

# MORE EQUAL ANIMALS

THE SUBTLE ART OF TRUE DEMOCRACY



DANIEL LARIMER

# **More Equal Animals**

The *Subtle* Art of True Democracy

*By Daniel Larimer*

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*To my loving and supportive wife who stands by me and sacrifices so that I may pursue my life's work, and to our children and grandchildren for generations to come, that they may enjoy an abundance of freedom.*



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# **Forward**

by Mike Maloney

There is a difference between the meanings of intelligent, smart, logical, and wise.

Intelligence is something people are born with. It's their IQ. It's the ability to accumulate knowledge and understand it.

Smart is the ability to use that previously acquired knowledge and apply it to create solutions to the problems you encounter in everyday life. You've probably met super intelligent people that have trouble dealing with the simplest things. The absent-minded professor or the bookworm who lacks social skills. Whereas, someone with street-smarts may have less intelligence, but knows how to use every bit of it.

Logic is the process of analysis, appraisal, and the development of a valid argument. It involves reason and sound judgment to develop, and then persuasiveness to successfully convince others. Sometimes someone can make an argument so compelling and complete that people don't even have to consider it, they just accept it as an inexorable truth.

Wisdom is acquired, either through direct experience or the observation of the experiences of others. A smart person can come up with a plan using their intelligence and logic. But a wise person can also foresee the consequences.

I have great admiration for intelligent, smart, logical, wise people... and Daniel Larimer is all of the above.

You hold in your hand one of the most important books ever written. It isn't often that someone comes up with a brand-new idea that can literally change the world, and Dan has done that.

When you read this book one thing will become immediately clear, Dan spent a lot of time thinking about some of the biggest problems that humankind faces, and then he used his immense intelligence, smarts, logic, and wisdom to create solutions that nobody has ever thought of before. Solutions that will work.

However, he doesn't address every problem individually, instead he focuses on the root cause of the problems - the ways in which we organize our societies - and then proposes new systems.

Though a good third of this book deals with politics, it is not political, and it does not pursue any ideological agenda. Instead, he proposes new systems to help us reach

consensus on how to organize society. The type of government we want, the type of leaders we want, the laws we pass and the methods we use to pass them.

Personally, I feel betrayed and disgusted by the whole political process. Today it's the campaign contributions by special interest, big corporations and Wall Street that select the candidates. Then for several months we stage a circus to both entertain and outrage everyone, where we all get to root for our team while decrying the evils of the opposition. Then finally, the media ignores us all and they pick a winner.

Here Dan has created a solution. A solution that strips power from special interests, big corporations, high finance, and the media and returns it to the voters... empowering every individual.

I truly believe that if these ideas can take hold, they will eventually sweep the world. Read this book and listen to the logic. I read it three times. If you think there is something you don't fully understand then find the smartest person you know, tell him or her about it, ask some questions, and then give them the book. If you ask good questions I can pretty much guarantee they'll read it as well. Then you can have a lively discussion. Because discussing and digesting a new concept always brings greater understanding of the subject.

Then help Dan change the world. First, take this book to heart, then make a start, by taking part. Tell people about it. Send them the link to download their own copy. Find other people who also believe that it is the status quo political system that has let all of us down. Then, become

part of the first non-political party. A party that places its faith, not with any particular politician or ideology, but in a fair and honest system of selecting leaders, laws, and ideologies. A system that returns the power to all of us... A system that returns the power to you.

- Mike Maloney

# **Chapter 1 - Introduction**

In this book we will explore new democratic processes designed to encourage consensus building rather than division into political factions. Imagine for a moment a democratic society governed without party politics, politicians campaigning, mudslinging, identity politics, ballot stuffing, gerrymandering, incumbent advantage, special interests, or debates with the authenticity of a WWE wrestling match. Imagine for a moment that there was a way to change the system without a violent revolution and *without* needing the cooperation of the prevailing political parties. All of these things can be addressed with a system that empowers the people to hold their government accountable.

Political consensus is the process by which people reach agreement about the nature and structure of government. The intent of this book is to provide practical approaches

for improving your life and that of your local community for generations to come. The ills of society are an emergent property of the philosophy of the people, so in this book I lay the framework for a new approach to, and philosophy of a *true* democracy. Once the principles are understood, I will present a strategy to realize many benefits of applying the philosophy to your life today, without having to get everyone else in the world on board first.

Is government necessary? If so, how should one judge the legitimacy of a government? Where do governments gain their power? How do we even agree upon the purpose and powers of government? Assuming we agree on a purpose, who is the judge of the effectiveness of a government in pursuing that purpose and how do we fix a government which is failing to perform the job it was created to perform? These are the questions I seek answers to and I invite you to join me.

As I write this book in the summer of 2020 the world is on fire. People are divided like never before and I fear the civil unrest will only get worse unless everyone can come to their senses and realize our common humanity. If we cannot agree on and respect a societal dispute resolution process then what alternative outcome can we expect?

I can't help but recall a scene from the ABC TV show "Lost". Survivors of a plane crash are stranded on an island with mysterious monsters and natives that are attacking them while they wait for rescue. Tensions mount and the survivors start fighting amongst themselves when a character named Jack steps in and makes an impassioned

speech calling people to work together, saying, “If we can’t live together ... then we are going to die alone”.

This book is my call to stop the fighting and find a way to live together. It is time to realize that we all have a common interest in peace, prosperity, and a future for our families. I am asking you to take a moment and let go of your ideologies and triggers and approach this book with a humble spirit and open mind.

Consider for a moment that everything you think you know just might be wrong or incomplete. I can assure you that your ideological enemies have some legitimate concerns that you would be a fool to ignore. How exactly do you plan to deal with those whom you disagree with if and when your faction/party gains power? How exactly will you respond if they resist? Will you resist if your faction loses power? If we don’t open the lines of communication and establish a new way of working together then the fighting will eventually escalate to slavery and genocide. Hopefully we have enough shared humanity left to agree that slavery and genocide are undesirable outcomes.

Over the past 15 years I have pursued non-violent means of organizing society and have adopted and discarded many different ideologies and philosophies. In the process I have discovered first principles that have allowed me to integrate the truths buried within capitalism, libertarianism, socialism, Marxism, Christianity, and atheism. As a consequence I can guarantee that something I write may trigger you or challenge your pre-existing notions. With any luck this book will bring everyone together.

I ask you to consider that our language is under attack and the very words we use to communicate are being subtly redefined or even multiply defined with contradictory meanings. There is no longer any agreement on fundamental things such as God, natural rights, or morality. We can't even agree on how many genders there are. The very words “capitalist”, “socialist”, and “communist” mean vastly different things to different people. Everything has become subjective and in the process our ability to communicate and compromise is rapidly declining.

It is for this reason that I attempt to make the minimum possible assumptions in the hope that there is still some foundation we can build upon to achieve peace. When two people have a disagreement they can either fight to the death, live and let live, or agree to a *process* of dispute resolution. If we can't live and let live, then agreeing to a dispute resolution process is preferable to a bloody conflict in which we kill and are killed.

The crisis we face today is a crisis in our existing dispute resolution process, our “*democratic*” process. We no longer trust our political processes to reach consensus in an agreeable way. Our elections have become a choice between bad and worse or dumb and dumber. Half the population doesn't trust that the votes are accurately counted. A poll I posted on Twitter revealed that over 14% of the 533 respondents will publicly admit to be willing to facilitate election rigging, and over 20% would support rigging an election at least some of the time. The major media and social media companies actively censor the

sitting president and any politically inconvenient stories. We, the people, have lost control of our government which has been captured by an elite few pulling the strings behind the scenes. These elite can only remain in control by fostering division and preventing consensus building. We the people must work together to reclaim our power from those who subvert democracy.

Whether you are an anarchist, voluntarist, capitalist, socialist, communist, Christian, Marxist, atheist, or racist, I am asking you to put aside your utopian policy agendas and fear of other ideologies just long enough to consider a new way to reach consensus that we can all live with. I ask you to consider that the truth eludes us all and putting any ideology (whatever it may be) in power to the fullest is likely to backfire in ways we could never imagine. Even more important than our ideologies and philosophies is our consensus building and measuring process. If we cannot reach consensus and maintain it, then any utopia is unstable because a person convinced against their will is of the same opinion still.

Legitimate government is *supposed* to be derived from the consent of the governed. Democracy is *supposed* to be the process by which that consent is derived. In order to grant consent one must have the ability to negotiate to reach consensus. In order to negotiate you must have the ability to say “no”. Once you have reached consensus every individual must have the ability to enforce the consensus, and lastly, if you are unable to enforce the consensus (or if you disagree with it) then you must retain the ability to

leave. It is not enough to declare a “consensus”, like our media and “scientists” are fond of doing; people must believe that consensus is a true meeting of the minds and not a covert opinion of a minority being presented as a false consensus of the super majority.

Society breaks down when any aspect of consent breaks down or is corrupted. This is what is happening today and today’s outcome is predictably derived from fundamental, mathematical, algorithmic, game-theoretic flaws in our implementation of democratic principles. It is not enough to “drain the swamp” and “vote them out”. The rules of the game ensure that the government will evolve toward corruption and away from democratic principles.

## **My Background**

I am a computer programmer, economist, game theorist, and entrepreneur. For the past 15 years I have made it my life mission to create free market (voluntary) solutions for securing life, liberty, property, and justice for all. My hypothesis is that non-violent solutions to secure our rights against public and private criminals would be incredibly valuable and therefore those who provide it can help people while also making a lot of money.

In 2009 I was attempting to invent my own digital currency when I discovered Bitcoin and blockchain technology. I thought, *“Fantastic! The problem has already been solved!”* and then immediately got involved with the Bitcoin community and started working on educational

material while learning how to write my own blockchain software.

It was during this time that I engaged directly with Satoshi Nakamoto, the mysterious creator of Bitcoin. I raised concerns about the scalability of Bitcoin and Satoshi responded with a now infamous quote: *“If you don't believe me or don't get it, I don't have time to try to convince you, sorry.”* As time passed my concerns about Bitcoin's scalability proved to be correct. I went on to create three of the highest performance blockchain platforms in the space: BitShares ([bitshares.org](http://bitshares.org)), Steem ([steemit.com](http://steemit.com) / [hive.blog](http://hive.blog)), and EOSIO ([eos.io](http://eos.io)) . All three systems reached valuations of several billion dollars at their peak and were among the top five blockchain projects of their time.

While everyone was attempting to get a handle on what Bitcoin was, I was the first person in the blockchain space to describe blockchains as decentralized autonomous companies (communities, corporations, or organizations). Since then the concept of DACs (DAOs) has been widely adopted in the industry.

It was this perspective that led me to invent one of the most widely used consensus algorithms, known as Delegated Proof of Stake (DPOS). DPOS enabled low cost, high performance blockchains with built in decentralized governance. These blockchain characteristics were necessary to build the first decentralized exchange (BitShares) and the world's first decentralized social media platform (Steem). My last blockchain architecture was EOSIO, a platform designed to empower others to build

blockchain-based applications and implement smart contracts.

Each one of these projects was a social experiment in community building, governance, economic incentives, and game theory. I learned a lot about human nature, coordination problems, community governance, and voting systems.

During this time I was also granted patents for provably honest voting systems and decentralized identity validation. Unfortunately, I also learned that our government effectively outlaws “*provably honest voting*” through mandating rules that make election tampering impossible to catch. Rather than taking steps to improve the integrity of the election process, the powers that be are systematically removing protections “in the name of democracy”. It is almost as if they *want* people to distrust the election process. I file that under things that make you go “*hmmmm*”.

I built my career on challenging the dogmas in the cryptocurrency space and identifying the underlying fundamental principles at play. It was the understanding of these principles that allowed me to create the first self-funding, self-governing, decentralized global communities.

I also applied my mental habit of challenging dogmas to all areas of life. As a result I evolved from a Christian Republican, to an anarcho-capitalist-atheist, to a voluntarist-spiritualist, and finally stumbled upon a position that integrates aspects of socialism, support for government and, with insights from Jordan Peterson, a new

appreciation for the value of Christianity. You could say that I have traveled the world of philosophies and can relate to everyone as being somewhere on my journey.

It is through this experience that I discovered and distilled the first principles that unified these apparently contradictory philosophies and led to ideas presented in this book.



## Chapter 2 - Tyranny of the Status Quo

We live in a time of extreme political division and every day the apparent polarization grows. For over 50 years the approval rating of the United States congress has averaged less than 30%, meaning a super majority does not approve of how things are. Aside from a brief moment after the September 11 attacks, approval has never been above 50%. I suspect that, retrospectively, after the emotional distress wore off, the actions taken by Congress during that time are largely disapproved of.

It seems to me that a legitimate government would trend toward a 70% approval rating or more. The question becomes why has it been so bad for so long and what can we do about it? How did we get where we are? If we are going to consider something new, we must first understand the problems with the status quo so that we do not repeat the same mistakes.

## **Presumed Purpose of Government**

The preamble of the United States Constitution declares the supposed purpose of the United States government:

*"We the People of the United States, in Order to form a more perfect Union, establish Justice, insure domestic Tranquility, provide for the common defense, promote the general Welfare, and secure the Blessings of Liberty to ourselves and our Posterity, do ordain and establish this Constitution for the United States of America."*

— Preamble of the United States Constitution

Many people will argue that this Constitution represents what we have all agreed to and therefore should define the purpose and limits of government. This appeal to the status quo is an attractive fallacy because it relieves one of the responsibility of justifying the Constitution. For those who favor the theoretical limits the Constitution places on government, the idea of redefining the basis of our government is terrifying because there is a legitimate fear that a constitution drafted by modern politicians would decimate the rights they believe the existing Constitution protects. On this point I agree; modern politicians cannot be trusted to have the philosophical integrity to draft a new constitution.

The mere fact that many people fear a new constitutional convention is evidence that they believe their values are not held by the masses or that the politicians they elect are irredeemably corrupt. If politicians are irredeemably corrupt, then the governance structure defined by the

Constitution is the structure that enabled corrupt people to gain the reins of government. If instead the politicians actually represent the people, then the Constitution is a minority opinion imposing itself on a majority. Either way those who resist building a new consensus aim to impose a tyranny of the status quo.

Lysander Spooner observed, “*But whether the Constitution really be one thing, or another, this much is certain — that it has either authorized such a government as we have had, or has been powerless to prevent it. In either case it is unfit to exist.*”

Given a long-term average 30% approval rating, the conclusion is obvious: our Constitution and the system of government it has established have failed. Entire books have been written documenting the failure of the United States Constitution in achieving its stated purpose. If we were to wipe the slate clean, erase all laws, and unwind all existing government organizations and start afresh with just the Constitution, how would things go? Would we not end up right where we are right now and in record time?

Given this situation it is clear the Constitution must go and with it our entire structure of government. The government no longer represents and serves the people, if it ever really did. But why did it fail? What should we replace it with? How will we agree?

### **The Political Party Folly**

The failure of our system was predicted in the farewell address of the very first president of the United States, George Washington.

*"In contemplating the causes which may disturb our Union, it occurs as matter of serious concern that any ground should have been furnished for characterizing parties by geographical discriminations, Northern and Southern, Atlantic and Western; whence designing men may endeavor to excite a belief that there is a real difference of local interests and views. One of the expedients of party to acquire influence within particular districts is to misrepresent the opinions and aims of other districts. You cannot shield yourselves too much against the jealousies and heartburnings which spring from these misrepresentations; they tend to render alien to each other those who ought to be bound together by fraternal affection.*

...

*However [political parties] may now and then answer popular ends, they are likely in the course of time and things, to become potent engines, by which cunning, ambitious, and unprincipled men will be enabled to subvert the power of the people and to usurp for themselves the reins of government, destroying afterwards the very engines which have lifted them to unjust dominion."*

—George Washington

I think it is clear from observing modern politics that Washington was right. The country has been divided in a winner-take-all system. We don't have a body of independent congressmen making personal judgments; we have a system whereby most congressmen are beholden to a political party and unable or unwilling to exercise independent discernment.

The 2020 presidential race has devolved into “orange man bad” vs “orange man good”. It has become a race between

dumb and dumber and between bad and worse. It could hardly be claimed that the choices presented to the people represent the most studied, thoughtful, honest, rational, impartial, and well-spoken people in the country. Given these false choices something is obviously fundamentally broken.

A political party represents a parallel *private* government comprised of individuals *colluding* to gain control of the constitutional government. Such collusion undermines the separation of powers intended by the framers of the Constitution.

One of the lessons easily observed within the cryptocurrency space is that people are tribal to the core and these tribes can form around anything you can place a label on. At a certain point everything devolves into “*us*” and “*them*”. Anyone attempting to bridge the divide is suspected of disloyalty to both tribes (parties).

Politicians naturally end up more loyal to the tribe that put them in power than to the country. This is true whether they are conscious of it or not. A single tribe places people across all branches of government and the semi-autonomous bureaucracies. The effect is that the political tribes undermine the intended checks and balances put into place by the founders to protect the liberties of the people.

This is another thing we learn from governance in cryptocurrency communities: there is no such thing as a closed system. People will coordinate outside of the blockchain governance process to take control of the

blockchain governance structures. They will create fake accounts, vote with other people's tokens, and collude to redistribute money from the community purse. Regardless the spirit of the laws a community creates, people will attempt to exploit holes in the algorithmic letter of the law (computer code) for private gain.

Game theory is a branch of mathematics that analyzes strategies for dealing with competitive situations such as governance. Mechanism design leverages game theory to design systems that produce the desired emergent outcome. This book is derived in part from my experience applying and testing mechanism design in global blockchain communities. A good design must not assume a closed system free from outside cooperation. You cannot “outlaw” political parties; you must design a system that makes them impossible to form in the first place.

Let's take a moment and consider some of the irrational consequences of the party system. In the early years of the United States, the vice president was the runner up in an election. Could you imagine a Trump/Hillary ticket? Since the party system polarizes the population the implied archetypical outcome would be either Lucifer/Christ or Christ/Lucifer and every couple of years it would switch. Because this was intolerable we now have a system where the president/vice president run as a team.

But why should we limit the team to the president and vice president? Why not replace the whole government with the loyal lapdogs of the winning party? Do the people really intend to put a president in charge of a disloyal bureaucracy? The common belief is that this creates “checks

*and balances*” and forces the two parties to compromise. One has to wonder how can Lucifer and Christ compromise? How can “*good*” compromise with “*evil*”? If they do compromise is it for the benefit of the people or just the “*Divine Spiritual Beings*” (aka the ruling class)? If the people elect Christ, should Lucifer's lackeys do their best to undermine him? Should Lucifer be put in charge of heaven or Christ in charge of hell?

With the party system, the power of any independent politician is nullified. In extreme cases a large number of those in unelected governmental positions can work against a widely popular president. If you are not aligned with one of the two primary parties you will lack the political support necessary to effect change.

Given a two-party system, all deliberation and negotiation occurs between the leadership of the parties and not in the larger body of representatives. The true leadership is often behind the scenes and unelected. The parties easily agree on things that reinforce the two-party system; therefore, over time outside parties have an increasingly difficult time even getting on the ballot or in the debates. We end up with a one party system where the debates between the “left” and “right” wings are limited to topics that don’t impact the power structure.

In recent years people have learned that to have a chance in the elections they must wear a red or blue jersey and then work the private governance system defined by each party. Ron Paul and Bernie Sanders both had tremendous initial success by using their parties’ internal processes in

an attempt to gain the party nomination. In both cases the powers behind the red and blue parties changed the rules and otherwise “*cheated*” them out of the opportunity to be the party’s nominee. While these are the most visible examples of how each party controls its internal governance, there are countless smaller examples of both parties turning against “*outsiders*”.

Stated another way, our country didn’t consciously choose to be governed by the party primary processes any more than Bitcoin chose to centralize control in mining pools. The centralization of Bitcoin mining into pools is a logical inevitability given the game theory involved in Bitcoin’s incentive structures. Satoshi didn’t intend for this outcome any more than the framers of the Constitution intended it to devolve into political parties. The major parties evolved and then passed rules to keep themselves protected. A cynical person might come to the conclusion that the primary processes were created to give the illusion that “*the people*” are in charge of the parties. Because the parties are considered private organizations there is very little accountability regarding internal party politics and elections. Most alternative parties don’t even hold primaries and implement their own process for selecting nominees.

Whether you are cynical or not regarding the legitimacy of the primary nominee selection processes, both major parties implement selection processes which this book will demonstrate are structurally unable to truly represent the

will of the party members, let alone the citizens of the United States.

The rules that do exist in some states focus on ensuring that you can only vote in a single primary. Voters must choose to be on red team or blue team. If the red and blue teams were really interested in the country and voters were really interested in the country, then voters should be able to vote in both primaries. By picking a tribe the voter is no longer able to fully represent the country's interest; instead he is at least partially aligning with one tribe against another.

An episode of *The Simpsons* captured the absurdity of our situation. Homer discovers that both presidential candidates are really space aliens. In an effort to save the nation, he crashes a UFO into the capital building and then unmasks the aliens on live TV. Everyone in the audience gasp! Then the aliens taunt the people, “*Yes, it’s true, we are aliens. But what are you gonna do about it? ... It’s a two-party system ... You have to vote for one of us.*” After a maniacal alien laugh, someone from the audience speaks up and says “*I’m gonna vote for a third party!*” The other alien responds, “*Go ahead ... throw your vote away!*” The election proceeds and the people are enslaved to an alien tyranny. In the end Homer says to his wife Marge, “*Don’t blame me, I voted for the other alien.*”

The single biggest thing that any system of government must retain is the ability of the people to effect change. John F. Kennedy once said, “*Those who make peaceful revolution impossible will make violent revolution inevitable.*”

Unfortunately, our two-party system combined with a number of other factors has created a system that makes change almost impossible.

Here are some of the factors that make this so:

1. Gerrymandering organizes districts so that one party wins every district, removing any influence minority parties might have
2. Media controls the discussion of who is eligible for the masses to consider and what information the masses have available
3. Incumbent advantage
4. Campaign finance that favors celebrities and big spenders
5. Controlled debates
6. Focus on politicians and not policy (Ad Hominem Fallacies)
7. Vote counting corruption

We would have to be insane to keep doing the same things and expecting a different result. It's time to implement a new process that considers everyone in the country without bias to the status quo powers that be and without corruption of party insiders.



## Chapter 3 - True Democracy

Do you feel like your vote really matters? Do you approve of how things are working? Do you trust politicians? When was the last time you wrote your representative? When was the last time they wrote back with something non-generic? Should majority rule? Should California have more influence than Iowa? Should cities have more influence than the countryside? Should China and India rule the world?

Democracy is generally understood as a government “of”, “by”, and “for” the people; however, there are many forms of “democracy” including direct democracy, deliberative democracy, representative democracy, democratic republics, etc. Within all these forms of democracy there are countless ways of “counting the votes”, each of which attempts to determine a “fair” outcome that “represents” the people.

It has been said that democracy is the worst form of government, except for everything else. That said, are all “democratic” governments equal or are some forms of democratic government “more equal” than others? Are some better at representing the “will of the people” and protecting the right of the people to change their government?

Democracy can be viewed as an attempt to govern society according to a consensus of the majority. Today the only thing we can seem to reach a consensus on is that our system is broken. We are presented with false choices prepared by a two-party system and a centralized media cartel. Just because a government hosts an election doesn’t mean it is governing according to the principles of democracy. After all, even dictators host elections and few dare to run or vote against them. What good is an election if the rules are unable to prevent cheating?

I have come to understand modern “democracies” as DINOs (Democracies in Name Only). A DINO is an apt description for “dinosaur” governance systems that devour their populations like an uncontrollable monster. DINOs don’t reveal public opinion; instead, they give the people a false sense of consensus while they are manipulated by a hidden (and not so hidden) ultra-minority of tyrants.

Jason Brennan, in his book, *“Against Democracy”*, outlines all of the way’s DINOs fail. I would love to incorporate much of his work to demonstrate the problems with democracy as commonly implemented, but that would detract from the focus of this book; so I will summarize a few key points.

Brennan addresses the shocking level of political ignorance of the typical citizen over the most basic of things. He states, *“When it comes to politics, some people know a lot, most people know nothing, and many people know less than*

*nothing.*" Political scientist Larry Bartels noted that "*the political ignorance of the American voter is one of the best-documented features of contemporary politics.*" Brennan notes that on a test of political knowledge, 25% of the voters were well informed, 25% badly informed, 25% are know-nothings, and 25% are systematically misinformed.

He makes the point very clear in this example:

*Imagine you are on 'Who wants to Be a Millionaire?'. The host asks you the million-dollar question, "Who was more supportive of abortion rights in 2000, Al Gore or George Bush?" Suppose you don't know, but the host gives you the option of either flipping a coin or phoning a random US voter from the year 2000.*

**— You should flip a coin; its more reliable.**

How is democracy supposed to represent the best interests of the people when the people are not just rationally ignorant, but the quality of their knowledge is statistically worse than random guessing?

Brennan is against democracy because, as it is commonly implemented, it doesn't produce good governance outcomes. His book documents all of the cognitive biases that impact even the most rational individuals. He also identifies the mechanisms behind tribalism and how the formation of political parties occurs. He demonstrates how encouraging political discussion doesn't lead to compromise, but polarizes us. Brennan is ultimately arguing that not everyone should have the right to vote and that we should take measures to ensure only the "knowledgeable" vote. His definition of "knowledgeable" is still quite broad such that most people could easily achieve it. While I can agree with his assessment of the problems, I don't feel he offers any viable solutions.

The problem isn't the lack of knowledge, it is the expectation that people should even need "political knowledge" in the first place. Perhaps we should ask people about stuff they know about instead of expecting everyone to know everything so as to make an informed vote. Everyone has some unique knowledge that is valuable, and no one has all the knowledge that is necessary. True democracy implements a process that harnesses the wisdom of the crowd and systematically protects against the need for global knowledge to make sound independent decisions.

In order to judge the quality of a government we must first establish a set of values. Normally, it is differences in fundamental values which lead reasonable people to violently disagree about the purpose and power of government. Many people want to limit the power of government based upon a constitution; other people want the government to have maximum totalitarian power in order to implement their utopian society. Only once we can agree on the limits (if any) on the power of government can we begin discussing how that power could be used and who should wield it.

I make few arguments about how the power of government should be used; instead, I focus almost entirely on the *process* of delegating that power to individuals. At the end of the day all decisions (executive orders, laws, judgments, etc.) are made by individuals and the selection of these individuals determines the destiny of a society. A totalitarian dictator-for-life with libertarian principles can create a completely different society than a totalitarian dictator-for-life with Marxist ideology. Likewise, a democracy can elect people to power and get a wide range of outcomes depending upon the morality of the population

and the integrity and form of the *democratic process* implemented.

Debates over how government power should be used will always divide us and these debates are what keep the prevailing parties in power. We must step back from the political issues and establish a new *process* for reaching consensus and establishing consent. Consent is key to maintaining long-term legitimacy in the eyes of the population. Then we can use that process to make decisions on political issues without resorting to riots.

Whether you use an election or not, all people ultimately organize themselves into leaders and followers and power is effectively delegated. If it isn't an election, then it can be based upon fear, respect, popularity, or family dynasty. There is no escaping the need to delegate power, so we should find the best possible (or least bad) approach.

### **All Power Comes From Consent**

All governmental power comes from the consent of the population, even a population suffering under the worst imaginable dictator. The challenge of getting out from under a corrupt dictator or party system is coordinating enough people to reach a new consensus on who should be in power. We can therefore restate the problem of governance as a consensus building problem and that a successful society implements a governmental process that protects the people's ability to reach a new consensus.

As governments become increasingly tyrannically corrupt, operating against the interest of society, they institute measures designed to hinder the population from reaching a new consensus. They do this to protect the power they achieved with the existing consensus system. It is like cutting the rungs off the ladder to power as you climb. This

often takes the form of propaganda and censorship, but can also occur via prison and death for those attempting to peacefully organize a new consensus. Pay attention to any content that is censored; it almost always indicates a threat to those in power and knowledge you likely need to know. Truth does not require censorship; however, lies depend upon censorship of truth.

Often it is easy for the vast majority to agree that an existing government is corrupt and that the institutions of society are no longer serving the public's interest. Gallup polls show 70% agreement on this point. However, it is far more difficult to get people to agree on a *solution*. The corrupt powers that be will intentionally divide the population with propaganda and political favors to hinder their ability to work together. After all, how can a net taxpayer compromise with a net benefit receiver? How can someone who has become dependent upon a government program bite the hand who feeds him?

Once a political system becomes corrupt, it is impossible to use the system to fix it. In theory, the population would just remove the "*bad actors*" and replace them with "*good actors*", but in practice this doesn't happen. This is because the problem is systematic corruption not individual corruption and because there is no consensus on the meaning of "*good*" and "*bad*".

In the Declaration of Independence the founders of the United States demonstrate the rationale and justification for dissolving an existing political system and establishing a new one. While modern society may take issue with the "*self-evident*" claims regarding a Creator, Nature's God, and unalienable rights, the premise of the declaration remains: *that whenever any form of government becomes destructive to the people's intent, it is the right of the people to alter or to abolish it*,

*and to institute new government, laying its foundation on such principles and organizing its powers in such form, as to them shall seem most likely to affect their safety and happiness.*

### **The Declaration of Independence**

*When, in the course of human events, it becomes necessary for one people to dissolve the political bands which have connected them with another, and to assume among the powers of the earth, the separate and equal station to which the laws of nature and of nature's God entitle them, a decent respect to the opinions of mankind requires that they should declare the causes which impel them to the separation.*

*We hold these truths to be self-evident, that all men are created equal, that they are endowed by their Creator with certain unalienable rights, that among these are life, liberty, and the pursuit of happiness. That, to secure these rights, governments are instituted among men, deriving their just powers from the consent of the governed. That whenever any form of government becomes destructive of these ends, it is the right of the people to alter or to abolish it, and to institute new government, laying its foundation on such principles and organizing its powers in such form, as to them shall seem most likely to affect their safety and happiness.*

*Prudence, indeed, will dictate that governments long established should not be changed for light and transient causes; and accordingly all experience hath shewn, that mankind are more disposed to suffer, while evils are sufferable, than to right themselves by abolishing the forms to which they are accustomed.*

*But when a long train of abuses and usurpations, pursuing invariably the same object, evinces a design to*

*reduce them under absolute despotism, it is their right, it is their duty, to throw off such government, and to provide new guards for their future security.*

Declaring *independence* is vastly different from asking for privileges and concessions from the powers that be. Today many people are fighting a war *for dependence*, also known as the right to force others to provide them with goods and services they are unable or unwilling to earn themselves. Independence is about taking responsibility for your life and your local community. The opposite of independence is dependence. Independence is necessary for freedom; without freedom you are effectively enslaved. If you are not responsible for your life, then you become dependent upon someone who becomes responsible for you. Your slavery grows with your dependence and your freedom grows with your independence.

It is interesting that our society talks frequently about fighting for “*freedom*” and “*democracy*” but almost never talks about fighting for independence. Independence is the foundation of freedom and democracy. Freedom and “*democracy*” don’t necessarily give you independence. Independence requires self-reliance and responsibility. To understand the critical difference between freedom and independence, consider that some people claim that responsibility interferes with their freedom. For example, having to go to work interferes with your freedom to watch TV. By making claims like this, people aim to achieve their freedom at the expense of someone else’s slavery to their foregone responsibilities. In order to pay for your TV, someone else had to carry the responsibility of going to work.

Ironically, independence is a precondition to consent and consent is a precondition to legitimate democratic government. You cannot fight for freedom and democracy without fighting for your right of independence. Without individual independence you don't have a democracy.

It is perhaps easy to visualize this as the difference between a teenager wanting "*freedom*" to live his life however he likes while still living under his parents' roof, eating their food, and driving their car. Seeking freedom while remaining dependent is to seek your freedom at the expense of someone else. What said teenager should be seeking is the right to move out and take care of himself.

In many cases the teenager counts the costs and realizes that he is not yet ready for fully independent living. He has much to learn about taking care of himself and must make sacrifices of his time and energy to produce what he currently gets from his parents "*for free*". The truth is that nothing is free; eventually his parents will die, and he will be forced to become responsible for his own life or he too will die.

What teenagers really want is independence. They want the ability to make their own choices. If they cannot carry the full responsibility of independent living, then they can find the next best thing: life with a roommate (or several). In this case the teenager trades the tyrannical rules of his parents (the "*government*" he was born under) for the hopefully more acceptable *consensus* rules of his roommates (a "*peace treaty*" chosen by him and his roommates). He still has chores, limits on noise, and limits on having friends over, but is hopefully enjoying more liberty (because he consented) than he had under his parents' roof where there was no negotiation. To get this liberty he must still earn

enough to cover his portion of rent and utilities or his roommates would kick him out.

Fighting for independence is fighting for the right to take care of yourself, to live and let live. Fighting to prevent independence is like a parent locking their teenager in the house where they are compelled to do chores and work the family business. It would be like your roommates refusing to let you move out because they want your help paying their rent. It is like England refusing to let the colonies leave in peace. It is like northern states refusing to let southern states govern themselves. It is like slave owners refusing to let people work for others.

Many people perceive a declaration of independence as a declaration of war, but this need not be the case. Independence begins as a mental state of being which when acted out results in reducing your dependence on the status quo while organizing and respecting a parallel system of consensus.

The more dependent we are upon our parents, the harder it is to move out and enjoy the freedom derived from the responsibility of independence. If we are to achieve freedom from the powers that be we must first remove our dependence upon them and take responsibility for our lives, our community, and our society.

The first act of independence is to reach out to your neighbor and invite them to join you in creating a new social contract and a new process for reaching consensus. This book will give you and your neighbors a path forward to building a new consensus in your community based upon principles for a new form of democratic government that aims to be better than previously implemented systems and presents a roadmap to implementing it in the world. That said, no system of government is perfect, and even the best

form of government is at the mercy of the prevailing virtues of the people being governed.

### The Means Justify the End

Given the multitude of “democratic” processes how can we determine the best one to implement as we rebuild our independent society? How are we to judge them?

Perhaps one of the biggest problems people face is judging a system according to their individual prediction of its outcome. Stated another way, people can judge the means as good or bad depending upon the predicted end. If you are in the minority then the idea of unrestricted democratic power (whether direct or indirect) could be a threat. This means that those with minority opinions argue for “rights” and “limits” on government power. Eventually people will complain when the people running the government ignore the constitutional limits. Then they are at a loss when they realize they have no recourse. The battle over the legitimacy of “popular vote” versus “electoral college” often depends upon which side of the political party divide one happens to be on. People will switch sides on this from election to election, which means their opinion is not based upon principles.

This *“end justifies the means”* philosophy is the seed of genocide and totalitarian utopianism. The means must justify themselves and be consistent with truth and integrity of the community consensus. The means must produce self-correcting results. Dislike of the outcome is not, in itself, an argument against the means. From a certain perspective, there is no *“end”*, there is only the means, so the means better justify themselves. To have an *“end”* assumes that no additional laws or changes are needed. An *“end”* implies

denying others the path to power. It implies an end to democracy.

Society is an emergent property of individuals and the two must live in a symbiotic relationship because individuals depend upon society and society is comprised of individuals. The challenge of government is that it is supposed to be operated by individuals for the benefit of society, but individuals are easily corrupted by the ability to use the power society grants them for personal gain.

The question of government serving individuals is further muddied when it takes from some to give to others. Under such an environment democracy can be corrupted through buying off 51% with benefits taken from 49% while an ultra-minority operates the government for their personal benefit. It is not enough for the government to serve some; it must serve all. The test to determine whether a government is serving all members cannot be based upon specific outcomes, but based upon the means by which those outcomes are achieved. More specifically, a government that allows secession without war is a government that has the people's willing consent and serves all the people. Anyone who wasn't served could secede.

The question becomes how should we judge a system if not by its ends? Isn't the whole point of establishing a new process to achieve a better world as defined by some end?

Consider a wise benevolent dictatorship run by a philosopher king. Such a system may serve the needs of the people today, but eventually the philosopher king will die and an incomprehensibly evil dictator will take his place. While grasping for the power of a benevolent dictator may seem expedient to those arrogant enough to believe they know how to run things, it fails to be a sustainable system and should therefore be rejected.

Judging a democratic process based upon the people it might empower today is like judging a benevolent dictatorship based upon the person who would become king today. All democratic processes will end up producing suboptimal outcomes because they, in effect, are appointing temporary dictator(s) who are part good, part bad, part intelligent, and part ignorant. However, in politics, as in computer science, algorithm design must consider the best-case, average-case, and worst-case performance. In the fullness of time it is safe to assume that eventually the worst-case performance will be realized. It took only a couple of centuries to completely erode the intentions of the “philosopher” kings who drafted the Constitution. Much of the inevitable erosion was already evident to George Washington by the time he left office.

Since the legitimate power of democracy is derived from the consent of the people to the process of democracy, the minority necessarily retains the right to secede and become independent. *It is the right of independence that prevents the majority from devouring a minority.* The ultimate minority is the individual. It has been said that democracy is two wolves and a lamb voting on what to eat for dinner. The lamb might consent to the process if and only if lamb chops are not on the menu. The day the wolves vote to eat lamb chops the lamb has the right to secede and is not bound by democratic virtue to offer its neck. The animals return to the law of the jungle. The lamb may still be eaten, but democratic legitimacy has nothing to do with it.

This is not to say that the sheep wouldn't consent to give up some wool or milk in exchange for the wolves' contribution to security. The key is that there is a voluntary trade and voluntary agreement to a system of compromise.

The principle of democracy is that the people should be in control and we have already demonstrated that the ability to vote for “*someone*” is not the same thing as giving control to the people. If the only people on the ballot are “*war hawks*”, then what control do peaceful people have? If the only candidates people get to learn about are those who the media support, then how are the people in control?

### **Perception of Public Opinion Matters**

Whether we like it or not the mob ultimately runs society. Individual property rights mean nothing in a riot. If public opinion (consensus) turns against something nothing can resist it for long, not even the most oppressive governments. A libertarian, socialist, anarchist, or Marxist utopia is the result of changing public opinion and maintaining public support. If you don’t change opinions or, alternatively, commit genocide, then the utopia cannot last. Any society which cannot tolerate differences of opinion is fragile and unsustainable.

