LAFFER ASSOCIATES
Supply-Side Investment Research
May 19, 2026

10-yr T-Note: 4.67%	DJIA: 49,423.91	NASDAQ: 25,907.16	S&P 500: 7,362.89	S&P 500 Undervalued: -20.0%

THE CALIFORNIA BILLIONAIRE'S TAX

By Dr. Arthur B. Laffer and Dr. Brian Domitrovic

Introductory Note: At the polls in November 2026, California voters will likely have before them a ballot initiative, in the form of a constitutional amendment, for a one-time 5-percent tax on the total worldwide wealth of billionaires who live in California as of January 1, 2026. A healthcare workers union introduced the initiative and credited University of California at Berkeley economics professor Emmanuel Saez with inspiring it.

Professor Saez has a storied career in economics. With Thomas Piketty, he pioneered the U-shaped curve of inequality (central to Piketty's 2014 blockbuster book *Capital in the 21st Century*) and with Gabriel Zucman, he advised Elizabeth Warren in her proposals for a wealth tax dating back to the 2010s. He received an honorary degree from Harvard in 2019 in part for contending that the "Laffer rate" (a term he uses explicitly), namely the tax rate on high incomes that raises the most tax revenue, is 73 percent. The California billionaire's tax, written under the guidance of Professor Saez, aspires to collect $100 billion (from total California billionaire wealth of about $2 trillion) and spend it on indigent healthcare and food stamps.

On Tuesday, May 5, 2026, at UC Berkeley, Dr. Laffer debated Professor Saez on the matter of this "billionaire's tax." The two-hour debate, which took place before an audience of 250 persons (most of them Cal students), may be viewed via the link below. The following paper presents our thoughts on the initiative in light of what was said at this debate. The sponsors of the debate were the Young America's Foundation and the Stone Center on Wealth and Income Inequality at Berkeley.[1]

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[1] "Dr. Arthur Laffer vs. Dr. Emmanuel Saez: A Debate on California's Wealth Tax on Billionaires," May 5, 2026, https://www.youtube.com/watch?v=tLQFHYqkVtY.

103 Murphy Court, Nashville, TN 37203 (615) 460-0100 FAX (615) 460-0102

The billionaire's tax amendment without question will harm California. It is angry and punitive on its face. Its premise that the richest and most successful Californians, the top California investors, should pay more in taxes is altogether unremarkable. The California tax system is abysmally designed and, therefore, of course certain people are not paying as they would in a well-designed tax system. We can agree on this point. The question is how do we get the rich to pay more on their own accord. Treating the largest investors in California as enemy/adversaries is wrong and won't work.

If we accept the validity that the rich should pay more, there are far more effective and efficient ways to tax the rich. The most obvious and clearly the best way is to have everyone earn more. We love this way. Here are four further easy steps: i.) 501(c)(3)s should no longer be exempt from taxation; ii.) neither should there be like-kind property exchanges; iii.) the tax base should be expanded by taxing increases in unrealized capital gains and lastly; iv.) people who inherit wealth should pay tax on the inheritance just like any other income. Meanwhile, you can lower tax rates as the tax base is expanded. Boom—the tax base has expanded to include the full income of the rich, and the tax code is simpler, less oppressive, more productive of revenue, less encouraging of avoidance and evasion, and more fair, while having much lower tax rates on average. In 2003, I (Arthur Laffer) proposed a state and local flat rate tax for California, and I would be pleased to do so again.

The Saez-inspired ballot initiative will put migration of people and wealth out of California into overdrive, both on the part of the state's richest residents and those who no longer find opportunities in the state because these rich investors have left. Employees and those who formerly sold goods and services to the high-tax refugees will feel the effects of the exodus badly. The initiative will cause a renaissance in legal tax avoidance and make the collection of taxes in all domains more difficult as the spirit of tax avoidance becomes entrenched. And it will devastate the economy, as has happened to every state that has imposed a major new tax domain. We have outstanding evidence for all of these claims, which we shall put before you in the pages that follow. The supporters of this initiative have neither economic theory or historical precedent on their side. In addition, this initiative is mean-spirited.

On the spending side, this initiative is equally deficient. Health insurance companies will be the main beneficiary. This is tone-deaf in the extreme.

It is easy to tax the rich and do it the right way. You do three simple things. First, you reduce improper deductions. Second, you broaden the tax base to include all true forms of income, including inheritances (not estates). And third, you end the deferral of the realization of asset-value gains, such as increases in unrealized capital gains. If you broaden the base in these ways, you will surely find that you can also lower tax rates, and both together will bring greater revenues from the rich and a better economy for everybody. Broad tax base, low tax rates is the not-so-secret formula. And yet this initiative goes with bald confiscation—this huge retroactive billionaire's tax that drives people and their investments away instead of eliciting voluntary compliance.

For obvious reasons (Professor Saez uses Arthur Laffer's name quite a bit), We have followed his career from his Ph.D. at MIT on and am impressed by him and his work.

