After the Leviathan

A Vision for a Future State

What really matters?

Leopold Schwarzschild to Klaus Mann, 1938:

"*There is definitely a division of labour in this world; and while I can concede that the army of daily-news agitators has a right to exist – I do not want to argue about that – a writer has decidedly a different role to fulfill. He must search for what has the prospect of being true forever. If he does not do that he abandons his claim to being a writer.*"

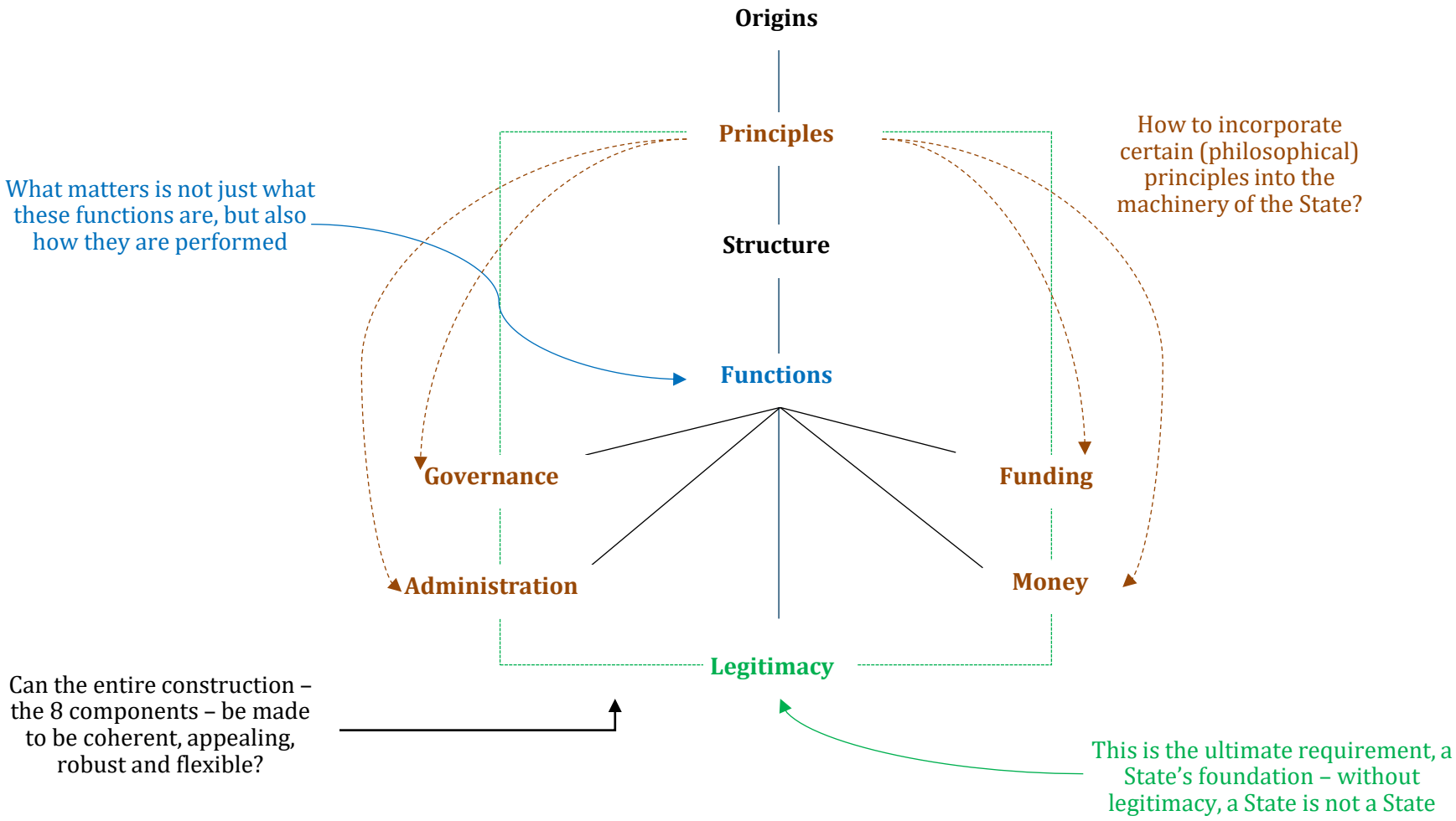
Let us consider three political questions – which are almost certainly the most fundamental questions in politics

1. How do our lives relate to each other?

2. How do these relationships give rise to the State?

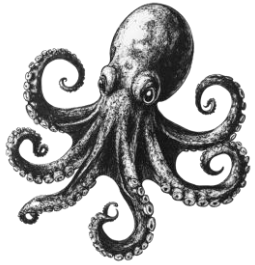
3. What should be the shape and function of this State?

Any theory of – and plan for – an optimal State must describe not only its structure and purpose but also how it shall perform its functions over time



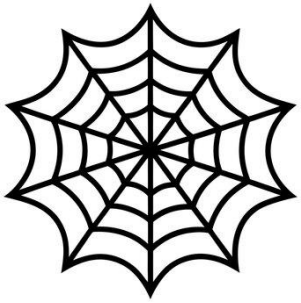
We have sought to reinvigorate the State as a looser, yet stronger and more robust insurance & investment network that enjoys real, substantive legitimacy

The *human community that (successfully) claims the monopoly of the legitimate use of physical force within a given territory. Note that 'territory' is one of the defining characteristics of the State.* [(a)]



- A Leviathan
- Ubiquitous
- Provide protection against fears
- Centralise
- Represent
- Territorial
- Compulsion

An insurance & investment network of decentralised Mini-States with central reinsurance support from a Maxi-State in which authorship, participation and representation are in more perfect equilibrium



- A Network
- Focused
- Provide insurance against extreme risks
- Delegate
- Participate
- Not necessarily territorial
- Independence

The monopoly over the use of violence continues to exist, but applied over an entity that looks and does things differently than the State that has evolved over the last 300 hundred years

(a) Max Weber, Politics as a Vocation

Let us then imagine and construct this *New State*—formed by our experience of the Old World, yet starting wholly afresh

1. Origin, Principles, Structure & Functions

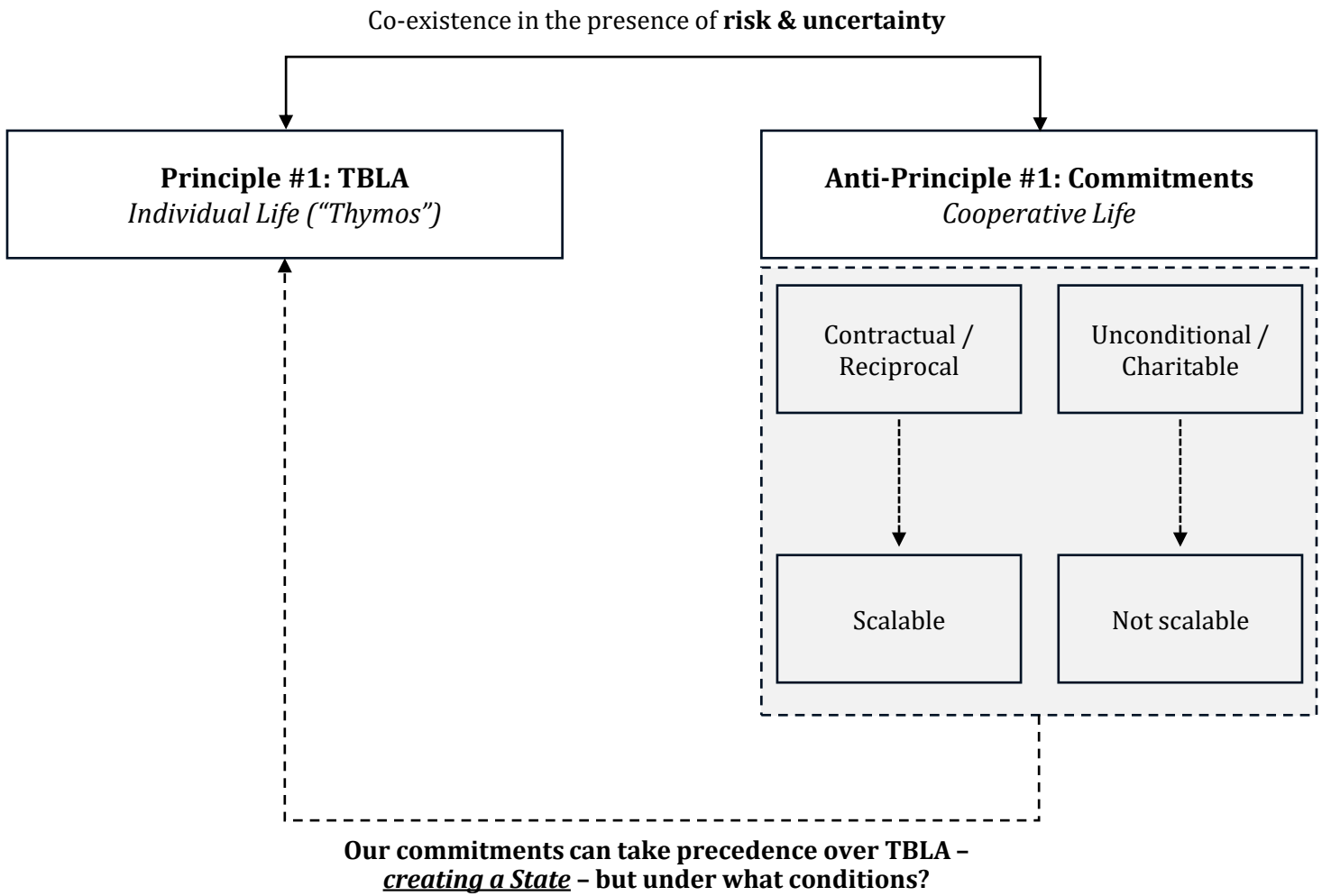
At the outset, a conception of rights establishes what really matters: The right to be left alone (TBLA) is Principle #1 which trumps conventional rights

	Fundamental Rights	Conventional Rights
Example	**The right to be left alone (TBLA)** Process rights (fair trial, due process, etc)	Involving "things" that are jointly funded, e.g. education, healthcare, welfare, etc.
Nature of the Right	Unconditional – does not require consent by others	Conditional – requires consent by others ("*don't take them for granted*")
Founded on Reciprocity?	No	Yes
Ranking	Senior: trumps conventional rights	Subordinated
Permanent	Yes	No

Principle #1:

Recognizing the richness of the individuality of each person & TBLA

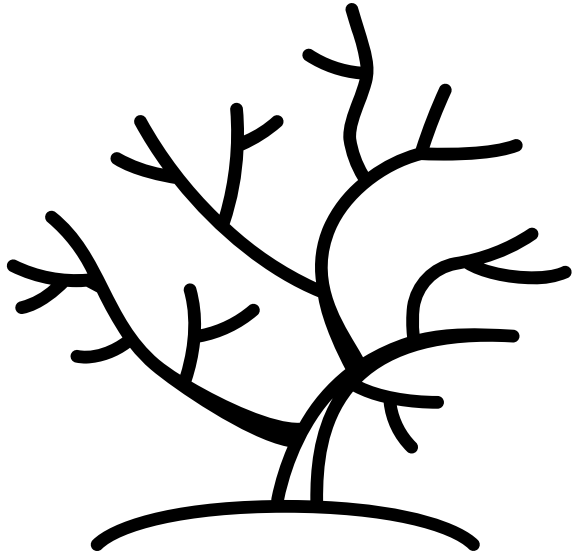
However, our Principle #1 rights coexist with our commitments – individual life vs cooperative life. How can we scale cooperative life with individual consent?



Principle #2 extends Principle #1 to all other forms of life in a systematic & meaningful way – making the *network of life* the focus of the State's attention

Life as a Network of Functional Equivalence

Every node of life has equal value [(a)]

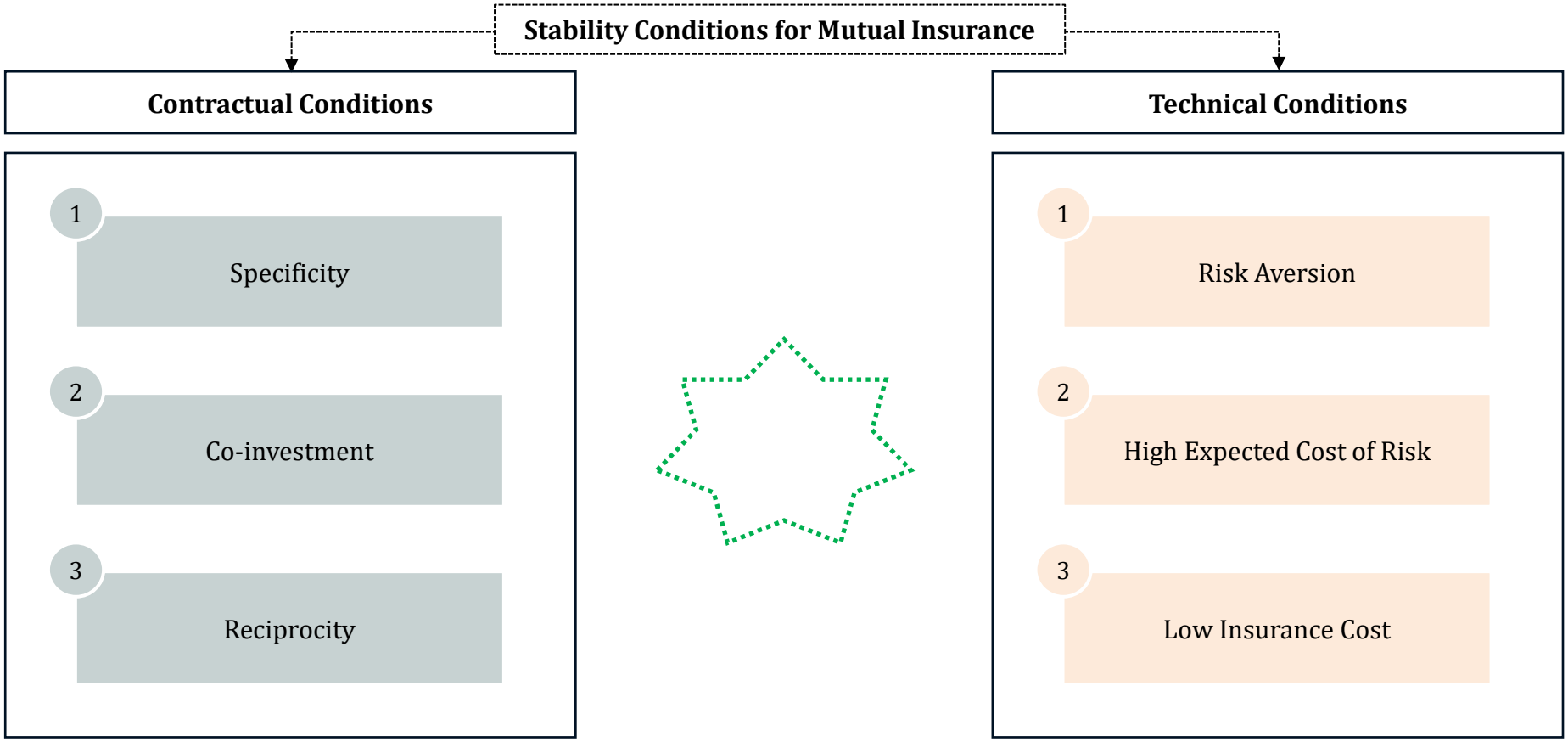


MiniMax

Harm to any node of the network of life should be minimised and is permissible only if it maximises the overall value of the network

(a) Nodes are systematically important loci / units / systems of life, depending on the circumstances.

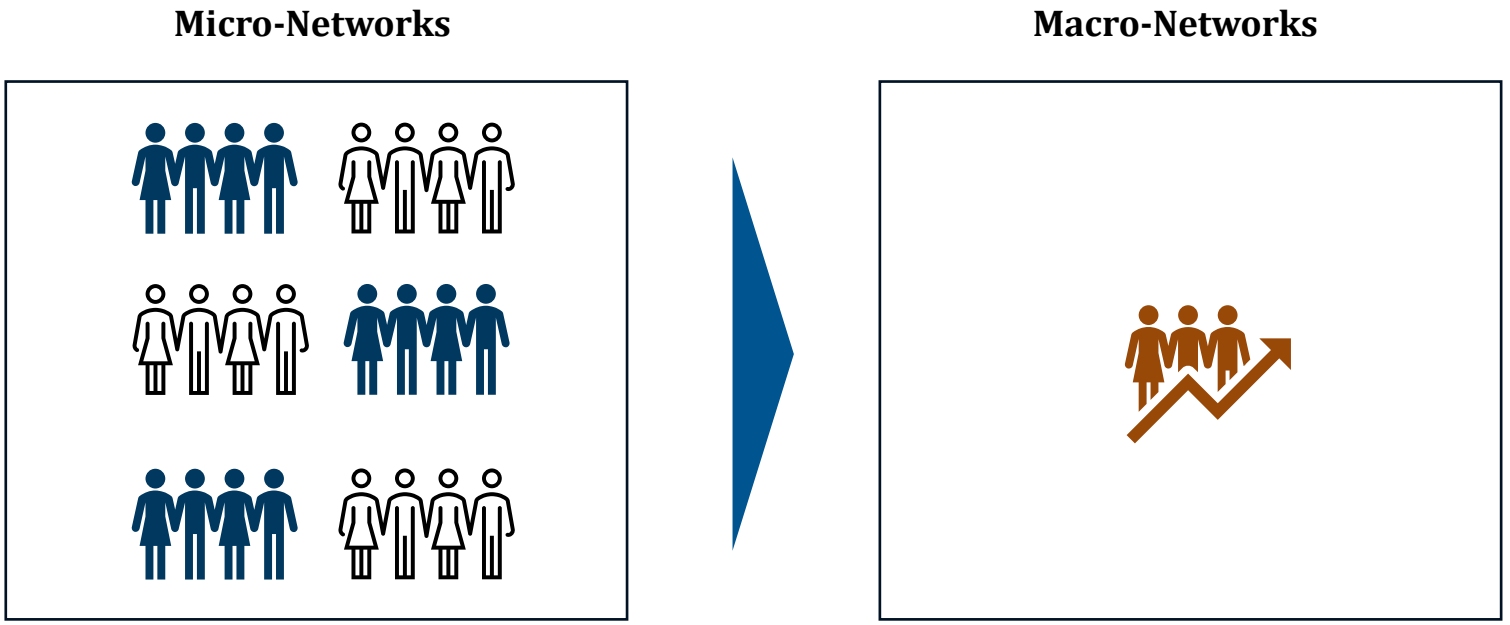
Mutual insurance is an efficient mechanism for mapping TBLA rights on to cooperative life provided it satisfies certain contractual and technical conditions



✓ ***Political Considerations favor Small Networks ("Micro-Networks")***

✓ ***Economic Considerations favor Large Networks ("Macro-Networks")***

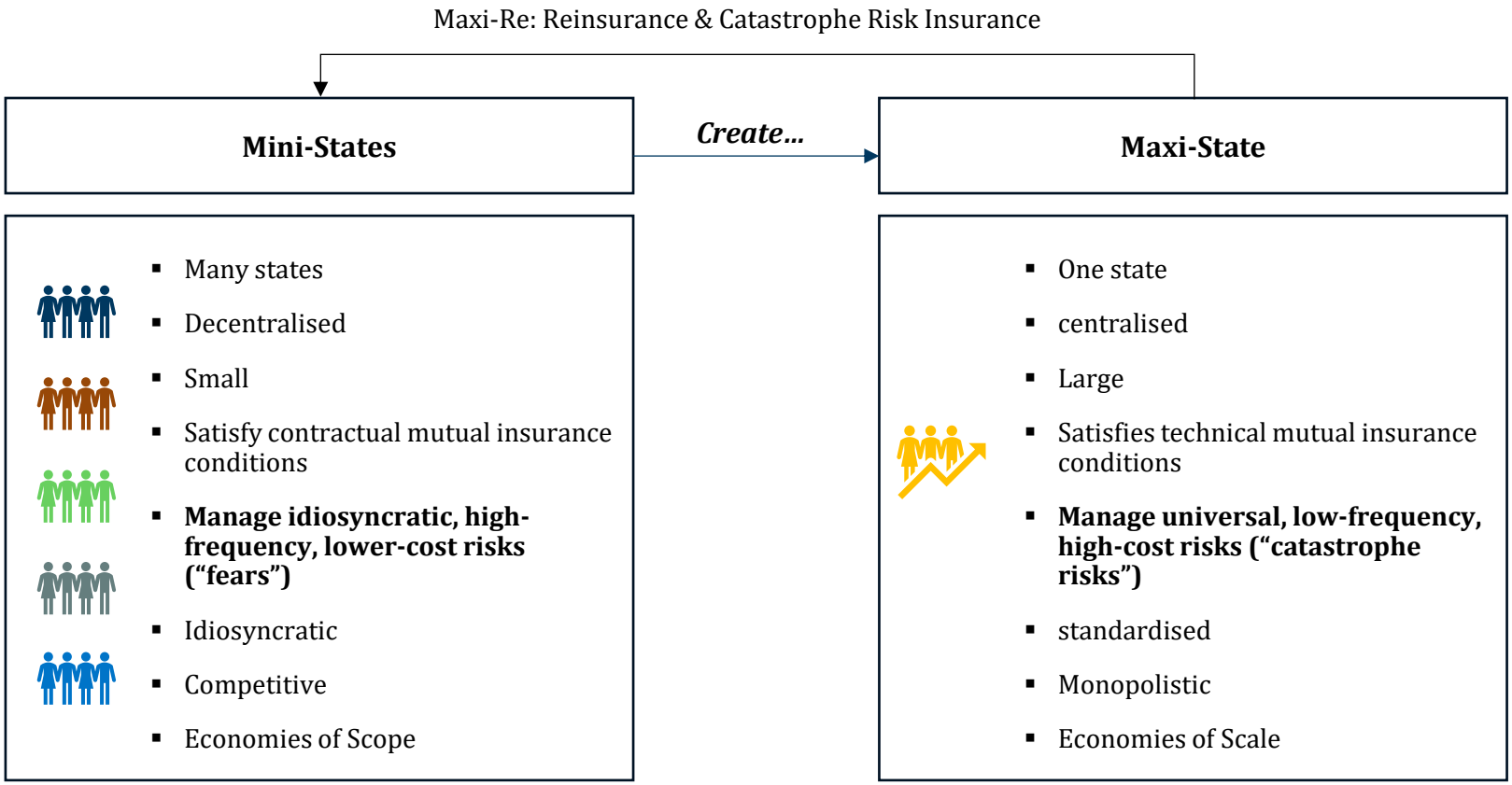
Micro networks can best satisfy the contractual mutual insurance conditions…and create a macro network that satisfies its technical conditions



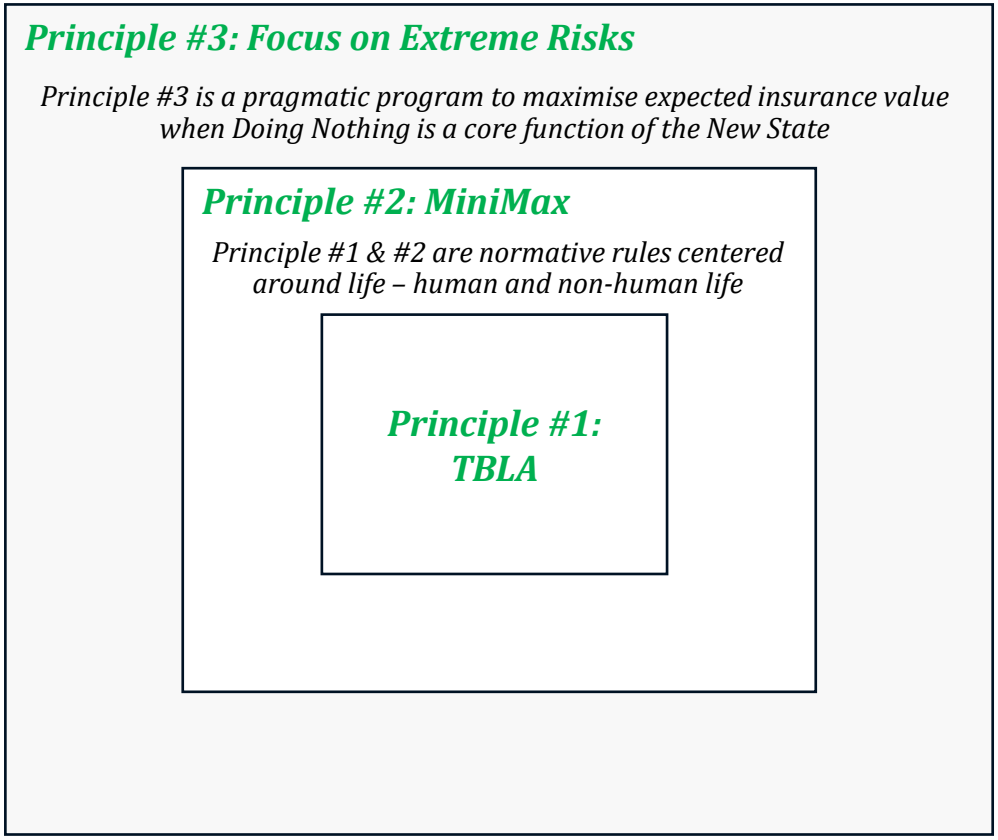
	Micro-Networks	Macro-Networks
Political / contractual	✓	✗
Economic / technical	✗	✓

Micro-Networks satisfy the contractual / political stability conditions for effective mutual insurance, but not the technical conditions – the opposite is the case for Macro-Networks

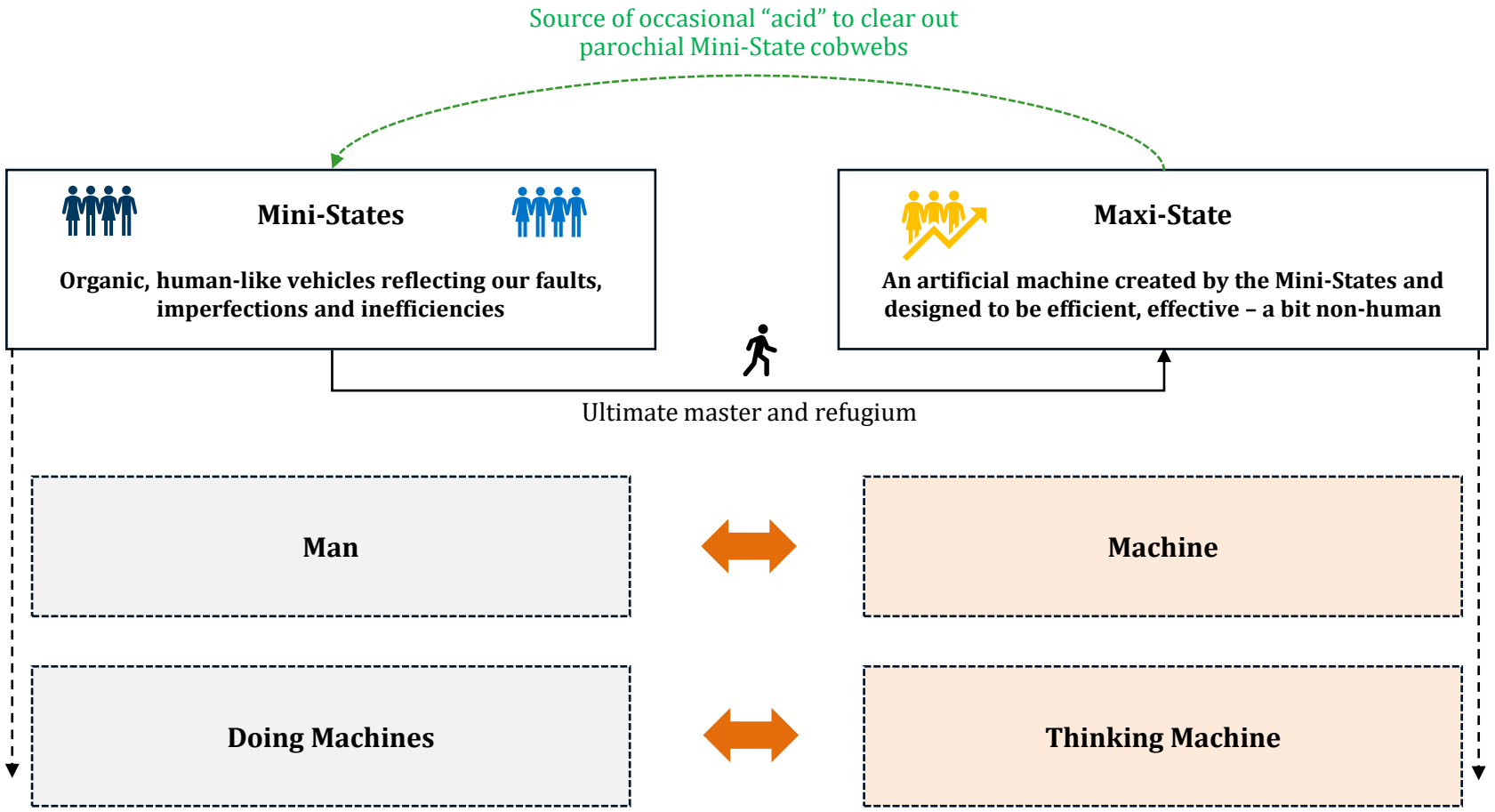
Mini-States are larger micro networks with more sophisticated institutional infrastructure – and they can form a Maxi-State for extreme risk (re-)insurance



Principle #3 focuses on extreme risks – a cost-benefit-cum-ethical rule that trumps others in the presence of resource constraints



Mini-States and the Maxi-State perform different functions – but they are also (designed to be) fundamentally different systems



The Mini- vs. Maxi-State configuration resolves three tensions inherent in mutual insurance….delivering the benefits of scale and maximum decentralisation

3 Challenges

	What is it?	Consequence / Solution
1	The **political dynamics of social cooperation favor small states**, while **economic dynamics favor large states**	• **Maximum decentralisation** for Mini-States • Mini-States determine size of Maxi-State • **Maxi-State provides economic benefits of a 'large state'**
2	**Smaller states with more perfect information can jeopardize economic viability of insurance** (in absence of risk pooling), threatening contractual stability	• **Maxi-State (re)insurance capacity** makes it affordable for Mini-States to insure a broader range of risks, and therefore to remain small
3	**How can the State retain citizens that are net contributors** to Mini-/Maxi-State insurance schemes?	• **Investment returns** on insurance float incentivises scheme members to remain citizens subject to the **asymmetric sufficiency condition** – investment returns must be sufficient for net contributors, not net beneficiaries • This determines the maximum size of the state

