

Accountability as Policy:

Ending Soft Budgets and Public Debt

Kai H. Kayser, MBA, MPhil

AFODIresearch

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Abstract

Modern societies display persistent unemployment alongside unmet needs, slow productivity growth despite technological progress, housing shortages under regulatory complexity, educational decline relative to spending, substance-related harms expanded by prohibition and prescription regimes, and public debts that outlive the politicians who authorized them. These are routinely blamed on scarcity, market failure, or inequality. The evidence points to incentive misalignment: status-based and fixed-salary compensation, political insulation from debt consequences, high taxation of productive activity, and dense regulation that protects incumbents.

This study is not a restatement of familiar libertarian themes. It advances a concrete policy architecture built on three operational mechanisms: pure performance-based pay with zero fixed salaries, progressive detaxation of productive activity, and systematic deregulation. The distinctive contribution lies in the precise institutional rules. Politicians operate under strict term limits and personal liability: any public debt they authorize must be cleared within twelve months and never carried beyond their term; failure triggers repayment or criminal accountability. No exemptions are granted for claims that a project serves “the poor,” “the handicapped,” or other sympathetic categories. Soft budgets are abolished. Compensation for politicians, entrepreneurs, and employees alike is residual only—earned solely through verified results. Early high-quality completion is rewarded; miscalculation is borne by the decision-maker.

Taxation is treated as a disincentive. While government persists, revenue should be drawn preferentially from behaviors widely regarded as costly rather than from value creation, with long-run neutrality as the

objective. Deregulation removes the artificial barriers that currently blunt residual incentives. Empirical patterns from performance-pay studies, tax reforms, licensing and land-use research, telecommunications liberalization, private higher-education expansion, high-powered residual contracts, and low-tax open-entry jurisdictions support the directional claims. Partial application produces partial gains; only joint operation yields compounding effects.

Standard objections—rising inequality, unprotected vulnerability, externalities, transition costs, and public-health risks—are addressed directly. Inequality of outcomes is treated as functional and diversity-enhancing. Protection of the vulnerable is located in voluntary institutions and residual-claim arrangements (including scholarships and internships) rather than in soft budgets. Long-term private investment, charity, and education are not abolished; their material base expands. The path is sequential: bridge reforms that progressively constrain soft budgets and entry barriers, moving first toward functional minarchy and later toward more fully voluntary orders, without system collapse. The study therefore supplies both a diagnosis and a set of enforceable institutional instructions that render debt-financed redistribution and political predation increasingly difficult.

Keywords

Performance-based pay, Residual-claim compensation, Detaxation, Deregulation, Soft budget constraint, Political debt liability, Meritocracy, Minarchy, Aparactonomy

Chapter 1

Introduction: The Failure of Status-Based and Redistributive Systems

Modern societies continue to display a recurring set of problems: persistent unemployment in the presence of unmet needs, slow productivity growth despite technological progress, housing shortages amid regulatory complexity, declining educational outcomes relative to expenditure, substance-related harms that expand under prohibition and prescription regimes, and large public debts that outlive the politicians who authorized them. These are routinely attributed to insufficient resources, market failure, or inequality of outcomes. The evidence points elsewhere. The dominant pattern is incentive misalignment created by status-based compensation, fixed salaries, political insulation from consequences, high taxation, and dense regulation.

These misalignments are -obviously- systemic, meaning that they are the outcome of abuses consequential to regulation, system immanent loopholes. Antisocial characters (especially sub-clinical ones) are particularly drawn to seek and explore these loopholes and systemic errors, and we tend to see that as “bad”, understandably. However, certain antisocial dispositions, for example high achieving or successful psychopaths (dark triad and dark tetrad in particular) are also real “movers and shakers” and not necessarily all “bad”, even capable of overall beneficial outcomes – given the right circumstances: Transparency, accountability and meritocracy (Kayser, 2025a). The biggest fallacy is to think society can central plan and regulate itself out of corruption, theft and crime. On the contrary, deregulation, decentralization and a radical shift towards self organization and self responsibility are the empirically proven alternative that works much faster and better.

Best practice is accountability and individual responsibility, solely result driven and without any form of bail-out, or community payment to cover losses.

These realities force two further recognitions. First, “bad” or high-Dark-Triad individuals will always be present; the task is not to pretend otherwise but to design systems that keep their capacity for predation tightly constrained through transparency, personal liability, and the absence of bail-outs. Second, the claim that government may legitimately commit acts that would be criminal if performed by private persons—because it acts for a supposed greater good—is false. Theft remains theft and coercion remains coercion; there are no moral or legal exceptions.

The three mechanisms examined in this study—pure performance-based pay with zero fixed salaries, progressive detaxation, and systematic deregulation—constitute a practical route for keeping crime and political predation in check. They enable a gradual, non-collapsing reduction of government first to a functional minarchy and later toward aparactonomy, while simultaneously strengthening the conditions for long-term private investment, genuine charity, and higher-quality education (Kayser, 2025b). None of these goods is abolished; all are improved by restoring residual claims, eliminating soft budget constraints, and removing artificial barriers to voluntary cooperation.

When compensation is detached from results, when political decision-makers can create obligations that fall on others, and when entry and experimentation are restricted by law, predictable distortions follow. The study that follows examines three interlocking mechanisms that directly attack these distortions: pure performance-based pay with zero fixed salaries, radical reduction or elimination of taxes, and systematic deregulation. Together they make debt-financed redistribution and the corruption it enables increasingly difficult while leaving voluntary long-term private investment fully intact.

Closed Systems and the Limits of Central Provision

Two well-documented experiments illustrate the difficulties that arise when material provision is separated from productive roles and from continuous market feedback.

John B. Calhoun's Universe 25 experiment (1968–1973) created a “mouse utopia” with unlimited food, water, nesting space, and freedom from predators and disease. Starting with eight mice, the population grew rapidly, doubling roughly every 55 days until it reached approximately 620 animals. Growth then slowed. The population peaked near 2,200—well below the physical capacity of the enclosure—and thereafter collapsed. By the early 1970s the colony was effectively extinct.

Behavioral changes preceded demographic collapse. Dominant males lost territorial control. Females neglected or attacked their young; infant mortality in some areas exceeded 90 percent. A subset of males, later labeled “the beautiful ones,” withdrew from mating, fighting, and social interaction, spending their time eating, sleeping, and grooming. Social organization disintegrated into what Calhoun termed a “behavioral sink.” Mice removed from the enclosure and placed in lower-density settings often retained the dysfunctional patterns. Calhoun (1973) summarized the sequence as a form of “death squared”: the

suppression of mortality produced the death of social organization, which in turn produced the inability to reproduce (Calhoun 1973; Ramsden & Adams 2009).

The experiment did not demonstrate that density alone destroys societies. It demonstrated that an environment of guaranteed material provision without corresponding productive roles or selective pressures can erode the behaviors required for continuation. Abundance without consequence proved corrosive.

Biosphere 2 (1991–1993) tested a closed, deliberately designed ecological system intended to support eight humans for two years. The structure contained multiple biomes, intensive agriculture, and recycling systems. Despite an expenditure reported in the range of \$150–200 million, the system failed to maintain stable conditions. Oxygen levels fell from the normal 21 percent to approximately 14–15 percent—equivalent to high-altitude conditions—necessitating external oxygen injection. Carbon dioxide fluctuated dangerously. Pollinators (hummingbirds and honeybees) died, impairing crop reproduction. Pest populations (cockroaches, crazy ants, mites) exploded. Crop yields proved insufficient; crew members lost significant body weight and relied in part on stored food. Interpersonal conflict intensified under the stress. Scientific advisory boards resigned amid disputes over methods and transparency (Cohen & Tilman 1996; Nelson et al. various; contemporary reporting summarized in Alling & Nelson accounts and subsequent analyses).

