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Résumé : Selon Ludwig von Mises, la raison d'être des régimes démocratiques est de faciliter les transitions pacifiques du pouvoir. Leur fonction sociale est de réduire la nécessité de réformes radicales et, surtout, de soulèvements violents de la population contre les dirigeants politiques et le système de gouvernement. Dans le présent document, nous discutons les mécanismes économiques mettent en cause cette fonction de la démocratie.

Abstract: According to Ludwig von Mises, the raison d'être of democratic regimes is to facilitate peaceful transitions of power. Their social function is to reduce the need for radical reforms and, above all, violent uprisings of the population against political leaders and the system of government. In this paper, we discuss the economic mechanisms that undermine this function of democracy.

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Two democratic countries, Argentina under Xavier Milei and the US under the second Trump administration, are currently undertaking sweeping reforms. The voters have given mandates to politicians professing that the entire political system needed radical reforms. Milei has become famous all over the world for his metaphor of the “chainsaw” approach to cutting down public administrations. This situation has long been foreshadowed. Various crisis symptoms have been diagnosed in the academic literature in the past twenty years, among them perennial government budgets deficits, a permanently rising national debt, the inability or unwillingness of political actors to reform the political system, as well as the political apathy of ever larger swaths of voters.¹

In the present paper, I will examine the extent to which democratic systems have an inherent tendency towards self-paralysis, which eventually can only be solved through radical reforms and, in fine, violent upheavals. To this end, I will build on the theory of democracy formulated by Ludwig von Mises one hundred years ago. Mises argues that the very purpose of democracy is to facilitate peaceful transitions of power.² Its social function is to *reduce* the necessity for radical reforms and, especially, for violent upheavals of the population against political leaders and even against the entire system of government. I will first present this conception in more detail (I) and then apply capital theory in order to explain why the Misesian social function of democracy tends to be dissipated under the impact of “political production” processes (II).

I. Mises on Democracy

In a nutshell, Mises’s argument may be summarised as follows (see also Hülsmann 2007, pp. 410-413): The division of labour requires some form of government in order to preserve public order. At the same time, and most importantly, government policies should be in tune with the preferences of the majority of the population in order to prevent that it be necessary to change the government through violent means, with corresponding losses in terms of blood, time, and money. Democratic government serves to prevent that it ever come to such a situation. It is an anti-revolutionary form of government. Its main social

¹ Overviews in Przeworski (2019); S Levitsky & D. Ziblatt (2018); see also Lemennicier (2005), Arnim (2002), Nemo (2004).

² See in particular Mises (1951 [1932]), Part I, chapter III and Part III, chapter II; idem (1985 [1927]), I.7. and I.8.; idem (1998 [1949]), chapters VIII and IX.

function is to prevent that the division of labour be disrupted and everybody's economic interests hurt.

Now let us present his argument in more detail. Mises' starting point is that the division of labour yields greater amounts of products than uncoordinated activities. It is in the material interest of any and all individuals to pursue their respective goals in co-operation with other people. Each individual has a well-understood personal interest in cooperating with others and preserving the division of labour.

But such cooperation is possible only in the absence of violent confrontations. How can peace be institutionally secured? Mises' view on this problem is again quite conventional. He considers that purely voluntary associations and profit-orientated companies cannot ensure law and order, or cannot do so entirely on their own. *Some* level of violence would be necessary in order to contain the irrational activities of "the infants, the aged, and the insane [...] lest they jeopardize society." (Mises 1998 [1949], p. 149) Without a *monopolist* of violence, nothing would prevent civil war and devastation. This cannot be in the best interests of the majority. Isolated ruffians and criminals may find pleasure in the chaos of civil war, but the vast majority have other things in mind. They have business, they want to realise plans for which they need the cooperation of shareholders, employees, suppliers, and customers. Such co-operation cannot be reconciled with warfare. It needs peace. It needs reliable security production that keeps the ruffians and criminals largely in check. In his words:

State or government is the social apparatus of compulsion and coercion. It has the monopoly of violent action. No individual is free to use violence or the threat of violence if the government has not accorded this right to him. The state is essentially an institution for the preservation of peaceful interhuman relations. However, for the preservation of peace it must be prepared to crush the onslaughts of peace-breakers. (Mises 1998 [1949], p. 149)

