

FREEDOM AND PROSPERITY IN LIECHTENSTEIN: A HOPPEAN ANALYSIS

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LIECHTENSTEIN HAS LONG BEEN recognized as one of the most free and prosperous countries in the world. However, there has been little analysis of Liechtenstein's development because the scant research that existed was in German and therefore inaccessible to most American scholars. Furthermore, many saw no need to study Liechtenstein, viewing it as an accident of history with an anachronistic political system. Liechtenstein's Monarchy, unlike the monarchies in most other European states, retains extensive powers and is involved in the day-to-day operations of government. In fact, in 2003, Liechtensteiners voted to give the Monarchy even more power, prompting the BBC to remark that they had "voted to make their prince an absolute monarch again."¹

Recent scholarship, however, allows us to examine the reasons for Liechtenstein's success. David Beattie, former British Ambassador to Switzerland and Liechtenstein, published a comprehensive history of Liechtenstein in 2004.² This book, along with Pierre Raton's earlier research, provides sufficient material to analyze Liechtenstein's development.

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¹"Liechtenstein prince wins powers."

²For a discussion of Liechtenstein's history focusing exclusively on the Monarchy, see Beattie (2004b).

The work of economist and political philosopher Hans-Hermann Hoppe, specifically his seminal book *Democracy—The God That Failed: The Economics and Politics of Monarchy, Democracy, and Natural Order* gives us a framework for analyzing Liechtenstein’s development. In his book, Hoppe argues that, contrary to popular belief, the historical transition from monarchy to democracy represents decline, not progress. Hoppe offers a two-part thesis to support his theory. First, monarchs, unlike democratic rulers, tend to have low time preferences; therefore, they avoid, if at all possible, wars and high taxes for fear of hurting the state’s long-term capital value. Second, there is a clear distinction between rulers and ruled under a monarchy; this “class consciousness,” as Hoppe calls it, encourages the public to resist governmental excesses.³

The first part of this article will explain Hoppe’s thesis in detail, focusing particularly on time preference and class consciousness: two factors that have played a key role in Liechtenstein’s development. The second part will apply Hoppe’s theory to Liechtenstein’s history. The third part will explain why Liechtenstein has maintained its freedom in an age of omnipotent government.

HOPPE’S THEORY OF MONARCHY AND DEMOCRACY

It is first necessary to give Hoppe’s definition of time preference and his definition of a state. Time preference is the degree to which people value future benefits over present benefits. A person with a low time preference is future-oriented, preferring savings and investments, for example, to current spending. By contrast, a person with a high time preference is present-oriented, preferring instant gratification.⁴ Hoppe defines a state as a territorial monopoly of ultimate decision-making (jurisdiction) and expropriation of resources through property rights violations (taxation). States, by nature, tend to expand, as the rulers try to increase the amount of territory under their jurisdiction. Furthermore, rulers will tend to confiscate wealth at an increasing rate. In short, a state’s rulers naturally utilize its resources for their own benefit.⁵

In a monarchy, the royal family “owns” the state, since the reigning monarch maintains control of the state until his death, passing ownership to his heir. The state is, in effect, privately owned, and Hoppe therefore refers to hereditary monarchy as “private government

³See Hoppe (2001, chaps. 1-3).

⁴See Hoppe (2001, pp. 1-3).

⁵See Hoppe (2001, p. 45).

ownership.”⁶ A monarch will tax his subjects, but he will keep taxes as low as possible because, since he literally “owns” the state, he has an incentive to keep his subjects as productive as possible. High taxes ultimately decrease the state’s long-term capital value because, when people produce things of value, they expect to profit from their work. However, if taxes are high, they have little incentive to keep producing, as the fruits of their labor will only go to the state. Therefore, as taxes increase, productivity decreases. High taxes, then, reduce the state’s long-term capital value and, therefore, the monarch’s future tax revenue. As a result, monarchs tend to have low time preferences and thus keep taxes low to maintain the capital value of their taxation monopoly. In fact, monarchs frequently ran their own “normal” businesses so that they did not have to support themselves exclusively with tax revenue.⁷

In a democracy, by contrast, the executive is usually a president or prime minister, elected for a specified time (usually four years). He does not pass ownership of the state to his heirs and, in fact, does not own it himself. Instead, presidents are best described as “temporary caretakers or trustees.”⁸ The state is not owned by a private family, but by the public. Therefore, a democracy can be described as a publicly owned government. Since the president only controls the monopoly of taxation and jurisdiction for a short time, his incentive is to exploit the state and its subjects as much as possible during his time in power; a democratically elected president will have a high time preference. Thus, in a democracy, there is a high incentive for rulers to utilize high taxes to maximize their power while in office.⁹ To support this theory, Hoppe notes that monarchs did not levy income taxes, which punish productivity; the income tax is a creation of democracy.¹⁰

For the same reason, monarchies accumulate less debt than democracies. A king is less likely to borrow in excess because “he is constrained in this ‘natural’ inclination by the fact that as the government’s private owner, he and his heirs are considered personally liable for the payment of all government debts.”¹¹ A monarch can become bankrupt, and his creditors can force him to liquidate his assets to pay debt. Presidents, by contrast, tend to accumulate excessive debt. The debts

⁶Hoppe (2001, pp. 15-17).