Biosphere 2 was not a pure failure of engineering knowledge; it was a demonstration that even carefully planned, resource-rich, closed systems struggle to deliver the continuous, decentralized adjustment that open markets and residual-claim incentives provide routinely. Central design could not replicate the error-correction of voluntary exchange and personal stakes.

These cases are extreme. They are useful precisely because they isolate the consequences of removing ordinary feedback loops while maintaining material sufficiency. Parallel patterns appear, in attenuated form, wherever political systems socialize losses, guarantee outcomes independent of contribution, and insulate decision-makers from the residual claims of those who must ultimately pay.

Performance, Taxation, and Regulatory Barriers: Empirical Patterns

Compensation linked to measured results consistently outperforms time-based or status-based pay. Meta-analytic and quasi-experimental evidence shows positive effects of performance-related pay on

productivity. Individual incentive schemes have produced large gains; one classic field change from hourly to piece-rate pay raised productivity by approximately 44 percent, roughly half from increased effort and half from sorting of higher-productivity workers into the firm (Lazear 2000 and subsequent reviews). Group profit-sharing and collective performance pay show smaller but still positive average effects, often stronger when combined with employee participation or capital investment (Doucouliagos et al. 2020). Recent Chinese state-owned enterprise reforms that strengthened the link between wages and enterprise performance raised labor productivity by nearly 5 percent relative to private firms (Liu 2026). Public-sector meta-analyses find smaller but statistically detectable positive associations (meta-analyses in public administration literature, e.g., 2023 reviews). The direction of the evidence is clear: tying residual claims more tightly to results improves outcomes.

Taxation extracts resources that would otherwise remain available for private reinvestment and labor supply. The 2017 U.S. Tax Cuts and Jobs Act provides a large recent quasi-experiment. Studies exploiting cross-state variation find that tax reductions equivalent to 1 percent of adjusted gross income raised payroll employment by 0.8–1.5 percent and labor-force participation by 0.7–1 percentage point in the following years (various TCJA labor-market analyses). Corporate provisions were associated with increased domestic investment; one careful assessment places the rise in tangible corporate investment near 11 percent, with longer-run capital-stock effects (Chodorow-Reich, Zidar & Zwick 2024). Effects are heterogeneous and debated in magnitude, yet the directional evidence that lower marginal rates expand activity, particularly for employment and investment, is substantial. High tax wedges and complex compliance costs fall disproportionately on smaller firms, the primary source of net job creation in most economies.

Occupational licensing and related entry regulations illustrate the employment effects of barriers. Licensing is associated with wage premiums for those inside the regulated occupation, but also with reduced employment, higher unemployment for unlicensed workers in related fields, and greater earnings inequality (Makridis & McLaughlin 2024; Dodini 2023; multiple state-level studies). Delicensing episodes and cross-state comparisons show that reducing these barriers expands opportunity, especially at the lower end of the skill distribution. The pattern is consistent: rules that protect incumbents raise the cost of experimentation and of matching talent to tasks.

Soft budget constraints compound these distortions. When lower-level governments or public enterprises expect bailouts, they expand debt and spending. Swedish local-government data show that moving from a hard to a soft budget constraint increases debt by more than 20 percent on average (Pettersson-Lidbom 2010). Cross-country and subnational evidence links vertical fiscal imbalances plus borrowing autonomy to higher public spending, including in health (IMF analyses). Politicians who can create obligations that outlast their terms face weak incentives to internalize long-run costs. Emotional justifications—“for the poor,” “for the vulnerable”—routinely override solvency tests. The result is intertemporal transfer of liability and the corruption that accompanies discretionary redistribution.

The Proposal and Its Scope

This study advances a coherent alternative built on three mechanisms.

First, pure performance-based pay with zero fixed salaries. Every participant—politician, entrepreneur, or project contributor—contracts for defined outcomes. Compensation is a residual share of verified results. Finish early at full quality and the time and efficiency gains belong to the performer. Miscalculate or under-deliver and the residual shrinks or disappears. For public offices the rule is stricter: debt incurred must be cleared within twelve months and never carried beyond the individual’s term. Unresolved obligations at term end trigger personal liability, including potential criminal consequences. No exemptions for emotional appeals. Charity and social purposes remain possible only inside financially solvent structures.

Second, detaxation—progressive reduction toward minimal or zero taxation of productive activity. Taxation functions as punishment of value creation. Selective “sin” taxes may serve as temporary bridges; the long-run direction is neutrality so that individuals and firms retain the fruits of successful calculation.

Third, deregulation—systematic removal of barriers to entry, experimentation, pricing, and voluntary association. The fewer the artificial constraints, the faster discovery and error correction occur.

These mechanisms are mutually reinforcing. Performance pay without low taxes is blunted by extraction. Low taxes without deregulation still confront artificial scarcity. Deregulation without residual-claim incentives produces disorder rather than coordination. Together they raise the cost of creating public debt and of large-scale redistribution until both become impractical.

Long-term investment is not suppressed. Private entities remain free to commit their own capital to multi-year or multi-decade projects and to bear the consequences. In a fully private-law order the same residual logic applies to everyone. In a bridge (minarchist) setting the strict short-horizon personal liability attaches only to public offices. The three points target political socialization of risk and the corruption that accompanies it; they leave voluntary long-horizon commitment untouched.

Chapter 2

Performance-Based Pay: Meritocracy as Absolute Equalizer

Pure performance-based pay (PBP) is the operational core of the three mechanisms examined in this study. Under this rule, no one receives a fixed salary. Compensation is earned exclusively through verified results. Individuals or teams sign onto defined projects or outcome contracts, calculate the required inputs and timelines themselves, and execute. If they finish early without quality deficits, the surplus time and any efficiency gains belong to them. If they miscalculate or under-deliver, they bear the full residual consequences—zero or negative pay, and, in the case of public office, personal liability.

This arrangement is the purest available form of meritocracy. Age, race, formal credentials, religion, seniority, and political connections become irrelevant. The only currency is results. It is therefore the only compensation system that is simultaneously radically fair and radically productive.

The Centerpiece Comparison

The following table contrasts current incentive structures with the pure performance regime for the three main categories of actors.

Table 2.1

Incentive Alignment under Pure Performance Accountability
(Zero fixed salaries of any kind)

Actor	Current Treatment & Reimbursement	Current Accountability	Proposed Treatment & Reimbursement	Proposed Accountability
Politicians	Fixed salaries, pensions, benefits, and post-office opportunities largely independent of results. Debt can be expanded without personal consequence.	Weak. Failures are externalized; emotional appeals routinely override results.	Zero fixed pay. Compensation consists solely of a verified share of the net surplus generated by projects initiated and completed under their authority. No surplus = no income.	Debt must be extinguished within 12 months of creation and never carried beyond the individual's term. Unresolved debt at term end triggers personal liability: repay the shortfall or face criminal consequences including jail. No emotional exemptions. Charity elements are permitted only if the overall project remains financially solvent.

Actor	Current Treatment & Reimbursement	Current Accountability	Proposed Treatment & Reimbursement	Proposed Accountability
Entrepreneurs	Residual claimants but heavily taxed and regulated; occasional political insulation or bailouts.	Market discipline exists but is distorted by subsidies, barriers, and limited-liability privileges.	Pure residual claim after all voluntary contracts. Near-zero taxation and minimal regulation leave the full upside and downside with the entrepreneur.	Full market accountability. Success produces high personal returns; failure produces personal loss. No political safety nets.
			Zero fixed salary.	
Employees / Project Contributors	Time-based wages, seniority, credentials, or collective agreements. Performance often secondary.	Limited. Underperformance is frequently protected.	Individuals or teams contract for defined outcomes. Pay is a pre-agreed share of the value actually delivered. Finish early at full quality → keep the time and efficiency gains.	Continuous and direct. Persistent shortfall = reduced or zero residual. Accurate calculation and execution are the only routes to earnings.

