

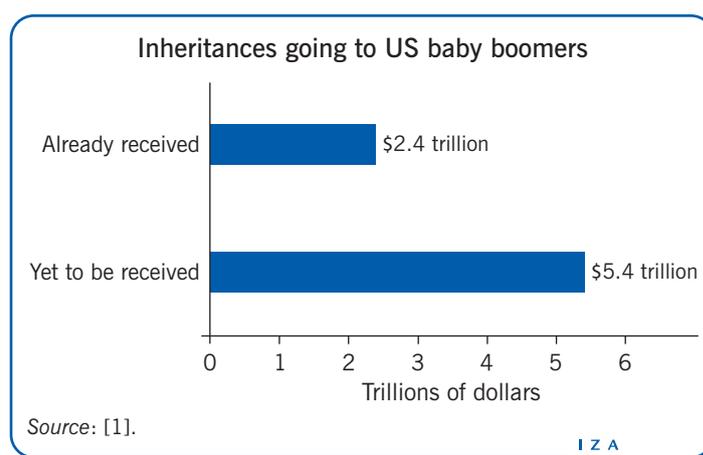
Inheritance, bequests, and labor supply

Inheritance-related work disincentives can be strong, but labor supply could increase if bequests facilitate entrepreneurship

Keywords: inheritance, bequests, labor supply, estate tax, self-employment

ELEVATOR PITCH

Inheriting money can be a problem since the new wealth might sap the beneficiaries' incentive to work. Or it could do the opposite, by facilitating entrepreneurship among those whose ambition to start a business had been stymied by a lack of cash. Recent evidence suggests inheritance-related work disincentives can be strong—unexpected inheritances can matter a lot for early retirement, for example. But where inheritances facilitate self-employment, as some evidence suggests, the labor supply might increase.



KEY FINDINGS

Pros

- + Inheritances encourage entrepreneurship by easing the liquidity constraints on starting a business.
- + Labor supply could be stimulated by inheritances, since the self-employed tend to work more hours than wage and salary workers do.
- + The larger the inheritance, the more viable the enterprise.

Cons

- Large inheritances discourage labor force participation among workers who are in the prime of their working life.
- Inheritances lead older workers to retire earlier than planned.
- If inheritances are unexpected, they increase the chances of retiring.
- Inheritances are associated with reduced work hours, but the estimated effects show only a small reduction.

AUTHOR'S MAIN MESSAGE

Baby boomers in the US are set to receive an enormous amount of wealth through bequests, totaling US\$5.4 trillion in inheritances over their lifetimes. How such inheritances might affect the incentives to work has implications for tax policy. An estate tax could promote work among wage and salary workers. But these inheritances could also boost entrepreneurship and allow business start-ups by reducing liquidity constraints. An estate tax could discourage this entrepreneurship. Such prospects might point to differential estate tax treatment for wage workers and for the prospective self-employed.