Inheritance and equal opportunity – it is the family that matters

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Article**
JEL: D14, D31, B50, D63, D64
https://doi.org/10.3326/pse.44.4.2

* The authors want to thank the anonymous reviewers for insightful comments and suggestions.
** Received: December 27, 2019
Accepted: May 25, 2020

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PUBLIC SECTOR ECONOMICS
44 (4) 463-482 (2020)

Abstract

Inheritance fundamentally violates the meritocratic justice principle of society. Despite the high level of wealth concentration and the fact that few people would be affected, political support for an inheritance tax is rather low. The topic of inheritance is not only about wealth but about values. We combine both by using questions in the Austrian Household Finance and Consumption Survey tailored to examine family values. The main aim of the paper is to bring sociological concepts and perceptions into the economic analysis of the role of inheritance in wealth distribution. We find several inconsistencies in people's perceptions concerning the relation of inheritance to issues of social justice. We argue that family values are decisive for negative perceptions of inheritance taxation. Our empirical evidence suggests that in order to understand the resistance to inheritance taxation in society better, family values have to be taken into account. The main aim of the paper is to deliver empirical evidence for bringing an interdisciplinary approach, including sociological concepts, into economic analysis when analysing the relationship between inheritance, wealth and taxation.

Keywords: inheritance tax, wealth distribution, Austrian Household Finance and Consumption Survey, Austria

1 INTRODUCTION

Most people do not question the practices of making and receiving bequests and inheritances. It seems to be natural that people should be able to dispose of their property by will. But still, inheritance taxation remains an ongoing issue attended by impassioned controversies (Beckert, 2004). Even though it is easy to justify an inheritance tax from a meritocratic point of view, it is a highly unpopular tax (Beckert, 2004; 2007).

In this paper we intend to contribute to a better understanding of this inheritance taxation puzzle. To do so, we explore perceptions on inheritance taxation in Austria based on the Austrian Household Finance and Consumption Survey (HFCS) and combine them with conceptual considerations.

The economic well-being of a household is influenced by private resources such as labour income, capital income and/or accumulated wealth. The family adds to that by bequests, gifts and non-monetary support. Finally, public welfare organized by the state contributes to the economic well-being of households. Inheritance has far reaching economic consequences for wealth accumulation (Arrondell and Masson, 2013). An increasing number of individuals receive inheritances, which account for a growing share in total wealth. Furthermore, these wealth transfers are heavily concentrated at the top of the distribution (see Piketty, 2014). The German sociologist Jens Beckert (2013) distinguishes four different principles used in public debates to question intergenerational wealth transfers or to legitimize inheritance taxation: the family principle, the equality of opportunity principle, the social justice principle and the community principle.

The family principle claims that wealth of the testator is the property of the family and not of the individual. The equality of opportunity principles states that inequality is only justified on the foundation of differing achievements. The social justice principle seeks to correct unequal outcomes. The community principle focuses on promoting the common good. Philanthropical foundations provide an example of this principle.

Based on arguments of fairness and/or economic incentives a policymaker could justify higher taxes on inherited assets than on wealth accumulated *via* earnings and savings. However, whether the practice of inheritance is unjust can be judged from two completely different perspectives. In the familial context it might be legitimate. Family members take care of the needs and interests of one another. Giving gifts or inheriting assets is then just an expression of this view. In the context of society, however, the principles of merit and of equality of opportunity may point in the opposite direction.

As early as during the French revolution, the inheritance law aimed to alter family structures and bring equality. The issue was one of gender equality. The property law before had favoured men over women. Women have traditionally inherited less than men. Following the French revolution *primogenitur* was abolished. The family was described as the cell of the nation. A common adage from France reads: *toucher à l`heritage c'est comme toucher à la familie* [touching/striking the inheritance is like touching/striking the family] (Arrondell and Masson, 2013).

A culturally dominant view of the family is that it is a private sphere separated from public, economic and political spheres. While in the latter spheres it is interests that are dominant, in the family the needs of loved ones should be decisive. Actions should be motivated by love and only to a lower extent follow considerations based on moral or justice.