How can such a monopolist of violence be established? Like Etienne de la Boétie, David Hume, and other luminaries of Western political thought, Mises considered that, in the long run, all political power is based solely on public opinion.³ The state has got no other

³ See de la Boétie (1993) and Hume (1987). The same idea can also be found in Thomas Aquinas (1949).

resources than those which the citizens concede to it, be it in the form of taxes or in the form of personal labour, and the citizens yield these resources to the demands of the state because they believe these sacrifices to be in their own long run self-interest.

Mises' argument does not presuppose that the payments to government be voluntary. Taxes are enforced under threat of physical violence. Only a few citizens would voluntarily pay the same amounts to their state. But even in the case of compulsory payments, the opinion of citizens about government activity plays a decisive role. Compulsory payments are tolerated or accepted if the taxpayers consider that, by and large, the government does what it should do. The citizens may then grumble, but do nothing to avoid the payment. By contrast, if a sufficient number of citizens refuse to tolerate the state, either state activity comes to a standstill very quickly or civil war breaks out again. The state's monopoly on the use of force is therefore not a sufficient solution to preserve the peace. It must be supplemented by a public opinion that supports the holders of state power. Otherwise, either the state comes to a standstill or there is a conflict between the rulers and the ruled, which can ultimately only be resolved in a bloody manner. In Mises' words:

[...] the rulers, who are always a minority, cannot lastingly remain in office if not supported by the consent of the majority of those ruled. Whatever the system of government may be, the foundation upon which it is built and rests is always the opinion of those ruled that to obey and to be loyal to this government better serves their own interests than insurrection and the establishment of another regime. The majority has the power to do away with an unpopular government and uses this power whenever it becomes convinced that its own welfare requires it. In the long run there is no such thing as an unpopular government. Civil war and revolution are the means by which the discontented majorities overthrow rulers and methods of government which do not suit them. (Mises 1998 [1949], pp. 149f)

Civil war and revolution and radical measures to bring government into tune with the conceptions, right or wrong, of the majority of the population. Civil war and revolution are tantamount to political regime change. The entire system of government may be overthrown and replaced by a new system more to the liking of the majority. But civil war and revolution are also undesirable in that the ordinary division of labour is disrupted.

Irreconcilable conflicts between the government and the governed inevitably have negative economic consequences.

This is where Mises' theory of democracy comes into play. He argues that the only rational justification for democracy is that it is more favourable to the economic interests of the vast majority of the population than all other political constitutions in that it facilitates the transition of power into the hands of those who cater more strongly to the wishes of the voters. States Mises:

For the sake of domestic peace liberalism aims at democratic government. Democracy is therefore not a revolutionary institution. On the contrary, it is the very means of preventing revolutions and civil wars. It provides a method for the peaceful adjustment of government to the will of the majority. When the men in office and their policies no longer please the majority of the nation, they will – in the next election – be eliminated and replaced by other men espousing different policies. (Mises 1998 [1949], p. 150)

If public opinion no longer tolerates the government, the citizens are free to elect a different government at the next elections, thereby avoiding violent confrontations. The comparative advantage of democratic regimes is that they alone allow for such a peaceful transition of power. In all other regimes, the governed have only one recourse to bring their government into tune with their wishes: civil war and revolution. Let us quote again Mises, this time from his book *Socialism*:

In non-democratic states, too, only a government which can count on the backing of public opinion is able to maintain itself in the long run. The strength of all governments lies not in weapons but in the spirit which puts the weapons at their disposal. Those in power, always necessarily a small minority against an enormous majority, can attain and maintain power only by making the spirit of the majority pliant to their rule. If there is a change, if those on whose support the government depends lose the conviction that they must support this particular government, then the ground is undermined beneath it and it must sooner or later give way. Persons and systems in the government of non-democratic states can be changed by violence alone. The system and the individuals that have lost the support of the people are swept away in the upheaval and a new system and other individuals take their place.

