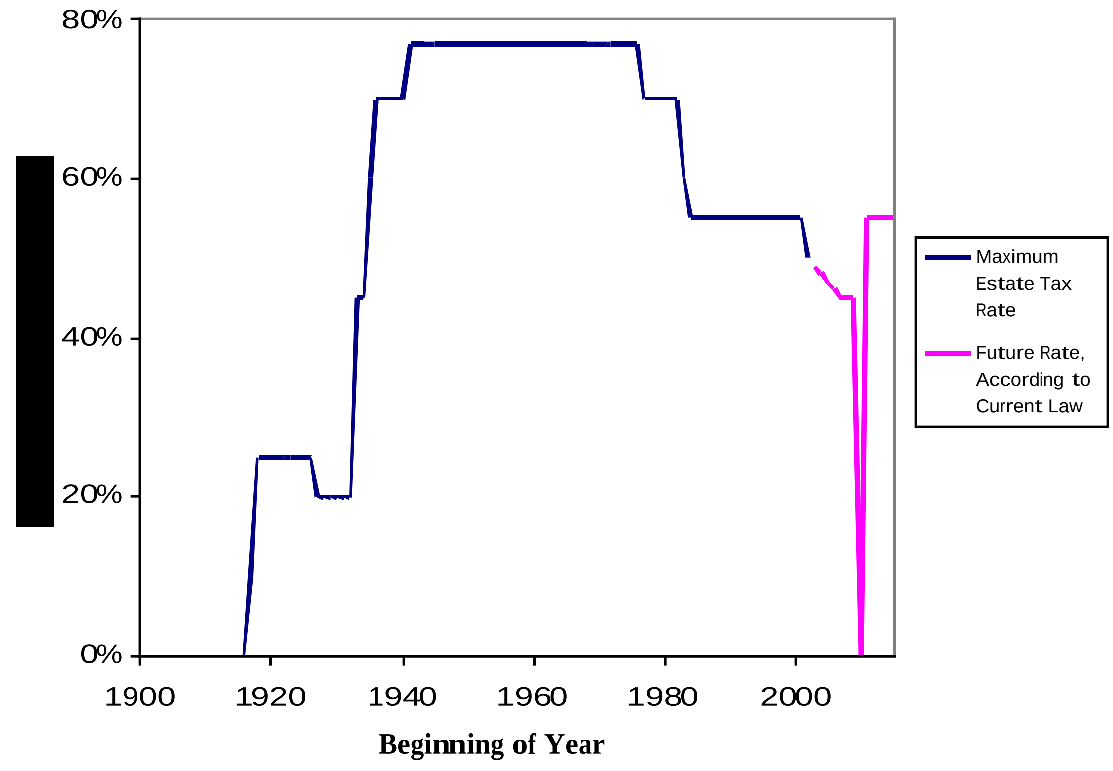


Sources: 1774, Alice Hanson Jones (1980); 1860-1870, Lee Soltow (1989); 1922-present, Edward Wolff (1992), as updated by Wolff; 1900, Author's estimate based on size of largest fortunes.

Plotting Points for Figure 3:

1774	15%
1860	29%
1870	27%
1900	50%
1922	37%
1929	44%
1933	33%
1939	36%
1945	30%
1949	27%
1952	31%
1962	32%
1965	34%
1969	31%
1972	29%
1976	20%
1979	21%
1981	25%
1982	31%
1986	32%
1989	36%
1992	37%
1995	38%
1998	38%

Figure 4: Maximum U.S. Estate Tax Rate



Source: Commerce Clearing House.

Figure 4 Plotting Points:

1916	0
1917	10%
1918	25%
1919	25%
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2015	55%