In the process of modernization, the structure of property changed in societies. In earlier societies the family owned the wealth jointly. It was not owned by single person. Therefore, when the father died no succession happened as the other members of the family still held the wealth. To speak of individual property delegitimized this way of passing wealth over generations. If we consider each family member as an independent wealth holder this brings up questions of testamentary freedom. Under testamentary freedom the wealth holder will decide on the posthumous disposition of the property. However, if we consider wealth as partly jointly owned by the family, restriction of testamentary freedom will clearly be entailed. Testamentary freedom is, then, curtailed by there being guaranteed shares for family members. This might run against the last will of the current wealth holder. But this lack of discretion strengthens the family unit.

In 1896 the Swedish economist Knut Wicksell (1896) distinguished the rights to bequeath and the rights to inherit. He argued (Wicksell, 1896: 111, quoted in Murphy and Nagel 2002:161):

> From (the social) point of view the main thing to do would be to take energetic measures to prevent the unearned accumulation of riches (and with it mostly also their uneconomic use) which is now encouraged by law and custom.
>
> The only practical way to reach this goal appears to me to lie in the recognition that any right of inheritance, bequest or gift necessarily involves two parts. There is the right to give and the right to receive. These must strictly be distinguished and each treated on its own merit.
>
> To restrict the right to give more than is absolutely necessary even now often runs counter to our ideas of justice and equity and also may be seriously questioned on economic grounds.
>
> The right of inheritance taken in the second, and more proper, sense of the word as the unlimited right to receive must, if at all, be justified in quite different terms. Unless I am much mistaken, it rests on a now obsolete conception of social and family relationships.

This distinction between the perspective of the giver and the receiver is decisive from a justice perspective. It takes into consideration the freedom of private property and the right of society to use taxes and rules to regulate the inheritances received.

The remainder of the paper is structured as follows. Section 2 discusses theoretical considerations with regard to class analyses and equality of opportunity. Section 3 introduces the data. In section 4 we analyse empirically the link between social classes and inheritances well as ambivalences in perceptions. Section 5 concludes.

2 THEORETICAL CONSIDERATIONS

In this section we want to briefly elaborate the theoretical background we use in this paper. Subsection 2.1 introduces the concepts of class analysis used mainly in sociology we deem important for dealing with the economic relationships between inheritance, wealth and taxation. Subsection 2.2 discusses the concepts of equality of opportunity in the context of inheritance as these are key to understanding the perceptions of the population with regard to inheritance and inheritance taxation.

2.1 CLASS ANALYSIS IN THE CONTEXT OF INHERITANCES

We believe that the study of social classes in economics will get more attention in the 21st century than it received in the second half of the 20th century. Historically Karl Marx understood capitalism as a system of social relations. His focus was on the production side. A class arises out of certain production relations. Thus, his emphasis was on property relations and the organization of the labour process.

Wright (2009) distinguished three forms of class analysis. First, in sociological stratification research classes are identified with attributes and material life conditions of people. Second, in the Weberian perspective the focus is on the ways in

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which control is exerted over economic resources. Third, the Marxian approach focuses on mechanisms of exploitation.

To specify social classes sociology uses employment and occupation criteria. Wolff and Zacharias (2013) suggest rather a specification of capitalist households based on wealth thresholds. Fessler and Schürz (2020) argue that classes should be distinguished not only by the absolute wealth level but also by functions of wealth and the dominance of different sources of income. Renters mainly earn income from selling their labour. Owners additionally have some non-cash income by living in their own home (imputed rent) and capitalists own businesses or rent out real estate and therefore own capital as a means of production.

One question we ask is the following: does the very probability of receiving an inheritance create a common understanding of equality of opportunity?

In a class society the interests of one class are opposed to those of another class. But does a class share common values? We study the centrality of class in the field of inheritance. We assume that renters – as they inherit less than the two other classes – tend to be in favour of an inheritance tax.

However, the moral compass does not follow class frontiers (Schürz, 2019). We observe partly culturally shared perceptions and justice judgements in the HFCS data. Another related research question we pursue is the following: does the equality of opportunity principle provide a shared principle of justice?

A conception of justice compatible with capitalism and democracy is hard to find as Murphy and Nagel argue. Murphy and Nagel (2002:3) start their philosophical contribution "The myth of ownership" by stating: "In a capitalist economy, taxes are not just a method of payment for government and public services. They are also a the most important instrument by which the political system puts into practice a conception of economic or distributive justice".

Inheritance taxes have lost a lot of popular support over the last decades. Distributive justice cannot be understood in terms of the equality of opportunity principle alone. The focus on responsibility and choice is rather complementary to justice considerations of the results.