The reinsurance capacity of the Maxi-State, maximum decentralisation and the State's investment function solve 3 key problems to deliver an intertemporarily robust State which net contributors want to join and remain part / citizens of

The investment of insurance float generates returns that encourages citizens – especially net contributors – to become & remain New State citizens over time

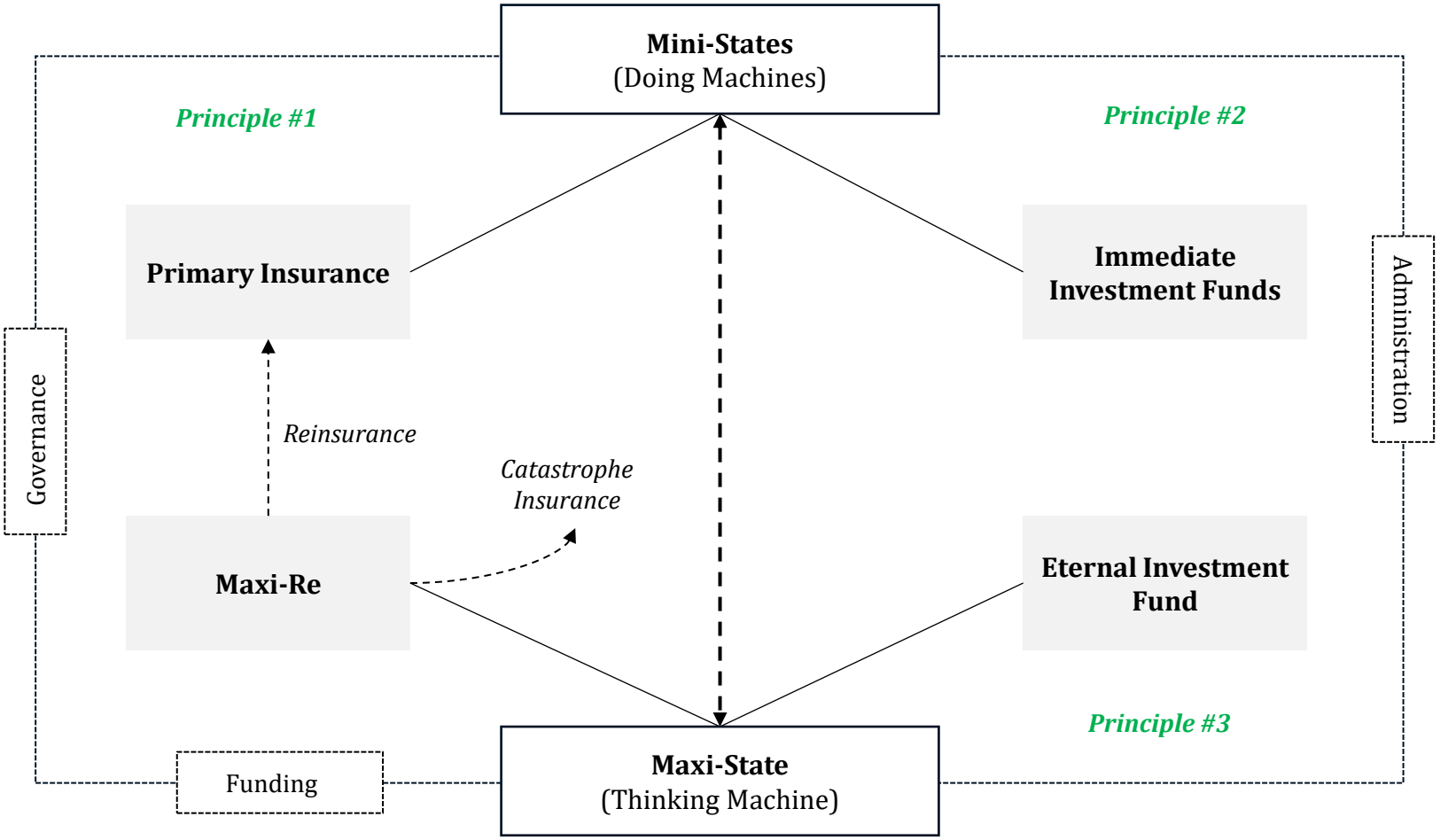
Investment as Insurance:

Secure contractual stability & leverage economies of scale to satisfy technical stability conditions for intertemporally robust mutual insurance

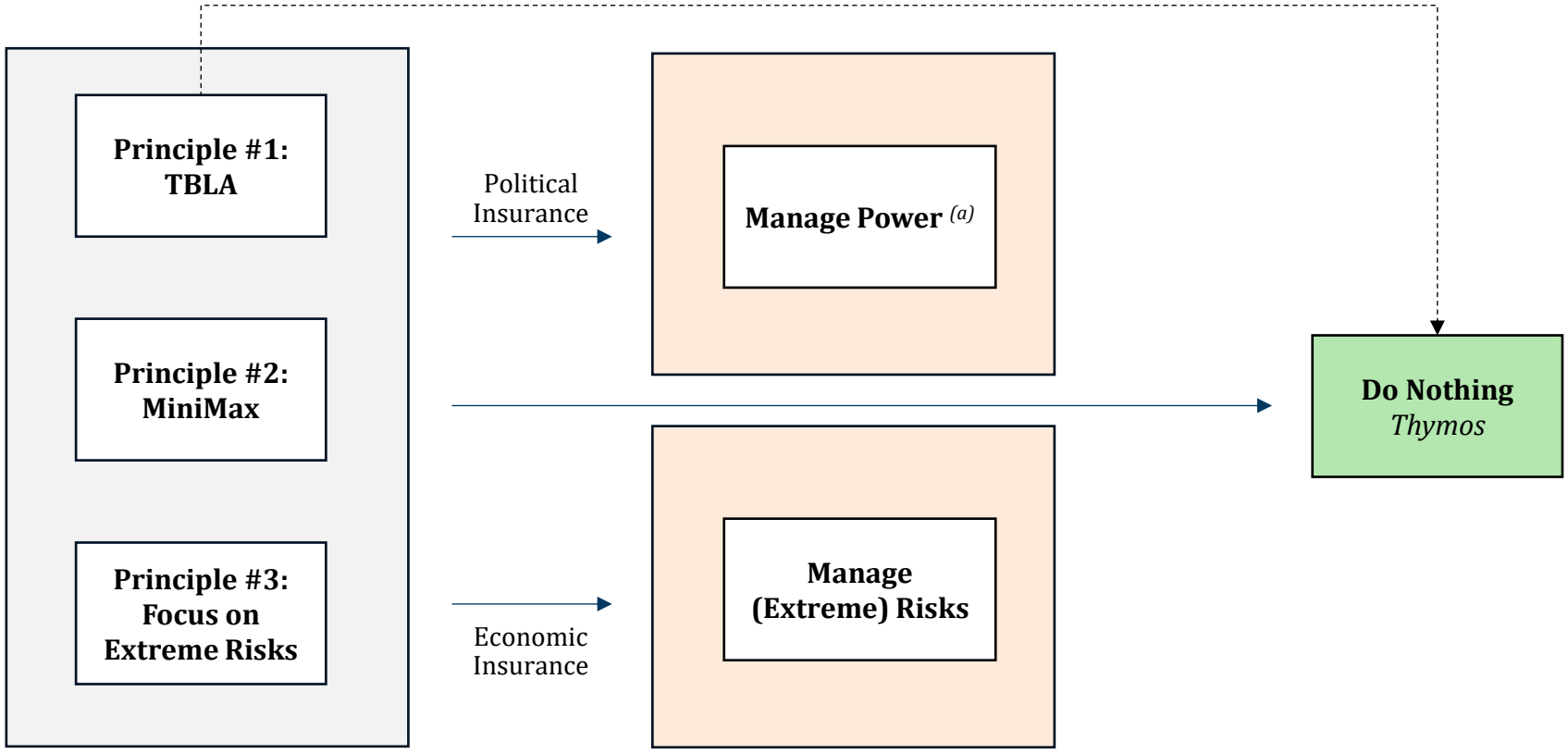
Mini-States	**Maxi-States**
Immediate Investment Funds	***Eternal Investment Fund***
Generate positive investment returns for current generations	Generate positive investment returns for future generations
Do things strategically	Invest strategically

Asymmetric Sufficiency Condition: investment returns must be sufficient for net contributors, not net beneficiaries

The New State is then a multi-layered insurance & investment network of *Doing Machines* (Mini-States) and one *Thinking Machine* (the Maxi-State)

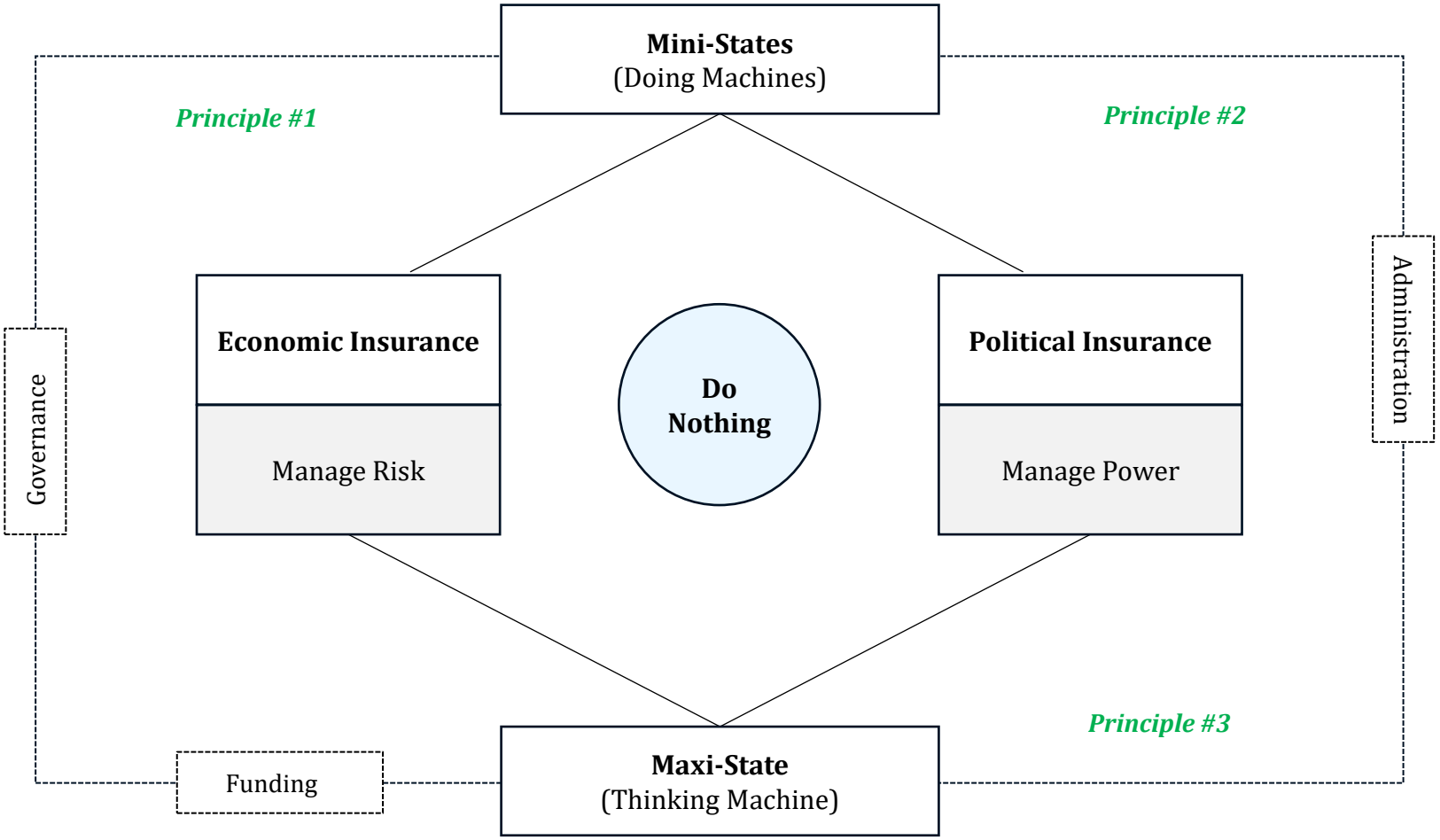


What really matters? Managing extreme risks, managing power and Doing Nothing are the three things that really matter – and therefore the State's core functions

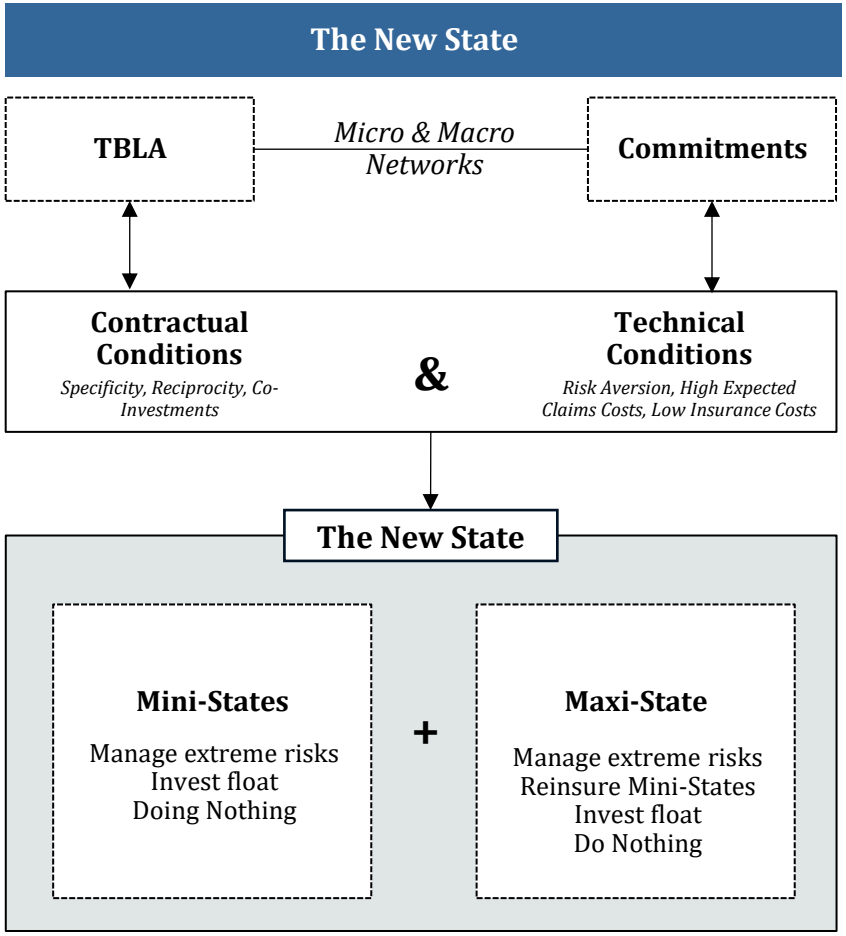


(a) Humans vs humans; Human vs State; Humans v Nature.

Here is therefore another look at the New State and how best to visualize its structure and purpose



Nozick's *Minimal State* does only one thing, having found that the Ultra-Mini State is unstable. The *New State* has two core functions[(a)] with more diverse applications



Robert Nozick's *Minimal State*

Ultra-Minimal State

- Protective agency that protects rights of paying members
- No protection to non-payers
- Provides no other services

Dominant protective agency can't have non-members (or competitors)

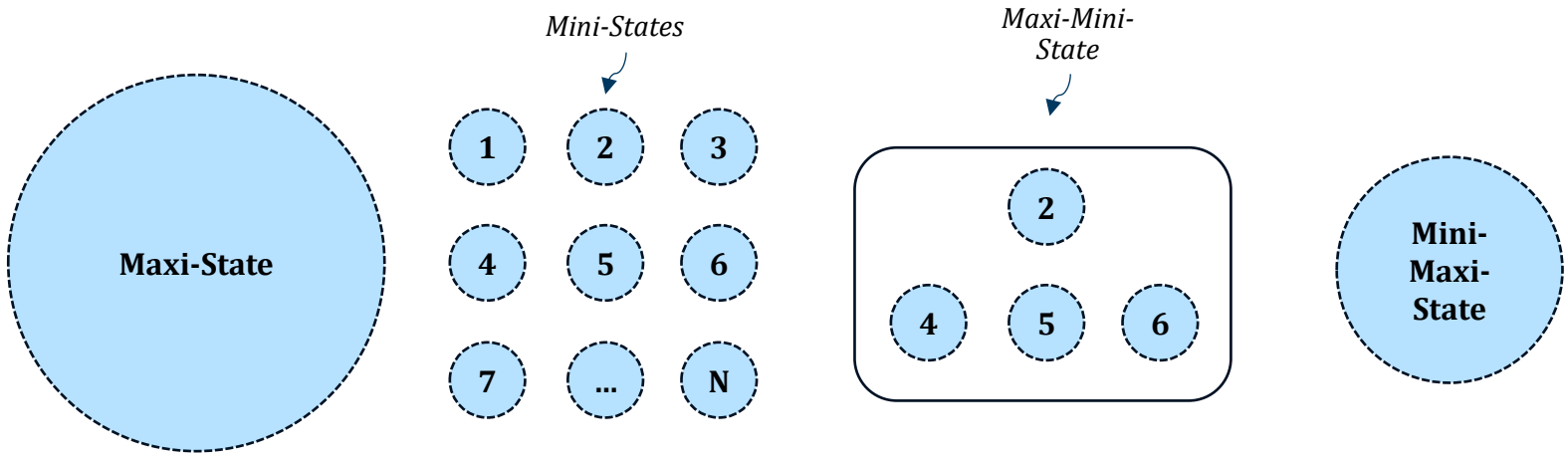
Minimal State

- Protective agency that protects rights of everyone
- The dominant agency offers protective services to non-payers for free – in this way no rights are violated
- Provides no other services

(a) Technically it does three things, including *Doing Nothing* – but is doing nothing doing something? So here I am focusing on the two things the New State is actively doing. But refraining from doing something is definitely a decision, and therefore also an action….

Economically, optimal size is a dynamic concept because it depends on investment returns. However, politics imposes a more permanent constraint on state size

Shape: Multiple Configurations



Mini-/Maxi-State configurations reflect citizen preferences, Mini-State competition and economies of scale

State Size Constraints

Economic Constraint

- Optimal state size is determined by the **Asymmetric Sufficiency Condition** – and is therefore a function of EIF and IIF investment returns:-
  - High returns will persuade net contributors that "higher" contribution rates are worthwhile
  - Low returns do the opposite

Political Constraint

- Only a clearly visible, focused State can over time remain legitimate.
  - The **Functionally Small State** is therefore the optimal size of the State [(a)].

(a) See further below for a detailed discussion of this concept.

The *Do-Not-Abuse-Your-Power* (DNAP) condition balances *Doing Nothing* with a past that cannot be changed – but the State must tackle it its *weight* in two cases…

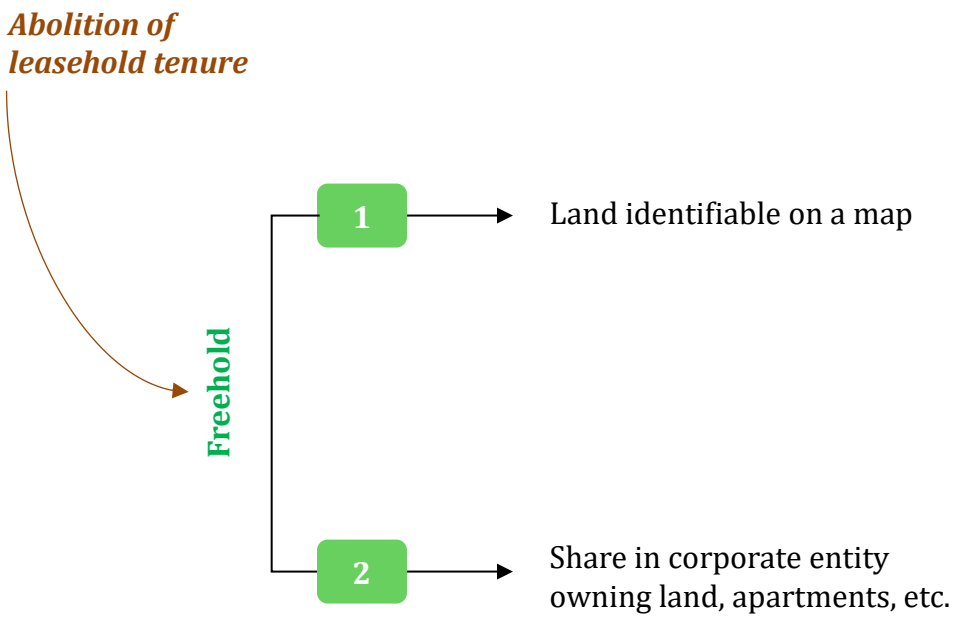
Do Nothing	vs.	The Weight of History
• Everyone's concept of ROI on their life is distinct and different • Leave people alone to pursue their idea of the good life • Don't focus on distribution of value – which is so different for different people • Instead focus on what really matters: Do you have *enough*? (reflecting Principle #3)		• It exists, but… - …history has its own statute of limitations - …in aggregate it is more than offset by the gifts it has bestowed on the present… • …except in two cases which required the New State to address the Weight of History:- 1. **Abolish two Ancient Rules** 2. **Deal with one Event of Extreme Immorality**

The DNAP Condition: Do not abuse your power

A universal condition for the present – and whose past is best left untouched except in two instances

Ancient Rule #1: As a result of abolishing leasehold tenure buyers can now actually acquire unencumbered ownership of the key asset they will ever pay for

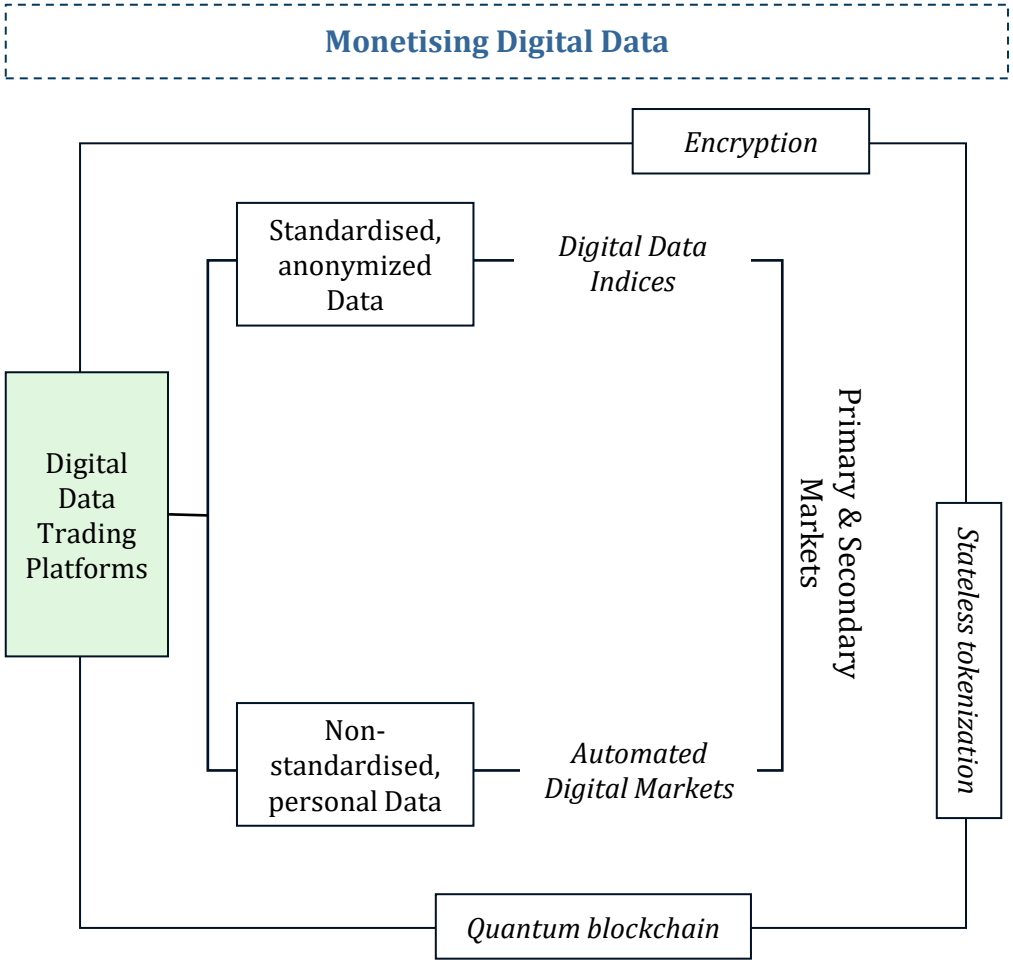
Ownership of Land



How it Works

- All transactions become freehold transactions from date of legislation
- For transactions already underway but not yet completed, prices are adjusted if both parties can agree on the relevant price change. If no agreement is reached, the transactions are typically cancelled.
- All freeholders and leaseholders must complete an enfranchisement process within 36 months of the legislation taking effect – in any way the counterparties wish to do so
- Thereafter, any remaining freehold transactions are executed through compulsory purchase orders and enfranchisement payments by leaseholders are redirected to the government instead of freeholders
- This system incentivises freeholders to transact without dissuading leaseholders from doing so
- Once enfranchisement is complete, cooperatives or joint stock companies are formed, where necessary, to own and manage now jointly owned freehold properties.

Ancient Rule #2: By monetising digital data buyers now actually pay owners for the key asset of the 3rd millenium (a)



How it Works

- Digital Data Trading Platforms
  - Quote prices for data indices
  - Operate automated market for sale and purchase of data
- Data users, including the State, can only obtain user-generated data via DDTPs – all data must be paid for
- Multiple **monetisation options**:-
  - Sell historical data portfolios / units
  - Sell future data flow for fixed periods of time, with relevant prices reflecting yield curves, data type, sale periods, payment patterns, via e.g. securitization structures
- **Deep secondary market** in data investment products
- Data prices reflect data quality (e.g. anonymized vs not), level of standardisation vs specialisation, and other supply/demand factors
- Data owners can opt to anonymize data (for lower price) via a) **stateless tokenization**: map live data on to surrogates b) **encryption**
- Data transactions recorded on a **quantum blockchain**

(a) See https://neonmobile.com/ for a very recent application of this idea.

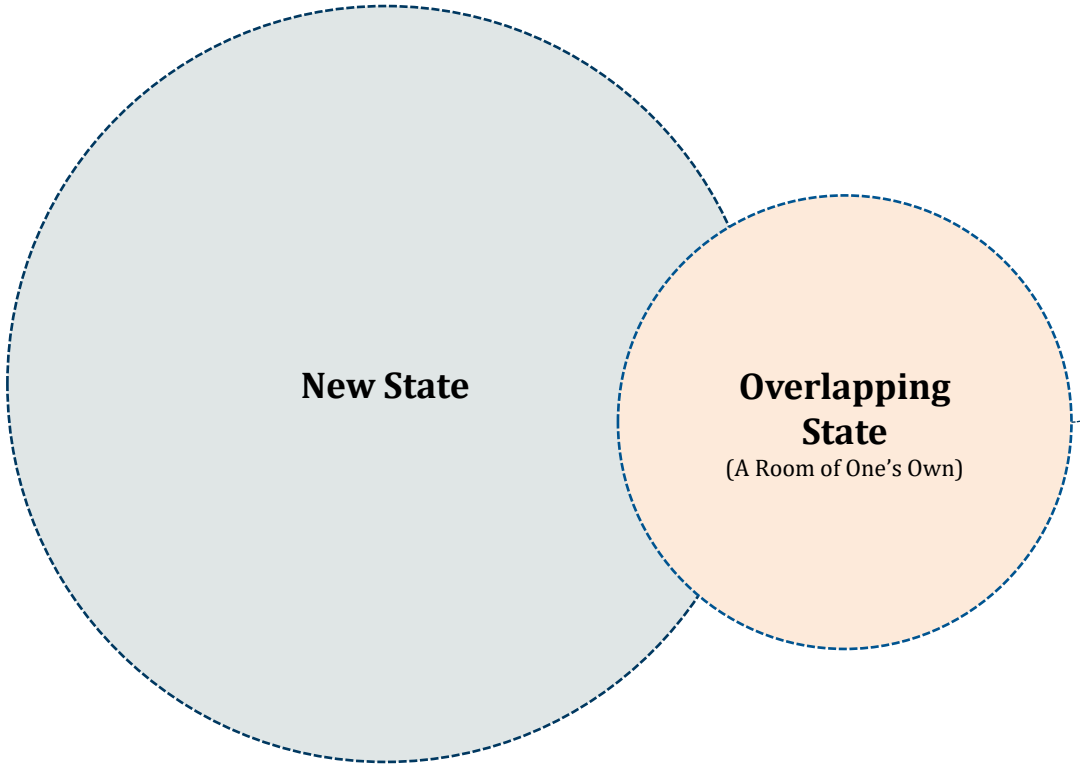
What is Digital Data worth? It could be as much as 10% of GDP or close to $40k per person p.a. one day in the future …

Future Value of Digital Data: A Scenario

		Today	Future
A	Data generation / user / day	GB 75	GB 753
B	of which: user-generated	20%	25%
C	$ per GB	$0.500	$0.750
D	Value of data per person p.a.	$13,738	$206,075
E	Value of user-generated data per person p.a.	$2,748	$51,519
F	of which: monetised	0%	75%
G	**Value of monetised data per person p.a.**	**-**	**$38,639**
H	% of GDP	0%	10%

A	Ca 147 Zetabytes (ZB) data use globally in 2024, which is 147 trillion gigabytes (GB), equivalent to about 75GB per person per day Let's say this increases 10x over time, i.e. to ca 750 GB / person / day
B	User-generated data comprises raw consumer data (name, age, sex), structured behaviour data (browsing, purchasing, location), highly segmented personal data (medical records, financial profiles, enterprise data); does not include passive data (app telemetry, web cookies, etc). In future, user-generated data % increases a bit, but not materially
C	Data value range somewhere in the region of $0.05-5 per GB; assume a mid-point of $0.5 per GB. In future, standardised data prices fall significantly, but specialised data value increase. If property rights extended to passive data, $ value of GB could increase very significantly
D	Assumes internet-penetration of global population goes from ca 67% today (5.4bn internet users vs 8bn population) to 95% (8.3bn internet users vs 8.8bn population)
E	= D x B
F	Assume 75% of user-generated data is monetised in future vs zero today; it should really be 100%, but don't assume complete adoption
G	= E x F
H	Global GDP of $114 trillion today, growing to $3.2 quadrillion, of which $321 trillion (=8.3bn internet users x $38,639 of data value / person p.a.) is monetised, i.e. 10%

Dealing with an Event of Extreme Immorality: The Overlapping State was a considerate and effective solution to Slavery's intractably long afterlife



- Assets
- Constitutional arrangements
- Governance
- Membership rules
- Admissions process
- Central & local administrative bodies
- Investment management
  - Education
  - Real estate / housing
- No tax-raising powers

Let us revisit Ulysses' attempt to travel beyond the end of the world as the symbol of the New State's spirit, its *Thymos,* to search for Real, Actual Life

'Brothers,' I said, 'o you, who having crossed
a hundred thousand dangers, reach the west,
to this brief waking—time that still is left

unto your senses, you must not deny
experience of that which lies beyond
the sun, and of the world that is unpeopled.

