STORM DELIVERABLE · WEALTH TAXATION · THE KHANNA-SANDERS 5%

Skimming the *Power Law*

A congressman proposes to tax the stock, not the flow. Dennett would admire the meme. The Santa Fe Institute would question the ontology. The Austrians would do the arithmetic. All three are worth hearing before November.

SUBJECT

Khanna-Sanders billionaire wealth tax; CA one-time 5% levy

FRAMEWORKS

Dennett memetics · SFI complexity · Austrian calculation

DATE

July 2026

Here is a fun fact about the American tax code: it is possible — routine, actually — to be worth eleven figures and have taxable income that rounds to a schoolteacher's. You take no salary. You borrow against your stock at SOFR-plus-something from a private bank that is delighted to have you. You live on the loans, which are not income, because loans are not income, and when you die your heirs receive the shares with a stepped-up basis, and the appreciation — all of it, decades of it — simply exits the tax system through a door marked *mortality*. Buy, borrow, die. It is the closest thing American finance has to a perpetual motion machine, and Representative Ro Khanna, whose district contains a nontrivial fraction of the machine's output, would like to turn it off.

His instrument is blunt by design: 5% per year on total wealth above $1 billion, assessed annually, on 938 people worth a collective $8.2 trillion. Scored at $4.4 trillion over a decade. A companion measure sits on California's November ballot — a one-time 5% assessment on the state's 250 billionaires — which supporters are calling the reverse Proposition 13 of our generation, a framing so memetically efficient it deserves its own analysis. Which is where we start.

LENS I · DENNETT

The Argument as Engineered Meme

Daniel Dennett spent a career showing that ideas compete for hosts the way genes compete for bodies, and that an idea's replicative fitness has nothing necessarily to do with its truth. Khanna's op-ed is a masterclass in memetic engineering. *Tax what they own, not what they report.* Seven words, perfectly compressed, hostile to rebuttal. *The same way a family pays property tax on a house.* An intuition pump of the first order — and Dennett's method, remember, was never to accept an intuition pump but to *turn its knobs*.

So turn them. Property tax runs roughly 1%, not 5. It funds the services that make the property valuable — schools, roads, fire suppression. It is assessed against a deep market of comparable sales, not a banker's opinion of a private company's terminal value. Turn all three knobs and the analogy weakens considerably; the pump was doing work the argument hadn't earned. Similarly, the "44x Newsom" comparison — Khanna's bill raises forty-four times the revenue of the governor's minimum-income alternative — compares a levy on a *stock* to a levy on a *flow*. Of course the numbers differ. That is a difference in tax base, not a difference in moral seriousness, presented as if it were the latter.

But Dennett cuts both ways, and honest analysis says so. His compatibilism — the whole edifice of *Freedom Evolves* — grounds moral responsibility in competence and available options. An agent with more options bears more responsibility. The billionaire who structures buy-borrow-die is the maximally-optioned agent in the entire economy; "if America has been good to you, you must do good for America" is not a skyhook or a sentimentality. It is a Dennettian responsibility claim, and a strong one.

> ***The meme is better engineered than the mechanism. That is not a reason to dismiss the meme. It is a reason to inspect the mechanism.***

LENS II · SANTA FE

The Wealth Is Not a Hoard

Where Dennett analyzes the argument, the Santa Fe tradition analyzes the system, and the contrast is the point of this exercise. The complexity view says the $8.2 trillion is not a pile of anything. It is an emergent valuation riding on a network of expectations — a number that exists because millions of market participants agree, provisionally and reflexively, that it does. Brian Arthur's increasing-returns economics explains, with almost embarrassing precision, why five trillion-dollar companies sit within fifty miles of Khanna's district: lock-in, agglomeration, preferential attachment. Multiplicative growth processes generate power-law wealth distributions *as a matter of statistics*, not as a referendum on 938 individual souls.

This observation is double-edged, and both edges are sharp. Edge one, against the billionaires: extreme concentration is the *predictable output of the generating process*, which demolishes the proportional-desert defense. Nobody is 400,000 times more virtuous than a teacher. The distribution's tail is a property of the dynamics, not the people in it. Edge two, against the tax: if you skim the distribution without altering the generating dynamics, the power law regenerates — Pareto tails are famously robust to redistribution shocks. And if the levy is large enough to alter the dynamics (5% annually, forcing perhaps $400 billion a year of concentrated founder-stock sales, certainly is), then the valuations you are taxing are reflexive and shrink under the forced selling. You cannot mark the tail to market and then liquidate the tail without moving the mark.