Equal libertarianism "implies that, in the absence of other reasons to the contrary (a very large qualification), gratuitous receipts should be confiscated by the state and redistributed equally among all persons" (Murphy and Nagel, 2002:155) The approach of equal libertarianism is not shared by many people.

We show that despite a class structure of society along the lines of wealth inequality there is a missing common idea on inheritance taxation. Wealth inequality is a social phenomenon to be studied *via* social classes. But a rethinking of the class concept in a highly complex environment is required. Perceptions of inequality and judgements about justice do not follow a social classification.

2.2 EQUALITY OF OPPORTUNITY IN THE CONTEXT OF INHERITANCES

The extent to which wealth is transferred from one generation to the next affects the principle of equal opportunity. The American philosopher John Rawls gives equality of opportunity an important place in his two principles of justice: Rawls (1971:302) defined what he called "fair equality of opportunity" as,

> those who are at the same level of talents and ability, and have the same willingness to use them, should have the same prospects of success regardless of their initial place in the social system, that is, irrespective of the income class into which they are born. In all sectors of society there should be roughly equal prospects of culture and achievement for everyone similarly motivated and endowed.

Rawls claims, that two children of equal ability should have an equal chance to develop their skills regardless of their social background. If a child inherits wealth from his parents while another one does not, this implies obviously an inequality in material circumstances.

Family is a central transmitter of advantages and disadvantages. „Even in a well-ordered society that satisfies the two principles of justice, the family may be a barrier to equal chances between individuals" (Rawls, 1971:301). He continues "the principle of fair equality of opportunity can be only imperfectly carried out, at least as long as the institution of the family exists."

Further prominent philosophers have dealt with this issue. The question of David Miller from the University of Oxford is: "is it possible for equality of opportunity and family to coexist" (Miller, 2013:116). He distinguishes two forms of equality of opportunity (ibid:118): a minimal version that does not take into consideration background factors of persons and a maximal version of equality of opportunity that reaches from education to talents. What causes of inequality we think are morally arbitrary? For Murphy and Nagel (2002:57) such clearly unacceptable sources of inequality are first a "deliberately imposed caste system", but also a "hereditary class stratification".

3 DATA

We use two waves (2014 and 2017) of the Austrian Household Finance and Consumption Survey in which we introduced additional questions tailored to study the process of inheritance more deeply. This household survey is based on personal interviewing of a representative household sample.

In 2006, two years before the global financial and economic crisis unfolded, the European Central Bank (ECB) initiated the Household Finance and Consumption Network (HFCN) comprising survey specialists, statisticians, economists from the ECB, the national central banks of the euro system and several national statistical institutes. The HFCS collects harmonized household balance sheet data for the euro area. It is the only set of household-level data for the joint analysis of wealth, income and consumption. Moreover, the HFCS provides information on numerous socioeconomic variables and on perceptions[1].

In this paper we use the HFCS Austria 2014 and the HFCS Austria 2017. Both waves are based on a stratified multistage clustered sample of Austrian households. The reason for using two waves of the HFCS is merely the availability of certain questions. All data are gathered by Computer Assisted Personal Interviewing. Unit non-response is dealt with by non-response weights which are based on information also gathered about all non-respondents. Additionally, design- and poststratification weights are calculated to end up with weights to represent the Austrian population of private households. Item non-response is dealt with by means of multiple imputation. We use an iterative Bayesian approach using chained equations where item non response is modelled in a joint framework. For each missing value 5 imputations are produced to take into account uncertainty of the imputation process. Rubin's Rule is then applied to all calculations in this paper, which all take into account complex survey population weights as well as multiple imputations.

The 2014 wave comprises 2,997 observations (gross sample of 6,308) representing about 3.8 million households. The response rate was 50%. The 2017 wave comprises 3,072 observations (gross sample of 6,280). The response rate was 49.8%.[2]

4 INHERITANCE WITHIN A FRAMEWORK OF CLASS ANALYSIS

Since 2008 there has been no inheritance tax in Austria. Before 2008 inheritances were progressively taxed depending on the relationship of the receiver of the inheritance to the donor of the inheritance. The categories were (1) married partners/children, (2) grandchildren and grand-grandchildren, (3) parents, grandparents and siblings, (4) nieces, nephews, (5) all others. Tax rates increased from 2% to 60%. The level of the tax rate depended on several parameters: the absolute value and relationship category. The rate was then applied to the inherited sum above a certain threshold, which was also dependent on the relationship category itself. All in all, it strongly favoured inheritance within the close family.