The table makes the shift concrete. Current systems protect status and time; the proposed system protects only verified contribution.

Empirical Record of Performance-Linked Pay

The private-sector evidence is extensive and directionally consistent. When pay is more tightly linked to measured output, productivity rises.

Lazear's classic study of the Safelite Glass Corporation remains one of the cleanest field experiments. The firm switched from hourly wages to piece rates. Productivity increased by 44 percent. Roughly half the gain came from higher effort by the same workers; the other half came from sorting—more productive workers stayed or joined, while less productive workers left (Lazear 2000).

Meta-analyses of profit-sharing and group performance pay find positive average effects on productivity, with stronger results when combined with employee participation or capital investment (Doucouliagos et al. 2020). Individual incentive schemes generally produce larger gains than group schemes, as free-rider problems are reduced (reviews summarized in IZA World of Labor and related syntheses).

A recent quasi-experiment in Chinese state-owned enterprises is instructive. After a 2018 reform that strengthened the link between wages and enterprise performance, labor productivity in the affected SOEs rose by approximately 5 percent relative to private firms (Liu 2026). The mechanism was precisely the increased sensitivity of pay to results.

Public-sector meta-analyses report smaller but still positive associations between performance-related pay and employee or organizational outcomes. Effect sizes are typically modest, which is consistent with the residual political constraints and measurement difficulties that remain in government settings (public-administration meta-analyses, 2023 reviews). The pattern across sectors is the same: the closer compensation tracks verified contribution, the higher the measured performance.

A further, and frequently overlooked, consequence of pure performance-based pay is the powerful incentive it creates for continuous process improvement. Critics of residual-claim systems sometimes assert that free-market and self-regulatory arrangements are “anti-progressive” and that they delay concerted scientific or technological effort. The opposite is the case. Because compensation rises directly with verified output and quality, every participant has a strong personal interest in discovering methods that deliver the same or better results in less time or at lower cost.

A simple illustration makes the mechanism clear. A secretary contracted to transcribe taped notes at \$20 per completed letter may require forty minutes using conventional typing. If she adopts a reliable voice-to-text system and produces the identical letter in five minutes at equal or higher quality, she still receives the full \$20—only far more quickly. The surplus time is hers to use as she wishes; the client receives the work sooner. Both parties gain. The same logic applies to better machinery, improved software, automation, or any other process innovation. Under residual-claim contracts, technological and organizational progress is not an external goal imposed by planners; it is the direct route to higher personal earnings. The result is faster adoption of useful tools rather than resistance to them.

These findings hold after accounting for sorting effects, which are themselves a feature rather than a bug. Systems that reward results attract and retain people who can deliver results. Systems that reward tenure, credentials, or political affiliation do the opposite.

Application to Public Office

The most radical—and most necessary—application is to politicians and public officials. Under the pure performance rule there is no fixed salary, no automatic pension accrual based on time served, and no insulation from the financial consequences of decisions.

A concrete illustration clarifies the standard. A president with a four-year term authorizes the construction of four small modular reactors at a cost of \$2 billion. Construction is projected to take twelve months, after which the assets begin generating returns. If the project is completed on schedule and the debt is retired within the twelve-month window (or the verified ROI covers the obligation before the term ends), the office-holder may receive a pre-agreed share of the net surplus created. If construction is delayed and the term ends with unresolved debt, the individual is personally liable. The shortfall must be repaid or criminal consequences, including imprisonment, follow.

Emotional justifications are inadmissible. Claims that “the hospital will treat the poor” or “the school will serve the handicapped” do not suspend the solvency requirement. Functional models of charity and mutual aid exist and can be integrated into projects that remain financially sound. Projects that cannot meet a basic residual test are simply failed projects. There are no sob-story exemptions.

This rule directly attacks the soft-budget-constraint problem documented in the empirical literature. When decision-makers know that unresolved obligations will follow them personally, the incentive to create long-lived public debt declines sharply. Swedish local-government data show that the mere expectation of a soft budget increases debt by more than 20 percent (Pettersson-Lidbom 2010). Removing that expectation is the point.

Psychological and Cultural Effects

When residual claims are the only path to income, the focus of attention shifts from entitlement and status defense to accurate calculation and continuous improvement. Early completion without quality loss is

rewarded with free time—an outcome that is both efficient and humane. Persistent under-performance is not cushioned by tenure rules or collective agreements; it simply produces lower or zero residual.

Identity-based conflicts lose much of their force. When the only publicly relevant metric is results, arguments over proportional representation by age, race, religion, or formal credential become secondary. The system is the total equalizer precisely because it ignores those categories.

High-Dark-Triad individuals are not eliminated—such personalities will always exist—but their scope for predation is narrowed. Transparency of outcomes, personal liability for losses, and the absence of bail-outs raise the cost of exploitation. Under these conditions, the same traits that can produce destructive rent-seeking can, in some cases, be channeled into high-value creation. The institutional design does the work; moral exhortation is secondary.

Measurement and Scope

Not every activity yields an immediate, cleanly measurable residual. Complex or long-horizon private projects remain fully possible; the individuals or organizations that undertake them simply bear the risk with their own capital. In public office the rule is deliberately stricter and shorter-horizon precisely because political actors currently externalize costs onto non-consenting parties. The study does not claim that every public function can be reduced to a simple twelve-month residual. It claims that the default should be residual accountability, that exceptions must be justified by clear evidence rather than emotional appeal, and that the current default of fixed pay plus soft budgets is the empirically weaker arrangement.

Pure performance-based pay does not operate in isolation. Its effects are amplified by lower taxation (which leaves more of the residual with the producer) and by deregulation (which removes artificial barriers to entry and experimentation). Those interactions are examined in subsequent chapters. The central claim of this chapter is narrower and prior: when compensation is detached from results, distortions follow; when it is reattached, performance improves and many forms of political and social conflict lose their material basis.

Chapter 3

Detaxation: Ending the Punishment of Productivity

Taxation is not a neutral transfer. It is the compulsory extraction of resources from individuals and organizations that have created value, enforced by the threat of force. In that precise sense it functions as a punishment of productive activity. The more successfully a person or firm calculates, innovates, and delivers results under the pure performance rules described in Chapter 2, the larger the share that is taken. This severs part of the residual claim that would otherwise remain with the producer and thereby weakens the very incentives the previous chapter showed to be effective.

Taxation is, at root, a punishment, a discouragement, and a de-incentive. It raises the cost of the activity to which it is applied. Therefore, for as long as a society chooses to maintain a government, the least damaging use of that instrument is to levy taxes primarily on behaviors and outcomes that the same society regards as disadvantageous or undesired. This is a double-edged sword—just as the existence of government itself is a double-edged sword—but it is preferable to the present practice of placing the heaviest burdens on diligent and productive citizens.

Under this transitional logic, taxes could be directed toward such activities as the consumption of heavily pre-processed, industrial, or high-sugar foods; pollution; the intensive use of synthetic pesticides and fertilizers; the importation of fruits and vegetables that can be grown domestically; luxury vehicles; the failure to equip vehicles with effective filtration or exhaust systems; the development of morbid obesity; or public begging. These remain personal decisions. By a strict libertarian standard they should not be punished at all. Yet while a coercive government continues to exist and requires revenue, it is far better to extract that revenue from choices widely viewed as costly to the individual or to others than to punish the creation of value through income, capital, and productive exchange.

The long-run direction remains neutrality and progressive detaxation of productive activity. The above list is offered only as a bridge principle for the period in which government has not yet been reduced to a minimal residual function.