Unfortunately most people do not form their opinion based upon independent judgment, but instead rely upon the opinions of others. The first 22 years of my life I had a whole host of “*opinions*” that I did not arrive at myself. These opinions were absorbed from my family and friends. In turn, my family and friends didn’t actually drive at their opinions from independent thought. We were the blind leading the blind.

Each and every day people make decisions based upon what they think other people think. Style, language, morals, religion, politics, and just about everything you can think of are heavily influenced by what we think other people’s opinions are. What we think other people think is vastly different than what they *really* think. What we tell

other people is often what we think they want to hear instead of what we really think. When in doubt most people defer to what they believe is public opinion over their own opinion, and most people are often in doubt. This deferral to public opinion is also why most people yield to democratic processes.

How do we actually know what other people think? Do we really have the ability to ask everyone? Would other people willingly share their opinion with us without first knowing what we think? What happens if someone is able to manipulate how we perceive what other people think? What if what we think other people think is not what they really think?

Some of the more sophisticated techniques of manipulating opinion corrupt the measuring and reporting process. If you can control the major media outlets and continuously show support of a minority opinion over the real majority opinion then people will come to believe that the minority opinion is the majority opinion.

Perhaps one of the most overt attempts to manipulate public opinion is the corruption of “scientific polling” prior to elections. The media tells us who is “*electable*” and who is not. As a result of publishing these “scientific” polls people conclude that some candidates are unelectable and that others are extremely popular even if they are not.

Few people like to be in a minority that stands out against the majority. They will often publicly support what they believe to be the majority opinion even if they privately object. People want to “*look good*” in the eyes of the “*popular*” people. People are afraid of being mobbed, shunned, or embarrassed because of their real opinion. This creates a self-reinforcing cycle that results in the quiet suffering and repression of the majority.

The end result is like a married couple that has been silently suffering through a meatloaf dinner every Sunday under a belief, planted by an ex, that it was their partner's favorite meal. Neither partner is willing to admit that they hate meatloaf (because they love their partner), but nevertheless they have it every Sunday. If we don't have an accurate sense of what other people really think then we can easily suffer when it isn't necessary.

Solomon Asch performed a classic conformity experiment in 1951. In this experiment he put a participant in a room with a number of stooges and asked everyone in the room to perform a "*vision test*" comparing the length of lines. The stooges would go first and agree on an obviously wrong answer and then the participant would be asked to answer. Over a number of trials, 75% of the participants conformed to the group opinion over personal perception at least once. On average, about one third of the participants conformed with the clearly incorrect majority. Meanwhile, when asked independently (without a group), the individuals were only wrong about 1% of the time.

Imagine the power a social media algorithm has to influence your opinion by strategically putting you in virtual rooms with stooges! Imagine further that the stooges don't even have to be in on the game; they could simply be intentionally selected from a minority to create the perception of majority opinion.

People's actions are shaped by what they believe public opinion is. One way to demoralize the silent majority is to make them believe they are in a minority. By controlling the perception of public opinion the elite can simultaneously change the measured public opinion and isolate those who think for themselves.

If we are to achieve a majoritarian “*utopia*” it becomes critical that people collaborate to produce an accurate and more trustworthy measurement of the aggregate opinion. Facilitating truthful perception of public opinion is the first step toward a peaceful revolution.

One approach is to implement private, incorruptible, continuous polling of the population. If only people knew what other people *really thought* instead of the masks they must put on in public then maybe we could realize we have more in common with others than we thought. This would not only be a lot of extra work, but could still produce the answers provided by stooges instead of independent judgments if people form their opinions based upon the media.

One way or another, any truly democratic system must be designed to extract honest, *independent* answers from the people. This is not so easy when most people are rationally ignorant on most things and therefore have opinions that they falsely believe are their own. In reality their opinions are just the aggregation of what they falsely believe everyone around them believes. It is like a group of people where “everyone is following everyone”; they walk several city blocks only to discover no one was leading them and no one knew where they were going. If precautions are not taken, those skilled in propaganda can manipulate a democratic society to serve their personal agenda.

How can people consent if they are being intentionally misled? How can intelligent parties agree to a democratic process knowing that the “*mob*” isn’t actually making decisions on its own, but that it is being guided by a pied piper? There are ways to structure the democratic process to minimize the influence of pied pipers.

## Democracy and The Rule of Law

Anarchists will tell you that they aren't against rules; they are against rulers. Ask them what rules they would like and you will get vastly different answers. Even if they agree on the rules, ask them to agree if and how they have been violated and you will once again get vastly different answers.

What we can conclude from this is that even if you believe in the "*rule of law*", you must first reach consensus on what the rules are and then continue to reach consensus on when the rules have been violated. Law, being inanimate, is unable to enforce itself or judge disputes.

In some sense, the entirety of the "*law*" should be the process by which rules are made and disputes resolved. Rule of law then becomes a matter of enforcing that process. To be successful, the violation of the democratic process needs to be as objectively black and white as possible so that the masses can easily reach consensus on whether or not an individual is guilty of violating democratic process (and should be removed from power) or innocent (and therefore should retain their power).

Objective "*laws*" are what make blockchains and cryptocurrencies the closest things to "*rule of law*" there is. In the blockchain space it is known as "*code is law*" and anything goes if the code allows it. Violation of blockchain law is so objective that a computer can make an automated binary decision. Unfortunately, a computer can be a cruel master when the "*letter of the law*" is unintentionally in disagreement with the "*spirit of the law*".

In democracies of all types, "*failure to host an election*" is a black and white sign that the government has violated the rule of law and is therefore illegitimate. The solution to this failure is to return to the rule of law by holding an

election. If the people can agree on this very simple principle then civil war can be avoided and power can be passed from term to term peacefully.

The challenge is the grey area of “*dishonest elections*”. A lot of governments host elections and create enough ambiguity around the process to prevent the people from reaching consensus that the election was illegitimate. In a two-party system, people are presented with a false choice such that even if the vote counting was honest, the candidate selection was effectively rigged.

The point of this book is to demonstrate that an “election” is not good enough, that a DINO (democracy in name only) is just a covert minority rule. A true democracy must reliably represent the consensus of the majority of people by implementing a process that is robust against factionalism and the corruption of its own process.

No constitution is able to secure rights if the people in power choose to ignore them. No separation of powers between executive, judicial, and legislative branches can survive the corruption and collusion of the people involved. How can powers be separate when the people across all branches are all part of one party? The rule of law must live in the heart of the people. It must be simple to describe. It should be trivial to identify when the democratic process has been violated. Most importantly, the solution to a violation of the law should be a return to the law which the masses can trivially verify by hosting a new election and selection of new leaders.

Remember, for the purpose of this section the entirety of the “*law*” is the *democratic process*, and not the “*rules passed by those put in power*”. In theory, a truly democratic process would be able to correct any “*man-made rule*”. The people

should be able to easily identify when new rules are against the democratic law.

## **Direct Democracy**

The concept of direct democracy is that the people should not have to rely upon representatives. All laws should be voted on directly by the people. At first glance direct democracy appears to prevent corruption of representatives; however, there are a couple of challenges that must be addressed.

Who gets to draft the laws that the people vote on? Who gets to explain the “*meaning*” of the laws to the voters? Most people are rationally ignorant because the value of investing time to understand all of the proposed laws is incredibly small relative to their ability to influence the outcome. Even our elected congressmen don’t always read our laws before voting on them.

Such a system will be dominated by special interests looking to realize a benefit that justifies the time and money they spend promoting laws to people who are in no position to evaluate the consequences. Even worse, the media will control how laws are framed, which laws get people’s attention, and then corrupt the very “*meaning*” of the laws in the minds of the people.

To implement direct democracy efficiently would require a technological foundation, as votes would be required more often. A giant red flag is that the required technological foundation would immediately fail when the next geomagnetic storm (solar flare) or EMP disrupts our electrical and computer systems. Building a society on top of a fragile technological base sets it up for failure in a worst-case disruption. Not only is technology fragile, but it also inherently separates the people from the process. It makes

people dependent upon black box technological processes. It prevents the people from being able to detect corruption, as everyone must rely upon technological experts. Technology prevents things from being operated at a small scale. If the Amish cannot implement the process, then it probably isn't truly democratic.

Furthermore, it can be difficult to determine when the process of direct democracy has been corrupted. Even if we implement a provably honest direct democracy for the purpose of passing laws, it isn't possible to use direct democracy to operate the judicial or executive branches of government. These two branches of government depend upon having people interpret the laws to enforce them and judge disputes.

All of that said, direct democracy does not build consensus; instead it divides us. If 51% of the population can pass a law at the expense of 49% then it will happen. Requiring 70% approval would mean almost nothing will ever pass (creating tyranny of status quo). Even if we accept that low rate of change is desirable, how exactly would 70% agree to the initial laws? The lack of a scalable consensus building process is the final nail in the coffin of direct democracy.

### **True Democracy**

If the purpose of democracy is to be a government of the people, by the people, and for the people, then it must have the following properties:

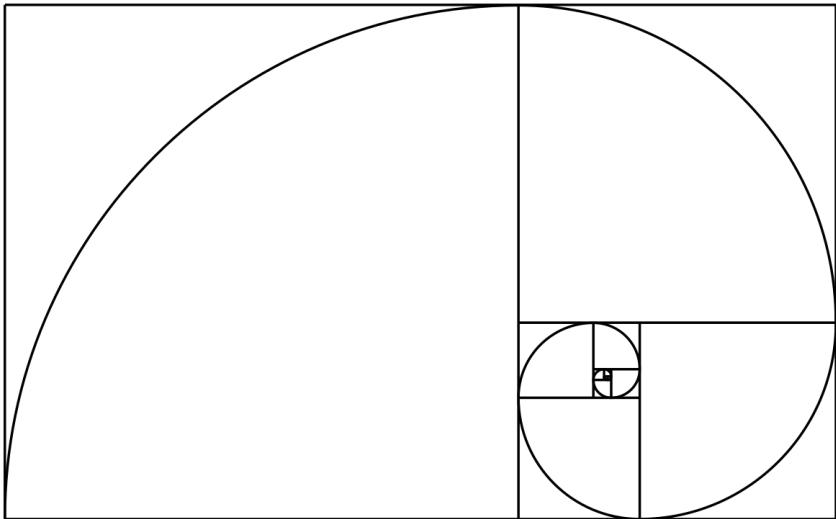
1. Composed of *independent* people
2. Independence defined as ability for minority to secede
3. Resistant to covert control by minorities (the 0.01%)

- 4. Survive a systematically misinformed population
- 5. Aggregate wisdom from local knowledge
- 6. Not require individuals to possess global knowledge

- 7. Empower the individual rather than disempower
- 8. Protect the majority from a minority
- 9. Protect the minority from the majority
- 10. Failure transparent to all
- 11. Process to recover from failure obvious to all
- 12. Empower people to reach a new consensus
- 13. Not overly biased toward the status quo

A true democracy establishes a process for many-to-many dispute resolution and compromise that is resistant to capture of a covert minority. It is a system that people voluntarily participate in to escape the law of the jungle. It should protect the minority from the majority and the majority from the minority. A true democracy is a process by which rights are discovered and enforced with the true consent of the people.

Experience tells us that DINO systems fail to deliver the promise of true democracy. We need a new approach.



## Chapter 4 - Rules of Relative Power

Have you ever felt like your vote doesn't matter? In a large group the odds that your vote makes a difference is like the odds of getting struck by lightning. In fact, the outcome of an election in a populous country is more likely to be decided by voters randomly hospitalized in car accidents on the way to cast their vote. If your vote wasn't next to worthless already, the larger the voting population the greater the opportunity for voting fraud and the harder fraud is to detect. That said, in small groups a single vote is much more likely to be the deciding factor and the vote counting is much less likely to be fraudulent.

Traditional democratic processes break down at scale due to the gap between the power of an individual and the power the people collectively yield to their government. The larger a community grows the more difficult it becomes for an *individual (or minority)* to negotiate and enforce a peace treaty with all the other members.

Small groups, the size of a family, can easily vote or compromise by other means. Reputation and voluntary membership balance the game theory and minimize impact of *moral hazard*. I discuss moral hazard in greater detail in chapter 10. In the event of a dispute within a small group an individual has many options under the “*law of the jungle*” to negotiate, enforce, or leave a peace treaty.

Larger communities of under 150 people can operate traditional democracies or even dictatorships, but the individual is unlikely to have any hope to utilize the law of the jungle to negotiate and enforce his interpretation of the peace treaty. Instead individuals must organize small groups (a couple dozen people) in order to enforce the treaty. Since it is reasonable for the typical individual to have a couple of dozen friends and family it is unlikely for a democracy of 150 people to become too oppressive. Even if someone has no friends, he has an option to leave the community and find another community that he feels will honor a reasonable peace treaty. Fortunately, there is potential for countless communities of 150 people.

As communities get larger the individual has extremely limited power to negotiate relative to the community. In a dispute over rights (violation of the peace treaty) an individual faces much greater costs of moving to a new community and the number of alternative communities shrinks dramatically.

At a global scale, an individual has almost no power and has no escape in the event of a dispute over his individual rights. It is for this reason that any democratic system of government must protect the ability of individuals to cooperate to reach a new consensus. If a global system is captured by corrupt political parties and refuses to recognize the right of individuals to secede from the group then

individuals are left no choice but to apply the law of the jungle in a violent gorilla/terrorist revolution until a new peace treaty can be negotiated and respected by all.

British anthropologist Robin Dunbar discovered that there are natural biological limits to the number of people any individual can form a cohesive social group with.

Dunbar found that groups can grow to about 150 people before they split off or collapse. Researchers found that this rule holds for all kinds of groupings, from hunter-gatherer societies, to factories, to military organizations, and Amish communities. It seems wise to factor in this natural tribal relationship between individuals and groups when forming governance structures or negotiating peace treaties.

## **Secession**

One of the most important properties of a true democracy is the right of members to secede from the group. Failure to plan for and maintain the ability to secede is planning for a democracy to evolve into tyranny. It is like going into a marriage with a prenuptial to avoid a messy divorce.

The power of an individual to secede depends upon what resources they are able to take with them. If all the land of the earth belongs to a corrupt society, then secession is death. If you are forced to secede to the wild as an individual but you lack the skills to live in the wild then it is also death. In practice individuals need the power to secede in groups and those groups need to be relatively independent. The only way to ensure that society is organized in such a way that secession is viable is to group by geography. This would look like a federation of micro-states.

Each group would need the ability reach consensus to secede and retain the internal autonomy to make it feasible.

Any community that loses its ability to be relatively self-sufficient effectively loses its ability to secede and becomes subject to a foreign governance structure. A community doesn't have to be fully self-sufficient so long as there are ample alternative suppliers of things it needs. In addition to being relatively autonomous, each community would have to maintain sufficient "*jungle power*" relative to other communities to maintain fair negotiations. This jungle power could be derived by alliances with other tribes for the express purpose of defending the right to secede or it could be a powerful military.

The United States is a case study in the intended democracy of states being lost due to failure to retain internal autonomy. The union of the American states was supposed to be voluntary with each state having the right to peacefully leave the union. Three states — New York, Rhode Island, and Virginia — explicitly documented the right of secession in their ratification documents. Since these three states were accepted into the union, we should presume that other states same rights.

The New York ratification document of July 26, 1788 says: "*That the Powers of Government [in Article 1, Section 8] may be reassumed by the People, whensoever it shall become necessary to their Happiness, that every Power, Jurisdiction and right, which is not by the said Constitution clearly delegated to the Congress of the United States, or the departments of the Government thereof, remains to the People of the several States, or to their respective State Governments to whom they may have granted the same . . .*"

The May 29, 1790 Ratification document of Rhode Island was very similar: "*That the powers of government may be reassumed by the people, whensoever it shall become necessary to their happiness . . .*" And, the June 26, 1788 Virginia

Ratification document reads: “*. . . the powers granted under the Constitution, being derived from the People of the United States, may be resumed by them whensoever the same [powers] shall be perverted to their injury or oppression and that every power not granted thereby remains with them and at their will . . .*”

The war between the states was fought to prevent secession and not to abolish slavery as commonly taught. In August 1862, Lincoln stated “*If I could save the union without freeing any slaves I would do it; and if I could save it by freeing all the slaves I would do it; and if I could save it by freeing some and leaving others alone I would also do that.*” Six months later Lincoln issued the emancipation proclamation that only freed slaves in the south. This quote single handedly demonstrates how the individual states in the “democracy of united states” lost the presumed right to secede as documented in their ratification documents. The southern states lacked sufficient jungle power and economic autonomy to enforce the peace treaty known as the Constitution of the United States.

In the context of the United States this would look like all states having an equal vote regardless of their population and all states having comparable jungle power. The Constitution should explicitly establish the right of secession. A federation of states that are unequally yoked is not stable. It would be like a community consisting of an adult and many babies. There is no ability to negotiate community-to-community peace treaties among communities of vastly different sizes and capabilities. The larger community can hold a smaller community in an abusive relationship and extort unbalanced terms of peace.

The lesson we can take from this is that *democracy only works among relatively independent equals and only at a small scale*. If we want to build larger democratic systems then

they must be constructed to respect the law of relative power.

One way to do this is to organize governance into a hierarchy of relatively equal organizations. Individuals should be members of a family; families should be members of a church (or social club); churches should be members of a town; towns should be members of a county; and counties should be members of a state. The size difference of families versus families, churches versus churches, towns versus towns, and counties versus counties should be minimized. Likewise, the number of members in each horizontal level should be minimized. You don't want a "*democratic*" county of 10,000 churches any more than you would want a church of 10,000 families, or a family of 10,000 people.

Left to natural processes the size of churches, towns, cities, states, and counties follows a Pareto distribution. 80% of the people live in 20% of the cities and 51% of the people live in 1% of the cities. There are orders of magnitude difference in size between the largest and smallest state, city, church, etc. This means that New York City and Roanoke cannot be peers in the governance process nor can California and Iowa unless California is willing to give Iowa equal vote and they all have similar military capabilities to level the playing field in the event Iowa wishes to secede.

If the citizens of California wish to have more power at the federal level, then California would have to divide itself into multiple *autonomous* pieces of similar size and power to Iowa. Furthermore, precautions must be made to prevent the newly "*autonomous*" parts of California from colluding (forming a party) to act as one unit. A subsequent chapter will address the need to utilize the power of randomness to prevent collusive parties.

The United States would have to reject states that are too small, or at the extreme you could have an individual person applying to be a member with equal voting rights to the entire State of California. Stated another way, **all democracies, whether “of people” or “of states” must consent to the addition of new members and allow the unilateral voluntary secession of any member.**

Any system that rewards concentration and centralization will tend toward larger and larger institutions. Economies of scale naturally reward larger states with more efficiency and power than smaller states. The natural incentive is to grow and merge. This must be resisted and rejected at the most fundamental levels possible in order to protect the integrity of *true democracy* by consent of the governed. As systems grow and merge the ruling class disproportionately benefit and everyone else is disempowered. This creates a positive feedback loop resulting in even more growth and merging and even more disempowerment. This disempowerment is often marketed by appealing to the added convenience and lower prices brought about by efficiency. All too often people trade their power for a literal “*free lunch*” and in the end they get neither power nor a free lunch. Undervalued individual power, overestimated benefits of submission, and unaccounted for costs drive people into dependence, slavery, and the loss of government of the people, by the people, and for the people.

### Mimicking Biology

One of the ways to gain wisdom is to study nature. In nature you don’t see individual cells growing to the size of an elephant. Instead cell size is limited and multiple cells cooperate to create larger organisms. Like cells, you don’t

see elephants getting bigger and bigger; you see herds of elephants. Furthermore, you don't see just one species of animal you see millions or billions.

Life is organized into hierarchies of independent life forms working together. Any cell that grows unrestrained will starve because the ratio of the cell membrane to interior volume shrinks and it can't get enough food in or waste out. Animals that grow too big die for similar weight and energy density reasons. Likewise, societies of people that grow too big are not sustainable by nature. If we want to build a sustainable human civilization then it should be composed of independent communities which are themselves composed of independent sub-communities.

In this way, errors are localized and systems are redundant. Your body can tolerate the corruption of some cells; a community can survive the corruption of some people; a state can survive the corruption of some counties; and the world can survive the corruption of some states. However, if the world is comprised of a single state then the people cannot survive its corruption.

Individual corruption is inevitable, which is why redundancy and diversity of communities are critical to the evolutionary success of the human species. The organization of people into an indivisible government limits the diversity of thinking and makes all of society susceptible to the same pathogens. It is like a mono-culture farm; a single disease will kill everything.

Large mono-culture governments will be governed by fallible humans who can and will mandate one size fits all solutions. These governments are unable to adapt to the changing natural environment and tend to over-specialize for the status quo. When something changes, it is game over.

## **Domino Power**

Imagine a giant domino the height of the Empire State Building. Now imagine attempting to knock it over with a single regular-sized domino; it isn't likely to happen. However, if you have a series of progressively larger dominoes lined up, then a single traditional domino can fall and knock over a slightly larger domino which in turn knocks over a larger one until finally, after just 29 dominoes, one the size of the Empire State Building falls. This occurs because of the exponential release of stored energy.

A society structured with a million people electing one person to office (typical congressman) is like having the Empire State Building surrounded by a million uncoordinated ordinary dominoes. The combined energy of those ordinary dominos cannot effect change by toppling the "*Empire*". Remember, two people working together are stronger than the sum of their individual contributions. Structuring society as a series of progressively larger *independent* dominoes maximizes the power of one person (a single domino) to effect change locally and therefore to effect change globally.

A single person can effect change in their family; a family can effect change among their friends; a group of families can effect change in their church; a church can effect change in their town, etc. All of this is only possible if each scale of domino is independent and able to fall (change) on its own. If all of the dominoes are physically linked to the largest domino then nothing can happen without everything changing at once.

What we learn from this is that an individual has maximum power when acting under a series of nested independent layers of governance. To understand how this amplification of individual power arises consider the following. When any small group is able to reach a 67%

consensus, it gets to act with the power of 100%. This is a 50% increase in numeric power in addition to the fact that 1+1 is much more powerful than 2. The amplification of individual power is even greater if a group allows decisions to be made with 51% consensus.

This process also works in reverse. If the Empire Domino wants to prevent itself from being toppled, it can divide other dominoes into smaller dominoes. Applying a small amount of energy to prevent two of three people from coming together and acting as three of three effectively counters the power of well over three people acting alone. Dividing families and races are very powerful means of suppressing people's ability to topple tyrannies.

When the government offers couples incentives to split up by undermining a previously interdependent relationship with welfare and child support it weakens everyone and empowers the state. The collateral damage goes far beyond just the couple, the children, and the welfare involved. A truly democratic society needs to encourage and reward committed long-term relationships and strong families. The strength of the resulting families is fundamental to protecting the individuals within the families against those who would benefit from their division.

The key is to keep the dominoes independent such that they can choose whether to continue their membership in a larger federation or leave. If a state cannot easily and peacefully secede from the United States, then the citizens of the state are unable to topple their "domino". This means that there needs to be much stronger separation of powers between towns, counties, states, and international federations of states.

True democracy is about empowering people to live in a community that empowers everyone maximally. It must

conform with our biological and tribal natures or the result will be everyone controlled by a ruling tribe that itself conforms to Dunbar's research. This means even the ruling class has scalability constraints resulting in billions being controlled by mere hundreds.

## **Chapter 5 - Coupling and Encapsulation**

If you have ever worked at a large company, then you have probably experienced the chaos that occurs when people bypass the chain of command (in either direction). An organization can become unstable when the CEO skips all of his managers and gives direct orders to the engineers or a sales representative bypasses the middle management to report directly to the CFO. A more taboo example is when the CEO is in an intimate relationship with an entry level employee. In all cases, the authority and "*independence*" of the middle management have been undermined.

This problem can be even more complicated if a company is a conglomerate of many smaller companies each of which is largely operating with autonomy. Bypassing the chain of command can dissolve the intended autonomy of sub organizations, create hidden dependencies, and even expose organizations to legal liability.

In a democratic society following the rules of relative power, it is critical that everyone follow the chain of command in order to ensure that *the people* retain the power that gives the government legitimacy. As we look at how this plays out you will start to understand how DINO empires co-opt the power from the people by violating the chain of command.

Who should have authority to collect taxes from an individual? Their local community, their state, the federal government, or all of the above? We currently live in a world where it is all of the above and that is a massive breach of community sovereignty and independence.

Let's use an analogy to describe the importance of respecting the chain of command. Imagine a democracy of states is like a democracy of people. Now imagine that the government of a democracy of people had the right to directly tax the cells of the bodies of the people. You would have to question the sanity of any individual agreeing to a peace treaty where someone else got to take even partial control over your bodies cells.

The cells now have two masters, your brain and the government, which is run by someone else's brain. Things start to look like a scene from *The Matrix*, where humanity has been enslaved by the machines who directly extract "energy" (aka power) from every person while controlling their senses. The individual brain is living in a simulated reality where it pretends to have autonomy, but the real body is chained, weak, dependent, and sapped of all surplus energy. In this way, states pretend they have autonomy but their body (the people living in the state) is chained, weak, dependent and sapped of all surplus energy by the IRS.

If no sane person would voluntarily sign a peace treaty where they give up control of their body parts, then

why would any sane community sign a peace treaty where they give up control of their members? The reason that people formed the community was for mutual defense of their rights, so a community government that cedes control of its members to outside influences is derelict in its responsibility and has itself lost democratic legitimacy.

A democracy of states should know nothing about the composition of the states. From a computer science perspective, the fact that states are composed of counties and that counties are composed of towns which are composed of people is an implementation detail. At a federal level the peace treaty is a democracy of states where each state is an equal.

Now consider how this would work from a “tax collection” point of view. If the state to state peace treaty calls for the parties to contribute to federal funding, then that funding must come from the member with the member’s consent. This means that an individual person should never have any interaction with the federal government unless acting as an elected/appointed representative of a state. All federal taxes should be billed to the states and each state must have autonomy in deciding how to raise the money to pay the tax. This structure ensures that a state can collectively choose to secede without changing anything about its tax structure and without individuals having to worry about whether or not to pay federal taxes.

This idea was understood, in part, by the drafters of the United States Constitution, which stated that direct taxes had to be apportioned among the states and it was for the purpose of apportionment that we have a census. The concept of apportionment is an anti-democratic concept which is similar in principle to stating that each person’s

vote should be proportional to their weight on a scale or that their percent of total taxes paid should be based upon the number of cells in their body. In effect, apportionment says that “some people” are “more equal” than others whereas democracy is supposed to be among equals voluntarily agreeing to a peace treaty under the law of the jungle.

In a truly democratic system, one negotiated among equals, all parties have an equal vote, equal obligations, and equal benefits. All states would have equal taxes. A state like California would have to divide if its people wanted extra influence, but doing so would cause it to pay extra dues. In this way, dues are still apportioned by population but only with matching autonomy. This protects the smaller states from the “collusion” of California’s population.

Imagine if the United Nations had the authority to pass an income tax that applied to all the people in the world? It would directly undermine the autonomy of the United States. Today the United States and other countries fund the United Nations collectively and each country can decide to leave and withdraw funding as a single entity. Even here funding is not uniform (the United States pay 70%), which gives certain countries more influence over the United Nations.

Federal taxation of individuals undermines the privacy and independence of state and county governments. It extracts wealth directly from lower levels of government (the people) and then uses it to extort state and local compliance. For example, the federal government can withhold funding for schools, roads, and police unless the states conform. The states have had their independence undermined by allowing the federal government to use the people’s resources against the state. With the funds already taken from the people by the federal government, the state’s

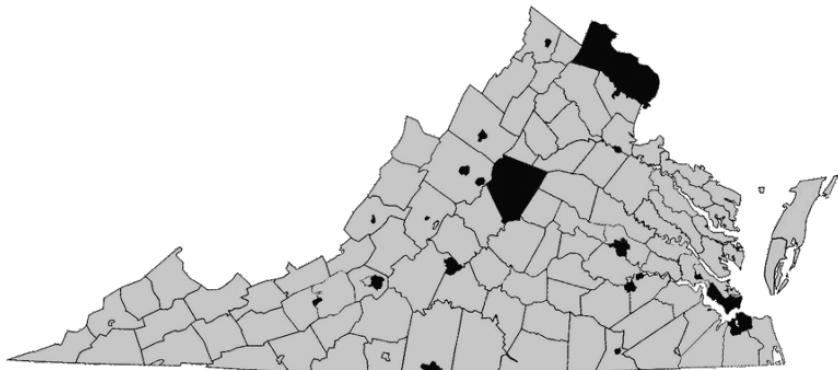
people (e.g. citizens of Virginia) lack the funds to set up independent schools if they disagree with the Department of Education Indoctrination. It becomes much harder for the people of one state to organize a tax strike if the state is not already in control of the tax cashflow.

Let's take this to an extreme. What would happen if the federal government implemented a 90% income tax on the people and then gave the state governments funding contingent upon compliance. Furthermore, assume there were no deductions allowed for state and local taxes. How much money would be left for state governments to tax? Do state governments have any autonomy or ability to represent the people? Would any formerly independent state agree to such terms in advance? If no one would agree to those terms in advance then what legitimacy can exist in a system that arrived there incrementally?

The purpose of the state government is to represent the county governments and the purpose of the county government is to represent the people in the county. An individual has far more representation within his local county than he does across an entire federation of states composed of hundreds of millions of people.

It is possible for people to reach consensus within their county and that consensus gives everyone in the county more power. Their county has far more power to negotiate with the state as a united front of 50,000 colocated people than if 50,000 uncoordinated people wanted to achieve the same influence. This is a situation of how two people working together can overcome two people operating without coordination. The effective power of each member of a larger society is greatest when organized into smaller composable units.

## Case Study - Virginia Gun Rights



This case study involves a trigger issue for many people. Please take a moment to separate the concept from your personal opinion on guns and remember we are investigating the process of reaching consensus in a *true democracy*. The predicted end result does not justify nor invalidate the means. The principles discussed by the case study also apply to other issues such as abortion, marijuana, and immigration and in those issues this process may favor your opinion.

The state of Virginia has 8.5 million people organized into 95 counties. Most of the population is concentrated in urban areas where the prevailing party is the “Democratic” Party, which I will hereafter call the DINO (Democratic In Name Only) party because they do not adhere to the principles of a *true democracy*. Because Virginia is not a *democracy of counties*, the state government ends up controlled by the DINO party. The DINO party advocates disarming the people, which is something that 96% of the counties in Virginia are actively against based upon actual resolutions passed by local governments.

If Virginia were a *democracy of counties* then the result would be vastly different. The entire state would recognize an individual right to bear arms. The individuals in 96% of the counties would have their rights better protected.

Those individuals living in counties that favor banning guns could secede and form their own state or join with counties in Maryland; however, that is unlikely to be necessary because a *democracy of counties* shouldn't actually care about individual gun rights so much as the independence of the county itself.

This means that if Loudoun County wanted to ban guns internally then Floyd county wouldn't care. Like taxes, regulations should not bypass the intermediate governments. A democracy of counties would be more concerned about each county's right to form a militia. A democracy of states would care about each state's right to form a national guard, and a democracy of countries would be concerned about each country's right to have its own military.

If the United States won't give up its right to have a military to the United Nations, then why should the states give up their right to a National Guard to the federal government, the counties give up their right to a militia to the state, or the individuals give up their right to self-defense to the county?

### **Global Majority Rules?**

If democracy was about subjugating the minority (weak) to the will of the majority (strong) then China should rule the United States. It certainly doesn't follow that a country of 320 million people should operate global empire coercing the other 7 billion with threats of regime change. China shouldn't control the United States any more than

California should control Virginia or any more than Richmond should control Floyd county or any more than a plantation owner should control his slaves.

Stated another way, the DINO party, with 51% by population, shouldn't control the RINO (Republicans In Name Only) party any more than the RINOs should control the DINOs if they had 51%. Party politics is similar in nature to mixing the population of Russia and the United States in the same territory while the people maintain their Russian and American "identity" and every year we have to choose whether we elect a Russian or American as president over everyone.

Only under the law of the jungle does it make sense for the 51% to rule over the 49%. In fact, under the law of the jungle it is legitimate for 51% to kill the 49%. It is also legitimate, under the law of the jungle, for 1% to kill the 99% if they had the power to do so. What is the difference between 51% threatening to kill the 49% if they don't comply and 51% actually killing them? If the 51% don't actually believe in genocide (or the threat thereof) then it follows that they should allow the 49% to secede.

There is a strong temptation for those in the 51% group on an issue to advocate universal application of their theories on how to run society. What do they have to lose? The law of the jungle is on their side! There is a well-known saying:

*First they came for the Communists*

*And I did not speak out*

*Because I was not a Communist*

*Then they came for the Socialists*

*And I did not speak out*

*Because I was not a Socialist*

*Then they came for the trade unionists*

*And I did not speak out*

*Because I was not a trade unionist  
Then they came for the Jews  
And I did not speak out  
Because I was not a Jew  
Then they came for me  
And there was no one left  
To speak out for me*

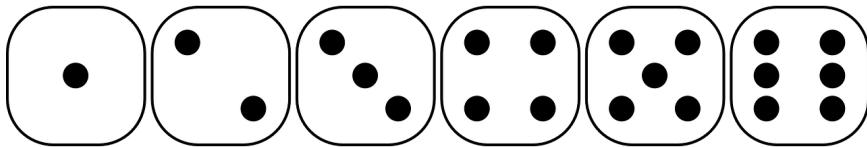
The idea is that siding with the majority works until one day you are no longer the majority.

Regardless of your belief system, you will not always be in the majority. It would be foolish to adopt a belief system that serves you today but which justifies your death tomorrow.

### **Lessons from Software Engineering**

Secession is much more difficult if the structure of government fails to follow the principles of low coupling and strong encapsulation. I have spent a career developing complex software and “*blockchain operating systems*”. Governance could be viewed as nothing more than an operating system for society. From a computer programmer’s perspective, you want to organize code into functions, functions into classes, classes into libraries, libraries into programs, programs into operating systems, operating systems into intranets, and intranets into the internet. Failure to modularize your code and to respect proper APIs (interfaces) produces “*spaghetti code*” that is impossible to maintain, debug, reuse, or upgrade. The result is bugs, corruption of data, and slower development. It is usually faster to rewrite a program from scratch than to fix spaghetti code. Spaghetti governments almost always have to collapse and are rarely able to reform.

To avoid the problems of spaghetti code, developers follow the principle of modularity (geographic grouping), low coupling (separation of powers), dependency minimization (independence), and hiding of implementation details from the public interface (separating federal government from the people). A stable, complex society would be wise to follow some of these same design principles. This way if there is a bug in one area, it doesn't bring down all of society.



## Chapter 6 - The Power of Randomness

Randomness is an under-appreciated property of political processes. Leaving anything up to “*chance*” may seem risky when the fate of a nation is on the line, but in this case it is absolutely essential to protect against capture by political parties and other unexpected biases toward the status quo. Computer systems utilize randomness in many different algorithms to protect against worst-case outcomes, over-optimization, and getting stuck in local minimums. Bitcoin uses randomness to reach consensus on who gets to extend the ledger, which protects the digital currency from censorship. Games use randomness with fractals to create more realistic nature-like environments. Nature uses randomness to create diversity necessary for evolution and adaptation to changing environments. Without the introduction of randomness life would not be possible, but one would hardly call the resulting structures of life random. While derived from apparent randomness, life has an order that leads many to believe in an intelligent creator.

Utilizing randomness acknowledges that even the best laid plans of mice and men often go awry. No matter

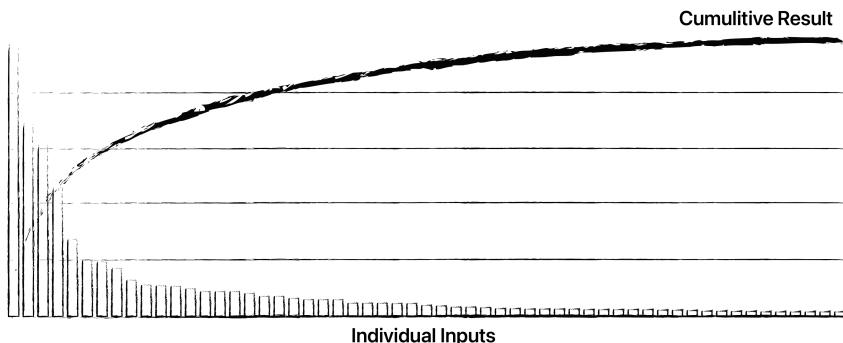
how wise a community thinks it can organize there is a chance that it could be wrong, and randomness ensures a variety of minority opinions have an opportunity to be expressed over time.

Left to their own devices people will tend to organize into cliques and avoid interacting with strangers. A society that wishes to engage the spirit of collaboration and inclusion needs to overcome natural grouping and ensure over time everyone talks to everyone else. Randomness is one way of mixing things up.