As inheritance is an intergenerational matter and wealth is accumulated over (many) generations it is directly linked to class location. In section 4.1 we present empirical evidence on the relation of inheritances and net wealth (by age). In a second step we analyse inheritance through the lenses of social classes in section 4.2.

4.1 HEIRS *VERSUS* NON-HEIRS

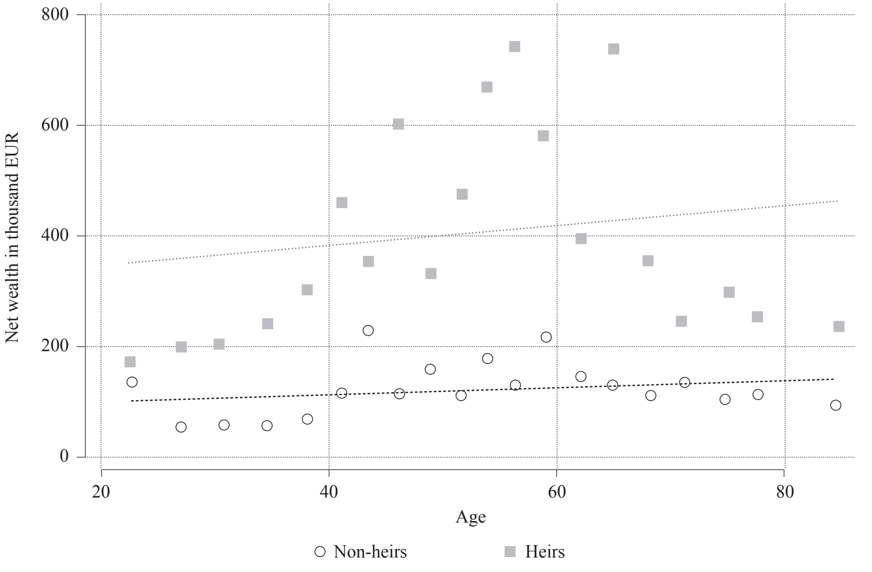
Figure 1 shows that receiving bequests is not only a question of age using a binned scatter plot. Inheritances do not depend alone on the fact that people are getting

[1] See Household Finance and Consumption Survey (HFCS).
[2] See the methodological reports for details: HFCS Austria 2017.

older and later all of them will receive some inheritance. At every age heirs have more net wealth than non-heirs. In particular, in the age group of 50 to 60 years the difference among both groups is substantial.

Figure 1

Net wealth across age by heirs and non-heirs



Source: HFCS Austria 2017.

Perceptions and preferences are crucial for understanding individual economic behaviour. But perceptions do not necessarily depend on socioeconomic factors. Figure 2 shows answers to three HFCS-Austria questions on views and preferences of respondents related to wealth:

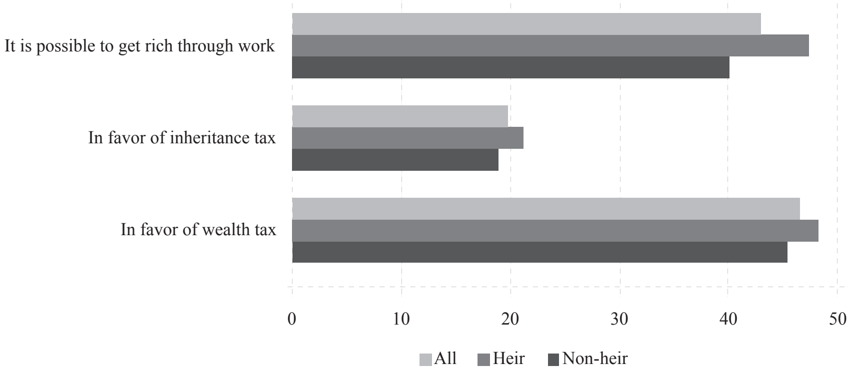
– Do you think that it is possible to start poor, work hard and become rich in Austria?
– Inheritance tax was abolished in Austria in 2008. Are you in favour of re-introducing inheritance taxation in Austria?
– Are you in favour of introducing a wealth tax?