The Knowledge and Legitimacy Problem

No central authority possesses the knowledge or the moral standing to rank consumption and lifestyle choices as “good” or “bad” on behalf of others. Decisions about how much to work, what risks to take, what

products to buy, or how to allocate personal resources are exercises of self-responsibility. When the state imposes differential taxes according to its own ranking of those choices, it substitutes political preference for individual judgment. The long-run direction consistent with the rest of this study is therefore neutrality: the progressive reduction of taxes on productive activity toward the lowest feasible level, ideally approaching zero on income, capital, and value-added transactions that arise from voluntary exchange.

Temporary, narrowly targeted “sin” taxes on alcohol and tobacco may serve as bridge measures while broader detaxation proceeds. Even these, however, rest on contested judgments and create their own distortions and black markets. They are not a permanent feature of a residual-claim order.

Empirical Patterns of Lower Taxation

The evidence linking lower marginal tax rates to higher economic activity is substantial, even if magnitudes remain debated.

The 2017 U.S. Tax Cuts and Jobs Act supplies a large recent quasi-experiment. Studies that exploit cross-state variation in the resulting tax shocks find that reductions equivalent to 1 percent of adjusted gross income were associated with a 0.8–1.5 percent increase in payroll employment and a 0.7–1 percentage-point rise in labor-force participation over the subsequent two years (TCJA labor-market analyses).

Corporate provisions reduced the tax wedge on new investment; careful assessments place the rise in tangible corporate investment in the range of 11 percent, with longer-run positive effects on the capital stock (Chodorow-Reich, Zidar & Zwick 2024). Labor productivity growth also accelerated relative to the pre-reform trend in the immediate post-TCJA years.

Meta-analytic and narrative reviews of corporate tax changes reach more mixed conclusions once publication bias is taken into account, yet the directional finding that lower rates expand investment and activity remains common in the literature that corrects for endogeneity. Effects are typically larger for smaller and more financially constrained firms—the same firms that constitute the primary engine of net job creation in most economies. High tax compliance costs and complex rate structures fall disproportionately on small and medium-sized enterprises, reducing their capacity to reinvest residual earnings and to expand employment.

Cross-jurisdictional patterns are consistent with these results. Low-tax environments, whether national (certain historical episodes or contemporary low-tax jurisdictions) or subnational, tend to attract capital,

labor, and entrepreneurial activity relative to high-tax neighbors, holding other factors constant. The mechanism is straightforward: more of the residual generated under performance-based arrangements remains with the people who produced it, raising both the return to successful calculation and the resources available for further private investment.

Unemployment as a Policy Artifact

A large share of observed unemployment is not an inevitable market outcome but the product of policy. Tax wedges between what an employer pays and what a worker receives, combined with welfare benefits that phase out steeply, create unemployment traps. Regulatory barriers to hiring and to business formation compound the effect. When these wedges and barriers are reduced, measured unemployment falls and labor-force participation rises—the pattern visible in the TCJA employment results and in multiple earlier episodes of tax and labor-market reform. The claim that unemployment is primarily a deficiency of aggregate demand or of private willingness to hire is difficult to reconcile with the repeated observation that lowering the tax and regulatory cost of employment expands the number of people working.

Prescription Regimes and Controlled Substances

A particularly clear illustration of the costs of political ranking of “good” and “bad” consumption appears in pharmaceutical and controlled-substance regulation. Prescription-only regimes and scheduling systems create artificial scarcity, raise prices, and generate opportunities for corruption and black-market activity. Individuals who need particular medications for legitimate medical reasons face higher costs and gatekeeping; individuals who seek the same substances for other reasons turn to illegal supply. The poor are hit hardest on both margins—higher legal prices and greater exposure to unsafe illegal markets.

These regimes are defended as protecting public health. The empirical record is more ambiguous: prohibition and tight prescription controls have repeatedly failed to eliminate non-medical use while generating substantial collateral harm. A residual-claim, self-responsibility framework does not require the state to declare certain substances virtuous or vicious. It requires only that individuals bear the consequences of their own choices and that voluntary providers of information, insurance, and mutual aid be free to operate. Bridge measures may retain limited controls; the long-run direction is the removal of political gatekeeping that raises costs without eliminating the underlying demand.

Interaction with Performance Pay and Deregulation

Detaxation multiplies the effect of pure performance-based pay. When residual claims are the sole source of income, the share that remains after tax determines the strength of the incentive. High taxation blunts the gains from finishing early, adopting better methods, or taking calculated risks. Low or zero taxation restores the full force of those gains.

Deregulation works in the same direction. Tax reductions that leave more residual with producers are partially offset if artificial barriers still prevent new firms from entering, new methods from being tried, or capital from being reallocated. The three mechanisms are therefore complementary: performance pay aligns individual incentives, detaxation leaves the resulting residual intact, and deregulation clears the path for both.

Long-Term Investment and Social Goods

Nothing in the detaxation argument requires the abolition of long-term private investment, charity, or education. On the contrary, when more resources remain in private hands and when residual claims are secure, the capacity for voluntary long-horizon projects, philanthropic activity, and high-quality education expands. These activities continue—and typically improve—precisely because they are no longer dependent on political extraction and soft budget constraints. The study's aim is not the destruction of collective goods but their transfer from coercive to voluntary provision under conditions of transparency and personal accountability.

Summary

Taxation punishes success. It weakens residual claims, raises the cost of employment, and substitutes political rankings of consumption for individual responsibility. Empirical patterns from tax reforms and cross-jurisdictional comparisons show that lowering these burdens expands employment, investment, and the resources available to small and medium-sized firms. Prescription and controlled-substance regimes illustrate the additional harms that arise when the state claims the authority to declare certain choices illegitimate.

The consistent direction is progressive detaxation toward neutrality, with narrowly targeted bridge measures only where politically unavoidable and always under explicit sunset. Combined with pure

performance-based pay and deregulation, the effect is to make debt-financed redistribution and the corruption it enables increasingly difficult while leaving voluntary long-term cooperation fully intact.

Chapter 4

Deregulation: Clearing the Path for Discovery

Regulation is not a neutral framework that simply corrects market failures. Every rule imposes costs: compliance time, legal uncertainty, barriers to entry, and the protection of incumbents who already know how to navigate the existing system. These costs compound. The more complex the rulebook becomes, the greater the advantage conferred on large, established organizations and the smaller the space left for new experimentation, rapid error correction, and voluntary coordination.

The governing principle of this chapter is straightforward: the fewer the artificial constraints, the wider the scope for discovery. Individuals and organizations that operate under pure performance-based residuals (Chapter 2) and that retain more of what they produce (Chapter 3) still cannot act if the law prohibits the relevant contracts, land uses, hiring arrangements, or product offerings. Deregulation removes those prohibitions so that residual-claim incentives can operate.

The Compounding Costs of Rules

Empirical patterns across several domains illustrate the burden.

Occupational licensing is one of the clearest cases. Licensing regimes raise wages for those inside the regulated occupation while reducing overall employment in that field and increasing unemployment among workers who lack the credential. Recent studies find that higher regulatory restrictiveness is associated with elevated wages but lower employment, with the employment losses concentrated in lower-wage segments of the labor market (Makridis & McLaughlin 2024; Dodini 2023). Cross-state comparisons and delicensing episodes show that reducing these barriers expands opportunity, particularly for workers without advanced formal credentials. The wage premium enjoyed by licensed practitioners is, in significant

part, a transfer extracted from consumers and from excluded workers rather than a pure reflection of higher productivity.

Housing and land-use regulation produce parallel effects. Strict zoning, lengthy permitting processes, and density restrictions raise the cost of building and limit the supply response to rising demand. The result is higher prices, longer commutes, and reduced labor mobility. Jurisdictions that have simplified approval processes or relaxed density limits have seen faster housing supply responses and more moderate price growth relative to tightly regulated peers. The pattern is consistent with the broader finding that artificial scarcity created by rules benefits incumbents (existing homeowners and permitted developers) at the expense of newcomers and renters.