### **The Pareto Principle**

Every activity or system favors people with a certain set of skills, whether those skills are playing basketball, winning a spelling bee, writing books, or winning an election. Skills tend to be distributed according to a Pareto distribution, with a small number of people being vastly better than everyone else. Pareto distributions occur naturally all over the place:

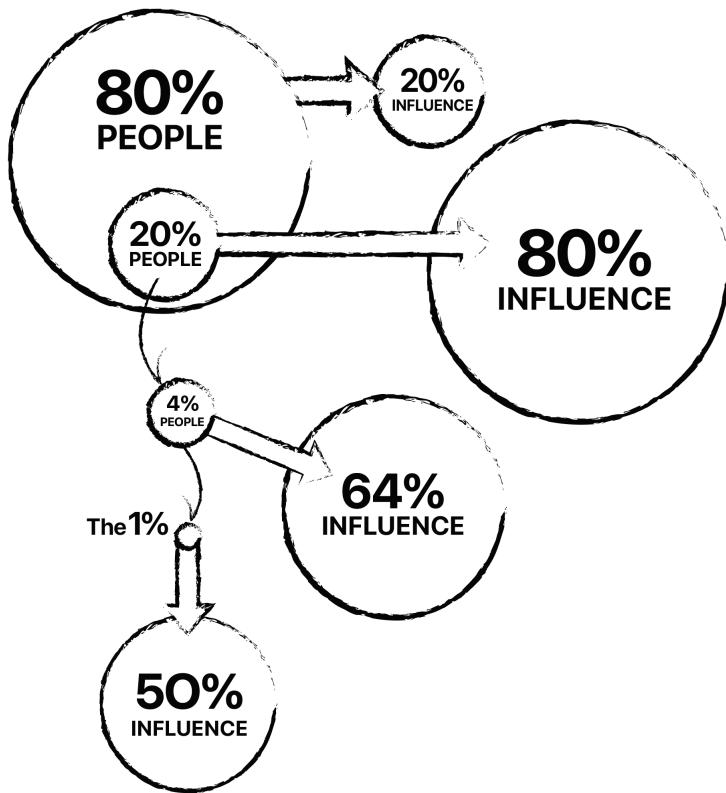
- 20% of the input creates 80% of the result
- 20% of the workers produce 80% of the output
- 20% of pea pods contain 80% of the peas
- 20% of bird species account for 80% of all birds
- 20% of the features get 80% of the usage
- 20% of the people own 80% of the wealth
- 20% of the cities have 80% of the population



The Pareto Principle can apply in other ratios such as 90/10 or 70/30, but the core concept is that most things in life are not distributed evenly by nature. What is more, the Pareto Principle is recursive. If 20% of the bugs cause 80% of the crashes, then 4% of the bugs will cause 64% of the crashes and 1% of the bugs will cause 51% of the crashes.

Assuming an 80/20 Pareto distribution of “*political influence*”, 1% of the people carry over 50% of the influence and in a majority rules democracy that means 1% of people control 100% of outcomes. If we assume a steeper 90/10 influence distribution then 0.1% of the population would control 72% and .0001% would control 53% which would equate to 200 people collectively carrying more influence than 200,000,000 people combined.

## The Pareto Principle (80/20) Amplified



Imagine our political process was like game of chess. In this world, if you want to become president you had to be the best chess player. Chess skills are distributed by the Pareto Principle which means the best players are far better than the average player. Under such a process, the leadership would rarely change and would be largely comprised of people with very similar traits which make them successful chess players.

Political processes that utilize public campaigning for votes are similar to a game of chess optimized for a different set of traits. In particular, it is optimized for those who are

willing to tell people what they want to hear instead of telling the truth. It is optimized for those who enjoy ruling over others instead of those who like to keep to themselves. It is optimized for those willing to make “promises” they cannot or don’t intend to keep. It is optimized for those willing to form parties/factions and not those operating on principle. It is optimized for short-term thinking and not long-term planning. These negative traits are Pareto distributed among the population like skills in chess or any other activity. The larger the population the greater the difference between the most skilled politicians (or chess players) and the average person.

Which school will have the better basketball team? The small county school with 100 students or a large private school in a city with 10,000 students? Suppose skill was randomly assigned from 0 to 100 to every student and each school had to select a team with 10 players. The school with 10,000 students could produce 10 teams of 10 players all with a skill level of 100. The small school would be lucky to have one player at a skill level of 100 and the team average would be closer to 95. If the skills were distributed by Pareto, then 1% of the players would have more skill than 51% combined. This means a large school could field a team with 10 players near level 100, but a small school would be lucky to have 1 player near 100 and 9 players under 50. Experiences bears this out, smaller schools almost always have inferior teams.

Randomness can level the playing field in games of chance. Imagine how things would be if each school randomly selected their basketball team from the student body. In this case all schools would field teams with an average skill level of 50 regardless of the size of the student body. In the case of Pareto distribution of basketball skills,

the average team could have a skill level of less than 10. In the case of games optimized for “negative skills” such as pandering, lying, and manipulating, this would be a good trade. In the case of positive skills, such as wisdom, economic knowledge, and fair play, this would be a bad trade.

As countries grow, the percentage of the population at the highest levels of government shrink. For example, you only have 1 president and 100 senators regardless of population. This is similar to how large schools have the same size basketball team regardless of the size of the student body. The bigger a country gets the greater the skill divide between those who know how to play the political game and the average individual. If a game favors anti-social or immoral behaviors, then those in power will tend to have those traits in greater and greater abundance relative to the population, just like the distribution of basketball skill in small schools versus big ones.

Here is another example of how randomness can level the playing field. Imagine if every bill presented by Congress had to be signed by a two-thirds majority of a randomly selected group of 100 citizens? On average Congress would be unable to pass laws that are inconsistent with the wishes of the people. In this case the trick would be to ensure the randomness was truly random and the set was truly representative.

Another example of how randomness can level the playing field: the order in which names are listed on a ballot can impact the result. The first name listed has an advantage over every subsequent name. By randomizing the ballot you ensure no candidate has an advantage.

The reality is that in typical elections most voters are so ignorant (and rationally so) that their vote carries about

the same amount of information as a coin toss. If the research of Brennan in his book “*Against Democracy*” holds, the typical voter would provide less useful information than a coin toss. This is often revealed by how narrow the gap is between a winning and a losing candidate in a two-party system — people are literally guessing!

There should be little difference between a random sampling of 10,000 people and a forced vote of 200 million. To the extent a difference exists it measures differences in the “enthusiasm”, “motivation”, or “value” that voting carries among the population. In effect, there is a “*cost to vote*” and that cost biases the result of the election from a truly random sampling. Many people argue against a “*poll tax*” and other “*barriers to voting*”, but barriers will always exist. If we cannot eliminate barriers, then perhaps we should construct artificial barriers that select for higher quality inputs. This works so long as we don’t let the end justify the definition of quality input (aka the means).

The practical reduction of an election process to a two-party system tends to select for undesirable qualities and or disenfranchise those who cannot tolerate either party. Randomly selecting among a larger set of candidates would reintroduce variety and prevent long-term capture by political parties.

There is precedent for randomness being used for selecting leaders in Amish communities. The Amish view seeking power or leadership as vanity and a source of corruption. Their process involves having the community anonymously nominate leaders. Every person who gets a minimum number of nominations is eligible. They then use a process to randomly select among the eligible candidates. There are typically 3 to 12 such candidates in their small communities. Interestingly enough, the selected candidate is

promoted to leadership and its attendant responsibilities for life and has no other choice but to accept the role or leave the community. It is like being drafted, which, by the way, also uses a random lottery system.

The concept of using randomness in governance is called sortition and is a process used for filling individual governmental posts. In ancient Athenian democracy, sortition was the primary method for appointing political officials and was viewed as a critical principle in democracy. The reason for this is its well-known property of preventing factionalism (political parties).

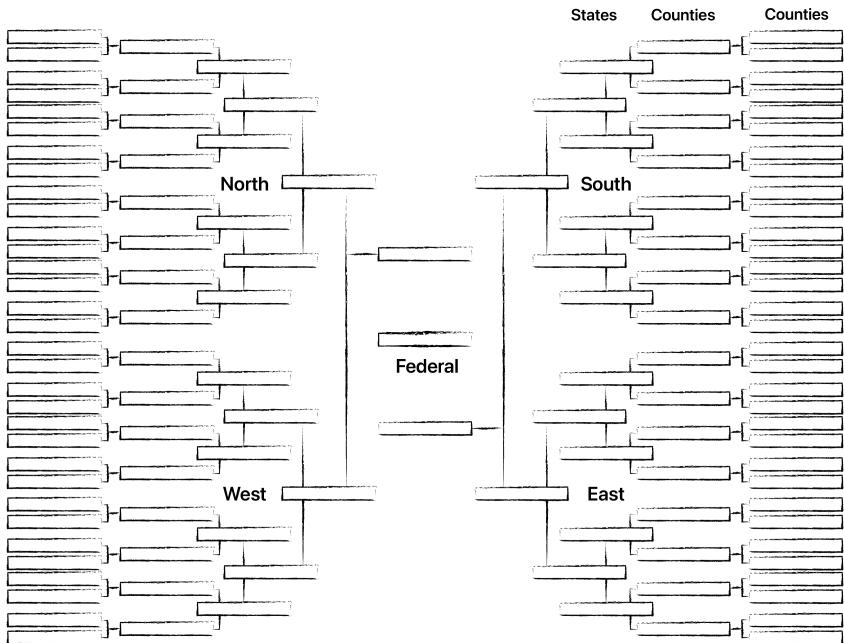
Unfortunately, the direct adoption of Athenian sortition does not scale. Rational ignorance (a recurring theme in this book) is the concept that there is a cost to acquiring knowledge and that cost must be offset by the utility of the knowledge. The art of good governance and sound economics is a field few study and even fewer have hands-on practical experience with. Not everyone enjoyed reading books like this one! The value of learning this knowledge is limited by the impact using that knowledge will have on your life. Given limited time, most people realize more value from improving their skills in their career than by learning governance skills they never get to use. If only these ignorant people were wise enough to avoid burdening the rest of us with their vote.

It is safe to assume that in a large population a purely random sortition process would produce massively sub-optimal results. This follows directly from the Pareto Principle, which states the combined skill of half of the population is less than the combined skill of the top 1%. The median individual is significantly (by orders of magnitude) less skilled than the best individual. If Congress was selected

at random, then it would be like picking our Olympic teams by random draw. The results would be equally as tragic.

While pure randomness can lead to suboptimal results, a little bit of “Pareto filtering” can go a long way. Imagine the improvement if we randomly selected from only those people who got an above-average score on the SAT. This would eliminate the majority of potential candidates while stilling maintaining a large sample size of representative people from most walks of life. Those who are not represented are more likely to do themselves and others harm to the extent their ideas are incorporated into power.

What we need is a system that can identify those in the top 1% or top 10% of skill who are most capable of representing the people and then randomly select among them to prevent systemic corruption or stagnation of power. The next chapter will introduce such a process.



## Chapter 7 - Political Playoffs

What if the skill of “good governance” was like skill in the game of chess? Imagine the United States and China decided to settle their disputes via a game of chess played by their respective leaders. The people want to make sure their country wins, so how would the existing DINO election process fare?

Consider for a moment that the typical voter is rationally ignorant about chess and has never actually played. The population divides itself into parties and sponsors candidates with opposing philosophies on how to play chess. The people are given an opportunity to vote for arm-chair chess experts.

At the end of the day the elected president would be the one most skilled at convincing others they know how to

play chess—a skill that is largely unrelated to actually playing chess. In fact, the best chess players would likely be horrible at convincing others they know how to play best. Imagine if no one was allowed to play chess until elected. They were limited to reading about historical chess matches. Would you bet on a candidate selected in this manner?

If chess skills were required to win against China, then most people would recommend finding the best player via a tournament. Everyone interested in representing the United States in a chess game with China could enter. They would be *randomly* paired off to play a game. The winners of the first round would be *randomly* paired with other winners. This process would continue until a chess champion was identified and this chess champion would then go up against China. It should be clear that, compared to voting, a tournament is far more likely to identify and produce a highly skilled player.

To prevent the same top chess player from ruling for life, the leader could be selected at random from among the top 1% of chess champions. This would minimize opportunity for cheaters to have a guaranteed win and correct for the occasional psychopathic chess grandmaster.

Unfortunately, there is no easy way to have a tournament for running a country; however, if we could design a game that tests for skills that highly correlate with good governance then that could be a more suitable proxy than the party-politics game we play today.

If the purpose of government is to enable a group of people to reach consensus, then it should be led by someone skilled in the art of consensus building. The most skilled consensus builder is the one who can get unanimous consent of the population; the least skilled is the one who divides the population into warring factions.

To identify the best consensus builder we set up a tournament that randomly assigns people to small groups (~10 people). Each group must reach a super majority (~7/10) consensus on one of their members to represent their group. In computer science, 2/3+1 represents the threshold for Byzantine Fault Tolerance threshold. This tests each group member to see who is most effective at building consensus. A group that cannot reach consensus is like a chess match that ends in a draw and no one from the group advances in the tournament. The process repeats until the best consensus builder is identified.

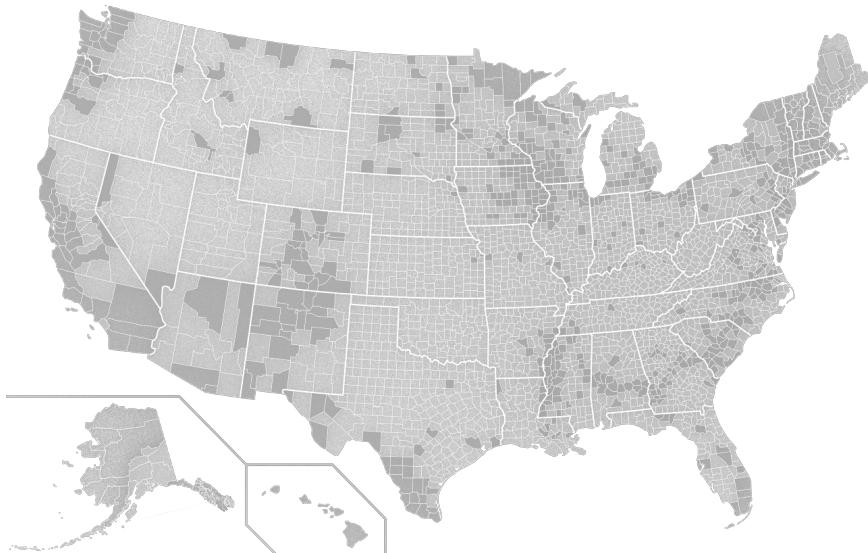
Imagine what our society would be like if everyone in any elected position had to go through this process. Do you think Congress would have a 30% approval rating and faith in government would be under 20%? If China used a similar process, what are the chances that a trade deal could be reached between two expert consensus builders?

In theory a playoff system could allow a population of a billion people to identify a congress/parliament in just eight to nine rounds with each round allocated one month to reach consensus. Overall the entire process should take much less time than the year(s) that people spend campaigning and debating through the primary process and into the general election. The Congress or parliament would then select a president, vice president, and supreme court from among their members. Alternatively the legislative, judicial, and executive branches could have independent tournaments.

Just because political playoffs can scale to billions of people doesn't mean that it is a good strategy to organize everyone under one playoff hierarchy. Doing so would still violate the principles of relative power between the individual and the group; namely, if there is no clear way to

reach consensus on how to decompose the community into autonomous independent units, then there is no easy path toward secession. Without secession the ability to say “*no!*” is lost and without being able to say “*no!*” the ability to negotiate and consent and without consent there is no legitimacy, and without legitimacy no democracy.

To better support secession, imagine if every county in the country used a political playoff to select a “*board of supervisors*”. Because the average county has a population of 50,000 this could be done with an average of just 2 to 3 rounds, potentially occurring in a single day. Once a board is selected it can pick one of its members to represent the county at higher levels (such as the state).



There are 3141 counties in the United States. Imagine if each county was autonomous and able to join any state or country that would have it without having to ask permission to leave the state or country it was previously in. Within each state all counties would use a political playoff to appoint their representatives to the state congress. Finally

every state could, if they chose, join a federal governance structure.

The key component of this structure is that it retains the ability for disagreements to be resolved by secession. An individual who doesn't like his local county board of supervisors can move to a neighboring county. A county which doesn't like its state can either become an independent country or join another state. A state that doesn't like the "United States" can become independent or join a different federation.

The principle here is that higher-level governments are "governments of governments". This maximizes local autonomy and gives locals the freedom to set their own path, to live and let live. If world government is desired it should be composed of independent countries that are free to leave at any time.

### **Recalling Positions**

Occasionally a representative will die or betray his constituents to such an extent that he must be recalled before the end of his term. At any time a group of 10 people can change their representative by reaching a new 2/3+ consensus. This creates a form of liquid democracy where bad actors can be identified and removed before they can do any more harm.

### **The Evolution of the United States**

The government of governments structure is closer to the original United States constitution, before the 17th amendment, when State legislatures picked federal senators. The 17th amendment effectively removed "State" representation at the federal level by flattening the pyramid of representation between the individual and federal

government. States joined the union with the expectation that they had the right of secession.

Additional concentration of representation occurred by capping the number of congressmen. In the early 1800s there were less than 50,000 people per congressman, now it is more than 650,000 per congressman. This represents more than a 10x growth in relative power of the congressman versus the individual assuming a linear relationship. Due to the non-linear, Pareto distributed, nature of power, this might as well be a 100x growth in relative power of a congressman to the people.

By switching to a “*government of governments*” system, each county would have an average population of 50,000 and the 3141 counties appointed representatives would be similar to how many congressmen we would have had under the original constitution. By linking congressional districts to counties we could minimize opportunity for gerrymandering.

The evolution from a federation of independent states to an effective “DINO empire” has undermined the actual power of the people to control their destiny. The resistance of secession movements is one of the primary means by which the status quo removes the power of the people to reach a new consensus.

### **Low Tech Political Playoff Process**

Any democratic process should be simple enough that any community can implement it without relying upon high-tech solutions. The more technology a process depends upon the more dependent it is on a small number of technology providers and the more inaccessible it is to the masses. Low tech solutions should scale from small groups

of 50 people to entire countries comprising billions of people.

To implement a political playoff requires organizing a population into random groupings of 4 to 12 people in a way that gives everyone involved high confidence in the integrity of the randomness. Four people is the minimum necessary to achieve a  $2/3+1$  Byzantine Fault tolerant consensus. Each group must then choose one of their members to be a representative of the group. Let's start by demonstrating how this could work at a small scale and then scale it up.

### **Communities with Less than 200 People**

Let's start with a small community of 50 people, such as a church, club, or representatives of each of the 50 States. This group would host an event at a local community event center or their fellowship hall and set up 13 tables of 4. Once everyone shows up the host will bring a deck of playing cards up to the stage and give everyone an opportunity to shuffle the deck in front of everyone else. Then everyone will go through a line and receive a card. Each table will map to a card rank (Ace, 2, 3 ...). Upon receiving a card people go to the table that matches their card.

Once everyone is at their tables a discussion can begin during which individuals negotiate to determine who can best represent their table. Once an individual is identified they are given the playing cards. An individual must get at least three of four cards to represent the table.

Once all tables are complete there are up to 13 representatives each with at least 3 playing cards. At this point the representatives can carry on a discussion in front of the whole community (on a stage) to pick a leader. The leader must have at least 9 of 13 votes ( $2/3 + 1$ ). In the event no super majority can be reached the process starts over. An

alternative that could defend against everything from bribery to celebrity bias is to randomly pick from the top 13. Another alternative is for the top 13 to be divided into three random groups, each of which picks a representative and then randomly selects from the top three.

This process can scale for up to 200 by adding more decks and increasing the initial table size up to 12 people.

### **Community of 1000 People**

Scaling political playoffs to 1000 people requires a slight variation in the process. A thousand people can easily find a venue such as a school which can support 100 tables of 10 people. In this case we will require 20 decks of cards of two different styles, say red-backed and blue-backed cards. Each table would be mapped to a rank and backing color (e.g., Red Ace, Blue 9, etc.). Once again people would be able to participate in the shuffling and then line up to take a card and then go to their table. Each table would have 10 people who would have to reach 7 of 10 agreement.

Once all the tables have selected their representative then a second round could take place using the rules for a group of 100 people.

### **Community of 10,000+ People**

By the time a community reaches 10,000 people it is too big to host in any single location and it is time to start grouping people into precincts of 1000 people. Each precinct should be approximately the same size (between 900 and 1000 people) and would utilize the same process as a community of 1000 to pick a precinct representative. The 10 precinct representatives would then meet to pick the final representative.

Grouping people into precincts should be done in a manner that is robust against subjective manipulation. The goal is to prevent people from colluding to corrupt the random distribution and thereby reintroducing political parties or gerrymandering. This can be achieved by grouping people according to randomly distributed static properties. One such example is assigning people to precincts by their birthday. Alternatively precincts could be organized geographically using a deterministic algorithmic not subject to gerrymandering such as a GPS grid.

### **Community of 100,000+ People**

This is no different than a community of 100 precinct representatives. A community of one million would be no different than a community of 1000 precinct representatives. By this time you can see a pattern emerge that can scale to billions of people using less than four events, each event consisting of groups of 1000 or less and using nothing more than widely available playing cards.

Under this system it is impossible for anyone to “cast multiple votes” or for any “dead people” or “pets” to vote. In order to participate you must show up and that means you must be alive and in exactly one place at a time. Not only this, but there would be no campaigning because the only people you can vote for are the people randomly assigned to your table. Without campaigning there is no incumbent advantage, celebrity bias, mud slinging, media bias, wealth bias, nor any need for campaign financing. Because each group requires 7 of 10 agreement and the groups cannot coordinate in advance, there is no ability to form political parties. Because every election people are organized into new random groups an incumbent has no base.

## **High Tech Political Playoff**

A high-tech solution would involve everyone using their cell phone and blockchain technology. Under this approach cryptographic techniques are used to create a provably honest random number. An example of such an algorithm is using a future Bitcoin block hash. Once the random number has been selected, it is used as a seed to a deterministic shuffling algorithm that puts people in groups of 10.

A chat room can be automatically created for all groups combined with an option for video conferencing. The group could be given hours to months to reach consensus in an asynchronous manner. The group members would then cast their vote for the representative (which they could change multiple times). Once 2/3+ of the group members agree a representative is chosen.

The process then repeats with the representatives. Everyone is allowed to see any discussion their representatives are engaged in at higher levels.

Each person has an opportunity to rate their representatives based upon how faithfully they performed. This information is then accessible in subsequent years when a new group of 10 is deciding whether to nominate a prior representative.

Because of the transparency blockchain and cryptographic integrity of the algorithms we know that the system cannot be "*hacked*" like traditional voting machines. If the chat rooms are replaced with interactive video conferences and scheduled at the same time then you can also prevent people from voting multiple times and prevent dead people from voting. Unfortunately it is a tad harder to prevent foreigners from joining remotely.

## **Consensus Takes Time**

Consensus takes time and shouldn't change frequently, especially for larger societies where changes impact more people. A high rate of change in laws or leadership suggests that things are happening without the people being able to process, discuss, and consent. Without consent, the people running government have violated society's peace treaty and returned the people to the law of the jungle.

Imagine a dictatorship where the leader changed every 12 months. It would become impossible for a community to execute a long-term plan. This impacts more than just the government, but every business which must respond to changing rules.

You can think of the power of government like a treasure locked in a bank safe. If precautions are not taken the bank can be robbed before anyone can respond. Not only do banks have to worry about outside robbers, they also have to worry about inside jobs.

A community aiming to put people in power should institute a process that limits the damage that can be caused by a few bad actors. One way to do that is to leverage techniques used by banks to secure their assets.

One of the ways banks and many businesses secure their safes is to implement a time-lock. The idea is that the vault door can only be opened after a mandatory delay. When I worked at Dominoes as a teenager we had to unlock the safe 30 minutes before we needed access to the cash. The idea is that if someone attempted to rob the store they would have to wait to get at the cash even if they could coerce the manager to enter the proper code. This time delay gives police time to respond.

When passing new laws, a much longer time delay is necessary because it takes a population much longer to organize and build consensus on resistance. The laws of society should be stable and designed to be consistent with relatively unchanging physical and metaphysical realities. The nature of underlying reality isn't changing rapidly; therefore, our laws shouldn't be changing frequently either.

Rapidly changing rules/laws is like trying to fly an airplane with a two-minute lag between issuing a command on the joystick and seeing the results in the gauges. It is impossible to fly such a plane unless the changes are extremely small such that the impact over two minutes is small enough to course correct. Sudden movements could crash the plane before the gauges even indicate a problem. The political, economic, and ecological impacts of laws can take decades or centuries to reveal themselves.

One way to achieve this check and balance is to ensure that laws proposed by one congress must be ratified by the following congress after a full election cycle before taking effect. This would imply that from the time a law gets 2/3+ approval within one congress, it will take at least four years during which it can be withdrawn by subsequent congresses. After four years the new congress would have ratify it with 2/3+ approval. Then the law would sunset if not renewed by the next congress. Only after sustaining 20 years would the sunset clause end and the law becomes automatically renewed until a new proposal to change it passes and is ratified.

A law that can maintain consensus through four political playoff seasons and still gain 2/3+ ratification is a law for which there is broad consensus. A law that cannot sustain consensus for such a period is likely being drafted out of fear or corruption. There is a saying in politics, “never

*let a crisis go to waste*”. The idea is that during periods of turmoil a population can be taken advantage of by politicians, media, and other influencers ready to introduce laws that would never otherwise pass. Examples of such laws include bank bailouts and the “*Patriot*” Act. No laws should ever be passed in an emergency. In a true emergency the free market and voluntary cooperation under a stable set of laws can bridge the gaps. Making exceptions for “emergencies” is a backdoor to tyranny because the leaders can declare an emergency whenever their propaganda is able to scare the people.

You have probably heard the advice to “*sleep on it*” before making any big life-changing decisions. This is especially good advice for decisions that are not easily reversed. A governance system that implements mandatory time delays gives the people time to sleep on it. The simple act of delaying your decisions gives your subconscious time to emotionally process the consequences. The end result is that, on average, people make better decisions and avoid the equivalent of “*impulse spending*”.

### Harnessing Pareto Power

I have spent the past decade experimenting with technologies designed to be resistant to capture by small groups. The idea behind Bitcoin is that you can secure yourself against banks or government seizing your digital assets by utilizing a censorship-resistant public ledger. If anyone were able to gain control over who can publish to the ledger, then they can freeze funds and extort compliance. To secure property rights in a manner similar to gold, a cryptocurrency protocol should be stable and near impossible to change or censor.

Initially anyone could use their personal computer to participate in the Bitcoin consensus process. Early on I produced many blocks on the Bitcoin network using just my computer. While operating at this scale, everyone with a computer could rest assured that their transactions couldn't be censored.

As the Bitcoin community grew, economies of scale took over and today there are just three different companies which control 51% of the block production. With 51% they can censor any blocks containing transactions they dislike. Furthermore, specialized hardware has been created which makes it uneconomical for individuals with a normal computer to ensure their transaction is included. Because the hardware, skills, and infrastructure are high barriers to entry, corruption of the mining pools (which could be viewed as political parties) becomes a potential problem.

A similar process takes place on all other blockchain consensus algorithms. The Pareto Principle takes effect and 1% of the people gain 51% of the influence, which means the 1% end up in control. A community that wants to protect itself from being captured needs to counteract the Pareto Principle.

We have already seen that randomness is effective at leveling the influence of Pareto. We have also seen that randomness puts people of "median" skill in power and that the median skill is far below the best possible skill. We have also learned that every "game" we create selects a different set of people in the Pareto distribution. Proof of Work blockchains, like Bitcoin, select for technical skills and access to cheap electricity. Proof of Stake blockchains, like the ones I have created, tend to select for the wealthy and cryptocurrency exchanges which manage deposits of other people's tokens.

We have also seen that some games, such as modern party politics, select people with pathological traits. By changing the game to something like political playoffs we can select from a Pareto distribution of more virtuous traits. The problem we face is that any single distribution is likely to have a narrow specialty. For example, if political playoffs selects for consensus builders it might select against strategic thinkers and engineers. The skills needed to govern a society may require consensus on a diverse set of traits which no single Pareto distribution can optimize for.

Assuming the skill sets don't align completely, sharing influence among multiple Pareto distributions increases the diversity and decentralization of influence. The challenge becomes to identify a set of unique games to identify the best of the best.

From this perspective, it may actually make sense to use games like chess, go, poker, spelling bees, Starcraft, or BattleBots. Utilizing these games we can identify a subset of the population that is above average intelligence and skill in multiple dimensions. It is unlikely people could collude to rig such a diverse set of games. One of the challenges is reaching consensus on which games to select from. Regardless of the game, it is critical that a form of sortition (random selection) is used so that the leadership in any category doesn't stagnate.

I think the political playoff consensus process could likely select people skilled enough to reach consensus on the set of games. All of that said, randomly selecting leaders from the top of multiple Pareto playoff games may represent unnecessary complexity.

## **Technocracy**

Many people advocate that we should let scientists and other “experts” tell us how to organize society. If these people really do know best, then everyone should follow them. It is certainly true that the best and brightest are in a better position to make wise choices; however, the challenge becomes how to identify them without opening a backdoor to corruption.

Throughout history the powers that be have burned people at the stake for disagreeing with the “*science*” of the day. Ideas such as the Earth revolving around the sun or the benefits of washing your hands before delivering babies were considered heretical. In modern times “*science*” is funded by people with political motives and the result is corruption of information. From a purely logical perspective, technocracy commits the sin of appeal to authority and therefore should be rejected as a logical fallacy.

If you want to be ruled by a technocracy you must still reach consensus on who is the best and you must do so in a way that isn’t corrupted by political biases and self-serving “*science*”. There must not exist an “*academic class*” or “*media class*” which anoints the “*experts*”, or the academic class will represent a hidden power structure that manipulates political power for personal profit.

One problem with letting an expert in any single field set policy is that they lack interdisciplinary knowledge. For example, what might be best from a medical perspective might be disastrous from an economic perspective. In an attempt to save lives using knowledge from one discipline you may inadvertently kill far more people due to unaccounted for factors from other disciplines. Remember, most people are rationally ignorant with respect to good governance, philosophy, and economics. Even doctors,

engineers, and scientists are rationally ignorant about matters outside their field. What is more, those who are expert in their field are often overconfident in their knowledge of other areas.

It is for this reason that selecting people for abstract skills of logic, rhetoric, math, game theory, memorization, etc., is far better than selecting people with highly specialized knowledge in any particular industry. A governing body should be comprised of people able to reason from first principles and negotiate. Furthermore, the skills should be tested via games with well-defined rules and objective winners (where cheating is hard) instead of "*the most widely published or politically connected academic*". Lastly, no matter how skills are measured, randomness must always be used to select among all who pass a threshold.

### **Political Playoff Summary**

Selecting leaders should be based upon a game of skill that optimizes for virtuous traits combined with randomized sortition to prevent stagnation. Great care should be taken to ensure that playoffs don't overly reward antisocial traits. The process should be tiered in a playoff structure to efficiently filter the best from the rest. By combining this process with overlapping terms and time delays between approving and ratifying new laws we can protect the public consensus from being captured by corrupt representatives or corrupted by emotionally manipulated masses during periods of crisis.

This process is immune to political parties because every group is randomly selected and must reach a  $2/3 + 1$  majority. It is immune to incumbent advantage because every year people are assigned to new random groups. It is immune to gerrymandering because all groups are randomly

assigned. It is immune to campaign promises and mudslinging because there is no one to convince but those in your group. It is immune to rational ignorance because most of the information you need can be gleaned directly from your small group discussion. It leverages wisdom of the crowds because it evaluates everyone in the population and leverages local information. It doesn't depend upon participants having global knowledge; all they need to judge is the character and logic of the people in their group.

This is what I call *true democracy* and it is a stark contrast to DINOs that devour their population under an illusion of democratic legitimacy.



## Chapter 8 - Independence by Design

When negotiating a peace treaty, fair terms can only be negotiated among two people who have the ability to say, “*no thanks*” and walk away from negotiations. If one person has something the other *needs* to live, then extortion is possible. To avoid extortion all members of a political body must remain independent enough to walk away. Furthermore, after an agreement has been reached the parties need the ability to secede in the event other parties fail to honor the treaty. This requires that peace treaties (governments) be designed to ensure the independence of the parties.

Under this model, the federal government of the United States could be viewed as a democracy of states. For the federal government to be a legitimate power over the States, the States must first consent to join the federation. To

maintain consent, the States must have enough independence to leave the federation.

Stated another way, could Virginia secede from the United States and survive being sanctioned or shunned by the rest of the States? If not, what options do the people of Virginia have if the federal government starts taxing Virginia and subsidizing California?

If Virginia builds its community such that it is dependent upon international corporations would the people of Virginia be in a much weaker negotiating position with the rest of the world? If all 50 States practiced independence, then the United States would also be independent and able to avoid unnecessary foreign entanglements.

Even though all States could be independent, they still benefit from the formation of a federation. The federation provides a dispute resolution process among the states and allows the States to act "*as one*" when dealing with the rest of the world. They can coordinate on standards and a common defense. They can work together to topple larger dominoes.

There are two ways to achieve independence: being self-sufficient or having a *multitude* of independent trading partners. A person can be independent if there are a *multitude* of communities they could join. The larger a community the more it should lean toward self-sufficiency because there are fewer trading partners. It is not enough to have "*two or three*" trading partners for a particular good because it is too easy for them to collude and they likely have a lot of common interests. You need hundreds or thousands of *independent* providers to ensure that it is unlikely that they all refuse to trade with you.

A consequence of independence is redundancy, which makes society antifragile against economic shocks and natural disasters. More importantly, it protects a society from widespread, man-made *political disasters*.

Every community should produce its own power and grow its own food. The electricity it produces should be derived from its own renewable resources. A community that can provide food, shelter, clothing, and energy is a resilient community and has achieved independence and therefore has the ability to participate in true democracies.

If a community must import from other communities, it should focus on importing durable goods. A community that depends on a foreign power grid is at the mercy of daily demands for compliance. A community that buys solar panels from a foreign community can go decades without being at the mercy of others for electricity. If relationships sour, a community has ample time to produce their own solar panels, find another solar panel producer, or switch to another means of energy generation.

A community that fails to be proactive in defending its independence will gradually be consumed by those it depends upon. Day-by-day freedoms will disappear and “dependency” will make the community practical slaves. Just because a slave owner isn’t making demands today doesn’t mean that you are not a slave. The more dependent you become, the more painful and costly it becomes to regain your independence.

An example is Walmart moving into a small town and selling products at a lower price than the mom and pop stores that existed before. These lower prices come at the cost of dependency. Every community member that accepts the bribe of lower prices weakens the community’s independence. It is a classic prisoner’s dilemma.

In the prisoner's dilemma, two people are captured for a crime, but the prosecutor only has enough evidence to put them away for one year. The prosecutor offers both of them a deal, if they confess and their friend doesn't, then they go free and their "friend" gets twenty years. If they both act selfishly and confess then they both get five years. If both parties act unselfishly then both remain silent and both get one year.

According to game theory, the proper choice is to confess because if you assume 50/50 odds of the other party confessing then you either go free or get five years, an expected value of 2.5 years. Remaining silent on the other hand has an outcome of one year or twenty years, an expected value of 10.5 years. If all parties play this strategy then the expected outcome is they both spend five years in jail.

In a community, individuals have a choice to buy from Walmart (confess) or buy from a local mom and pop (remain silent). By defecting on your community you gain a benefit (lower prices, aka less jail time) and your fellow community members pay a higher price (more jail time) when the mom and pop store must raise prices due to lower volumes. However, if everyone defects then the mom and pop store goes out of business and your community is now dependent upon Walmart which is free to raise prices and control what products and jobs are available in your community. What is worse, the profits Walmart generates leave the community instead of staying within the community. This impacts every other business in the community.

You could say that all people are in a multi-party prisoner's dilemma where we have a choice to "save a buck" at the expense of everyone (including yourself in the end) or

to “*buy local*” to the benefit of the whole community but at a higher cost to you. The parameters are slightly different in that if too many people defect, the entire community gets sold into slavery. If you assume everyone else is going to defect, then you might as well defect and “*save a buck*” because you are going to end up enslaved anyway.

If you asked everyone in the community if they would rather “*save a buck*” or “*be independent*” it is likely that many would choose independence; however, they also feel like their choice is inconsequential to the ultimate outcome. The odds that their choice to “*save a buck*” will make a difference in the final outcome are so small that “*save a buck*” wins. This is an example of the tragedy of the commons.

Individuals in blind pursuit of profit (lower prices) sell themselves and their community into slavery. An effective community governance system should take active measures to change the incentive structures so that the community maintains independence.

In any community there are bound to be people who voluntarily choose the local farmers market over Walmart, but whether or not there is enough voluntary participation depends upon the culture. A community would need to be highly organized and tight-knit to maintain a culture of individuals who put local community over personal short-term benefit. In such a community there are likely social pressures enforcing a community peace treaty with respect to buying local.

However, once a community gets to a certain size, social pressures are no longer effective (Dunbar strikes again). This is where a formal peace treaty can help the community reach democratic consensus on how to maintain their independence. Imagine if the local board of supervisors placed a 50% sales tax on any products imported into the

community. All of a sudden Walmart no longer has the cheapest prices and the mom and pop stay in business. A consequence of this is that the entire community pays higher prices, but its members maintain their independence. If you believe the purpose of government is to defend the rights of its people, then that means the government must defend the independence of its people even if that means preventing people from voluntarily selling the rest of the community into dependence slavery. A government that cannot defend the independence of the community as a whole cannot defend the independence of its members.

Without independence, community members cannot negotiate a peace treaty from a position of being able to walk away. Without negotiation, there is no consent, and without consent there is no true democracy. Without a legitimate democracy, a community cannot consent to higher level governance structures. The legitimacy of a local government depends upon the independence it secures for itself and its people.

Let's look at this problem from an export perspective. Imagine that you are a farmer in a poor community: those outside your community can offer you more for your food so you sell all of your food to foreigners. As a result your local community starves while you make enough money from your exports that you can afford to pay to import goods you don't produce yourself. This scenario has played out countless times in countries experiencing economic collapse. Whether importing or exporting, individuals can undermine their local community. In effect, there is no local community and everyone becomes subject to (dependent upon) a global community governed by the "*dictator*" CEOs running international companies controlled by Pareto-distributed shareholder oligarchs.

What would happen if communities didn't take measures to defend themselves against large corporations? What is the difference between Walmart and a political party from a foreign country? After all, Walmart and other international companies are nothing but communities of millions of people (employees) operating under the governance of a shareocracy (rule by shareholders). A shareocracy is governed by Pareto distribution and is therefore an oligarchy. Many of today's international companies are orders of magnitude larger than small countries. If you or your community depends upon one of these large companies then your "democracy" is subject to an undemocratic foreign tyranny.

The question becomes, are the people of a small country implementing a true democracy truly in control of their country if they depend upon a foreign power for the necessities of their society? If the people are not in control, are they still living under a democracy? If they are not living under a democracy, what are they living under?