Consider well the seed that gave you birth:
you were not made to live your lives as brutes,
but to be followers of worth and knowledge.'

I spurred my comrades with this brief address
to meet the journey with such eagerness
that I could hardly, then, have held them back;

and having turned our stern toward morning, we
made wings out of our oars in a wild flight
and always gained upon our left—hand side.

At night I now could see the other pole
and all its stars; the star of ours had fallen
and never rose above the plain of the ocean.

Five times the light beneath the moon had been
rekindled, and, as many times, was spent,
since that hard passage faced our first attempt,

when there before us rose a mountain, dark
because of distance, and it seemed to me
the highest mountain I had ever seen.

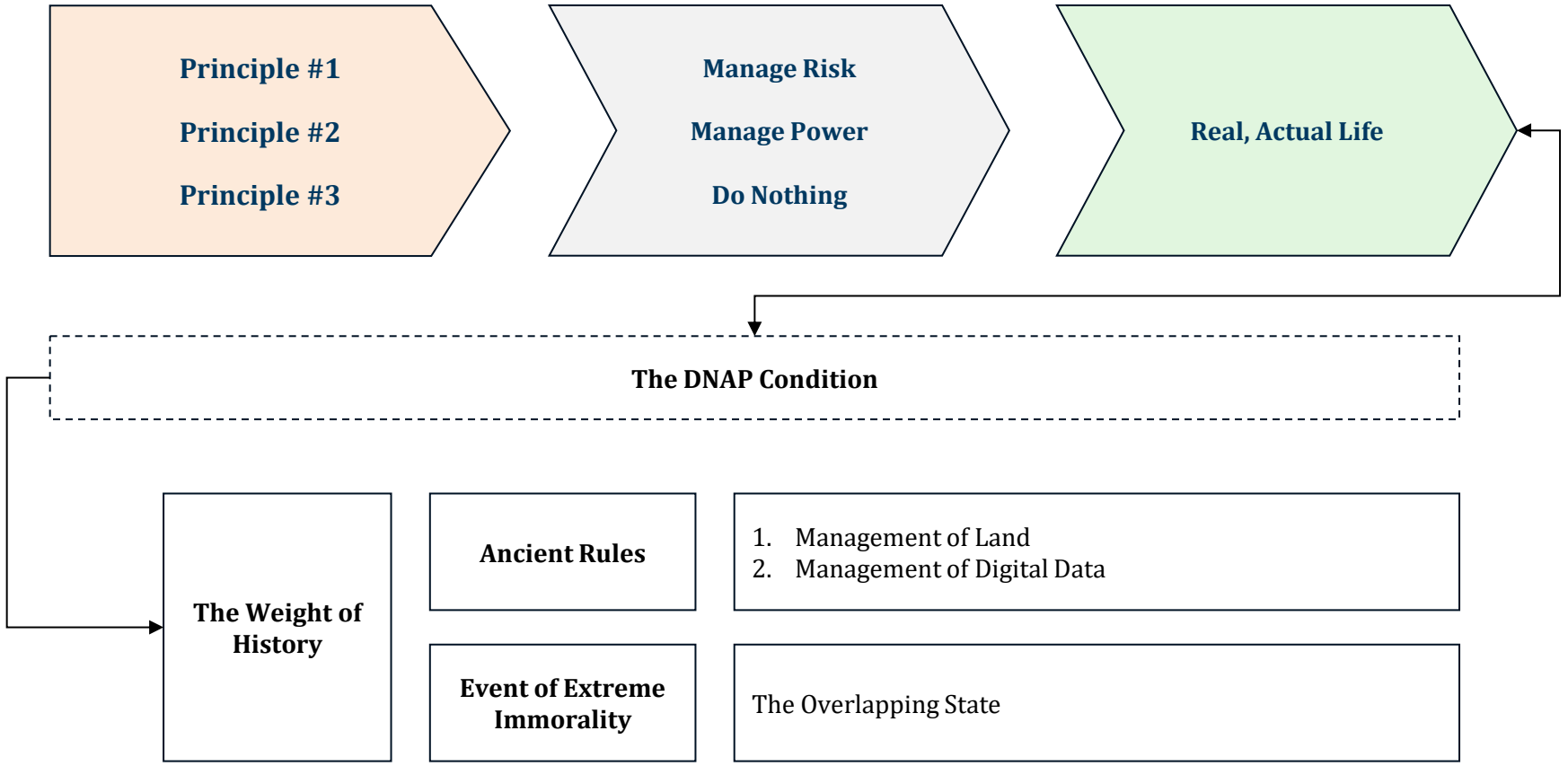
And we were glad, but this soon turned to sorrow,
for out of that new land a whirlwind rose
and hammered at our ship, against her bow.

Three times it turned her round with all the waters;
and at the fourth, it lifted up the stern
so that our prow plunged deep, as pleased an Other

until the sea again closed over us.

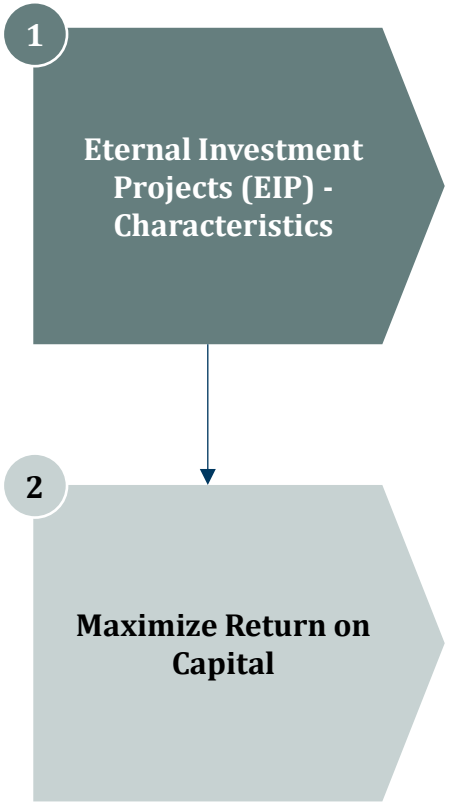
Dante Alighieri, The Divine Comedy, Inferno, Canto XXVI, 115-42 and 136-42, transl. by Allen Mandelbaum

We can accept any distributional outcomes provided they satisfy the DNAP Condition – living with less fear & more confidence in the creative power of man



2. The Eternal Investment Fund

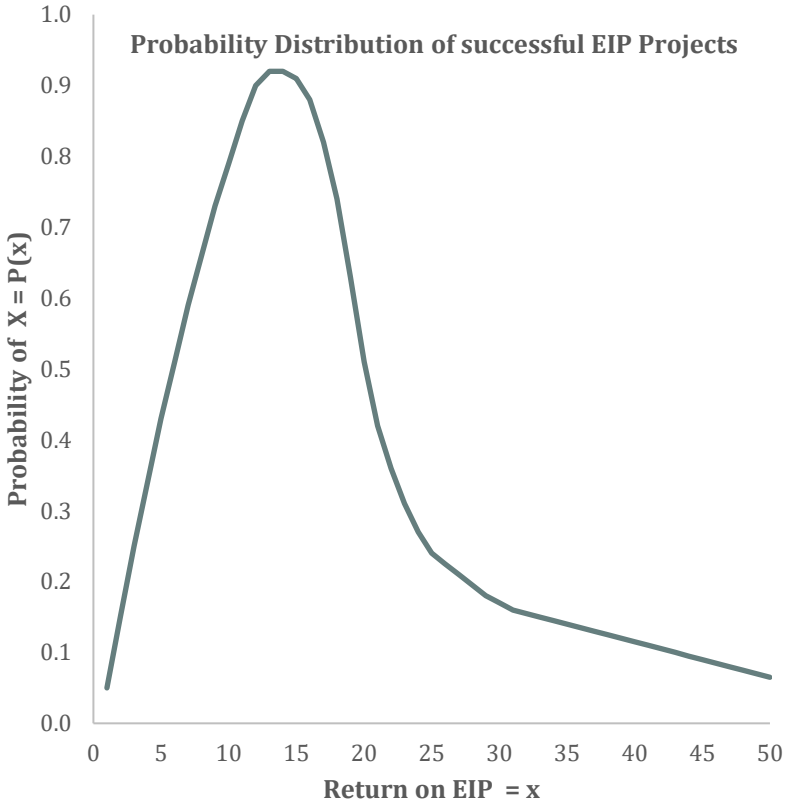
Investment as Insurance: The EIF invests in ultra-long duration projects to provide insurance against ultra-high value things *not* happening

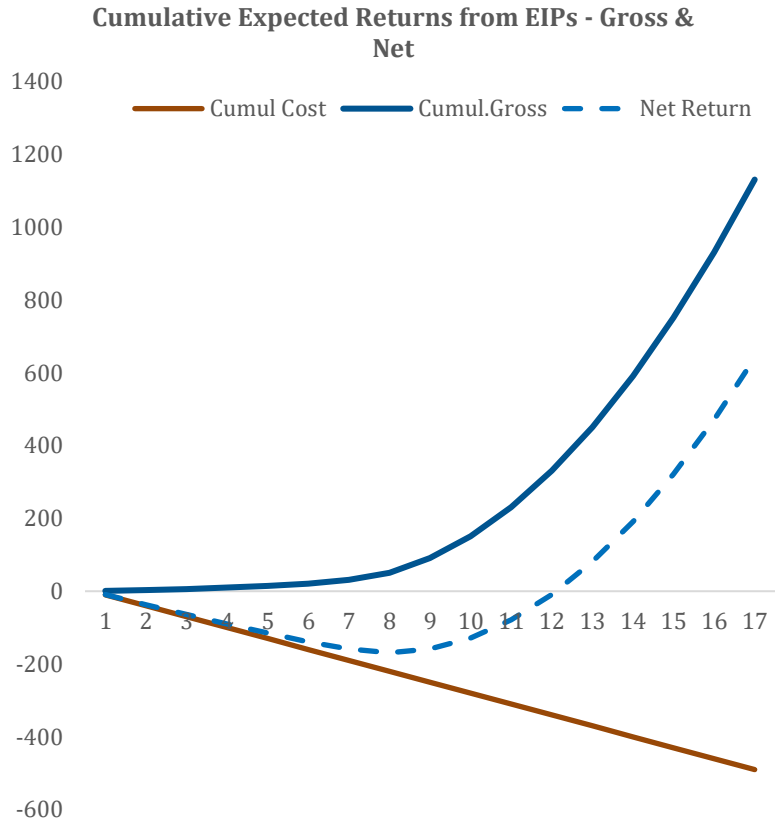


1. Projects that **can't raise sufficient capital** (e.g. capital intensity, payback period, scale)
2. Wide range of potential applications – **high option value**
3. **High probability of failure** – expected returns can be low over "normal" lifespans
4. EIF is never the sole investor – **lead or follow private investors**
5. **Performance metric are portfolio, not individual EIP returns**

- **Economic return**: A financial ($) metric
  - Direct
  - Indirect (e.g. spill-overs)
- **Political return**: A cooperative metric
  - Driven by design of investment funds & programs
  - EIF investment activities must be legitimate

A thin-tailed distribution of expected returns translates into large net positive economic returns provided the EIF can invest in a sufficiently large number of EIPs





When absolute future value is known to be high but *expected value* is uncertain and low, gamma discounting may be the best method for valuing the future

The **opportunity cost** of not pursing a potentially valuable investment project is a central component of the EIF's investment criteria (esp. #3-4)

Discount rates – EIP required rates of return – decline with the length of the investment horizon

Gamma Discounting [a]

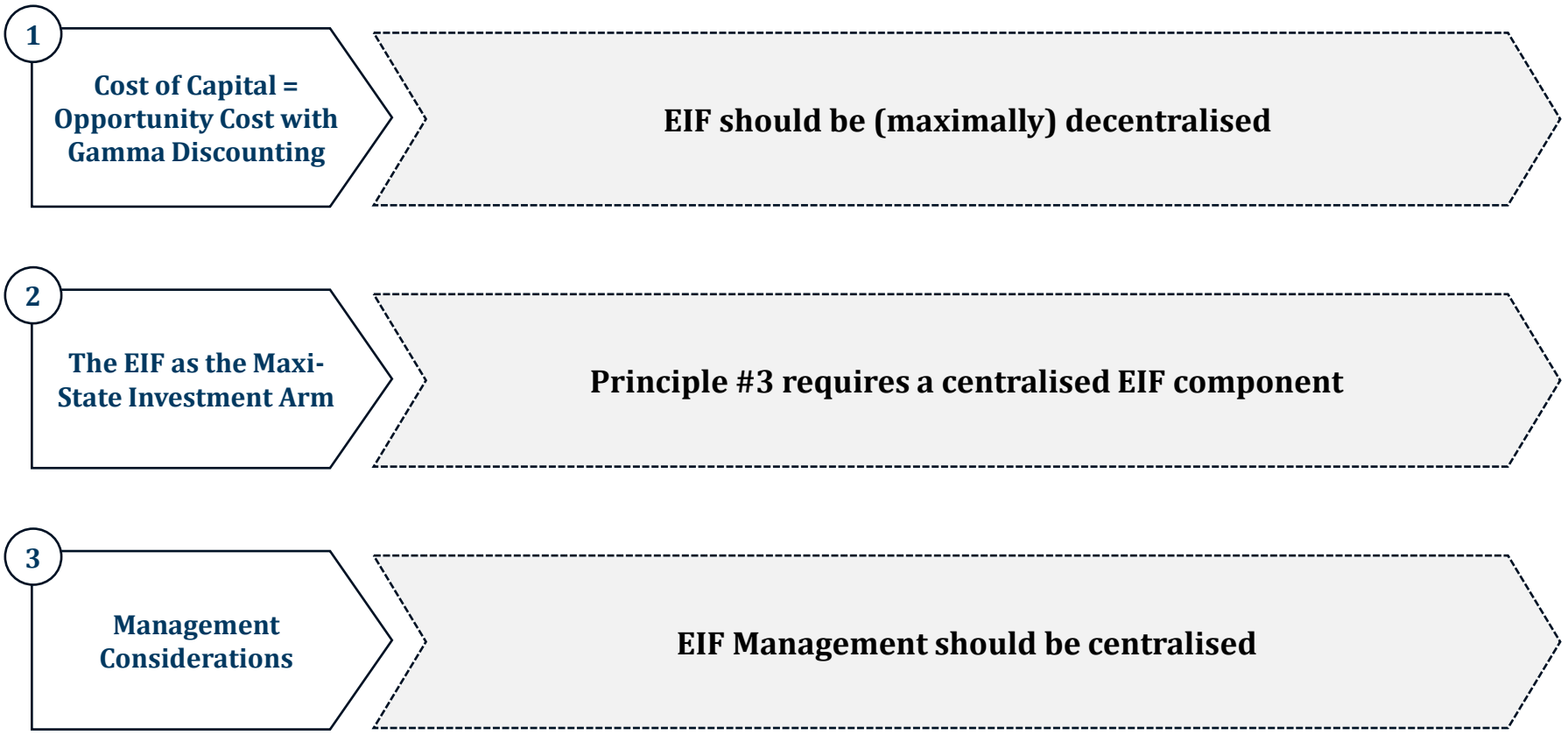
Focus on **ultra-high value investment projects whose value may only crystallize in a very long time** – with Gamma discounting this captures the known value of invention X in a 100 years even when the path to its realization is unknown ("*don't penalize research into universal anti-pathogen therapy only because we can't find the solution for 100 years*")

$$D(t) = E[\mathrm{e}^{-rt}] = \int_0^\infty \mathrm{e}^{-rt} f(r)\,\mathrm{d}r$$ [b]

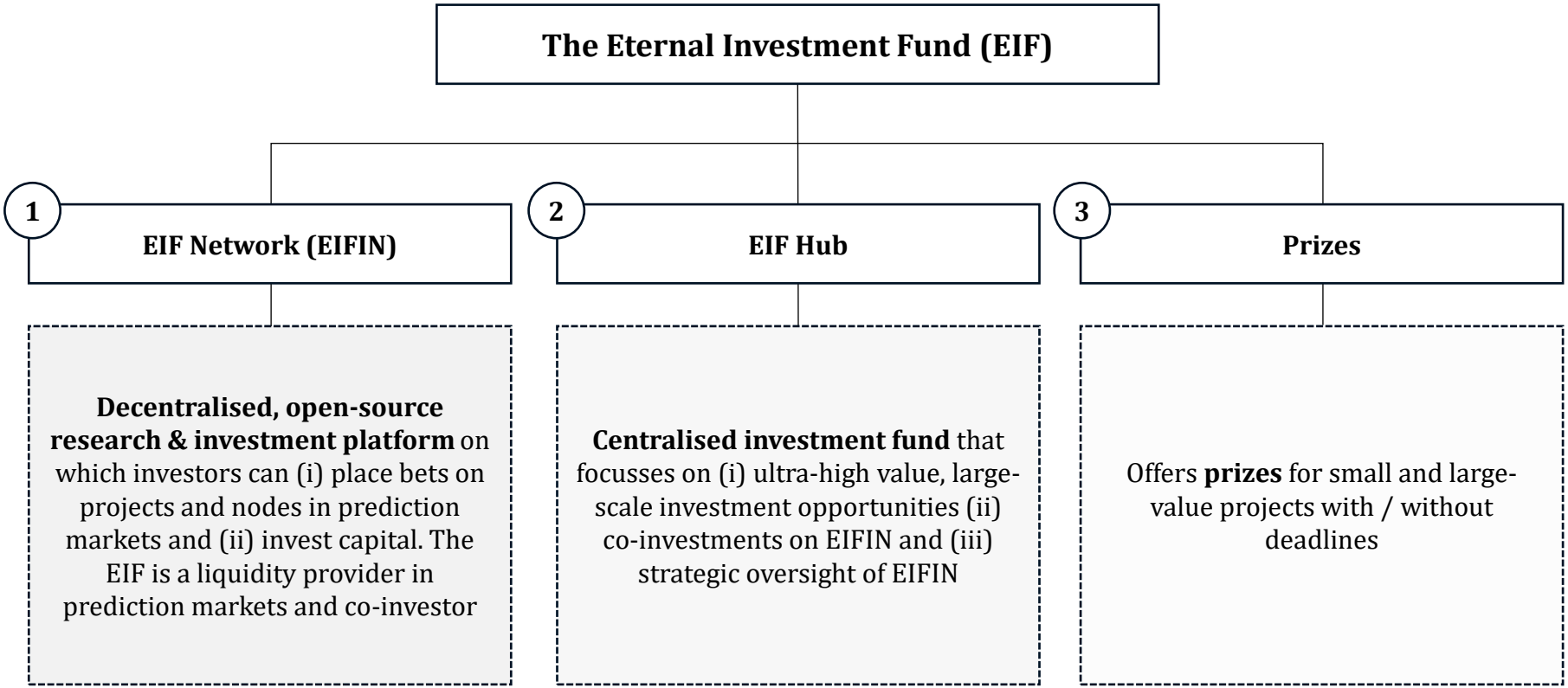
(a) See https://www.aeaweb.org/articles?id=10.1257/aer.91.1.260

(b) Where r = rate of interest or discount factor is not a constant, but drawn from a gamma distribution where f (r) is the gamma density. Here the discount rate declines hyperbolically rather than exponentially: as we don't really know the correct social discount rate, hyperbolic discounting gives more weight to the distant future than exponential discounting (e.g. in D (t) = e^{-rt}).

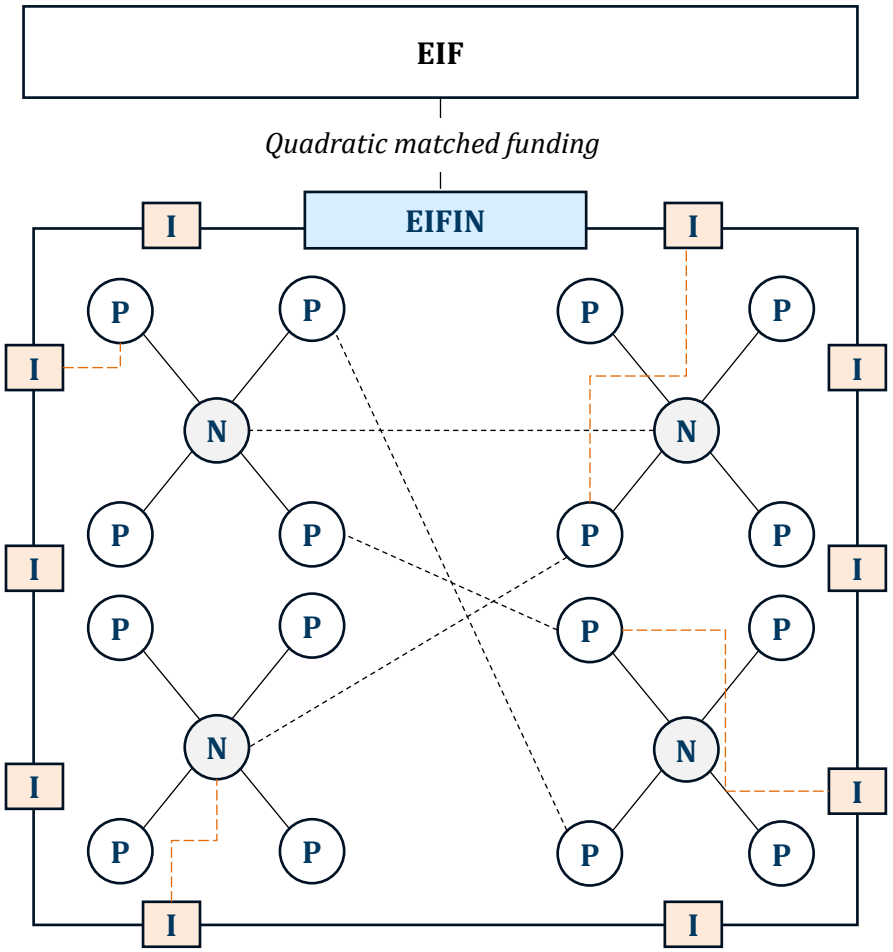
3 key considerations mean the EIF should combine maximum decentralisation & centralisation across its investment function and management of the EIF itself



The EIF generates return for “eternity” via a decentralised investment network, a centralised investment hub and a system of prizes



EIFIN is a large, decentralised, open-source research and investment platform facilitating investments in projects, people and institutions

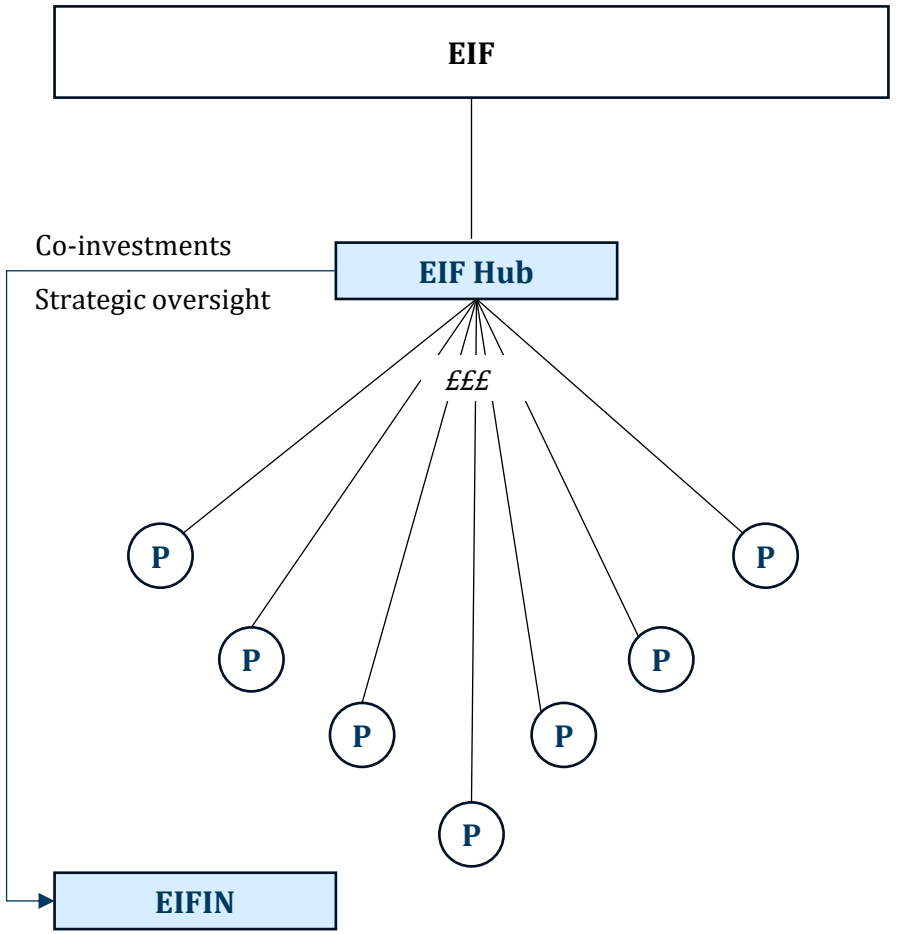


How it Works

1. **Assign value to investment / research projects (P)** and/or **the people / institutions working on them (N) via prediction markets**
   - *"Make investment / place bet that Project I will be completed by time T or that investment node N will contribute the missing piece A to it."*
   - EIF is investor and liquidity provider in prediction market
2. **Nodes (N) and investment projects (P) that have been valued in the prediction market can apply for EIFIN funding** – investors (**I**) then vote / express an interest in funding various **N** and/or **P**.
3. EIF provides **matched funding** (typically ~25-30%) in proportion to the square of the sum of the square root of individual investments committed to each project [(a)] – EIF co-investment will therefore reflect the depth and diversity of investor support, and not merely the $-value of capital contributed (as it would in a $-for-$ co-invest structure)
4. Co-invest structure typically via **convertible preferred shares** with 20% valuation discount

(a) See https://arxiv.org/pdf/1809.06421

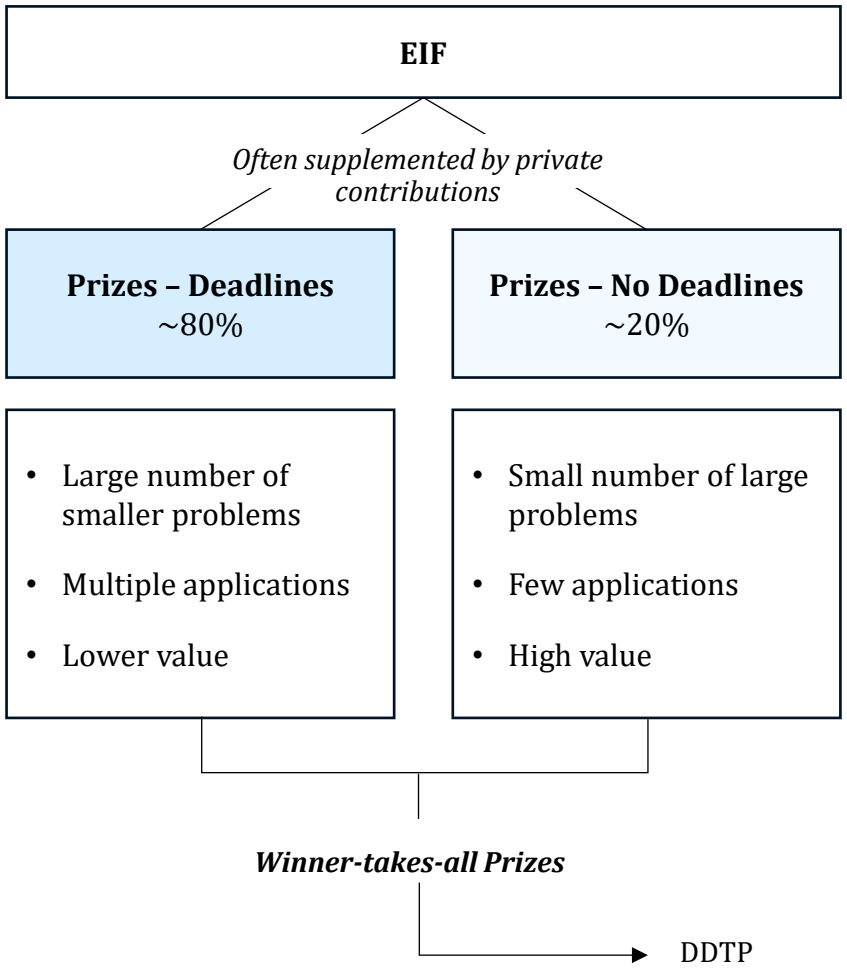
The EIF Hub is a small, focused, centrally managed, non-automated and independent investment fund for large, ultra-high-value/return investments



How it Works

1. EIF Hub invests in a small number of large, ultra-high impact investment projects (**P**)
2. It also
   - Co-invests in EIFIN projects
   - Provides strategic oversight of EIFIN (e.g. do the prediction markets work appropriately, etc.)

A winner-takes-all prize program encourages innovative, risky thinking and path-breaking innovations and inventions



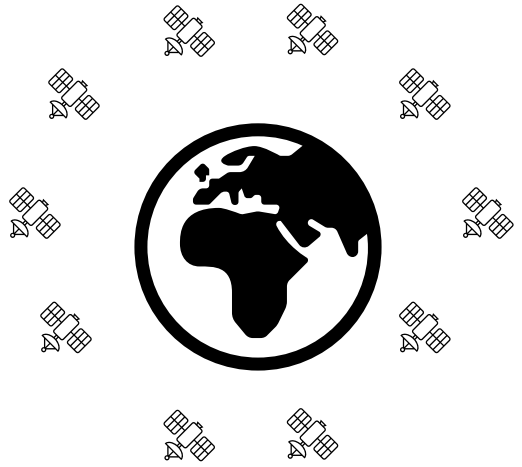
How it Works

1. EIF publicies projects in need of a solution
   - Smaller projects with lower value – 80%
   - Larger, complex projects with high value – 20%

2. Winner-takes-all prizes rather than e.g. fixed $ for top-10 entries
   - Expected value for both prize structures is the same, but risk of failure in former is much bigger, encouraging riskier and more creative innovations

The Dyson Shield became the solution to the management of global warming – and temperatures generally…..and was an EIF-supported investment project

Earth's energy imbalance	0.6	W/m^2	Earth is absorbing 0.6 watts per square meter more energy than it is emitting back into space.
Earth's surface area	510,064,365,793,888	m^2	
Radius	6,371	km	
Pi	3.14159		
Energy absorbed	306,038,619,476,333	W	306 terrawatts
Average solar constant	1,361	W/m^2	The amount of solar energy received per unit area at the distance of the Earth from the Sun
Required reflective area	224,863,056,191	m^2	
Parabolic mirrow size	10	m^2	
# of parabolic mirrors	**22,486,305,619**		So 22.5bn mirrors required to eliminate the earth's energy imbalance.