We are also not intrinsically opposed to a wealth tax, and we are surely not averse under proper circumstances (creating an expansive economic environment where the rich will pay more in taxes) to taxing the rich more. Andrew Melllon thought that only the highest earners should pay taxes—they could pick up the whole tax bill, he thought, if the tax rate was low enough. And Mellon did very well as treasury secretary in his tax-rate-cutting in the 1920s in bringing this ideal into reality. Tax payments from those making over $100,000 (which was big money in the 1920s) soared as the top tax rate fell from 73 to 25 percent. Similar results obtained in the 1960s and 1980s when Presidents John. F. Kennedy and Ronald Reagan emulated the tax policy of the Roaring 1920s. Perhaps the rich as a group have not "paid their fair share." But then again, our tax codes at all levels of government are massively flawed from top to bottom.

This amendment and its potential passage is serious. The consequences are huge on both a macro and on a personal scale. At 30 years old, I (Arthur Laffer) was the first Chief Economist at the White House Office of Management and Budget headed by George Shultz when it was formed in 1970, on the cusp of Watergate. Lucky for me, George Shultz was as clean as a hounds-tooth, and thereby I dodged a bullet. Many of my associates in the administration were packed off to jail. And Nixon's White House was not the exception. Politics is a contact sport, and the stakes can be large.

As an outgrowth of my perspective on political economics, I try to find policies that balance up, not down. I advocate for politicians who lessen tensions and conflicts and bring people together, not push them apart.

We hope against hope that this amendment fails, but if it doesn't fail, there isn't a snowball's chance that California will collect anything like the $100 billion net increase in tax revenues over the next 5 years that its advocates say it will. There will be any number of negative consequences, including slower growth, higher unemployment, heightened burdens placed on the most disadvantaged, out-migration, bureaucratic excesses, etc., that will reduce the size of other tax domains and increase the need for more welfare assistance for the newly created poverty. As proposed, this amendment increases spending dollar for dollar with its static measured increase in revenues. These funds by design are dedicated to bolster insurance companies and fraud-ridden food stamp programs. To expect anything like an increase in net revenues is naïve in the extreme. Nor is there a snowball's chance that it will improve the lives of the less fortunate. Just the opposite. California will be a fiscal net loser big time. Moreover, this amendment will make the poor poorer and will exacerbate the struggles faced by the disadvantaged.

In the broad sweep of economics, we view capital and labor as complements (i.e., friends, if you will), not substitutes (i.e., enemies). Because this amendment levies taxes only on investments, there will be less capital. With less capital, wages would be lower and unemployment higher. The existence of the rich is far from being deleterious to the poor. Jealousy is not economics. As a result, capital and labor should be taxed evenly, favoring neither labor nor capital: a truly flat tax.

Professor Saez and the writers of this initiative picked the one way that plays to the basest inclinations of human emotions instead of proposing good economics. The textbooks and literature are full of clear and simple sound ways of taxing the rich while promoting prosperity. We'll go over a few of them in a minute. The authors of this initiative picked an option that has no economics behind it, has no record succeeding historically, and plays to the mob calling for the heads of the rich. These people are pushing politics, not practicing economics, and the outcome will be universally negative.

Historical analogues to the specific tax policies proposed in this amendment are, by design, nonexistent. In American history, the boldest total wealth taxation ever got was a general property tax maxing out at about 1.5 percent per year in the early twentieth century—but such policies provoked enormous and effective opposition. However, inferences as to what this amendment will do if implemented can be made by referring to the consequences of other tax initiatives. The authors of this amendment have done an amazing job as tax professionals in shutting down all sorts of previously used tax maneuvers that the wealthy have employed to avoid tax (e.g., making the effective date retroactive, taxing the worldwide wealth of California billionaires, requiring the reporting of wealth, not taxing real estate wealth in state to avoid conflicts with Proposition 13, etc.). But the authors missed the big picture. Highly incentivized people of means always find a way to circumvent gimmicky taxes. What this tax amendment does, is it imposes a huge punitive tax on very few people while turning a blind eye to massive write-offs and special exemptions for the super-rich.

I.) California's Taxation Examples

If we look at two back-to-back eras of California history—the first being one of major tax increases from January 1967 through January 1975 and the other of major tax cuts from January 1975 through January 1983—the picture couldn't be more clear.

Well before I (Arthur Laffer) became deeply involved with former Governor and former President Ronald Reagan, Governor Ronald Reagan raised the highest personal income tax rate from 7% to 11%, the corporate rate was raised from 5% to 9%, the sales tax was raised from 4% to 6%, the capital gains tax rate was increased to 11% from 7%, marginal property tax rates soared, and on and on. Under Reagan's governorship, two major tax domains neared all-time rate highs inclusive to this day. The average property tax rate galloped toward its all-time high (of 2.7 percent of market value in 1978 prior to the passage of Prop 13). And Reagan's corporate rate of 9 percent remains fractionally higher than the present rate, of 8.84 percent. With all of these tax increases, those in charge expected plenty of revenues to increase spending and restore fiscal soundness. Boy were they in for a surprise.

California's state government did get larger, that's for sure. The economy of California shockingly underperformed the U.S. After consistently outperforming the U.S. economy prior to Governor Reagan, the economy of California was the same share of the national economy in 1975 as Reagan left office as when he had entered it in 1967, and yet California's population share rose and the unemployment rate went up. Ouch!

I (Arthur Laffer) was deeply involved with Governor Jerry Brown and was also involved with him later in his presidential race in 1992. From January 1975 through January of 1983, Governor Jerry Brown indexed income tax brackets for inflation; put in the Gann spending limit; eliminated the gift and estate tax; repealed the inventory tax; and, most of all, oversaw the implementation of Proposition 13, which cut property tax rates by 60% to not exceed 1% of market value, prohibited property tax increases of more than 2% in any one year, eliminated split roll, and prevented other taxes from rising by requiring supermajority votes for tax increases.