But any violent revolution costs blood and money. Lives are sacrificed, and destruction impedes economic activity. Democracy tries to prevent such material loss and the accompanying psychological shock by guaranteeing accord between the will of the state – as expressed through the organs of the state - and the will of the majority. This it achieves by making the organs of the state legally dependent on the will of the majority of the moment. In internal policy it realizes what pacifism seeks to realize in external policy. (Mises (1951 [1932]), pp. 72f)

Mises rejects all other justifications of democracy. In particular, the natural law argument finds no favour in his eyes. Like Jeremy Bentham and most other critics of natural law, Mises finds the reference to natural or innate human rights unconvincing.⁴ Nor does he believe, like Josef Schumpeter and others, that democracy is particularly efficient in the selection of political leaders.⁵

Mises does not regard democracy as an infallible means of political organisation. It may fail because people – whether individually or collectively – may fail, even if they act with the best intentions. Mises underscores that most people do not know what is in their interest.⁶ This is why democracy fulfils its peace-keeping function only in the sense that it ensures *longer* peace than other forms of government. Mises points out that, historically, the great scourge of democratic regimes has been the temptation of interventionism, especially in the name of egalitarian policy objectives. Interventionist policies destroy democratic countries from within. They create antagonistic classes of winners and losers. Eventually the only recourse of the losers was emigration and civil war (see Mises 1978, chap. 1). In *Socialism*, Mises expressed this dire warning:

Whoever stirs up the resentment of the poor against the rich can count on securing a big audience. Democracy creates the most favourable preliminary conditions for the

⁴ See Mises, *Human Action*, p. 174f. In *Socialism* he wrote “The significance of the democratic form of constitution is not that it represents more nearly than any other the natural and inborn rights of man; not that it realizes, better than any other kind of government, the ideas of liberty and equality. In the abstract it is as little unworthy of a man to let others govern him as it is to let someone else perform any kind of labour for him.” (Mises 1951 [1932]), p. 72)

⁵ “But it is difficult to see why democracy should necessarily be luckier than autocracy or aristocracy in selecting people for directing the state. In non-democratic states, history shows, political talents have frequently won through, and one cannot maintain that democracy always puts the best people into office. On this point the enemies and the friends of democracy will never agree.” (Mises 1951 [1932], p. 72)

⁶ See Mises (2008 [1956]), pp. 34-43; Mises (1996 [1962]), pp. 95, 112. For the same reason, he is not a supporter of direct democracy (although he does not reject it in principle). He also considers the division of labour to be more productive in the area of political leadership than the simultaneous participation of all shareholders.

development of this spirit, which is always and everywhere present, though concealed. So far all democratic states have foundered on this point. The democracy of our own time is hastening toward the same end. (Mises 1951 [1932], p. 78)

Mises therefore held that “only within the framework of Liberalism does democracy fulfil a social function. Democracy without Liberalism is a hollow form.” (Mises 1951 [1932], p. 76) And even within the framework of Liberalism, democracy is only a *tool* for the peaceful transition of power, not an ultimate objective. The “highest political principle” of Liberalism is not democracy, but rather “the self-determination of peoples as of individuals.” (Mises 1951 [1932], p. 71) As a consequence, Mises advocated the possibility to opt out of any political system – including democratic systems – through secession. In his treatise on *Liberalism* he wrote:

The right of self-determination in regard to the question of membership in a state thus means: whenever the inhabitants of a particular territory, whether it be a single village, a whole district, or a series of adjacent districts, make it known, by a freely conducted plebiscite, that they no longer wish to remain united to the state to which they belong at the time, their wishes are to be respected and complied with. [...] If it were in any way possible to grant this right of self-determination to every individual person, it would have to be done. (Mises 1985 [1927], p. 109)

II. Democracy in the Light of Capital Theory

We have seen that, according to Ludwig von Mises, democratic regimes tend to facilitate the peaceful transition of power into the hands of politicians who execute the will of the majority of the population. We have also seen that Mises thinks democracy lastingly fulfils this function only in non-interventionist democracies, although he did not elaborate much on this point.