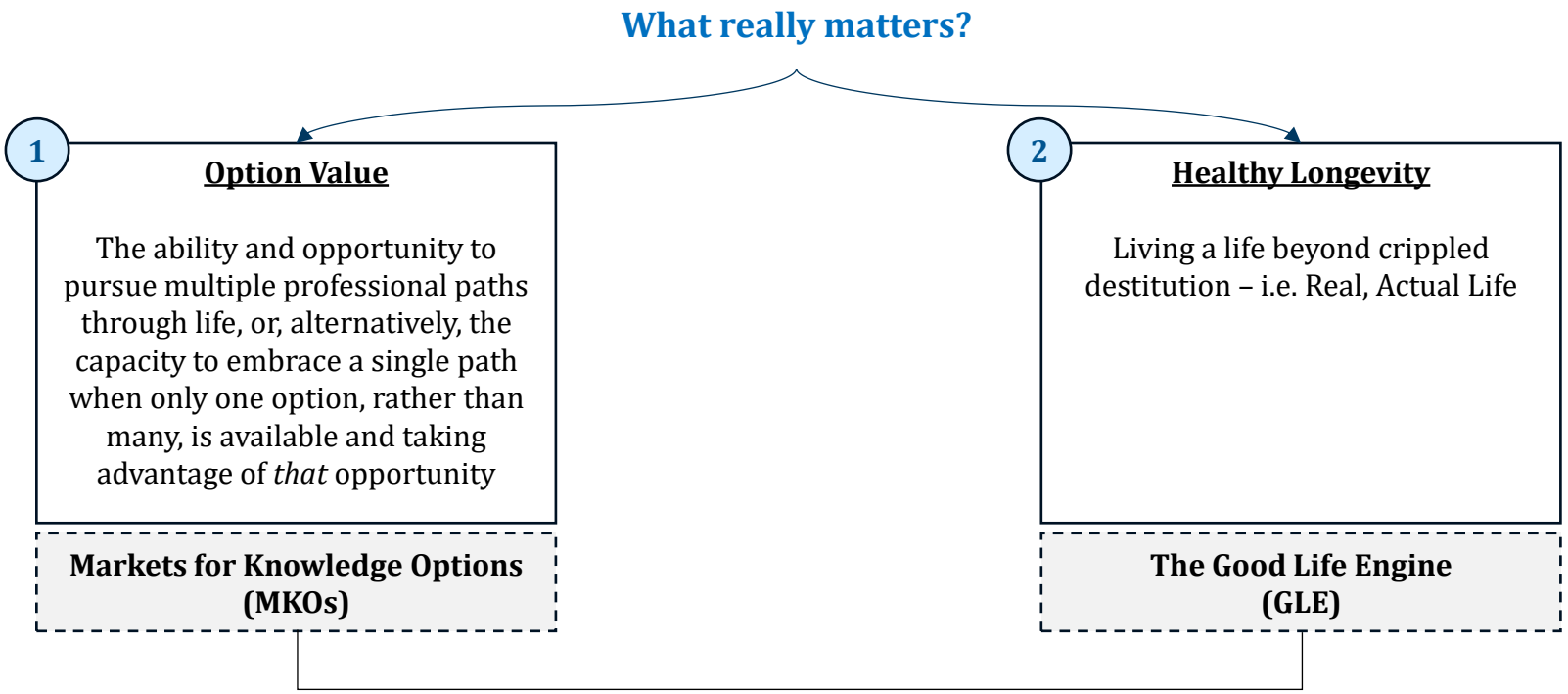
Mirrors reflect solar radiation back into space or to ground stations which ultimately convert them into energy for global use

3. The Immediate Investment Funds

Each Mini-State IIF will be different – but they have evolved organically to share some common features delivering value to the current, living generations

What matters to the living generations? Lots of things matter – but **what <u>really matters</u>**? What are the things that matter so much to a lot of people – perhaps everyone – that they can be the basis of a cooperative mutual insurance contract as opposed to a TBLA Life?

The answer to this question determines the perimeter of the State in relation to its IIF investment activities



For purposes of State design, the ability & willingness of the Anti-State to do what the IIFs do is not relevant: the question is whether the New State should – or should not – perform these functions via contractually stable & technically optimal mutual insurance schemes

1 The high option value of education is a robust basis for (non-monopolistic) IIF investment – supporting individual independence financially and intellectually

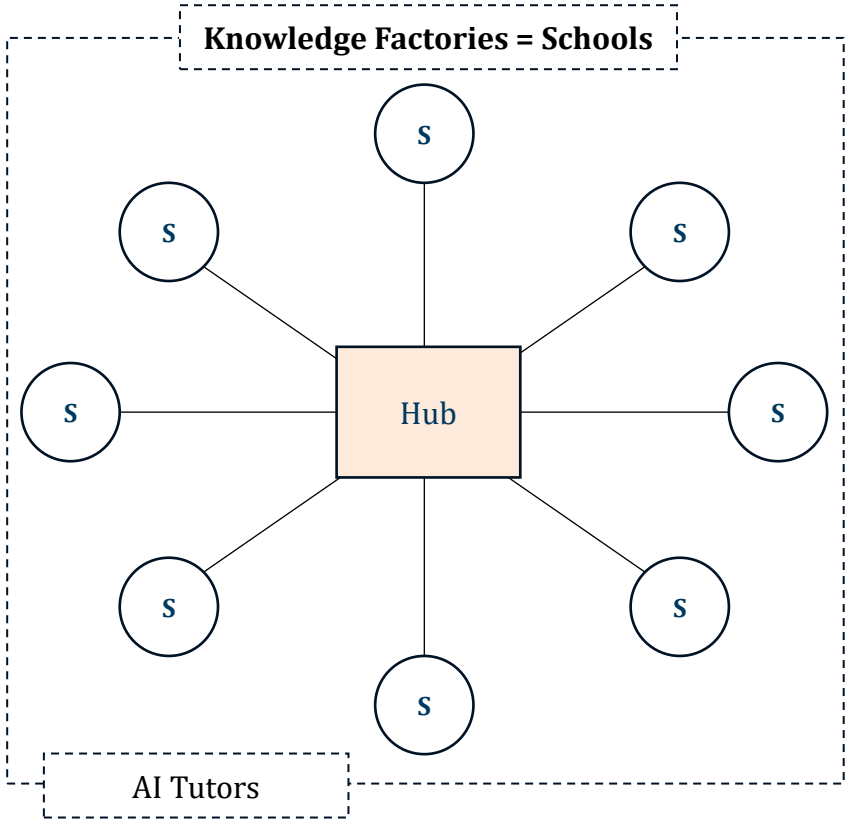
3 Features of Knowledge Options

- **High Value**: Intrinsic & time value
- **Auto-correlation & Hysteresis**: the past influences option value today & in the future
- **Scalability**: the market for education has been very difficult to scale

The Case for IIF Investment

Creating Option Value as a form of Insurance (against obsolescence) **and Investment** (to create a New World)

1 Markets for Knowledge Options operate a hub-&-spoke system that combines no selection (at admission) and perfect selection (thanks to AI Tutors)



How it Works

Three main features:-

1. Central **Hub** provides comprehensive curriculum supported by specialist **Spokes** (**S**) that focus on one subject and are shared by different schools
2. **AI Tutors replace most direct instructional teaching**
3. Broad curriculum, including technical subjects [(a)], all the way through plus frequent, short assessments

Typical day (for 6 days per week, Saturdays half-days)-

- AI Tutorials in the morning: 3-4 hours
- Applied work / study in the afternoon

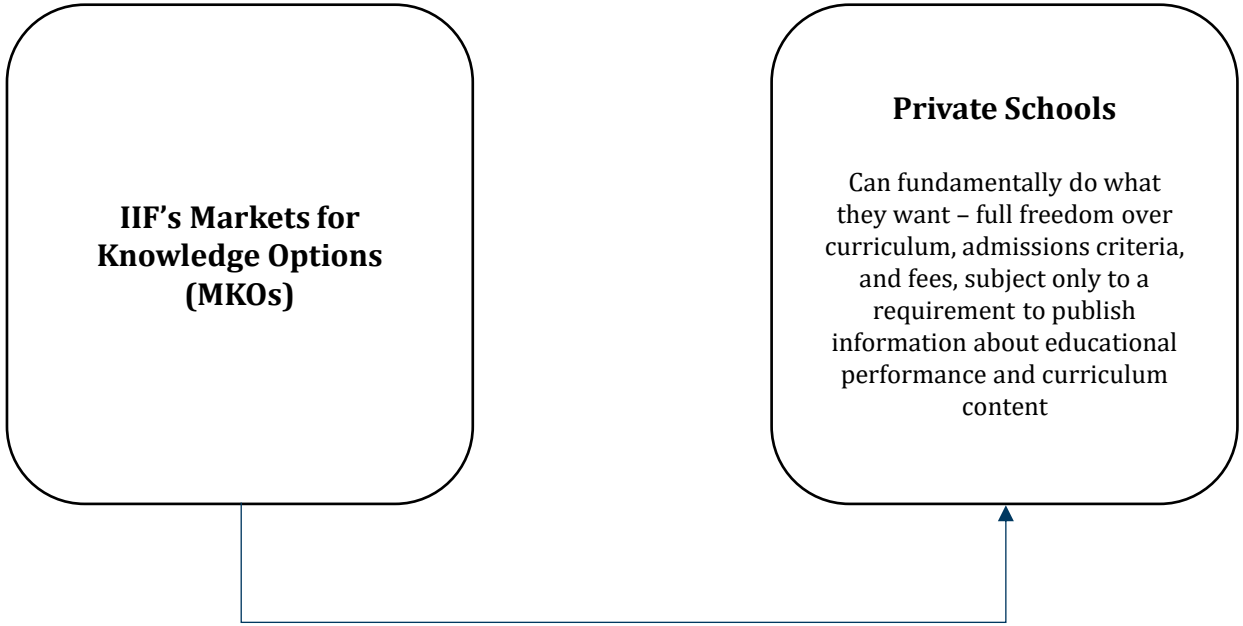
Humans (~50% of teaching time):-

- Conductors in the morning, supervising & orchestrating AI Tutorials
- Direct instructors in the afternoon: you can't play football with an AI Tutor, etc.

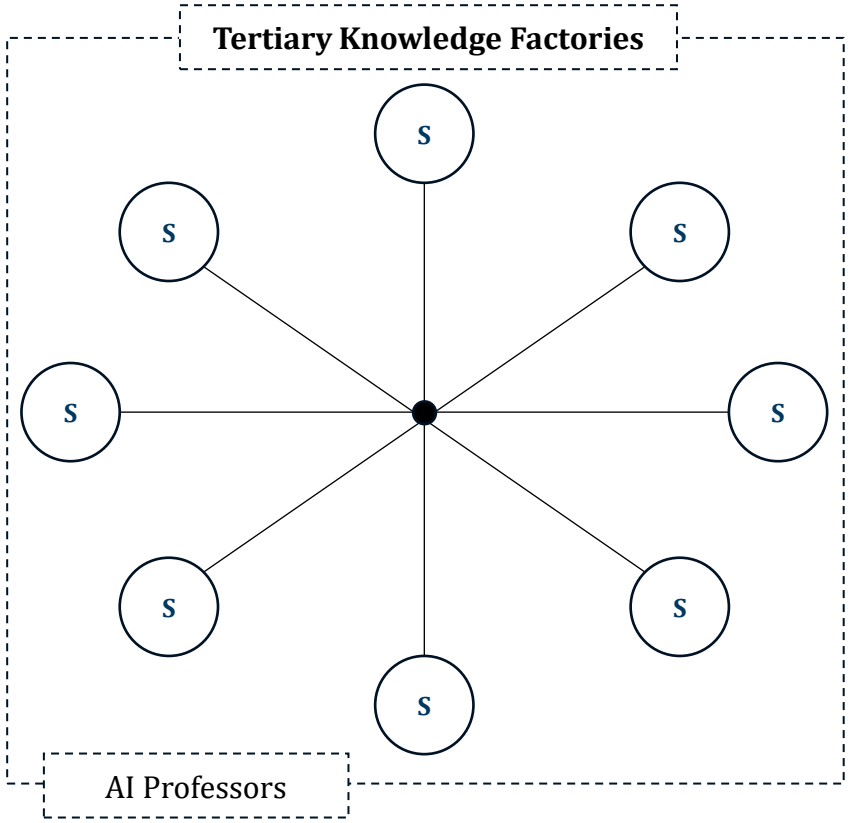
Primary Knowledge Factories initially only have a Hub, but the specialised Spokes become fully established by age 8-9

(a) Mechanical engineering, plumbing, ecclesiastical history and computational biology are / can all be on the curriculum.

1 Private schools co-exist alongside MKOs, being reimbursed for zero-fee students @ MKO rate-card with any revenue losses being tax-deductible



1 Access to tertiary educational institutions requires no prior qualifications, just an admissions test – this is the best protection against a depreciated past



How it Works

- No Hub
- **Only specialised spokes (S)**: Focus on real focus
- **AI Professors dominate** ~ 80% of teaching time
- Human conductors ~ 20%
- Open 24/7, 365 days p.a. [(a)]

Admissions

- **No prior qualification requirement – best protection against hysteresis and negative auto-correlation**
- **Admission by admission test only** – some TKFs do this in a few hours, others in a month

→ It is impossible to maximise Knowledge Option Value as a 45-year high-school drop-out if a high-school degree is an admission requirement

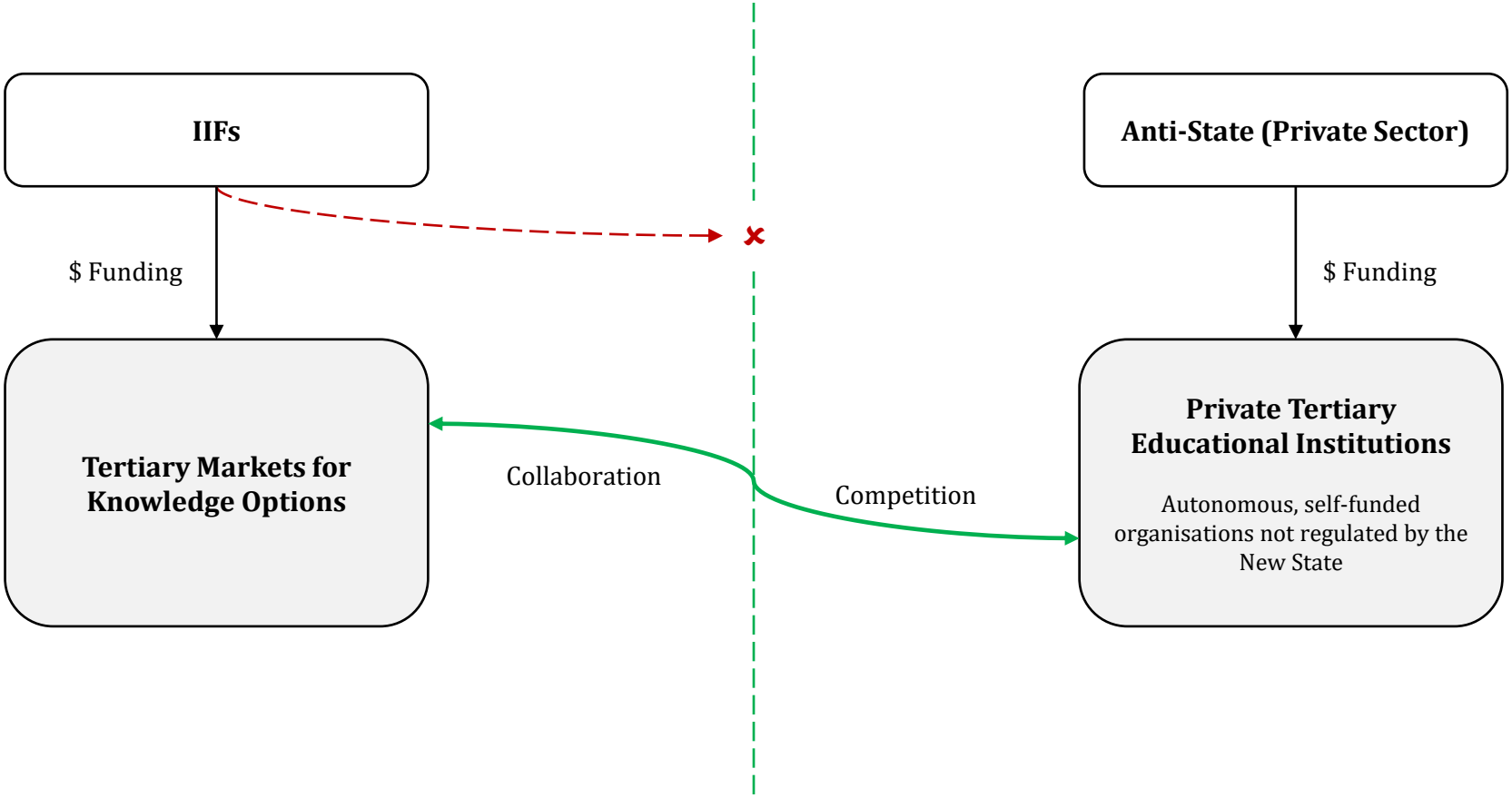
→ TKF access might be difficult, but it is always possible

Funding

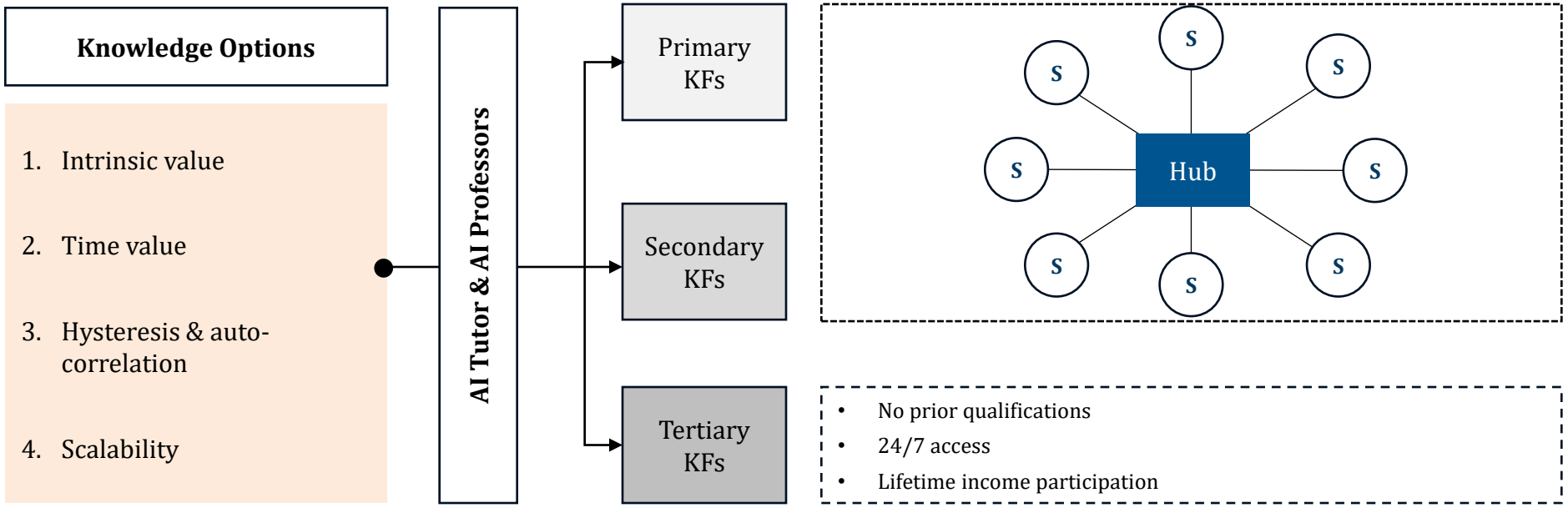
- **TKF Reimbursements**: End-of-life income participation covering ca. 75% of IIF investment cost [(b)]

(a) See https://www.42network.org/.
(b) IIFs are senior creditors of an individual's estate; TKF loans accrue interest at the lower of long-dated government bond yields and the EIF discount rate. 75% contribution rate reflects approximately % of population using TKFs.

1 A clear line of non-interference separates Tertiary MKOs from private universities which enjoy full autonomy – TBLA also applies to them

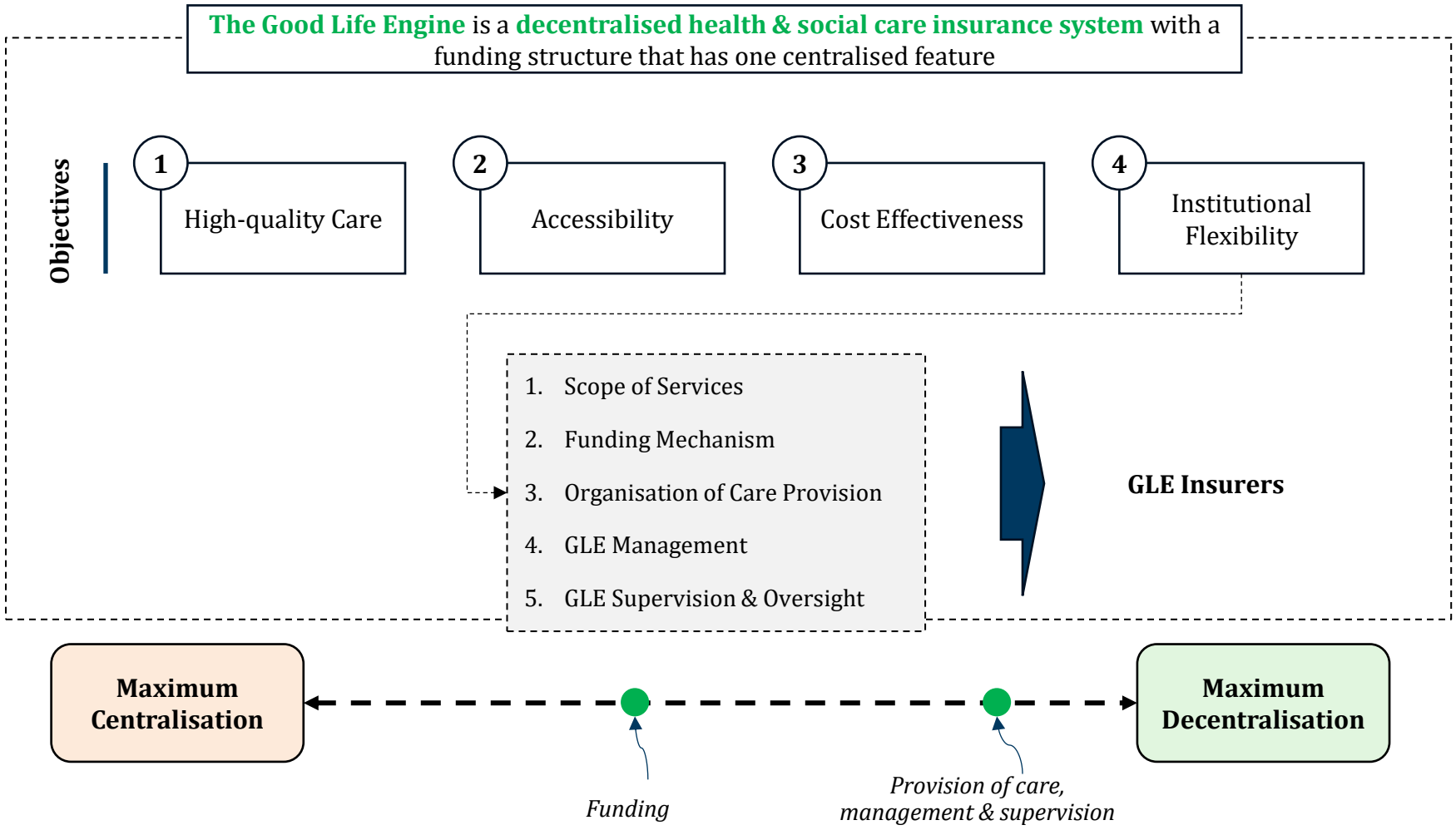


1 IIF investments in MKOs is one of two activities that *really matter* providing insurance against no, incomplete or wrong knowledge

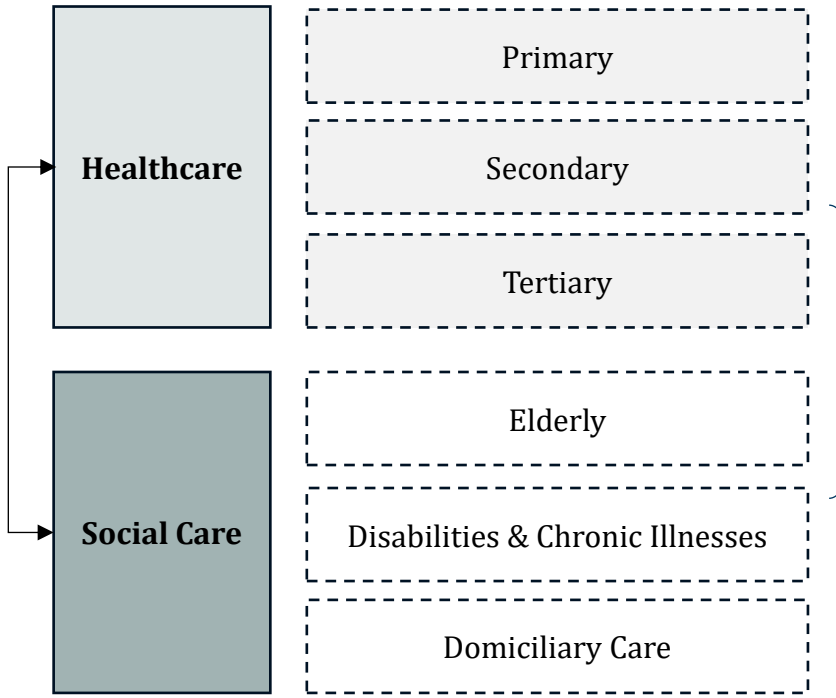


KFs	*Knowledge Factories*
S	*Specialist educational spokes*

2 Institutional flexibility is perhaps the most important feature of a successful health & social care system – without it the other three may not be achievable



2 The case for integrating health & social care rests on economies of scope based on informational efficiencies & the value of flexible, but unified funding

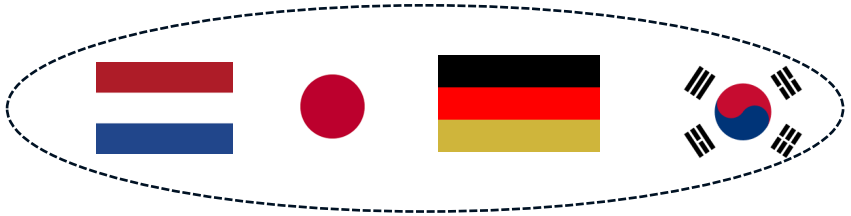


Economies of Scope

- The nature of needs often reveals significant co-morbidities
- Integrated care a natural response that capitalisés on information efficiencies

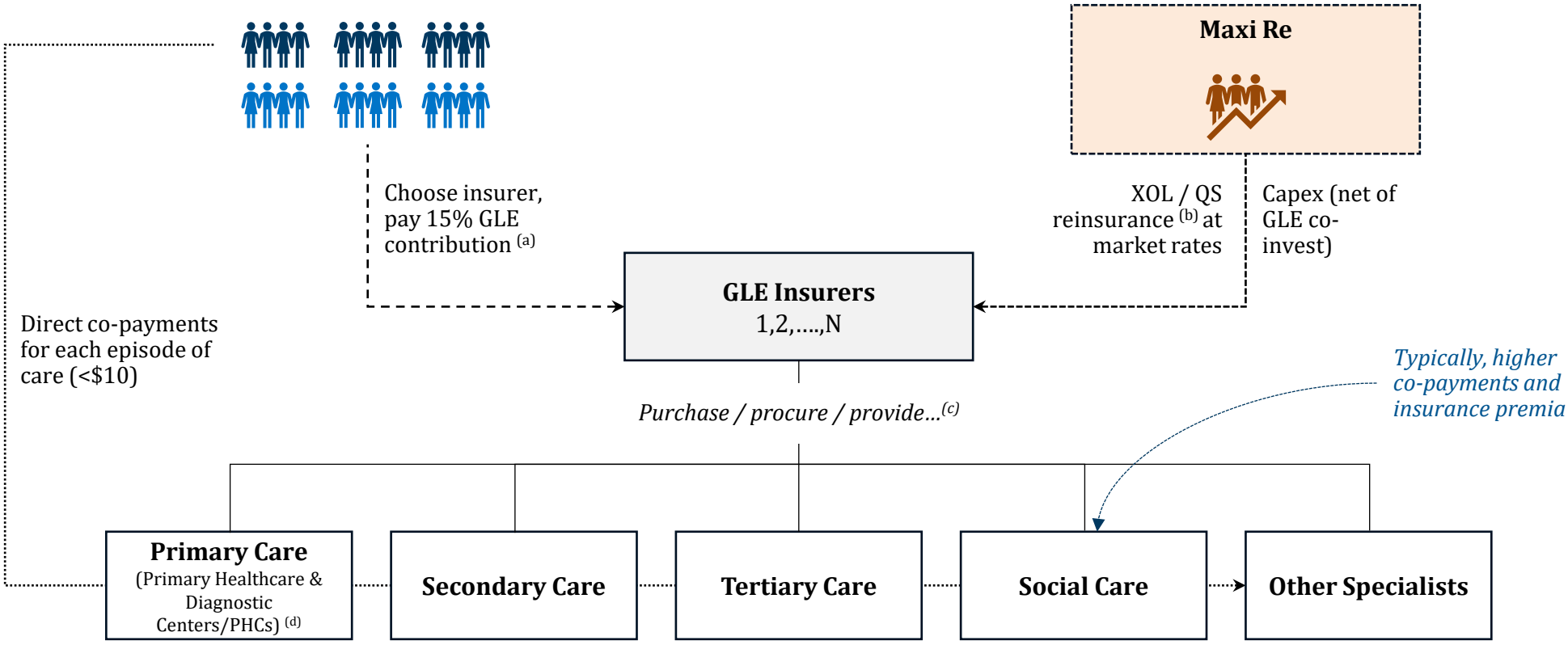
Economies of Scale

- Critical to maintain ability to capitalise on economies of scale in capital provision & financing arrangements



Other countries with integrated health & social care insurance systems: **Netherlands** - Universal mandatory health insurance (ZVW) covers healthcare. Long-term and social care covered by a *separate but complementary* scheme (WLZ, Wet langdurige zorg). Municipalities also provide social support (WMO, Wet maatschappelijke ondersteuning) alongside WLZ. Not a single insurance pool, but designed as *integrated pillars*, with insurers coordinating between health and long-term care needs. Integration mechanism: Single national risk equalisation pool; insurers incentivised to coordinate with municipalities for chronically ill/elderly; somewhat looser link to municipalities. **Japan** - Universal health insurance covers medical care. Since 2000, a mandatory *Long-Term Care Insurance (LTCI)* scheme applies to those 40+, funded by premiums (from health insurance) + taxes. Delivered locally by municipalities. Integration mechanism: Shared financing base (premiums collected alongside health insurance), common eligibility assessments. **Germany** - Statutory health insurance (SHI) covers medical care; separate *Long-Term Care Insurance (Pflegeversicherung)* introduced 1995. Both are compulsory, universal, and run by the same sickness funds, with payroll-based financing. Integration mechanism: Operated by the same insurers → functional integration, even though legally distinct. **South Korea** - National Health Insurance Service (NHIS) covers healthcare. In 2008, *Long-Term Care Insurance (LTCI)* was created as a mandatory benefit, financed and administered by NHIS. Integration mechanism: Both health and long-term care run by NHIS — one payer, two schemes, unified administration.