California's growth increased enormously. The state grew by a Massachusetts over the next ten years. Unemployment relative to the U.S. tumbled by over 2½ percentage points, property values soared, and the state experienced prosperity as never before. The California share of U.S. output, having flatlined under Reagan, resumed its march upward. In 1967 as in 1975, California accounted for about 10.5 percent of the national economy; in 1985, the figure was 14 percent.

The lesson here is that when California raised taxes like mad in the late 1960s and early 1970s, its economy stalled out. When California cut taxes after 1975, the state once again became the nation's economic leader. This billionaire's tax amendment is very much in the style of Reagan (as Governor not as President). It should be noted that it is the exact opposite of Governor Jerry Brown's first two terms in office.

And to pile on, when Governor Pete Wilson raised the state income tax in the 1990s, revenue fell. There's a pattern here, and it's not just California who responds to tax incentives. Everyone does.

Quite simply, we say to the initiative's writers, you aren't going to get the money you want. Not by a long shot. But you will hurt the poor. Already, California's high high high taxes have caused the state to have, in 2025, the highest poverty rate in America at 17.7 percent and the highest unemployment rate at 5.46 percent, and over the past eleven years the second-largest net out-migration of aggregate adjusted gross income (AGI).

II. Appropriateness of the Design of this Wealth Tax

Actual policy should comport with some view of how economics actually works. This initiative doesn't. This wealth tax is an add-on to all current California taxes. As a first step, this (or any other) wealth tax should replace other ineffective taxes. It is also inappropriate to tax flows, i.e., income, net sales, and value-added as well as wealth. That's called double-taxation and is universally discouraged.

While we don't in general favor wealth taxes when income taxes, net sales taxes, and value-added taxes are available, we don't think all wealth taxes are equally bad. Some are much, much worse than others. This wealth tax is much, much worse than other wealth taxes, to wit:

A.) Sins of omission: A more appropriate wealth tax: Getting rid of 501(c)(3) deductions

Every professional knows that there are far simpler and fairer ways of achieving the goal of "taxing the wealthy" that would make for a much more efficient income tax system and thus increased prosperity in California. One way is to simply eliminate all of the tax loopholes used almost exclusively by the super-wealthy associated with non-religious 501(c)(3)s in California. In the U.S., as the authors of the initiative allude to elsewhere, there are well over $500 billion of tax write-offs by the wealthy for contributions to 501(c)(3)s, and some 20% of this sum is taken on California income tax filings. This is a gross inequity in California's tax laws and "costs" some $15 billion yearly on California tax revenues from wealthy 501(c)(3) donors alone.

And then there's tax-exempt earnings on assets owned by 501(c)(3)s which adds another tax loss to California of some $15 billion per annum. And that's not to mention property and sales tax exemptions. All in all, the elimination of 501(c)(3) tax-exempt status in California would "pay for" the purported revenue shortfall more than five times over and improve horizontal equity. Everyone would be better off. Why on earth should sports leagues owned by billionaires for example be tax exempt? They are. The rich like everyone else should be taxed but not overtaxed.

Eliminating this tax loophole would raise as much tax revenues from the rich as this proposal would, and it would make California's tax base much more efficient and fair. What the authors do propose makes California's tax codes less fair and less efficient. There are time-tested and economics-tested ways of putting in place a wealth tax. The authors designed this wealth tax as a bizarre experiment to nab people they don't like. If they had wanted a wealth tax, they should have written it correctly, fairly, and in a word more professionally—in a way that respects the intelligent consensus of the peer-reviewed discipline of which we are all members.

B.) A conflict of interest?

Failure to address the egregious use of unwarranted deductions by the wealthy gives the appearance of bias and self-interest and is less than pretty. Regarding the academic contributors to this initiative, being employees and beneficiaries of Berkeley, a 501(c)(3), and the Stone Center, another 501(c)(3), there is an obvious "conflict of interest." High tax rates like the ones these Berkeley academics propose, and avoiding the elimination of loopholes for institutions where they work, serve only to unfairly benefit their employers and benefactors. High tax rates unfairly benefit tax-exempt entities. Surely Berkeley professors can do their part to help those who have lost their health benefits and food stamps.

C) Yet another wealth tax option that is far better than yours.

Today in California, the very wealthiest of the wealthy never ever pay income taxes on the largest component of their super wealth: unrealized capital gains. California tax codes do not tax increases in unrealized capital gains when they occur, and then at death there is also no tax due on those accumulated capital gains due to the fact that there is a "step-up basis" on the heretofore unrealized capital gains themselves, which makes them forever tax-exempt. And just to round out the square, California also has no state estate tax or inheritance tax, by virtue of a successful ballot initiative of 1982 that won by a margin of 64-35 percent, about the same as the margin in favor of Proposition 13 four years earlier. And yet, here this initiative goes trying to impose an entirely new tax that is markedly inferior to correcting the inefficient, unfair write-offs now rampant in California tax law.