The first question can be understood as a variant of the equality of opportunity principle. About 43% think that it is possible to start poor and get rich through work. However, while this share is about 30% for households in the lowest wealth quintile it rises to almost 60% for households in the highest quintile (not shown). Most of the respondents (57%) do not believe that it is possible to start poor and become rich. In particular, experience teaches people that life is usually not a variant of the American Dream. But people with higher incomes believe twice as strongly in meritocratic principles. Implicitly they understand their own economic success as deserved by merit. Interestingly people in households that have received an inheritance also say that one can become rich through work more often than those that have not inherited anything. Of all heirs, 47% believe in this understanding of the equality principle. Inheritances are wealth transfers without merit of the recipient. This indicates that no rational pattern of merit is to be found in the judgements.

The second and the third question focus on the preferences related to taxation of wealth. We do not know anything about the likely reasons for their preferences. But about 46% of respondents are in favour of a wealth tax. While the share is above 50% in the lowest wealth quintile, acceptance decreases to below 45% in the 5th quintile (not shown). For Austria this is astonishing. The median of household net wealth is 83,000 EUR. No political party in Austria has ever argued for a wealth tax with a threshold below 100,000 EUR since tax was abolished (the inheritance tax was abolished in 2008; the general tax on net wealth was already abolished in 1993). Thus, a rational concern for having to pay a new tax cannot explain these preferences.

Only about 20% of the reference persons would support the re-introduction of an inheritance tax.[3] Interestingly this result is rather stable across all wealth quintiles (not shown). The rank in the wealth distribution is not decisive for normative judgements on wealth taxes. Issues of justice are not a priority in perceiving wealth inequality (Schürz, 2019).

Figure 2
Attitudes towards getting rich and wealth taxation (in %)



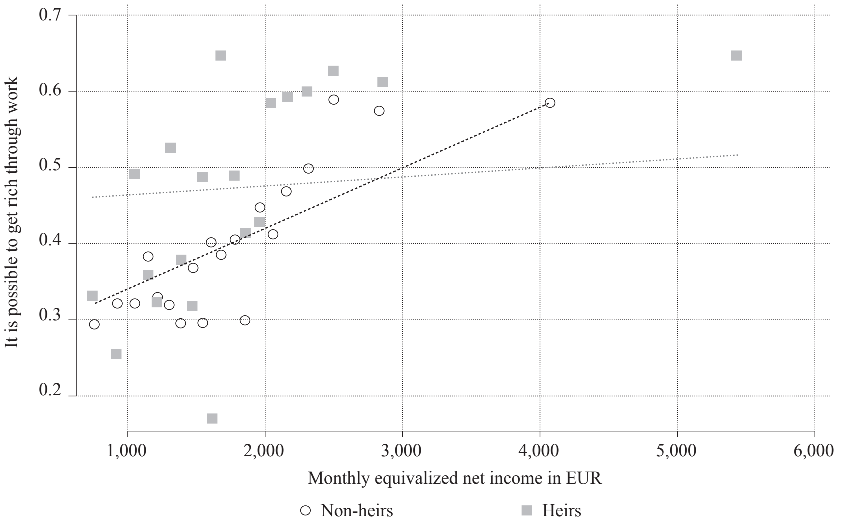
Source: HFCS Austria 2017.

Figure 3 illustrates – again using a binned scatter plot – that the differences between heirs and non-heirs regarding their attitude towards getting rich through work is not present across different levels of income. While the share of individuals believing in the possibility of getting rich through work rises with income, those who have already inherited something show (on average) a much stronger acceptance of this idea even within similar income groups including the lower income groups.

[3] We use the financially knowledgeable person – who answers all household level questions in the HFCS – as a reference person.

Figure 3

Attitude toward getting rich through work across income by heirs and non-heirs



Source: HFCS Austria 2017.

4.2 INHERITANCE AND CLASS

In a recent working paper, we emphasize the advantages of a relational class-based approach (see Fessler and Schürz, 2018b) when analysing wealth inequality. By distinguishing three classes our analysis sheds light on the social relationships underpinning wealth. The functions of wealth are very different for people at the bottom (who mainly save for precautionary reasons), in the middle (who mostly hold wealth for its use value, in the form of home ownership), and at the top (who hold business wealth) of the wealth distribution (see Figure A1 in the Appendix). We define renters, who do not generate substantial income from wealth, owners, who generate non-cash income in form of the imputed rent by owner occupation, and capitalists, who are owners who additionally generate cash income from wealth by renting out further real estate and/or directly owning a private business. We find that these classes align well with the distribution of wealth.

