

Chapter 13: The Valuation State

"The problem of economic calculation is the fundamental problem of socialism... Everything brought about by a complex society based on the division of labour can be realised only through the aid of market prices."

— **Ludwig von Mises**, *Socialism: An Economic and Sociological Analysis* (1922)

A wealth tax is sold as a percentage. In practice it is sold as a civilisation: a standing apparatus of appraisal, disclosure, dispute, and coercive collection. The rate is the decoration. The base is the battlefield.

The public is invited to imagine a clean transfer: a small fraction of “wealth” gliding from private hands to public purpose, without friction, without distortion, without the bureaucratic grotesque. This fantasy survives only because the central problem is never stared at directly. The central problem is valuation.

To tax wealth annually is to require annual valuation. Annual valuation is straightforward only where assets are liquid, simple, and continuously priced. Yet the wealth at issue in any serious wealth-tax proposal is overwhelmingly concentrated in assets that are not liquid, not simple, and not continuously priced. Private companies, control blocks, partnership interests, carried interests, venture stakes, real estate portfolios, intellectual property, art, trusts with contingent rights, structured products, and the endless zoology of modern finance do not politely present themselves for easy appraisal.

Thus the wealth tax does not create a “tax system.” It creates a valuation state: a permanent machinery of assessment and contestation. And this machinery has only two stable equilibria. Either it becomes intrusive and litigious—precise enough to be contested, strict enough to be coercive.

Or it becomes porous and unfair—flexible enough to be gamed, discretionary enough to be captured.

There is no third equilibrium where it is accurate, cheap, unintrusive, and fair. That imagined state is the rhetorical heaven of policy advocates: a place where the administrative angels do

the paperwork, the valuation is unquestionable, and coercion is unnecessary because everyone agrees.

Economies are not run in heaven.

I. Valuation is not a technical detail; it is the policy

The phrase “a 2% wealth tax” pretends that the hard part is choosing a rate.

In reality, the hard part is establishing a tax base that can be measured consistently, verified credibly, and enforced without turning the state into a universal auditor of private life. This is not an ideological claim. It is a descriptive one.

A tax on income largely rides on flows already recorded by firms and financial institutions. A tax on consumption rides on transactions. A tax on payroll rides on employment records. But a tax on wealth rides on *assets*—and many assets do not have a transparent market price. Even when they do, their value depends on control, liquidity, and marginal pricing.

Annual wealth taxation therefore demands annual asset measurement.

Annual measurement demands a bureaucratic apparatus.

A bureaucratic apparatus demands power.

Power attracts gamesmanship.

Gamesmanship demands enforcement.

This is not cynicism. It is the shape of the system.

II. Public assets are the easy corner case

It is often said, with a reassuring smile, that “we already know what assets are worth.” In a narrow sense, for liquid public securities, this is true. A stock has a quoted price. A bond has a market. A mutual fund has a net asset value. If all wealth were held in widely traded instruments, valuation would be simple.

But this is precisely the kind of truth that misleads by selecting the easy case.

First, even public holdings have complications: concentrated positions cannot be liquidated at the quoted price without market impact; control blocks contain premiums that cannot be realised without selling control; restricted stock cannot be freely sold; insider trading rules

constrain timing; and derivatives create synthetic exposure that can be structured to obscure ownership.

Second, the wealth that matters for a wealth tax is not merely the wealth that is easy to count. It is the wealth that is large and structurally bound to enterprises and private holdings. The more serious the wealth tax, the more it must reach into private assets. Otherwise the base is too small or too politically avoidable.

Thus the real policy is valuation of the hard assets.

III. Private businesses: the valuation war begins

Private businesses are the canonical problem. They are often the largest component of high-net-worth wealth. They also lack daily pricing.

A. The absence of a market price

A private company does not trade on an exchange. There is no continuous price discovery. There may be occasional financing rounds, partial secondary sales, or private transactions, but these are sporadic and often structured under special terms.

So what is the value?

It must be estimated.

Estimation is not measurement. It is modelling.

B. Modelling is contestable

Private company valuation typically relies on methods such as discounted cash flow (DCF), comparables, precedent transactions, or multiples. Each method depends on assumptions:

- projected cash flows, which are forecasts;
- discount rates, which are contestable;
- comparable company selection, which is subjective;
- liquidity discounts, which vary;
- control premiums, which are negotiated;
- growth assumptions, which swing valuations dramatically.

Small shifts in assumptions can produce large shifts in valuation. This is not fraud; it is sensitivity.

A wealth tax turns this sensitivity into fiscal conflict.

C. Valuation becomes a litigation industry

If the state demands an annual number and attaches penalties to under-valuation, taxpayers will hire appraisers and lawyers. The state will hire appraisers and lawyers. Disputes will proliferate.

Not because all taxpayers are dishonest, but because there is no singular “true value” for many assets. Value is an estimate under uncertainty. Litigation becomes the mechanism for resolving the uncertainty.

The tax system thus produces a professional ecosystem whose function is not production but contestation.

This is not a side-effect. It is a structural consequence.

IV. Complex assets: where valuation becomes metaphysics

Beyond private businesses lies the swamp: complex assets that require valuation methods so intricate that only specialists understand them, and even specialists disagree.