In what follows, we will consider a basic economic mechanism through which the process of acquiring and preserving political power tends to undermine democracy’s peace-keeping function, especially in interventionist democracies. The various activities designed to acquire and preserve political power in an interventionist state tend to bring about any increasing gap between the opinions of the governed and the opinions of the members of

government, and this gap is increasingly difficult to eradicate through elections. As a consequence, in the long run, it is increasingly likely that the opinions of the governed and the government can only be harmonised through civil war and revolution. In other words, the comparative advantage that Mises convincingly claims for democratic regimes hold true only temporarily (even though this “temporary” phase may last for many decades).

The economic mechanisms that bring about this state of affairs can best be explained in the light of capital theory. All production is subject to the law of diminishing marginal physical returns. In order to increase the productivity of human labour, there are essentially only three basic strategies: (1) the division of labour, (2) innovation and (3) capital accumulation along with roundabout production. This also applies to the political sphere. Some libertarians may be reluctant to use the term “political production” because the word production insinuates the production of goods, whereas from a libertarian point of view politics is destructive and therefore bad. However, there can be no doubt that, subjectively, all human beings involved in politics consider the intended consequences of their actions to be good, and we may therefore speak of political production in that sense.⁷

Political production is based on the division of labour, is innovative (there are political entrepreneurs), competitive (whereby competition acts as a discovery process), and it benefits from the accumulation of capital and roundabout production. We will now turn to this latter aspect.

The function of capital accumulation is to enable roundabout production. The original production goal is still pursued, but now with a larger number of intermediate steps and tools (goods of a “higher” order), which are produced in advance of the production of consumer goods (goods of the “first” order). While the concrete objectives of political production may vary from case to case, there is one political objective that is of overall importance. Indeed, the acquisition and preservation of power is to be found in all political parties. It represents the common interest that established parties pursue regardless of their

⁷ Let us quote here a classical passage from St. Thomas Aquinas: “That every agent acts for an end has been made clear from the fact that every agent tends toward something definite. Now, that toward which an agent tends in a definite way must be appropriate to it, because the agent would not be inclined to it except by virtue of some agreement with it. But, what is appropriate to something is good for it. So, every agent acts for a good. [...] This is the reason why the philosophers, in defining the good, have said: ‘the good is what all desire’. And Dionysius states that ‘all crave the good and the best [De div. nom. IV, 4].” Aquinas (1956), book 3, pp. 38-40.

(supposed or actual) differences and therefore an important *shared ground for co-operation* towards the goal of acquiring power (see Arnim 2002, chap. 20).

We have seen that political power is ultimately dependent on the opinion of the governed. Therefore, political production in general, and the acquisition and preservation of power in particular, aims to (A) reduce the government's dependence on the opinion of the governed and (B) influence the opinion of the governed in the government's favour (see Vaubel 1994, 2006; Blankart 1998; Arnim 2001). Roundabout production for the market seeks to produce capital goods that facilitate the production of final consumers' goods. Roundabout production in politics seeks to increase the probability of electoral success (the first-order goods of power politics in democratic forms of government) by suitable preparations up to and including the manipulation of the voting process (see Arnim 2002, Simpser 2013, Noggle 2021).

The most important means of production for the acquisition of power is taxpayer funding of political parties (entailing less dependence on constant personal support by party members); the establishment of large state bureaucracies (Gottfried 2001); control over money, currency and credit (Hoppe 1994); control over the formation of opinion through the state schools and universities⁸; control over the formation of opinion through the media (licences, subsidies and advertising contracts); control over the internal and external competitors admitted to political competition (e.g. 5% threshold, party bans, etc.); direct and indirect control over potential political competitors in the state, in the economy, and in civil society (state recognition and promotion of professional organisations; regulation of the economy; abolition of the separation of powers in the state).⁹

There is no question that these means are used in various countries and have become increasingly common over time. Their general consequence is to reduce the dependence of political leaders on the will of the electorate. The use of these means has transformed what was originally intended to be "open" democratic systems into increasingly "closed" systems. In fine, political production tends to turn the entire (political) organisation of society into a tool for the respective political establishment (most notably the members of the ruling

⁸ Mises himself never paid much attention to this problem. Like Jeremy Bentham, he was caught up in the idea that governments should not intervene in the contest of opinions. But the fact is that governments – including democratic governments – *have* repeatedly done just that without qualms.