### **Independent Money**

Maintaining control over community money is the single biggest thing a community needs to do to maintain independence. If your community doesn't control its money, then someone else does. Control over money is control over all financial transactions and all savings. The power to issue money is the power to reallocate resources in the economy and undermine savings.

Historically, gold and silver were used as money because they had many properties necessary for money: uniformity, divisibility, portability, durability, and scarcity. Any commodity with these properties can be used as money. I am going to propose that money needs another property:

independence. If money is not independent from anybody's control over its issuance then the people are not in control of their economy. If the people are not in control, then is it a democracy?

It is frequently claimed that the house of Rothschilds had a maxim, "*Let us control the money of a nation, and we care not who makes its laws.*" Experience has demonstrated that central bankers can create booms and busts, pick winners and losers, and otherwise buy up any asset or bribe their way to any influence they want.

More recently, cryptocurrency has demonstrated that blockchain technology can be used to create digital assets with most of the characteristics of money. Cryptocurrency is more portable, but less durable (specific crypto coins are unlikely to be valuable in a thousand years). The thing that makes this possible is transparency and the ability of its users to "*fork*" or "*secede*" and create a new blockchain in the event someone gains control over the ledger. The rules of cryptocurrency are established in advance and therefore it has the property of independence. Because cryptocurrency is programmable, any number of different "*fixed rules*" can be implemented, unlike gold and silver which has one set of fixed rules defined by nature.

A major benefit of cryptocurrency is that every community can have its own money. This protects communities from outside control by those who have larger supplies of gold and silver. The fact that a community needs no gold or silver to implement their own cryptocurrency is a major benefit to independence. A local currency is also an easy way to encourage and enforce local independence by controlling the exchange between foreign and local currency. Ever wonder why every serious country in the world has its own currency?

One potential problem with blockchain-based solutions is that they depend upon technologies that currently require a global community to produce. If the State of Virginia is unable to produce its own computers from mining raw materials up to manufacturing CPUs, motherboards, and monitors then building your economic system on top of this technology is building your most critical infrastructure on a foundation of dependency.

A community could take the position that computer hardware can last 20 years if properly taken care of. In the event of a blockade the community would have up to 20 years to negotiate peace on fair terms or innovate an internal replacement. Unfortunately, there are many risks such as solar flares which could wipe out much of the critical monetary equipment overnight.

Experience has shown us that even countries suffering international sanctions, like Iran, are able to maintain enough infrastructure for some people to have access to Bitcoin. No blockade is perfect, so there is always a way to get limited quantities of foreign goods at high prices.

Communities serious about being a true democracy and not a DINO must control their own money at the most local level possible. Gold, silver, and platinum may be the most practical options to implement monetary independence at a global level.

### **The Cost of Independence**

As you can see from the examples above, independence has a high price in terms of material standard of living. Imagine if your country placed a 200% import/export tax on all goods to incentivize independence. Everything your country produces would become vastly cheaper (due to redirection of exports to local markets), and

everything it depends upon would be three times as expensive.

In the extreme case of self-sufficiency it would mean living alone in the woods and foraging for food. In a self-sufficient, small community it could mean living like the 1700s. In a slightly larger self-sufficient community it could be more like the early 1800s.

In case you were wondering, I am not advocating that everyone adopt an Amish lifestyle. Things are not black and white and complete self-sufficiency has drawbacks just like complete dependency does. Ideally a community would closely monitor how far it goes down the path to dependency and remains prepared to pay the price of returning to self-sufficiency when negotiating peace treaties.

There is a direct correlation between the level of specialization a society supports and the number of individuals in that society. The more benefits of specialization an individual demands, the more dependent they become on a larger community. The larger a community an individual depends upon the less influence they have over the terms of the peace treaty. At the extreme every individual is uniquely specialized and everyone is dependent on that specialization. The loss of any single individual will lower everyone's standard of living, or worse, cause the death of the community.

It is just as important for a community to maintain its independence as it is for an individual. In fact, an individual's independence usually depends upon the independence of his community. If a community has no farmers, then that community cannot be self-sufficient. Such a community would need an abundance of relationships with other communities or it is at the mercy of whomever it depends upon for food.

## Interdependence

One could argue that when two communities are interdependent neither party has advantage over the other. It would be like one individual controlling the water and another the food. In such an environment one could expect a fair negotiation position. Unfortunately, interdependence is not a stable equilibrium. As soon as either party takes steps to improve their independence, the other party becomes a dependent and loses the negotiating power required to give consent to democracy.

People will always be tempted to sacrifice their independence and accept interdependence or outright dependence in exchange for a more comfortable life. This comfort comes at the expense of sustainable growth of civilization and passes existential risks on to future generations.

There is a story about a man who wanted to eat wild turkey every Thanksgiving. He would go hunting and have to be very quiet so he didn't alert the turkeys. Some years he would catch a turkey; other years he would fail.

Then one year he had an idea. An awful idea. He had a wonderful awful idea! Every day he would go out and feed the wild turkeys. Over time the turkeys grew fat and let down their guard. They would come running every time he came out with the feed bucket. From that year on the man could walk up and catch a turkey by hand and never had to worry about missing a Thanksgiving dinner again.

If you don't want to end up someone's Thanksgiving dinner, then you must be on guard against anything that undermines your independence and makes you "*fat and happy*". You can watch this process in action in many modern business models. Companies routinely offer customers "*free*" services for years in order to grow a network effect,

undermine competition, and build dependency. Once dependency is achieved, the company changes tactics and starts leveraging their position to extract money and power from their dependents.

## Antifragility and Independence

Nassim Taleb wrote the book, “*Antifragile: Things that Gain from Disorder*”. His book introduced the concept of *antifragility*. A fragile system breaks when exposed to the chaotic randomness of nature, whereas an antifragile system gains strength from random disturbances. Your muscles and bones grow stronger when subjected to stresses. Plants in a greenhouse suffer and die without temperature, light, and wind variations. Intermittent fasting and a variable diet are critical components of healthy living. In effect, all of life gains from random disturbances and dies without them.

Technology, on the other hand, is fragile and breaks down without constant maintenance. The more randomness and volatility in the environment, the faster most technology fails. Driving down a dirt road is harder on your car than driving on a paved road. An antifragile car would grow stronger by driving on bumpy roads and weaker by driving on smooth roads.

Randomness in life is like a test for dependencies. It prevents us from taking anything for granted. If we develop a dependency on something—like the power grid—then the day nature throws a solar flare our way we experience great disruption and even mass death.

As a species we work our whole lives to eliminate randomness and bring order from chaos. We aim to remove volatility from markets, income, food, indoor climates, and outdoor climates. The fascinating thing about antifragile systems is that they grow weak and die without

disturbances. In a way, our pursuit of stability makes us dependent and at far greater risk from "*black swan*" events that "*no one could have seen coming*". Unfortunately, black swan events are far more common than we like to admit.

An individual, community, country, and all social arrangements need to introduce regular disturbances into their environment or things will tend toward catastrophic failure of the entire system. At an individual level this means periodically fasting from all the various things in your life. This is one benefit of giving things up for Lent.

Randomness in life isn't pleasant, which is why we attempt to avoid it at all costs. We ignore risks and go about our lives as if nothing we depend upon will fail. We take things for granted. In our complex society it is difficult to understand how risks pile up until one day a small, insignificant straw breaks the camel's back.

Our society is like a mountain covered in snow. Without periodic disturbances the snow will grow deeper and deeper until one last snowflake triggers an avalanche. Ski resorts intentionally introduce disturbances to reduce the chances of a major avalanche that could kill people.

Our society is like a forest that does everything it can to prevent fire damage. It becomes so proficient at fire prevention and mitigation ("bailouts") that people almost forget that forest fires are a thing. In the meanwhile, dead branches are building up on the forest floor. Eventually a single spark starts a fire no one can stop and this time the fire burns so hot that it sterilizes the forest floor and even kills the trees that are naturally resistant to fires. The forest goes from thriving ecosystem to desert overnight.

Fires are a part of nature that life depends upon. There are many plants whose seeds require the heat from a mild fire to sprout, but when a fire is too hot even these

seeds do not survive. The act of removing volatility from any antifragile system risks catastrophic and irrecoverable failure. Society is an antifragile system.

What we learn from the work of Nassim Taleb is that well-designed, life-respecting, community governance systems need to expose all potential dependencies to periodic stressors so that people don't become overly reliant upon the status quo. We have become experts at removing randomness and making things uniform; now we must become experts at adding randomness back and making things diverse.

In the same way that modern lifestyles require artificial work (exercise), we must exercise our community's ability to deal with change or our communities will slip into dependency and from dependency into exploitation and from exploitation to tyranny and from tyranny to genocide.

Here is an example of how a governance system can enhance the resilience, independence, and antifragility of the community. Instead of imposing a flat import/export tax or a human-directed variable import/export tax, a community can impose truly random tax rates (from 0% to 10,000%) for truly random intervals (from months to years) on all products with different rates for each product. Such a system has the ability to identify dependencies that may not be obvious and ensures the community doesn't get too comfortable with "*work arounds*" to fixed tariffs which could be too low or too high. It has the added benefit of ensuring that tariffs don't become political in nature but remain focused on the intent of building the strength and independence of the community.

We are often blind to the complex interdependencies that make up our modern world. There is an ancient proverb known as "For Want of a Nail" which explains this concept:

*For want of a nail the shoe was lost.  
For want of a shoe the horse was lost.  
For want of a horse the rider was lost.  
For want of a rider the message was lost.  
For want of a message the battle was lost.  
For want of a battle the kingdom was lost.  
And all for the want of a horseshoe nail.*

In other words, a single, apparently insignificant dependency can bring down entire kingdoms. Since no one is able to map the complexities of all possible dependencies we should assume that anything could become a dependency. Random tariffs may be far more effective at identifying a hidden horseshoe nail dependency before it brings down the kingdom.

Once again, we come across a conflict between efficiency and individual and community resiliency necessary to secure a true democracy. It takes time, energy, and money to go to the gym. It takes getting dirty, sweaty, and sore. It is not always pleasant. The alternative is to become weak, fat, and sickly and then when nature throws a real curveball your way you are not physically able to cope. Ultimately the quality and quantity of our lives suffer when we pursue an “easy” life.

Another huge benefit of the random tariffs is that society can still benefit from the benefits of global trade without becoming victim to global dependency. This enables us to leverage specialization while ensuring sufficient redundancy to ensure our independence doesn’t devolve into dependence.

All of that said, a society organized around these principles will necessarily have less consumptive and less entertained lifestyles with less luxury than we have today. More of our time and resources would be purposed toward savings, backup systems, and inventory. Fortunately, the

reduction in lifestyle would only be temporary because once the market adapts it can continue its exponential growth in a more sustainable manner.

As a society we have to choose between rate of growth and antifragility. If we choose to grow faster we automatically limit how far society can progress before collapse. If we grow slower and we build a stronger foundation then we are able to support a more highly developed society.

It is like Aesop's fable "*The tortoise and the hare*". A hare ridicules a slow-moving tortoise until one day the tortoise challenges him to a race. The hare quickly leaves the tortoise behind and, confident of winning, takes a nap midway through the race. When the hare awakes, however, he finds that his competitor, crawling slowly but steadily, has arrived before him. The moral of the story is that if we become overconfident as a society and pursue leisure over prudent work we end up losing the race.

## **Secession**

Independence is a necessary precondition for secession, and the ability to secede is necessary to secure independence. When negotiating a peace treaty you must establish a process for secession. It is like establishing a prenup before getting married. When I start a business or buy a minority stake in a company I always check to see how I can get out of the arrangement.

One of the ways I use is to put a clause that allows one person to set the company value and the other person gets to choose whether they are selling their half or buying the other person's half. Other times I have agreed to liquidate assets of the company at book value. The one time I didn't pre-plan for separation I almost had to take things to

court. Being a minority shareholder leaves you with few rights and what rights you have are difficult and expensive to enforce. In the best case your equity is publicly tradable and you can simply sell.

When forming a community in a true democracy everyone is a minority shareholder. If the community owns any common assets or territory then a plan must be devised on how to dissolve the community and form two or more new communities. A peace treaty without a plan for secession is a civil war waiting to happen.

Imagine a county with 50,000 people which has divided into two camps based upon religion. The religions are not geographically collocated, which makes a geographical split difficult. What kind of agreement could these 50,000 people have reached in advance?

For starters, two groups would have to form, with 20,000 and 30,000 people (things are rarely ever 50/50). The minority group would have to agree to a new peace treaty amongst themselves in order to negotiate with the majority group. At this point the minority can offer to buy out the majority or force the majority to buy out the minority. Alternatively, an independent third party can be appointed to mediate and then arbitrate a fair division of the land.

Failure to plan for secession is planning to fail.

*“For in spite of itself any movement that thinks and acts in terms of an ism becomes so involved in reaction against other isms that it is unwittingly controlled by them. For it then forms its principles by reaction against them instead of by a comprehensive, constructive survey of actual needs, problems, and possibilities.” — John Dewey*

## Chapter 9 - Ism Schism

This chapter is dedicated to dispelling concerns from those who would be quick to label me as being a proponent or opponent of anarchism, capitalism, socialism, communism, Marxism, corporatism, or any other potentially unacceptable or myopic *ism*. As I explained in the introduction, I have traveled the world of *isms* and have incorporated lessons from all of them to build a theory of *true democracy* that best supports the promise of a government of the people, by the people, and for the people while remaining consistent with nature.

What all *isms* have in common is that they are derived from the law of the jungle whether people want to acknowledge it or not. Most people are so focused on how “*stuff*” is allocated that they ignore how “*power*” is allocated in reality. They choose to give their power to people who promise to use the resulting concentration of power to give them more stuff. What people miss is that by giving away their power they will get far less in return than what they could have produced had they retained their power.

If I had to pick a single *ism* that most closely reflects my stance it would be voluntarism. That means that I support any form of community organization which has the consent of the governed demonstrated by the right of secession. From that perspective, I am opposed to universalism: the belief that everyone must be governed by the same principles.

While being fundamentally voluntarist, I make arguments from first principles to persuade people to voluntarily adopt systems commonly considered communist, socialist, and capitalist. This chapter will attempt to explain how I resolve these disputes without being internally contradictory, ignoring human nature, or being perceived as economically illiterate.

If we are going to have a discussion regarding *isms* then it is best to start with definitions. Since this is my book, I get to define the terms as I understand them. If you disagree with my definitions, that is OK; you are welcome to have your own definitions. But while you are here I ask that you set aside your definitions and adopt mine just long enough to follow my reasoning.

## **Anarchism**

The idea of anarchism is that we should live by rules and not rulers. In prior chapters I made the case that it is impossible to have rules without rulers because we must reach consensus on what the rules are, how they are to be enforced, and how to resolve disputes. An alternative view of anarchism is that it is nothing more than the law of the jungle, where might makes right.

If anarchism is the law of the jungle, then we are at all times living under anarchism even if groups of people voluntarily agree to a “*peace treaty*” that establishes property

rights and dispute resolution procedures. We can clearly see that sovereign countries interact under anarchism on the world stage.

An anarchist is someone who refuses to voluntarily agree to any higher level "*peace treaties*". Even if they don't confess their agreement by word, their actions generally indicate that they prefer peace to war and that their objections to peace treaties are theoretical. That said, anarchists have no moral issues with breaking laws if they can get away with it. They never agreed to a peace treaty and only cooperate to the extent necessary to avoid problems. They will run stop signs when no one is looking. They will steel, kill, or destroy if they think it serves their interests. In less extreme cases, they will avoid taxes and skirt government regulations.

With this perspective on anarchism, everyone who uses whatever physical and social means that are available to them to "enforce" their rules on everyone else under the law of the jungle is an anarchist.

### **Marxism/Communism**

Next I'm going to address Marxism because Marx provides a list of essential tenets of communism, namely:

- Central Banking
- Government-controlled education
- Government-controlled labor
- Government ownership of transportation
- Government ownership of communication
- Government ownership of agriculture and industry
- Elimination of private property
- Heavy income tax on everyone
- Elimination of inheritance

- Regional planning

What is interesting about this list is that the United States—both major political parties—and most of the world support almost every tenet of communism in principle. Every country in the world uses money issued by a central bank. Education is highly regulated at the state and federal level and the DINOs and RINOs are generally resistant to unregulated education. With the COVID 19 “pandemic” we have seen that governments around the world have almost unanimously declared the right to tell people whether they can go to work and what they must wear. The governments have recently interfered with private property rights by preventing evictions. For decades property rights have been violated by civil asset forfeiture. Everyone is subject to an income tax and inheritance tax at the federal level and in most states. Limits on what we are allowed to communicate are rapidly growing and all the roads, airports, and other transportation is either owned by or so heavily regulated by government that it has *de facto* ownership via implicit and explicit control.

A country that can do everything that RINOs and DINOs support has already assumed total control over everything even though they “*allow*” people to make some choices. The government has reserved the power, in principle, to exercise complete communist-style control.

The RINOs and DINOs have already accepted the principles of communism; any difference is only a matter of degree such as adjusting the tax rates, increasing regulation, etc. You are considered to be *in control* of your car even if you take your hands off the wheel because you have the ability to take the wheel at any time. Likewise, governments are in communistic control of the people because they can regulate anything at any time.

It seems to me that defining communism based upon the way it is implemented is quite limited. After all, a central bank could have a 100% reserve, gold-backed banking policy. Government-controlled education could still teach critical thinking and lack propaganda. The very purpose of government is to resolve disputes with respect to property, which means that government is ultimately in control of all property.

Therefore, communism can best be described by the intended outcome from the exercise of total control over everything. This outcome is an "*equality in standard of living*" for most people. It is an attempt to scale commune-style living arrangements to a larger scale. It is an attempt to eliminate the profit motive. Ironically, those who promote communism often do so in the belief that it will result in a "*personal profit*" by redistributing wealth from others to oneself and those "*enterprising*" leaders of the communist movement aim to transfer control from everyone else to themselves knowing full well that control is wealth.

I am completely against attempts to completely (or mostly) eliminate the natural Pareto distribution of wealth. All such attempts can only destroy wealth, because without profit (producing more value than you consume) there is no justification to take the risks involved in production. I am firmly against communism by this definition.

The title of this book, "More Equal Animals" is a reference to George Orwell's book, "Animal Farm", in which the animals attempt to establish communism and declare that "All Animals are Equal". Eventually the pigs take over the farm and start to live like the farmer they overthrew. The outcome being that the animal constitution was reinterpreted to "All animals are equal, but some animals are more equal than others".

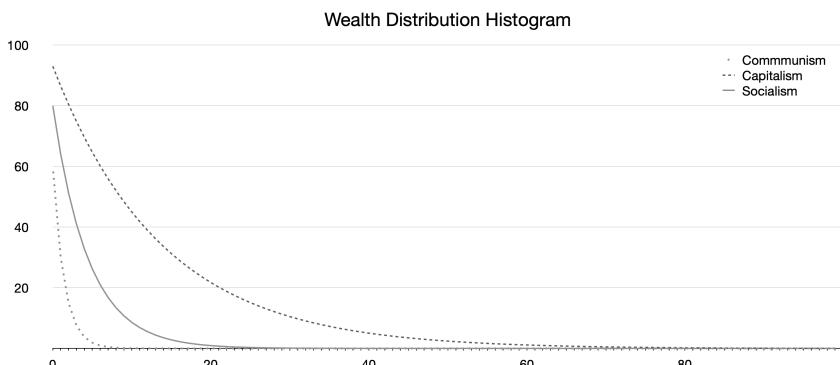
The animals had hoped to form a society where everyone was equal, but the statement that some animals are "*more equal*" than others exposes a contradiction in the highest law of the land. How can everyone be equal if some are more equal? In the case of Animal Farm and our society today, we are all presumed to be equal under the law and to have equal power, but in practice we know this is far from reality. The concept that things can have a degree of equality is like defining equality as the difference between two animals. The opposite of more equal would be less different. Perfectly equal animals would have zero differences. The "*more equal*" the animals are the fewer differences one would expect.

The problem with communism isn't that communes "*don't work*", it is that at the national level they are fundamentally militant (anti-peace) in that no commune can grow organically and voluntarily from two people to thousands, let alone millions of people. A commune can only grow to national communism through militant (use of jungle power) means. It can only maintain a communist state by violently suppressing those who have alternative ideals. In effect, while the people may be "*equal*" economically, they are not "*equal*" politically. Power in a communist system must be distributed by an extreme Pareto distribution in order to flatten the wealth distribution of the vast majority.

It could be said that communism is the natural result of extreme concentration of power. Any *ism* that allows concentration of power will eventually attempt to use that power to evolve toward communism as a means to further concentrate power. Ironically, with concentrated power comes concentrated wealth as there is little practical difference between *control* and *wealth* because property is commonly defined as the "*right of exclusive control*". Under

communism the people become the “*private*” property and “*wealth*” of the rulers. There is little difference between communism and slavery. Historically no communist ruling class has subjected themselves to the same rules as the people; it isn’t even technically possible to do so. On paper the “*rulers*” may “*own*” nothing, but they get exclusive use of “*community property*” which is de facto private ownership.

This book is about making people more equal in power and letting the wealth fall where it may. The premise being that all wealth is created using *manpower* and if men were more equal in terms of power, then they would naturally be more equal in terms of wealth.



The chart above shows an abstract representative example of the normalized distribution of wealth among a population under various *isms*. The way you read it is that the horizontal axis represents 100 abstract people, and the vertical access represents the “net worth” of each person. Under communism 95 out of 100 people have the same wealth (practically 0) while the ruling class has almost all wealth. It is often even more extreme than I have shown. Socialism, which I will discuss next, doesn’t go to the extreme of communism, but nevertheless attempts to reduce wealth inequality. Capitalism also has wealth concentration but less so than communism and socialism. Regardless of

what *ism* you adopt, at least 20% of the population is living in relative poverty. There is no escaping Pareto and every attempt only make things worse.

The total wealth in a society can be measured as the area under each respective curve. The half of the population living in relative poverty are often under the belief that “*if the rich would just share*” then they could improve their standard of living. All they succeed in doing is bringing almost everyone down into poverty except the ruling class. The area under the curve shrinks.

### **Socialism**

Socialism is commonly viewed as communism-lite. Like Marxism it requires total control of everything, it only differs in the extent to which the rulers aim to utilize the control. Instead of completely flattening the Pareto distribution, rulers attempt to put limits on the wealth gap between the richest and poorest. Of course, the ruling class is largely exempt from limits on their wealth and imposing these limits means they must have more power than everyone else. More commonly, socialism is the idea of “*sharing the burden of life*” through various “social” programs and safety nets.

I define socialism as any system that takes from the many and gives to the few, or the reverse, gives to the many and takes from the few. With this definition, all governments are inherently socialist organizations. They socialize the costs of national defense, natural disasters, old age, and medical care. They socialize the costs of police, prisons, and bank failures.

Corporations and limited liability companies are a form of socialism. They grant their owners limits on their liability, transferring the costs of that liability to the general

population. Ironically, most socialists consider corporations to be creatures of capitalism. Corporate personhood is a means of privatizing the profits and socializing the losses. Patents are a means of transferring power from everyone to the “inventor” or monopoly owner, and therefore socialist in nature.

I don't have a problem with socialist community arrangements so long as participation is voluntary. In fact, I think there are very sound reasons to voluntarily participate in socialist arrangements with other people. This can be demonstrated by the existence of a large market for voluntary insurance products and mutual aid societies. Individuals have to give up something to gain benefits of a community. Going through life solo is dangerous under the law of the jungle.

The problem with socialism is its tendency to evolve into militant communism. This stems from the fact that socialism requires a concentration of power, and this concentration tends toward further concentration of which communism is the extreme. There is little difference between socialism and communism in the minds of many people; therefore, the term socialism is not a terribly useful term except as a means of describing “risk pooling” and “cost sharing”. One of the biggest risks of socialism is moral hazard. The next chapter will dive into moral hazard in depth.

## **Capitalism**

The common definition of capitalism is an economic or political system where industry is controlled by private owners instead of the state. An alternative definition is a society governed by capital and markets. Communists might

describe everything with a “*profit motive*” as being capitalistic.

Many people assume that we live in a capitalist society, due to the heavy profit motives of corporations, but as you can see from the prior discussion on communism and socialism, the entire globe is governed under some degree of socialism. The companies people attribute to capitalism are creatures of socialism wearing the clothing of capitalism. A more useful term for rule by corporate entities is corporatism which I will discuss later.

Capitalism lives just above the law of the jungle in that it exists where there are no governments or formal communities. Under capitalism, ownership is enforced by informal agreement with possession defended by jungle strength. If your “*private*” property depends upon the consensus of a community and is enforced by community police, courts, and prisons then it isn’t truly private property. It is public property which the community is temporarily granting you the exclusive right of control. From an economic perspective, it behaves *as if* it were your property but is nevertheless only yours by virtue of the socialist social arrangements. True private property is that which you retain under the law of the jungle.

From this perspective, capitalism is as fundamental as the law of the jungle and the basis upon which all other systems are built. A kingdom may be socialist on the inside, but kingdom to kingdom trading operates on the basis of capitalism.

Another way of phrasing capitalism is that he who has the “gold” makes the rules. Everything that exists due to specialization, including communist and socialist systems, is the result of the voluntary exchange of goods and services

under the law of the jungle. Everything is therefore the result of capitalism.

There is no point in being "*against*" capitalism or "*for*" capitalism because capitalism is like the ether — always and everywhere present. What people are "*for*" or "*against*" is the degree of socialism in the definition and enforcement of practical property rights.

Since I view property rights as a peace treaty, I view them as malleable. If one wanted to be "*fair*", then true property rights are those negotiated among people with equal jungle power. We will cover property rights in greater detail in later chapter.

## **Libertarianism**

If you wanted a slightly more useful word than capitalism, you could use libertarianism to describe the system of voluntary trade absent limited liability and corporate personhood. A libertarian community defines property rights in advance (via a peace treaty) and said rights are only transferred by contract. A libertarian community resolves disputes by restoring lost property to its rightful owner as closely as possible. Technically the process of "*defining property rights in advance*" and "*resolving disputes*" is dependent upon community consensus and therefore is socialist in nature, but that limited degree of socialism shouldn't taint an otherwise practical definition of libertarianism.

Libertarians follow the non-aggression principle, which states that no one should initiate violence (or threat thereof) against another and allows defending yourself and "your" property with violence. The primary challenge with libertarian systems is getting people to agree on the initial definition of property and on the process of dispute

resolution. The definition of “aggression” is also widely disputed, especially with respect to “endangerment”. Is it aggression to point a gun but not shoot (assuming no threats)? Is it aggression to play Russian Roulette while pointing the gun at someone else? Is it aggression to drive drunk? Is it aggression to expose someone to the flu? Does aggression depend upon the gun going off, the car crashing, or someone catching the flu?

Those who are heavily dogmatic about their libertarian beliefs are resistant to anything that smells of socialism and therefore have a hard time negotiating peace treaties. While voluntarists generally support the principles of libertarians, they are more open minded to socialistic arrangements.

## **Democratism**

This book is about *true democracy* which I submit is the voluntary process by which a group of people (or group of organizations) reach consensus so that the members of the group can act as one and resolve disputes without taking power from the people. Democracy is government derived from the ongoing consent of people as demonstrated by the right of secession.

With a *true democracy* the people can establish everything from a libertarian community to any degree of socialism. The primary difference between true democratic socialism and DINO socialism (democratic in name only socialism / communism) is that power is truly decentralized under true democratic socialism whereas power is extremely concentrated under DINO socialism / communism.

An argument has been made that democracies devolve into communism as soon as the people realize they can vote to take from the rich and give to the poor. It is my

belief that this is only true for DINOs, which violate the principles of *true democracy* by enabling factionalism and actively *resisting* secession. If the rich have the right to secede then any democracy that threatened them in a way they feel is unjust would lose their most wealthy citizens. It is like attempting to kill the goose which lays the golden eggs. Ironically, it is often the richest who advocate for socialism/communism because it increases their relative power and therefore their relative wealth.

A typical libertarian will argue against democracy on the ground that the minority did not consent. At the same time, libertarians will argue for arbitration in which two people voluntarily submit to the “*rule*” of a third person. The key is that people consent to the process and then abide by the outcome. Democracy, voluntarily joined, is just a multi-party dispute resolution process. Everyone is better off acting as a group even if some of the members disagree with the group decision.

*True democracy* is about coordinating with other people while maintaining personal autonomy and power. Your power is best represented as the right and ability to secede. DINO systems give the people the appearance of political power while stealing its substance and giving it to a ruling class.



## Chapter 10 - Moral Hazard

The study of economics and game theory is about understanding the incentives that motivate human action. The type of incentives can greatly impact the outcome for the people involved. Generally speaking, you want to structure incentives such that people are aligned toward the same goal and avoid situations where one person has incentive or temptation to harm another. We call these situations moral hazard because the outcome is somewhat dependent upon the “*moral*” character of the people you interact with. Even if everyone is a “*good person*”, bad incentives can compromise how parties perceive and value things to an extent that bad things still happen. While it is called “*moral hazard*”, it ultimately doesn’t depend upon any single definition of morality; instead it is a matter of other people making choices that benefit themselves at the expense of someone else.

Understanding moral hazard is critical for *true democracies* because misaligned incentives will quietly turn even the most honest and noble people against one another. It leads to systematic corruption that doesn’t serve the interest of the people. If you are going to negotiate a contract (or peace treaty) with others, you want to ensure there are

minimal moral hazards that motivate or tempt them to betray you either consciously or unconsciously.

One of the greatest signs of moral hazard is when one person chooses and another person pays. Suppose you are going on a business trip and your employer is buying dinner. Assume that 100% of the cost is being covered by your employer. The temptation is to buy a higher quality and larger quantity of food from the best restaurant in town. In this case the benefits of a nice meal accrue to you and the costs to your employer.

The hazard exists even if you are a good person and consciously try to eat no differently than you would on your own. From the perspective of an economist, we can say that value isn't revealed until a choice is made as demonstrated by action taken. You may claim to value education more than entertainment, but if you always choose to watch TV over studying then your true values are revealed. Likewise, you can claim that you would have ordered a steak on your own dime, but without being able to observe the alternate reality, we will never really know.

A similar process occurs if you go out to dinner with a large group of friends and agree to split the check evenly. Everyone who orders a meal above the average cost benefits and everyone else loses. The temptation is to order more than average. This temptation is made worse when you realize everyone is tempted to order more than normal. Things get even worse if the group is a random set of strangers who may never share a meal together again. The tendency is for the group to spend far more than the average of what they would have spent if everyone paid for their own meal.

Now imagine you and your friends get together for dinner every week and the same people always order the

most expensive meals. One of two things will happen: those ordering cheaper meals will stop attending or the group will stop inviting those who order more expensive meals. With multiple iterations, reputation, and voluntary membership the moral hazard is greatly reduced. Without multiple iterations, reputation doesn't have time to be discovered. Without voluntary membership or exclusion there is no way to counteract abuse.

Imagine everyone was required to attend the meal and pay their equal share. At the first meal some people may be more economical in their choices and others more spendthrift. After observing the outcome of the first meal, the economical parties will become more spendthrift on the second meal so that they get their "fair share" and don't feel like they are subsidizing others. This raises the average cost on the second meal. The third meal will be even worse. This process will continue until everyone orders whatever they want or until some members are unable to afford the bill.

Once some members are unable to afford the bill the temptation is to ask others to pick up their tab. If the group agrees to divide the bill according to each member's ability to pay, then the moral hazard continues to drive up consumption until there is nothing left to consume or even the most well off are unable to pay. While some members of the group may speak up and say, "*this is wasteful!*", they are trapped with a choice between subsidizing everyone else or getting their "fair share". For every dollar they reduce their consumption, they only reduce their share of the bill by pennies. The larger the group, the greater the moral hazard.

Imagine a community club with 100 members who get dinner every Sunday at their favorite restaurant. In order to simplify billing, the restaurant sets up 10 tables of 10 people. Each table is required to split their bill evenly, but

people may choose to sit at any table. The consequence of this setup is that the economical members will pick one table and the spendthrifts will be shunned from most tables and forced to dine together. People would tend to group according to the amount they feel is economical for them to personally spend. Each group may even reach a consensus to place a cap on how much any one person can spend. These caps would operate like an employer giving you a per diem food budget while you travel. Each person's spending will approach the limit as they either "*use it or lose it*". So while limits may prevent runaway consumption, they do not encourage economical choices. What is more, these limits artificially force some people to live below their means.

While allowing people to group helps reduce waste, waste can be further reduced by enabling more groups which means smaller groups with the limit being everyone pays for their own meal. A group of people going out to eat is most economical when people pay their own way. When costs are shared people start "*spending other people's money*" and costs spiral up out of control due to moral hazard.

A crafty restaurant would require that each table split the bill evenly among everyone at the table. By forcing people into a system with moral hazard, the restaurant owner is the beneficiary. In a market with competition many people would opt out of such a restaurant in favor of other restaurants where people can get cheaper meals by not subsidizing the spendthrifts. Now, imagine if you couldn't opt out and that instead of food it was all government services!!

## **Insurance**

Insurance is a situation where a group of people decide to make equal payments to offset a risk that is

unlikely to strike everyone. If we assume people come together to insure against lightning strikes and the probability is that 1 in 1 million people get struck by lightning each year and the payout in event of lightning strike is \$1 million dollars, then each person would pay \$1 per year.

A moral hazard exists when some people choose to live in Florida while others live in Virginia. The probability of being hit in Florida is much higher than in Virginia. Moral hazard also exists when some people realize there is a 90% survival rate from lighting strikes and that it might just be worth \$1 million dollars risk death. These people go out in the rain and fly kites.

All insurance systems must do their best to group people according to risk profiles. Those willing to take actions to reduce risk should be grouped together. Anyone caught flying a kite in the rain would be disqualified from collecting lightning insurance. Residents of Florida would be in a different group than residents in Virginia and therefore should pay higher premiums. The takeaway is that moral hazard is prevalent whenever a group is pooling resources to spend. Counter measures must be implemented if moral hazard cannot be fully avoided. Note that all corporate structures suffer from moral hazard.

In the case of medical insurance, those who are more likely to get sick are more likely to buy insurance with low deductibles, low copay and low coinsurance. Those who are less likely to get sick will pick higher deductibles, copays, and coinsurance. The presence of deductibles and copays causes people to “self sort” into low risk and high-risk pools. Someone who must pay for half their medical bills has more incentive to reduce costs than someone who only has to pay for 1% of their bills.

To prevent this “*self sorting*”, which would cause premiums to spike for the sickly, insurance companies force people to group by other means, such as a common employer. This would be like the weekly community dinner randomly assigning people to groups of 10 instead of allowing self-selection. The effective outcome is similar to having one global group, as every smaller group would have a “*random*” sampling of spendthrifts (or sickly people).

Imagine a dinner for two where the couple agree to split the bill evenly. Because each person is ultimately responsible for half of their spending they are less likely to run up the bill. In a group of 100 people, each person is only responsible for 1% of their additional spending, so moral hazard takes over and costs rise much faster. Deductibles, copays, and coinsurance are ways of minimizing moral hazard in insurance systems by recreating the economic conditions of a “*smaller group*”.

Now consider that insurance companies have overhead and aim to make a profit. If the insurance company makes 10% on every dollar spent on medical care then they are like a restaurant owner who forces tables to split the bill evenly. Their goal is to maximize the number of people at each table (in each risk pool), and then to maximize the number of conditions covered. For the insurance company owner, the ideal would be everyone in one group and all conditions and treatments are covered. Even if the insurance company is “*nonprofit*”, it still has to employ people and those employees benefit from job security and higher salaries. Consider also that it is not just the insurance company that benefits from the moral hazard. Every doctor, drug manufacturer, and medical device manufacturer also profits by increased demand for their services. In order to counteract this moral hazard, universal medical care must

dictate all prices of all services and also control what services are available and to whom. This just creates even more moral hazards! In this case the person choosing is a government employee and the person paying with both money and the consequences of the chosen (or denied) treatment is you!

An insurance company also has incentive to misprice risk by overcharging and under-delivering coverage. If the insurance company gets to keep the difference between premiums collected and claims paid out then it has incentive to underpay claims. If it is the judge of its own claim process then there is a lack of impartiality and a temptation to deny claims.

Upton Sinclair has a famous quote, “*It is difficult to get a man to understand something when his salary depends upon his not understanding of it!*” This is an example of moral hazard and in many cases it is unconscious. Our brains are wired to see what we want to see and be blind to what we don’t want to see. The presence of moral hazard is one of those things that we don’t want to see when we are benefiting from it. We don’t want to see our own corruption or our own bias. We can’t help but be biased even with constant vigilance and training. We are all unconscious of all the subtle bias created by the incentives of the games we setup for ourselves.

### **Moral Hazard and Democracies**

Traditional governments are like restaurants that everyone is forced to attend and where *everyone* is splitting the bill. They are like insurance plans that everyone is subscribed to which are supposed to insure against threats to our life, liberty, and property by providing justice for all. Democracy is supposed to be the process by which the

people choose who runs the “*insurance company*”, who judges the disputes, and what claims are covered.

Communism is a diner where everyone can order whatever they want and the price is 90% of their paycheck — but there is little produced so nothing available to order. “Socialism” is a diner that costs 50% of your paycheck and you pay 50% of the cost of your meal while basic meals are free. Libertarianism is everyone pays for their own meal and may voluntarily give meals to those who cannot afford them. When viewed from the perspective of moral hazard, it is pretty clear why communism fails and libertarianism generally produces prosperity.

The reason the art of true democracy is *subtle* is because of moral hazard and the challenge of designing systems that minimize or counter it. Everyone working in government jobs is subject to moral hazard because they are spending everyone else’s money. Reducing government spending means government employees lose their jobs. Reducing conflict of interest reduces the opportunity for bribes. Eliminating the two-party system causes some people to lose power and influence. Telling hard truths reduces the chance of election. Peace is inconvenient for those who profit from war. Health is inconvenient for those who profit from medical treatments.