If California taxed on an annual basis net increases in unrealized capital gains, as professional economists generally agree should be done, and receipts of inheritances to beneficiaries, the state would get its money and have a far broader based tax, which is in line with good economics and fairness. We can imagine two persons: one highly skilled who works and earns $1 million per year and the other whose portfolio increases by $1 million per year in unrealized capital gains and who doesn't "work" but borrows from assets to consume the same amount as the first person for the price of paying interest. This is an intriguing starting point for real tax reform. This initiative's plan is useful in comparison. It's hard for us to imagine a more hostile, disruptive way to raise revenues from the rich than this wealth tax proposal.

I (Arthur Laffer) have always supported a single low-rate broad based flat tax which includes as income components increases in unrealized capital gains, gains from 1031 exchanges, and wealth transfers at death, and excludes tax deductions for 501(c)(3)'s, everything fully offset in static revenue terms by a tax-rate reduction. Why don't the authors of this initiative?

D.) Sins of commission

This proposed Constitutional amendment for California, unveils unwarranted discrimination against specific individuals in the amendment itself. We all covet wealth, youth, good looks, good health, and fame, but to act out of jealousy, envy, and covetousness does not make for good policy. All minorities deserve protections.

We've all heard the vulgar stories of unbridled greed by the likes of Bernie Madoff, Ken Lay, Ivan Boesky, and Elizabeth Holmes. But you can't use these individuals as an excuse to tar with the same brush all billionaire investors. (As a point outside this specific focus, we don't believe California's government needs to spend more or tax more in the first place.) Demonizing all minorities is wrong. We should not exploit base and lowly urges that the electorate may have to enact legislation. This is just what this amendment does.

In reading both the amendment and sections of the United States Constitution (i.e., especially the Bill of Attainder clause in Article 1, Section 10), this amendment violates unambiguously the spirit of the Constitution by seeking out in legislative form, and in circumvention of the courts, retroactive punishment for prior legal behavior singling out a very limited number of individuals. This wealth tax amendment proposes a punitive tax on approximately 200 residents of California at an average tax of $500 million each and on no one else. (The authors say that once they have taxed the existing California billionaire investors, other "billionaires establishing residence in California after January 1, 2026 "will not be required to pay the tax.") So don't you billionaire investors worry, it won't happen again (wink wink).

There are so few of these resident billionaire investors, and the tax is so huge, that it looks a lot like persecution. Policy should be based on what people do, not on who they are. This is especially true for the four wealthiest individuals discussed at length and by name—Larry Ellison, Sergey Brin, Larry Page, and Mark Zuckerberg—who collectively could be personally liable for fifty billion dollars (yes, that's $12.5 billion of tax each), or about half of the total of this punitive tax. These four people are middle-age to older white males and Jewish. Lady Justice should be blind. I know the writers of this initiative aren't prejudiced, but calling out these richest Californians directly sure looks bad.

This type of selective bias is the very essence of the Bill of Attainder proscribed in the Constitution in that it i.) proposes a punishment of a 5% wealth tax ex post facto; ii.) targets individuals and specific groups and iii.) does so in a manner that bypasses judicial protections. Yet whether this wealth tax amendment is found to be unconstitutional or not, what this amendment proposes is morally abhorrent. Just because something is legal does not make it right.

E.) A simple solution to avoid selective persecution: Tax wealth, not people

We personally think that any proposed wealth tax for California is not justified and would hurt the state for years to come. But all wealth tax proposals aren't equally bad. Some are much worse than others. In this vein we believe the following:

The expert report from the authors of the billionaire's tax states that "California provides a greater opportunity than other places to earn a billion dollar fortune." But surely the experts should not limit this tax to only those billionaires who are residents of California. The experts' arguments that California has aided and abetted the creation of this wealth applies much more to California-based wealth than to California residents. Professor Saez says of California billionaire investors, "if some of them after they become billionaires…think it's too much to ask to pay that extra billionaire tax and they leave, so be it." This is akin to shouting "fire" in a crowded theater. Every billionaire investor and would-be billionaire investor is going to be rushing for the exits.[2]

Imagine two identical billionaire investors save that one resides on the eastern shore of Lake Tahoe while the other lives on the western shore. The former is a Nevada resident and not subject to this wealth tax while the other is a California resident and is subject to the tax. Just how unfair and unjust is this? Horizontal equity has been thrown out the window in favor of what the British call "two-tier justice," one for us and one for them. The key criterion should be ownership of wealth in California—not where one resides.

Even out-of-state baseball players have to pay California taxes when the games are held in-state.

If you do business in California, you should have to pay taxes in California (and indeed you do). So should it be that wealth holders with assets in California should be liable for California's wealth tax—not just residents—but only to the extent the assets they hold are in California. The authors of this amendment argue their case that the wealth obtained by these resident billionaires was due to being in California. That argument is patently silly when it comes to lots and lots of sources of wealth for taxable residents and is perfectly logical for California-based sources of wealth for non-taxable non-residents.

A further point is that it is unthinkable that any other state than California could even think of proposing a tax on their billionaire residents. Any other state that tried this would surely see the immediate exit of their richest residents. It is hard to see even New York toying with this kind of idea. The pipeline to Florida and other low-tax climes is so well-worn out of New York that a billionaire's tax in New York would have to be dead on arrival.

During the debate, Professor Saez noted that "states have the challenge of mobility that doesn't exist at the federal level," offering an example of a billionaire who moves from California to Florida and sells stock after the move, leaving California with no tax revenue from the sale. But Florida gets no revenue either, because it does not have an income tax. Yet Florida in not having an income tax attracts billionaires and the immense positive economic effects of having them in-state.