⁷See Hoppe (2001, pp. 19-20). See also de Jouvenel (1957, pp. 212-13).

⁸Hoppe (2001, p. 17).

⁹See Hoppe (2001, p. 24).

¹⁰See Hoppe (2001, p. 55).

¹¹Hoppe (2001, p. 27). Kuehnelt-Leddihn (1943, pp. 108-09) notes that medieval monarchs only resorted to borrowing because they lacked the power to obtain sufficient revenues through taxes.

they amass are considered public, not private. A president, unlike a monarch, cannot be held personally liable. This creates an increased incentive to accumulate massive debt to pass on to future generations.¹²

A monarch, as private owner of the state, tends to favor preserving existing private property law and has little incentive to redistribute income and property. He has little motivation to redistribute wealth through mechanisms such as tariffs, welfare programs, or subsidies to industry because the ultimate effect of any redistribution is to reward nonproductivity. Rewarding nonproductivity only encourages future nonproductivity; therefore, redistribution decreases a state's capital value. By contrast, a president and elected legislature will increasingly prefer to create positive "public" law in order to gain new constituencies of voters; they do not own the state and therefore have no incentive to maintain its value. Thus, under a democracy, tariffs, welfare programs, and state aid to industry will become prevalent.¹³

The redistribution of wealth that accompanies democracy has two effects, both of which are negative. First, law "becomes increasingly flexible and unpredictable."¹⁴ This increases time preferences because there is little incentive to save if you know your property could be taken at any time; businesses invest less and people save less. Furthermore, it increases crime rates because law is constantly changing and there are no immutable standards. Second, redistribution leads to an "infantilization" of society, in which virtually all businesses and individuals depend on the government. Transferring income to someone who has done nothing to earn it rewards them for being unproductive; thus, redistribution encourages the problems it is designed to fix. Businesses who benefit from subsidies and tariffs become less efficient and ask for more tariffs and subsidies. Welfare recipients do not find work and instead demand more welfare.¹⁵ As a result, most Western governments dedicate more than 50% of total expenditures to public welfare, compared to almost nothing during the monarchical age.¹⁶ This produces what Hoppe calls a "process of decivilization" in which time preferences of rulers and ruled perpetually decline and government intrudes upon nearly all aspects of everyday life.¹⁷

¹²See Hoppe (2001, p. 27).

¹³See Hoppe (2001, pp. 28-33).

¹⁴Hoppe (2001, p. 31).

¹⁵See Hoppe (2001, pp. 30-33).

¹⁶See Hoppe (2001, p. 65).

¹⁷See Hoppe (2001, chap. 1).

While all governments are expansive by nature, monarchical governments prefer the least expensive and least violent means of acquiring new holdings. A monarch who raises taxes to build an army risks decreasing the capital value of his state. Therefore, he will expand his dominions through less expensive means, such as political marriages and purchases. When monarchs cannot expand through these methods and must go to war, they fight “on the cheap,” hiring mercenaries and discharging them at the end of the campaign.¹⁸

A democratic ruler has an incentive to increase his state’s territorial holdings through the quickest means available in order to either maximize his gains before leaving office or impress the voters to get reelected. Therefore, rather than utilizing marriages and purchases, a president will take territory by quicker means, namely military conquest. In fact, the marriage and purchase options are unavailable to democratic rulers because a president does not “own” the state and therefore cannot convey any of it.¹⁹

A second factor limits governmental power under a monarch: a class consciousness among the subjects. Since a monarch privately owns the state, he will distribute governmental jobs to his family, friends, and courtiers. He has little incentive to give jobs to the general population, as that would allow them to encroach upon his family’s profits. Therefore, under a monarchy, a “class consciousness”²⁰ develops in the general population. The people see a clear distinction between themselves and the ruling class and therefore fiercely protect their liberties. They resist heavy taxation and view wars as the monarch’s problem, not theirs. Thus, the monarch lacks the power to conscript his subjects into the army and is relegated to hiring mercenaries. The people also expect the monarch to finance wars himself; in the old monarchies, the rulers either financed wars themselves or with minimal taxation. In democracies, by contrast, nationalism becomes the rule, as the public, seeing no distinction between rulers and ruled, forms an emotional identification with the nation as a whole. Thus, the public tolerates mass conscription and heavy taxation.²¹

The personal characteristics of rulers decline under democracy as well. Monarchs receive their positions from accidents of birth; therefore, it is possible for a prince to “be a harmless dilettante or even a good and

¹⁸See Hoppe (2001, chap. 1). For a fascinating discussion of the differences between monarchical and democratic warfare, see Kuehnelt-Leddihn (2000).