The very act of voting is a moral hazard if 51% can take everything from the 49%. We have seen that the solutions to moral hazard are minimizing group size, repetition, and reputation. Furthermore, voluntary membership and ability to exclude from groups is key to leveraging reputation to mitigate moral hazard. *True democracy* structures itself to counteract moral hazard as much as possible. DINOs structure themselves to maximize moral hazard because increasing moral hazards is to the

benefit of those who run the government. The government is like the restaurant attempting to profit by maximizing the moral hazard among its customers. The more moral hazard faced within social institutions the more demand there is for government to “*solve the problems*” created by moral hazard. In effect, the consequence of moral hazard in government is the propagation of more and more kinds of moral hazard.

Good government based upon the principles of *true democracy* is in the business of eliminating and minimizing moral hazard wherever it can be found.



## Chapter 11 - Corporatism

Under modern society almost everything is owned by corporations. Corporations have many forms including limited liability companies. They are so prevalent that people forget that all corporations are creatures created by government and could not exist in their current form without government. So the question becomes, how do corporations relate to *true democracy*?

In earlier chapters I outlined the importance of maintaining rules of relative power along with low coupling and high encapsulation. I also introduced Dunbar's number, which lends credence to natural limits in the scalability of power within organizations. I introduced the goal of designing for independence and antifragility. All of these things lead to designing government around largely independent "*small countries*" of about 50,000 people, which are also divided into smaller districts of about 1000 people. These "*counties as countries*" can form federations to create

states and the states can form federations such as the United States.

In the process of modularizing government we are left with a world where individual corporations are still employing millions of people. This creates a situation where one person, the CEO, effectively guides the efforts of millions. This makes the CEO more powerful than the leaders of many small countries. The revenue of major companies is also greater than the GDP of many countries. How *democratic* is that?

The leaders of major companies join communities such as the World Economic Forum where they coordinate policies and agendas. The major companies are often interdependent upon each other, and all are dependent on the banking system. They all benefit from increasing the dependence of the population upon their services and undermining competition. The result is that corporate giants govern almost every good or service the majority of us consume.

How can any country of 50,000 people license the operation of a global company of 5 million people? What would happen if Walmart had to incorporate a wholly owned subsidiary in every micro-jurisdiction? Imagine if a single person was able to simultaneously be a citizen of every country in the world? What would happen if each jurisdiction forbade companies owned by foreigners from operating in their territory? What would life be like without giant international corporations? Could big projects ever get funding?

These are tough questions which would take an entire book to explore. There is a codependent relationship between big business and big government. When big business captures the governance of a society the result is

“crony capitalism”. In many ways big companies like Apple, Google, Microsoft, Amazon, Walmart, Facebook, and the major media have more power over the lives of the people than government. Consider that Twitter, Facebook and the major media actively censor a sitting president of the United States! Because they are considered “*private*” they can do things that, in theory, the government is not allowed to do.

Perhaps the most dangerous aspect to large companies is that they give the government leverage over all their customers by applying pressure to the executive team. Instead of having to censor millions of people with individual “*criminal charges*”, governments simply hold a handful of companies liable and the companies do the censorship. Governments censor everything including speech, products, and services. What is more, often the executives of the corporations people depend upon start to act as a government unto themselves.

### **Corporate Personhood and Limited Liability**

Let’s start this exploration by reviewing the nature of a company and corporate personhood. The general idea is that a group of people can come together and own a company. Everything titled to the company is indirectly owned by the people who own the company. The smallest company is owned and operated by a single person. Often these are organized as limited liability companies, but almost any corporate structure can be owned and operated by a single individual.

Now suppose that a billionaire crashes his car into your house. In theory, the courts would make him liable for all damages and because he has ample assets to pay the damages you get reimbursed. Imagine instead that the billionaire formed an LLC to operate a delivery service. He

buys his truck under the LLC. One day he is making a delivery and crashes the truck into your house. The LLC has no assets other than the now totaled truck, so even if you sue and win you don't get paid. For the sake of argument, I am assuming the insurance bill went unpaid.

In effect, the creation of the LLC was a low-cost insurance policy for the billionaire which is paid for by anyone who is harmed by his business practices. This is a form of moral hazard. In the extreme case, companies like BP drill for oil in the Gulf of Mexico and when their well fails it causes trillions of dollars of damages and destroys vast ecosystems.

All corporations exist under the peace treaty of a democratic society. The question becomes, if corporations are to be licensed, at what level of the many layers of democratic society should the license be given. If a license is given, what benefits do "*the people*" get by allowing "*some people*" to operate with limited liability? How does such a society defend against the moral hazard created by limited liability? Alternatively, if a democratic society does not recognize corporate personhood, how would companies be formed and would they undermine the democratic power of the people?

### **Heads I Win, Tails You Lose**

When society grants some people the right to operate a company with limited liability it creates a moral hazard. All businesses entail risks and some of those risks can be damages in excess of the money invested. This is especially true in the case of pollution, which harms billions of people by small amounts.

Imagine a speculator formed a company with limited liability and funds it with \$100. This speculator has a

business plan that will either make him \$1000 or create tort liabilities of \$1000 with 50/50 odds. Without limited liability, the business operates at breakeven because the times it makes \$1000 cover the losses from the times it loses \$1000. With limited liability, the business is now profitable because instead of losing \$1000 it only loses \$100. On average it is now earning \$950 per flip of the coin. The losses didn't disappear, they were just transferred to other people, the victims of the business activity.

A business will take far greater risks knowing that the downside of its gambles are covered. These losses are paid by the people who granted the company limited liability. What benefit did the people get? After all, 70% of businesses fail within the first 10 years and on a long enough timeline most businesses eventually fail. The bigger they get, the bigger the failure. Sometimes companies get so big that people think of them as "*too big to fail*" at which point governments don't just limit the liability (passing losses on to creditors and / or victims), they create the "*negative liability company*" where the whole population collectively covers the costs of operating the business at a loss. These are often known as zombie companies. Insiders spend years siphoning off short-term profits while accruing long-term risks and then "*we the people*" spend years paying the losses from those long-term risks. The political support for zombie companies comes from the millions of people who stand to lose money by letting them fail.

While a company is operating people get the benefit of the services of the company. The theory goes that without limited liability many people would not start companies. Imagine you had \$4 billion dollars in the bank and you wanted to start a social media company. Imagine that the cost to build the company is \$10 million dollars. Now

consider that there are “*ambiguous and contradictory laws*” which could potentially cost the company all \$4 billion dollars in tort liabilities. Let’s assume the social media business, if successful (50% chance), would be worth \$100 million in five years. Do you invest in the company and risk \$4 billion? What if you only had \$10 million dollars and your worst case is filing bankruptcy? Would you invest then?

At a certain point an individual accumulates enough wealth that doing anything with potentially unlimited liabilities is not worth the investment. When you are “*poor*” and “*have nothing to lose*” then the investment calculus is very different. From a certain perspective, every person could be viewed as a limited liability company. If they die and don’t have assets then there is nothing you can do to collect debts or damages. Should we allow people to have multiple virtual lives? Should we allow the moral hazard to multiply? At least with the natural limited liability of a single person their interest in remaining alive is aligned with your interest in getting paid. Each person only gets a single reputation and each person is only capable of so much damage on their own. Furthermore, the maximum damage a typical person can do is relatively small compared to the damage a billionaire could do if you grant him limited liability.

The question becomes, should society allow some people to take risks that could cause more in damages than they are able to pay? Should BP be expected to post a \$1 trillion dollar bond before drilling in the Gulf of Mexico? Should a billionaire be shielded from the liability of pollution just because he polluted under an LLC he owns? Should ordinary people be able to invest in stocks of companies doing dangerous, illegal, or otherwise harmful

activities for a profit without having exposure to more than the loss of their investment?

Limited liability is a huge *moral hazard*, and it isn't clear how society is compensated for the risks it takes in extending the privilege. How else can we get the benefits of limited liability? What would it look like if instead of the population carrying the cost, individuals, contracting amongst themselves, could exchange the risks without creating special privileges?

One potential mitigation to this moral hazard is to better compensate those who carry the risk—we the people. Every company has upside potential, which is currently going to the owners, while the downside is going to the people. What if the people got to participate in the upside of every business as the “price” of the insurance provided by limited liability? This would look like a company forced to issue shares to everyone in the country on an annual basis as the “insurance premium”. In effect, it would create a universal income for the population in exchange for the limited liability. More on this in the next chapter on “*Allocating Natural Resources*”. People willing to take responsibility and operate without limited liability would have a competitive advantage because they wouldn't have to pay for insurance.



## Chapter 12 - Wealth vs. Power

No discussion of democracy and decentralization of power is complete without addressing the relationship between wealth and power. What good is a theory of *true democracy* if money rules the world? How is the idea that all people should have equal, democratic power different from saying all people should have equal wealth?

Many people focus on the distribution of wealth in society while ignoring the distribution of power. It is individual power (manpower) which creates wealth, not individual wealth which creates power. All the wealth in the world is meaningless without the manpower to maintain it. With all the power in the world you can create all the wealth in the world. All wealth that ever existed was created by someone exercising their manpower to produce more value than they consume. Power is ultimately derived from the law of the jungle and it is manpower that enables the production of wealth.

I would like to introduce an analogy to physics where power equals energy over time ( $P = E / \text{sec}$ ). Wealth is potential energy, stored energy, or savings. Power is the rate

at which you can generate energy or utilize stored energy to effect change in the world. All life forms can be viewed as converting raw materials and energy (heat / solar / etc.) into higher energy states (potential energy / savings / fat). In effect, people are like solar panels or wind turbines that produce value (energy) at a different rates (over time) based upon different inputs. Each of us must determine how we use our manpower and the resulting value stream (energy) we produce. Do we use it to charge our batteries or someone else's? Do we use it to power our house or someone else's?

We can use our "*solar power*" to "*live in the moment*", but if we lack sufficient reserves then we will eventually starve when a cloud passes over or the sun sets. If we ever need a "*surge*" of power to start a motor then solar power may not be sufficient. Since this is not a desirable outcome, every living being spends some (or most?) of their surplus "*solar power*" to charge their batteries (build savings/fat). With savings we have increased independence and can survive a passing cloud, dark night, long winter, or short-term demand for a large amount of power.

There is only so much we can store in our own batteries. After all, batteries wear out and lose their charge over time. Jesus highlights this when he says, "*Do not store up treasures on earth, where moth and rust destroy and where thieves break in and steal, but instead store for yourselves treasures in heaven, where moths and vermin do not destroy and where thieves do not break in and steal.*" You do not have to take this literally to gain value from it. Consider "*heavenly savings*" to be the good will of your community earned by being a reliable, trustworthy, and giving community member. When your earthly savings fail you, your heavenly savings can bail you out. This is what community is all about.

Storing up treasures in heaven is like a solar power system connected to the power grid. When your batteries are full and you have surplus power you sell it to the grid and when your batteries are low and the sun isn't shining you buy from the grid. Even with the power grid, people still need their own savings. The power grid isn't always reliable and each person needs leverage to negotiate rates. Without individual savings the power company (society) can extort you when you need to buy and, without the ability to save, the power company can extort you when you need to sell. One of the goals of *true democracy* and sound money is to create a more reliable social "*power grid*" via a *truly democratic* peace treaty.

Energy can take many different forms: heat, kinetic, electric, chemical, etc. People are energy generators and energy converters. In social terms we utilize energy in many forms including: money, social capital, debts, tangible goods, knowledge, loyalty, weapons, and health. Each day we choose where we direct our energy generation (manpower) and consumption by how we spend our time, by what products we buy, and by what we choose to save. If we are not careful we can become generators powering many parasitic loads.

Democratic power is a large number of people giving a small portion of their generative capacity to a single person for a time. This power can be used directly to create an army to meet desires today or it can be used to produce and store things of value. It leverages the real time power of people contributing their time and *obedience* to effect change in a coordinated direction. The leader has access to this real-time manpower. It is like having a massive field of solar panels to power any loads you like. Most importantly, it does not depend upon the wealth of the people. It exists even among

destitute populations if they are willing to obey and serve their leaders.

Economic power is utilizing savings to rent the generative capacity of other people. You give something of relatively lower value (to you) to get something of relatively higher value (to you). Both parties believe they are getting something they value more than they are giving up.

Economic power can be used to invest, thereby creating more economic power. Alternatively economic power can be consumed for enjoyment or control over others.

Democratic power is often converted to economic power by taxing the people and then using the value produced to purchase the generative capacity of government employees. Tyranny generally depends upon consumptive use of energy/savings. If people remove their voluntary contribution then tyrants must rely upon their savings to maintain their power, and all of the *savings* in the world are powerless next to the generative power of the masses working together.

If a tyrant is using your generative power against you, then the solution is to heed the call of John Galt and take the pledge, "*I swear by my life and my love of it that I will never live for the sake of another man, nor ask another man to live for mine.*" Economic collapse is how most tyrannies end, whether it is the tyranny of a mob or the tyranny of a king. John Galt called on the critical 4% (Pareto) to go on strike in order to "*stop the motor of the world*". By removing the tax base, of which 4% contribute over 64% of the revenue, the government loses economic power to purchase the man power of economic mercenaries.

Note that the concept of "tax base" is much broader than just the money the government takes from you. If you are a critical employee at the local power plant, the

government may take 50% of your paycheck, but your labor and creativity are producing much more value for the power company than the equivalent of your paycheck. If this wasn't true then you would be a net loss for your employer. If the rest of society is using that surplus value to oppress you then your true tax rate is the difference between the value you are producing for the rulers and the value society is providing to you.

People convert their energy into wealth through their labor and creativity. Wealth concentrates when a business owner pays someone \$1 to use their manpower to create \$2 of value for the business. A person who hires 100 employees will generate \$200 in value at a cost of \$100. In terms of Pareto, the business owner now has as much wealth as the other 100 people combined; 1% of the people control 50% of the wealth. Without the entrepreneur, the 100 people wouldn't have had the job, and society would be less effective in converting manpower to value. If those people had a better opportunity they would have spent their time doing something else and earning less than \$100.

Without people generating power, wealth (stored energy) will decline. Wealth is like a battery with a self-discharge rate. Imagine for a moment that you were the last man on earth. You have 100% of all wealth but only *one manpower*. In what direction will your wealth trend? Could you maintain everything or will nature cause rust and decay to destroy almost everything you consider wealth? In the grand scheme of things, what does this imply about what is necessary to lift people out of poverty? What is more important, the wealth that people have today or where they spend their manpower? As soon as people take responsibility for using their power to produce personal independence they start building their savings and reducing

the economic power of the tyrant. Independence increases your ability to capture your own generative power.

The idea I'm trying to get across in this chapter is that democratic power (manpower) is the root of all power. That wealth is not a sustainable source of power and that wealth equalization only serves to deplete the batteries of society and does nothing to fix the misaligned deployment of the generative power of the masses. If the masses attempt to maintain wealth equalization then it is like a giant short circuit. All the generative power of the masses is flowing to the leaders and the leaders use this generative power against the accumulation of savings, economic power, and personal independence.

That said, economic power is real in the same way that power from a battery is just as real as power from solar panels. The key is that even economic power is limited by the ability of people to draw down the batteries. All the wealth in the world is powerless without people motivated by it to do the will of the owner of wealth. The owner is powerless to increase the wealth of society without the creative and entrepreneurial insight on how to direct the manpower of the people.

### **Corporate Exploitation of Workers**

Do companies "exploit" workers by paying them less than the value they produce? Let's investigate.

Imagine there are 1000 people capable of doing a job that produces \$10 of value for a company. The company only has to pay as much as the "lowest bidder". If the lowest bid was \$1 then the employer earns \$9 on the labor of the individual. Is this exploitation or something else? The inability of the 1000 people to coordinate results in a transfer of power to the employer (who is coordinated). If the 1000

people could cooperate then they could perhaps extract \$9 from the employer (who still profits by \$1). This is a classic prisoner's dilemma. The questions are, if and how should they coordinate to better capture the value of their labor?

Consider if the situation was reversed. Imagine all the producers of food coordinated to raise prices. Imagine if all the producers of clothes could coordinate. The ability to raise prices by coordinating is derived from the creation of a monopoly. A worker's monopoly might be an answer to an employer's monopoly, but perhaps we should address why the employer has a monopoly in the first place.

The first thing to consider is that any employer able to generate a 10x return on salaries has huge margins. This should encourage competition from other employers producing competing products or services. These competing employers will bid up the salaries of workers and lower the cost of goods to customers. This will continue until the profit to the employer is commensurate to the risk taken. That said, there are natural and artificial barriers to entry that give those with capital an advantage in utilizing labor.

Consider a ditch digging company which owns the only backhoe in town. Assume one person with a backhoe can dig as much in an hour as 100 people with shovels. If digging a ditch earns \$100, the backhoe owner can either pay someone \$1 to operate the backhoe or 100 people \$1 to operate a shovel. The backhoe operator earns \$99 dollars for every hour the backhoe operates. Is this exploitation? The backhoe owner had to buy the backhoe, which means his actual costs include the labor required to build the backhoe. Only once the backhoe earns enough to pay for itself does its owner start to see his profits grow.

We can see that markets appear to balance things so long as there is competition. Competition assumes that all

resources can be procured from multiple independent sources. If competition can be restricted, then it is like a backhoe owner that prevents anyone else from operating backhoes. Those who monopolize business areas gain the upper hand over labor. Note that intellectual property (IP) is nothing but a legal monopoly and the consequence is that owners of IP get the upper hand over labor. I address IP in an upcoming chapter.

Earlier we described the measure of a true democracy as the ability of the people to reach a new consensus—the ability to effect change. DINOs work to undermine the power of the people to reach a new consensus. They seek to maintain their monopoly on consensus. This whole book is dedicated to exploring how people can organize themselves to maintain their ability to reach a new consensus and effect change. It is dedicated to exploring means of escaping the prisoner's dilemma. Can any of the techniques we have learned help workers trapped in a prisoner's dilemma?

The typical response is for the workers to form a union. A union enables collective bargaining with the goal of creating a "*monopoly*" on the skills required by a company. To evaluate whether unions are the solution we must ask whether they comply with the principles of democracy and the principles of minimizing moral hazard. Is membership in the union voluntary? If not then it violates democratic principles. Do all members of the union make the same pay? If so the result is the same as the dinner party splitting the bill, only in reverse. Instead of each person trying to eat as much as possible at the expense of others, each person tries to do as little as possible for the same pay. Productivity per employee will fall while pay increases. Unions have overhead and those who run the union profit like the restaurant owner requiring everyone to split the bill. If you

were to construct a union, then it should be governed by the principles of true democracy.

Exploitation is subjective and assumes the employer is profiting “*excessively*” off of others’ labor. It is difficult to measure the extent to which any individual employee is profiting a company. We could estimate that employee compensation to productivity rate follows a Pareto distribution. Which means some employees are highly exploited on one side and others are net costs to the business. In general, the business owner has incentive to identify and fire people who are a “*net loss*”, except in cases of nepotism or shareholder fraud. Management defrauding shareholders through compensation plans is another example of moral hazard.

The only thing we do know is that all wealth is created by the power of people and that the consequence of the prisoner’s dilemma is the concentration of wealth in the hands of the few. Is this surplus wealth the result of the legitimate hard work and risk taking of the company owner? Did the owner really take all the risks if it was a company with limited liability? Are all of the externalized costs of the business accounted for or are they passed on to the population? What about the societal cost of individual dependency created by full-time employment relationships? Can a true democracy sustain itself with a population of employees dependent upon corporate overlords?

One thing is certain: hiring the person willing to work for the lowest pay is the most economically efficient thing to do. It will consume the least wealth and produce the most wealth. That person is in most need of the job and has the fewest other opportunities to produce value for society. However, the wealth produced is concentrated and the

concentration is what leads to the natural Pareto distribution of wealth.

In summary, employees are not being exploited just because an employer gains 10x the value they pay in salary and any attempt to unionize will ultimately fail society due to moral hazard. A society looking to level the playing field could require some form of equity compensation or profit sharing with employees. This is also challenging because often the profits are derived from the business owner's investment in capital (backhoes) and any forced profit sharing with employees would be tantamount to making employees partial owner of a backhoe they didn't have to pay for.

### **Overthrowing Democracy with Economic Power**

In a society with relatively stable social order and property rights, economic power can be utilized by the wealthy to gain political power. This is achieved through a process of building dependence. Once dependence is achieved then the generative power of the people can be exploited by someone else.

Consider someone who works the same job for 30 years. He has become dependent upon his employer and will find that his skills may no longer be flexible enough to be productive anywhere else. The employer lacks incentive to increase pay and can capture more and more of the productive power of the employee. In order to gain independence the employee needs to go through a period of low income and unemployment/underemployment while he learns how to produce value without his life-long employer. If they are unable to accumulate sufficient savings to survive a period of underemployment then they become

enslaved and their own power is producing the wealth that enables their enslavement.

Imagine you are lucky enough to live in a true democracy where the rules of relative power, low coupling, and high encapsulation are in play and where political playoffs keep power from flowing to the same people. What would happen if everyone worked for the same company? What would happen if someone accumulated so much wealth that they could buy themselves to the top of the playoffs? What if so many people became dependent upon a company that their dependence corrupted their will for independence? The people may choose to bailout the institutions that enslave them rather than maintaining the true democracy.

It is clear that corporatism is a threat to true democracy and that any true democracy must establish rules and culture that defend against this failure mode. This is not so easy when you consider that companies are just an alternative means of creating voluntary communities.

A company is a group of people following a consensus process with a leader chosen by the shareholders. If one person owns 51% of the shares then a company is a kingdom without land (unless you count IP as virtual land). The king is interested in growing his kingdom and he does this by increasing the number of people he can leverage. The more productive his citizens (employees) are the richer his kingdom grows. The king owns all the land (property of the business) and the employees work the land for a salary. In effect, the corporate structure and charter is very similar to *feudalism* and employees are the *serfs*. Intellectual property and business licenses are the new land monopolies, aka the *fiefs*. Perhaps the one minor difference is that employees can often change companies; however, as companies get bigger

they do work to minimize the ability of employees to move to competitors.

A democracy can elect a king, but the structure of society can still be feudal in nature if corporations are allowed to grow up and monopolize industries by their sheer size and the people's dependence upon them for both employment and products. Part of any peace treaty must be measures to defend against the growth of large companies. This could be viewed as a "generalized anti-trust" system.

If the principles of true democracy are followed, then each community would be taking measures to protect its own independence. Those measures can include banning or taxing "*imports*" from corporations the same way they would ban imports from a foreign empire. Likewise it would limit "*exports*" of labor to any corporate entity that gets too big. A large company could be viewed as a foreign community and its employees as members of another community. In this case, you cannot be a member of your local community and work as an employee of a company not owned by members of your local community.

Large corporate giants do not exist under a true democracy. This has massive consequences for people adapted to the chains of modern conveniences. Economies of scale allow manufacturing processes that require tens of billions of dollars to be invested in factories. If we prevent large companies from growing up, then these factories may never be created and we may never have iPhones.

That isn't exactly true. The world would only gain iPhones once the productive capacity of a small community of 50,000 people accumulated the productive capital to sponsor their own iPhone manufacturing center largely independent from the rest of the world.

Apple is one of the largest company in the world (by valuation) and it operates by creating a highly coupled, tightly integrated ecosystem. They control everything from the chip manufacturing to the payment method. Once you enter their ecosystem it is relatively more difficult to interoperate with products from outside their system. As Apple grows they push competitors out of their ecosystem. Those who wish to remain pay a 30% Apple tax to access Apple's customers.

Apple is a case study in building an independent community. This community is governed by King Cook who inherited the kingdom from King Jobs. Apple creates incentives for people to stay within their "*walled garden*" and aggressively pursues vertical integration of their supply chain. This is an example of a large, non-democratic voluntary community. Society empowers companies like Apple by granting the monopolies via intellectual property.

Corporatism is largely countered by true democracies protecting the independence of their people. Society can eventually provide many of the goods and services provided by large companies, but it would have to innovate the ability to do so in a more decentralized manner. Giving into the temptation to advance technology as quickly as possible through the creation of large corporations is one of the fastest ways to lose a true democracy and become enslaved to corporate interests by our desire for comfort.



## Chapter 13 - Allocating Natural Resources

As a kid my parents taught my brother and me how to split a cookie without disputes. If my parents split a cookie and then distributed the pieces, then we would fight over who got what half. It was impossible to ever split it “perfectly” and so there was always a dispute.

My parents got tired of having to resolve the dispute so they gave us a new strategy. One of us would be given the task of dividing the cookie, the other would have the right to choose which half they wanted. To decide who was the divider and who was a chooser we would either flip a coin or take turns. The result of this algorithm is that the divider would be meticulously fair, because the chooser is assumed to pick the better half. By agreeing to this algorithm there

were no more disputes and therefore we didn't need a higher authority to resolve disputes for us. You could say that we had a moral-hazard-free algorithm for building consensus and avoiding a physical altercation under the law of the jungle.

One of the biggest disputes facing humanity is how to allocate the world's resources. Unlike my brother and me, humanity doesn't have an option of letting our "*parents*" settle it for us.

I think it is time for a warning. This chapter can easily trigger those of the capitalist, socialist, and communist perspective. The concept of "*property*" is very closely tied to our identity, and therefore any discussion that calls into question what we believe is ours is viewed as a threat against our person. I heavily debated excluding this chapter from this book because of how easily the ideas presented can be used to lump me into a preconceived category. I therefore ask you to keep in mind that I fundamentally believe in voluntary trade, voluntary association, and voluntary membership in a community and all "*rules*" should be limited to an opt-in community. The voluntary, consent-based process should be appealing to the capitalists. That said, what I am about to present suggests that rational people voluntarily submit to something that could be interpreted as somewhat socialist or communist if one clings too tightly to their notions of property.

After much thinking, I stumbled upon a rational, logically consistent theory of property allocation. I asked myself a fundamental question: "*How do we allocate the natural, unearned resources of the universe fairly across all generations?*" The answer to this question is critical for people attempting to negotiate rights via a community peace treaty. Without a good answer you might inadvertently

agree to an unbalanced or unsustainable treaty. It would be like my brother tricking me into picking the smaller piece of the cookie or Jacob offering Esau a bowl of stew in exchange for his birthright.

This question is a challenge, even for libertarians, because it gets to the very heart of property rights. How do we determine what is yours and what is mine? Where do these rights come from? Libertarians hold that taking property without permission is an act of aggression and from this conclude that taxation is an act of aggression; however, for it to be an act of aggression the libertarian must first establish the basis of their claim to the property.

Who owns the moon, the ocean, the land, and the air? Do Adam and Eve have eternal property right to 50% of the Earth each or does Adam own the world because he was here first? What I mean by this is that they get to choose which of their children get their property when they die. Their children get to decide how to divide it among their children and so on until present day. If Cain kills Abel does he get to keep Abel's property? What about Cain's descendants?

Does proving clean title to property require documenting all transfers back to Genesis? This, after all, is the basis of cryptocurrency property. All transfers are logged in a publicly verifiable ledger and the bitcoins are only yours by virtue of the ability to track ownership back to the genesis block.

It should be obvious that proving clear title to anything is impossible. Furthermore, one must ask the question, why do Adam and Eve have the right to control the definition of legitimate ownership of property for all eternity? Is each new generation bound to recognize the property rights allocated by the prior generation?

Is “*first come, first serve*” a proper basis for assigning initial ownership to unowned property? Does this generation have the right to consume all the oil and rainforests and then pass the profits down to their favorite children? Does this generation have the right to allocate all the mineral rights for all of eternity? These are the questions that led me to consider an alternative approach to property rights.

Most people have an innate sense of justice that starts as a child. We have an idea of what we consider “*ours*”. This generally includes things we touched first, things we created, or things we saw first. From this it flows to things we bought from others. On top of this foundation we introduce contracts which represent mutual agreements between people on if, how, and when property titles transfer.

While some people naturally respect other people’s property and contracts, other people choose to follow the might-makes-right approach to property. This is the law of the jungle and is what has largely governed how property is allocated via theft, wars, and taxation. In the jungle, possession is 9/10ths of the law.

In practice, most property rights are actually driven by respecting the status quo. What was yours yesterday is yours today. If you can maintain control over property for long enough, then people forget how you obtained it and it becomes yours.

I find all of the above systems to be logically inconsistent. Before one can contract for property, one must own it. Force, fraud, theft, and extortion are not valid means to acquire property under a peace treaty. Systems set up by mutual consent in one generation cannot be binding on subsequent generations because contracts are only valid if the parties have the ability to consent and are negotiating as

equals. Future generations could not consent and weren't around to negotiate. To argue otherwise is to assume that the child is forever sold into the slavery of her parents' contracts.

It is clear that, in practice, property is allocated by the law of the jungle. The strongest parties conquer the weaker. The victors write the history books and redefine property rights. Property rights are enforced by violence or the threat thereof. Any new system of property rights must account for this natural tendency of mankind and should gradually correct for such "misconduct" rather than compound it. That said, classifying war, theft, and fraud as "*misconduct*" assumes an existing peace treaty, and under the law of the jungle such "*misconduct*" is neither more "*good*" nor "*bad*" than a shark eating another fish.

From the perspective of a community where all rights being derived from a peace treaty among consenting, independent, individuals we must ask ourselves how should we negotiate? The goal of negotiating is to reach peace and to have lasting peace knowing that we negotiated from a position of theoretically equal strength.

Let's apply the lesson of brothers dividing a cookie to the task of property rights. Imagine that mankind had to come up with a system for allocating property rights that fully accounts for all generations. Imagine you were tasked with the job of dividing the universe among individuals in all generations and that someone who doesn't like you got to decide which slice you get and which generation you are born into. Would you give the first generation the right to allocate to future generations? Would you give the victor the spoils of war? Would you want to leave it up to chance? Historically speaking, the odds would not be in your favor of getting the better piece of the cookie.

It is through pondering this question that I came up with a process for universal inheritance. I assume that each day is a new day and each generation deserves an equal division of the unearned natural resources of the universe. A billionaire who acquired his riches extracting oil from the ground denies future generations those resources and the wealth earned is passed on to his kids. All wealth is derived from the natural, unearned resources extracted in the past and traded amongst prior generations. Sure, people mix their labor with things to make the natural resources more valuable, but that doesn't negate their dependence upon the natural resources. Many of these resources are consumed in the process and no longer exist. All that remains are other forms of wealth accumulated by the consumption of oil, soil fertility, and rain forests.

In order to keep things fair between generations I propose that each person should be lent a share of the earth's resources for the duration of a long human life. This is based upon the premise that members in one generation would never agree to give the previous generation more favorable terms assuming all generations were represented by competent attorneys.

From this perspective each year some percentage of the Earth's resources should be redistributed to the "*current generation*" such that over one lifetime the resources (wealth) are passed fairly (evenly) from one generation to the next. If we assume most people live less than 100 years, then the resulting rate of inheritance should be around 5% per year. This would redistribute 99.5% of initial wealth over 100 years. This "*redistribution*" is nothing more than a "*loan repayment*" by one generation and a loan issuance to the next.

Unfortunately, not all "*wealth*" is fungible and divisible. How do you divide the "*Mona Lisa*"? Furthermore

there is no unit of value, as all value is in the eye of the beholder. It isn't possible to establish an objective value for the "*Mona Lisa*". Given the lack of algorithmic solutions to handle all classes of wealth, we are left with the challenge of reaching an imperfect political consensus that respects the principle that all people inherit an equal share for 100 years.

If a group of people were to come together and establish a new peace treaty (aka a constitution), how would they know what is fair to ask for? Armed with the logic of dividing the universe fairly over generations people would expect some kind of universal inheritance to pass property from generation to generation.

A simple way to implement a universal loan of resources is to issue the community currency evenly to all people in the community. Every year the currency supply would grow by 5% and the newly issued currency would be divided among the parties to the community peace treaty. Since currency is effectively a claim on future resources this inflation would seamlessly and transparently implement the principle of universal inheritance.

Another way to augment this is to implement a property tax system for real estate and distribute the proceeds evenly to all parties to the peace treaty. Still another is to require that all companies auction off 5% of their equity every year, which could be viewed as the price of limited liability. None of these ideas are perfect, but they are a step toward implementing a fair transfer of assets from generation to generation as if implementing a straight 5% wealth tax.

## **Economic Stability**

A community needs to have a set of rules which is stable over time or it will eventually collapse. A

concentration of wealth is a form of power and is distributed among society via a Pareto distribution. In a free market with voluntary trade, capital (and power) will concentrate to gain larger economies of scale and efficiency. This brings down prices for everyone, but concentrates wealth. Wealth is a form of power which is earned by trade rather than by votes.

History has demonstrated that attempts to equalize wealth via communism fail. It makes everyone but the ruling class equally impoverished and can only be enforced by a tyranny. People will revert to the law of the jungle in a violent revolution after enough time spent under a communist ruling class.

History has also demonstrated that when "*capitalist*" wealth inequality reaches extreme Pareto ratios (instead of 80:20 it becomes closer to 90:10 or 99:1) the people revolt and the revolt is usually lead by communists. The communist rulers will campaign on redistributing the wealth to raise everyone's standard of living, but in the process actually concentrate wealth (in the form of power) further and fail to deliver on their promises.

Wealth and power are tightly coupled. Any peace treaty must take measures to ensure that neither wealth nor power concentrates beyond a healthy Pareto distribution. This means that you cannot concentrate power in the name of decentralizing wealth nor can you allow the concentration of wealth to such an extent that it creates a self-reinforcing concentration of power.

This ping pong between extreme wealth inequality and extreme power inequality prevents society from achieving its full potential because it self-destructs. Society seems to be most stable with a large middle class and a more conservative Pareto distribution (perhaps 70:30).

Any peace treaty should factor in the need to protect from both extreme communism and extreme wealth inequality. It is for this reason that a flat “*wealth tax*” whose proceeds are distributed evenly among the population can make sense. The algorithmic redistribution is designed to prevent the tax revenue from empowering special interests and “*central planners*”. This cannot be overstated, because communism typically fails because rulers take a large cut of the “*wealth*” they tax which increases their power. An algorithmic redistribution denies rulers that power and therefore rebalances wealth without concentrating power.

An effect of such a wealth tax is that there is an equilibrium where the amount you pay in wealth tax equals the benefit you receive from equal distribution. This means that the vast majority of people would not pay net wealth tax. It also means that those with wealth must use it productively to generate enough income to pay the property tax or they will gradually lose it. This maximizes the utilization of assets for growing the productivity of society while minimizing the creation of a government bureaucracy. It becomes a tax on unproductive assets.

There are consequences to implementing a basic inheritance which must be acknowledged. When you give people an inheritance they may be inclined to live in near poverty rather than work. There is a marginal utility on your income where the first dollar earned is worth far more than the millionth. There is also a marginal utility on your free time. In a world without a basic income someone must trade their free time to work for money. In this case, they are working for their “first dollar”, which is their most valuable dollar because without it they die. Once they have given up their time it makes sense to maximize productivity. After all, if you must work hard eight hours per day you might as

well work hard for \$50 per hour instead of \$10 per hour. Either way you are paying the same price: eight hours of hard work.

However, if you got the equivalent income to \$5 per hour but didn't have to work hard, then working hard for \$10 or even \$50 might be less appealing than not having to work at all for only \$5 per hour. In effect, the cost of going from \$5 per hour of free inheritance to \$55 per hour dollar is eight hours of hard work. The marginal utility of an extra \$50 per hour could very well be less than the cost of eight hours of hard work.

This can be observed throughout the country by the difficulty in finding skilled tradesmen to do hard work in an environment with record unemployment. A community could find that the disincentive to do hard work reduces total wealth production and ultimately reduces the inheritance to a point where people have to do hard work to survive.

For this reason a wise community should tie the inheritance to matching earned income. You must earn \$5 through full-time hard work before you can claim \$5 of your inheritance from the community. Anyone who isn't gainfully employed would not qualify for an inheritance.

From the perspective of negotiation of a peace treaty across generations, Adam and Eve had to toil long hours just to survive and improve their standard of living. They may have "*inherited the world*" but they still had to pay the price of "*hard work*". It follows that all generations should have to pay the same price of "*hard work*" so that they do not get the better end of the deal. After all, if you were cutting the cookie and had to choose between an equal share of 10,000 BCE and an equal share of 2020 which would you pick?

Which would demand more hard labor from you just to survive?

The reality is that a productive society will naturally create surpluses which benefit the next generation. This is required for humanity to thrive and grow. We shouldn't attempt to limit future generations in an attempt to make everyone "*equal*" any more than we should attempt to make everyone "*equal*" in this generation.

While it is true that a certain percentage of the population will squander their resources, it is equally true that the wealthy also squander resources. Arguments based on efficiency are biased toward some other property right system. The presumption is that somebody, by virtue of their own biased values, knows how to allocate resources better than everyone else. The presumption is that certain economic goods and experiences are better than others. The presumption is that today's rich have "*earned it*" by virtue of their own intelligence and can invest it better. The presumption is that one end of the bell curve which wastes resources given to them outweighs the other end of the bell curve which uses them in far more productive means. The presumption is that a few rich central planners can better invest resources than can entrepreneurs serving the masses who vote on the products and services they desire by spending their inheritance.

In other words, economic efficiency is a biased argument used to justify a biased status quo. It presupposes certain goals are higher than other goals. It assumes that some people do not have a right to participate in influencing which goods and services are provided. In effect, a universal inheritance becomes democratization of economic voting rights in the market.

All of a sudden, the libertarians who are arguing for a status quo property rights system where there is no “*cost to maintain ownership*” start sounding like central planning statists who know better how to run the economy.

The irony is that a wealth tax is also “*central planning*” so we are all “*guilty*” of central planning. The only thing that isn’t centrally planned is the law of the jungle in which case there is no property except that which you can physically defend. Any system which allows wealth inequality to grow too far will ultimately revert to the law of the jungle as the poor rise up and burn the place down. A gradual wealth redistribution is likely to create a more stable and prosperous society than one which goes through violent turmoil every couple of generations. A single world war or genocide can set humanity back centuries of progress, especially when you consider the impact of compounding returns.