Just prior to the debate, Colorado's Democratic governor, Jared Polis, said with a wry smile that he backs 100% California's proposed wealth tax. He added that he couldn't imagine anything that would work better for Colorado. 😉

F.) California precedent for a proper wealth tax

Taxing non-residents is done all the time in California. California does tax i.) the California incomes of non-residents, ii.) the California purchases (sales taxes) of non-residents, iii.) the California capital gains of non-residents, iv.) the California properties owned by non-residents, and v.) the profits of companies headquartered elsewhere. What makes this wealth tax so different? I know it is not true, but it does make the authors look like they have personal grievances against those 200 or so California resident billionaire investors. The image of out-of-control, enraged rioters hunting down investors is as repulsive as insatiable gluttony itself. A Reign of Terror is not the answer.

The authors of this tax are extremely knowledgeable and well-trained top-drawer economists. The database they have compiled is world class. When we look at how carefully they have worded the amendment to circumvent and close all or most of all of the previous ways wealth holders could legally avoid the tax, we are reminded of an unprincipled African poacher who uses his considerable skills and guns to ensnare, trap, and poison elephants and rhinos for their tusks and horns. This is unfair in the extreme. Using dynamite and a big net is not fishing. Changing tax laws after the fact where all prior choices are shut down is not good governance. It's persecution.

And just to make sure, we all know this 5 percent tax is most definitely intended to be punitive. The authors have made this amendment such that it is the obligation of the taxpayer to report his or her net wealth which will be subject to the tax. Then they warn their prey that this ballot measure includes "a number of strong provisions to make evasion quite difficult." (Evasion, by the way, is criminal.) They go on to talk about "robust enforcement measures." They threaten that "each taxpayer" … "can be carefully audited," highlighting the fact that there are "penalties for under-reporting wealth." They even brag about how ruthless California tax enforcement can be when it comes to defining what a California resident is and how state enforcers relentlessly track down tax avoidance. What they have authored is a Robespierre in modern-day garb. Pitting one American against another is wrong.[3]

In the debate, Professor Saez noted that the United States pioneered progressive taxation—in the second decade of the twentieth century. What he did not observe was that through the early twentieth century, states had begun to increase their

[2] Brian Galle, David Gammage, Emmanuel Saez, and Darien Shanske, "Expert Report on the California 2026 Billionaire Tax: Revenue, Economic, and Constitutional Analysis," https://itep.org/expert-report-on-the-california-2026-billionaire-tax-revenue-economic-and-constitutional-analysis/; SIEPR Economic Summit 2026: California Wealth Tax, March 12, 2026, https://www.youtube.com/watch?v=H54P6j7ER28.
[3] "Expert Report on the California 2026 Billionaire Tax."

tax rates on property, including all wealth, and got rebuffed as their richest residents challenged these increases successfully (John D. Rockefeller's squabble with Ohio in this regard was legendary). One of the reasons we have a federal income tax (which began in 1913) was that initial attempts at comprehensive wealth taxation met tremendous and most effective democratic opposition. And then there were epic responses against high income taxation. The tax cuts of the 1920s reduced the top income tax rate from 73 to 25 percent. The tax cut of 1948 reduced taxes for married couples enormously. And the Kennedy and Reagan tax-rate cuts of the 1960s and 1980s took rates down by dozens of points.

G.) An easy answer to an egregious flaw

My complaints on the specifics of the California wealth tax could have easily been avoided by a statewide wealth tax based on a starting date after the passage of the amendment, on all billionaires wherever they reside in proportion to the share of their wealth in California. The wealth tax should also have been on all wealth over a billion-dollar threshold, not retroactively back to the first dollar.

H.) Bad intentions versus being correct

As a further point that does reflect malicious intent, this initiative does not even allow those subject to the tax to deduct the first billion dollars of wealth, which is deductible for all non-billionaires, i.e. they pay no tax. Someone who is worth one dollar less than a billion dollars pays no tax. Yet if that person is worth $1.1 billion, he would have to pay a $55 million tax, which is 5 percent on <u>all</u> his wealth from the first dollar on up.

Having a wealth tax start at the $1 billion threshold which is then applicable to all sums over that threshold is the proper way to tax. This would, again, assure horizontal equity. Taxing the sums up to that threshold is again persecution, pure and simple. One of the co-authors misdescribed the tax amendment as a "one-time 5 percent tax on net worth above $1 billion." This statement is not correct, but should be correct.[4]

I.) Additional inequities

Those who are subject to this wealth tax, if they are required to sell some of their assets to pay the tax would then become liable for additional federal, state, and maybe local tax. The realized long-term capital gains at a minimum would be taxable federally at 24 percent and at 13 percent for California, adding more than $40 billion in tax for every $100 billion in this wealth tax.

In addition, this proposed wealth tax, if passed, would forever remove a current California constitutional wealth tax cap of 0.4 percent. The current wealth tax cap of 0.4 percent was put into place to protect Californians from unfair and unjust tax exactions from state and local government excesses. It should not be removed.

