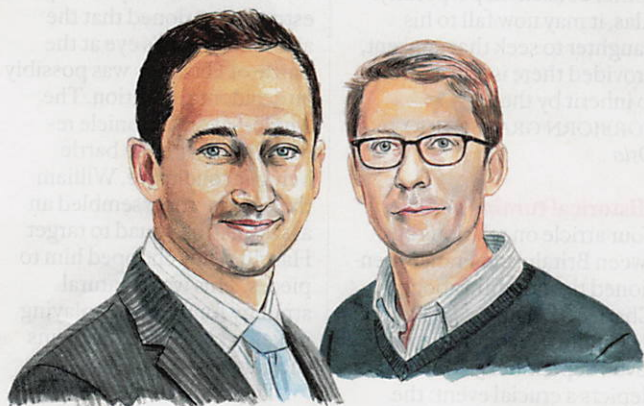


BY INVITATION

Eric Zwick and Owen Zidar

Don't fear the inheritocracy



IN THE COMING years the “silent” and “baby boomer” generations in America—people born between the 1920s and 1960s—will pass \$110trn in wealth to their children. Some argue that the rise of inherited wealth in rich countries, part of a broader intergenerational shift known as the “Great Wealth Transfer”, threatens meritocracy and capitalism. Allow us to offer a rosier view.

We spent a decade building the first complete picture of America’s rich from administrative tax data. Private-business owners dominate the top 1%. There are around 3m such owners, with average wealth of around \$25m. They live all over the country, running businesses they started, bought or inherited in a wide set of largely unglamorous industries. These “Everywhere Millionaires” collectively hold more than ten times the wealth of the Forbes 400, America’s richest people. Only a quarter of them inherited their firms. If the inheritocracy looms, it has clearly not yet arrived.

Much of the conventional narrative has focused on the bequest of financial assets and property. But the true story of the Great Wealth Transfer is the story of what happens to the family business when Everywhere Millionaires die.

“The father buys, the son builds, the grandchild sells, and his son begs.” The old proverb foretells a fate borne out in the data. Just 12% of children born to the top 1% stay there, and 40% fall out of not just that 1% but the entire top fifth. Although talent and grit may be partly heritable, mean reversion in both might help explain why inherited wealth withers across family generations, especially when the family’s central asset is an operating business.

Children of business owners are less likely than first-generation founders to reinvest profits in the business and, having grown up rich, more likely to live lavishly. We found a disproportionate share of private-jet and superyacht owners are heirs of private businesses. For example, the third-generation owners of a sand-and-gravel business in Michigan have owned many yachts, including one called *Sassy* that Katy Perry visited.

Studies of wealthy heirs suggest that most spend their inheritances within a decade, and firms that have family chief executives generally perform worse than those that don’t. As Warren Buffett put it, “Choosing the 2020 Olympic team by picking the eldest

sons of the gold-medal winners in the 2000 Olympics [would be] absolute folly in terms of athletic competition.” Why should running a business be any different?

When a family business slows down after a generational transfer, opportunities arise for those who would compete with or acquire that business. Consider the story of Larry Miller. He kicked off his career by dropping out of college in Utah and then working at a car-parts shop in Salt Lake City. When his determined work went unrewarded by management, he moved on, eventually landing a position in a repair shop and then at a few car dealerships.

At Chuck Stevinson’s Toyota dealership, Mr Miller took the parts department from 961st nationally in parts sales to number one within a few years. He worked for Stevinson for eight years, rising to the rank of operations manager supervising five dealerships. His momentum then collided with the inheritocracy.

Stevinson told Mr Miller that he would be demoted to manage a single store to make room for the owner’s eight sons to assume leadership positions across the business. So Mr Miller left, and soon bought another local dealership. Ultimately, he would assemble an empire of more than 60 dealerships, 11 accident-repair centres, numerous cinema chains and an NBA team, the Utah Jazz.

In America, when a family business fails to keep pace with changes in its industry, entrants like Mr Miller emerge to outrun them. Only around 20% of the country’s large companies are family-controlled, whereas that figure is around 40% across other countries. Countries with higher family-firm shares tend to report lower per-head incomes and smaller firms overall.

Another option when a family business nears transition is cashing out. Often, Everywhere Millionaires decide that leaving the business to their heirs is more trouble than it is worth.

For years, private-equity investors have targeted family-owned businesses in the middle market. Impatient but enterprising MBAs have taken notice. Rather than grind as an associate at a private-equity shop, they raise “search funds” to buy and operate such firms directly.

In some cases, private-equity and search-fund deals lead to an acceleration of growth and professionalisation; in others, the debt-laden business is carved up and sold in parts. Along both paths are opportunities for innovation and rebirth available to the non-inheritors who pursue them.

...but we need to talk about tax

We view these powerful self-correcting forces as a reason to be more sanguine about the Great Wealth Transfer in America and what it means for economic dynamism. But there is one area where we would suggest reform.

Inheritance and estate-tax systems across the rich world have eroded considerably, allowing owners to bequeath huge companies to the next generation while paying little to no tax. In America this erosion has happened not only due to the influence of an increasingly wealthy donor class, but also because many business-owning legislators themselves benefit from loopholes. For the sake of both national fiscal health and a collective sense that the tax code is fair, it is crucial that these systems be rebuilt. ■

Eric Zwick is a professor at the Chicago Booth School of Business. Owen Zidar is a professor at Princeton University. They co-wrote “The Everywhere Millionaire: Who Is Really Rich in America and How They Got There”.