¹⁹See Hoppe (2001, chap. 1).

²⁰Hoppe (2001, p. 21).

²¹See Hoppe (2001, chap. 1). On this see also de Jouvenel (1948, 1957). For a study of the link between democracy and conscription, see Nickerson (1942).

moral person.”²² An elected president, by contrast, will almost certainly be a demagogue because democracy politicizes all aspects of life; nothing is outside the realm of politics. This state of affairs prevails under democracy because, as mentioned above, the distinction between rulers and ruled disappears. Since everyone can now join in the plunder, the public will offer little resistance to governmental innovation. This encourages politicians to stoke the masses’ envy by offering them hand-outs through social welfare programs. Under such a system, the most successful politician will be merely the best demagogue.²³ A successful democratic politician has almost invariably been required to, in the words of H.L. Mencken (1926, p. 118), “abase himself before swine.” Furthermore, monarchy promotes a cosmopolitan outlook among princes because, unlike democracy, it discourages nationalism. Princes who lack a nationalistic outlook will learn the languages and customs of other territories and therefore be more adept at diplomacy.²⁴ Thus, monarchy leaves open the possibility of a benign ruler; democracy guarantees that only the worst will rise to the top.

Finally, monarchical government gives libertarians an option of “reform from above” that is not available under democracy. A monarch, as mentioned above, inherits his position by birth and therefore may well be a decent person. Democratic politicians, by contrast, are “selected nowadays according to their demagogic talents and proven record as habitual immoralists”²⁵ and thus it is unlikely they could be converted to libertarian ideas.²⁶

APPLICATION TO LIECHTENSTEIN

Formation of the State

Liechtenstein’s formation conforms to Hoppe’s theory of private government; the state was formed through the peaceful political purchases of two territories. The House of Liechtenstein began accumulating the territories that now comprise modern Liechtenstein in 1699, when Prince Johann Adam Andreas von Liechtenstein purchased the Lordship of Schellenberg. The Prince secured a first option

²²Hoppe (2001, p. 88).

²³See Hoppe (2001, pp. 87-89). For a hilarious discussion of the mountebanks who rise to the top under democracy—and the dullards who elect them—see Mencken (1926).

²⁴See Hoppe (2001, pp. 36-37).

²⁵Hoppe (2001, p. 287).

²⁶On this see Hoppe (2001, pp. 287-88).

on the territory of Vaduz as well, which he exercised in 1712. The previous owner had considered the territories' revenues insufficient due to, among other reasons, social and financial instability and a lack of natural resources, and wanted to find "a buyer who was rich enough not to need the revenues from the two territories."²⁷ Austrian Emperor Charles VI allowed Hans-Adam's successor, Prince Anton Florian, to combine the territories under the House of Liechtenstein's name in 1719, making it the 343rd state of the Holy Roman Empire.²⁸ The Principality remained within the Empire until it achieved full sovereignty in 1806.

Foreign Policy

Time preference and class consciousness have restrained Liechtenstein's foreign policy, with the abolition of the army providing perhaps the best example. When the Austro-Prussian war began in 1866, Liechtenstein favored its neighbor Austria, as the House of Liechtenstein and the House of Habsburg had enjoyed a long relationship. Prince Johann II led an army of eighty Liechtensteiners into the war in the Italian theater; as Hoppe's theory would predict, Johann II financed the campaign himself (indeed, he had been maintaining the army entirely with his own funds). At the war's end, the German Confederation dissolved and, as a member of the Confederation, Liechtenstein had been obligated to maintain an army. With this obligation gone, according to Raton (1970, pp. 45-46), Johann II saw the army as an unnecessary expense and dissolved it in 1868.

It should be noted that Raton and Beattie disagree about the abolition of the army. As mentioned above, Raton characterizes it as a unilateral cost-cutting decision by Johann II. Beattie (2004a, p. 30), by contrast, claims that, when the war ended, Parliament "seized its chance to refuse approval of further military expenditure." Johann II, in Beattie's account, opposed Parliament but ultimately conceded. Under either scenario, however, Liechtenstein's private government played a key role in the elimination of the army. If Raton is correct, then Johann II's low time preference caused him to view the army as an unnecessary drain on his capital. Class consciousness plays the key role in Beattie's account, as Parliament is the governmental branch closest to the people; if Parliament forced Johann to disband the army, they were likely reflecting the class consciousness of their constituents, who saw a standing army as a threat to liberty.