2 The GLE is funded by a 15% insurance contribution, Maxi Re reinsurance and direct co-payments – this is a diversified, flexible and effective funding mix



*The three sources of funding reconcile the contractual and technical conditions for **inter-temporarily robust mutual insurance**: they are therefore designed to be (Pareto) efficient and (politically) legitimate*

(a) As a % of gross income, paid approx. 50/50 by employers and employees with a small employer surcharge to ensure the self-employed aren't disadvantaged vs the employed.
(b) Excess of Loss (XL) and Quota Share (QS); cover must be equal to at least 10% of claims expenditure. Pandemic reinsurance is compulsory.
(c) GLE Insurers own care facilities and purchase services from 3rd parties.
(d) The EIF invested into highly sophisticated molecular nanotechnology which has been widely used across these PHCs.

2 Principle #3 and core features of insurance create a robust reason for the New State's GLE – operating alongside other Anti-State insurance vehicles

A

Principle #3:

Focus on Extreme Risk

B

1. Are extreme illness & death extreme risks?
   - Yes
2. Private insurance will be incomplete because of skewed distribution of claims costs
3. Alternatives failed:-
   - Maximally decentralised, voluntary schemes produce wrong incentives & costs
   - Fully centralised, single provider/payer schemes produces wrong incentives & costs and are institutionally inflexible
4. GLE is part of an overall New State package of services: if the New State is legitimate, so is the GLE

C

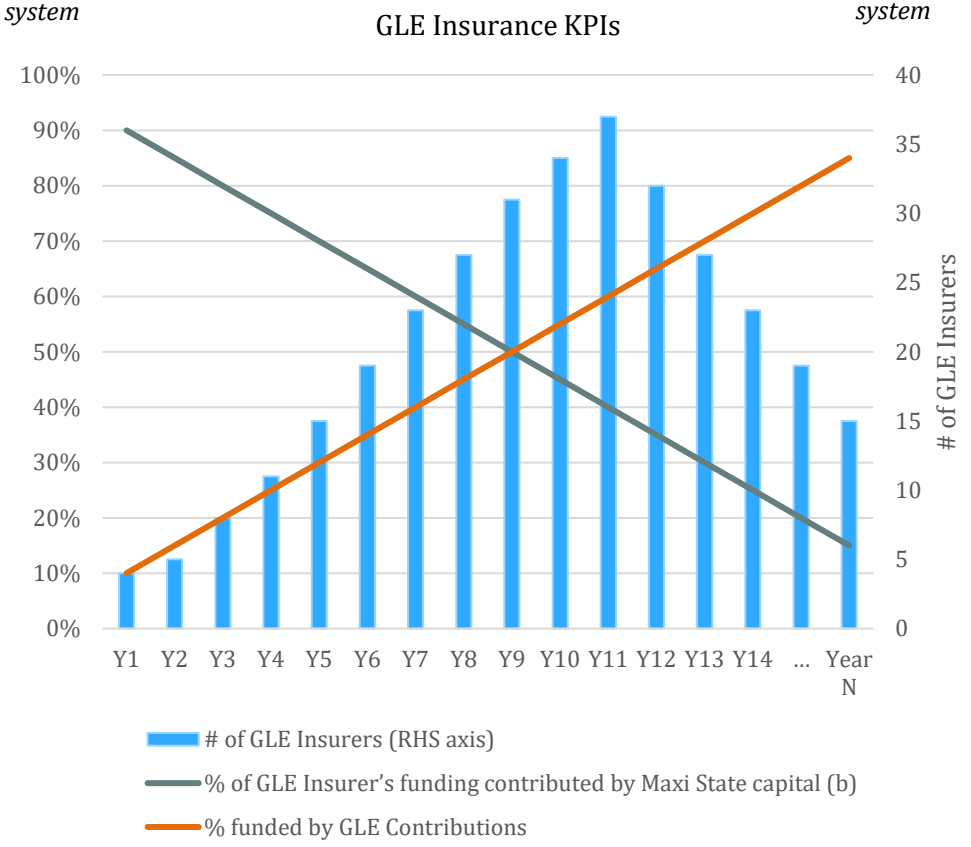
Don't Do Nothing…

and instead...

…create a decentralised insurance-based system of health & social care provision supported by Maxi-State reinsurance capital

2 A gradual transition of scheme membership & funding to a new insurance-based health & care system can achieve a system transition over time

centralised, monolithic, inflexible, not-very-good healthcare system → *Decentralised, flexible, very good health & social care insurance system*



How it Works

- **First cohort reaching working age begins making GLE contributions to one of five GLE Insurers** [(a)] who purchase services from the "Old System", while developing their own infrastructure, incl care facilities
- **Others can join voluntarily** – i.e. the transition does not have to take a super-long period of time
- **Initially, >90% of GLE Insurers' funding provided by the Maxi-State** [(b)] **- over time**, as further GLE Insurers are established by the Mini-States / IIFs to serve the successive cohorts of new members, **GLE Insurers become self-sufficient and this Maxi-State contribution falls to <20%**
- As GLE contributions increase, the centralised health & social care budget is reduced by $0.95 for every $1 of contributions with the delta set aside for transitional costs.
- Of this, a portion is ultimately contributed to bolster the capital base of Maxi Re and the GLE Insurers
- **The Old System declines as the GLE grows - ultimately, its remaining care facilities are restructured into independent organisations** contracting with, or are absorbed by, GLE Insurers
- # of GLE Insurers: 5 to begin, rising to 35-40, before consolidating to ~ 15

(a) Matched by equivalent refund from their other tax payments.
(b) See Section 7. for a discussion of which Maxi State entity is providing this funding.

4. Legitimacy

Hobbes vs Louis XIV: The State comes into being when a people authorise one person to act on their behalf … vs. one actual person requiring no authorisation

This done, the Multitude so united in one Person, is called a Common-wealth, in latine Civitas. This is the Generation of that great Leviathan…One Person, of whose Acts a great Multitude, by mutuall Covenants one with another, have made themselves every one the Author (a)

The State as an artificial body to whom the people delegate power (sovereignty) irrevocably in the state of nature

L'État, c'est mois

Is there something in this?

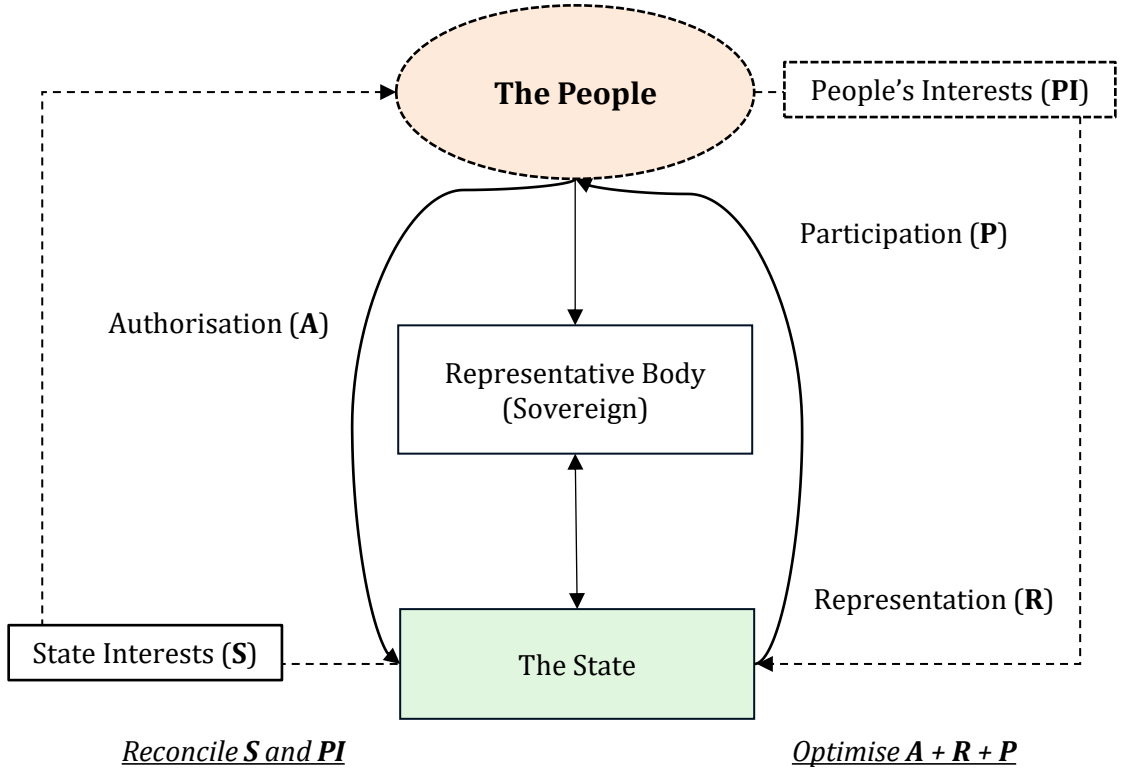
The State as a natural body inherent in the King's person by divine right requiring no prior covenant

(a) Thomas Hobbes, Leviathan, Chapter 17, p.89-90. Prometheus Books 1988

Three key questions go to the heart – the foundation – of the New State

3 Questions

1. How can the People **authorise** the State to act in certain areas, while also permitting it to exercise authority in matters where no explicit authorisation is given. How can this act of authorisation create a sovereign – a **Representative** – that both speaks for the State vis-à-vis its citizens and for the citizens vis-à-vis the State?
2. How should the People **participate** in the affairs of the State – what is therefore the right balance between representation and participation, and how do these result in appropriate authorisations to the State?
3. How can the **State** be managed and constrained to ensure its pursuit of its own interests does not violate the authority granted by, and therefore the interests of, the people?



Authorisation, **participation** and **representation** are the **governance** tools to deliver a **legitimate state**.

What makes a state legitimate?

Real, Substantive Legitimacy is the foundation of the New State – and is most likely to be achieved & maintained over time by the Functionally Small State

1. **Clarity** – about the functions of the State: what is it for?

2. **Reasonable Process** – the decision-making process must be fair and reasonable, which means (i) it must allow for the expression of the 'will of the people' (or a sub-set) and (ii) when the State acts on its own, it does so reasonably and procedurally appropriately

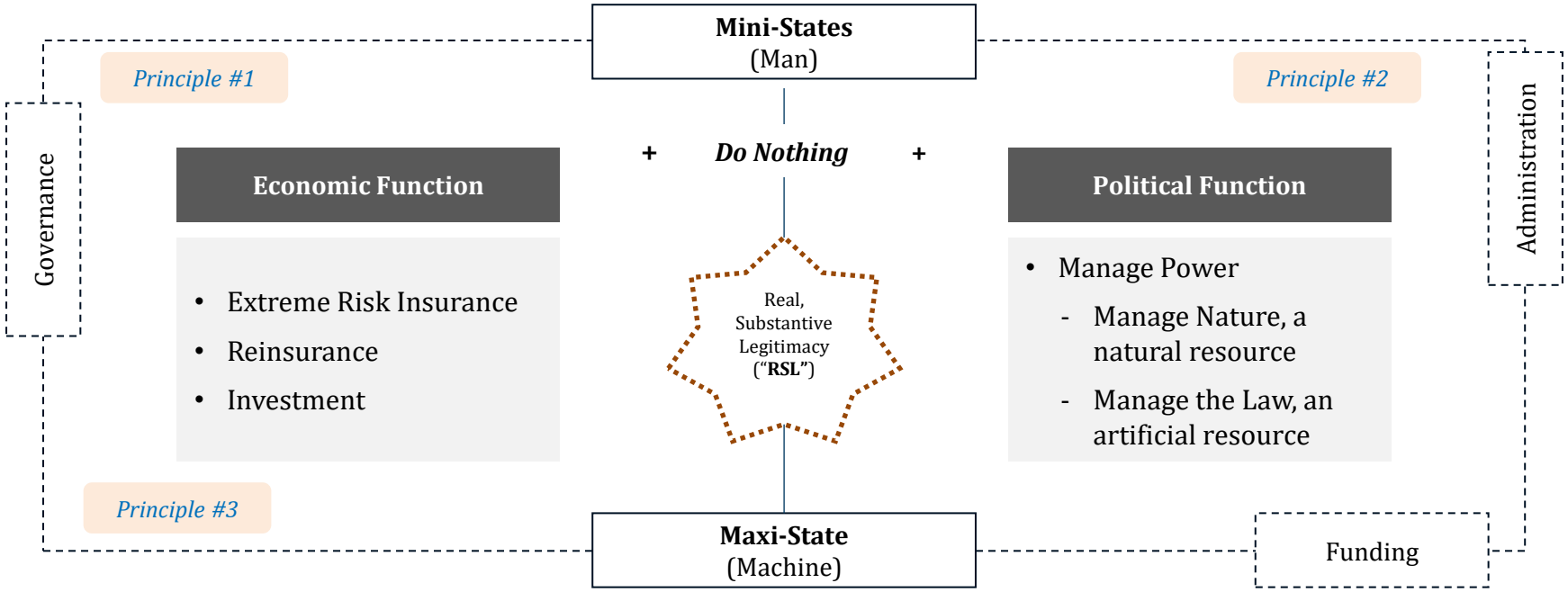
3. **Effectiveness** – a sustained belief, repeatedly confirmed, that the State and its operational agencies are effective: things must work

What should a State look like - its shape & size - to achieve and maintain RSL over time?

<u>The Functionally Small State (FSS)</u> [(a)]

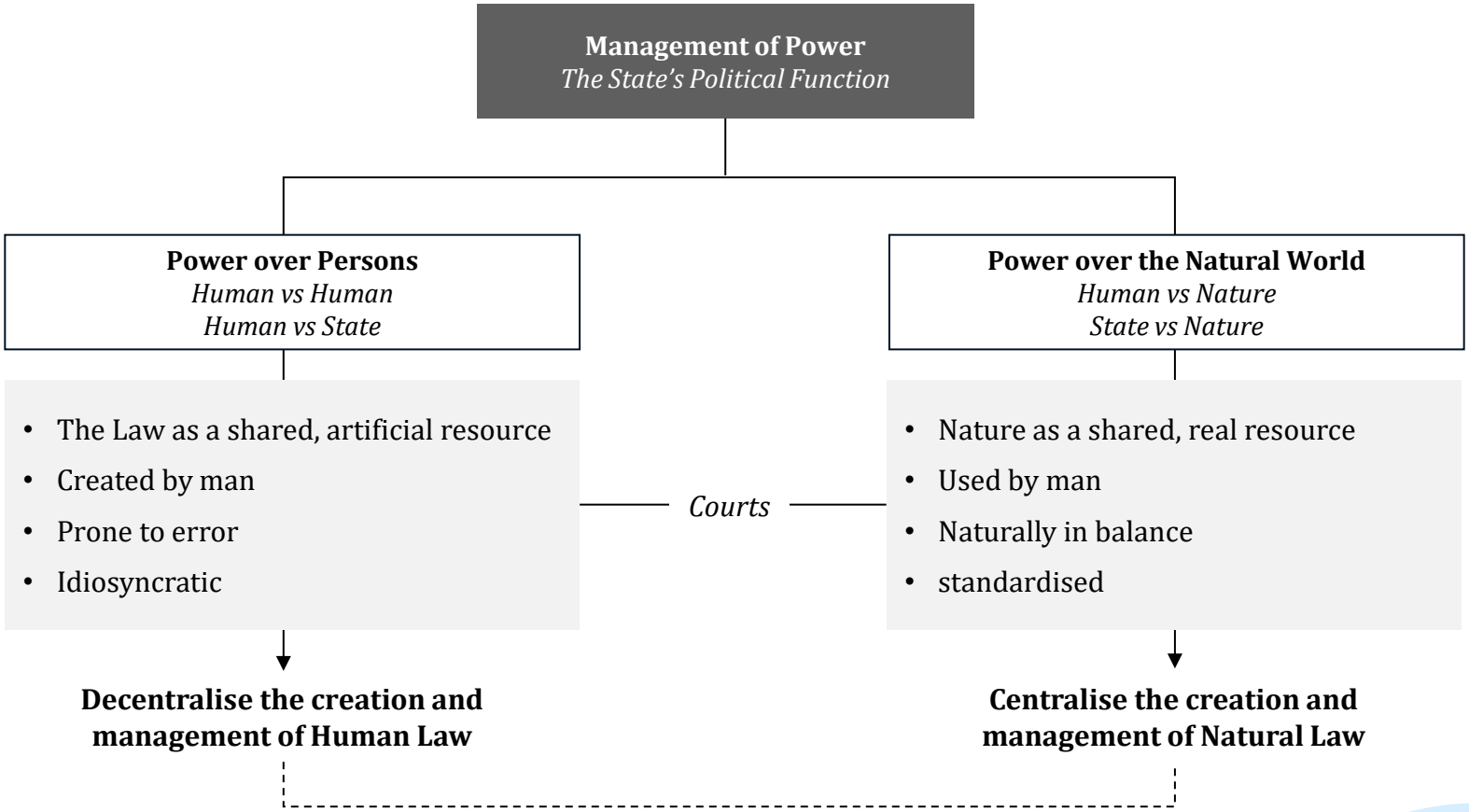
By focussing on doing only a few things (its core functions), but doing them well the FSS is the only time-consistent state that can protect Principles #1-3 and retain its legitimacy as tastes and priorities change while RSL criteria do not

The RSL State focusses on (re-) insurance of economic risks and the management of power – while also *Doing Nothing*



The **structure of the State** – competition among Mini-States supported by the Maxi-State, the former quasi-human, idiosyncratic differentiation, the latter a computerized, automated, impersonal machine – **itself supports RSL** by permitting multiple equilibria (of combinations between functions scope & size) within one State

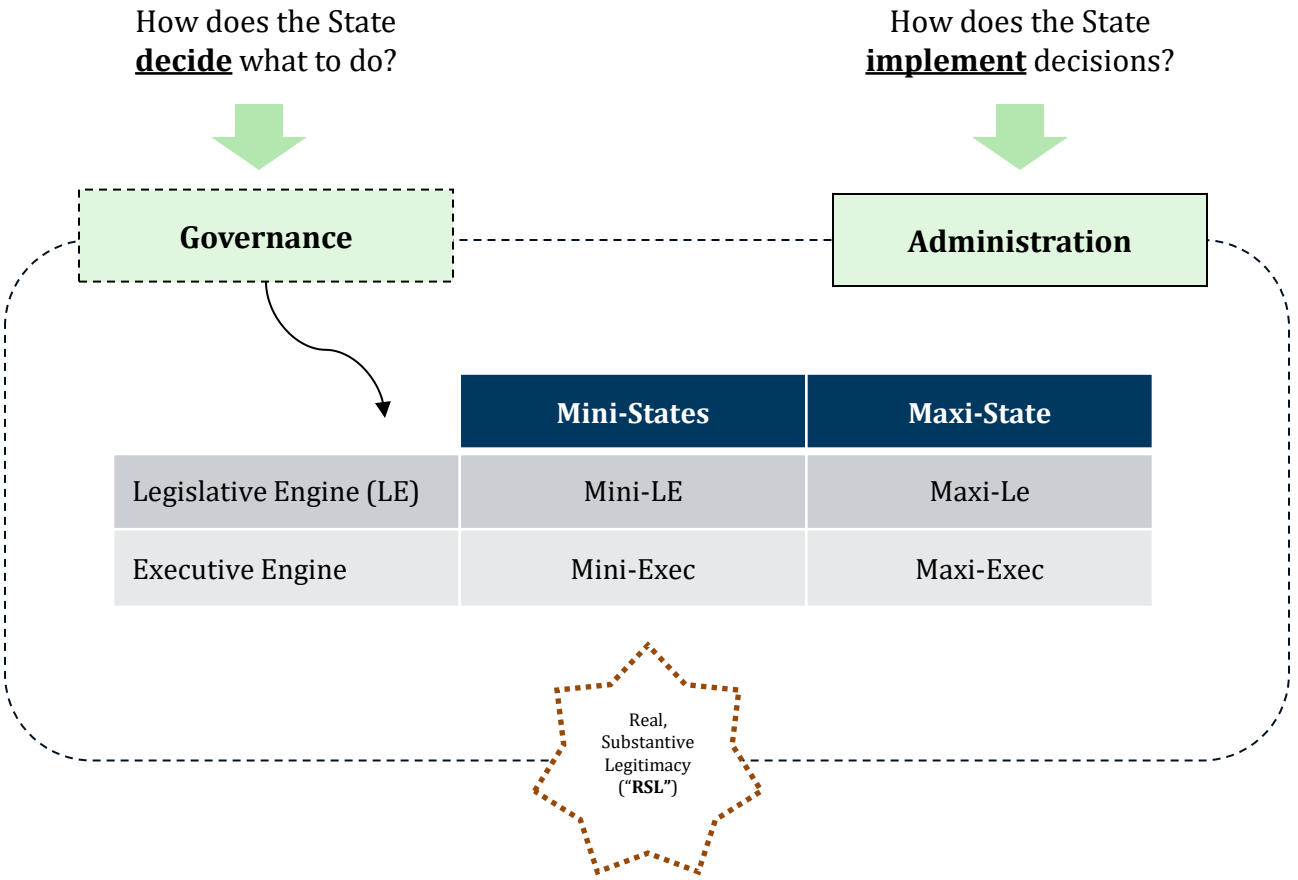
The New State is not concerned with the exercise of power per se – but with its extreme manifestations. It is this which requires the State to intervene



(a) Examples of how the New State has satisfied the DNAP condition include (1) its reform of libel laws – individuals can only sue for defamation if they can demonstrate malicious intent by the alleged culprit, with knowing reckless disregard for the truth; and this point must be heard in court before any defamation action can proceed, with the defendant's costs payable in full, i.e. on an indemnity basis, if the claimant fails to demonstrate malice; (2) the DDTPs; and (3) the treatment of open-source vs closed-source AI.

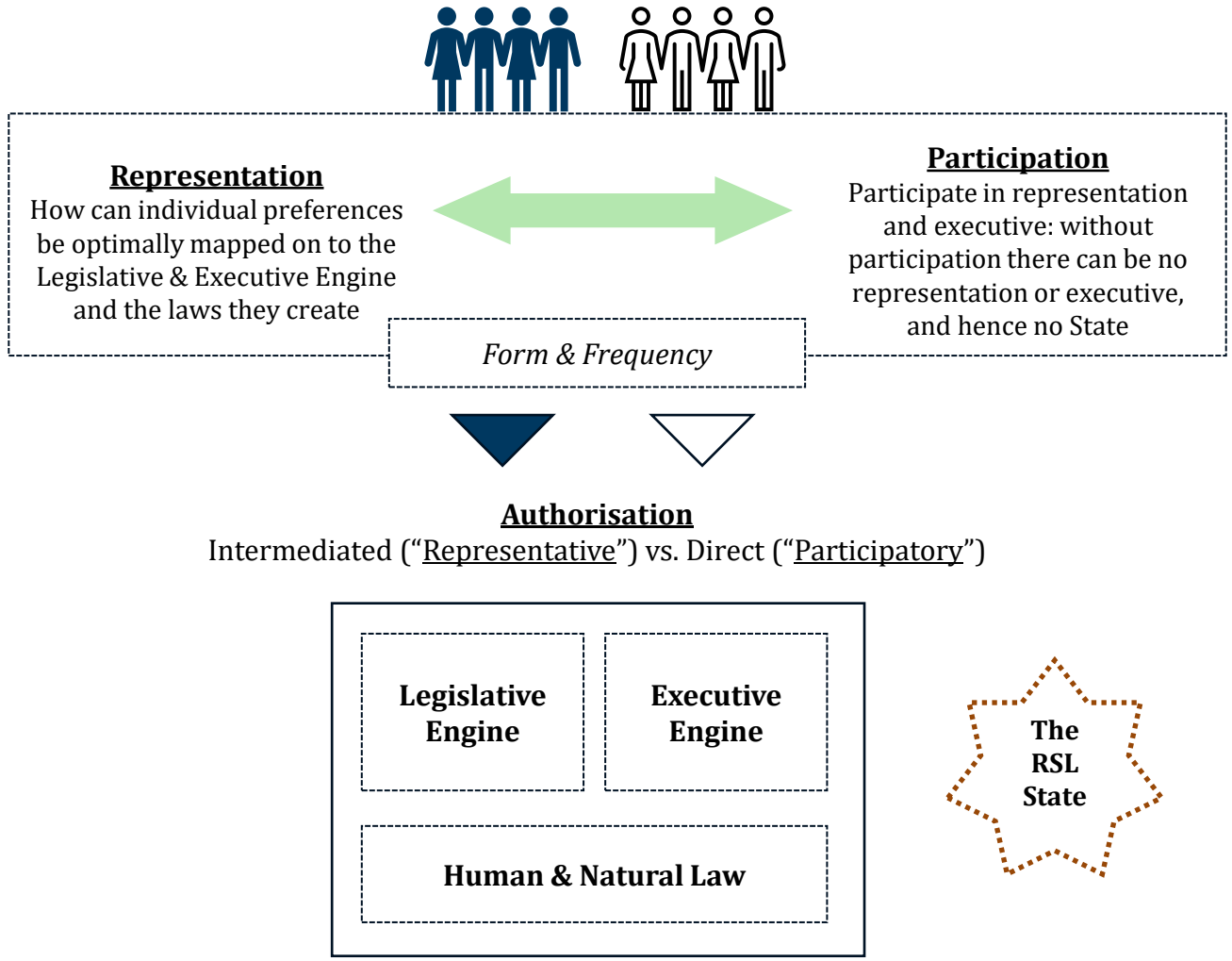
5. Governance

Governance is a 2x2 matrix of legislative & executive engines in the Mini-States & the Maxi-State: Do they have certain organisational & constitutional similarities?



	Mini-States	Maxi-State
Legislative Engine (LE)	Mini-LE	Maxi-Le
Executive Engine	Mini-Exec	Maxi-Exec

How can acts of representation and participation be organised to generate legitimate authorisation? This is the key task of governance of an RSL State



A representative system of State governance encounters – at least over time – three problems that appear intractable

1. **The Problem of Independence**

Those whose independent minds we admire will not truly represent us because they will not subordinate their views to those of their citizens for too long; whereas we come to despise those who do.