J.) Income Taxes on the Rich

Treasury secretary Henry Morgenthau said in 1937:

> We have now a bar of registered attorneys and tax accountants numbering approximately 45,000. Against them are pitted some 2,800 field agents actively engaged in tax investigations for the Government. The contest is, of course, unequal. The fees of the tax lawyer exceed by thousands of percent the pay of his opponent employed by the Government. In this manner the most resourceful brains of the legal world are engaged actively in trying to avoid taxes for their clients. Among these are men who received their early training from the Government, and who use the skill they acquired in that service against the younger men who take their places. The Government then becomes a training school for many of its opponents.

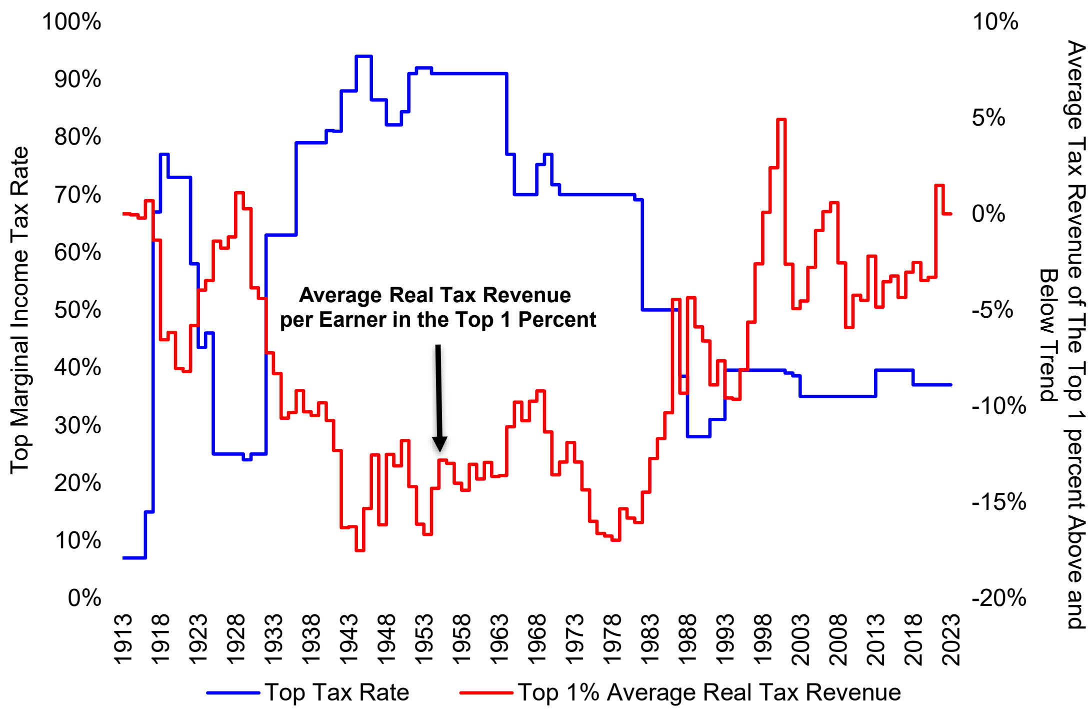
Figures 1 and 2 respectively show the relationship between the average real tax revenue from the top 1% of U.S. income earners and the top tax rate (Figure 1) and the relationship between measured income inequality and average tax revenues from the top 1% (Figure 2).

[4] Darien Shanske, "The Politics and Promise of a Billionaire Tax."

Figure 1

Average Annual Real Tax Revenues (above and below trend) per earner in the Top 1 Percent vs. The Top Marginal Income Tax Rate

(annual, 1913-2022, detrended using a 1.2 percent trend)