Similar dynamics appear in product standards, finance, education, and health. Complex approval processes slow the introduction of new tools and methods. Compliance costs that are fixed or rising with complexity fall more heavily on smaller firms, reinforcing concentration. In each domain the rulebook protects those who have already incurred the cost of compliance and raises the threshold for anyone attempting a different approach.

The Simplicity Fallacy: Not what it seems

A recurring obstacle to deregulatory reform is that the proposed alternatives appear too simple. Because the core institutional rules—performance-based residuals, low or zero taxation of productive activity, and the removal of artificial barriers—can be stated briefly, many observers dismiss them as naïve or “anti-progressive.” In reality, the underlying reasoning developed by thinkers such as Sowell, Rothbard, and Hoppe requires considerable analytical capacity to grasp fully. The apparent simplicity is deceptive.

A useful analogy clarifies the point:

E=mc ²	versus	A player is in an offside position if, at the moment a teammate plays the ball, any part of their head, body, or feet is in the opposing team’s half and nearer to the opponents’ goal line than both the ball and the second-last opponent
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Einstein’s equation looks elementary, yet few people truly understand its implications. By contrast, the offside rule in soccer is lengthy and intricate but millions of fans nevertheless apply the rule accurately in

real time. Complexity of formulation and depth of understanding are not the same thing. Institutional rules that can be stated simply are often rejected for that very reason, even when their operational logic is more demanding—and more effective—than the elaborate regulatory systems they would replace.

Another Simplicity Fallacy: Protect through Rules and Laws

At first glance, many problems appear best solved through additional rules and laws. The history of mixed martial arts illustrates the pattern. When MMA emerged, numerous politicians and commentators moved quickly to ban it as excessively brutal and dangerous. Comparative evidence has since shown that the far more heavily regulated sport of boxing produces higher rates of serious head trauma and greater long-term neurological risk. One direct comparison of medical outcomes found loss of consciousness in 7.1% of boxing bouts versus 4.2% in MMA, along with higher rates of serious eye injury among boxers (University of Alberta data summarized in subsequent reviews). Brain-imaging studies have documented greater reductions in thalamic and hippocampal volumes among boxers relative to MMA fighters (Bernick et al., 2015 and related analyses). Historical fatality counts and chronic traumatic encephalopathy findings further indicate that boxing's repetitive, head-focused striking under tightly controlled rules has generated more severe cumulative brain injury than the broader rule set of MMA (systematic reviews in *Clinical Journal of Sport Medicine* and related sources). The initial regulatory impulse protected a familiar, highly controlled activity while suppressing a newer format that proved less damaging under open competition.

Minimum-wage laws follow a similar logic. They are widely regarded as simple fairness. Yet a large body of empirical work finds that binding minimum wages reduce employment among the lowest-skilled and youngest workers—the precise groups the policy intends to help. Reviews that compile U.S. estimates report a clear preponderance of negative employment elasticities, with stronger disemployment effects for teens, young adults, and the less-educated (Neumark & Shirley, 2022; earlier syntheses by Neumark & Wascher). Firms respond by cutting hours, reducing hiring at the bottom of the skill distribution, or accelerating automation. While some recent studies of broader low-wage groups report smaller or near-zero average effects, the directional evidence that minimum wages price the least productive workers out of the market remains robust in the segments where the constraint binds most tightly.

Fraud and theft are universally rejected, and laws against them are therefore taken as self-evident. In practice, complex regulatory systems often create legal loopholes and compliance safe harbors that allow

unethical conduct to continue under formal legality. Lightly regulated or open markets rely primarily on customer feedback and residual reputation. Firms that systematically cheat lose repeat business and face rapid exit. In these settings the feedback loop is faster and more precise than administrative enforcement.

The recurring error is the assumption that the first, most intuitive legal intervention is also the most effective. Experience repeatedly shows the opposite: the more a domain is insulated from residual claims and direct customer feedback, the greater the scope for both unintended harm and legalized predation.

Amplification of Performance Pay and Detaxation

Deregulation multiplies the effects of the first two mechanisms. Pure performance-based pay creates strong incentives to finish early and to adopt better methods, but those incentives are blunted if the law forbids the relevant contracts or tools. Detaxation leaves more of the residual with the producer, yet the extra resources cannot be deployed if entry is blocked or if new product categories require years of administrative approval. Removing artificial barriers allows residual claims and retained earnings to translate into actual experimentation and expansion.

In labor markets, the combination is especially powerful. When workers and firms can contract freely over outcomes rather than hours, when the tax wedge on employment is low, and when occupational licensing and other entry barriers are minimized, the cost of creating new jobs falls and the return to accurate calculation rises. Unemployment that is currently sustained by the interaction of tax wedges, welfare traps, and licensing restrictions becomes harder to maintain.

Long-Term Private Investment and Social Cooperation

Deregulation does not prohibit long-horizon projects. Private individuals, firms, universities, and associations remain free to commit their own capital to multi-year research, infrastructure, or educational initiatives and to bear the consequences. What disappears is the political ability to socialize the risks of those projects onto non-consenting parties or to protect incumbents from competition while the projects are underway. Voluntary long-term investment, charity, and education continue; they simply operate under residual-claim discipline rather than under soft budget constraints and regulatory privilege.

Summary

Regulation compounds costs, protects incumbents, and slows discovery. Empirical evidence from occupational licensing, housing, and related domains shows that reducing these barriers expands employment and opportunity while lowering artificial scarcity. The apparent simplicity of deregulatory rules is often mistaken for naivety; in practice, simple residual-claim institutions demand more rigorous calculation and faster error correction than complex administrative systems.

Combined with pure performance-based pay and progressive detaxation, deregulation clears the path for residual incentives to operate. The three mechanisms together raise the cost of debt-financed redistribution and political predation while leaving voluntary long-term cooperation intact. The practical direction is the systematic removal of rules that cannot be justified by clear evidence of net benefit under residual-claim conditions, with the long-run aim of reducing government first to a functional minarchy and later toward more fully voluntary orders.

Chapter 5

Synergies and Systemic Effects

The three mechanisms examined in the preceding chapters—pure performance-based pay with zero fixed salaries, progressive detaxation, and systematic deregulation—are not independent policy tools. They form a mutually reinforcing system. Each amplifies the others; each is weakened when the others are absent. Their combined operation produces effects that none can achieve alone: stronger residual claims, faster error correction, broader opportunity for small and medium-sized enterprises, reduced scope for political predation, and a gradual shift from coercive to voluntary provision of social goods.

Interaction of the Three Pillars

Pure performance-based pay aligns individual effort with verified results. Yet when high taxes remove a large share of the residual, the incentive to finish early, adopt better methods, or take calculated risks is blunted. Detaxation restores that residual, but the extra resources remain constrained if regulation blocks

new contracts, new land uses, new hiring arrangements, or new product categories. Deregulation clears those barriers, yet without residual-claim discipline the newly opened space can be filled by soft-budget behavior or by status-based allocation rather than by value creation.

Only the joint operation of all three produces the full effect. Performance pay supplies the directional incentive. Detaxation preserves the material reward. Deregulation removes the artificial obstacles. Together they raise the cost of creating public debt that outlives the decision-makers who authorized it and of sustaining redistributive coalitions that sever contribution from reward. The result is a progressive tightening of soft budget constraints and a corresponding expansion of voluntary coordination.

The interaction of the three mechanisms can be illustrated with a simple four-quadrant framework that captures both intentional and unintentional inefficiency in centralized systems.