Figure 4 shows the class locations for social classes in Austria. But also, in the euro area as a whole and in every single euro area country this pattern emerges and renters are dominantly located in the bottom, owners in the middle and capitalists at the top of the wealth distribution. At the same time, the two points in the wealth distribution where there are more owners than renters and - at a higher wealth level - more capitalists than owners vary considerably across countries. We argue that this is mainly a result of institutional differences (see Fessler and Schürz, 2018b).

Figure 4
Class location across the distribution of net wealth

Source: HFCS Austria 2017.

Recent preliminary results for the UK suggest a different picture. They show the UK's way to become a nation of homeowners (see Fessler and Schürz, 2020). The cohort of people that became homeowners in the 1980s is still living and will transfer their real wealth later. That is why the pattern differs a lot from countries in continental Europe and the owners stay dominant up to the very top of the wealth distribution.

Figure 5 shows the share of heirs across classes. In the class of capitalists, the share of heirs is more than three times as large as in the class of renters. More than 70% of capitalists have already received an inheritance. This suggests that class persistence across generations might be closely related to inheritance. And obviously, it is not the case that inheritance plays a small role for "self-made" entrepreneurs.

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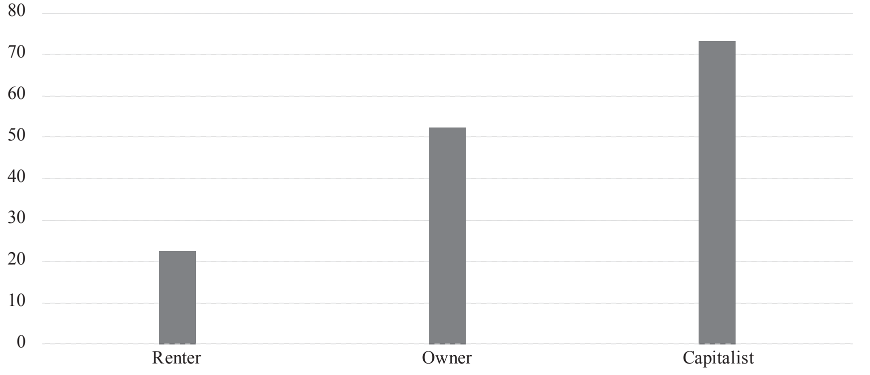
FIGURE 5

Share of heirs across class (in %)



Note: The overall share of heirs amounts to 37.9% of all households.

Source: HFCS Austria 2017.

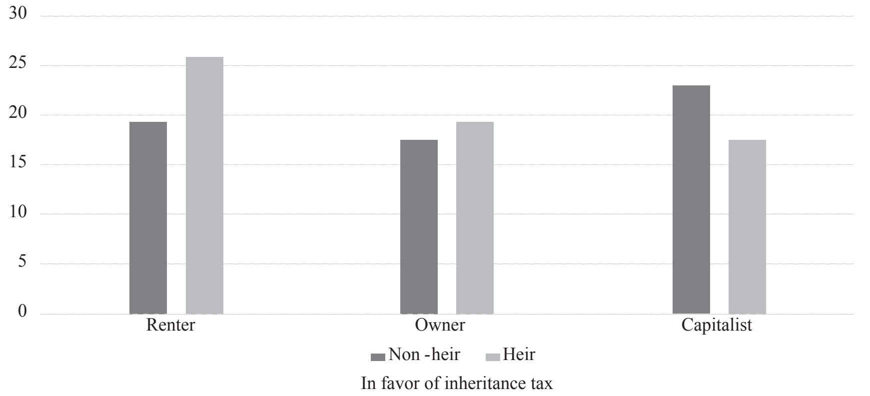
But normative judgements do not follow class patterns and do not show a consistent picture. As Figure 6 illustrates it is not the case that capitalists are less in favour of inheritance taxation despite their higher share of heirs than in the case of renters. And heirs in the group of owners of their main residence are more in favour of an inheritance tax than non-heirs in the same group.

Among the social groups the rates of those in favour of inheritance taxation look rather similar. Within the group of renters (the group with the lowest level of net wealth) a household that has already inherited wealth shows the strongest support of an inheritance tax.

While for the capitalists the experience of an inheritance goes along with lower support of the tax, for the renters in the lower part of the wealth distribution it is just the other way around.

Figure 6

Attitude towards inheritance taxation across class (in %)



Source: HFCS Austria 2017.

