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By funding healthcare and education, it would invest in the human capital that companies need to thrive.

California's Pro-Business Wealth Tax Proposition

By Ro Khanna

Californians will vote on Proposition 40 in November. If it passes, it will establish a onetime 5% wealth tax on California's billionaires, who have accumulated more than $2 trillion combined. The tax will deliver up to $100 billion to a 2026 Billionaire Tax Reserve Fund. Ninety percent of the revenue is earmarked for healthcare, the rest for education and food assistance.

The immediate impetus for the billionaire tax is the One Big Beautiful Bill Act of 2025, which gave extravagant tax cuts to wealthy Americans and initiated severe federal Medicaid cuts—expected to exceed $1 trillion over the next decade. The loss of Medicaid funding will adversely affect millions of Californians, including children.

Note

To put this in perspective: The wealth of California's billionaires is equivalent to about half the state's gross domestic product. So Proposition 40 would require California's wealthiest citizens to devote a small share of their vast holdings to address the urgent needs of their fellow citizens. Basic fairness—indeed, simple decency—recommends support for the tax.

Nvidia CEO Jensen Huang, who could owe roughly $8 billion, said when asked about the proposed tax: "We chose to live in Silicon Valley, and whatever taxes I guess they would like to apply, so be it. I'm perfectly fine with it."

Some critics have observed that a few founders who are paper billionaires will be unable to pay the tax because their wealth is locked up in shares they can't sell. This is a genuine problem that Proposition 40's provision on deferred tax payments aims to address.

Louder voices have condemned the initiative completely. They say that Proposition 40 and similar measures, such as the national wealth tax I have sponsored with Sen. Bernie Sanders, are antibusiness. Taxing billionaire wealth, they say, will do serious economic damage by killing the incentives of innovators.

This criticism is fundamentally misguided.

Note

Let's look back at the 1950s. The U.S. economy was innovating and growing rapidly. The top federal corporate rate in 1955 was 52% and the top individual marginal rate was 91%, compared with 21% and 37% now. Even if the wealthiest Americans didn't pay those rates, their effective rates were well above current levels.

Note

Critics who think taxes will deter entrepreneurship misunderstand the motivations of innovators. Dario Amodei, Beyoncé, Tim Cook, Jensen Huang, Sundar Pichai and Steven Spielberg are all billionaires. Would any of them really have worked less or with diminished creativity if they had expected higher taxes and a little less wealth?

The wealth tax won't kneecap those with a burning passion to leave their mark on the world. More than that, it has strong pro-business elements.

Note

Daron Acemoglu, Simon Johnson and James A. Robinson won the 2024 Nobel Prize in economics for their work on why some societies generate sustained innovation while others fail. Their answer contrasts inclusive and extractive institutions. Inclusive institutions work by combining secure property rights and rule of law with broad opportunities for economic participation and limits on elite extraction. Extractive institutions allow powerful groups to remain in control and hoard resources. Once economic power translates into political power, the creative destruction and new firms that lasting innovation needs get starved and smothered.

In 2008, billionaires accounted for 0.3% of political spending; by 2024, they accounted for 19%. Jeff Bezos owns the Washington Post, Elon Musk owns X, and David Ellison is running CBS News. The dangers that Messrs. Acemoglu, Johnson and Robinson identify are real and growing threats. A wealth tax can help by dispersing economic and political power, protecting both the market economy and democracy.

Even if the tax imposes some efficiency costs, we need to consider the return on what its revenue finances. Spending on health and education is good both for the person who receives care and schooling and for the economy.

Nobel laureate Gary Becker, from whom I learned at the University of Chicago, argued the fundamental point 60 years ago in "Investment in Human Capital: A Theoretical Analysis." Expenditures on education and healthcare—especially for children—are investments in human capital. These investments have positive returns for the individual and the broader society. In a digital economy, these investments are more important than ever. Nvidia works in Silicon Valley, Mr. Huang said, "because that's where the talent pool is." Investments in human capital help replenish that pool.

The evidence on economic benefits from Medicaid is clear. According to a 2023 report from the Congressional Budget Office, "Medicaid enrollment during childhood has been shown to increase earnings in adulthood. Those higher earnings imply greater tax revenues and lower transfer payments by the federal government in the future." Under reasonable assumptions, the report estimates that these long-run fiscal gains could offset half or more of the initial cost.

A vote to tax billionaires to fund healthcare and education is a vote for fairness and decency. The moral case Note is clear. But Proposition 40 is also a pro-business measure: It supports a healthier and better-educated workforce that will deliver economic benefits for all. And like other wealth taxes, it prevents concentration and supports a competitive market economy that can deliver on a promise of shared prosperity.

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