⁹ A discussion of the impact of the political process on the division of political powers is in Levinson & Pildes (2006) and Carolan (2009).

political parties) at the expense of the rest of the population. In today's political jargon this is called "weaponization" of public institutions. It becomes increasingly more difficult to replace the political establishment peacefully, or to entice it peacefully to act in accordance with the will of the majority. The recent electoral successes of Xavier Milei and Donald Trump have demonstrated that a majority of voters may support "anti-system" candidates. But the question remains whether these candidates, once elected, will be able to reform the system within the time frame of their mandate.

This tendency to consolidate political power in the hands of the establishment, and thereby to slow down or prevent the peaceful adjustment of politics to the will of the voters, becomes even clearer if we consider another lesson of capital theory, namely, the path-dependency resulting from the existing capital structure. As we have pointed out, political roundabouts usually involve institutions such as licenses, networks, taxpayer-funded schools, political parties, and so on. It follows that any weakening or abolition of these institutions would negatively affect the material interests of more or less large sections of the population, at any rate in the short run. For example, the abolition of a central bank would have a dramatic negative short-run impact on the material interests of all citizens. The abolition of a public-school system would involve a short-run disruption of family time tables and create short-run unemployment among teaching staff. In other words, any change in the political production structure would entail significant switching costs. These costs influence the voting behaviour of citizens in favour of the existing institutions and thus hinder or slow down a possible reform.¹⁰ Only when the political damage caused by lacking reforms is great enough (when it is *perceived* to be great enough) do citizens take action in favour of reform, accepting these switching costs.

One might argue that similar problems exist in the area of private-sector production. Here, too, the existing capital structure "weighs" on citizens' voting behaviour and exerts a conservative influence on investment decisions. The difference to political production, however, lies in the fact that the latter restricts free competition by its very nature.

In particular, it is impossible for new forms of government to be introduced in parallel with existing ones. In absolute monarchies, it is not possible for entrepreneurs to organise

¹⁰ This is a key reason for the path dependency of the evolution of (political) institutions. Ludwig von Mises has analysed this path dependency in detail. See Mises (2003 [1933]), chapter 8; Mises (1998 [1949]), chapter XVIII, sections 5 and 6.

elections of a parallel republican government which would then offer its services in competition to the monarch. In present-day democracies, it is not possible for the citizens to stop paying taxes to the public treasury and start supporting an alternative political organisation, say, a monarch. Any newcomer to the political market must use the institutions (e.g. electoral laws and party laws) created and controlled by its established competitors. Newcomers cannot simply set out to “fill in political market gaps” without worrying about the legal framework, the rules and regulations created by their established competitors.¹¹ If they do not play by the established rules, they become outlaws. Such illegality entails costs that would not exist in this form and to the same extent on a free market.¹²

Is it possible to slow down or stop this process of political production? Here we need to consider that this process is most notably (though not exclusively) driven by the material advantages that spring from political power. A minimal state of the night-watchman variant usually does not convey significant resources to politicians and bureaucrats. As a consequence, the economic incentives for significant capital expenditure on roundabout political production are small in this case. By contrast, a strongly developed interventionist state which not only protects persons and property, but also provides manifold other services such as infrastructure, housing, education, medical services, comes along with a massive redistribution of taxpayer money and public debt. Acquiring and preserving political power in such an interventionist regime warrants massive spending of time and money on political roundabouts.

In short, political production could be slowed down by reducing the size of the state. But state agents (politicians and bureaucrats) have no self-interest in tolerating or bringing about such a reduction. Are there any other tools available. Are political constitutions suitable tools to this effect? This must be denied in view of the fundamental nature of the economic forces at work here. Constitutions, too, are written and interpreted by people. It is therefore only natural and inevitable that political production begins in the area of

¹¹ This fact is sometimes neglected in economic analyses of political competition. As a result, some Chicago School economists have concluded that political competition prevents too great a divergence between the will of voters and government policy. See Becker (1976) and Wittman (1989).