### **What Would Your Inheritance Buy?**

Total global real estate is worth about \$217 trillion distributed among 7 billion people, or about \$1500 per person per year. Total global stocks are about \$100 trillion or \$1200 per person per year. Total worldwide money supply is also about \$100 trillion (and rapidly growing). All told this would give everyone, including the billions of poor and starving individuals in Africa, India, and China a total income of about \$4000 per year or \$333 per month. This is greater than the global median per-capita household income. This is over four times the median income in Africa. Talk about impacting worldwide poverty!

Obviously, implementing such a distribution process globally is difficult and not very appealing to citizens of wealthier industrialized countries. That said, if we applied

the same process to only the assets and citizens of the United States we would arrive at a number around \$15,000 per year, which would instantly place everyone above the poverty line (until a new price equilibrium is reached).

The point of this discussion is to demonstrate that using a process derived from first principles we can derive a basic income that is in the same ballpark as what is often proposed. Furthermore, we can do so by not asking how much money is “*needed*”, but by asking how much wealth is available to “*pass on to the next generation*” at 5% per year.

To summarize, a “*wealth tax*” of 5% per year would give everyone an income above the poverty line without violating the fairly negotiated property rights of any generation. This wealth tax in the USA would mean anyone with assets less than \$300K of value would, in effect, pay no tax as their tax would be equal to their inheritance. This means almost 75% of Americans would effectively pay no wealth tax because their inheritance would be greater than their tax liability.

Furthermore, those with assets above \$300K in value are likely earning more than 5% of passive income from those assets. Those who do not use their assets productively (by earning more than 5%) will slowly lose them to the next generation over the course of their life.

Given that everyone would be “*above the poverty line*”, there would no longer be any need for other welfare services, means-testing, etc. School tuition could easily be paid from the basic income of children. Child support orders could be eliminated.

### **Need Is Not a Basis for Property Rights**

Almost half of Americans support a universal basic income (UBI), but existing books on the topic approach the

concept from a need-based approach. The needs-based approach to UBI naturally repulses those who are against the welfare state, especially libertarians. Existing libertarian arguments in support of a UBI tend to focus on a lesser-of-evils justification rather than deriving an argument from first principles, namely, that UBI is better than the existing high-overhead welfare systems.

Political philosophers and economists have proposed many different implementations of UBI, almost all of which will end in hyperinflation and economic destruction. The needs-based argument for UBI creates an unsustainable economic chain of events where UBI triggers price increases, which trigger additional needs-based increases to UBI.

It is possible to support a universal inheritance supported by a wealth tax while being a logically consistent, economically sound libertarian. In fact, it may be the only logically consistent theory of property rights that could be broadly accepted by the masses while automatically correcting for past and injustices.

On the other hand, this nuanced position might be lost on the masses who would not understand the reason behind their inheritance. Without a proper understanding, the masses may simply call for “*more*” whenever their inheritance doesn’t support the standard of living they want. Through their own ignorance and selfish desires, the masses can quickly turn a stable economic system (5% per year) into an unstable communist system that forces everyone to the lowest common denominator.

Only through continuous education and affirming from one generation to the next can a people hope to create and maintain such a system without falling victim to philosophical corruption.

All property rights are derived from a peace treaty agreed to by independent parties able to negotiate freely with the ability to say “*no*”. A wise society negotiates a peace treaty that is sustainable across many generations and doesn’t get undermined as the balance of power among the parties to the treaty evolves over time.



## Chapter 14 - Smart Contracts

What is a contract? Why are they binding? How are they enforced? We sign contracts all the time and pay lawyers a ton of money in the process, but how many of us have actually stopped to think about the principles that back contracts? Should all promises be enforceable or only those tied to consideration? Why or why not? The answers to these questions reveal subtle principles that are critical to sustaining a true democracy.

Murray Rothbard and Williamson Evers developed the *Title Transfer Theory of Contract*, which I believe contains critical concepts for a true democracy. Rothbard's derivation of property rights is based on the theory of "homesteading" or "first use" and is vastly different from my derivation of property rights as a peace treaty. That said, his theory of

contracting relative to defined property rights is still relevant.

While other philosophies claim “rights” as fundamental axioms derived from axiomatic moral stances such as the “nonaggression principle”, I claim that there is no support in nature for their principles. At best, their philosophies amount to a *proposed* peace treaty. While I reject their axioms as such, I feel that there are ample lessons to be learned from Rothbard’s work about how to design a logically consistent, and enforceable peace treaty (i.e. true democracy).

One of the most important aspects of a peace treaty is to define who owns what, how ownership changes, and how disputes are resolved. Any confusion over ownership creates conflict and conflict is supposed to be resolved by a peace treaty. Therefore, it follows that the peace treaty should define the process by which individuals may contract with respect to their property such that it minimizes ambiguity. This in turn brings up the question of what constitutes a valid contract and how are they to be enforced?

Before expanding on what that means, let’s review how contracts typically operate today. Contracts are generally combinations of promises “*to do*” or “*to give*” something. If you are buying a coffee you verbally contract to give title to cash conditioned on receiving title to a cup of coffee. This contract need not be written down to capture the intent of the parties. This is an example of a “*to give*” contract. A “*to give*” contract could easily be represented on a blockchain as a *smart contract* assuming you created “digital titles” linked to a physical things.

A “*to do*” contract could be something like an employment contract. Here you promise to work 40 hours in a horseshoe nail factory next week and someone else

promises to pay you cash. In the event you choose not to work it could be considered a breach of contract. In the simple case, you simply don't get paid; however, in the worst case the "*kingdom could be lost*". Recall the story from the chapter on Designing for Independence:

*For want of a nail the shoe was lost.*

*For want of a shoe the horse was lost.*

*For want of a horse the rider was lost.*

*For want of a rider the message was lost.*

*For want of a message the battle was lost.*

*For want of a battle the kingdom was lost.*

*And all for the want of a horseshoe nail.*

Failure to perform on a "contractual" promise can cause grave damages to other parties relying on that promise. When these issues are taken to court under traditional contract theories, the judge will rarely compel you to perform the service. Instead, the judge will usually order you to pay damages to the other party. There is a problem with this, though: what are the damages? How is anyone supposed to know the extent to which other parties rely upon their promises? Would you take a job that promised to pay you \$10 thousand dollars to work 40 hours next week, but if you change your mind you own them \$10 million dollars in damages? Suppose you get sick or are in a car accident? Let's assume for a moment that the other party really would experience a \$10 million dollar loss without your performance and that this isn't just a huge and unreasonable penalty. If you *knew* they were relying on you to the tune of \$10 million in damages then chances are you would demand higher compensation in the first place and you would take out insurance to cover any events beyond your control that could make you liable for \$10 million dollars.

## **Wedding Engagement as a Contract**

All “*to do*” contracts are effectively unbacked promises. When you get engaged to be married the courts often consider this a contract. If you are jilted then you can sue for damages and many courts will grant them. The damages could be anything from the cost of the wedding to the loss of a job given up in expectation of getting married. When the parties “agreed to be married” the terms were ill defined and the damages potentially unbounded. In effect, most of the “contract” was never agreed to and is being defined by the courts after the fact.

Many courts utilize the theory of “reliance” as justification for enforcing promises “*to do*” things and awarding damages for failure “*to do*” things. In theory, only “reasonable reliance” is considered valid. If someone is “unreasonable” in their reliance then it is not enforced. The problem with this approach is that it is circular reasoning. It is only reasonable to rely upon a promise if the courts are going to enforce it and courts should only enforce a promise if it is reasonable to rely upon it.

## **Concert Singer Contract**

Imagine someone hired you for \$200,000 dollars to sing at a concert. Once you were under contract, they marketed and sold tickets worth \$1 million dollars. Now imagine on the day of the concert you get stage fright so opt not to sing. The concert organizer may be forced to refund \$1 million dollars in tickets on top of all the expenses of reserving the venue and advertising. If you had sung, the concert organizer expected a profit of \$200 thousand with expenses of \$800 thousand, but since you didn’t sing the organizer had expenses of just \$600 thousand but still had no revenue and failed to realize the anticipated profit. All told,

the organizer was economically \$800 thousand behind because of your failure to perform.

If taken to court, a judge might make you pay \$600 to \$800 thousand plus legal fees on the premise that your “failure to perform” caused damages. The question is whether it was *reasonable* to rely upon a promise to perform. Would you have agreed to sing if you knew the damages you would have to pay for failure to sing? Do you even have the ability to pay those damages? If the court ordered payment, could the organizer even collect it?

What we can learn from this example is that the courts can’t force you to sing and even if they could, they couldn’t force you to sing your best. Furthermore, if you fail to show up the hour before your performance, no court can hear the dispute in time to compel performance and prevent damages.

If it isn’t practical to compel performance, what is the alternative? Courts resolve all disputes by transferring title to property from the promise breaker to the other party. If the promise breaker doesn’t have property, then the courts authorize wage garnishment. In some cases courts give the promise breaker the option to perform or pay. This means that all contracts could be written such that there is no ambiguity regarding damages and everything is simply a pre-agreed conditional transfer of property.

The singer’s contract would read something like: *if a song is performed then \$200 thousand dollars owned by the organizer is transferred to the singer else \$700 thousand dollars owned by the singer is transferred to the organizer.* In the event of a dispute a judge or jury would only have to determine whether a song was performed as agreed. If the singer doesn’t have \$700 thousand dollars, then the event organizer would need to find an insurer. If no insurer could

be found, then the tickets would have to indicate that there is no refund if the singer is unable or unwilling to perform. The audience would end up crowd funding the “insurance”.

## Smarter Contracts

Suppose it wasn’t possible to transfer the risk to insurers or customers and the singer didn’t have \$700 thousand dollars. This poses an interesting question: can you contract to transfer title to something you don’t own? Imagine the contract read *if* a song is performed *then* the Brooklyn Bridge “owned” by the organizer is *transferred to* the singer *else* one billion tons of gold owned by the singer is *transferred to* the organizer. The organizer doesn’t own the Brooklyn Bridge and there isn’t anywhere near one billion tons of gold on the entire planet. Under my interpretation of the *Title Transfer Theory of Contract*, a contract is invalid if under any conditional outcomes a title transfer is indicated for which any party does not have current title. Anything else would be tantamount to a “*to do*” contract where the “*doing*” is acquiring title to the asset so that it could be transferred.

This interpretation of *Title Transfer Theory of Contract* has profound implications for almost every kind of contract. We are so used to viewing contracts as promises that it isn’t always intuitive to limit contracts to conditional title transfers. If you are not careful it is incredibly easy to fall back into a promise theory of contracts. Even Rothbard fell into this trap in a chapter titled, “*Property Rights and the Theory of Contracts*”, from his book *The Ethics of Liberty*.

Fortunately, there is a framework that ensures that it is impossible to construct an invalid contract: *smart contracts*. A smart contract is effectively computer code that deterministically executes an algorithm based upon the

signed statements of individuals. Computer algorithms must be consistent and are unable to assign two owners to the same property at the same time. Anything that can be represented as a smart contract is compatible with the *Title Transfer Theory of Contract*. If it cannot be represented by computer code then it probably isn't a valid, logically consistent, contract. The only thing the courts need to do to enforce smart contracts is to ensure that the physical property referenced by the *smart contract* is in control by the owner specified by the *smart contract*. A smart contract need not be represented in software code in order to be *smart*. From this point forward I will refer to contracts compatible with the Title Transfer Theory of Contract as *Smart Contracts*.

Now let's review how Rothbard fell back into the promise theory of contract. Rothbard's mistake was in his example of a loan for \$1000 dollars with a promise to repay \$1100 dollars in a year. Let's look at an excerpt from *The Ethics of Liberty*:

*"Suppose that Smith and Jones make a contract, Smith giving \$1000 to Jones at the present moment, in exchange for an IOU of Jones agreeing to pay Smith \$1100 one year from now. This is a typical debt contract. What has happened is that Smith has transferred his title to ownership of \$1000 at present in exchange for Jones agreeing now to transfer title to Smith of \$1100 one year from now. Suppose that, when the appointed date arrives one year later, Jones refuses to pay. Why should this payment now be enforceable at libertarian law? Existing law largely contends that Jones must pay \$1100 because he has "promised" to pay, and that this promise set up in Smith's mind the "expectation" that he would receive the money.*

*Our contention here is that mere promises are not a transfer of property title; that while it may well be the moral thing to keep one's promises, that is not and cannot be the function of law (i.e., legal violence) in a libertarian system to enforce morality. Our contention here is that Jones must pay Smith \$1100 because he had already agreed to transfer title, and that the nonpayment means that Jones is a thief, that he has stolen the property of Smith. In short, Smith's original transfer of the \$1000 was not absolute, but conditional, conditional on Jones paying the \$1100 in a year, and that, therefore, the failure to pay is an implicit theft of Smith's rightful property.”*

The mistake made by Rothbard is that the title cannot be transferred until the conditions are met; furthermore, Jones cannot agree to transfer title to \$1100 dollars he does not have. If Jones wanted to spend the \$1000 dollars he conditionally received from Smith, then the condition would be a lien that followed the \$1000 dollars. If Jones used the \$1000 dollars to buy a laptop from Alice he would have to disclose that he doesn't have clean title to the \$1000 dollars because he has not yet paid \$1100 to Smith. Alice would have to accept the credit risk of Jones not paying Smith and would therefore make the transfer of title to the laptop contingent upon getting the lien on the money lifted. If Jones failed to pay \$1100 dollars to Smith in one year, then Smith retains title to \$1000 dollars and Alice retains title to the laptop. If Jones keeps the laptop he is a thief. If Alice keeps the \$1000 dollars she is a thief. The \$100 dollars of interest is an unenforceable promise that only exists as the condition upon which transfer of title to \$1000 dollars may be effected. Titles held to money conditioned on different promises are not fungible. This means that there is no efficient way to use encumbered assets as money.

So how would lending work under a *smart contract*? Your contract with the bank will be something like: *if* required monthly payments are not made *then* title to the house is transferred to the bank. No promises are made, just predefined conditional transfers of assets to which the parties have clean title. Normally, recourse bank loans also hold you liable for the difference between what the bank can sell the house for and your loan balance. This arrangement would be invalid because all assets subject to the contract would have to be owned at the time the contract was entered in order to agree to transfer title to those assets. Since the borrower doesn't have the money to pay cash for the house, she cannot sign a contract that transfers title to the cash. Any promise to pay cash would should be unenforceable *because* such a promise could not be implemented in computer code as *smart contract*. This means that only non-recourse collateralized loans are enforceable via *smart contracts*.

A smart contract on a blockchain is effectively an automated escrow agent which holds title to all assets subject to conditional transfers. Computer code governs how titles transfer based upon how the people involved in the contract interact. A smart contract could be implemented manually with a human escrow agent. A contract's enforceability under a *true democracy* should be limited to the transfer of assets managed by the escrow agent. The parties to a contract need not hire a 3rd party escrow agent so long as they personally account for all liens on any property in their possession. In the event of a dispute a 3rd party can be brought in to interpret the smart contract and evaluate the conditions. Anyone who fails to transfer physical possession after such a ruling is no different than a thief.

Under the law of the jungle you could agree to transfer title to your body in the event you fail to follow

through on your contractual terms. This would allow you to be thrown in prison, forced into a labor camp, or tortured until you comply. At the extreme you could contract to allow others to kill you. Since your body is practically indivisible, you would only be able to use it as collateral for one contract at a time. Imagine what would happen if you contracted to transfer title to your body in event of default in two different contracts with different people. One person wants to harvest your organs and the other wants to put you in a work camp. Once someone has a lien on your body it isn't possible to sell your body to someone else or encumber it with additional liens. While such a contract might be possible, a community dedicated to protecting the independence of its members would be wise to not recognize and enforce such contracts.

Generally speaking, I would recommend that a community forbid enforcement of any loan with recourse beyond the collateral. This would include unsecured credit card debt. All contracts should be settled by title transfers for which it is impossible to put someone into bankruptcy. Bankruptcy is only possible to the extent contracts were written with respect to assets the parties did not have title to at the time the contract was agreed to. Credit cards could still exist, but the only recourse would be a note on someone's credit rating. This may limit their ability to get future credit, but will not allow creditors to reclaim funds.

Property can be conceived of in many dimensions. It has a location in three-dimensional space, but also in time. If you contract to lease a car next week you cannot double book the reservation because title in the use of the car at that *time* is no longer yours. Likewise, you cannot transfer title to money next month until you have title to that money next month. If a contract conceives of title transfers for assets that may not exist at the time of the transfer, then it should have

a fallback. A promise to pay \$1000 dollars next month is not binding unless you have title to it and encumber it with a lien. Property may have an infinite number of dimensions depending upon how you divide up “usage rights”. Time periods are simply one kind of usage right.

Let's consider another kind of contract, a “nondisclosure agreement”. Such a contract would have to read: *if* information is disclosed *then* title to property is transferred. Would you sign a nondisclosure agreement that read: *if* information is disclosed *then* title to \$1 million dollars is transferred? First of all, you would have to have \$1 million dollars that is not encumbered by other contracts. Imagine that you only had \$1 million dollars, and you signed a nondisclosure agreement with a 100-year term. Under a *smart contract*, you would have to lock that money up for 100 years and could not use it for anything that wasn't subject to your ability to disclose information and cause transfer. If you wanted to sign a second nondisclosure agreement you would need to find other assets to secure it with. If you don't secure a nondisclosure contract with title to assets you own, then it would be an unenforceable contract. In this case, the cost of breaching the nondisclosure contact is only your reputation (e.g. credit rating). In practice, nondisclosure contracts should be restructured as “fee for disclosure” or have short windows of time during which assets are encumbered.

What about “noncompete” clauses? Like nondisclosure, it is a meaningless promise only enforceable by reputation damage unless you encumber the title to other assets on condition that you do not compete. An employee with no assets would have very little with which to back a noncompete agreement; however, a large company could back the agreement with equity.

Community peace treaties that aim to implement a *true democracy* should recognize property rights and smart contracts with respect to property title. Furthermore, promises “to do” things should not be enforced as such, but instead property titles should be transferred subject to pre-agreed “objective” conditions. It is not reasonable to know how other people are relying upon your promises and what damages they might claim; therefore, it is not possible to consent to open-ended damages. Without consent a contract is not valid nor is the “democracy in name only” that attempts to enforce it.

One of the greatest innovations of the blockchain industry is the concept of smart contracts. When implemented on a blockchain, a smart contract is a “self-executing”, deterministic agreement among parties enforced by a community without reliance on a credible threat of violence. Traditionally smart contracts are used with respect to purely digital property because the blockchain has complete authority over its database. Representing all property rights under a “software is law” mindset provides a useful framework for constructing smart contracts enforced by more manual means. In principle, all agreements should be capable of representation in software which manages the transfer of title of any and all property based upon relatively objective conditions. Any contract that could not be translated into equivalent code should be considered invalid.

### **The Value of Trust**

Organizing higher-order communities on top of the law of the jungle depends upon trust. Without trust, contracts become much more expensive to document and enforce. In low trust environments many transactions are not

even possible because the cost of creating a contract is greater than the value of the transaction. Reputation is the basis of trust and failure to keep promises will damage reputation and increase everyone's cost of doing business. Contract law should largely be reserved for high-value transactions and everything else should be unenforceable in the courts. At most a court or private arbitration system could render an opinion that you broke a promise. That opinion, being public record, would, in turn, impact all your other business dealings. This should be incentive enough to keep your word without getting into subjective damages.

One of the benefits of organizing society according to the Rules of Relative Power (Chapter 4) and Encapsulation (Chapter 5) is that it is easier to build trust in small communities and that can make these communities more efficient in many ways. Trust is a function of Dunbar's research into the number of relationships our brains can maintain. Trust is largely based upon knowing people and there are only so many people whom you can know well enough to directly trust. When you heavily rely upon indirect means of trusting people you risk transferring and concentrating power in ways that can undermine *true democracy*.

In societies where 99% of the people you meet can be "trusted by default" things prosper. In societies where you can only trust your friends and family things stagnate. Extensive reliance on a community peace treaty to enforce promises in contracts is already a sign that trust is decaying. In an ideal world, reputation would be highly valued and therefore trust is so high that written promises are only required to remind the parties of the agreement. In such a society everyone takes the non-recourse risk that the other party will default. Loans are made without liens being filed

at the courthouse. Doors are left unlocked and children play in the streets.

We should not attempt to replace trust with contracts nor enforce promises by courts assessing subjective damages. Ambiguous evaluation of contracts breaks down trust in the peace treaty (government) itself and yields too much subjective and *undemocratic* power to the courts. That said, smart contracts and community courts are a necessary background upon which trust can be built. The more predictable court rulings become the less time people spend fighting in court and the more quickly people settle things among themselves. Predictable court rulings require a philosophy of contract that is equally predictable. It is for this reason that I believe everyone (or at least every lawyer) should strive for a deep understanding of the Title Transfer Theory of Contract so that they can write *smarter* contracts.

We already live in a society where 99% of contracts are unenforceable. Lawyers cost hundreds of dollars per hour. Navigating the system without lawyers is error prone and takes months of study. Even if you win in small claims court, 80% of the judgments are never paid. The inability to pay a judgment is another failure of the promise theory of contract. Judgments on smart contracts are either payable or the other party is subject to criminal theft. I will go into more detail on criminal justice in the next chapter.

Once you move beyond small claims court, the legal fees start mounting quickly. I was in a business dispute and was given an estimate of \$100K in legal fees to enforce a case I felt was open and shut, and that was just my side of the expenses. Despite the obvious facts, the lawyers couldn't give me any reasonable guarantees of winning. Fortunately we came to a settlement, but only after incurring thousands of dollars in legal fees. Many times in divorces, the cost of

fighting over the assets is greater than the total value of all assets of the marriage. In most cases, it makes more sense to suffer a loss than to pursue enforcement of contracts. Once you realize this, you realize that we are already living in a world where the vast majority of contracts are unenforceable.

Sadly, one of the biggest reason for entering a contract today is to attempt to avoid the courts imputing an implied contract in its place. Most contracts spend a ton of ink making it explicit that nothing was promised, represented, or owed. Still more ink is spilled making sure the customer takes personal responsibility for any and all risks associated with the transaction. In effect, contracts have become about all of the potential, unreasonable, and unexpected liabilities that could be *implied* by courts simply by interacting with other people. It is so bad that you cannot even “give software away” for anyone to use without 50% of the “free software license” being about limiting liability. Here is the BSD license:

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Under a *smart contract* all potential liabilities and conditions are explicit. Contracts only get drafted for big ticket items and are completely unnecessary at all other times. We eliminate a large percentage of “economically pointless” contracts when everyone knows that a “verbal contract” is not enforceable and that the courts cannot create “implied contracts”. A society based upon *smart contracts* completely eliminates the vast majority of the “contracts” you sign and the *smart contracts* that remain are vastly simplified.

This simplification of contracts empowers people and disempowers courts. This makes everyone *more equal* and therefore is a critical component of *true democracies*. In a subsequent chapter on *Financial Integrity* it will become clear how smart contracts prevent most forms of “legalized” financial fraud. The next chapter deals with how justice can be had when you are harmed by someone with whom you had no contract.

### **Is the Peace Treaty a Promise or a Smart Contract?**

Smart contracts are built upon an assumption of a preexisting agreement over property rights. Rothbard proposes we agree that the first person first to homestead gets assigned the property rights. I propose that property belongs to whoever can control it. That control is subject to physical strength and social strength. Two people can agree

to recognize property rights, but this agreement isn't a contract, it's a mutual promise built on trust and reputation. The promise is only enforceable by the natural jungle strength of the parties.

It is theoretically possible for a peace treaty to define property rights and contract law by the reliance theory, by the damages theory, or by any other theory of contract. At the end of the day, all that matters is that trust is maintained and people continue to agree to live in peace rather than war.

Ultimately this means that all contracts are based upon the enforcement of the promise made in the peace treaty. We use jungle power to enforce the promises made to reach peace. So why limit ourselves to *smart contracts* (conditional title transfers) in the peace treaty? Because the peace treaty must be clear, simple, and sustainable. It must be designed to avoid conflict and moral hazard. It must be designed to prevent abuse under the color of law. Any peace treaty that fails in this regard will not last. All other theories of contract have logical inconsistencies evidenced by the inability to represent themselves as computer code and enforce themselves as a *smart contract*. These logical inconsistencies lead to conflict and ultimately to failure of the peace treaty. Conflict transfers power to judges which ultimately undermines *true democracy* as the judges become the arbiters of who owns what instead of the people.

Not everything is equally life sustaining. Not all peace treaties are advisable. The purpose of this book is to provide council to those faced with negotiating a peace treaty under the assumption that all parties have equal jungle power. It is an attempt to present an agreement agreeable to all parties and biased toward none. Smart

contracts are the only logically consistent view of property rights I have come across.

How has our current system been working for you? If you have never been to court then you probably have never actually relied on the enforceability of a contract nor experienced the insanity created by the current system. We can do better and I promise you it is worth your time to fully internalize the principles and the power of *smart contracts*.

### **Yeah, But, What about...**

I have presented the smart contract approach to contracts many people and have gotten a lot of feedback. We are so used to viewing contracts as promises that we cannot imagine a world that relied only on smart contracts or reputation. Things appear to be working “as is” so why should a book about *true democracy* advocate such a fundamental change to every business arrangement? Can’t we keep a promise theory of contract and still adopt the other principles of *true democracy*?

To make contractual promises enforceable (beyond a posted bond), is to imbue them with the characteristics of property. My promise to pay you \$1 trillion dollars becomes an asset on your books because, “by law”, if I fail to pay, the government is supposed to make me pay. Everyone should know that I don’t have \$1 trillion dollars nor ability to earn it and that there is nothing the government can do to enforce this contract. The damages one seeks from broken promises must come from somewhere. If there are no assets to back the promise then the promise has potentially no value. Any accountant worth their salt knows better than to count their chickens (promises) before they hatch.

If a promise to pay \$1 trillion dollars I don’t have is obviously not a valid “contract” then at what point does a

promise become valid and therefore enforceable? \$1 billion dollars? \$1 million dollars? \$1 thousand dollars? \$1 dollar? The fact that promises should not be considered enforceable should be obvious for anyone doing business with the poor. No matter what contract a poor person signs, if they don't keep their promise, there is nothing you can do to collect damages. You can't get blood out of a turnip.

The consequence of enforcing promises, as opposed to conditional title transfers, is to encourage people to build their economic house on a foundation of sand. It enables fraud by transmuting something that should have no value into something that is presumed to have value. An insurance company makes promises to provide a level of coverage that they mathematically cannot keep in certain circumstances. Those relying upon that promise will be disappointed when their insurance company goes bankrupt when they need it most because they misestimated the frequency and magnitude of potential claims.

Manufacturers make promises to provide a warranty. We assume these promises are worth something because people perceive companies to be "big" and "rich" compared their customers. The problem is that in order for a company to make good on its promises it must set aside capital to "self insure" against defects. This capital must come from the customers in the form of increased prices. Because the manufacturer cannot possibly know the magnitude of potential claims nor the liability, they will either end up overcharging or over promising and neither the customer nor the manufacturer knows the reality until the end of the warranty period. From this perspective, a lifetime warranty is an unbacked and therefore potentially unenforceable promise. A company promising a lifetime warranty is selling you a bill of goods unless they are setting aside segregated

funds to back the warranty. Due to fierce market competition and price conscious customers, companies often find it cheaper to provide unbacked warranty promises and hope for the best. Try collecting on a lifetime warranty from a bankrupt manufacturer!

Banks make promises to pay on demand, but if everyone attempted to collect on that promise at the same time the bank would be insolvent. How is this a valid contract? How can the governments enforce such a contract? They can't and they don't.

Imagine you signed 1000 contracts for various things. In each contract you have the ability to pay the potential damages but only if you don't default on any of the other 999 contracts. How is this different than fractional reserve banking? Are your counter-parties aware of the risk that you may not be able to pay damages if you fail to keep your contractual promises?

Even under the "promise theory of contracts", a contract must have the consent of the parties to be considered valid. In order to consent one must have knowledge. How can one have knowledge of the extent to which failure to perform a promise will "harm" the other party if you must wait for a judge to "assess" damages after the fact? If you do not know the limits on your liability then how can you consent? If you lack the ability to pay the damages as outlined in the contract or awarded by a judge, then how is a government to enforce it? The supposed "contract" is *invalid* to both sides, one side is unable to consent while the other side is unable to collect.

A *true democracy* should facilitate people working together and building trust. The consequence of defaulting on promises is a loss of trust. We must all take personal responsibility in determining who to trust and bearing the

cost of misplacing our trust. If we allow promise based contracts to be enforced with the full jungle power of the community then we introduce *moral hazard* at the most fundamental level. We allow one person to take the risk of trusting someone and expect everyone else to bear the cost of enforcing the collection of damages when that trust was misplaced. The consequence of this is to cause members of society to grant trust to people who do not deserve it. This is because people aren't trusting each other, they are trusting the illusion of an enforceable contract.

Never do business with someone you do not trust. If trust is lacking, then a *smart contract* is how a community should document an enforceable contract. If a contractual promise is broken, then your only recourse should be to warn others about the breach.



## Chapter 15 - Democratic Justice

Part of achieving democratic consensus is dealing with those who violate the peace treaty. A society must first agree on rules, then agree on a process for identification of violations, and finally a process for restitution or retribution. How should we go about designing such a system? What would a wise and fully independent individual negotiate when joining a true democracy? Remember, we should not let the status quo bias our view or limit our perspective.

Before signing any contract or peace treaty you must always ask yourself, "*what is my worst-case outcome?*" Imagine you were the person in jail (or sentenced to death) for a crime you didn't commit. What incentive structure would you want motivating everyone involved in your prosecution? What incentives would you want to motivate

others to prove your innocence rather than your guilt? These are important questions to consider when you are negotiating a peace treaty in a truly democratic society where presumption of innocence should be maintained. After all, would you sign a peace treaty where you were presumed guilty until proven innocent? You can't prove a negative, so choose wisely.

There are three sides to every justice system, the side of the victim, the side of the accused criminal, and everyone else who may be footing some or all of the costs. If the incentives involved are misaligned then you get moral hazards. Ideally the same logical "person" or entity would be responsible for the cost to the justice system, the damages from the crime, and the cost of mistakes in justice. When this is true this single person/entity can make practical tradeoffs between buying insurance, letting things go, investigating, prosecuting, and the cost of punishment or rehabilitation. When different people are responsible for costs and decision making then either crime will be too high, penalties too expensive, or innocent people wrongfully harmed too often. Someone will be systematically benefiting at the expense of others. In the worst case, moral hazard creates positive feedback loops which cause expenses to rise, restitution to fall, the rate of catching criminals to fall, and wrongful imprisonment to increase. Our traditional system is close to the worst case.

### **Libertarian Perspective of Current Justice System**

Before considering a new system, let's take a look at the unjust nature of current "justice" systems from the perspective of a libertarian. When most people think about a justice system they envision police, courts, and jails. Everyone wants justice and we are told over and over again

that justice is what police, courts, and jails produce. But is this really the case?

When you are harmed you want justice. To be more specific you want a “fair” outcome and that usually means receiving restitution (compensation) from the party that harmed you (or an insurance company). Punishment of the bad behavior has a cost and does nothing to restore the victims of crime. At best punishment acts as a deterrent to crime, but it is worthless after a crime has already been committed and therefore irrelevant to justice.

Fairness is something that cannot be defined in absolute terms because everyone has a different opinion about what is fair. In general there is only one means to establish what is fair: voluntary trade. Absent voluntary trade you always have one person who feels they have been harmed and therefore treated unfairly.

Lack of voluntary trade is where our modern justice system ends up producing more injustice than justice. Let’s imagine that Alice, someone you don’t know, has her house robbed while she is on vacation. Alice wants justice. She wants her stuff back and the person who stole it to compensate her for the time and distress they caused. At this point we have one injustice caused by the robber.

Alice, in pursuit of justice, comes to you and asks that you help pay to hire a detective to track down the thief. She argues that you could be robbed next and that she cannot afford to do it herself. You get to thinking about it and then decide that it would be cheaper for you to lock your doors and adopt a cryptocurrency than to hire a detective for Alice. She goes door to door and is unable to find anyone willing to help her. Frustrated, Alice goes home, finds a gun, and goes door to door demanding everyone contribute a small amount to her cause.

At this point we now have many injustices. Alice has become guilty of the same crime for which she demands justice. In some ways she is guilty of a far worse crime because she is threatening to kill anyone who doesn't help her. Most people cave to Alice, but one guy resists paying and is killed while resisting. Alice feels this is necessary because otherwise crime would get out of control and she rationalizes that the guy who resisted paying is guilty of helping the robber (accessory after the fact, harboring a fugitive, interfering with an investigation, yada yada ...).

The challenge is that just because Alice has experienced an injustice at the hands of another does not mean that she is granted a right to harm others. Instead she must find a way to get justice without causing injustice to innocent parties. This could be resolved by the peace treaty defining everyone's obligation to contribute, but how should such a treaty be structured to prevent abuse and moral hazards?

After all, under the current system the taxpayer is forced to pay for the investigation, the trial, the punishment, and the liability for wrongdoing regardless of the quality or effectiveness of the system. Politicians benefit from sounding "tough on crime", lawyers benefit from having more crimes and more complicated processes, prison operators benefit from longer sentences, and prosecutors benefit from high conviction rates rather than high rates of justice. None of these people suffer the cost of their mistakes. There is a multitude of people who have control over how other people's money is spent and benefit from that control. Moral hazard is everywhere!

### **Insuring Against Injustice**

Alice decides to resolve her internal contradiction by finding an alternative to violence. She buys insurance so that if she happens to be robbed in the future she will have the ability to hire a detective to track down the criminal, a court to try the criminal, and a prison to detain the criminal. So Alice starts shopping around and finds out insurance for our current system is extremely expensive.

Obviously I haven't done the exact probabilistic number crunching that an actuary would do, but I presume that the cost of police patrols is similar to routine medical checkups, the cost of a trial is similar to an emergency room visit followed by multiple days of hospitalization, and the cost of imprisoning someone is similar to the cost of long-term care in the event of cancer and that the cost of malpractice insurance is similar to the cost of insuring against wrongful imprisonment. I then presume that the risk of being a victim of a crime is similar to the risk of a major medical expense. If you were to attempt to purchase medical insurance with 0% co-pay and no limit then you would quickly discover the cost is very high. The cost of the insurance would be even higher given the moral hazard created by mandatory coverage and inability to group by risk profile. Like modern medical insurance, the costs would rise higher than most people would be willing or able to pay.

The problem with our justice system is that expenses are socialized and no one really knows the full cost of the system (especially when you account for opportunity costs and errors). If people had their insurance rates go up every time they called the cops and started an investigation, then people would call the cops less often. If people had a co-pay on prosecuting a criminal, then many wouldn't bother to press charges for petty offenses. Everything changes as soon as someone else is paying the bill. It gets even worse when

the government gets to define crimes without victims! It would be like giving doctors the right to make up diseases and then force treatments on people who never came in to see them while having the insurance company pick up 100% of the costs.

One study found that people would be willing to pay up to \$12 million dollars if it could stop a murder. I am going to assume the study used flawed economic reasoning (asking opinions instead of observing actions) when they attempted to estimate the individual demand, but I do believe that people are willing to spend \$12 million of other people's money to stop a single murder. And this is the heart of socialism and moral hazard.

Imagine if those who chose to use our criminal justice system were responsible for 100% of the bill? I think you would find that no one would be in prison unless they were mentally ill and posed a very high probability of a future threat. The cost of keeping people in prison for decades may be far higher than the cost of wrongful death discounted by the risk of wrongful death. Theft, fraud, drugs, and even many murders may not result in prison. With the rare exception of serial killers who murder for the joy of it, there is little reform or deterrence actually occurring by throwing people in prison for excessive terms.

So far my arguments have been almost purely utilitarian. People would not voluntarily pay for the system we have today if it was funded by insurance premiums. Assume that everyone had a minimum insurance premium to cover bodily harm and that premiums increased based upon the value of the goods insured against crime. At a certain point it makes more sense to just insure the loss than to prosecute the loss. At a certain point hiring private security guards is cheaper than increasing police patrols.

Some people would rather just rely upon medical insurance and not pursue their mugger.

The question becomes at what point does everyone opting to forgo justice in favor of loss insurance reduce the probability of getting caught so far that crime spikes? As crime spikes insurance premiums for losses will increase and it starts to make sense to invest in investigators to hold people accountable. Like all things in life, there is a balance. The cost of catching criminals approaches infinity as you attempt to catch 100% of all criminals. The cost of insurance approaches infinity as criminals go without accountability.

In a competitive market, insurance companies would have incentives to track down criminals as efficiently as possible. They would also have incentive to set punishments high enough to deter crime but low enough to keep their insurance premiums competitive in the market.

Research has demonstrated that the probability of getting caught is far more important than the severity of the punishment. If the “profit” from a crime can pay for the “insurance” against getting caught then there is no longer any risk to committing the crime. “Insurance” costs are largely driven by the ratio of those who never file claims to those who file claims. Stated another way, the lower the probability of getting caught the cheaper the “insurance” for the criminal will become. If you can steal \$100 with a 10% chance of getting caught, then as long as the restitution and penalty is less than \$1000 the criminal will still profit on average. Some crimes, like copyright infringement, have such a low probability of getting caught that millions of people routinely violate copyright laws.

When it comes to penalties there is diminishing marginal utility in deterrence. The first day in jail has a huge deterrence value relative to the 10,000th day in jail; however,

the cost to those paying for the prison is the same for all 10,000 days. If all crimes carry the death penalty then once you run a stop sign you might as well attempt to kill the cop that pulls you over. In other words, consequences that are not proportional to crimes can motivate increases in quantity and severity of crime. For people over a certain age, long prison sentences may be perceived as worse than death. For people with one month to live prison time is no longer a deterrent. The challenge a community faces is doing this cost-benefit analysis in a way that doesn't fall victim to tragedy of the commons. After all, some people want long punishments, but only because they only have to pay .0000001% of the cost. When you consider that your taxes are more likely to be wasted somewhere else than refunded, there is no perceivable cost to the tax payer to long prison sentences. Others want long punishments because they operate, are employed by, or otherwise financially benefit from the prison system.