A. Partnership interests and carried structures

Many high-wealth holdings sit in partnership vehicles with layered rights: preferred returns, waterfalls, contingent performance fees, and restrictions on transfer. The “value” depends on future outcomes, fund performance, and contractual terms.

Annual valuation of such interests is not like valuing a house. It is like valuing a contingent claim on a set of future states.

B. Venture stakes and illiquid equity

Venture investments can be worth nothing or everything depending on outcomes. Secondary markets exist but are thin and often constrained by company approvals. Valuations are often derived from last funding rounds, which may include preferences and terms that make the headline valuation misleading.

A wealth tax that uses funding-round valuations can overtax paper values that cannot be realised.

A wealth tax that discounts aggressively can be gamed.

Either way, the system invites dispute.

C. Real estate portfolios

Real estate is tangible, which seduces people into thinking it is easy. Yet appraisal is notoriously imprecise, especially for commercial property, multi-asset portfolios, and income-producing complexes. Cap rates, occupancy assumptions, tenant quality, lease terms, and market shifts all change value.

Annual appraisal at scale is expensive and contentious. It also interacts with the broader market: aggressive tax-driven appraisal regimes can destabilise valuations and credit conditions.

D. Intellectual property and goodwill

How do you value a patent portfolio? A brand? Software IP? Customer lists? Goodwill? These valuations rely on future income assumptions and competitive conditions. They are deeply model-dependent.

A system that taxes them annually either becomes arbitrary or becomes an endless arena of expert conflict.

V. The administrative reality: the state must choose its poison

A valuation state must decide how it will function. But the choices are all forms of loss.

Option 1: Intrusive precision

The state could attempt high accuracy through strict reporting rules, mandatory disclosure, audit powers, valuation standards, and punitive enforcement.

This yields:

- intrusive disclosure of private holdings and structures;
- constant audits and information demands;
- high compliance costs;

- aggressive enforcement powers;
- growing resentment and avoidance;
- a large administrative bureaucracy;
- an adversarial relationship between citizens and state.

Precision does not eliminate disputes. It multiplies them, because the stakes become larger and the rules more contested.

Option 2: Flexible approximation

The state could accept rough valuation methods, safe harbours, and broad approximations to reduce conflict.

This yields:

- porousness, as sophisticated actors exploit ambiguities;
- unequal enforcement, as some comply and others evade;
- unfairness, as similar assets receive different valuations;
- political capture, as exemptions proliferate;
- erosion of legitimacy, as the public sees the system as rigged.

Approximation reduces litigation but increases inequity.

In either case, the wealth tax becomes not merely a revenue instrument but a generator of political conflict and institutional degradation.

VI. The avoidance industry: a predictable response to valuation power

Where valuation is uncertain and enforcement costly, avoidance becomes a rational investment.

The wealth tax does not merely “collect revenue.” It creates a private-sector industry whose purpose is to reduce the tax base by structuring ownership, shifting residence, and designing assets to be hard to value.

This does not require illegality. It requires complexity.

As the system grows, talent shifts toward planning rather than production. The more aggressive the tax, the more intense the planning. Over time, the state and the taxpayer enter an arms race, where the primary output is not goods or services but paperwork, structures, and litigation.

A society can call this “progressive taxation.” The economy experiences it as transaction cost.

VII. Discretion and power: why valuation states invite corruption and capture

Valuation states concentrate discretionary power. Someone must decide whether your appraisal is acceptable, whether your discount is reasonable, whether your structure is legitimate, whether your asset is “really worth” what you say it is.

Discretion creates vulnerability.

It creates vulnerability to:

- lobbying for favourable rules and exemptions;
- selective enforcement against political enemies;
- bureaucratic rent-seeking;
- informal settlements and negotiated compliance;
- the gradual politicisation of tax administration.

Even if the administrators are honest, discretion creates suspicion, and suspicion corrodes legitimacy. Taxation is not merely extraction. It is social consent. Systems that appear arbitrary lose consent.

A wealth tax regime that depends on discretionary valuation therefore risks degrading trust in the state itself.

VIII. Why the public doesn’t see it: the invisibility of administrative costs

Advocates often frame wealth taxes as “making the rich pay their fair share.” The public sees the fairness narrative. It does not see:

- the teams of appraisers;
- the audit hours;
- the litigation;

- the compliance burden;
- the administrative budgets;
- the distortions in investment;
- the incentives toward complexity.

Administrative costs are second effects. Second effects are not staged on television.

But they are the real costs.

And those costs are ultimately borne not only by the wealthy but by everyone, through lower growth, lower wages, and weakened institutions.

IX. A final household translation: the annual appraisal of your life

To grasp the valuation state, imagine an annual regime in which your household must file a detailed appraisal of everything you own, including items for which no market exists: your skills, your reputation, your future prospects, the likelihood of promotion, the value of your friendships, the “expected cash flows” of your education.

It sounds absurd because it is absurd. Yet wealth taxation of illiquid and complex assets is a version of this absurdity scaled up: turning uncertain future claims into annual taxable certainties.

The state demands a number. The number must be defended. Defence requires professionals. Professionals require money. The tax becomes a system of contestation.

Even if one believes redistribution is morally required, one should still ask whether this is the mechanism to achieve it.

The valuation state is not a tax. It is a regime.

The lesson line

A wealth tax is sold as a clean percentage, but it becomes a permanent valuation state—either intrusive and litigious or porous and unfair, with no stable middle.