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Policy Debate

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Comments on Capital Endowment

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Introduction

Following Carsten Schneider's (SPD) support for the German Institute for Economic Research (DIW) proposal for a basic inheritance, the topic gained attention in the media. In the following paper, we critically analyse the DIW's approach and the comments that followed, and add our two cents.

The DIW has made a proposal for every German citizen to receive €20 000 from the state on their 18th birthday – a capital endowment which aims to target Germany's growing wealth inequality. DIW proposes that increased asset-related taxes and reform of inheritance taxes would be more than sufficient to fund the annual €15 billion price tag. Notably, the funds should be earmarked for approved purposes including education, establishing self-employment or a business, or purchasing real estate.

The recurring themes we would like to address that come up over the ensuing discussion include:

- The sufficiency and feasibility of the basic inheritance
- The question of oversight and conditionality
- The comparison between basic inheritance and UBI

On sufficiency.

The DIW posits the basic inheritance as a strategy for reducing wealth inequality, particularly generational wealth inequality. A €20 000 gift given to young Germans at the beginning of their adult lives would still be insufficient to counter the compounding effects of inequality on health, education levels, engagement, or even poor nutrition that already have notable impacts on pre-school children. Those who have already benefited from a higher quality education, better financial literacy, and a more stable background would be more capable of making better decisions. (For a brief introduction into the impact of scarcity, see Shah et al., 2012) A one-time €20 000 gift to all young people isn't enough to address existing poverty and inequality, but this isn't reason to dismiss the idea. There is no silver bullet ready to solve inequality. As such, a basic inheritance should be considered in the broader context of (reform to) Germany's social market economy, legal system, taxation system, and welfare system.

Koch (Badische Zeitung 09.06.2022) argues that with this money everyone would have a once in a lifetime opportunity to hang out for a year or two at the states expense. This can be opposed by some simple calculations, taking the example of a student:

The average cost of living for a student in Germany is €867 per month (UNICUM.de 2022). An uninterrupted student could complete both Bachelor and Master degrees within 5 years, with total living costs reaching €52 020 (or for only a Bachelor degree, €31 212). This excludes any tuition fees. Looking at these numbers, the basic inheritance cannot be considered to be providing anyone with a "chill" student life. A basic inheritance could be used to give young people a more equal start, but after that, and without sufficient financial support such as an extended BAföG scheme, or a Universal Basic Income (UBI), students would still need to work to finance their lives while they study.

An important caveat to any support for a basic inheritance is that it is not sufficient as, and thus should not be a complete replacement for existing (though often-times insufficient) welfare programs. For example, Germany's largest student support program, BAfög, is currently in crisis. Fewer and fewer individuals are eligible to apply for or receive BAföG.

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The trend is away from "normal" student life without work, also due to the fact that most young people cannot make ends meet with the low BAföG rates. Gwosć & van der Beek (2022) therefore call for a reformation of the BAföG system towards the principle of provision. Which, however, carries the risk of a high collective tax burden. The reformation can thus be a combination of the basic inheritage (care principle) and a revised BAföG system (welfare principle). With the help of this combination, social injustice could decrease and equality increase.

On feasibility.

Politically, it may be difficult to gain support for this idea, and not only because of the large price tag. Technically, those old enough to vote in support of such a policy would already be ineligible to directly benefit from it. Though an economist's beloved rational, self-interested homo economicus isn't an accurate reflection of voters, a policy which explicitly excludes eligible voters may be a hard sell. Support more generally may be difficult to garner among older generations who don't see the need for a leg up, or younger voters who resent having missed out. Just as likely is that older generations and those with children would see the benefit that such a gift could make to their children's or grandchildren's lives. As evidenced by the public responses to Schroeder's support, there are many different opinions on a basic inheritance across all age groups – more research would have to be invested into attitudes to basic inheritance, and in education and public engagement prior to real support being gained.

A more politically tolerable program may be embodied by the American Opportunity Accounts, proposed by US Senators Ayanna Pressley and Cory Booker. This proposes that children receive a savings account deposit of $1 000 as a birth right, and between nothing and $2 000 annually depending on their parent's wealth, leading to children in lower income families benefiting more, and receiving up to $50 000 when they turn 18.

In comparison to the 18-year-old age limit proposed by DIW, babies and children are less likely to be considered unworthy recipients. While this bill has not been passed, it is gaining some support and could gain more as it has aspects that are universal and means-tested: as the senators refer to it, it is a "universal, race conscious" policy (Booker 2021).

On oversight and conditionality.