If the justice system were operated as competition among multiple insurance companies and these insurance companies were liable for compensating victims of crime *and* paying for the cost of finding, prosecuting, and setting punishments of criminals then the incentives are aligned properly. Any insurance company that was too lax on catching criminals would have premiums rise. Any insurance company that spent too much on investigating or punishment would see premiums rise. Any insurance company which wrongfully convicts someone would have liability which would show up in increased premiums. Each individual would then have a choice on which insurance company they should adopt and this would make participating voluntary and democratic with minimal moral hazard.

This is vastly different than today's DINO justice system where those who decide how much to spend on catching and punishing criminals are not paying the bill nor are they liable for their mistakes. Decisions are made by voters casting votes that "cost them nothing" because their vote is unlikely to have any statistical impact on the outcome. If you keep the entire premise and structure of our justice system and simply remove the tax subsidy, then few would choose to pay to use it. They would find an alternative that was more effective and cheaper.

### **Socialist Justice Cannot Work**

One problem we have in our society is that people have adopted a punishment mentality when it comes to crime. When someone is robbed the state might catch the robber, but will rarely make the victim whole. The robber is rarely even held liable for the cost of his own incarceration. Even if we held robbers liable for the cost of their incarceration, they more often than not lack the ability to pay. It is easy to promote punishment when you are not the one who has to pay for that punishment. Do we really want a policy of socialized revenge? Does revenge even stop crime? It is like punching yourself in the face to spite your nose. You end up harming yourself more in the pursuit of revenge. When you allow society to socialize the cost of revenge you don't even feel the pain. Everyone else does.

Ludwig von Mises in his paper "*Economic Calculation in the Socialist Commonwealth*" outlined the primary reason socialist institutions cannot function: they lack the ability to economically allocate resources. Without price feedback the bureaucrats who set the prison sentences and the politicians who make the laws have no measure of profit and loss to society. For them longer sentences and more laws almost

always help them get elected and gain more personal wealth and power. Those that press charges have no problem calling the police over the loss of \$1000 despite the cost of the police investigation, trial, and punishment being over \$100,000. That \$100,000 comes from other people who are now also denied access their money and all the while the original victim is not even reimbursed.

When someone has been harmed it is normal for people to lose all rational thinking. In their anger they are willing to go on a rampage and exact a punishment greatly disproportional to the crime because it will make them feel better. Give someone a gun after they have been harmed, robbed, or violated and an opportunity to shoot the other person without consequence and many will take it. When you have a socialist justice system all of the emotions and irrational behavior gets expressed by excessive spending on bureaucratic trials and excessive punishments that ultimately do little to reduce crime.

A community that is negotiating a peace treaty would be wise to consider how it manages its justice system. The use of political playoffs to select judges and generate laws will go a long way toward minimizing the corruption of the current system; however, even if we had higher integrity people running our current system it would still suffer from many problems of moral hazard.

Under today's system, when a prosecutor, judge, and jury make a mistake it is either the taxpayers or the wrongfully punished individual who pay the bill. This creates a huge moral hazard where a prosecutor attempts to maximize her conviction rate rather than her justice rate. After all, an accountant can easily see the costs of all the "failed convictions", but how does one account for wrongful convictions? The cost of wrongful convictions isn't

discovered until years or decades later and only in a small fraction of the cases. The prosecutor has likely moved on or retired. What incentive is there to clear your name after you have served your term? It will only cost you money and won't make you whole.

The purpose of the peace treaty is to define the process for fair trials and judgments. Once a process is defined, it is the responsibility of the people or the insurance companies to pay the cost of operating the process. This prevents rogue insurance companies from seeking unjust sentences because they would still have to pay for a fair trial, judged by a representative of the people, with a *random* jury of your peers.

The cost of paying restitution for a wrongful punishment is often greater than the cost of letting the original crime go unpunished. The only person in a position to judge the risk is the person asking for the punishment and therefore assuming liability for the wrongful imprisonment. If someone wants to collect restitution and apply a punishment then government force is being used for their benefit and therefore they should be responsible for paying the insurance premium of wrongful imprisonment.

Interestingly enough, an insurance company would likely want to evaluate the facts of the case before telling the victim the cost of the wrongful prosecution insurance. The more ambiguous the case and more severe the punishment and restitution—as judged by the insurance company—the higher the insurance premium will be. The victim could have multiple insurance companies bid to keep the costs down, but this would also drive up costs as each insurance company would need to cover the cost of reviewing the facts to submit a bid.

To be punished for a crime now requires being convicted by a jury of your peers, an insurance company, and the victim's ability and willingness to pay for insurance. If a crime is particularly bad and the victim is unable or unwilling to pay it would be up to the people to raise donations to pay the wrongful imprisonment insurance premiums. In all likelihood an insurance company (or group of insurance companies) would pay the cost of imprisoning those likely to commit offenses again even if the victim was uninsured. After all, the insurance companies are responsible for all the costs of reimbursing future victims, catching the criminal again, and prosecuting them again.

Perhaps the most important factor of this arrangement is that without a victim there is no one to find you guilty and to pay the insurance premiums and therefore there is no crime. Furthermore, it wouldn't make any sense for the legislator elected by the people via political playoffs to pass a victimless crime law. Even if they passed a law "without a victim" it would be up to the people to fund the enforcement of that law from personal (or insurance) funds rather than community taxation. The willingness to fund the enforcement is evidence that someone feels the action has caused sufficient harm to justify the personal expense. Putting an end to victimless crimes would go a long way to reducing costs.

When it comes to punishment it usually makes since to leave an incentive to stop a crime spree. If your first murder condemns you to death then you will commit as many murders as necessary to avoid getting caught. Turning yourself in should be rewarded. There is no one-size-fits-all approach, which is why we need properly aligned market incentives.

## Summary of a Proposed Democratic Justice System

Moral hazard must be avoided as much as possible to prevent the justice system from spiraling into out of control corruption. Tradeoffs must be made between insuring against loss, investigating crime, the cost of punishment, and risk of wrongful punishments. The purpose of government should be to define a fair process to authorize the use of violence and transfer of property, but the costs associated with following that process and the liabilities for mistakes in that process must be on the people utilizing and benefiting from the process.

When someone or their possessions are damaged they file a claim with their insurance company. The insurance company does a quick verification of damage claims and then makes them whole according to the terms of the policy. The insurance company now has a claim against the criminal and can choose the most cost-effective means of pursuing the criminal or can choose not to pursue. Once the insurance company identifies the guilty party, they make an arrest and start accruing risk of wrongful imprisonment.

Once an arrest is made, the trial begins. The court is governed by three judges randomly selected from among the top leaders in a political playoff process. The cost of the trial is paid for by the insurance company. The arrested individual can either defend himself or be defended by an attorney appointed by his insurance company. The plaintiff's insurance company would post a bond payable to the defendant's lawyer/insurance company in the event the trial fails to get a conviction. This bond requirement is how "public defenders" are compensated and the magnitude of the bond should be proportional to the penalty sought. Seeking a death penalty would require a massive bond. Seeking a fine would require a bond proportional to the fine.

Game theory can be used to prevent the prosecution from seeking unreasonably long punishments. Imagine if the penalty sought by the plaintiff must be declared in advance and cannot be reduced by the judges. The judges must find the person guilty and the penalty reasonable. If the penalty is too harsh, such as seeking the death sentence for shoplifting, then even if the defendant is found guilty of shoplifting the case is dismissed and cannot be brought again. This is like asking the plaintiff to divide the cookie (punishment versus freedom) and the judge to choose which side is fairer. Furthermore, the cost of the penalty must be put in escrow when charges are filed. So if a five-year prison term is sought, then the money required to fund five years of prison must be paid up front. All of these things taken together create a systematic bias toward the presumption of innocence and against the justice system creating more injustice.

In the event of a wrongful conviction, the victim can file a case against the prosecuting insurance company. This case would follow the same rules as any other crime. It would be as if a criminal kidnapped you and locked you in a basement for years. From the perspective of the innocent there is no difference.

### **Criminal Corporations**

Society is composed of people, and only people can act or commit crimes. Under a true democracy all companies are nothing more than a collection of people with contracts among them. These contracts can transfer liability but cannot limit it nor convert it from prison time to a fine. So, if a “company” is convicted of a crime worthy of the death penalty, then someone will get the death penalty. That

someone will be determined according to the contracts involved.

Employment contracts and shareholder agreements will identify who has liability. Suppose a drug company knowingly pollutes the water supply and as a result 100 people die. This is no different than if a group of criminals knowingly poisoned other people. Everyone who was complicit in the pollution is potentially liable and the existence of contracts among these people does not transform the criminal act to be “by the company” instead of “by the coconspirators”. You cannot shield yourself from the death penalty or prison time by contract.

A criminal company is just organized crime. Should the leader and employees of the mafia transform all penalties into fines by contract? That would completely undermine the justice system. Likewise, if a common shoplifter is required to serve time in jail for stealing a couple thousand dollars, how much time in jail should someone operating on behalf of a company stealing billions serve? Is it sufficient for just the CEO to serve time?

Imagine a shoplifter operates for years and divides the loot among 1000 people. One day the shoplifter is caught, but no longer has the loot. Is it sufficient to put the shoplifter in jail or should all 1000 people be put in jail? Should government grant shareholders limited liability which allows them to keep the dividends from years of theft? Why should the penalty for a shareholder be limited to a fine, but a “sole proprietor” goes to jail? Would you invest in a company if any prison time earned by the business had to be served pro rata by the shareholders?

An imbalance in criminal liability between shareholders investing in a criminal enterprise and ordinary people undermines true democracy by creating an imbalance

of power. This imbalance favors organized crime. A wise person negotiating a peace treaty under the law of the jungle should think twice before agreeing to such terms.

### **Prisoner's Dilemma of Ransom**

A fair justice system requires a process people trust paid for by those with incentive to balance all of the tradeoffs that must be made. Moral hazards and prisoner's dilemmas (no pun intended) abound when it comes to designing the process.

Consider the issue of ransom. Criminals profit by stealing valuable property or loved ones and holding them for ransom. The criminal has economic incentive to price the ransom so that they are likely to be paid and high enough to offset the risk of getting caught. If no one ever paid a ransom, then this kind of crime would never happen. To the extent that some people occasionally pay ransom, criminals are more likely to attempt it. Paying ransom is like turning on your fellow citizens in the prisoner's dilemma.

A society looking to stop ransom would make it illegal to pay ransoms. Paying the ransom would make one complicit in the crime, a coconspirator. This could make you a coconspirator in kidnapping or potentially attempted murder. You could attempt to arrange a payment in an effort to catch the criminal, but this would require reporting the ransom attempt and taking measures to ensure the kidnapper is unlikely to get the payment. The more severe the penalty for paying ransom, the harder it is for both the criminal and the victim to successfully complete the crime.

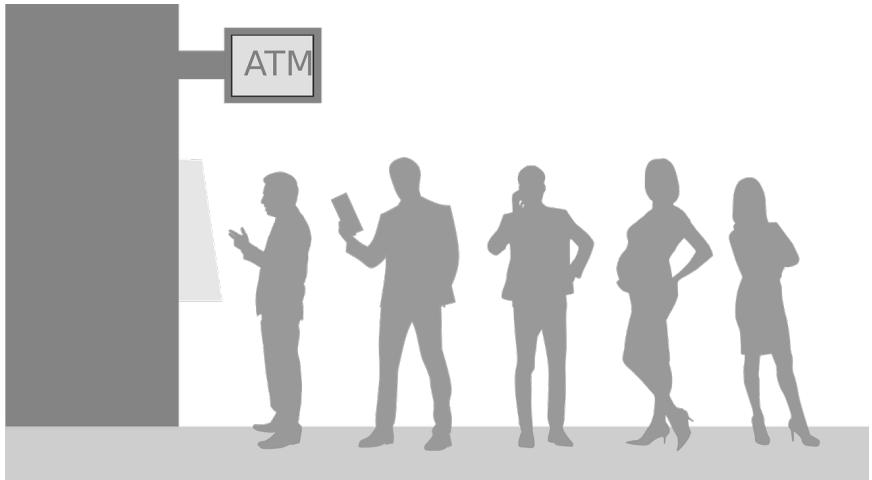
The presence of prisoner's dilemmas is why a society needs to cooperate to form a peace treaty and why rules are required. The need for rules and rule enforcers is why a true democratic process is required. Without a true democracy,

some of the people did not consent to making the rules and everyone suffers from the resulting moral hazard.

### **Nothing is Perfect**

The justice system proposed by this chapter is incomplete and certain to have its own shortcomings. The important takeaway is that the status quo is broken at a fundamental level due to systemic moral hazard and misalignment of incentives. The principle of aligning the cost of crime, cost of insurance, cost of investigation, cost of prosecution, and cost of errors into one organization must be a component of any system that aims to minimize corruption and costs. The principles of true democracy can be applied to select judges and juries in a way that prevents anyone from turning the courts into legislators ruling from the bench.

The proposed justice system builds on top of the principles of smart contracts. In a subsequent chapter I will outline the principles of insurance under smart contracts, which any justice insurance should be compatible with.



## Chapter 16 - Financial Integrity

Financial integrity is a structural property of institutions which are immune to bankruptcy. In this case bankruptcy is defined as a default on contractual terms. Using smart contracts all contractual obligations are resolved by pre-agreed title transfers and "unbacked promises" are not legitimate. In this chapter I hope you will gain insight into the subtle nature of the fraud baked into commonly accepted financial arrangements. A society that allows systemic fraud will not maintain its status as a true democracy and if you are to negotiate a peace treaty then it will serve you well to understand the principles in this chapter.

The most straightforward way of understanding a lack of financial integrity is a hotel that leases the same room to 10 different guests at the same time. In this case each guest thought they had purchased the right to use a scarce

resource (a hotel room) but when they show up to use the room they discover someone sleeping in their bed.

For the purpose of this chapter I am using hotel rooms because they are concrete, easy to visualize, and the damages from fraud are obvious. Once we have established the structure of various frauds it is my hope that you will be in a better position to see the systemic fraud in other industries. I will demonstrate how these same kinds of frauds occur throughout our financial system in everything from commodities, to stocks, to cryptocurrency exchanges, and banking. You may have even experienced these kinds of frauds in rental car or airline reservations.

Mark Twain once said, *“It’s easier to fool people than to convince them that they have been fooled.”* This is a natural bias we all have toward decisions we have already made. If you have already acted on false information, then you will have a harder time convincing yourself that the information was false. We have all been interacting with fraudulent business practices for so long that we no longer see the fraud and have a hard time accepting it as fraud. I ask that you set aside any preconceived justifications for the status quo business practices.

### **Borrowing Short and Lending Long**

Suppose someone rented a room from a hotel for one night, then sub-leased it to someone else for 30 days with a big upfront deposit? The next day the hotel would attempt to lease the room to another guest and there would be an immediate conflict due to two people both thinking they had a claim to the same room. The individual who sub-leased the room for 30 days committed fraud by attempting to profit on the spread between 1 day and 30-day lease rates (and taking a deposit). They had hoped they could continue to lease the

room one day at a time for 30 days and no one would ever catch them. This is known as borrowing short-term and lending long-term. The principle of this example is that if you only have the right to use property for a fixed period of time, then you cannot make contracts with respect to that property beyond that time. This is consistent with the use of smart contracts. You cannot construct a smart contract with respect to property for which you don't have title.

### **Over Leasing**

A hotel owner notices that on average 10% of his guests never show up to claim their room. Based upon this knowledge he decides to lease 5% more rooms than he actually has. This realizes an immediate increase in profit for the hotel owner but also violates the principles of smart contracts. The fraud is exposed on that fateful day when Caesar orders everyone to return to their hometown for a census. Guests show up and fill all the rooms and the late arrivals discover there is no room left at the inn. One such late arriving couple reserved in advance because they were pregnant and wanted to be sure they had a suitable room. Because the hotel owner sold more leases than rooms this poor couple was forced to stay in a barn.

The hotel owner profited by lying to other market participants about the availability of rooms. Had he been honest, and told this pregnant couple that he was sold out, they could have made arrangements at another nearby hotel. Instead, they show up and discover that not only is their pre-paid reservation not available, but all other hotels are also booked. At this point, the cost of getting a replacement room is far higher (potentially infinitely higher). A monetary refund is unable to make the couple whole and their baby is born among animals greatly increasing risk of disease and /

or death. The principle of this analogy is that you cannot sell or lease what you do not own even if the odds of getting caught are extremely long.

### **Treating Different kinds of Rooms as Equal**

Imagine a particular hotel has two different kinds of rooms, those with a view and those in the basement. This hotel makes reservations for each kind of room at different prices, but when people show up to claim their room the hotel declares (with government approval) that all reservations are equal and a couple expecting the honeymoon suite with a view gets stuck in the basement next to a noisy machine room.

This fraud serves the hotel because they can reserve more rooms at higher rates by advertising a view than advertising a basement. The hotel owner would fill all the basement rooms first even if rooms with a view were available! The principle is that contracts must not treat two non-fungible assets as fungible (interchangeable / indistinguishable). All kinds of qualities can make two assets non-fungible even if normally they are the same price.

For example, imagine that on a typical day all rooms are equal, but during extreme rains some rooms can flood (whether from water table or roof leaking). Meanwhile other rooms are dry all the time. When the sun is shining the hotel is able to lease all rooms for identical rates, but when it is raining some rooms cannot be leased at all.

The hotel owner rents all rooms as “guaranteed” to be dry. Effectively, the hotel owner is pretending all rooms are fungible because they all have the same price today. He “assumes” the sunny day. This allows the hotel to charge more for rooms, but then some guests show up to a damp or even flooded room. If the hotel accurately advertised some

rooms with a 25% chance of dampness then it would have to charge less all the time for those rooms and indicate that there are indeed two different kinds of rooms.

The principle here is that differences in risk represent differences in kind and value. You cannot treat two things as equal and fungible just because 99% of the time they fetch the same market price.

### **The Fine Print**

One hotel owner recognizes that it would be fraud to write contracts in such a clearly fraudulent manner. So he adds a clause to all of his contracts that allows him to cancel the reservation by refunding the money plus an inconvenience fee. He then goes about business as usual, overbooking, false advertising, leasing short, and lending long. In the event that his “not a fraud” is about to be exposed he simply makes a cash payment according to the “pre-agreed” terms of the contract. Even if he occasionally pays a fee, he is still more profitable on average.

Most customers are not lawyers and don’t have the time to read all of the fine print. The pregnant couple will feel cheated when they don’t get the room they reserved even though the “fine print” declared all obligations met.

The principle here is that a contract must be a meeting of the minds based upon the expectations of the parties. For example, even if the pregnant couple read the contract and noticed the fine print regarding the “buy out” provision, they would naturally assume that the hotel owner was merely “covering events beyond his control”. If the hotel disclosed its practice of overbooking then a pregnant couple could easily request a guaranteed reservation that was not overbooked. After all, they had a long drive, knew that

everything would be booked, and knew they would be the last ones to arrive.

At this point the hotel owner could say, “sorry we don’t offer those guarantees”. So the couple shops around to other hotels and discovers that all hotels overbook and none will make guarantees. In fact, all hotel owners have formed a cartel and prevent any hotel from making such guarantees. Even without a cartel, because of overbooking, the fraudulent hotels are able to offer lower average room rates and may drive the honest hotels out of business.

The end result is that all hotel owners get to increase their profits while their guests take all the risk of not having a place to stay when they need it most. A refund plus inconvenience fee can hardly cover their loss and opportunity costs (especially if your baby dies from being born in a barn). To add insult to injury, imagine that instead of a refund, the hotel simply gave you credit for a future date. At a bare minimum the hotel should be offering to cover the cost of finding them a room, which could mean putting them up at the nearest hotel with an empty room or finding another guest that is willing to give up their room for a fee. Even if the hotel owner is able to scramble and deliver a “comparable” room “this time”, it doesn’t negate the fraud. The fraud was embedded in a contract that would be impossible to implement as a smart contract.

Another way to understand the magnitude of the fraud in “measurable” terms is to view the “refund” as a free option (“insurance policy”) for the hotel owner. Here is an example of a free option. Suppose that when you pre-paid for the room it was \$100 per night. Then when the day comes demand is high and rooms are being sold for \$1000 per night. The hotel owner could exercise his right to give you a \$101 refund and then sell the room back to you for

\$1000. In reality you never actually had a reservation. On the other hand if the hotel was empty and rooms were going for \$50 you would be held to the \$100 price with no refund for canceling.

An argument could be made that “on average” the guests benefit from lower room rates to the extent competition drives down prices by subsidizing room leases with the profits from over subscribing. A similar argument could be made that adding water to milk lowers the price per gallon of milk and therefore all milk buyers benefit. In a world where people were not allowed to make a legal distinction between milk-water and milk, all milk would be watered down. The fact that some guests “save money” is of little comfort to the woman giving birth in a barn. Stated another way, on an average day, most people in a Ponzi scheme make money but everyone still participating on the last day loses it all.

The bottom line is that the fine print can still be used to effect fraud by getting people to agree to things they don’t understand or for which they have no other choice by virtue of systemic fraud across all market players and/or institutionalized by governments.

### **Our Financial System**

The frauds described above are systemic in our financial institutions and take many forms including “fractional” (aka fictional) reserve banking, borrowing money payable on demand and lending it for 30+ years, naked shorting, and futures markets that can be settled in freshly printed cash instead of delivery. Our financial system has made “all banks equal” through “insurance”, cartels, and implicit government bailouts.

Henry Ford once said, “*It is well enough that people of the nation do not understand our banking and monetary system, for if they did, I believe there would be a revolution before tomorrow morning.*” This sounds like something the people should be aware of when negotiating a peace treaty!

Gresham’s law states that, absent choice, “*bad money drives out good*”. Note that Gresham’s law only applies when *bad* money is mandated by law to be equal to *good* money. I would like to propose a new law which I believe to be equally true: “*legalized fraudulent institutions drive out good institutions*”. All frauds pay higher yields in the short term by masking hidden systemic risks. A bank that is willing to use the same collateral to back multiple debts can lend money cheaper than it otherwise could and pay higher interest to depositors. An honest bank would have to issue a 30-year certificate of deposit to make a 30-year mortgage. When was the last time you saw a 30-year certificate of deposit? When was the last time you heard of a certificate of deposit?

No true democracy can tolerate legalized fraud. This is why the Title Transfer Theory of Contract should be a fundamental component of any community peace treaty.

### **Good Lending Principles**

When deciding whether to make a loan to an acquaintance you would be wise to ask them how they intend to pay it back. The things you would look at is their total debt relative to their assets and income. If they have assets they could sell to pay you back then your loan is more secure than if they have no assets. Traditionally, the ability to work and produce wage income is considered an asset; however, under the principles of smart contracts this amounts to an unenforceable promise. The value of this “asset” depends upon their skill and must factor in the cost

of living and reputation. It could easily fall to zero. Lastly you want to ensure that there are no other debts that have a higher priority lien over what you are owed.

When deciding to lend to a company you also need to assess the company's ability to repay. The easiest way to do this is to look at the company's market capitalization. This is normally calculated as the price of the most recent trade multiplied by the total number of shares. This market capitalization overestimates the value of the company because the price-per-share depends upon the total number of shares being sold. If you had to liquidate 100% of the company instantly, the value would be much less than the market capitalization. Furthermore, the market capitalization could go to zero if there are no buyers. The base value of a company is the value of assets owned by the company which could be liquidated and distributed to the shareholders.

When you deposit money in a bank, you are making a loan. To calculate the market capitalization of a bank you must consider its assets and liabilities. In this case, the liabilities include the money owed to depositors. Its assets include any money on hand and the promises of borrowers to repay their mortgage. The value of promises from home buyers depends upon the economy (job market and housing market) as well as upon the weather and natural disasters.

For the sake of clarity I am assuming gold coins are money. A gold coin can only be in one place at a time. With smart contracts a deposit loan must be secured by assets. If the deposit is payable on demand, then the bank must have title to a gold coin in its vault. If the bank is going to lend out the gold, then it cannot promise to transfer title to gold coin on demand because the gold could be lent out and the loan could default. In this case, the deposit contract would be

payable in gold plus interest on demand *or the collateral* pledged by the bank when borrowing your money. The collateral the bank can pledge is its equity. The bank's equity represents shares in all assets owned by the bank which are not subject to liens under a smart contract. This means the gold backing deposits payable on demand is not an asset of the bank.

Since gold payable on demand is not an asset of the bank, we can ignore these depositors and assume a bank starts with no deposits. The bank should only accept your deposit if it *wants to borrow your money*. It would only want to borrow money if it could lend the money at a higher rate. This means that the bank can't use the funds from your deposit as collateral for its loan, at least not directly. It would be like a bank lending you money and instead of backing the loan with a house it backed the loan with the money it lent you. You would be unable to use the money because it had a lien which makes the loan pointless.

To solve this problem, banks borrow money from depositors and back the loans with their equity (shares in the bank). Equity represents a share of the unencumbered assets of a bank. When you loan money to a bank (making a deposit) it becomes an unencumbered asset of the bank. Should depositors expect the same lending standards the bank expects from borrowers? I think so. When a bank lends you money backed by your house it expects (assuming sound banking) the house to be worth at least 25% more than the loan. This protects the bank from market fluctuations in the value of the house. Following this principle, the value of the equity backing your deposit should probably be worth at least 25% more than your deposit. The consequence of this is that a new bank must bring \$25 dollars of its own assets to the table for every \$100

dollars of deposits it takes. If we change the language slightly it becomes obvious: a bank should have \$125 dollars' worth of collateral for every \$100 it wants to borrow. What is good for the goose is good for the gander.

When you borrow money to buy a house the bank expects the loan to be repaid with interest. It is rare for a bank to lend someone money for an unlimited term and then ask for no payments. The closest example is a reverse mortgage where the loan balance grows over time. The key to reverse mortgages is that the collateral starts out as being much higher value and gradually approaches 80% of the loan value. The idea of a reverse mortgage is that the loan is paid off when the house is sold.

When lending money to a bank, a depositor should have similar expectations of payment. There are several ways a bank could pay off a loan to a depositor:

1. Return deposits that haven't been re-lent
2. Borrow money from a new depositor
3. Use income streams
4. Sell equity held as collateral

When a depositor requests their money back from the bank, it is like the bank requesting immediate repayment of some or all of a mortgage. If a home "owner" is unable to produce the cash on demand, then the bank can seize title to the house. Likewise, if the bank is unable to produce cash on a withdrawal request the depositor should be entitled to seize the equity. Upon seizing the equity the depositor can either sell the equity, likely at a loss, or hold the equity and collect dividends while waiting for capital gains. In any case where the bank was unable to give the depositor cash on demand, the depositor will likely have their liquidity impaired by the average duration of loans made by the bank.

If they want their money immediately they will only get the net present value of the loan book.

In any event, the risk of depositing money in a bank is derived from the surplus assets owned by the bank and the quality of the loans the bank makes. A bank that makes loans with quality collateral to people with good cashflow for short durations will be safer than a bank that makes loans with low quality collateral to people with poor cashflow for long durations. The bank would have to offer interest rates commensurate to the risk embedded in the bank's balance sheet in order to attract capital.

All of this is compatible with smart contracts, and all loans, mortgages, and deposits are free from risk of bankruptcy and "bank bailouts" are never required. That said, there is still a high degree of moral hazard associated with allowing someone else to re-lend the money you lent them. This moral hazard is further amplified if the decision maker at the bank is an employee and not an owner because the owner has some of his own money on the line whereas an employee has nothing but their job at risk. They could be making money whether or not you lose everything.

If you are going to lend your money to a bank and then give the bank discretion over who to lend to, then it would be wise to ensure the bank's incentives are aligned with yours. Ideally the bank owner and managers would not be allowed to take any money off the table in the form of dividends, salary, or operational overhead until the loans they make are paid back with interest and losses from failed loans are offset. If the bank owners or managers take money off the table before all of the risks they have taken are realized, then they can make decisions that generate short-term returns with long-term tail-risks. A tail risk is something that "blows up at the end", such as loans with

balloon payments, variable interest rates, a housing market bubble blowing up, etc.

Giving banks unlimited discretion over how to utilize bank assets also creates moral hazard and jeopardizes depositors' (lenders') funds. Suppose a bank was allowed to do more than lend. Suppose it could buy real estate and stocks with depositor funds. They could extract value from the bank by "overpaying" for real estate and other assets purchased from a friend. The bank would also be buying volatile assets with four times the leverage. When a bank makes money by lending, its interests are aligned with depositors: to get a return on their money without risking principle. When a bank makes money by capital gains and leverage, its interests are now divided because it could profit on the side by front running the bank's purchases. The risk profile of lending to a margin trader and lending to a lender are vastly different.

In a free market with ample competition, there is room for all kinds of banks utilizing different asset management policies. When a bank lends you money they ask for proof of income and a home inspection. The bank knows exactly what is collateralizing their loan. When you lend money to a bank you should demand the same level of transparency about the assets backing the bank's equity.

Often companies can issue new shares at any time with the approval of the shareholders. Rational shareholders only approve of such issuance if it increases the value of the existing shares. When a bank uses its shares as collateral for borrowing money from depositors the depositors now have an interest in the value of the shares. The bank should not issue new shares without depositor approval any more than you should be allowed to sell some or all of your house without paying off the loan (or permission from the bank).

If you borrow money from the bank secured by 100% of your house, then you cannot borrow money from another bank secured by the same 100% of your house. Likewise, if you deposit money into a bank the bank would not “secure” it with 100% of its equity. Doing so would prevent it from borrowing money from other depositors. The shares collateralizing your deposits should be allocated at the time of the deposit otherwise each new deposit accepted by the bank compromises the collateral of existing depositors. If the bank loses money then new depositors would get more equity (shares) collateralizing their deposits than the original depositors. If a bank makes money then new depositors would get less equity (shares) collateralizing their deposits. Instead of a bank failing “all at once”, only the least collateralized depositors would be converted to equity.

A bank has an interest in ensuring that your debt-to-equity ratio stays below 80%. Many loans have terms that allow the bank to call the loan and seize the collateral if the house price falls too much. The borrower can either pay off part of the loan to restore the debt-to-equity ratio or pay off the whole loan by giving the bank the title. If depositors loaned the bank money under the same terms, then any time the bank took a loss all depositors would demand more equity to be added to their deposit collateral.

Based upon this analysis the vast majority (maybe all) of too-big-to-fail banks operate in a state of bankruptcy: their equity is worth less than their debt. They are able to keep operating because the Federal Reserve is willing to lend banks money using collateral valued at non-market rates. Furthermore, the rules allow the banks to pretend that their assets are valued at other than market prices (voluntary trade, e.g., an auction). Even their equity values “price in” the support of the Federal Reserve and bailouts and

therefore the shares are valued higher than the assets alone. The banks operate only by ongoing legalized deception and fraud.

The bigger the fraud, the harder the ultimate fall. If individual banks had to issue their own “bank notes” then each bank would discover the market would discount their notes based upon individual reputations. Consider that closer: do you prefer to get dollars from Bank A because they're reputation and history is far better than Bank B or do you consider all banks equal? The Federal Reserve system violates the principle of treating assets of different risks to be equal by treating non-fungible bank deposits as fungible. Is a dollar a dollar no matter who owes it to you? Consider how different that would be if the FDIC and the Federal Reserve didn't exist. Further consider that the FDIC is also a fraudulent promise because it lacks the assets to back its guarantees to all depositors. Considering the debt of Bank A equal to the debt of bank B is like the hotel considering rooms that sometimes flood equal to rooms that never flood. Gresham's law takes over and drives the good bank out of business or reduces the quality of the good bank to be equal to the quality of the bad bank.

A bank run could expose the fraud in a single bank leaving the majority of the economy to carry on. The banker should then go to jail for fraud. When governments create laws that make all bank debts equal and prevent their redemption for the asset that was originally deposited, bank runs are no longer possible. Everyone views all banks as the same because the government (via their regulated banks) can always print more “money” to bail them out. Under this system you are guaranteed to get your “cash” back, but you are not guaranteed that cash will have the same purchasing power in the market. In effect, money becomes nothing more

than “equity in the banking system” and printing money is nothing more than “raising capital”. The money will have value so long as existing shareholders are willing to tolerate the loss of the purchasing power of their savings. Unlike companies issuing new shares, dollar holders lack voting rights on the issuance of new money. There is nothing that ensures that new money is only issued if it raises the value of all money (or increases the collateral backing the money).

The power to print money, combined with contracts that allow failure to deliver commodities to be settled in cash, gives the banks and government complete control over all prices. They can sell more commodities than are theoretically possible to exist (suppressing the price) and anyone who attempts to take delivery (e.g., use their hotel room, calling their bluff) will be paid in cash (which they can create from nothing). This is like the hotel owner selling more room reservations than they have, and when someone shows up to actually sleep in the room they simply offer them a cash refund. With this control comes unprecedented power for insiders to “buy low” and “sell high” because those running the system are in control of price movements.

While there is nothing morally wrong with raising capital by selling shares, doing so normally requires approval of the shareholders. Would you invest in a company that gave the CEO the power to issue shares unilaterally as well as the power to control how the funds were spent (e.g., bonus for himself and low interest loans and bailouts for friends)? If not, then why do you invest in holding dollar and dollar-denominated debt?

## Cryptocurrency Exchanges

Bitcoin was created to address the systemic fraud in our financial system; it achieves this through radical

transparency. All market participants can verify the total supply of coins and no one is able to create fraudulent Bitcoin. It is like installing a live feed in every hotel room so that you can verify no one is sleeping in the bed you reserved and having thousands of people constantly checking the feed for you. Also the reservation book is public so everyone can see who has reserved a room and that no rooms are double booked.

Unfortunately, Bitcoin held on exchanges is not "Bitcoin" any more than bank deposits are gold. Instead, "Bitcoin" held on exchanges is a debt of the exchange which is collateralized by the value of the equity of the exchange. An exchange operating with integrity has one real Bitcoin for every Bitcoin it owes its customers. Furthermore, such an exchange should hold customer funds in segregated accounts so that they cannot be used to pay the debts of the exchange.

Many exchanges offer margin trading where they will lend customers Bitcoin and other assets backed by collateral. In the event the collateral falls in value the exchange will liquidate the collateral and cover the debt. In this case, the equity of the exchange is no longer backed by Bitcoin held in segregated accounts, but by the collateralized promise to pay Bitcoin.

This arrangement is similar to banks replacing "gold notes" (backed by gold), with "gold IOUs" backed by bank equity which owns the mortgages which promise to pay gold. Regardless of how well collateralized the loan is, if a bank or exchange cannot liquidate the collateral fast enough it could end up owing more than the assets it possesses.

Since margin traders want control over the timing of covering their loan, the exchange must lend the money for a minimum period of time (days or months). To make these

margin loans, the exchange must have title for an equal period of time (days or months). To avoid “borrowing short and lending long” an exchange with financial integrity would have to borrow money from depositors on matching terms (e.g., a certificate of deposit).

An exchange that promises depositors they can withdraw on demand and promises margin traders they have a minimum period they can maintain the loan (assuming collateral is still good) is committing financial fraud (even if the regulators permit it).

What we can conclude is that cryptocurrency exchanges should be following the principles of sound banking and the Title Transfer Theory of Contract. This includes distinguishing between “gold notes” backed by “gold” and “gold IOUs” backed by exchange equity, which is backed by “mortgages” (e.g., collateralized margin positions).

The principle of “no bankruptcy” indicates that in the event the exchange’s equity value is less than its assets that the equity holders should be automatically wiped out and the debtors receive their pro-rata share of all equity. The owners of an exchange are resistant to such terms for the same reason nobody likes the repo man towing their car for failure to pay. Instead, exchange and bank owners want to pretend they are not insolvent and will “somehow” earn their way out even though the market doesn’t believe it is possible (based on share price).

Lending money to an exchange or bank on lesser terms is no different than lending \$100 to a bum on the street and hoping his gambling addiction will pay off. The masses generally don’t know what financial integrity entails nor what to demand from an institution. As a result they will accept terms and conditions that effectively grant an

unsecured loan to sophisticated gamblers engaged in “socially acceptable financial fraud” with a “low probability of getting caught” on any given day but a guarantee of getting caught eventually (hopefully after those perpetrating the fraud are dead).

### **Risks Can Be Transferred but Not Destroyed**

All financial fraud is a calculated risk of getting caught vs profit from the fraud. Someone is profiting by keeping profits and transferring risks. It is the owners of the financial institutions that profit from the fraud and the depositors which take the uncompensated risks. As financial institutions are nationalized through regulation it is the bankers who profit and the population as a whole which takes the risks. Since risks are never destroyed the depositors and population are guaranteed to lose. An uncompensated (or under-compensated) transfer of risk is someone getting something for nothing while someone else is getting nothing for something. The principles of financial integrity cannot tolerate such free-lunch arrangements.

Stated another way, you could have a successful transaction with another party and still be defrauded. Generally, people don't consider “unrealized risks” to be fraud. The idea that the very structure of a contract could be fraudulent is a foreign concept. The Title Transfer Theory of Contract makes it very clear that any contract that transfers title to assets you don't own is fraudulent.

The masses are attracted to a Ponzi scheme because the returns are high and they expect they can exit the Ponzi before it collapses. The risk of a Ponzi collapsing tomorrow is near zero, but the risk of it collapsing someday is guaranteed. How does one escape a Ponzi economy before it collapses? It cannot be done and everyone loses. This is why

it is imperative that everyone understands financial integrity and then demands it from their institutions and community peace treaty. It is every individual's responsibility to conduct their affairs with financial integrity and avoid doing business with those supporting systemic fraud.

### **Delegated Power and Community Debt**

Now that we have an understanding that you cannot borrow short term and lend long term, we can apply this principle to borrowed power. When we use political playoffs to elect people to positions of power they are only lent that power for a limited time.

A president in power today shouldn't be allowed to make commitments in contracts beyond their term. Following the title transfer theory of contract by utilizing smart contracts would limit the government to commitments involving assets that are owned by the government at the time of contract. If a congress is going to borrow money then it would have to pledge collateral from current assets. It wouldn't be able to issue a loan based upon future tax receipts because the current congress cannot bind future congresses.

