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Politicians who want to address debt by devaluing the currency will find it easier said than done.



POLITICAL ECONOMICS

The Vote Against the Wealth Tax Was a Verdict on Inflation

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Inflation was on the ballot this month, and voters' now-chronic frustration with rising prices is only half the story. A subtler and more interesting phenomenon manifested itself, too. California voters rejected Proposition 40, the ballot initiative to impose a one-time 5% wealth tax on billionaires. This isn't generally understood as a verdict on inflation. It is. Cut through the union spendthrift-ism and French faux-economist class resentment, and the tax proposal marked liberals' attempt to answer in their preferred manner the two big questions that will haunt American politics for the foreseeable future: Will we inflate our way out of our $40trillion-and-counting national debt? And if so, how?

That "how" is the part too easily overlooked in abstract discussions about inflation as debt relief. In theory, inflation diminishes the real value of a nominal debt. In practice, governments lean on inflation for a more immediate and practical purpose—drumming up additional nominal revenue. Rising nominal incomes, corporate earnings, taxable consumption and the like all generate higher nominal tax revenue even though productivity and living standards haven't increased.

The U.K. offers a dreary example of this mechanism in action. London has frozen the brackets for the personal income tax since 2021. As inflation pushes wages higher, households find themselves paying higher marginal rates.

This inflation tax has become one of the British government's primary means of fiscal consolidation. Socalled fiscal drag, which we call "bracket creep" in America, is expected to generate some £66.6 billion in nominal annual revenue by 2031. By then an estimated 4.8 million taxpayers will have been inflated up into the 40% marginal tax bracket from the standard 20% bracket.

Inflation also has boosted revenue through the value-added tax, assessed at a rate of 20% on most purchases. VAT receipts have surged to £ 179.9 billion in the 2025-26 fiscal year from £132.5 billion in 2018-19, the last full year before the pandemic inflation. Tax authorities attribute this in large part to inflation.

These two tools—income-tax bracket creep and consumption-tax revenue—aren't available to American politicians. In the 1980s we rejected inflationary fiscal consolidation via the income tax, and our brackets automatically index for inflation. State sales taxes are modest

compared with European VATs, and we don't have a national consumption tax. We may eventually adopt one, but that is a political process of years, and the fiscal crunch is now.

That leaves wealth, which should be understood as political shorthand for "a manifestation of asset-price inflation." A central consideration is that the value of all U.S. household assets has risen to 921% of disposable personal income, according to Federal Reserve data. That ratio has been on a consistent if not always steady upward trajectory from around 550% at the start of the 1980s.

This is a story of financial assets rather than real estate. Some of the increase is explained by the expansion of defined-contribution pension plans such as 401(k)s, which encourage households to own bonds and equities.