One reason for such differences could be different timings of inheritances for the three classes and related expectations about future inheritances. As one can see in Table 1 that is not the case. Capitalists are strong in the inheritance groups including those that still expect an inheritance. The same is true for owners. Renters who inherit are relatively stronger in the group of those that still expect an inheritance than in those that do not but still show the strongest support for the tax. With regard to capitalists it is the other way around, even though they show the least support for the tax. Generally, renters that have not received an inheritance form an over-proportional share of the group that expects one (other than for owners and renters). Also, renters who expect an inheritance show stronger support for the tax than owners who expect one. After having already received an inheritance and without expecting another one a utility maximizing behaviour would suggest being in favour of the tax, while having not received one yet but still expecting one should favour attitudes against a tax. Clearly these attitudes are not driven by such rational ideas.

Table 1

Inheritance received and inheritance expected across class (Austria)

	Renters	Owners	Capitalists
No inheritance and none expected	0.63	0.33	0.04
No inheritance but expected	0.77	0.21	0.02
Inheritance and none expected	0.32	0.52	0.17
Inheritance and expected	0.43	0.42	0.15

Source: HFCS Austria 2014.

By showing the cumulative wealth distribution functions for the different classes by inheritance received, Figure 7 illustrates that across all wealth levels heirs have more wealth than non-heirs.

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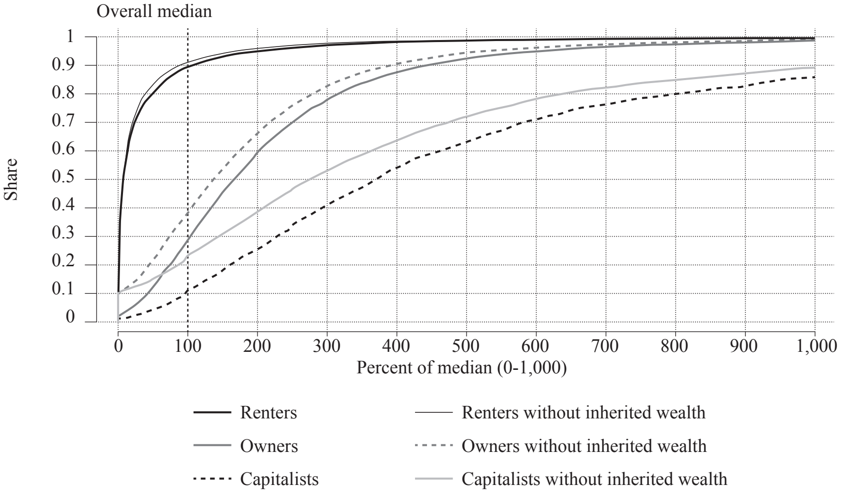
Figure 7

Distributions of wealth with and without inheritance across class



Notes: (i) This graph shows the cumulative distribution functions of wealth as well as the CDFs of wealth without inherited wealth of renters, owners and capitalists in the euro area. Both are normalized with the overall median of net wealth. (ii) To produce wealth without inheritance, inherited main residences as well as the 3 largest other potential inheritances of the household were considered. To estimate a present value an average yearly nominal interest rate of 6% was used. We use this assumption because there are no time series of consumer price indices available for all countries that are long enough for the construction of meaningful real interest rates. However, they likely translate to real interest rates of 2 to 4%. The sum of present values of all inheritances was subtracted from net wealth to obtain wealth without inherited wealth.

Source: HFCS Austria 2014.

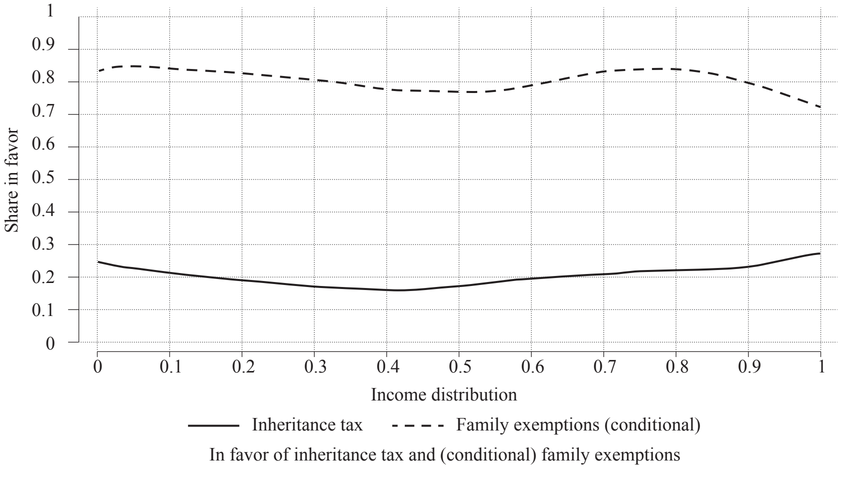
Especially for capitalists the impact on class location is very strong. Without inheritances more than about 20% (instead of approximately 10%) of the capitalists would show wealth levels below median wealth. For owners this figure is about 40% (instead of around 30%). For renters the effect on class location is marginal. So even though for a single renter household an inheritance might be substantial (given the low amounts of wealth they have), even relatively more important than for the typical capitalist household (relative to their high amounts of wealth), class location is not affected. In terms of relative class locations inheritances are rather important for capitalists and to a lesser degree for owners but rather irrelevant for the class of renters.