The DIW, and many commentators, seem to accept that it is necessary to put some constraints on 18-year-olds when gifting them a lump sum of cash. They offer education, real estate, and starting a business as acceptable uses for the money. As with basic income, one of the greatest strengths of a basic capital policy is in its unconditionality, rooted in the notion that people more often than not know what is best for themselves. Instead of limiting potential expenses, a more transformational policy would limit conditionality and empower young people with the education, skills and resources to take responsibility for their own lives. This could be in the form of a requirement that some level of schooling is achieved (e.g. a high school certificate as proposed by Ackerman and Alstott 1999), a compulsory seminar integrated into higher education, and the ongoing provision of independent financial education resources. If strict restrictions are to be made on this basic inheritance, then, as Piketty argues, "restrictions shouldn't only be applied to the lower classes receiving a basic income, but to all young people receiving an unearned inheritance" (2022).

The argument from most sides underlying the conditionality is that teenagers and young people make bad decisions. One might counter this by asking why then do so many countries allow young people to take out enormous loans for education at ages when their brains are not fully formed, or to drive, to vote, to marry, to have children? How old is old enough? There will of course be those who fail to make something of their inheritance, who blow it on ill-informed business investments or learning to surf in Bali, but it would be nonsense to deny the next generation this shot at success because a few will squander it. This specific argument is made more extensively in Ackerman and Alstott 1999.

There is research which demonstrates the ability of recipients to make wise decisions under similar conditions. While DIW’s proposal regards a significantly larger amount, there are some cases of one off (universal) cash payments which may offer some insights into the how people of all ages spend their money.

- Coibion et al (2020) find Americans who received the CARES act stimulus package were more likely to save or pay off debt with their transfers, with only 15% reporting that they had spent the majority of it.
- Leigh (2012) shows that of Australians who received a ‘bonus’ payment as part of the Australian government’s post-financial crisis fiscal stimulus package, only 41% spent the cash in the period afterwards.
- Research into the distribution of the Alaska Permanant Fund’s annual payments, which have been in action since 1981, show that people tend to spend more on consumables in the months following the payments, but that spending falls in the months after. In terms of annual consumption, the consumption behaviour of recipients does not change and income from Alaska Fund dividends is treated in the same way as other types of income (see Goldsmith, 2012, p. 51).

There are few studies on unconditional, non-inherited cash grants, but those listed above show no significant patterns of reckless decision making. The financial security that the basic inheritance offers allows people to make better choices. Several studies have shown that financial uncertainty can affect people's intelligence and ability to make sound decisions (see e.g. Shah et al 2012). Thus, it is unfair to hold people responsible for their actions when they are denied basic security (Standing 2018), and we could equally expect that financial security would allow recipients to make better decisions. A basic inheritance will offer the security for young people to learn how to handle money responsibly at an early stage.

Additionally, limiting spending to e.g. education raises all kinds of questions and could cause perverse incentives or impacts. For example, would funding for Germany’s public universities be cut, and would BAföG eligibility become even more stringent? Similarly, limiting spending on housing could cause many issues – young people would have little chance of securing a loan for a home with only a 20K deposit – any increase in purchases by the young would be felt only years later when a higher deposit could be saved. We must ask ourselves what the scale of this policy will have on the housing market in Germany, one that is fairly stable and has a healthy offering of attractive and affordable rentals. If we are to, like the Anglo-Saxon countries, encourage the young to build wealth in housing, are we at risk of inflating house prices, increasing instability and inadvertently locking young people out of affordable housing? Limiting favourable tax treatments to owner-occupied housing may be able to limit this risk.

In sum, the idea of attaching conditions to the basic inheritance contradicts the basic idea of unconditionality that is generally favoured by researchers in this field. Controlling the expenditure from the basic inheritance would result in excessively high administrative costs, which also runs counter to the basic principle of transparency and simplicity. Again, recipients should be able to decide exactly how to spend their money. On the idea of ‘stakeholding’, a term used to reflect how having a capital can reflects having a stake in society, Ackerman and Alstott state that the “goal is to transcend the welfare state mentality, not transform stakeholding into another exercise in paternalistic social engineering. The point of stakeholding is to liberate each citizen from government, not to create an excuse for a vast new bureaucracy intervening in our lives” (1999, p. 254).

Even in basic microeconomic and public finance textbooks, the main advantage of cash over in-kind transfers lies in non-biased individual, decentralised optimisation. Any kind of "earmarking" of public funds may lead to rent seeking from special interest groups e.g., between the education sector and the banks for financing entrepreneurship. This kind of potential for strategic manipulation of basic inheritance recipients should be eliminated. The characteristic of unconditionality would make the basic inheritance more, albeit not perfectly, strategy proof (see, for example Davies et al 2022).