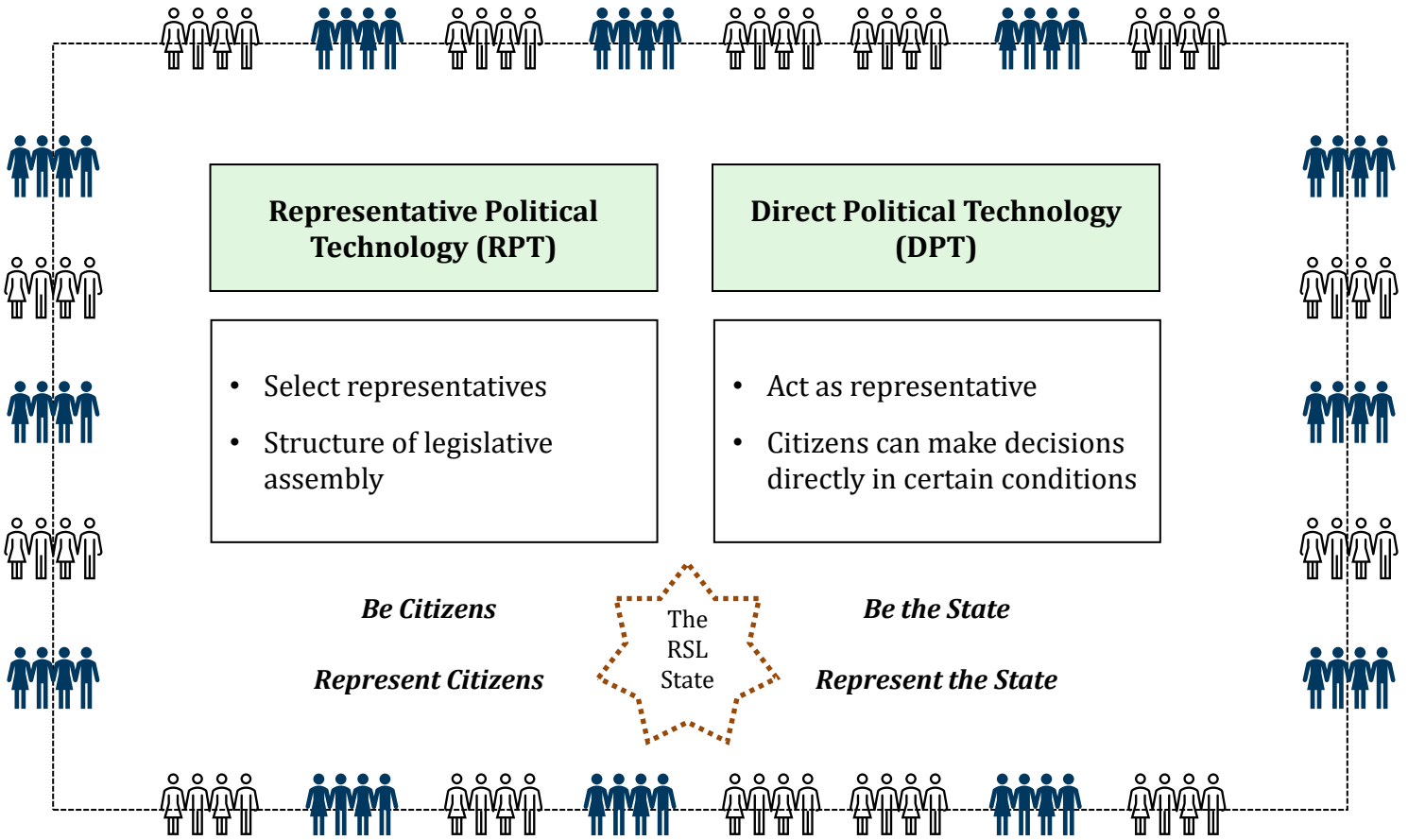
2. **The Problem of Intermediation**

In a system of representative government, the represented will over time feel inadequately represented. They will therefore reduce their participation, further exacerbating the problem of inadequate representation

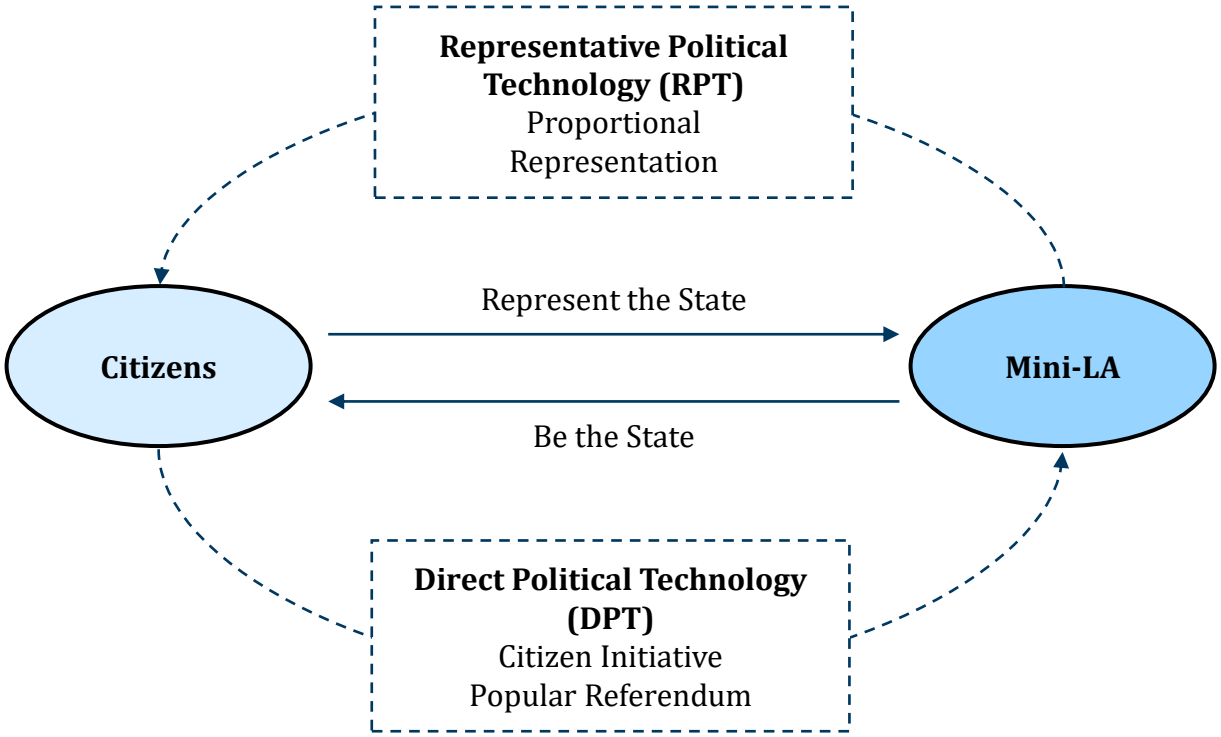
3. **The Problem of Real Time**

When information and engagement is available and possible in real time across all parts of life, the infrequent, periodic selection of representatives is not real participation

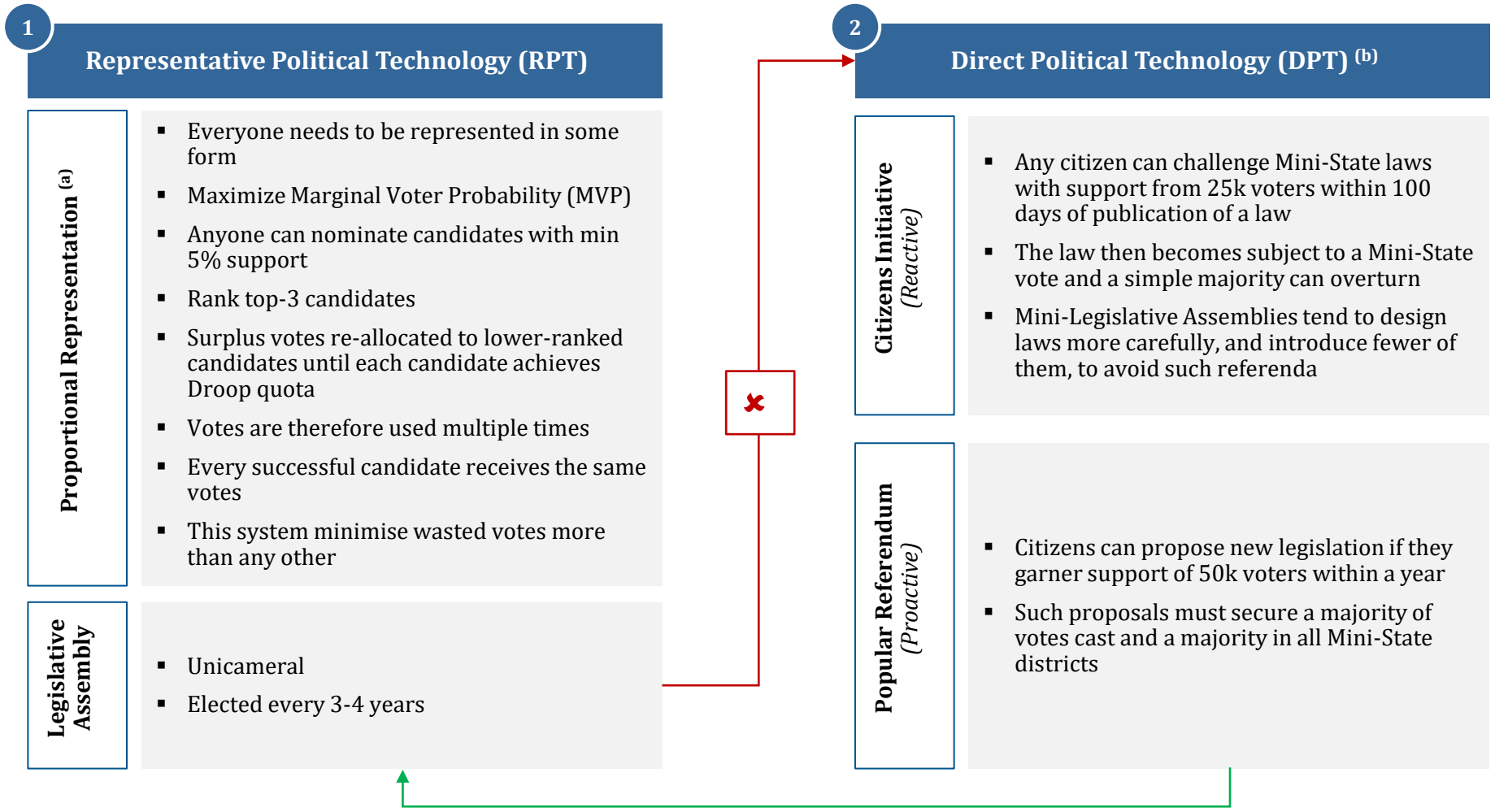
The solution is a better, more decentralised system of representation and more direct participation. Citizens can *become the State*...making the State legitimate



The Mini-LA is therefore an equilibrium of people & representative chambers which facilitates better citizen participation and therefore representation



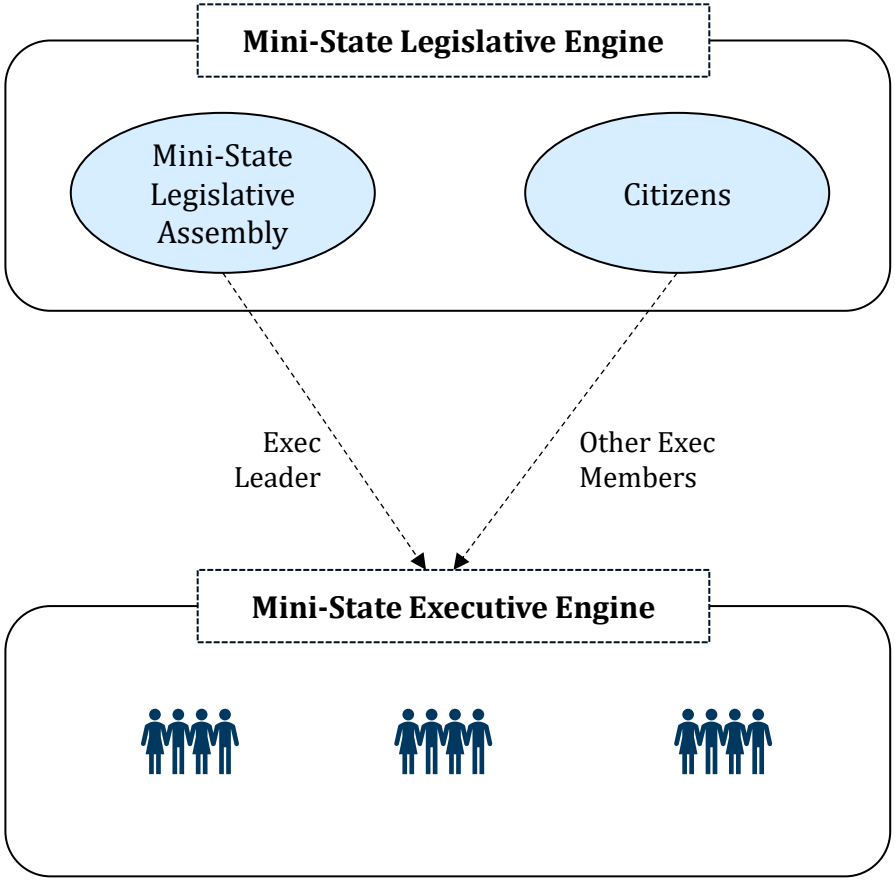
DPT supports & reflects a trend towards maximum decentralisation – acting like acid to constrain and inform the legislative assemblies



DPT is the pre-emptive political act of TBLA: to be left alone requires, at times, being intensely engaged – to represent and to participate.

(a) The voting system described here is the Single Transferable Vote system.
(b) Neither of these two DPT technologies can originate from the Mini-LA – who is barred from submitting decisions to a referendum vote

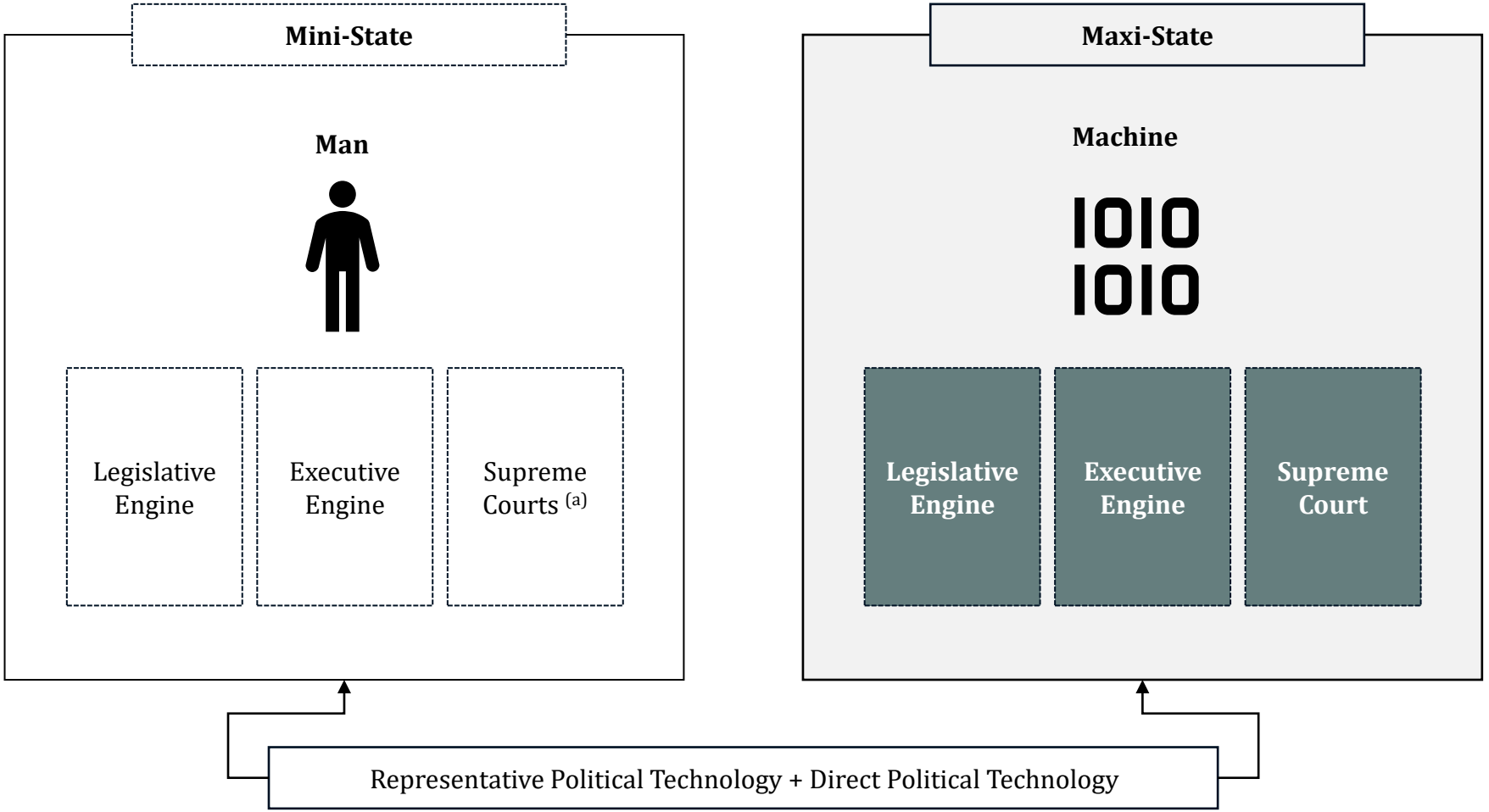
The executive is elected by the Mini-State LA from nominations of citizens who are not in the Mini-LA – offering fresh air and an escape from Mini-State cobwebs



How does it Work?

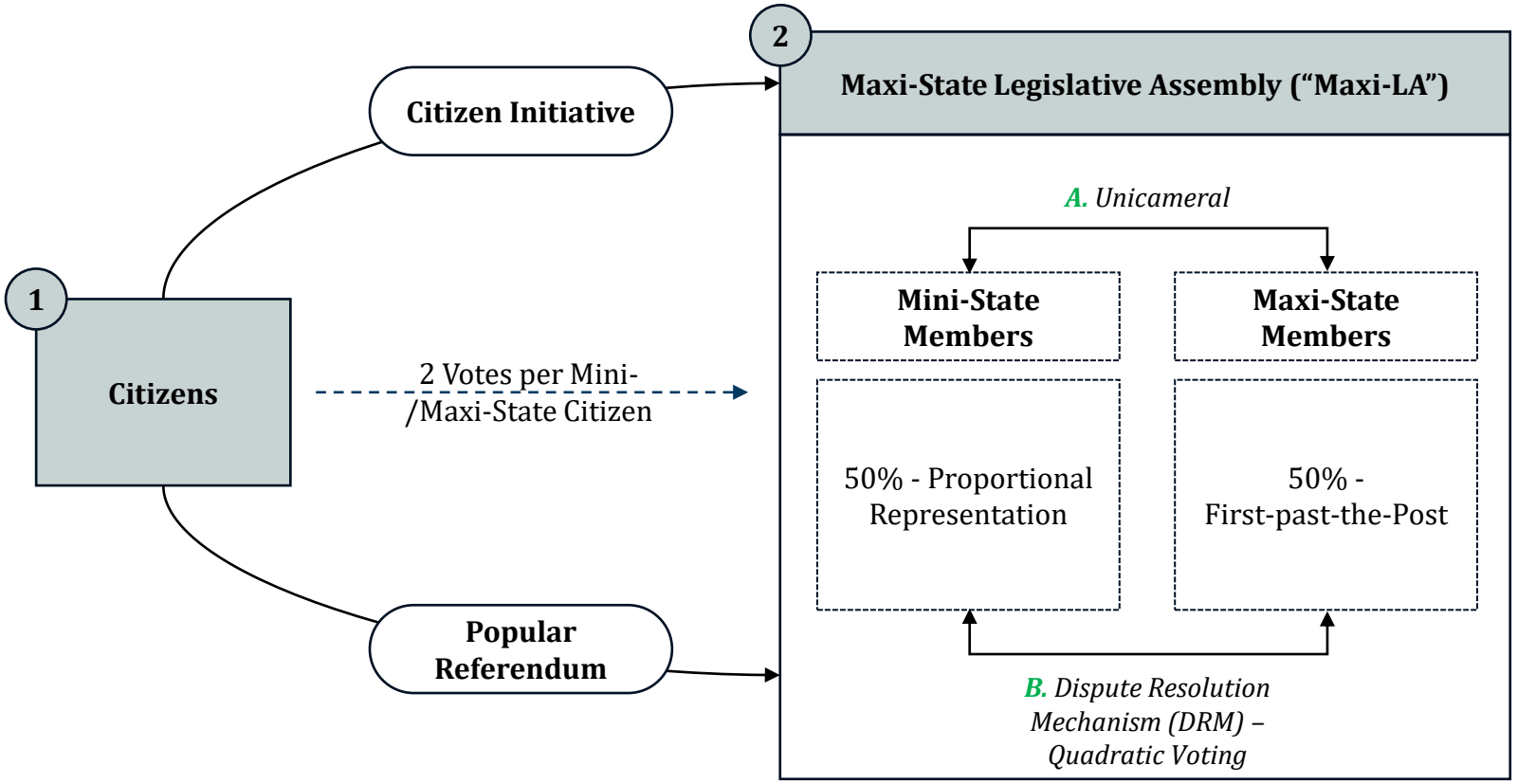
- Elected by the Mini-State Legislative Assembly based on nominations of the leader of the largest party
- Executive members, other than its leader, are Mini-State residents, but not members of the Legislative Assembly
- The Mini-State Executive Engine therefore comprises citizens and Mini-LA members just like the Mini-State Legislative Engine itself

How do the governance arrangements for a centralised machine differ from a decentralised quasi-human institution – when the latter is the ultimate master?



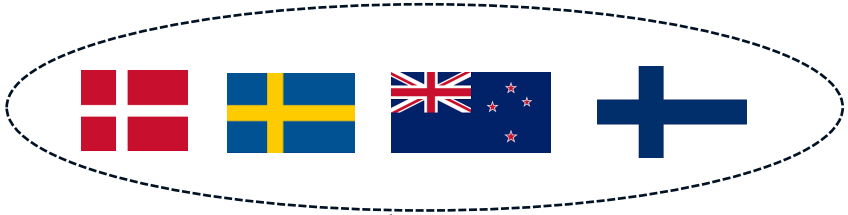
(a) Mini-States can and generally have their own supreme courts.

The Maxi-State legislative engine combines RPT + DPT elements in a unicameral assembly with citizens having two votes, reflecting their dual-state citizenship



A. Real, Substantive Legitimacy is best achieved and maintained with a unicameral assembly that establishes complete clarity about who represents whom

- ✓ Resolve once & for all the problem of legitimacy when elected and unelected chambers co-exist…
- ✓ …by focusing on direct representation in one chamber…..
- ✓ …which also supports participation (DPT)
- ✓ Legislation requires majority approval by both sections of the assembly



Denmark historically had a bicameral system (*Rigsdagen* with Folketing and Landsting). In 1953, the *Landsting* (upper house) was abolished through constitutional reform. The reform was driven by democratic egalitarianism: the Landsting was seen as elitist and indirectly elected, while the lower house reflected direct popular sovereignty.

Sweden had a bicameral system until 1971, when reformers concluded it caused legislative inefficiency and duplication. The unicameral model was introduced to streamline lawmaking, improve accountability, and reflect Sweden's tradition of parliamentary supremacy over the executive.

New Zealand was originally bicameral (1852–1950), with a weak, appointed *Legislative Council*. The upper house was abolished after being seen as ineffective, undemocratic, and redundant. The adoption of proportional representation in 1996 (MMP system), might also have provided further support for unicameralism, e.g. if coalition politics and committee scrutiny were seen as checks on executive power.

When **Finland** gained independence from Russia in 1917, it inherited a unicameral tradition from the 1906 reforms under the Grand Duchy, which had created one of the most progressive legislatures of its time (including universal suffrage). A single chamber was considered more democratic and modern than a two-tiered system.

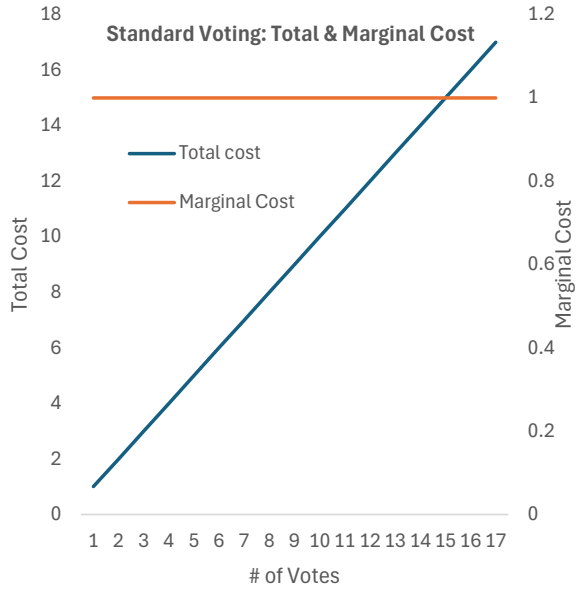
B. Quadratic Voting incorporates the intensity of preferences into a voting process which can resolve disputes in the unicameral Maxi-State legislative assembly

How Does it Work?

- Used when both sections of the Maxi-LA twice fail to reach required majorities and the use of the DRM is approved by both
- One round of quadratic voting
- Each MP has 64 DRM credits p.a. – each vote consumes DRM credits proportional to its square: 1/1, 2/4, 3/9, 4/16, 5/25, 6/36, 7/49, and 8/64
- This allows MPs to register the intensity of their vote, and not just a binary yes/no – which can overcome the 'tyranny of the majority'
- The Maxi-LA is the perfect institution to use such a sophisticated voting technology

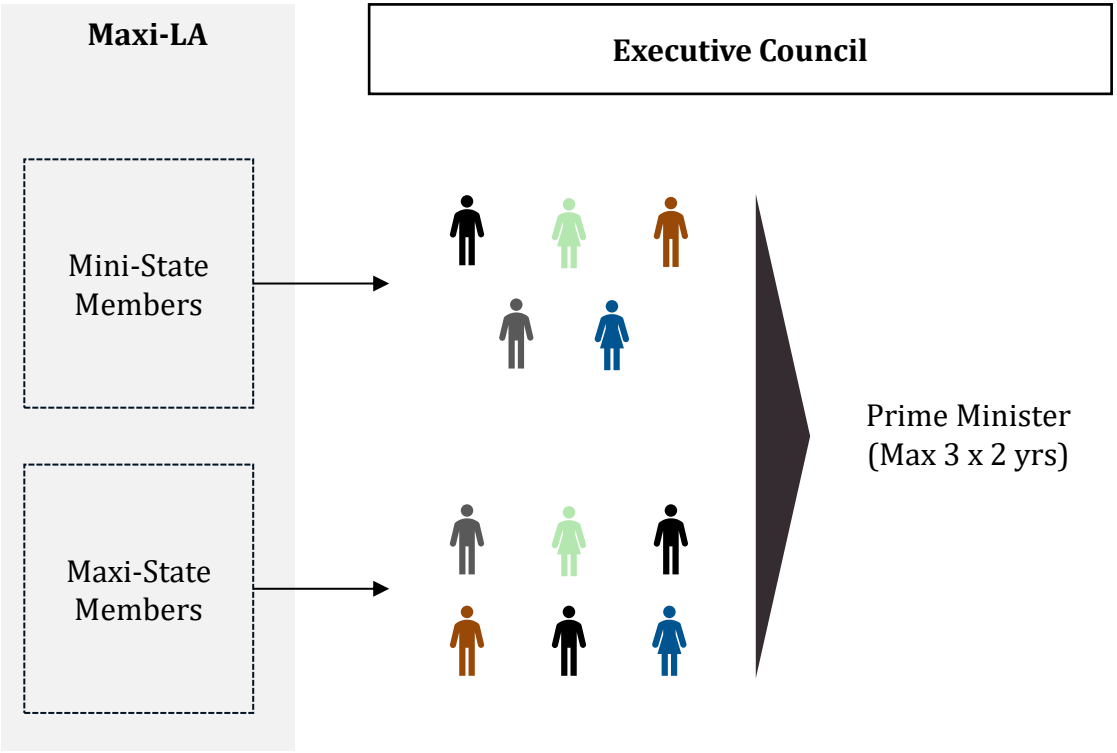
The Intuition for Quadratic Voting [(a)]

- A vote should be proportional to how much value an MP attaches to it / the issue
- In 1-to-1 voting, votes are too cheap for those care / too expensive for others
- Quadratic voting increases the marginal cost of each vote – and hence MPs will use the DRM credits in proportion to how much they care about the relevant issue



(a) Based on Eric Posner's and Glen Weyl's *Radical Markets. Uprooting Capitalism and Democracy for a Just Society.*

The Executive Council is the New State's government, comprising 11 members elected from & by the Maxi-LA, with the PM elected by it for up to three 2Y terms



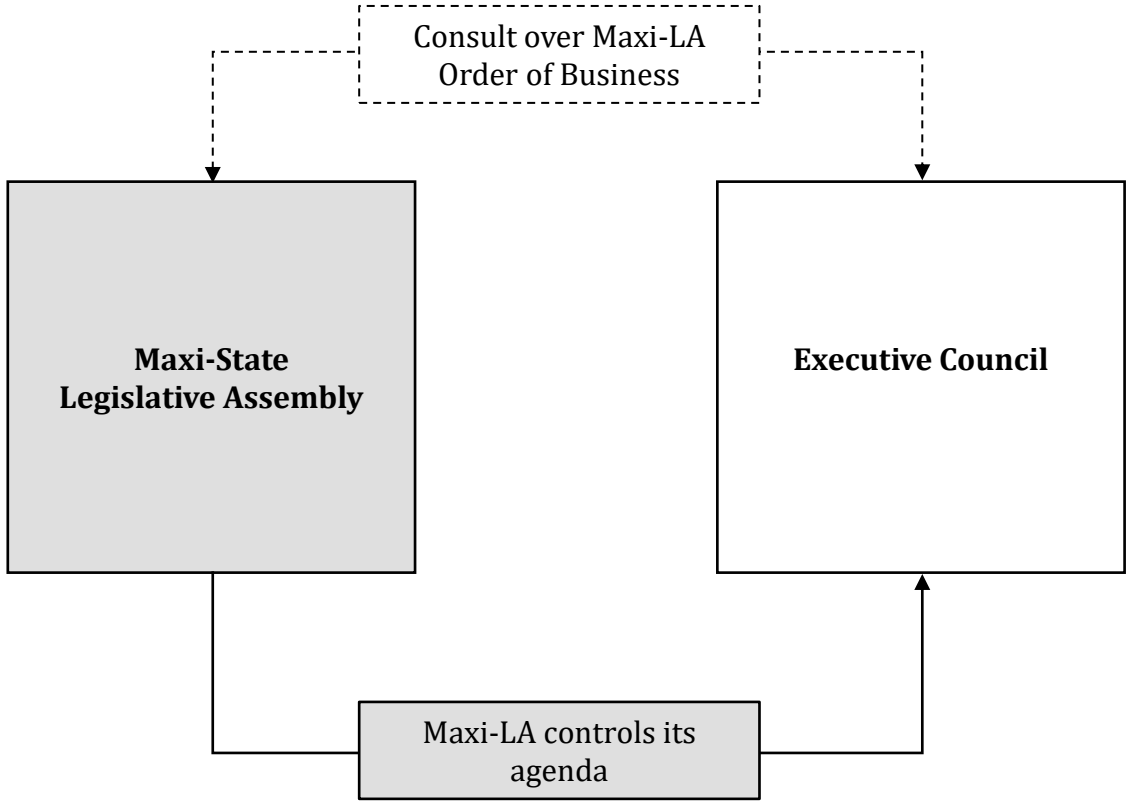
Reduce the size of the executive, confine the link between it and the legislative to the members of the Council, and redefine the position of the 'primus inter pares'

-

How Does it Work?

- Executive Council consists of 11 members elected by the Maxi-LA (with DRM if required):-
  - 5 members elected by / from Mini-State MPs
  - 6 members elected by / from Maxi-State MPs
- Exec Council members elect their leader – Prime Minister (PM)
- PM tenure is 2 years before needing re-election
- No PM can serve more than three terms, i.e. 6 years
- With Maxi-LA elections every four years or so, this means a PM re-elected once can go into an election to defend his/her record – while it is also known that halfway through the next term, he/she will be replaced
- No other Maxi-LA member can serve in government
- Better system than
  - Direct election of executive
  - Appointment of Maxi-LA members to executive
  - Appointment of non-Maxi-LA citizens to executive (as in Mini-States)

The Maxi-LA ultimately controls its own agenda – a simple procedural change that recalibrates the balance of power between the executive & the legislature



As far as the Supreme Court is concerned, the function of the New State is to establish a robust and good appointment process for its judges

Supreme Court Appointment Commission = 8 Members

- 5 Judges, including 3 former SC judges [(a)]
- 1 member of the Executive Council
- 1 Maxi-State representative in the Maxi-LA
- 1 Mini-State representative in the Maxi-LA

2/3 majority vote with min 2/3 of New State representatives

Supreme Court = 11 Judges

How it Works

- 11 judges serve 10-year terms
  - No for-life appointments: don't create a state within the New State
- 8 members of the appointment commission
- 2/3 majority vote, i.e. at least 6 of the 8 members
  - 2 of the 3 State representatives
  - Judges alone cannot secure an appointment

(a) Appointed by the Maxi-LA and the Executive Council upon recommendations of a panel of Maxi-LA representatives and former judges in multiple rounds of voting with QV final vote resolution process.