Anyone contracting with the community must agree to let the community exit from the contract without penalty, "guilty conscience", or reputational harm once the community replaces its representatives. No one should be relying upon any promise of the government. A congress shouldn't be allowed to borrow money for more than what can be paid back within a couple of years. Similarly, it shouldn't be able to sign binding leases for more than a couple of years. In effect, any debt has a clause that if it isn't paid off before the next congress takes office, is null and void unless the new congress actively renews the debt.

Every community will be tempted to borrow money to fund public projects. Debt is covert taxation of future generations which were unable to consent to the debt. Therefore, the best policy is that governments should always “pay as they go”. If a government wants to build a road, it should first save up taxes and then pay in cash. This discipline provides a critical check on government budgets and prevents corruption caused by transferring power in the form of wealth from future generations to the current generation.

Debt is a form of dependency which fundamentally undermines the independence necessary to consent. Any government in debt to a bank is slave to the bank. The bank has the power to approve or deny the loan and if people “need” something that the loan could provide then they have already failed in maintaining their independence. Fortunately, with smart contracts you can always escape your debt by giving up the collateral.

Financial integrity is automatically maintained by following the Title Transfer Theory of Contract and is critical for building a sound financial system. A sound financial system is required to maintain a true democracy. While banking and mortgages are possible and permissible, I would recommend a society dedicated to true democracy minimize the use of financial leverage. The financialization of everything can quickly blind us to the underlying realities.

### **Financialization vs Savings**

The easiest way to understand financialization is as the abstraction from tangible goods and services to intangible accounting entries. This occurs when people start to confuse wealth and savings with money. When things get

too abstract it is easy to forget that ultimately everything boils down to title of “real things”. Financialization can reallocate these real things, but it cannot produce wealth. It can transfer things from one person to another, but it does not create new things.

Money allows you to buy goods on the market today. Saving money allows you to buy goods on the market tomorrow or next year. The assumption baked into saving money is that there will be more goods and services tomorrow than there are today. What happens if war, famine, or natural disasters destroy the productive capacity of a society? How much food, shelter, and clothing can your money savings buy then?

Financialization is the process of taking a functional market for granted and assuming that making and saving money is same as making and saving real things. If no one stores commodities in bulk, then prices can be very volatile when supplies run out. Everyone in the world can have money savings, and yet everyone will die if the food supply chain is disrupted. The supply chain can get incredibly thin and no one would notice that society is “living paycheck to paycheck” with respect to tangible necessities. Prices don’t rise until supply is truly scarce.

People can construct fancy derivative contracts which allow you to hedge against monetary loss, but they do nothing to help you hedge against real loss. Suppose you bought a derivative that allowed you to hedge on the price of food. Suppose you speculated correctly and doubled your money. This does not create any more food; it merely increases your priority in getting what scarce food exists. Collectively, society does not have any more “food savings” just because you bought a financial hedge. In a real famine, the price of food can go to infinity relative to money and in

such a situation the financial hedge would be unable to give you infinite money.

A derivative is similar to betting on the outcome of a sport. In this case, the sport is the free market and the score is the price of goods. With smart contracts you would not be able to place a bet without having title to the assets you would be obligated to pay if you lost the bet. There would be no bookies coming to break your knees when you lose big because the assets would be in escrow. This also means that there would be limits to the payoff. If you wanted to hedge against the price of food doubling, then you would enter a contract that doubled your money if the price of food doubled. So you find someone that thinks food will fall in price. You each put in 1 gold coin and agree that if the price of food goes up 50% then one person will get 1.5 gold coins and the other 0.5. If the price goes down 50% then it will be the other way around. It isn't possible to use financialization to hedge against a 1000x increase in the price of food unless someone is willing to lock up 1000 gold coins today in case they lose the bet. The hedge would get very expensive.

Given that smart contract based financial hedges are naturally limited, they are not the same as saving food. At a certain point it becomes cheaper to save food than to hedge against changes in the price of food. When the food supply chain is disrupted and prices go up 1000x you have food to eat and if you are savvy, food to sell. The incentive to save food is tied to the profits earned from capital gains minus the carrying cost of storing decaying food. If a society implements price gouging laws then the incentive to save food for other people disappears and the ultimate famine is more severe.

## **Consequences of Consumptive Debt**

When a government borrows money the result is a reallocation of non-money resources. If the government consumes the non-money resources then the value of money falls (prices of goods rise) as there are fewer real goods and the same amount of money circulating. The increased consumption means fewer resources are available to save or to use to increase production. If there were no interest on the loan, then when the money was repaid the lender would have less purchasing power than when he started. It would have been wiser for the lender to save the money and not loan it out.

Since a government embodies the peace treaty and the peace treaty establishes property rights, one must ask why does a government need to borrow when it could reallocate property today by other means (assuming those means were established in the peace treaty)? Why should it pay interest to lenders? Everything (all the tangible property and services) a government needs to accomplish its goals can be achieved via taxing and spending today, unless the government's goals require hiding the real cost of government programs from the people. If the government must hide the true costs via monetary debasement and debt then are the people really consenting? If the people are being deceived, then can the government be considered a legitimate democracy?

This is the danger of financialization; it hides the true costs and makes society more fragile. It is the equivalent of stealing bricks from the foundation to build a taller building. Do we want to build our society like a Jenga tower? This wouldn't be so bad if the risks were taken with full knowledge (taxing today), but layers of abstraction and failure to follow the discipline of smart contracts hide the problem.

Interest rates signal the relative value of the goods money can buy today versus the expected goods money can buy tomorrow, next year, or 10 years from now. In a growing economy with a fixed money supply, the number of goods money can buy next year is greater than the number of goods it can buy today. Simply holding money in such an environment pays a positive rate of return.

Anyone borrowing money at 0% in a wealth-producing economy must deploy the capital in a manner that produces value at a faster rate than the economy is growing. Imagine you borrowed \$1 million dollars and purchased a basket of commodities. A year later the supply of commodities has grown relative to the supply of money. This means that if you were to sell your commodities you would be unable to repay the loan. In order to repay your 0% interest loan you would have to use the commodities you purchased to produce even more commodities than you started with. If you are not at least as productive as the rest of society then you will not be able to repay your loan.

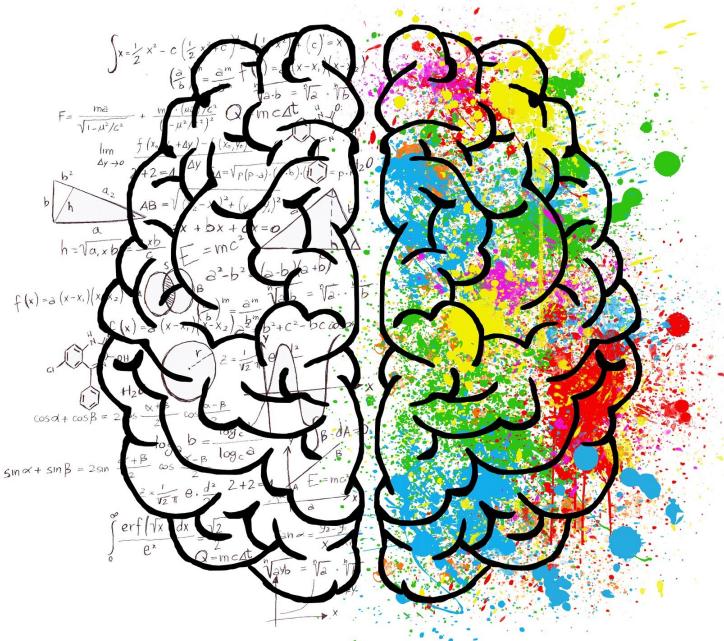
Clearly, borrowing for consumptive purposes is a net loss to society. You have to be an above average entrepreneur to earn an above average rate of profit. Given what we know of moral hazard, what are the chances that a government employee or politician who makes the same money no matter what will outperform an entrepreneur who is risking his own money and makes money proportional to his success?

A government seeking to maximize its real income would want to only tax the surplus production and never eat into its seed corn. Borrowing money is like overfishing. Each year the number of fish in the sea will decrease because fish are being eaten faster than they can reproduce. Government debt and financialization enable stealth “overfishing”. Once

you start overfishing you must increase the rate of overfishing in order to maintain the same level of consumption. Eventually you eat the last fish and the next year there is nothing you can do. It could take decades of under-fishing to allow the fish population to grow back to levels that could sustain the prior level of consumption. The greater the “under-fishing” the faster the recovery.

While I have focused on government debt, the same applies to personal debts. Fortunately, smart contracts limit all enforceable debt to collateralized debt which means that the debt is an alternative to selling something of higher value. You shouldn't have to sell your whole house just because you need some money to buy a new car. All credit cards would have to be collateralized by real assets, which means that all people would have a positive net worth at all times (excluding those with criminal liabilities from violating the peace treaty).

Financial integrity is a critical component of any peace treaty and no wise individual should consent to a democracy that didn't enforce these principles. Without consent you don't have a true democracy.



## Chapter 18 - Intellectual Monopoly

A true democracy is founded on a peace treaty that has property rights as its foundation. We must agree on who owns what and how it is transferred among us. Intellectual property is a class of virtual property that includes copyright, trademarks, patents, and trade secrets. The question we must consider is how should intellectual property be defined, allocated, and made transferable and for how long? Is it something that makes sense within a true democracy?

I am going to recommend that a true democracy should not recognize intellectual property based upon the arguments in a number of books. The book “*Against*

*Intellectual Monopoly*" by Boldrin and Levine provides an in-depth look at how patent law hindered the industrial revolution by decades. True to its title, the book is freely available on the internet and also for sale as a paperback. Another book, "*Against Intellectual Property*", by N. Stephan Kinsella also makes a strong case and is also freely available. If you think that intellectual property is necessary and valuable then please read these books.

That said, I would like to add a new argument against intellectual property. The premise of a true democracy is developing a peace treaty and then enforcing that treaty by maintaining your independence. The goal is to decentralize power and avoid creating dependence upon others. Intellectual property serves to centralize power and create dependence. It authorizes one person to have a monopoly over an idea and the rest of society is now dependent upon this person.

If you were to form a community around the idea of independence then the community would be taking proactive measures to combat the tendency of individuals to put personal profit over group independence, group independence being necessary for the group to defend the independence of its members. Such a community would not allow itself to become dependent upon any single point of failure. From this perspective, a community would not purchase any technology or art from a monopoly. In fact, one could argue that technology should not be allowed to be widely distributed until others are able to replicate the idea. In this case, a patent becomes a means of disclosure which enables competition and prevents dependency.

This is in stark contrast to intellectual property laws which grant a monopoly over the use of a technology and anything derived from it. This monopoly then hinders

innovation and comes at great expense to society. In fact, I believe the expense to society is greater than the profit to the artificially created monopolist. It would be cheaper to compensate inventors in other ways than to grant them a monopoly.

Absent artificial monopolies, everyone would have to compete on the production and distribution of technology and copyrighted works of art. This would rapidly drive down costs and enable widespread adoption and adaptation. The profits would accrue to those who were able to identify good ideas and bring them to market the fastest. Your lead time provides a profit opportunity, but so does the brand and reputation you accrue as the creator.

In a globalized society manufacturing is often centralized by economies of scale. This scale enables existing firms to copy an idea and distribute it through pre-established channels faster and cheaper than a new startup. One theory of intellectual property is that “inventors” can hire a company to manufacture their inventions without worrying about the manufacturer competing with them in the market.

There is already a solution to this with smart contracts. An inventor would approach the manufacturer with a nondisclosure/ noncompete agreement. The manufacturer would then post a bond that would be paid to the inventor if they violated the agreement. Additionally, manufacturers would have a reputation to maintain if they want a shot at future business from other inventors.

Furthermore, in a highly modular society practicing the principles of independent communities (with randomized import taxes) no one would have a global monopoly on manufacturing and distribution. Every community would have its own manufacturers and the

inventor would be able to build a healthy local business around his inventions.

There is a fundamental difference between “property” and “non property”. Property was created as a means of resolving a dispute over who gets to control a unique thing. It is only possible for a single person to control real property. Ideas are replicated and everyone can utilize them at the same time. In a dispute over how to divide a cookie, the easiest way to resolve it is to clone the cookie. Property only becomes an issue when cloning is not possible.

Since all property rights are derived from a peace treaty, they are only enforceable under that treaty. This means that prior to entering the treaty there is no patent or copyright. Now ask yourself whether you would give up your natural right to use any of the millions of ideas you learn about in order to have a monopoly on an idea that you were “first to document”. Now ask yourself if you would give up your ability to innovate simply because someone else independently came up with the same idea as you?

It has become common practice in industry for major technology companies to enter a “patent treaty” whereby they cross-license entire patent portfolios. The free market is actively utilizing patents to nullify patents and return markets to open innovation. Patents are like nuclear bombs; they represent mutually assured destruction. Companies are forced to pursue patents, not because they want a monopoly, but because they need to defend their ability to compete against those who would use patents against them. Wouldn’t it be simpler to just agree to a massive cross-licensing deal as part of the peace treaty, with the net effect being that intellectual monopoly is illegal?

The logical outcome of patent law is large companies have a monopoly on everything (by virtue of cross-licensing)

and are free to innovate while small companies, which have no patent portfolio, are unable to enter the market. It is very rare for any invention to be completely independent of existing inventions. This in turn gives big business extreme power in negotiations forcing the inventor to sell his patent for pennies to a conglomerate which reaps all of the monopoly profits.

In the course of my career I have applied for and been granted a number of patents. This process cost me and my businesses hundreds of thousands of dollars. The primary purpose of these patents is to prevent others from patenting the ideas and then preventing me from utilizing them. The secondary purpose is to have something to cross-license in the event someone attempts to utilize their monopoly right to restrict my business. It would be so much easier if I could join a community where patents didn't exist. Not once did the presence of patent law motivate me to invent. Not once did patents help bring my products to market or make me money. If anything, the process of applying for patents has delayed and hindered my ability to innovate.

More often than not, in the process of trying to solve a problem, I would independently invent something other people had already come up with. It is quite common that multiple people around the world simultaneously make the same discoveries. Necessity is the mother of invention and any time two intelligent people are attempting to meet the same need it is likely they will independently invent the same thing. Many times an inventor in one area will be completely blind to the application of his invention to dozens of other areas. Should we grant someone a monopoly over an idea when they didn't even "discover" or "realize" all of its applications? How should we resolve disputes when an idea was independently invented?

In the course of writing this book, the presence of copyright has greatly hindered my ability to use off-the-shelf photos, drawings, etc. These drawings add to the feel of the book and even if they were not my creation would not negate the value of my contribution. To avoid copyright I have turned to friends to contribute original works and utilized some free libraries. These original works, while valuable in their own right, represent unnecessary creative effort in a world where it is easy to borrow from a vast library of suitable works. I am incredibly grateful for my artistic friends and their contributions to this work.

My approach to copyright, patents, and the like is to offer a peace treaty. Anyone who abandons their right to “intellectual property” may utilize my “intellectual property”. But anyone who enforces their “intellectual property” on me or others will be denied right to my “intellectual property”. This is similar to the General Public License (GPL) used by open source developers. GPL attempts to utilize copyright to keep software free and open to modification. Anyone can create a derivative of a GPL work so long as the derivative is itself licensed under the GPL. No one can utilize GPL code in any software that is not GPL nor restrict the use of the software by patents.

Bottom line, intellectual property is something that companies have to work around and the free market is actively looking for ways to negate it. Copyright on music and movies is something that a large percentage of the population chooses to ignore. The idea of true democracy is to return power to the people, but copyright and patents centralize power and breed dependence.

I am sure that some of you, having not yet read *“Against Intellectual Monopoly”*, may still have some lingering doubts about what the world would look like without

intellectual property. There are unlimited alternatives to incentivizing innovation and creative endeavors. We should look beyond the tyranny of the status quo if we want to get better outcomes than we have today.



## Chapter 19 - Transforming Society

By this point I hope you have come to understand that the status quo is broken at a fundamental level which cannot be fixed by doing the same thing we have always done, voting for the lesser of two evils. Fixing what is broken will not be easy and requires a commitment of time, money, and effort over decades or generations. If we are going to succeed we need to know deep down what we hope to gain and what it will cost. That said, we are at a unique moment in time where people are ready for change and existing institutions are failing. If we act now, with great effort and a little luck we have an opportunity to create more real change than at any time since the war between the States or the American Revolution. Like they say, never let a good crisis go to waste!

Why should anyone spend time and money pursuing a fundamental change to how society is governed? How can we effect change when the majority of people don't even know or care how the existing Constitution is structured? If people won't learn about how the government is "*supposed*

*to work*" today, how can we expect them to invest time learning a theoretically better way?

Good governance is an emergent property of the people. It comes about by educating one individual at a time and developing deep convictions about what properties and principles make a legitimate government. It takes courage to stand up against the majority and declare that the emperor has no clothes.

We can stand around and "*hope*" that the system will get better, but how has that worked out for us? If we truly want change then it is up to each and every one of us to stand up and do something. If we do nothing, then history will repeat itself with the ongoing rise and fall of civilizations. The Roman Empire collapsed into the dark ages, where everyone became poorer. It took centuries for the people to regain some of the technologies available to the Romans before the fall. There are indications that there was once a great global civilization that built the pyramids with technologies that we no longer have access to. Do we want a better future for our children, grandchildren, and great great grandchildren or do we want to set them up for a new dark ages?

The ongoing corruption will consume the resources of the nation until social unrest burns everything down. The people, in their desperation, will look to a strong leader to save them and this leader will be the ultimate politician, ultimate liar, ultimate pander, and ultimate totalitarian. Things will devolve under such a leader until further economic ruin undermines the ability to maintain control and territories split off in various secession movements.

We are at a critical time in history when the institutions that have held power for generations are failing. It is during these times that the people have an opportunity

(and need) to declare their independence and to *institute new governments, laying its foundation on such principles and organizing its powers in such form, as to them shall seem most likely to affect their safety and happiness.* If we do not rapidly disseminate the principles of true democracy then the people are likely to establish a new system with the same fundamental flaws that have led to the failure and bankruptcy of the western world.

The good news is that we don't have to wait for Rome to burn or for existing political parties to yield control. There is a process by which "*we the people*" can institute a new government right now, today, and without starting a bloody civil war.

You see, a political party is nothing more than a parallel government with the aim of taking control of the constitutional government. Furthermore, a political party can form with the intention of taking control of other political parties. Political parties can implement any internal governance structures they want, which means that a new party can be governed by the same process it aims to implement when it gets its people in power. The challenge of growing a successful political party is to build consensus. Fortunately, this book outlines the principles of building a strong democratic consensus!

The vast majority of the population is unsatisfied with the major parties and feels trapped. At no time in recent history have the DINOs and RINOs been weaker, and at no time in recent history has the corruption of both major parties been more visible. If there is anything people agree on it is that the system is broken.

It is time to start a new party. This new party isn't a "*third party*"; it is a "*unity party*", an "*American party*". This party would stand on a single plank, the institution of a true

democracy and restoration of the country to rule of the people, by the people, and for the people. Other third parties were unable to build a coalition because they ran on divisive platforms which could only ever appeal to a small minority. They aimed to usurp the power of government to pursue their own agenda rather than the agenda of the people. The American Party can unite us all under the principles of a true democracy. These principles include:

1. The Right of Secession
2. Respecting the Rules of Relative Power
3. Low Coupling and Strong Encapsulation
4. The Political Playoff Process
5. Title Transfer Theory of Contract

The best part of The American Party is that by following its own process it is necessarily a local movement that organizes in one county at a time and then the counties organize one state at a time. Then, the party can organize a national campaign.

Once the American Party is able to gain ground in a single county it is unlikely to ever lose ground again. This means that time and energy invested in winning one election isn't lost when it comes time to campaign for the next election. Unlike other parties in which the candidate is chosen by questionable backroom deals and the media, The American Party selects its leader via a truly democratic process which its members, by virtue of membership, have already accepted as the legitimate leader. This means that once people adopt The American Party they can participate in the local primary and then vote the party line.

All other parties require voters to consider their evolving platform and then evaluate whether the candidate is truly sticking to that platform. The voters in other parties

have little to no say in the platform or in the selection of eligible candidates.

One thing is certain, by voting for The American Party you are working to increase the power of the people. Whereas voting for any other party you are supporting a process which has already been demonstrated to fail the people.

### **Freedom from Media Bias**

Perhaps one of the biggest challenges facing all political parties is getting media coverage. Whether you are a RINO or a DINO the candidates in the primaries all depend upon big campaign budgets and “free” media coverage. Local candidates have a challenge getting known and it is hard to know what people stand for just because they opt to call themselves a RINO or DINO.

In effect, the governance of the RINO and DINO parties is as much, if not more so, controlled by the owners of the major media companies as by party insiders. Whatever DINO process is used by the major parties is clearly compromised by the clearly non-democratic governance of the major media. Clearly the RINO and DINO parties are not truly democratic even if they give the appearance of democracy by voting on nominees.

Candidates participating in The American Party (TAP) primaries require no media coverage in order to get the party nomination. This greatly levels the playing field for anyone looking for TAP support. Unlike other parties, the goal of the TAP party is to change the election process. By voting for a TAP candidate in the government elections you are automatically ratifying the candidate you believe is a legitimate, democratically elected representative, even if you know nothing about them. This is in stark contrast to voting

in the DINO or RINO primaries. Who in their right mind would recommend replacing the national election process with the process used by the DINO party?

Candidates for The American Party require limited media coverage at the local, state, or national level. Instead of marketing candidates, all the TAP marketing is universal, pitching the process over the people. Once voters buy in to the process they can participate in the political playoff primaries (or not), and then vote the party line. The only time the TAP party would have to create marketing for individual candidates is in jurisdictions where the party affiliation isn't listed next to the candidate's name on ballots.

TAP primaries should be open to people from all other parties, RINO and DINO included. Unlike RINO and DINO platforms, which are generally afraid of allowing the opposing party members to vote, individuals from other parties cannot corrupt TAP process.

The interesting thing about the TAP platform is that it works at all scales, and once a community adopts it then the fight is truly over. People would have to use the political playoff system to reach consensus on replacing the system and maintain that consensus for years.

A national campaign is not necessary; instead the party can focus on individual counties and then states. A state that fully adopts the principles of this book would be in a far stronger position to deal with state independence due to its internal unity.

Once enough states have adopted it, then the states can call a constitutional convention. The convention would focus on reorganizing the federal government as a democracy of independent states where each state has a right to secede and an equal vote.

## Decentralized Autonomous Communities

Even if the existing political system is resistant to change, people can come together to form groups of 1000 or so people that govern themselves by the principles in this book. The purpose of these groups would be to achieve increased independence for their members. This increased independence empowers them to more effectively ignore or resist outside attacks on member rights. In many cases these groups could be formed out of existing churches, charities, and militias which aim to be democratic in their processes and achieve independence for their members.

As these Decentralized Autonomous Communities (DACs) multiply they can form a community of communities. The process can repeat until the world is composed of communities of communities of independent communities of independent people.

The Amish represent an interesting case study in the formation and growth of autonomous communities. They have been so successful that they have even secured exemptions from social security because they take care of their sick and elderly. Amish communities are organized into districts which have a couple hundred people or about 40 families (Dunbar strikes again!). Each district has its own internal governance which makes decisions about how their district will honor and implement the "*Amish Way*".

The Amish Way is to be "*separate from the world*", which is another way of saying "*independent*". While the Amish are largely "*independent*", it appears they backed into it by strictly following their interpretation of ideas in the Bible. Independence isn't the explicit goal, but rather the effect. A neo-Amish community could utilize the ideas in this book to build a framework to determine which technologies are OK and which are not based upon how they

impact community independence instead of whether they foster pride or other “*sinful*” behavior.

For example, if the goal is independence, then all new technologies would be evaluated based upon the amount of dependence they introduce. Dependence could be measured by how long the community could survive without outside trade or how many alternative sources are available.

You might find that the neo-Amish would allow electric cars powered by solar panels, but forbid gasoline and diesel because they depend upon a steady supply from the “*English*” (non-Amish). In communities that have their own oil wells and local refineries they could allow gasoline or diesel vehicles. They would shun GMO crops and rely upon their own seed harvesting. They would favor trading with other neo-Amish (and even Old Amish) groups over trading with the “*English*”.

With a strong focus on building community independence it is likely that the neo-Amish could do a better job of setting themselves apart from “*the world*” than the Amish. It would be fascinating to see if the pursuit of independence and strong community consensus resulted in deriving other common Amish behaviors from a new line of reasoning. Perhaps the “*plainness*” of their dress code would be the outcome of a community dedicated to producing its own clothing and minimizing the temptation to become dependent upon outside fashions. Perhaps the “*simpleness*” would reduce temptation to “*keep up with the Jones*” which can turn into a source of dependency.

There is no single way to be Amish as there is huge variety in the rules from district to district. A person raised in an extremely traditional Amish district may choose to leave and join a more relaxed Amish community. In the same way, there is no single way for a community to achieve

independence. Some communities may opt for complete self-sufficiency with few exceptions. Other communities may opt to allow all kinds of goods and services from the outside world so long as they feel there are ample independent suppliers or that the goods are durable enough to last if resupply was cut off. Perhaps some communities would attempt to distinguish between independence over necessary and unnecessary items. Games could be imported “*tax free*” but food could not.

While Amish districts do cooperate, they do so without hierarchy. There is no “*president of the Amish*” who is regulating the behavior of all Amish church districts. In effect, every Amish district is a semi-autonomous community able to set its own future. Despite the lack of top-down authority, the Amish have maintained a strong group identity and have largely succeeded in becoming independent from the *English* (non-Amish).

Individuals seeking to improve their independence can utilize the ideas in this book to join together with other likeminded people to form a community that greatly increases their total independence far beyond what any individual could achieve on his own.

Whether working within the DINO and RINO parties to bring TAP principles, joining TAP to put true democracy supporters in power under the existing system, or separating from the world and forming your own group, there are ample ways that you can make a difference.

Imagine what would happen if everyone who reads this book bought a copy for everyone they know! If only one in five actually read the book, then it wouldn’t take long to organize enough people to make a difference. All of the revenue generated from the sale of this book will be spent promoting the ideas in the book. So even if no one you give

the book to reads it, you are still supporting the cause and helping spread the word. Pay it forward and give the gift of true democracy to those in your life and all future generations.

Remember, low-tech solutions provide greater independence than high-tech solutions. When you buy a book on Kindle it may be more convenient, but Amazon can take it down at any time, even after you bought it. When you buy a physical copy of a book it lasts a lot longer and is much more difficult to censor once widely distributed.



## Chapter 20 - Transforming Yourself

The ideas in this book are largely focused upon how a group of people can come together and reach a democratic consensus, but that doesn't mean that there is nothing you can do on your own to increase your contribution to a truly democratic society.

A strong democracy depends upon strong individuals. If a society allows the individuals to get weak (due to leaning on social safety nets and other forms of dependence) then society will become weak and eventually collapse. With this in mind, each and every one of us has a responsibility to ensure that our families are as strong and independent as possible. Only strongly independent people can protect their rights and the rights of their neighbors. Only strongly independent people can hold a government in check and negotiate a fair peace treaty.

The goal of transforming yourself is to maximize your personal jungle power and that means maximizing your health and wealth while minimizing your dependencies. You

are an antifragile being, which means that training yourself to deal with volatility produces strength while stability produces weakness and death. Let's start with your health and work up to more abstract concepts.

Your body depends upon daily stressors or your muscles will get weak and your bones will lose density. Your immune system requires constant random exposure to various low-dose toxins or it will not be fit for fighting the next major disease. Your mind needs to be challenged or your ability to think will decline. If you never work with your hands, then your hands will be soft and the first time you have to dig a hole you will get blisters. If you never get cardio exercise, then the first time you have to "*run for your life*" you could die.

Some people have physically demanding jobs; therefore, they don't require going to the gym. Others have mentally demanding jobs; therefore, they don't need artificial mental challenges. Everyone has some area in their life that they have let atrophy. This atrophy represents a dependence upon others which should be dealt with so that you maintain your ability to consent, fight, or walk away from whatever social or societal situation you find yourself in.

View your body as your own personal "community of cells" and you are the elected representative for all the cells that depend upon you for their independence. It is your responsibility to build up the strength of your cells (make them more independent) so that they, in turn, can support you.

### **Start Intermittent Fasting**

Our bodies are designed to go much longer without food than we have become accustomed to. Hunger is largely

a trained habit created over time as your body learns to anticipate your eating schedule. Intermittent fasting trains your body to derive energy from fat, to be more efficient, and to break down and recycle damaged cells. Sometimes failure to break down damaged cells can lead to cancer and other toxic buildups.

You can get tremendous benefit by randomly skipping meals and then gradually building up to randomly going for a day or weekend without food. In doing so you gain experience with how your body deals with hunger and this gives you freedom. The next time life throws you a curveball and you are forced to miss a meal or two you will no longer panic.

### **Start Eating Local Foods**

The next step is to buy from local farmers and farmers' markets. This will generally provide you with much healthier food and also financially supports your local supply chain. Eating local may cost more, but ensures that you and your community have necessary redundancy to the long supply chains that stock your supermarket.

Another benefit of eating local foods is seasonality. By varying your diet with the seasons you automatically introduce variety and ensure your body doesn't become dependent upon any single type of food. In nature it is unusual to have access to the same fruits and vegetables all year; it is even unusual to have access to the same quantity of food. By choosing to eat local foods you will naturally enhance your resiliency and get well adapted to a life free from dependence on foreign foods.

If you can't grow it or make it in your kitchen then chances are you don't need to or want to eat it. Not only are

these highly processed chemical “foods” likely bad for you, they make you dependent upon a vast supply chain.

## Use Real Money

When you depend upon fiat currency issued by world empires you empower those who would enslave you. When I started my mission to create free market solutions for securing life, liberty, and property I knew that money was the key. As long as we create “*demand*” for Federal Reserve Notes we are empowering those who would deny us true democratic autonomy. They can print unlimited “*money from nothing*” and use it to buy up the media, the tech companies, and all other means of production. We give them this power by depending on their money.

Gold and silver are the most decentralized forms of money because when they are in your possession they are not simultaneously someone else’s liability. Even if you can’t find other people to “*trade*” gold and silver for goods and services you can still use real money for savings.

Cryptocurrencies like Bitcoin and EOS are alternative forms of community currency. These currencies have fixed rules enforced by global communities. Like gold and silver there is true scarcity, but unlike gold and silver you can transfer them anywhere in the world in minutes. Perhaps even more interestingly, you can “*store*” them in your brain by memorizing a key. The value of Bitcoin and EOS is based upon their community’s demand. In this sense they are no different than gold and silver, except the gold and silver community has valued the metals from the beginning of time. The biggest weakness of cryptocurrency is its dependence upon complex technology and largely centralized internet infrastructure.

In the spirit of antifragility, having a diversified portfolio of gold, silver, Bitcoin, and other cryptocurrencies can enhance your independence and give you more financial freedom.

### **Neither a Borrower nor a Lender Be**

Debt is the opposite of wealth and therefore makes you dependent upon future revenue streams to pay off the debt. Even using debt for investing purposes introduces leverage to the equation. Leverage magnifies volatility. With enough leverage, a 1% move in market value can wipe out all of your assets.

*Neither a borrower nor a lender be,  
For loan oft loses both itself and friend,  
And borrowing dulls the edge of husbandry.*

As Shakespeare noted, borrowing dulls the edge of husbandry. Husbandry is a word we don't appreciate much these days, but means the management and conservation of resources or the care, cultivation, and breeding of crops and animals. Borrowing is a huge indication that a living system is failing and would die without becoming dependent upon others.

When you borrow from others you take upon yourself the random risks of the universe and promise to another a stable income. Over time this creates a one-way transfer of wealth and power to the lenders.

It is through the use of debt that the banking system implements the fractional / fictional reserve banking fraud. I explained how this fraud works in the chapter on *Financial Integrity*. It is sufficient to know that if individuals diligently avoided debt then the bankers would have a much harder time undermining a gold standard.

When you lend to another you weaken them by enabling their dependence and ironically, such a loan could make you dependent upon them. J. Paul Getty once said, “*If you owe the bank \$100 that’s your problem. If you owe the bank \$100 million, that is the bank’s problem.*” Lending more than you can afford to lose, or lending too much to a single individual, can make you dependent upon them instead of the other way around.

When we think of borrowing we normally think in terms of money; however, money is just the most marketable commodity. Renting a house is like “*borrowing*” a house and your rent is the “*interest*”. The primary difference between renting a house and borrowing to buy a house is that you do not take market volatility risks. The landlord owns an asset and is never at risk of insolvency (assuming the landlord hasn’t borrowed money to buy the house).

In the spirit of avoiding debt, renters shouldn’t rent anything for a period of time beyond which they can pay upfront. If you are renting a house for \$2000 per month on a one-year lease, then you should have \$24,000 cash set aside. To do otherwise is to take on a debt and make you dependent upon future cashflows. If you only have \$2000, then you should rent month to month until you can get enough savings. This is derived from the principles of smart contracts.

Even if you follow this rule, renting a house is still a sign that you may not be independent. If you would be homeless at the end of the lease, then you are still in debt to life. You would greatly increase your independence, and therefore your ability to contribute to a true democracy, by renting in the most modest abode possible until you can own the most modest abode outright.

*"Every American who wants a better society, who wants to preserve true freedom, and who truly loves fairness needs to read this profound book. A more compressed collection of how-to-live ideas doesn't exist. This one delvers in spades"*

**-Joel Salatin**

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## WHAT IS TRUE DEMOCRACY?

Imagine for a moment a democratic society governed without party politics, politicians, ballot stuffing, gerrymandering, incumbent advantages, special interest, or debates with the authenticity of WWE wrestling match. Imagine for a moment that there was a way to change the system without a violent revolution and political parties. All of these things can be addressed with a system that empowers the people to hold the government accountable.

Is government necessary? If so, how should one judge the legitimacy of a government? How do we even agree upon the purpose and powers of a government? Assuming we agree on a purpose, who is the judge of the effectiveness of a government in pursuing that purpose and how do we fix a government which is failing to perform the job it was created to perform? These are some of the questions this book seeks to answer.

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Producing your own heat, electricity, and water is another way to gain independence. We have come to depend upon electricity to support our whole existence; its availability has been taken for granted. Without electricity most of us could not do our jobs. Our houses could freeze and our pipes burst. We couldn't pump water or sewage. We couldn't ventilate or cool our houses. We can't even access our money or communicate with our friends. Our entire world is dependent upon affordable and reliable electricity.

If you were to design your life for independence then you would want to periodically cut off your access to the power grid for days, months, or years. If you don't test living without the grid, then you could end up building stealth dependencies into the foundation of your life.

Producing and / or storing electricity is not cheap, so the initial focus should be on minimizing your reliance upon electricity in the first place. For example, insulating your house can reduce the need to produce and store electricity. On the other hand, electricity is "*general purpose*" while insulation only helps with comfort in summer and winter.

Producing your own power is like investing in an income-producing asset, except that you are not taxed on this income! I tell everyone I know that "*a dollar saved is two dollars earned*". If you have a \$200 electric bill, then you must earn \$400 dollars before taxes in order to pay that power bill. If you invest in solar panels able to produce \$200 dollars' worth of power, they are really providing you \$400 worth of value.

If you spend \$30,000 to install a 10kw solar power system and it offsets a \$250 power bill, then typical "experts" claim that it is yielding 10% and will pay for itself in 10 years. However, if you pay income taxes of 50%, then you must earn \$500 per month. This means the solar panels will

pay for themselves in five years and will operate for 20+ years. This represents a 20% rate of return for an investment with minimal risk! Over the course of twenty years the price of electricity (as measured in dollars) will probably double or more. Not only that, but if you ever have to sell then you can easily recover the investment. Most buyers focus on monthly cashflow, so if a house saves \$250 per month on electricity, they can afford to pay \$250 more in rent or (god forbid) a mortgage.

Most people who buy solar panels utilize grid-interactive systems and implement net-metering. This approach frees you from power bills, but does not free you from dependence upon the power grid. This is because you have only invested in energy production, not energy storage. Energy storage is expensive, but getting cheaper every year. The energy storage system for a 10kw house can easily cost twice as much as the energy production system. So to get “off grid” in a 10kw house could cost \$100K. Unfortunately, the investment in “off grid” doesn’t provide a return other than the value of independence. The “cash” rate of return on an off-grid system would take about 20 years to return your money at which point much of the system is likely to need replaced.

It seems logical that “*in the long run*”, the cost of being off grid should be similar to the cost of being on grid. If it were cheaper to go off grid, then the power companies would have to lower their prices or everyone would be doing it.

One way to minimize the cost of going off grid is to minimize your storage demands by only using power when the sun is shining and having a small battery to power lights at night. Once you produce your own power, then you can power your own well. If you pump into a large pressure tank during the day, then you don’t need to use the well at night.

There are countless innovative ways to get off the grid; entire books have been written on the subject. The point of this chapter is to help you realize that reducing your dependence on power generation and storage is an economically viable and potentially profitable way of increasing your independence and antifragility.

### **Plant a Garden**

Growing all of your own food can be time consuming, but it is the last step toward achieving near complete independence. While growing everything you consume works for some, most people would rather allow others to specialize in food production. Even if you don't grow everything you eat, there is still value in maintaining your knowledge of how to do things yourself. Maintaining a small garden can be like going to the gym; it maintains your "food growing muscles". The simple knowledge that, if push came to shove, you can fall back to producing your own food is empowering.

### **Conclusion**

By transforming yourself to maximize your autonomy you improve your ability to "say no" when negotiating your peace treaty with society. How can anyone fight a war for independence if they do not have an independent supply chain for the necessities of life? How can we grant consent if we can't say no? How can we have a *true democracy* without the consent of the governed? How can we maintain a democracy without the credible ability to secede? It all starts with maximizing individual independence and with choices you can make today.

If you enjoyed this book please checkout my website, [moreequalanimals.com](http://moreequalanimals.com), for my latest blog posts and to subscribe to my mailing list. We must work together to bring *true democracy* to the world.