¹² There is some recent discussion of competitive governance through the creation of new jurisdictions and “non-territorial governance providers” (Friedman & Taylor 2020) and charter cities (Romer 2010, Gebel 2023), but there does not seem to be a single case in which newcomers have been able to act against the will of the political establishment.

constitutional interpretation. John C. Calhoun (2007 [1851]) analysed precisely this process in the early 19th century. He concluded that constitutions per se are not enough to curb the long-term expansionist desires of political elites. After Calhoun, another American political scientist, W.G. Sumner, pointed out that democracies are the natural victims of plutocrats, i.e. entrepreneurs who invest their capital not in the free market but in political production in order to make profits by changing the political framework (crony capitalism). He wrote:

There is no form of political power which is so ill-fitted to cope with plutocracy as democracy. Democracy has a whole set of institutions which are extra-legal, but are the most powerful elements in it; they are the party organization, the primary, the convention, etc. All this apparatus is well adapted to the purposes of plutocracy: it has to do with the *formative stage of political activity*; it is very largely operated in secret; it has a large but undefined field of legitimate, or quasi-legitimate, expenditure, for which there is no audit. As the operations of this apparatus are extra-legal they are irresponsible, yet they reach out to, and control, the public and civil functions. Even on the field of constitutional institutions, Plutocracy always comes into the contest with a small body, a strong organization, a powerful motive, a definite purpose, and a strict discipline, while on the other side is a large and unorganized body, without discipline, with its ideas undefined, its interests ill understood, with an indefinite good intention.¹³

As a result, any change of an established democratic system is more difficult and therefore less likely than systemic change in the private sector.¹⁴ Again, we would expect this to hold true especially in interventionist democracies. Major and lasting differences between the will of the governed and the will of the government are here possible, at any rate in the long run. The older the democracy and the more pervasive the role of the state,

¹³ Sumner (1992), p. 147. Original emphasis. Sumner concluded that state activities should be limited as far as possible (*laissez-faire* system), in order to discourage the scheming of plutocrats.

¹⁴ As we saw above, in connection with the peace-keeping function of democracy, Mises speaks explicitly of changes in people and systems. Although he does not give any examples of system changes, he probably had cases from recent history in mind. For example, some of the numerous political system changes in 19th century France were democratically legitimised, such as the change from the parliamentary Second Republic to the constitutional monarchy under Napoleon III, as well as the creation of the Third Republic. In the 20th century, for example, there was a democratically legitimised transition from constitutional democracy to parliamentary democracy in Austria, and there was also a democratically legitimised transition from parliamentarism to totalitarian one-party rule in Germany. But the term “system change” can certainly also be interpreted as referring not only to a change in the form of government, but also to major changes within a form of government, e.g. the transition from a presidential democracy, as we know it in France today, to a democracy with a stronger parliamentary orientation, such as in England today or under the Third Republic in France.

the more likely such major and lasting differences are, as the influence of the various political roundabouts becomes more pronounced with increasing age. In other words, the process of roundabout political production, thriving on interventionism, tends to undermine the core function of democracy according to Mises. In fine, such interventionist political systems can only be reformed with the help of civil war and revolution. This seems to be the reason why Mises held that “only within the framework of Liberalism does democracy fulfil a social function. Democracy without Liberalism is a hollow form.” (Mises 1951 [1932], p. 76)

Conclusion

Fundamental reforms and systemic change of a mature democratic system must be regarded as similarly difficult and problematic as change of other forms of government, especially if the democracy in question pursues strongly interventionist policies. In interventionist democracies, it cannot be assumed *a priori* that there is greater agreement between the will of the governed and that of the government than in other political systems. The tendency to maintain peace (and in this sense to promote the economy) is not automatically greater in democratic forms of government than in other forms of government. This is particularly true in the long term.

If the inherent tendency of roundabout political production to paralyse the change of persons and systems cannot be neutralised by external forces, then in the long run modern democracies can probably only be reformed through major convulsions or revolutions.

Maybe this should not be held too much against democracies. After all, they facilitate the preservation of peace at least temporarily. Their long-run inability to provide this service may be the price to pay for their short-run benefits. But our analysis certainly cautions against interventionist policies. Whatever their other pros and cons may be, they contribute to undermining the social function of democracy.

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