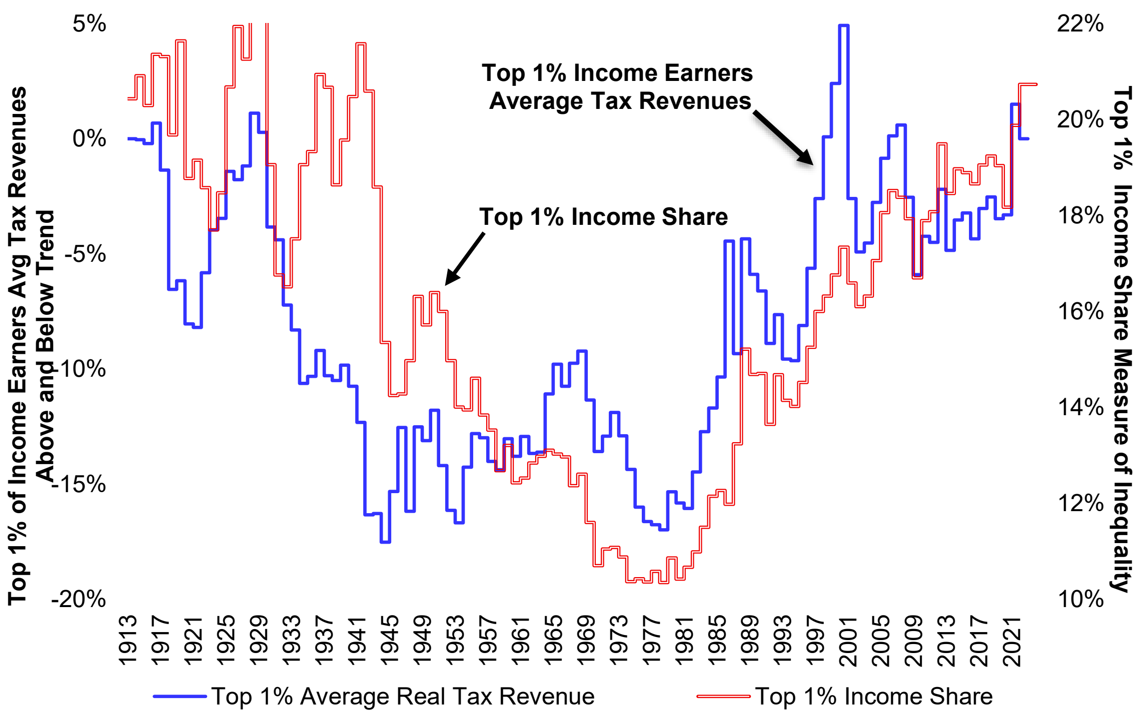


Sources: PSZ, Tax Foundation, IRS SOI

Figure 2

Inequality as Measured by the Top 1% Pre-Tax Income Share of Total Pre-Tax Income vs. the Top 1% Income Earners Average Real Tax Revenues (above and below 1.2 percent trend)

(annual, 1913 through 2022)



Sources: PSZ, IRS SOI

It's almost a tautology to say when top tax rates on the reported incomes of the highest income earners are raised, high income earners will report less income. When you tax something, you get less of it. By using the top 1%'s share of total reported income as the measure of inequality there will be a drop in "inequality" almost by definition when top tax rates are raised. But there will also be a loss in tax revenues from the highest income earners (see Figures 1 and 2). Look carefully.

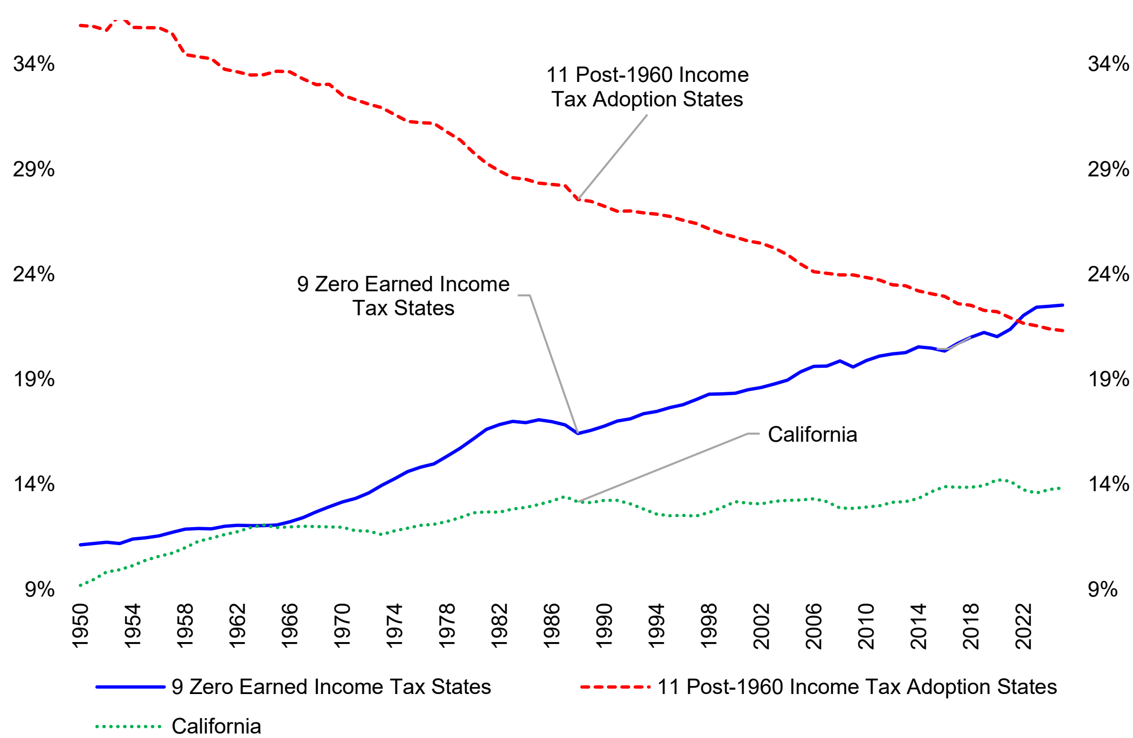
What one sees in Figures 1 and 2 is the obvious close correlation of this measure of inequality, top tax rates and average real tax revenues collected from the rich. When top tax rates rise, the rich pay less tax and "inequality" falls. When top tax rates fall, the rich pay more in taxes and this measure of "inequality" increases. In his work, Professor Saez claims that just the opposite will happen. But the facts speak for themselves.[5]

High top tax rates hurt both rich and poor alike. To paraphrase President John F. Kennedy, "No American is ever made better off by pulling a fellow American down, and all of us are made better off if any one of us is made better off…A rising tide, it raises all boats." Our goal should be to help those in need, not to hurt those who have been successful. Desmoulins' admonishment to Robespierre says it all: "My old school friend,…remember the lessons of history and philosophy: love is stronger, more lasting than fear." In terms of the proposed tax amendment before California, what Desmoulins is saying is that you should try to heal the sick, instead of what is being done, which is to infect the healthy.

K.) A Tax Cross-section for All States: How State Economics Really Works

Looking at a broad cross-section of states since 1950 and tax policy, we find the same pattern. In the chart below we have plotted the share of U.S. personal income of the nine states with no earned income tax, California's share, and the share of U.S. personal income of the 11 states that have adopted an income tax since 1960. Look at that plot carefully.

