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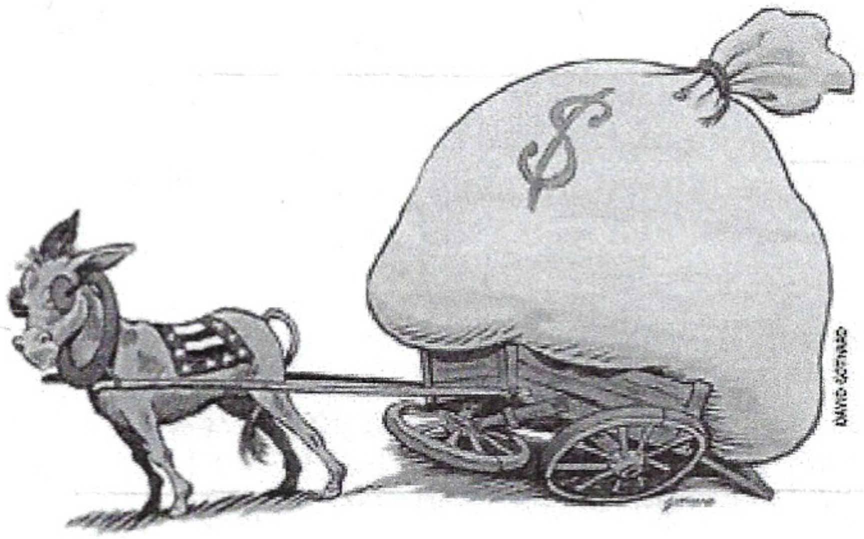
With less capital to drive productivity, workers will earn less while still having to support retirees.



Wealth Taxes Would Hit the Young Hardest

By Dimitri Burshtein

Gavin Newsom recently proposed a national minimum tax on Americans worth more than $100 million. His announcement came shortly after an initiative for a 5% tax on billionaire wealth qualified for California's November ballot.

The governor objects to California's version of the wealth tax because it would be difficult to enforce; billionaires could simply move their wealth to states with lower taxes, depriving his state of tax revenue. "The fight belongs at the federal level," he wrote on Substack.

Wealth taxes are gaining political traction, and several states have proposed variants. Ideology alone isn't driving such initiatives. Demographics also play a role. The proposals are

symptoms of an aging population searching for someone else to pay bills that are increasingly difficult to cover. As with many treatments focused on symptoms rather than causes, the underlying disease will be left worse.

Herbert Hoover once remarked that "blessed are the young, for they shall inherit the national debt." He meant it as a joke, but it looks like a prediction.

For much of the modern era, the young inherited something better than their parents had, including a larger and stronger economy with a tax base capable of supporting the promises made to earlier generations. This intergenerational compact is now reversing because of an aging population and declining birthrate.

Note

In 1963, the average woman in the U.S. had 3.27 children. Today, she has about 1.6. The replacement rate, at which the population holds steady over the long term, is 2.1. A generation ago, subreplacement fertility mainly was confined to a handful of European countries. In 2025 the United Nations reported that more than half of all countries are below replacement. The global fertility rate in 1963 was 5.3. Today, it's 2.2. Europe sits at 1.4, China at 1.0 and South Korea at 0.7.

Note

Public pensions were designed around a high ratio of workers to retirees. In 1960 the U.S. had roughly 5 workers paying Social Security taxes for each beneficiary. Today the ratio is less than 3 to 1, and it's projected to decline to 2 within a decade. As this ratio falls, the average cost per worker rises, and the government faces uncomfortable choices: raise taxes, cut benefits, lift the retirement age or borrow. It has largely chosen to borrow, the option that feels painless because it sends the bill forward. The Congressional Budget Office projects that federal debt, driven largely by entitlement spending and compound interest, will exceed 155% of gross domestic product within 30 years, a level unseen since World War II.

With the ratio of workers to retirees shrinking, the temptation to reach for the largest bucket of money becomes irresistible. This explains why wealth taxes have acquired a renewed popularity. California's ballot measure and Mr. Newsom's national tax proposal are both expressions of the same demographic and fiscal forces.

But taxing capital to finance consumption reduces the base a smaller workforce needs to maintain and increase productivity. The only way fewer workers can sustain high living standards is for each worker to become more productive—and productivity is built on capital investment in innovation, machines, research and factories. Consuming that capital today means less investment tomorrow, which will translate into slower productivity growth and lower wages for a smaller workforce. —Note

The international record isn't promising. A dozen European —Note countries have levied wealth taxes, and most abandoned them after capital fled and revenue disappointed. The damage, however, lingered. Wealth--tax proponents seem determined to pour new wine into old wineskins, ignoring these lessons. Mr. Newsom's national tax proposal would keep billionaires from moving their money from state to state, but wouldn't prevent them from taking it outside the U.S.

There's no easy solution. America can't solve its fiscal problems with babies, immigrants or robots. Some governments have spent billions on pro-natalist policies with negligible results. This is because the forces suppressing fertility are structural, including housing costs, later marriage, expanded opportunities for women and changing preferences.

Immigration simply defers the problem. Immigrants also age and retire, and their birthrates converge with the national average within a generation or two. Productivity--driven economic growth is the most promising path to fiscal stability, but betting pension solvency on technological breakthroughs is a hope, not a strategy.

Short of a spontaneous baby boom, the appropriate response to pensiondriven fiscal problems is to stop charging the future for the present. Index retirement ages to current life spans rather than to historic markers set when people died younger. Shift pensions from defined- benefit to defined-contribution models, and move risk off government balance sheets, as Australia did in the 1980s and 1990s. Means-test benefits so that support flows to those who actually need it, not to the wealthy who don't. And if revenue must rise, favor consumption taxes, which fall on spending rather than on the capital and income on which a shrinking workforce depends. Each of these actions would do more for budget solvency than any wealth tax could.

None of this is comfortable, but the alternative is a disorderly adjustment later through inflation or a fiscal crisis more painful than reform today. Wealth taxes appear seductive because they promise to spare everyone discomfort. But as Europe has demonstrated and Milton Friedman long argued, the surest way to destroy wealth is to destroy the incentive to create it.

Note

Edmund Burke described society as a partnership between the living, the dead and the unborn. For much of American history, that partnership ran in one direction, with parents sacrificing so that their children might inherit something better. The wealth-tax movement inverts it, asking the young to watch their inheritance of productive capital be consumed to preserve present entitlements. A wealth tax doesn't make the rich pay their fair share. It makes the young and the not-yetborn pay for the retired.

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