Letters the gut microbiome, Norway's new king, Britain's hot summers, Charles de Gaulle and the Bayeux tapestry

Taking care of your stomach

Your Well Informed column on the gut microbiome (August 15th) was right about the thing that matters most. There is no single ideal microbiome, and a varied, plant-heavy, partly fermented diet remains the most reliable way to improve your gut microbiome. However, you also claim that the idea that particular microbes matter to health has "scant published scientific basis". A large-scale analysis of over 34,000 individuals across Britain and America was published in *Nature* earlier this year, pinpointing specific microbial species that consistently correlate with positive and negative health indicators internationally.

Although my co-authors and I clearly stated that these findings reflect association rather than causation—highlighting the necessity for further interventional trials—the evidence is far from scant, and the raw dataset remains publicly available. Indeed, the vital role of gut health has recently been formally acknowledged in the US Department of Agriculture's 2026 guidelines. Continued pioneering research in this field is undoubtedly essential.

Moreover, the National Institute of Standards and Technology study you cited identifies seven companies and never names them. It also found that reproducibility varied enormously between firms. Readers meeting it directly after a paragraph about ZOE, a firm I helped found, may infer something the paper does not say.

This field deserves scepticism; a great deal of what is sold in it is indefensible. It also deserves to be judged on what has actually been published.
PROFESSOR TIM SPECTOR
Co-founder
ZOE
London

A crown by consent

Regarding Norway's monarchy ("Long to reign over Oslo", September 5th), in 1905 Norwegians were asked whether Prince Carl, the future Haakon VII, should be invited to become our king. The endorsement of monarchy was implicit. The invitation was personal. A fine distinction, perhaps, but his great-grandson, Haakon VIII, might have found considerable promise in the precedent. Given his personal popularity, the new king would have had little to fear from asking Norwegians to confirm him as their sovereign. Such an endorsement would have given him a mandate of his own, helped turn the page on his family's scandals and offered even republicans a reason to accept his reign. And the question of the monarchy's future might have been laid to rest for a generation.

It might also have sown the seeds of a new constitutional practice: hereditary succession

The long hot summer

Tim Palmer's By Invitation column (September 5th) asked what Britain should do before next summer to tackle extremely hot weather. A memoir by Evelyn Cox on "The Great Drought of 1976", which I found by chance in a second-hand shop, is illuminating. The Climatic Research Unit at East Anglia at the time was telling planners to expect drier summers. But Britain gambled on getting through the summer without drastic steps, and was rescued by the winter rain. Ms Cox, carting water by lorry after her farm pond dried out, wrote that the lesson of 1976 is that water is not an easy substance to move. The quantities are so large that a national grid would be astronomically expensive, and

subject to popular consent. The family would provide the candidate; the electorate would issue the invitation. Norway could retain the continuity and stability of monarchy while giving each sovereign a democratic warrant to serve.

Affection for Haakon's late father, King Harald, may smooth his accession. It cannot confer consent in perpetuity. Alas, it may now fall to his daughter to seek that consent, provided there is still a throne to inherit by then.

TORBJORN GRAFF HUGO
Oslo

Historical turning-points

Your article on relations between Britain and France mentioned the new film about Charles de Gaulle, "La Bataille de Gaulle" ("From Paris with love", September 5th). The film depicts a crucial event: the Battle of Bir Hakeim in 1942. The encounter in north Africa proved to Winston Churchill the fighting ability of the free French forces, as they took on the German and Italian armies. De Gaulle's troops bravely held out for 16 valuable days and so enabled the Allied forces to regroup prior to the first Battle of El Alamein. Churchill had every reason to be grateful to de Gaulle after Bir Hakeim. I

other methods—tanker ships, containers towed behind barges, reversing rivers—raised as many problems as they solved. Her own conclusion was simpler. Act early, and impose savings before the reservoirs get too low, "because a gamble may not pay off a second time".

BARBARA CLANCY
Dublin



suspect that many tourists who pass through Paris's Bir-Hakeim Metro station have no idea of the battle's contribution to the Allied success in the second world war.

DR ALUN EVANS
London

"Billion-dollar baby" (September 5th) reported on the many mysteries of the Bayeux tapestry. It mentioned that the arrow in Harold's eye at the Battle of Hastings was possibly an accidental addition. The Anglo-Saxon Chronicle records that, with the battle being inconclusive, William the Conqueror assembled an assassination squad to target Harold. They chopped him to pieces. This was a natural strategy for the chess-playing duke, as killing the king wins the game.

The arrow in the eye was believed to have been added at the Norman Bishop Odo's behest, blinding being symbolic of divine retribution, Harold having reneged on his oath to William. It was added under some duress. This made it clear to the viewer that William had not only the pope on his side, but also God. Of course, who knows how much subversive stitching was hidden in the embroidery by the press-ganged Saxon sewing team.
DUNCAN STEPHENSON
Leeds

Britons unable to get tickets to see the Bayeux tapestry at the British Museum can instead view a beautiful copy at Reading Museum. It was stitched together by 35 women in the late 19th century. The only difference, other than age, is that the 93 penises in the original are missing from this Victorian copy, but helpfully the curators have provided photographs of these omissions.
MICHAEL GRIMWADE
Formerly of Reading

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