Table 5.1: Incentive Alignment versus Extraction and Barriers

	High taxation + dense regulation	Low taxation + light regulation
Status / time / credential-based pay	Soft budgets, rent-seeking, protection of incumbents, slow error correction. Rules either deliberately favor connected parties or simply exceed any human capacity to manage millions of people and billions of transactions.	Resources remain private and entry is easier, yet allocation still follows seniority, credentials, or political connection rather than verified results. Growth occurs, but misallocation persists.
Pure residual-claim pay (zero fixed salaries)	Incentives exist but are heavily blunted. Effort and innovation occur, yet much of the residual is extracted or blocked by rules. Only partial improvement.	Full alignment. Residuals stay with producers, artificial barriers fall, and every participant has a direct interest in faster and better methods. Small improvements are rewarded immediately and propagate through voluntary imitation. Compounding discovery becomes the dominant pattern.

The productivity gains from residual-claim pay (Lazear, 2000; Doucouliagos et al., 2020), the employment and investment responses to lower tax wedges (Chodorow-Reich, Zidar & Zwick, 2024), and the employment expansion that follows reductions in licensing and entry barriers (Makridis & McLaughlin, 2024; Dodini, 2023) are each stronger when the other two conditions are also present. Partial movement into any single quadrant produces only limited improvement; simultaneous movement into the lower-right quadrant produces the compounding pattern.

When taxation and regulation are high and compensation remains tied to status, time, or credentials, the dominant outcome is soft budgets, rent-seeking, and slow error correction. Rules either deliberately favor connected incumbents (“rigging the game”) or simply exceed any human capacity to manage millions of people and billions of daily transactions. In either case the result is systemic inefficiency.

Shifting only to pure residual-claim pay while leaving high extraction and dense rules in place produces limited gains: incentives exist, yet most of the residual is removed or blocked. Shifting only to low taxes and lighter regulation while retaining status-based pay allows more resources to remain private and lowers entry barriers, but allocation continues to follow seniority or political connection rather than verified results.

Only when pure performance-based pay, low taxation, and deregulation operate together does the system enter the quadrant of rapid discovery. Residuals stay with those who create them, artificial barriers fall, and every participant has a direct interest in methods that raise speed and quality. Small improvements are rewarded immediately and propagate through voluntary imitation. The effects are compounding rather than merely additive—precisely the pattern described by systems and complexity perspectives. No central planner is required to coordinate the process; the residual-claim structure itself generates continuous adaptation.

Effects on Small and Medium-Sized Enterprises

Small and medium-sized enterprises are the primary source of net job creation and of incremental innovation in most economies. They are also the organizations most damaged by the current combination of fixed labor costs, high tax compliance burdens, and dense regulatory entry barriers. Under pure residual-claim contracts, lower taxation, and lighter regulation, these firms gain three advantages simultaneously: they can pay for results rather than for time or credentials; they retain more of the surplus they generate; and they face fewer artificial obstacles to hiring, pricing, and experimentation.

The employment and investment patterns reviewed in Chapters 2–4 are consistent with this prediction. When the tax wedge on labor falls and when occupational and permitting barriers are reduced, measured employment and business formation respond positively, with the strongest effects often visible among smaller and more constrained firms. The same residual logic that rewards a secretary for adopting voice-to-text technology rewards an entrepreneur for discovering lower-cost production methods or new service

models. Scale advantages of large incumbents that rest on regulatory complexity rather than on superior performance are eroded.

These patterns are consistent with the soft-budget-constraint evidence: when decision-makers expect losses to be socialized, debt and inefficiency expand (Pettersson-Lidbom, 2010). Residual-claim rules combined with low extraction and open entry reverse that dynamic for the firms most sensitive to cost and regulatory barriers.

Broader Social and Cultural Consequences

When residual claims become the dominant source of income and status, several secondary effects follow. Identity-based claims lose material force because the only publicly relevant metric is verified contribution. Arguments over proportional representation by age, race, religion, or formal credential become harder to sustain when compensation and opportunity track results rather than category membership.

Personal responsibility rises because losses are no longer routinely socialized. High-Dark-Triad individuals continue to exist, yet their scope for predation narrows when transparency of outcomes, personal liability, and the absence of bail-outs raise the cost of exploitation. The same traits that can produce destructive rent-seeking can, under residual-claim conditions, be channeled into high-value creation.

Technological and organizational progress accelerates because every participant has a direct interest in methods that raise speed and quality. The secretary who adopts better transcription tools, the manufacturer who automates a costly process, and the service provider who eliminates unnecessary steps all capture a larger residual. Progress is no longer an external goal imposed by planners; it is the internal route to higher earnings.

Social problems that are currently addressed through political redistribution and regulatory mandate shift toward voluntary solutions. Charity, mutual aid, long-term research, and education continue—and typically improve—because more resources remain in private hands and because residual-claim discipline replaces soft budget constraints. Long-horizon private investment is not suppressed; it is simply required to bear its own risks rather than shifting them onto non-consenting parties.

Feedback Loops and Institutional Trajectory

Success under residual-claim rules generates its own cultural and political support. When individuals and firms experience higher returns to accurate calculation and faster correction of error, the constituency for further liberalization expands. Each increment of detaxation and deregulation makes the next increment less costly to achieve, because the alternative of returning to high extraction and dense rules becomes more visibly inferior.

The practical trajectory is sequential rather than revolutionary. The three mechanisms can be advanced within existing political systems as a bridge toward a functional minarchy—government limited to the residual tasks that cannot yet be performed voluntarily. Further success under those conditions creates the basis for still greater reliance on private-law and voluntary orders (aparactonomy). At no point is the system required to collapse; it is required only to adapt continuously toward self-reliance and residual accountability.

Summary

Performance-based pay, detaxation, and deregulation reinforce one another. Their joint operation strengthens residual claims, expands opportunity for smaller enterprises, reduces the material basis of identity conflict, accelerates useful innovation, and shifts social provision from coercive to voluntary channels. Long-term private investment, charity, and education are improved rather than abolished. Crime and political predation are constrained not by ever-more-complex rules but by transparency, personal liability, and the absence of bail-outs.

The three mechanisms therefore constitute a coherent, empirically grounded route for keeping predation in check while raising the general level of prosperity and self-reliance. The chapters that follow examine available case evidence, measurement difficulties, and the principal objections that arise when residual-claim logic is applied consistently.

Chapter 6

Real-Life Evidence and Partial Applications

The three mechanisms—pure performance-based pay, progressive detaxation, and systematic deregulation—rarely appear together in pure form. The historical record consists of partial applications. These cases remain valuable because they show directional effects consistent with residual-claim logic and because they reveal what remains incomplete when only one or two of the mechanisms operate.

High-Powered Residual Claims: Tesla's 2018 CEO Performance Award

In January 2018 Tesla granted Elon Musk a ten-year compensation package containing no salary, no cash bonus, and no equity that vested with the mere passage of time. The award consisted entirely of stock options that vested only upon simultaneous achievement of extremely ambitious market-capitalization milestones (beginning at \$100 billion and rising in \$50 billion increments to \$650 billion) and corresponding revenue and adjusted EBITDA targets (Tesla, 2018 SEC filings and company announcement).

This structure is a near-pure application of the first mechanism in the present study: zero fixed pay and compensation solely as a residual claim on verified extraordinary results. At the time many observers considered the targets unrealistic. The subsequent rise in Tesla's valuation and the vesting of large portions of the award demonstrated that extreme residual-claim contracts can attract and retain the capacity required for difficult technological and organizational goals. The case does not prove universal success; it shows that removing fixed compensation and tying reward strictly to outcomes is operationally feasible even under intense public and regulatory scrutiny. It also illustrates the amplifying role of the other two mechanisms: the residual would have been less powerful under high personal taxation, and the operational freedom required to pursue the milestones would have been more constrained under denser product and labor regulation.