Despite all rational reasons which would lead to the expectation that individuals should be in favour of inheritance taxation a vast majority in the overall population and even across all classes are against them.

Using locally weighted regressions to estimate shares across the income distribution, Figure 8 shows the sentiment of family values even among those persons in favour of an inheritance taxation. After stating that they are in favour of such a tax, they are asked about preferred exemptions and a vast majority are in favour of family exemptions if an inheritance tax were reintroduced. This means that among the few who are in favour of a tax more than 80% (rather stable across the income distribution) want to have exemptions from the tax for families.

Figure 8

Attitude towards inheritance tax and family exemptions



Source: HFCS Austria 2017.

5 CONCLUSIONS

The legal privilege permitted to the intergenerational transmission of property within families is rarely questioned. Differences in social background and related monetary advantages such as inheritances prove that not every member of society has a fair chance of earning a specific rank in the wealth distribution.

We have enriched the discussion of the justification of inheritance taxation by empirical evidence of perceptions and people's normative judgements. As perceptions related to a taxation of inheritance remain ambivalent this leads us to the conclusion that justifications of inheritance themselves are ambiguous. Arguing in favour of a social justice principle or an equality of opportunity principle does not imply that the acceptance of societal concerns as being more important than family values. In order to increase the acceptance of inheritance taxation in the public, family concerns must be dealt with explicitly. The value of the family runs a lot deeper than economic motives. And family values rank higher than justice judgments. Our results demonstrate the necessity of further interdisciplinary research. The theoretical conclusion of these empirical results is that the institution of the family must be placed at the centre of a theory of social justice (Miller, 2013). Perceptions of the family - as a place to be preferred in society - block equality of opportunity concerns. The equal opportunity approach provides no coherent ideal in a society and it is to be doubted whether family concerns and equality of opportunity can be reconciled.

Disclosure statement

No potential conflict of interest was reported by the authors.

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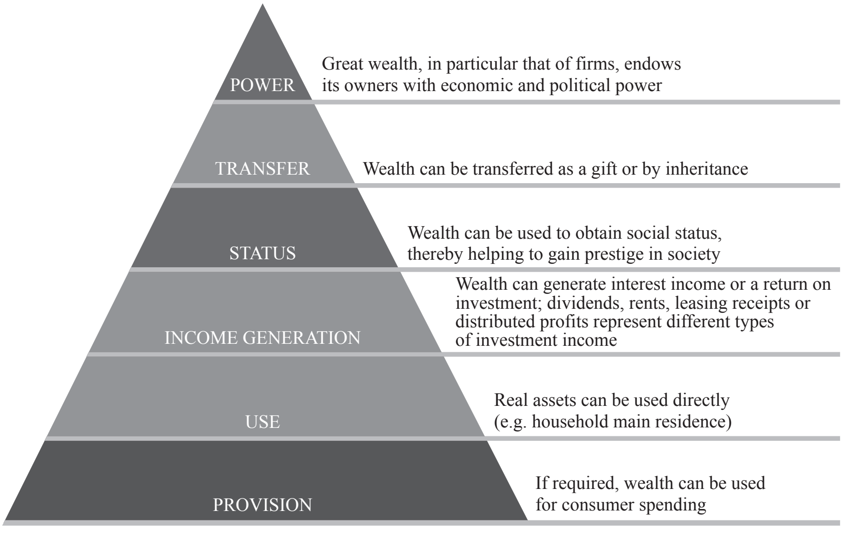
Figure A1
Functions of wealth



Source: Own illustration.