COMPLEXITY NOTE

Dennett and Santa Fe converge on exactly one point, and it is the load-bearing one: the folk picture of billionaire wealth — dragon's gold in a vault, waiting to be counted and clawed back — is a useful *stance* and a misleading *ontology*. The wealth is a process, not a thing. Taxing a process at a rate that halts the process yields less than the static score assumes. Every European experiment confirmed this; France's ISF chronically underperformed its projections before Macron converted it to a real-estate levy in 2018.

LENS III · VIENNA

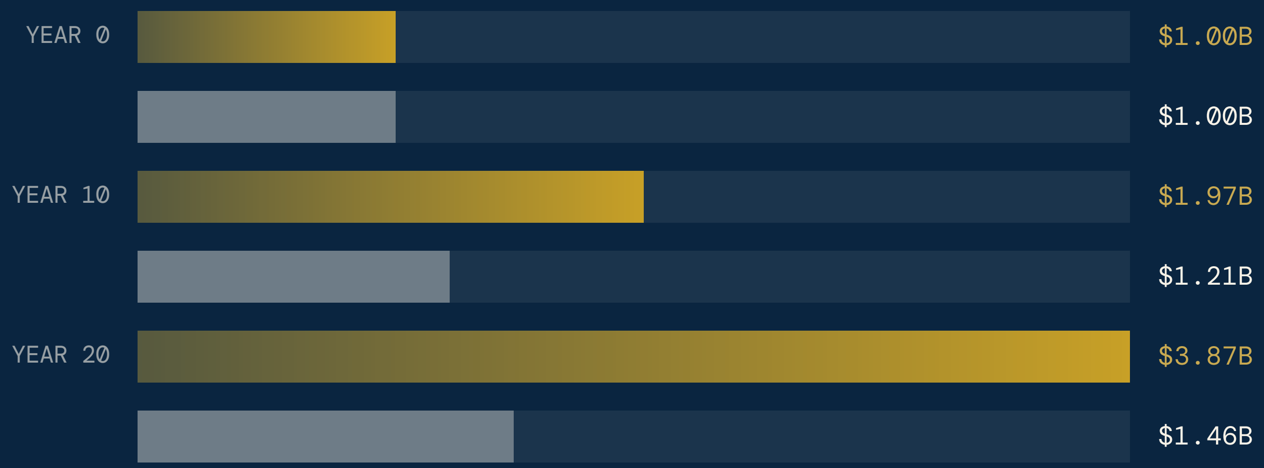
The Arithmetic Objection

The Austrians raise three objections, in ascending order of force. First, Hayek's knowledge problem: the levy transfers allocation authority from proven — fine, *lucky and proven* — capital allocators to the political process, and the political process does not price. Second, Mises's calculation problem in miniature: annually valuing private companies, illiquid real estate, and grantor-trust assets without market transactions produces administrative fictions, litigated forever. Sweden and France did not repeal their wealth taxes because they stopped caring about inequality; they repealed them because the valuation apparatus was a full-employment act for tax attorneys and the revenue kept disappointing.

Third, and strongest: the compounding arithmetic. A 5% annual levy on assets returning perhaps 7–9% nominal consumes most of the real return. On a static fortune it is a half-life of roughly fourteen years — confiscation on an installment plan. Supporters may well *intend* a wealth cap rather than a wealth tax; Piketty certainly does. But then the argument should be made openly, because a cap and a tax have very different politics, very different constitutional exposure (the direct-tax apportionment question that *Moore v. United States* pointedly declined to resolve), and very different effects on the tax base the revenue score depends on. The Lucas critique is undefeated: the $4.4 trillion assumes the base sits still. The base will not sit still.

Exhibit A — The Half-Life of a Fortune

$1.0B INITIAL · 7% NOMINAL RETURN · 5% ANNUAL LEVY vs. UNTAXED · ILLUSTRATIVE



Gold bars: untaxed compounding at 7%. Grey bars: same return net of the 5% levy — an effective ~1.9% compounding rate. Over twenty years the levy captures roughly 62% of the terminal wealth the fortune would otherwise have reached. On a *zero-return* fortune, 5% annually is a half-life of ~13.5 years. Whether this is a bug or the point is precisely the debate supporters and critics are having past one another.