Low Taxation Combined with Open Entry: Post-War Hong Kong

For several decades after the Second World War, Hong Kong maintained low flat tax rates (salaries tax reaching a standard rate of 15 percent, profits tax remaining modest), no capital-gains tax, no sales tax or VAT, minimal tariffs, and deliberately light regulation of business formation. Financial Secretary John Cowperthwaite and his successors resisted detailed economic planning and kept the overall tax burden low

—commonly cited as never exceeding roughly 14 percent of GDP for extended periods (Littlewood, 2010; contemporary policy accounts). Company registration was simple; the tax code itself remained short by international standards.

The results were rapid compounding growth. Per-capita income rose from approximately one-quarter of the British level in 1960 to substantially above it by the mid-1990s. Life expectancy, educational attainment, and living standards advanced sharply despite the absence of natural resources and the presence of high population density (Friedman comparisons; IEA and related historical summaries). Hong Kong never operated a pure residual-claim system, yet it combined the second and third mechanisms—low extraction and relatively open entry—for a sustained period. The outcome was one of the clearest large-scale demonstrations that keeping more of the residual in private hands while lowering artificial barriers produces rapid improvement in material conditions. Later political and regulatory shifts altered the environment; the earlier decades remain instructive precisely because they approximated two of the three pillars simultaneously.

Market Opening in Telecommunications

Across multiple countries, the privatization of state telephone monopolies and the subsequent relaxation of entry and price controls produced rapid gains in access, quality, and affordability. Mobile telephony, once restricted and expensive, became a mass-market service within a relatively short period once statutory monopolies were broken and new competitors were permitted to operate. Studies of post-liberalization performance document increases in output, operating efficiency, and capital investment, together with declines in real prices and expansion of service to previously underserved populations (World Bank telecom reform analyses; national liberalization reviews).

These episodes primarily illustrate the third mechanism—deregulation and the removal of legal barriers to entry—while also allowing residual claims to operate more freely among the new private operators. Where taxation remained high or residual labor and spectrum rules stayed restrictive, the gains were -significantly- blunted. Where entry was genuinely opened, the speed of adoption and cost reduction accelerated. The pattern supports the study's claim that residual incentives produce limited results when artificial scarcity is maintained by law.

Higher Education Entry Liberalization: Spain after the Early 1990s

Higher learning itself has deep non-state roots. The major classical Greek philosophical schools (Plato's Academy, Aristotle's Lyceum, and others) were private initiatives founded and directed by individual scholars. The University of al-Qarawiyyin in Fez, Morocco, founded in 859 by the private benefactor Fatima al-Fihri as a mosque and madrasa, is recognized as the oldest continuously operating higher-learning institution. The later European university model and the modern predominance of state-controlled institutions are subsequent developments, and not without criticism. Global ranking patterns are consistent with the residual-claim perspective: many of the highest-ranked universities in major international league tables (particularly in the United States) are private institutions that operate with greater autonomy over resources, hiring, and strategy.

Spain's university framework was modified beginning in the early 1990s, making the legal creation of private universities feasible under defined conditions. From a very small base, the number of private institutions expanded rapidly. By the mid-2020s more than forty private universities were operating. They enrolled roughly 300,000 undergraduate (*grado*) students and had surpassed public institutions in master's-level enrollment, while also attracting substantial numbers of students from other Spanish-speaking countries (Spanish Ministry of Science, Innovation and Universities data; CYD Foundation analyses).

This expansion was a clear instance of the third mechanism in the present study: regulatory liberalization that lowered statutory barriers to entry. New providers competed on program design, flexibility, and employability, and residual-claim dynamics (tuition-dependent revenue) reinforced responsiveness to student demand.

From 2021 onward, however, the central government reversed course. A series of decrees (commonly referred to as the "anti-chiringuito" rules), intensified under the Sánchez administrations, imposed substantially higher barriers: minimum enrollment thresholds (later set at 4,500 students), mandatory research-expenditure and competitive-funding quotas, requirements for multiple doctoral programs, binding quality reports from evaluation agencies, and stricter solvency and promoter-experience rules. Institutions that fail to meet the new criteria face the risk of forced closure or severe operational constraints.

The re-tightening of entry and operating conditions illustrates the fragility of partial deregulation. When residual barriers are re-imposed, the earlier supply response is constrained and competitive pressure is reduced. Recent international rankings reflect the broader pressures on the Spanish system: multiple leading Spanish universities have declined in position in successive QS editions, and no Spanish institution ranks in the global top 100 (QS World University Rankings recent editions). The Spanish case therefore demonstrates both the positive effects of lowering entry barriers and the rapid erosion of those gains when regulation is re-expanded.

The Spanish example illustrates how heavier regulation and soft-budget public financing tend to raise costs (borne by taxpayers) while weakening competitive pressure on quality. Lower entry barriers and residual-claim mechanisms expand supply and allow market feedback to discipline cost and performance. A parallel relative decline is visible across much of Europe and, on pure research-output metrics, among leading Western institutions. In the Nature Index 2026 Research Leaders rankings, Harvard University lost the top academic position it had held for a decade, replaced by Zhejiang University; Chinese institutions took nine of the overall top ten places (Nature Index, 10 June 2026). Traditional reputation-based rankings (QS, THE) still show strong performances by certain US and UK universities at the very top, but the output-based shift recorded by the Nature Index and the CWTS Leiden Ranking confirms a rapid change in the global distribution of high-quality research production.

Limits of Partial Reform

Each of the cases improved measured outcomes relative to the prior status quo. None implemented pure performance-based pay, near-zero taxation of productive activity, *and* systematic deregulation at the same time. High-powered residual contracts still operated inside taxed and regulated environments. Low-tax jurisdictions retained other distortions. Sectoral liberalizations left surrounding tax and labor rules intact.

The recurring pattern is that partial movement produces partial gains. Soft-budget behavior, residual extraction, and remaining entry barriers continue to limit the compounding effect described in Chapter 5. Full coherence remains the arrangement most consistent with rapid discovery, broad opportunity for smaller enterprises, and the progressive reduction of debt-financed political predation.

Chapter 7

Objections and Replies

Any proposal that removes fixed salaries, sharply reduces taxation of productive activity, and systematically lowers regulatory barriers encounters a standard set of objections. This chapter addresses the most common ones directly, drawing on the residual-claim logic and the empirical patterns already presented.

Objection 1: Inequality of outcomes will increase

The claim is that pure performance-based pay and open competition will widen material differences and that such widening is inherently undesirable.

Reply: Inequality of outcomes is not a defect of residual-claim systems; it is a necessary consequence of differences in contribution, risk-taking, time preference, and accuracy of calculation. The study treats this inequality as functional, dynamic, motivating and driving diversity. Division of labor and specialization require that people who create more value receive more residual. Attempts to suppress outcome differences through status-based pay, progressive extraction, or regulatory protection of lower performers reduce the incentive to create value and protect incumbents at the expense of newcomers.

Empirical patterns support the distinction. Residual-claim arrangements raise overall productivity and expand absolute opportunities even while relative rankings change (Lazear, 2000; Doucouliagos et al., 2020). The relevant comparison is not between equal and unequal outcomes under residual claims, but between a system that rewards verified contribution and one that rewards credentials, tenure, or political connection. The latter produces its own inequalities—often less transparent and less productive.

Objection 2: Who protects the vulnerable?

Critics argue that residual-claim systems abandon those who cannot compete effectively—children, the disabled, the temporarily unemployed, or the low-skilled.

Reply: Protection of the vulnerable does not require soft budget constraints, fixed political salaries, or dense regulation of productive activity. Voluntary institutions—families, mutual-aid societies, charities, insurance markets, and residual-claim enterprises that choose to incorporate social purposes—have historically provided substantial support and continue to do so. Private entities frequently assist through scholarships, internships, and targeted training programs that simultaneously develop talent and serve

organizational needs: a win-win arrangement that does not rely on coercive redistribution. The study's framework improves the material base for such voluntary provision by leaving more resources in private hands and by removing barriers to the formation of new mutual-aid and charitable organizations.