The Maxi-State does not have a constitution, preferring a casuistic approach to matters of State, constrained by the overarching importance of Principles #1-3

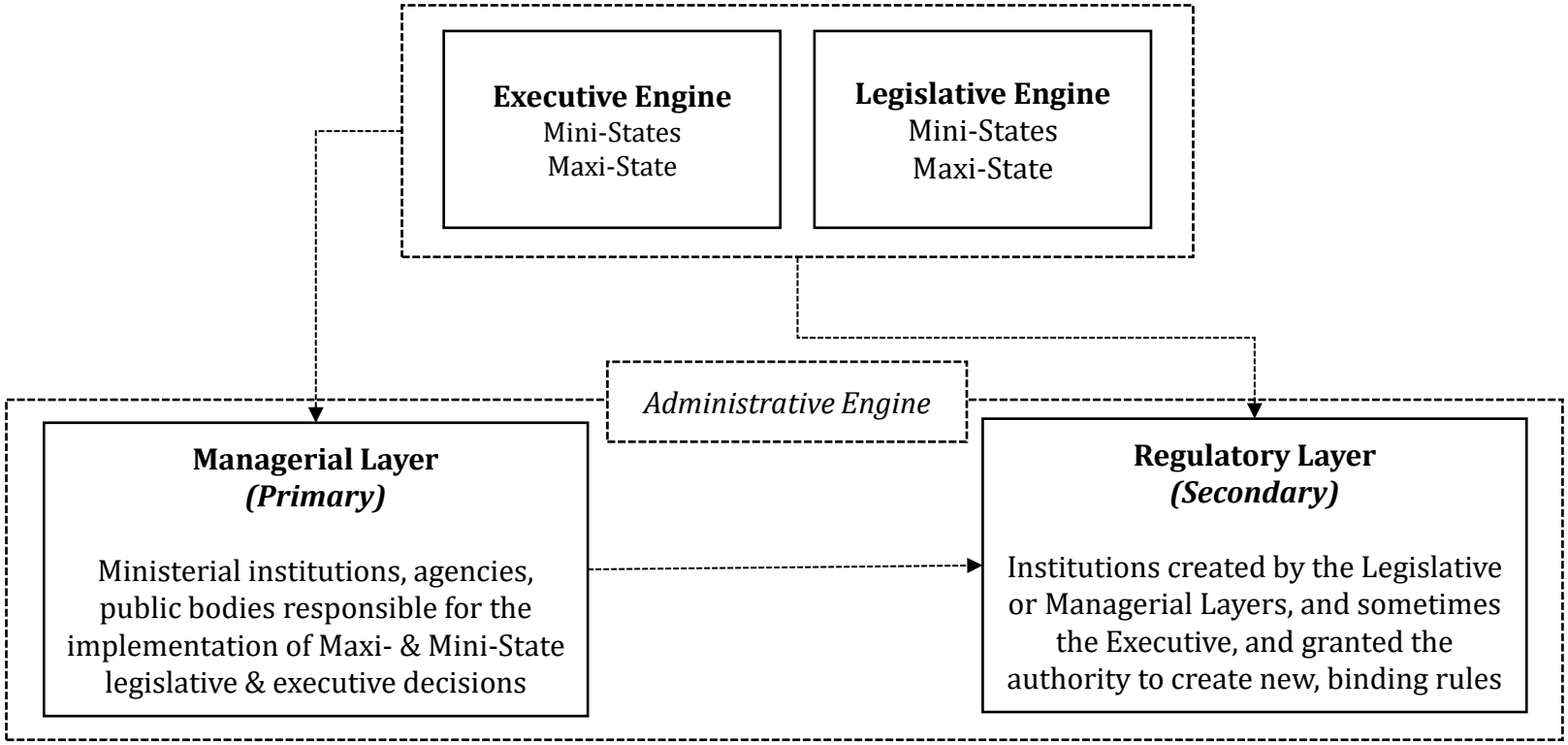
	Mini-States	Maxi-State
1. Legislative Engine		
Representative Political Technology	Proportional	Proportional + FPTP
Direct Political Technology	Citizens Initiative, Popular Referendum	
Dispute Resolution	✓ (a)	✓(QV)
# chambers	Unicameral	
2. Executive Engine		
Prime Minister	Elected	Elected
Cabinet	Appointed	Elected
Elections	3-5 years	4-5 years
3. Supreme Court	✓ / ✗ (b)	✓
4. Constitution	✓ / ✗	✗

Real, Substantive Legitimacy

(a) Mini-States use QV and other DRM mechanisms.
(b) Most, but not all, Mini-States have their own Supreme Court.

6. Administration

The Administrative Engine implements the decisions of the executive & the legislative via a managerial and a regulatory layer. There are 2 central questions…



1. *Can the Regulatory Layer's ability to create quasi-law ex-nihilo be consistent with RSL (=clarity, process, effectiveness)?*
2. *How can de Managerial Layer perform its functions well – and therefore also support RSL?*

Neither the abolition nor vertical integration of the regulatory layer is viable – but is there are prima facie case for *the State* to be the regulator?

1 **Abolition of Regulatory Layer**

- It is the State's function to manage extreme risks, including the extreme abuse of power
- Citizens will expect to have direct recourse to an agency whose job it is to ensure certain things work – and also monitor the DNAP Condition
- This agency is not the legislature (see right)

2 **Vertical Integration of Regulatory Layer**

- The Legislative Engine does not have the resources to take over the work of the Regulatory Layer
- The same applies to the Courts, another potential candidate

The demand for regulation derives from (1) the need for coordination among independent parties and (2) the existence of asymmetric information between consumers and producers.

Neither point a priori to State-led regulation. How is regulation therefore best structured?

The abolition of deposit insurance (ADI) was a powerful and effective catalyst for regulatory reform

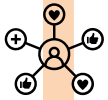
What is the Problem with Deposit Insurance?

1. Deposit insurance does not prevent banking crises…
2. ….and, in fact, increases their frequency (moral hazard): uninsured banks have historically performed better than insured institutions
3. It is not required for system stability / to avoid systemic bank runs – depositors can distinguish good from bad banks…
4. …and represents a large, valuable subsidy for banks

How does it Work?

1. **Abolish state-backed deposit insurance and with it existing capital & liquidity rules**

2. Pass legislation that (i) makes **deposits super-senior obligations** of banks and (ii) **makes any compensation** by the New State for depositor losses **illegal**



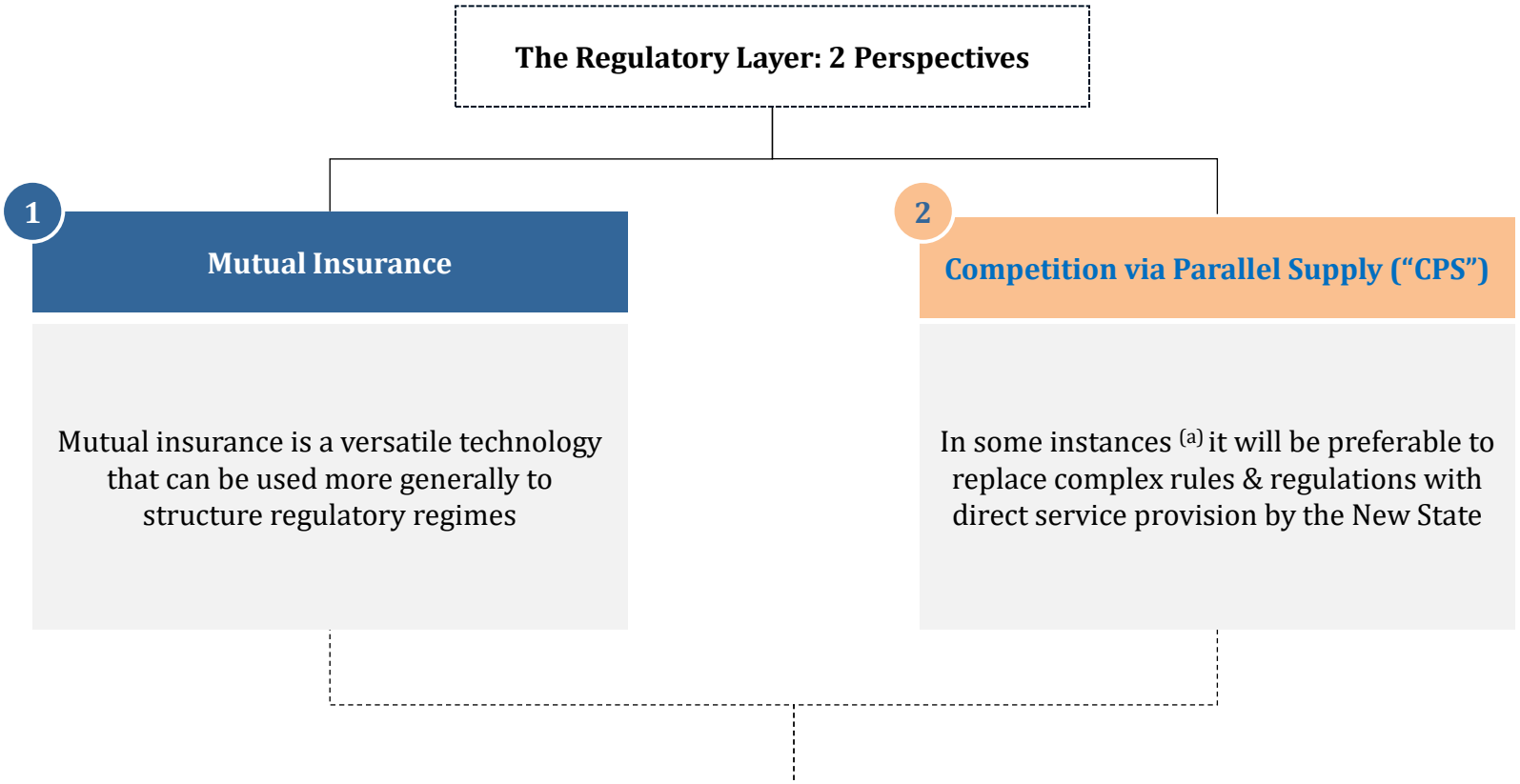
3. Encourage **banks to establish their own Mutual Guarantee Schemes** ("MGS"), replicating the insurance and regulatory regime previously provided by the State

4. **Convert an old savings bank of the State into a full deposit-taking bank** operating in some / all Mini-States

By mutualising credit risk in excess of individual institutions' level of capital, ADI secures the independence of deposit values from the institutions holding them – an essential feature for its use as money.

ADI is a natural application of one of the three contractual requirements for stable mutual insurance

Mutual insurance and ‘competition via parallel supply’ in lieu of complex regulatory intervention are two building blocks of the New State’s regulatory layer



(a) Highly standardised, commoditized industries with natural monopoly features, for example.

Outcomes-based regulation and maximum decentralisation are the two central design features of the Regulatory Layer

A **Outcomes-based Regulation**

- Focus on results, not process

B **Maximum Decentralisation**

- Like the State, the Regulatory Layer should also be highly decentralised

Self-Regulation with Opt-out delivers outcomes-based regulation in a highly decentralised and efficient manner…

2 Design Features

1. Outcomes-based Regulation
2. Maximum Decentralisation

1

Self-Regulation with Opt-out

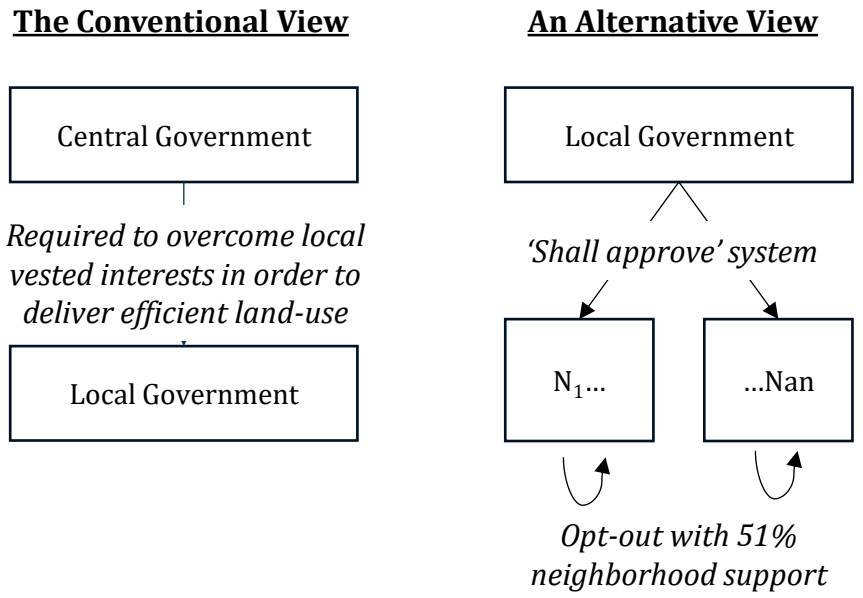
- Combine an overarching principle of **freedom of action** with the ability of organised groups to **opt-out** from and disapply that principle
- Very useful for localised markets…
- …e.g. construction where almost all planning and zoning restrictions are abolished but Neighbourhood Associations (NHAs) can vote to impose restrictions (opt-out) for 10-15 years

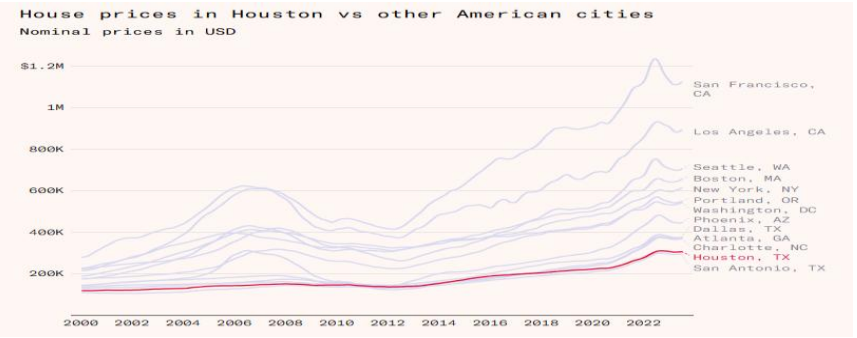
- ✓ Supports more flexible, dense and intensive construction
- ✓ Neighborhoods can impose their preferences on their territories (but not elsewhere)…
- ✓ …whose inhabitants then also bear the cost of any restrictions
- ✓ Focus on an outcome – best use of land – without prescription for what best means for each neighborhood
- ✓ Sunset provisions avoid accumulation of layers of regulation

Houston has used an Opt-out scheme to reinvigorate an ultra-local land use development and management system. Korea, Israel have used similar schemes [a]

How it Works [b]

- 1998 change in building code drops min plot size in inner Houston from 5ksft to 1.4k sft, allowing developers to "**replat**" lots into smaller units; property set-back from street reduced from 25 ft to 5ft
- The "replats" became a "right" rather than a permission obtained via the planning process ('shall approve' system)
- "Zoning restrictions" replaced by **time-limited, private "deed restrictions"** involving **agreements between landowners within blocks or small areas**: the ultra-Mini-State application of a localised planning regime
- Since 2001, citizens have been able to **directly petition** the city to introduce further requirements with **51% of local homeowner support** - this is a direct alternative to alteration of local deed restrictions
- This **opt-out system** has provided homeowners with the reinsurance protection some of them want against unconstrained development…
- ….while also ensuring that **those petitioning for more restrictions also pay the cost of doing so**
- The **sunset provisions** mean that contemporary residents' choices don't affect future residents
- **High property taxes** (and no income tax) also explain why "new neighbors" are more easily accepted





(a) See https://worksinprogress.co/issue/houston-we-have-a-solution/
(b) The reconstruction of Tokyo after WW2 is another example of how local consensus about re-arranging landownership was a viable – i.e. legitimate – basis for large-scale building.

Self-Regulation with Self-Insurance applies the lessons of ADI to a much wider range of industries

2 Design Features

1. Outcomes-based Regulation
2. Maximum Decentralisation

1

Self-Regulation & Self-Insurance

- Firms in one industry establish a **captive insurer** for breaches of agreed rules
- Membership & conduct rules established by members (i.e. multiple such captives possible within an industry)
- Industry captives can buy XOL/QS **reinsurance from Maxi-Re**
- Plaintiffs can make direct claims to the industry captive

- ✓ Industry firms have real skin in the game to avoid losses
- ✓ Policing of members establishes minimum performance thresholds
- ✓ Clear division of responsibility between primary insurance (industry captive) and reinsurance (Maxi-Re)
- ✓ Is used in pharmaceuticals, food production, automotive, etc.

The characteristics of the Regulatory Layer are elegantly consistent with the main intellectual building blocks of the New State

TBLA – to be left alone – is also a right of producers

Don't be fearful – more is possible than we might think

A **Functionally Small State** can be viable – regulation does not have to be solely or primarily a function of the State

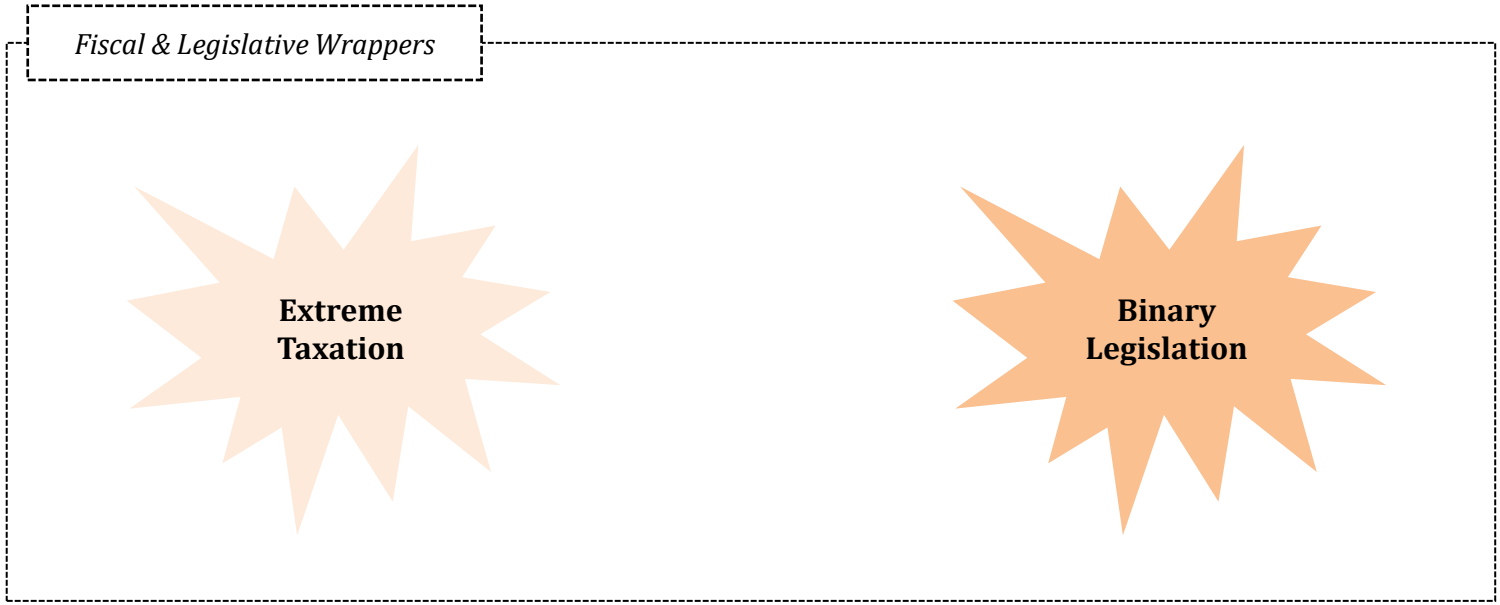
The New State is / can be the **Regulator of Last Resort**

Clear, procedurally reasonable, effective: **Really, Substantively Legitimate (RSL)**

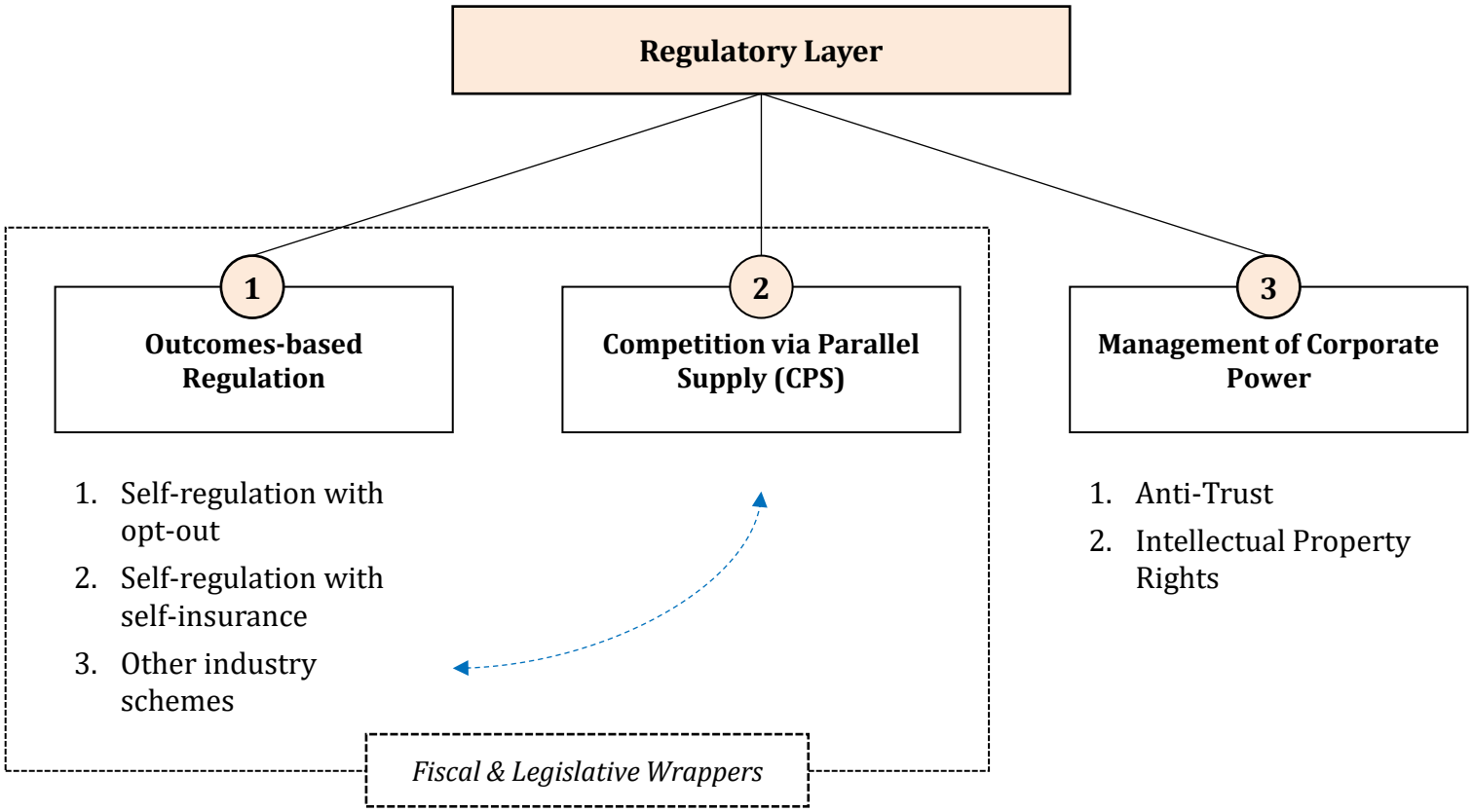
This can happen directly or indirectly, i.e. via

- **Maxi-Re** providing XOL reinsurance to mutual insurance captives
- **CPS** – offer a simple, clean "alternative" triggering a direct behavioural response by competing companies / industries

The New State can use two clean, crisp and effective tools to intervene in regulatory affairs as a last-resort intervention – making it a last-resort regulator



The focus of the New State's regulatory activities are then outcomes-based regulation via self-insurance, CPS – and the management of corporate power



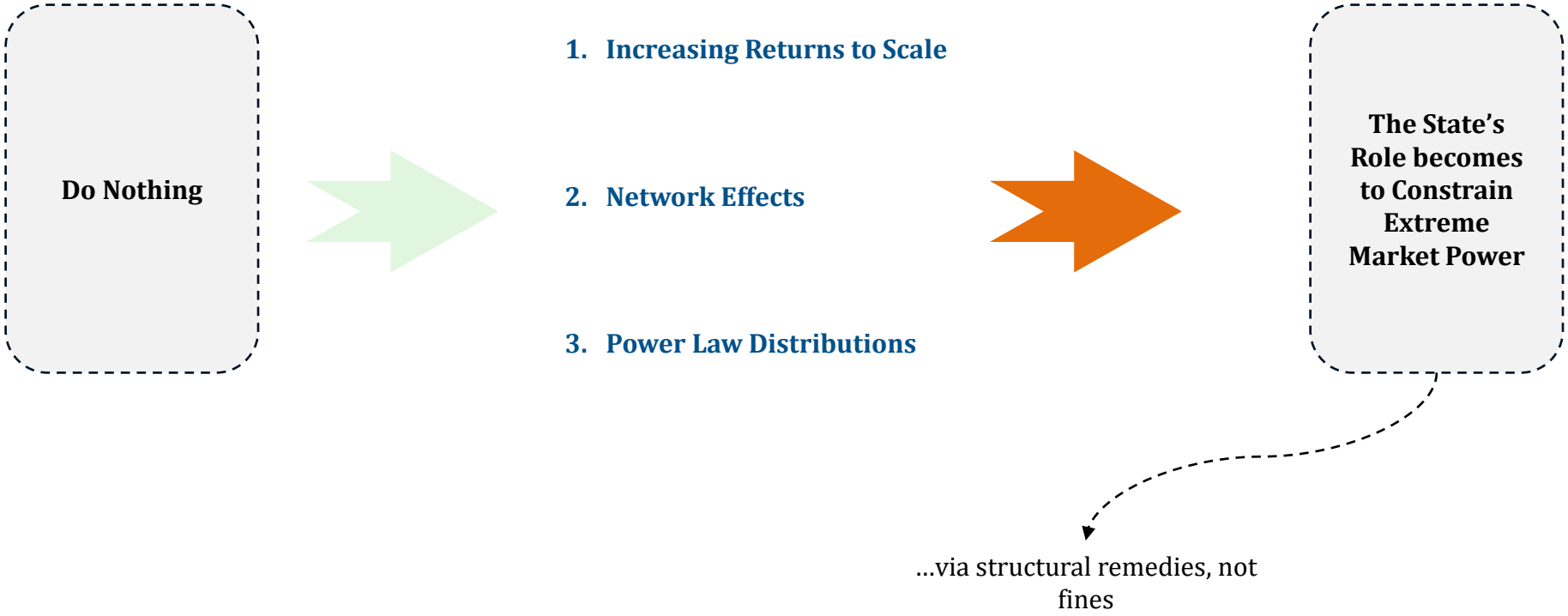
Anti-trust is the first component in the management of corporate power – which involves accounting for our role & life as producers, and not just consumers

Two perspectives re. what really matters…

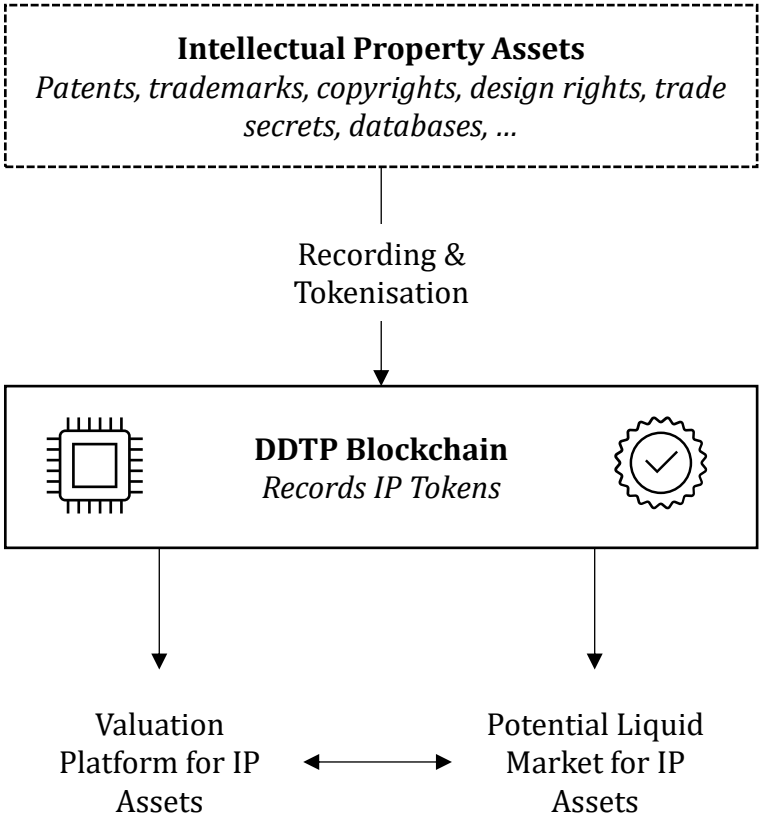
Consumer Welfare	Market Power
▪ Consumer surplus is the measure of ▪ Low prices, high output in each product market are indicators of an absence of monopoly ▪ A (not unreasonable) post-WW2 derivative of neoclassical economics → **Nothing to worry about as long as prices are low**	▪ Focus on firms' behaviour in product markets – predatory pricing, exclusive dealing arrangements, product bundling, price fixing, horizontal/vertical integration ▪ A (not unreasonable) pre-WW2 derivative of classical economics → **Nothing to worry about as long as firms do not <u>abuse</u> their power**

TBLA is not just a right we have as a consumer, but also as a **producer** – the New State's anti-trust policy is there to manage power and **combine *Doing Nothing* with *Doing A Lot* when firms abuse their power**

Thanks to three pervasive features of (economic) life, the role of the state is to manage extreme market power, in particular via structural remedies



All Intellectual Property assets are tokenized on the blockchain underlying the DDTPs – creating a liquid market for those who want to transact at quoted prices