SYNTHESIS

The STORM Read

S

SITUATION

Khanna's diagnosis is substantially correct, and even the Austrians should concede it. Buy-borrow-die plus stepped-up basis means the current code taxes labor income heavily and dynastic capital appreciation at approximately zero. That asymmetry is real, distortive, and corrosive to the legitimacy Hayek himself considered a precondition for functioning markets. 938 people gained $1.5 trillion in a year in which the marginal teacher in Khanna's district took a second job. The moral energy here is not manufactured.

T

TENSION

The prescription does not follow from the diagnosis. A 5% annual levy has a valuation problem (Mises), a liquidity problem (forced sales into your own tax base), a constitutional problem (apportionment, unresolved post-*Moore*), and compounding arithmetic that makes it a wealth *cap* presented as a wealth *tax*. The "no capital flight" evidence — one quarter of VC data and a primary challenger held to 6% — is a short-run observation about a levy that has not yet been levied. Europe ran this experiment roughly a dozen times and mostly repealed it. Also real.

O

OPTIONS

The political-economy middle ground the op-ed skips: **(1)** treat borrowing against appreciated assets as a realization event — kills buy-borrow-die at the mechanism; **(2)** repeal stepped-up basis at death — kills the dynastic exit; **(3)** Wyden-style mark-to-market on *tradeable* assets only — avoids the private-valuation swamp entirely; **(4)** the Khanna–Sanders levy as written — maximal moral clarity, maximal execution risk. Options 1+2 attack the precise machinery Khanna identifies while surviving the calculation and constitutional objections.

R

RECOMMENDATION

Answer the moral question honestly: *yes* — tax extreme wealth's escape hatches. Realization-on-borrowing plus step-up repeal captures most of the moral outcome at a fraction of the deadweight and litigation risk, and it does not require an annual federal appraisal of every private company in America. The reverse-Prop-13 framing is memetically brilliant and historically apt; the actual lesson of Prop 13 is that crude instruments generate forty years of unintended consequences their authors never voted for. The strongest case *for* Khanna, stated fairly: incremental fixes get lobbied to death one clause at a time, and only a blunt instrument survives markup intact. Both claims can be true. That is what makes this a political question rather than a technical one.

M

MECHANICS

Watch California regardless of merits. A state-level, one-time 5% assessment with a publicly announced date is a natural experiment in exit dynamics — residency filings, entity redomiciliations, and secondary-market discounts on concentrated positions between now and November are an event study writing itself. Positioning notes: announced forced-sale flow of concentrated founder stock is a supply overhang worth mapping against index-inclusion mechanics; the trust-taxation provision of the Ultra-Millionaire Tax Act (grantor-level tax on irrevocable trusts) is the sleeper clause — if it survives, the estate-planning industry reprices overnight.

AQI Verdict Panel

KHANNA-SANDERS 5% · AS WRITTEN

Diagnosis (buy-borrow-die asymmetry)	SOUND	HIGH
Memetic engineering of the case	SUPERB	HIGH
Revenue score ($4.4T static)	OPTIMISTIC	HIGH
Valuation & administration	UNSOLVED	HIGH
Constitutional exposure	CONTESTED	MED
"No capital flight" evidence	PREMATURE	MED
Moral question, as posed	LEGITIMATE	HIGH
Superior instruments available	YES — SEE O(1)+O(2)	HIGH

One last thing, because it is the kind of detail the op-ed's own logic demands we notice. Khanna writes that the billionaires spent millions on his primary challenger, who received 6% of the vote. He offers this as proof the money is politically impotent. But read it through the complexity lens: a system in which $8.2 trillion cannot buy 7% of a primary electorate is either a system in which wealth has less political power than the moral argument requires — or a system in which the wealth has learned to spend elsewhere. The Santa Fe people have a term for agents that adapt faster than the rules chasing them. The term is *everything the institute studies*.

ALPHAQUERY INTELLIGENCE

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RESEARCH & EDITORIAL — NOT INVESTMENT, LEGAL, OR TAX ADVICE. FRAMEWORKS: STORM (SITUATION / TENSION / OPTIONS / RECOMMENDATION / MECHANICS).
REVENUE FIGURES AND POLICY DETAILS PER THE SOURCE OP-ED; EXHIBIT A IS ILLUSTRATIVE ARITHMETIC, NOT A FORECAST.