Minimum-wage laws and occupational licensing, often defended as protections for the vulnerable, frequently reduce employment opportunities precisely for the lowest-skilled (Neumark & Shirley, 2022; Makridis & McLaughlin, 2024; Dodini, 2023). Soft-budget public programs create dependency traps and intertemporal debt burdens that fall on future workers (Pettersson-Lidbom, 2010). Residual-claim systems do not eliminate hardship; they reduce the political creation of artificial scarcity and the socialization of losses that currently magnify it.

Objection 3: Externalities and public goods

Some goods and harms are said to spill over so widely that residual claims and voluntary exchange cannot handle them—basic research, certain forms of infrastructure, pollution, or contagious disease.

Reply: The existence of externalities does not automatically justify fixed political salaries, high extraction from productive activity, or comprehensive entry barriers. Many externalities can be addressed through clearer property rights, residual-claim contracts, reputation mechanisms, and voluntary associations.

Where genuine public-goods problems remain, the residual-claim framework still favors transparent, time-limited, and personally accountable provision over open-ended soft budgets. Long-horizon private investment in research and infrastructure remains fully possible; the restriction is only on the political socialization of the associated risks.

Historical and contemporary cases of telecommunications liberalization, private higher-education expansion, and high-powered residual contracts (Tesla 2018 award) show that domains once thought to require heavy state control can generate rapid progress once residual claims and open entry are allowed to operate.

Objection 4: Transition costs and political feasibility

Even if the destination is desirable, the path is said to be politically impossible or economically disruptive.

Reply: The study does not require simultaneous, system-wide rupture. The three mechanisms can be advanced sequentially as bridge reforms: strengthening residual claims in public and private compensation,

reducing tax wedges on production and employment, and removing the most damaging entry barriers first. Each step that improves measured performance expands the constituency for the next step. Partial applications already demonstrate directional gains (performance-pay productivity effects, tax-cut employment responses, licensing reform employment effects). Full coherence is the logical extension, not a utopian precondition.

Political feasibility is constrained by existing interest groups that benefit from soft budgets and regulatory protection. That constraint is real. It does not invalidate the residual-claim diagnosis; it explains why incomplete reform is the historical norm and why soft-budget and barrier-creating policies persist despite their costs.

Objection 5: Substance use and public health

Residual-claim and deregulatory approaches are said to ignore the harms of addiction, obesity, or other health-related behaviors.

Reply: Political ranking of “good” and “bad” consumption has repeatedly produced black markets, higher prices for legitimate users, and corruption of medical gatekeeping. Prescription regimes and controlled-substance schedules raise costs and restrict access while failing to eliminate non-medical use. A residual-claim framework does not require the state to declare particular substances or lifestyles virtuous or vicious. It requires individuals to bear the consequences of their choices and leaves voluntary providers of information, insurance, treatment, and mutual aid free to operate. Bridge measures may retain limited controls; the long-run direction is the removal of political gatekeeping that creates artificial scarcity without eliminating the underlying demand.

Summary of the Replies

The recurring pattern in the objections is the assumption that residual claims, low extraction, and open entry leave important social functions unprovided. The empirical record of partial applications points the other way: residual-claim pay raises productivity, lower tax wedges expand employment and investment, and reductions in entry barriers increase opportunity and supply. Voluntary institutions and clearer residual liability address many of the concerns raised about vulnerability, externalities, and health. Transition is feasible as sequential constraint of soft budgets and artificial barriers rather than as instantaneous system replacement.

The three mechanisms do not claim to eliminate every hardship or coordination problem. They claim to make debt-financed redistribution and political predation increasingly difficult while improving the conditions under which voluntary cooperation, long-term private investment, charity, and education can operate. That claim is consistent with the directional evidence reviewed throughout the study.

Chapter 8

Conclusion: Residual Claims, Constraint of Soft Budgets, and the Path Forward

The recurring problems of modern societies—persistent unemployment alongside unmet needs, slow productivity growth despite technological advance, housing shortages amid regulatory complexity, declining educational outcomes relative to expenditure, substance-related harms expanded by prohibition and prescription regimes, and public debts that outlive the politicians who authorized them—are not primarily the result of insufficient resources or inherent market failure. They are the predictable consequences of incentive misalignment: status-based and time-based compensation, political insulation from the consequences of debt, high taxation of productive activity, and dense regulation that protects incumbents while blocking experimentation.

This study has examined three interlocking mechanisms that directly attack those misalignments: pure performance-based pay with zero fixed salaries, progressive reduction or elimination of taxes on productive activity, and systematic deregulation. Together they raise the cost of debt-financed redistribution and political predation while leaving voluntary long-term investment, charity, and education fully intact—and typically improved.

Synthesis of the Argument

Pure residual-claim pay aligns individual effort with verified results. Early high-quality completion is rewarded; miscalculation is borne by the decision-maker. The centerpiece comparison of politicians, entrepreneurs, and employees shows how current status-based and fixed-salary arrangements sever contribution from reward, while the residual-claim alternative restores it. Politicians who create

unresolved debt within their term face personal liability; no sob-story exemptions apply. Inequality of outcomes under these rules is treated as functional: it reflects differences in contribution, risk-taking, and accuracy of calculation, and it enables division of labor and diversity rather than suppressing them.

Detaxation ends the punishment of productivity. Taxation is a disincentive. While government continues to exist, the least damaging use of that instrument is to place burdens on behaviors widely regarded as costly rather than on the creation of value. The long-run direction remains neutrality. Empirical patterns from major tax reforms show employment and investment responses consistent with this logic.

Deregulation clears the path for residual incentives to operate. Occupational licensing, land-use controls, product standards, and entry barriers compound costs, protect incumbents, and slow discovery. Partial liberalization episodes—telecommunications, Spanish private higher education in the 1990s–2010s, and high-powered residual contracts such as Tesla’s 2018 CEO award—demonstrate directional gains. Re-imposition of barriers, as in the later Spanish university decrees, erodes those gains. Ranking and research-output data further show relative decline among many heavily regulated European systems alongside rapid rises in research production elsewhere (Nature Index 2026; QS and Leiden rankings).

The three mechanisms are synergistic. Performance pay without low taxes is blunted; low taxes without open entry leave resources trapped; deregulation without residual discipline opens space that can still be filled by soft-budget behavior. Only joint operation produces the compounding pattern of rapid error correction and continuous adaptation illustrated in the four-quadrant framework of Chapter 5.

Path and Feasibility

The study does not require instantaneous system-wide rupture. The mechanisms can be advanced sequentially as bridge reforms: strengthening residual claims in compensation, reducing tax wedges on production and employment, and removing the most damaging entry barriers first. Each measured improvement expands the constituency for further steps. Long-horizon private investment, mutual aid, scholarships, internships, and voluntary education remain free and are strengthened by the larger residual base left in private hands.

“Bad” actors and Dark-Triad dispositions continue to exist. The residual-claim framework constrains them through transparency, personal liability, and the absence of bail-outs rather than through ever-more-

complex rules that themselves create new loopholes. Government is granted no moral exception: theft remains theft, and soft budgets that socialize losses remain a form of predation.

Final Statement

The dominant pattern of incentive misalignment is systemic. Antisocial and high-Dark-Triad individuals exploit the loopholes that regulation and soft budgets create. The empirically supported alternative is not more central planning but residual claims, low extraction, and open entry. These three mechanisms make debt-financed redistribution and political privilege increasingly difficult while improving the conditions under which voluntary cooperation, long-term private investment, charity, and education can operate. The result is not the abolition of social goods but their transfer from coercive to residual-claim and voluntary provision under conditions of transparency and personal accountability.

That is the practical content of the study.

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