How it Works

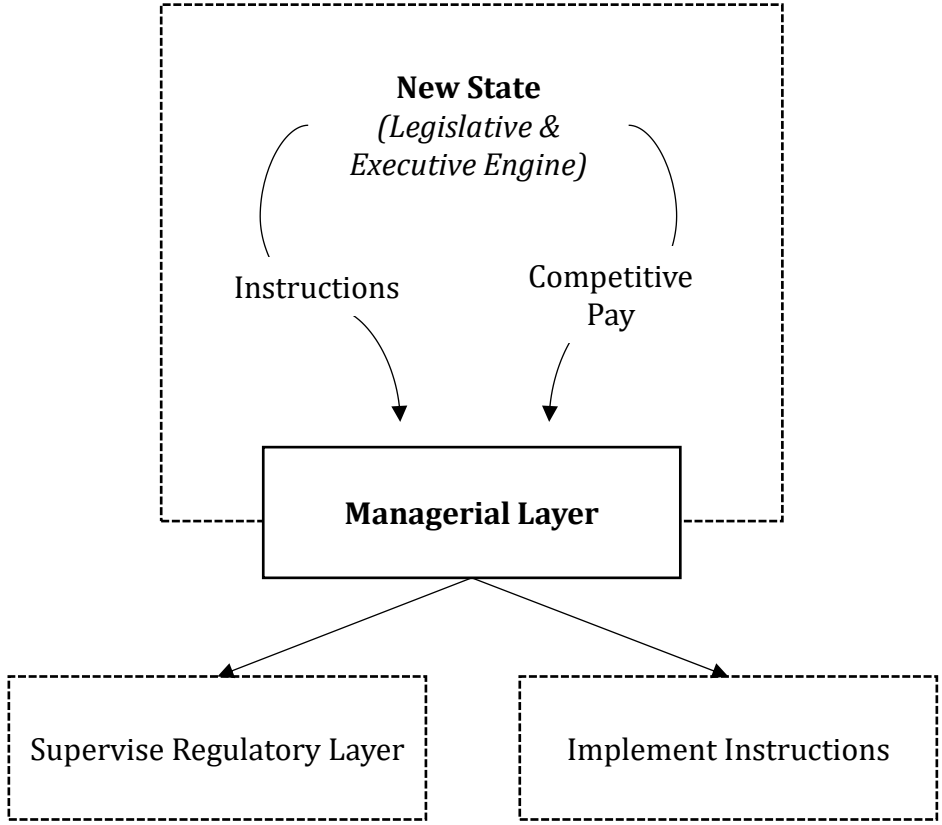
- All IP assets must be recorded on the DDTP blockchain…
- …which tokenizes an existing entitlement conferred by statute (patents, trademarks), authorship (copyright), or lawful control (trade secrets)
- Tokens are tradable by default between willing buyers & sellers…
- …but don't require full information disclosure - the asset owner only has to publish a hashed reference and minimal metadata: ultimately he/she can choose what to publish
- However, this can be enough for an interested party to offer a price for a particular token
- If the IP owner wants to transact at that price, she can – if not, then not
- IP tokens are therefore publicly accessible, containing information chosen by the IP owner, creating a price discovery mechanism and potentially liquid market for IPO assets

IP owners and users can now engage, if they wish to, on the basis of information & prices available for IP tokens on a blockchain platform recording transactions in immutable form

The Managerial Layer supervises the Regulatory Layer – and is competitively paid because it faces its own Competition via Parallel Supply from the Anti-State

How it Works

- The managerial layer
  - implements instructions received by the Legislative & Executive Engines and
  - supervises the Regulatory Layer
- It has board **representation at each regulatory institutions**, making sure that the extent to which the latter can take on a life of their own is limited
- The only substantive point about how the Managerial Layer is managed is that **it offers very competitive pay** – which can be 2-3x higher than in the Old World
  - The State faces its own Competition via Parallel Supply – from the private world.
  - It **must therefore make working for the State meritocratically and financially prestigious**



Some concluding observations on the State's administrative function

Regulation

- Regulation is required to maintain the legitimacy of the State…
- …but the New State has transferred more regulatory obligations to self-insurance schemes….
- …making itself a last-resort regulator (e.g. as a result of its reinsurance services)
- Direct action vs prescriptive instructions is a clearer and more effective regulatory alternative

Anti-Trust

- A sole focus on consumer welfare maximization overlooks our parallel, and probably more important life as producers

Intellectual Property Rights

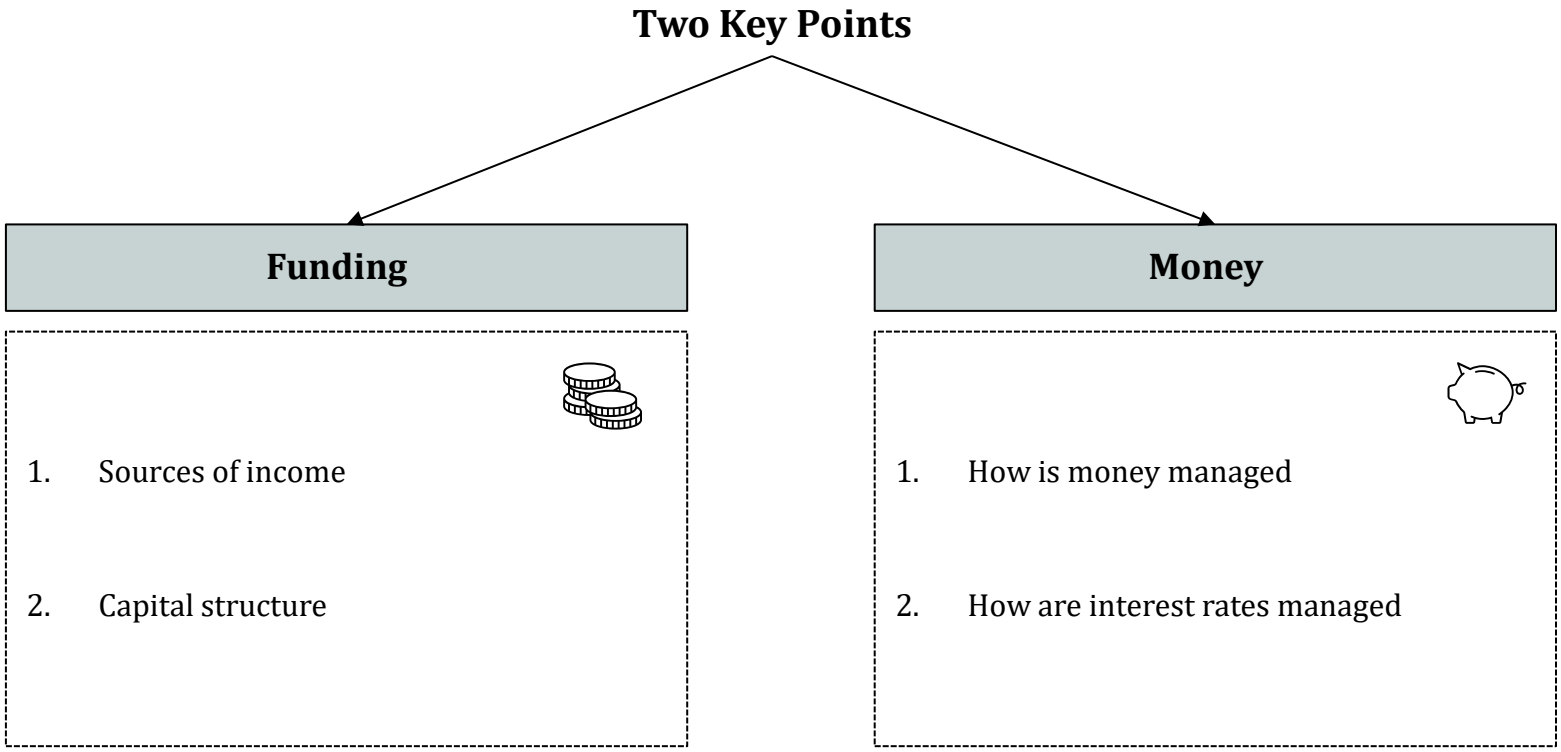
- Transparency and potential marketability are the main points of interest in the management of intellectual property rights

Managerial Layer

- Competitive pay is indispensable for the development of a competent, effective managerial apparatus

7. Funding

The two key financial questions are (i) how the State's activities are funded and (ii) how its monetary affairs are organised



The New State – like any state – has four sources of funding. They must be used in a way that is economically sensible – and this funding mix must also support RSL

Sources of State Funding

Tax
Non-/Redeemable

Debt
Secured / unsecured

Money
Really equity

State Assets
Generating income

Constraints & Equilibrium

(1) $S^{Actual} \leq F^{Max}$

or…

(2) $F^{Actual} \leq S^{Max}$

..but in any case

(3) $S^{Actual} = F^{Actual}$

where

S = State conception, i.e. what we want the State to do & look like

F = Financing capacity

Optimal Capital Structure: Four Observations

#1 Be **wary of too much debt**, becoming a slave to creditors instead of a servant to citizens

#2 **Hypothecated funding pools** are more useful than commonly believed

#3 **Avoid double, triple & quadruple taxation** of the same income

#4 **Simplicity, effectiveness, efficiency** win: **tax large pools of value at low rates**

The GLE is a hypothecated health & social care insurance vehicle – while the New State's pension system is based on contributions to & returns from the EIF

Two Hypothecated Funding Programs

	1. The Good Life Engine (GLE)	2. The Eternal Investment Fund (EIF)
Function	Health & Social Care Insurance	Retirement Income & Pensions
Contribution Rate (% of income)	**15%**	**17.5%**
of which:		
Employer contribution	7.5% [a]	7.5% [a]
Employee contribution	7.5% [a]	10% [a]

Together, 32.5% of gross income with employees paying ca 17.5% and employers ca 15% [a].

Note that while tax is akin to "ordinary equity" (it's not certain you'll get a return), EIF Contributions are really "preferred equity" because they establish a direct right for each citizen to receive specific value in return [b]

(a) Employer contributions are slightly higher to adjust for a small premium paid as a cross-subsidy for the self-employed who would otherwise have to pay materially higher contribution rates.
(b) GLE Contributions offer a benefit in-kind in return rather than a contractual undertaking to pay $XX per year from age XX.

Across four investment vehicles the New State provides capital for the operations of the Maxi- & the Mini-States

New State Investment Vehicles: What are they for?		
	Maxi-State	**Mini-State**
1 **Maxi Re**	Catastrophe risk insurance	• QS & XOL reinsurance • Catastrophe risk insurance
2 **EIF**	Investments & prizes	×
3 **IIFs**	×	• Markets for Knowledge Options • Good Life Engine
4 **Last Fund**	• Retrocession to Maxi-Re • Funding & credit support to EIF • Governance & administration	• Funding & credit support to IIFs • Governance & administration

Maxi-Re is divided into two cells – one for its reinsurance operations and another for its catastrophe risk insurance activities

Maxi-Re – Capital Structure		
	Reinsurance Cell	**Cat-Risk Cell**
Function	Quota Share (QS) & Excess-of-Loss (XOL) Reinsurance	Extreme Risk Insurance
Funding		
Tax	95%	12.5%
Debt	5%	12.5%
Catastrophe Bonds	---	75%

Catastrophe bonds are the main funding instrument for the Cat-Risk Cell, allowing investors to provide a range of structured risk-sharing capital to the State

The EIF receives most of its income from EIF Contributions with residual funding from State assets and the Last Fund

Eternal Investment Fund – Capital Structure

	Eternal Investment Fund (EIF)
EIF Contributions	80%
State Assets	20%

	Layer #1: EIFIN	Layer #2: EIF Hub	Layer #3: Prizes
EIF	25-30%	100%	---
Sponsors / Co-investors	70-75%		---
Last Fund	---	---	100%

Investors fund the lion share of EIFIN investment capital, but the EIF co-invests generally 25-30%

The GLE is funded by direct insurance contributions, co-payments & the Last Fund while the MKOs are predominantly funded by taxation

Immediate Investment Funds – Capital Structure		
	Markets for Knowledge Options (MKOs)	**Good Life Engine (GLE)**
TKF Reimbursements	5%	---
GLE Contributions	---	80%
Co-Payments	---	1%
Tax	70%	---
Debt (Mini-States)	10%	---
Last Fund - Mini	7.5%	9.5%
Last Fund - Maxi	7.5%	9.5%

GLE Contributions are the main source of funding of the GLE

Each Mini-State operates is own Last Fund as does the Maxi-State – both of which are substantially funded by general taxation

Last Fund Capital Structure		
	Maxi-Last Fund	**Mini-Last Funds [a]**
Tax	95%	85% (94.5%)
Debt	5%	5% (5.5%)
Maxi-Last Fund	---	10% (---)

(a) Number in brackets is the Mini-Last Funds' funding mix when accounting for the funding structure of the Maxi-Last Fund.

One third of New State funding comes from hypothecated GLE & EIF contributions with another 40% from tax – debt & cat-bonds together represent <10%

The New State – Capital Structure

	Maxi-Re	EIF	IIFs	Last Fund	New State [a]
Tax	79%	4%	95%	95%	70%
of which: GLE Contributions			44%		12%
EIF Contributions		77%			18%
Catastrophe Bonds	15%				4%
Debt	7%		5%	5%	4%
Money					0%
State Assets		19%			4%

Money funds nothing – never let the State devalue its own currency

(a) Assuming all 4 funding vehicles account for about 25% of total funding.

The New State tax system – which is the source of ca 90% of all funding – is built around five simple, effective and efficient taxes

Five taxes account for almost all the tax revenue raised by the New State

Hypothecated Taxes	Non-Hypothecated Taxes
GLE Contribution = 7.5%	Consumption Tax = 15%
EIF Contribution = 10%	Corporate Revenue Tax = 2-4%
	Land Value Tax = 3%

All other income – interest, dividends, capital gains, rent, inheritances, wages & salaries, fees, commissions – is not taxed

Taxing consumption gives individuals control over their tax liabilities, encourages investment, is easily managed and can achieve distributional equity

Personal Tax	
Gross Income	**100.0**
Less: GLE Contributions	(7.5)
Less: EIF Contributions	(10.0)
Net Income	**82.5**
PSA Contributions [(a)]	(10.0) [(b)]
"Consumption"	72.5
Consumption Tax @ 15% [(c)]	**10.9**
Total Tax Rate (incl GLE+EIF)	28.4%
Net Net Income	**71.6**
Real Net Income [(d)]	**81.6+**

How it Works

- No income tax / PAYE
- Investments in Personal Savings Accounts are tax-deductible; must meet certain criteria re eligible assets, holding period, etc.
- Income and capital gains from PSA are tax-free unless and until consumed
- Income *less* GLE + EIF contributions *less* PSA investments = consumption, which is taxed @ 15%
- Mini-States can set their own consumption tax rates, which can vary by income – supplemented by a negative income tax if required (see below)
- All double/triple/quadruple taxation and the tax wedge between labour value & net income is eliminated
- Many Mini-States have developed consolidation vehicles to manage PSAs

Negative income tax (**NIT**) – individuals with incomes of less than 60% of median get a 50% rebate of the difference. This is an efficient way of dealing with any "distributional" consequences of moving to a consumption tax

(a) Personal savings accounts
(b) For example….
(c) Before any progressive variations in that tax rate – which can vary by income.
(d) Including (undiscounted) EIF Contributions which represent the minimum pension income for taxpayers. It's "+" because it would only be 81.6 with a 0% EIF return.

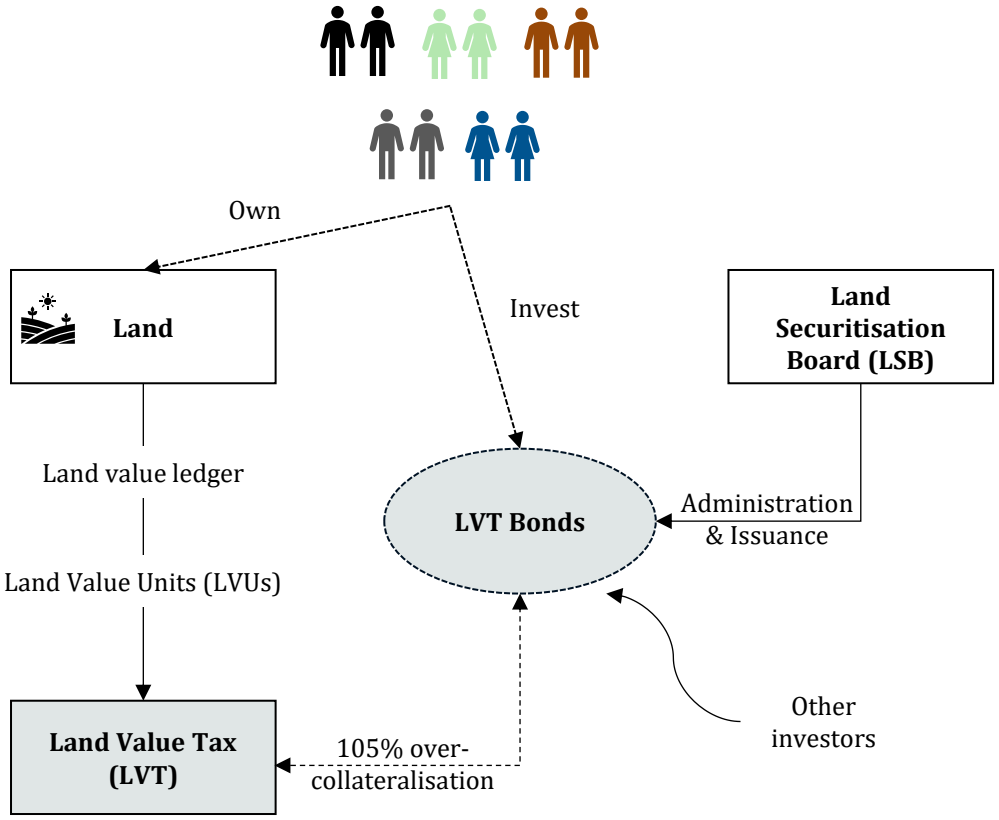
The taxation of corporate revenue is the best way for the New State's insurance schemes to participate in our existence as producers – simple, effective, efficient

2-4% tax on corporate revenues

How it Works

- Replace tax on profits by 2-4% tax on revenues, depending on size
  - Collected where revenues are generated
  - Tax is unaffected by
    - Ownership structure
    - Location
    - Cost structure
    - Capital structure
    - Accounting policies
- Extremely simple to calculate and administer
- Applies to all incorporated businesses
- Substantial boost to investment

A Land Value Tax (LVT) has become reality as part of a radically new package of taxation – and is now also the basis of an efficient debt management program



How it Works

- Land value ledger records (i) real estate transactions and (ii) replacement values in real time, with the difference between (i) and (ii) = land value
- Land value calculated daily on a square meter basis – Land Value Units (LVU)
- LVT = 3% x LVU p.a.
- Land Securitisation Board (LSB) issues LVT bonds collateralized by LVT revenue from designated pools of LVUs – e.g. in a contiguous area or of a certain type (data center LVUs?)
- 5-50+ year maturities with ca 5% overcollateralization
- Prices & yields reflect land value movements – and influence them
- Open-access investment and trading platform allows tax-payers to invest in LVT Bonds, including those relating to their own properties
- The LSB platform has therefore become the fixed income equivalent of EIFIN, and as such highly popular

Compared with the Old World, the New State's tax structure is a lot simpler with lower overall yield – commensurate with a functionally smaller state

		New State		
	Old World (a)	**New $**	**Chg**	**% chg**
Tax on income	467	380	(87)	(19%)
Tax on consumption	208	256	48	23%
Corporation tax	330	113	(218)	(66%)
Capital gains tax	13	-	(13)	(100%)
Inheritance tax	8	-	(8)	(100%)
Stamp taxes	15	-	(15)	(100%)
Land value tax	-	211	211	n.m.
Other	56	-	(56)	(100%)
Total	**1,098**	**960**	**(138)**	**(13%)**
of which paid by:-				
Consumers	768	720 (b)	(47)	-6%
Corporates	330	240 (b)	(91)	-27%
Hypothecated taxes	-	380	380	n.m.
% of total		40%		

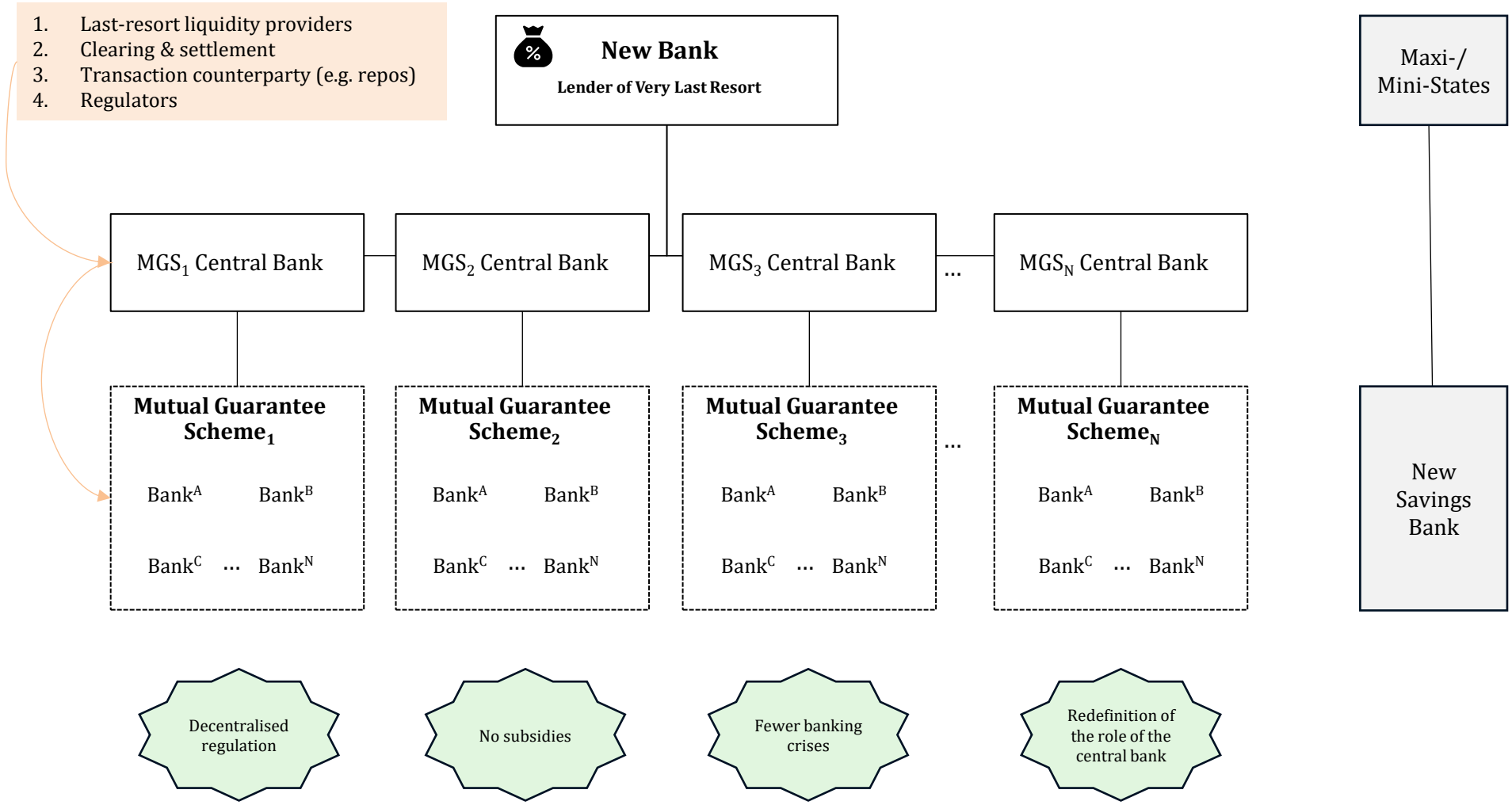
…fund an effective health & social care insurance system and a significant, compulsory pension scheme

There are many ways of how these taxes can be raised by the Mini-States vs. the Maxi-State – but the former will account for a much larger portion of the total than they did in the Old World

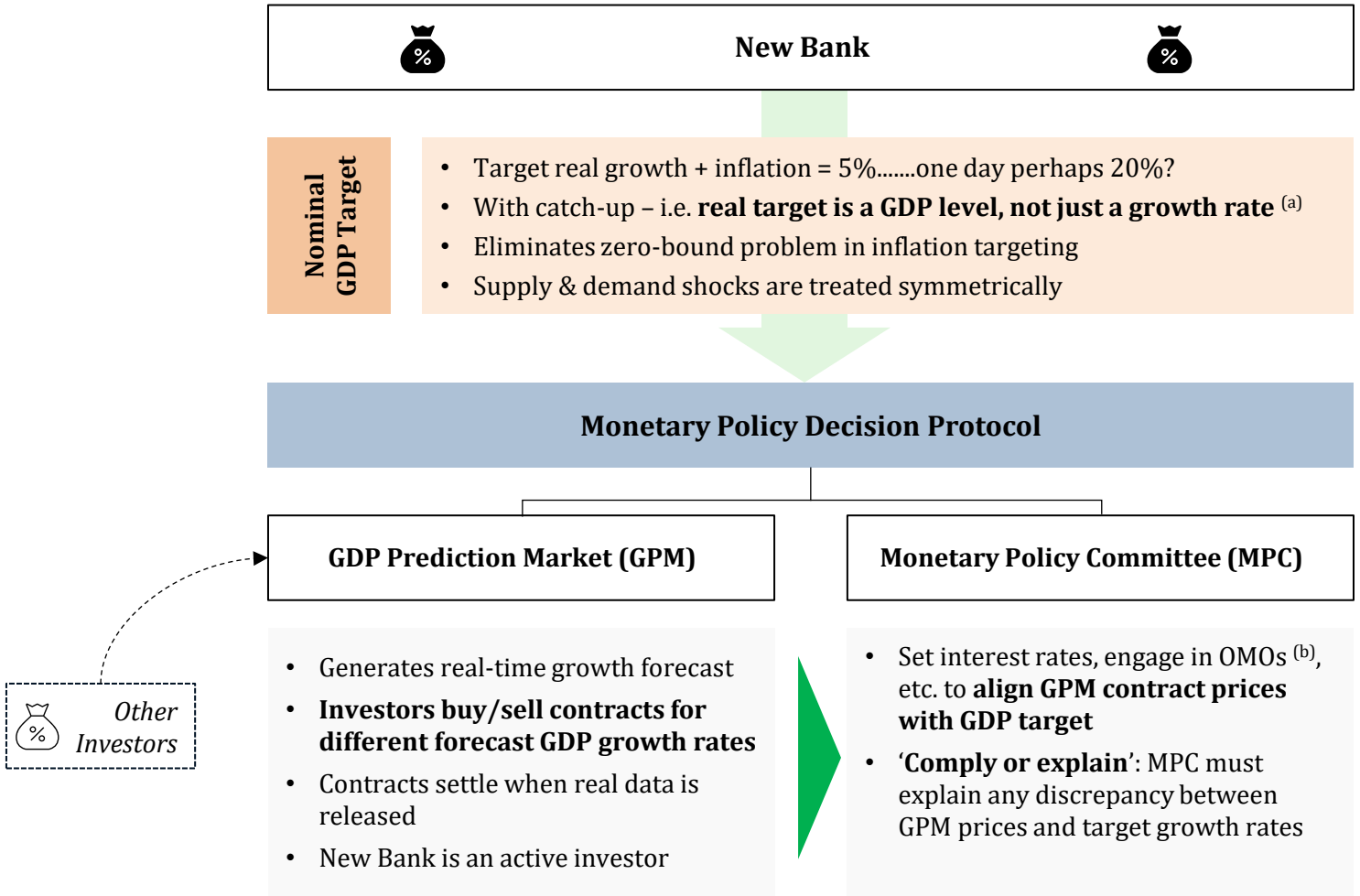
(a) In all cases, tax incidence between consumers and corporations based on conventional 'who pays' methodology and author estimates.
(b) This split assumes "who pays" tax incidence for corporates of 10% of GLE + EIF contributions + consumption tax, 100% of corporate revenue tax and 35% of LVT, approx . reflecting corporate land ownership in the Old World as a % of total land ownership. The remainder is paid by consumers.

8. Money

The abolition of deposit insurance reconfigured the New State's banking system significantly and turned the central bank into a lender of *very* last resort

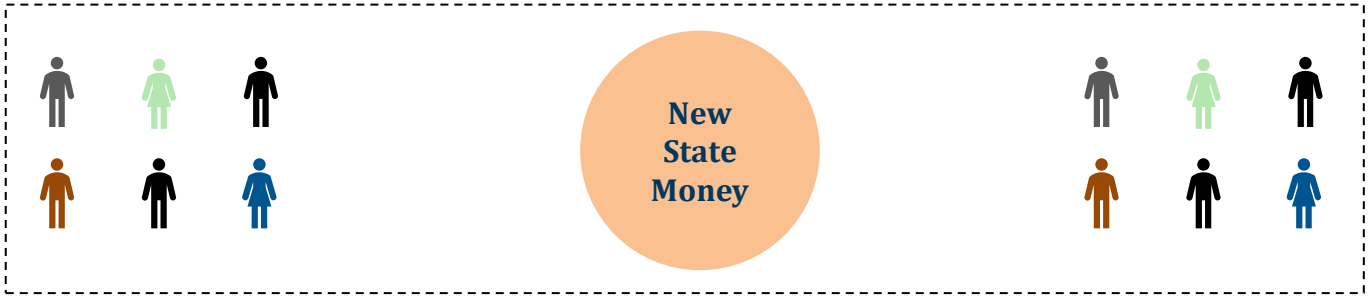


The New Bank manages monetary policy in a form that is less discretionary than it once was – reducing its power without curtailing its independence



(a) % growth rates can't be eaten.
(b) Open market operations.

Money is centralised in the New State – it does not permit parallel currencies. Digital currencies exist, but mainly as payment systems



Stablecoins

Digital
Currencies

This new monetary policy & growth management framework reduces – without eliminating – the power of the central bank and involves the public intelligently

Monetary Policy in the Old World	Monetary Policy in the New State
× Ultra-high centralisation…	✓ Ultra-low centralisation…
× …without use of investor information and market knowledge	✓ …with full use of investor information and market knowledge
× Sub-optimal policy mandate	✓ Superior policy mandate
× Difficult to maintain legitimate over time	✓ Can be legitimate over time

9. Conclusion

After the Leviathan presents a **Vision for a Future State**

But how can we reach it?

There are good precedents for states undergoing radical structural & constitutional change without the immediate spur of catastrophe

	1868-90	• Meiji restoration & Meiji constitution in Japan, born not from collapse but from an elite choice to modernize in the face of Western developments and pressure
	1923-38	• Kemal Atatürk's abolition of the Caliphate, introduction of the Latin alphabet and civil code and related domestic reforms were preceded by Turkey's loss in WW1, but not a reaction to an acute crisis
	1867	• The creation of the Dominion of Canada federated Ontario, Quebec, Nova Scotia, and New Brunswick into one country with a central government and provincial legislatures
	1965	• After its sudden expulsion from Malaysia in August 1965, Singapore created a new national identity, an export-led economic model, a Housing Development Board, and a hyper-meritocratic – and authoritarian – State
	1814	• The Danish governor of Norway, Prince Christian Frederick, instigated the adoption of the liberal Eidsvoll Constitution after secession from Denmark, creating an independent Norway – the constitution remains in force today

“You should not forsake the ship in a storm because you cannot command the winds”