In summary, although it would be possible to attach conditions to the money, this would contradict the basic concept and lead to additional administrative costs. The freedom that would be given to basic inheritance recipients is not only financial freedom but also the freedom to decide on how the use the money. The state would delegate the responsibility for conscious and wise decisions onto the recipients of the inheritance. This would make sense when one takes a stakeholder perspective: the 'owner' of the funding for a basic inheritance is the public themselves. After years of compulsory, paternalistic schooling, 18-year-olds are given the seed money to start an autonomous life.

On Basic Inheritance and Basic Income.

In discussions on basic inheritance, mentions of basic income are common. Basic income and basic inheritance are often positioned as competing policies (see e.g. Cunliffe and Erreygers 2003) though they're also seen as complementary (e.g. Ackerman and Alstott 1999, Piketty 2022). They are however, two different policy measures with diverse goals and diverse underlying assumptions. For both, there is no universally accepted definition, so any fruitful discussion should outline the context of the program, the goals, the intended structure, and the threshold (see Yamamori 2022 for more on the difficulties on setting a threshold).

One point made by Koch (2022) was that, due to the low likelihood that the basic inheritance could be implemented, something like a short term UBI could be introduced which would help people to take a break and reorient their careers. While we agree that there would be political difficulties in implementing a basic income, Koch's understanding of the function of basic income and basic capital is lacking - as mentioned above under unconditionality. Both ideas rely on a redistribution of wealth based on the idea that having enough to live on and having a stake in society is a birth right (See e.g. White 2011). In 1795, Thomas Paine, a forerunner on the concept of basic capital, argued that undeveloped land belongs to everyone, and while private property helped the land and society to develop, it "also restricted ownership and so dispossessed some of their natural inheritance" (Prabhakar 2020 p. 61). Essentially, the wealth of a society has a collective character and can be attributed more to the performance of the previous society than to the present one. Therefore, wealth should not be passed on individually but collectively (see Standing 2017 p. 24), which (dependent on specific funding mechanisms) would be possible through both concepts.

The normative beliefs behind basic income and basic capital are "determined largely by different conceptions of personal responsibility and paternalism in relation to resource allocation over lifetimes" (Cunliffe and Erreygers, 2003, p. 89). As summarised by van Parijs and Vanderbourght, "The basic endowment is about equalizing opportunities at the start of adult life, while basic income is about providing economic security throughout life." (2017, p.31).

In addition, the goal of both concepts is to reduce social inequalities (see Standing 2019, Bach 2021). They share a set of objectives; both being unconditional and universal (depending on the specific policy proposal), both promoting a type of intergenerational justice, and with neither "directly challenging capitalism as a mode of production" (Bidadanure 2022, p. 185). Both basic income and basic inheritance are universal, paid to each individual and not to households (as argued by Koch).

Because of this individual payment, basic income and basic inheritance are already fairer than existing systems. This fairness aspect is especially relevant when viewed from the perspective of gender equity. Many current welfare and even tax systems take into account household wealth and income, rather than individual. This does not account for domestic bargaining and exploitation, particularly of female caregivers who are dependent on a male breadwinner.

As far as we are aware, there have been no trials of basic inheritance (and limited studies on the outcomes of young people who have inherited unearned wealth). Field experiments and trials of basic income have however shown people to have better relationships with their government, to do less paid work and more unpaid (volunteer or care) work, to eat better, to retrain, to save more and to have lower stress levels. It can provide an income floor for all citizens, and is about more than reorienting on the state's expense for a couple of years (as Koch proposed). Being universal (i.e. received by all) and unconditional, a UBI offers a simple and dignified existence, and a way out of poverty, and by decoupling labour with income, we could anticipate a subsequent movement from heteronomous labour towards more autonomous and self-determined work, all of course depending on the amount.

Both policies have the potential to transform the welfare system, but have limitations in changing current patterns of distribution. Gendered patterns in the distribution of unpaid (care) work and paid work, discrimination based on race, ethnicity, gender, sexuality etc, and the climate crisis for example, are unlikely to be eliminated by a basic income or basic inheritance scheme.

Conclusion

There is no silver policy bullet to resolve the multiple intersecting social, economic, and environmental problems we face. The path away from the welfare principle towards more personal responsibility and self-determination, including for young people, can and should be seen as both a challenge and an opportunity.

In times of so many crises, a basic income and/or a basic inheritance can give (young) people a little more security and support. While looking at policies that redistribute wealth and retrospectively decrease poverty and inequality, we should ask ourselves first why these problems exist in the first place, especially in one of the richest countries in the world. More attention and research needs to be dedicated to systemic changes, including to the existing welfare system, the tax system, the legal system and to conceptions of capitalism and society.

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