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## The myth of the billionaire wealth tax

*di Megan McArdle*

The problem with government spending is that you have to pay for it. New programs often poll well when you tell people about the benefits. Mention raising taxes, however, and it's a whole different story.

But what if you didn't have to tax reluctant voters to fund your big ideas? I mean, Elon Musk is sitting on [somewhere north of \\$670 billion](#). If the government took just 5 percent of that, it would have almost \$34 billion to spend on health care and child care and green energy, right? And there are almost a thousand other billionaires in the country, so pass that wealth tax and warm up the money cannons!

If only it were so easy.

I should mention that Jeff Bezos, who owns The Washington Post, would be one of the prime targets of the [wealth tax](#) proposed by Sen. Bernie Sanders (I-Vermont) and Rep. Ro Khanna (D-California). Their bill would slap a 5 percent annual wealth tax on anyone with more than \$1 billion in assets, which is estimated to raise \$4.4 trillion over 10 years, funding direct payments to families, along with new spending on health care and education.

Unfortunately, there are serious arguments that a wealth tax [would be unconstitutional](#). Even more unfortunately, wealth taxes have been tried over and over, and most countries that adopted them eventually abandoned the idea, finding that such taxes were [difficult to administer](#), [caused capital flight](#) and [raised little revenue](#). An [analysis by](#) University of Toronto economist Joseph Steinberg suggests that tax revenue would actually fall if the Sanders-Khanna proposal were enacted, because of increased incentives for tax evasion (as taxes rise, people become more willing to risk the penalties for evasion) and reduced economic output.

But what if you think you can crack down on evasion, and you're unconvinced by some Econ 101 argument that capital taxes depress savings and output? You should still be skeptical.

To see why, imagine an island nation with very tight zoning that has made it impossible to build new housing. Low-income folks can't afford to rent an apartment, and many of them are living in a cave in the hills. Meanwhile, the housing stock is extremely valuable: At current market prices, the total value of homes is five times the island's annual output.

This gives the government's leaders an idea: They need to unlock the value of that wealth by imposing a 10 percent property tax and using the money to fund rent vouchers.

Astute readers will spot the problems with this immediately. If property taxes go up that much, many people will be forced to sell all at once, which will depress the price of housing. So the tax will not raise as much as the math suggests.

But the bigger problem is that the supply of housing is still fixed. So this program will not house any additional people. At best, it will alter who wins the game of musical chairs.

If you want to give people real goods and services, look at the supply of those goods and services, not paper wealth. Wealth is a claim on future resources, such as corporate profits, or the right to occupy a certain house. Those claims are valuable, and people are willing to sacrifice some current consumption to acquire them — as you do when you divert your salary into a 401(k). But while you can turn your 401(k) into consumption in an emergency (or in retirement), that's only possible because you sell the stock to someone else who is willing to reduce his or her consumption to buy the stock.

At the level of the macro economy, the accounts have to balance: Americans can consume only as much as Americans produce. (There are some wrinkles: We also use durable goods such as housing and furniture, deplete stocks of storable goods such as fine wine and oil, and borrow or sell assets abroad. But the broad principle holds: Consumption is limited to the supply of real goods and services available.)

People see Musk's \$670 billion fortune and imagine turning that into \$670 billion worth of services — say, the health care and education mentioned in the wealth tax bill. But Musk is not sitting on hundreds of billions worth of dentists and primary school classrooms. He has a bunch of stock certificates, which are not useful in health care or education. They do not make good bandages or scratch paper.

That doesn't mean we can't transfer consumption from billionaires to other people. But their paper wealth is irrelevant to that conversation. What matters is how much they currently consume: about a third of their annual income, according to one [paper published](#) by the University of Michigan Law School last year, or about 3 percent of their total wealth. Notice that that's less than 5 percent.

Okay, but 3 percent is pretty good, right? Unfortunately, billionaires spend money on stuff that is very expensive not because it uses substantial resources, but because it's rare. The stunning view from a luxury resort won't do American cancer patients much good, and you can't easily turn Mark Zuckerberg's new [\\$170 million mansion](#) into health care. There's also a risk that the billionaires will reduce savings and investment rather than consumption, leaving the whole economy poorer in future years.

There's a reason that European welfare states are funded with broad revenue raisers such as the [value-added tax](#) (a sort of extra-efficient sales tax), not wealth taxes. If it were possible to do it solely by squeezing the rich, the Nordics would have done it long ago. Instead, Denmark has repealed its wealth tax (though there's a movement [to reinstate it](#)), and Norway's 1 percent wealth tax, which [raises about 0.6 percent of GDP](#), recently caused an exodus of the super-wealthy when it was slightly increased. So instead, they use taxes that make private consumption more expensive, so people buy fewer consumer goods, leaving more to be spent on public services. Because that's the only way it *can* work.

Many would argue that Americans should be willing to do that. Fair enough. But if these Democrats want Americans to agree, they need to actually make that argument. And if you believe the U.S. should make that trade-off, it should worry you that progressives are instead going all in on exotic tax proposals that aim to persuade Americans they can have a lot of new spending without spending a dime.