Figure 3
9 Zero Earned Income Tax States (as of 1/1/2026) vs. 11 Post-1960 Income Tax Adoption States vs. California: Share of U.S. Personal Income
(annual, 1950 through 2025)



Source: BEA

[5] See the chapter "Beyond Laffer" in Saez and Gabriel Zucman, The Triumph of injustice: How the Rich Dodge Taxes and How to Make Them Pay (New York: Norton, 2019).

Quite contrary to what actually would happen, prior to the establishment of an income tax, all of the tax experts in those eleven states that adopted an income tax were certain revenues would increase, public services would improve, and the poor would be better off. Zero-income-tax states kick the living bejabbers out of all the other states, and specifically out of the eleven states that have adopted an income tax since 1960 and California. The authors of this initiative have no idea (nor do we for that matter) just how the economy will respond to it. But we do know the result will be ugly. They quite obviously don't.

L.) The Transfer Theorem

And as a further point to show why the reasoning behind this ballot initiative is flawed, we'd like to describe the transfer theorem which is simply math, not opinion or conjecture. The proposed amendment fits this theorem to a "t."

A transfer by definition occurs when government takes resources from one group and gives those resources to other groups. In other words, a transfer occurs when government redistributes income. When government redistributes income, it takes income (the tax) from someone who earns more and gives the proceeds as a subsidy to someone who earns less. By taking income from the person who earns more, that person's incentive to produce income declines, and he or she will produce less.

Also, by giving the proceeds from the tax to someone who earns less (the subsidy), that person will now have an alternative source of income other than working and, therefore, will also work less. Any transfer payment to redistribute income will unequivocally reduce total income, and the larger the transfer, the larger the decline in total income.

The reasoning behind this theorem lies in what economists call the Slutsky equation, which breaks down the effects of a price/tax rate change, or transfer into two components: income effects and substitution effects. The substitution effects describe the change in the incentives to both produce and consume that arise from a change in the relative price of income in terms of leisure (i.e. the tax cum subsidy)—when the incentives to produce and consume decrease (i.e. the tax) producers and consumers will choose to produce and consume less. In technical terms, the substitution effects of a redistributive tax/subsidy always work in the same direction for both taxpayers and transfer recipients, i.e. any and all redistributions reduce everyone's incentive to work and thus reduce total income. The income effects, i.e. the subsidy to those who earn less, and the income taken from those who earn more, always cancel each other out. The transfer recipient spends more while the transfer payer spends less.

The limit function of this theorem is quite obvious once framed correctly. Imagine the example of a complete income redistribution where everyone who earns more than the average income is taxed 100% of the excess above the average, and everyone who earns less than the average income is subsidized 100% up to the average. This redistribution will result in perfect income equality. Everyone will have the same after-tax, after-subsidy income regardless of their pre-tax, pre-subsidy income. If everyone who worked, no matter how hard, were only able to receive the average income and everyone who didn't work or worked very little also received the average income, in short order, all income will fall to zero. Perfect income equality, i.e. 100% redistribution, equates to zero income/output.

An economy cannot be taxed into prosperity nor can a poor person spend himself into wealth. The economy just doesn't work that way.

When it comes to economics, income equality can only occur when everyone is equally poor. The theory and the data are totally in sync. This initiative will make California poorer.

III. Concluding Remarks

The authors of this proposed California wealth tax have argued that this is an "experiment," and an appropriate one because of the urgent problem of inequality and the poor's lack of access to food and healthcare. After the money comes in from this "modest" tax, collected over five years, we can then evaluate the evidence and proceed from there. The authors are trying to be scientific, to fulfill the requirements of a scientific experiment in adopting this approach. They make the provisions of the amendment retroactive so that they can control who pays. They make the tax itself a one-off to control the time duration. They dedicate the money to one small set of expenditures. And yet they are nowhere near controlling this experiment as science would require.

It is also not clear why the apparent federal budget cuts in the healthcare area are a valid pretext for this billionaire's tax. Professor Saez and his colleagues have been pushing a wealth tax for years. Saez's co-authored 2019 book The Triumph of Injustice goes on at length about the need for a progressive wealth tax on billionaires.

Human subject research in science, by the wide consensus of scientific fields, requires the voluntary participation of the subjects. It requires that the experiment begin after the subjects give consent. And it requires a control group. None of these is present in this "experiment."

What conclusion do the authors draw about the economics of this proposal? They are silent on this issue. Professor Saez himself an MIT Ph.D. in economics, a recipient of the prestigious Clark medal in economics, a recipient of a Harvard honorary degree for economics, remains silent on the economics of this proposal. Professor Saez has tons of expertise in economics. Yet he speaks of his wealth tax proposal as an experiment.[6]

What we ask is given the skill set of the authors, their education, their experience, and their unrelenting drive to pass this and other wealth tax initiatives, could they please describe in as much detail as they can what they believe will be the consequences (i.e., what California will look like) in five years if this amendment passes and is put into effect. Everyone knows what our views are. We believe that if passed this constitutional amendment would deepen and extend the economic bureaucratic nightmare that California has become. We would like a benchmark to evaluate who was right and who was wrong as an object-lesson for generations to come.

[6] Professor Saez, See debate with Professor Joshua Rauh