²⁷Beattie (2004a, pp. 4-6).

²⁸See Beattie (2004a, p. 16).

Liechtenstein continued its policy of not maintaining a standing army throughout both World Wars. Johann II even resisted some popular pressure to revive the army to help Austria during World War I. Beattie (2004a, pp. 39-40) writes that “given the strongly pro-Austrian mood in the Principality” and the House of Liechtenstein’s historical connections with Austria, “it is perhaps surprising that Johann II should have taken as firm and far-sighted a position as he did.” It would be difficult to find a better historical example of a ruler’s farsightedness saving his people from disaster.

Economic Policies

Time preference and class consciousness have kept business and personal taxes low throughout Liechtenstein’s history. The tax code, unlike that in the United States, is not excessively detailed.²⁹ The tax system is progressive and the maximum personal income tax rate—combined national and local—is only 17.01%; there is a progressive wealth or assets tax as well, but the maximum rate is only 8.5%.³⁰

Since the 1920s, Liechtenstein’s business tax policies have focused more on existing capital than on created wealth, income, and profits (although there have been changes to adjust to the economic climate), and they have always remained low.³¹ This policy reflects a low time preference because it allows business and industry to increase the State’s long-term capital value; they retain a large portion of the wealth they generate and utilize it to conduct research and development. This has led to advances in research and development that would not be expected given Liechtenstein’s small size. For example, in 2000, industrial firms in Liechtenstein spent about 5% of their export turnover on research and development, with 11% of their personnel devoted to that area.³²

Liechtenstein has instituted some social welfare programs, such as Social Security, health, disability, and unemployment insurance. This should not be a surprise given the country’s location on a continent of welfare states. However, Liechtenstein’s welfare spending is considerably lower than democratic welfare states where, as mentioned above, welfare spending usually consumes more than 50% of government expenditures. In 2001, Liechtenstein spent only 20% of its budget on social welfare.³³ Beattie (2004a, p. 347) notes that Liechtenstein lacks

²⁹See Beattie (2004a, p. 277).

³⁰See Beattie (2004a, p. 277).

³¹See Beattie (2004a, p. 72).

³²See Beattie (2004a, pp. 277, 280).

³³See Beattie (2004a, p. 279).

“a benefits culture” and its welfare programs are based on reciprocity, obliging recipients to find work as soon as possible to avoid dependency on the State.

Class consciousness has played an important role in restraining state intervention in the economy in Liechtenstein. In describing the attitude of the people of Liechtenstein, for example, Beattie (2004a, pp. 275-76) notes that the State’s demands have been limited “by the traditional, sometimes excessive, vigilance of the voters, who have a strong prejudice against ‘big government.’”

Liechtenstein’s policy on tax evasion provides a striking example of the country’s prejudice against big government. In Liechtenstein—unlike in most Western democracies—tax evasion is not a crime (though it is a civil offense).³⁴ The reason for this, according to Beattie (2004a, p. 322), is “that the citizen is to be regarded as a trustworthy and informed person rather than an administered unit.”³⁵ Any American who has endured an IRS audit knows that the opposite mindset prevails under mass democracy.

Liechtenstein’s people exhibit low time preferences and a healthy skepticism of taxation. The result is a state where, according to Beattie (2004a, p. 323):

Tax policy is long-term, stable and predictable. The intention is to leave as much freedom as possible to the citizens to decide on the best use for their own money. Tax decisions are taken close to the citizens, and sometimes by them. Central and local government expenditure is transparent and closely monitored. The administration is not plagued by fraud. There are no large and wasteful bureaucracies and no speculative grand projects whose budgetary outcome is uncertain.

These qualities have restricted the government in other areas of the economy as well. Borrowing has never been a problem, and there is literally no national debt. Nor is excessive spending a problem; there has not even been a budget deficit for years.³⁶ Business and industry have never received any state subsidies. Beattie (2004a, p. 140) notes that

³⁴See Beattie (2004a, p. 322).

³⁵For the same reason, Liechtenstein does not extradite people to countries where they are accused of tax evasion, as Liechtenstein does not believe it should be responsible for collecting other governments’ taxes. The United States, apparently unable to accept the possibility that some of its taxpayers might escape its jurisdiction (and prisons), insisted on an agreement by which Liechtenstein will extradite Americans for tax evasion. See Beattie (2004a, pp. 322-23, 333-34).

³⁶See Beattie (2004a, p. 275).

Liechtenstein's industrial firms "were left to sink or swim." However, as Hoppe would predict, "They swam"³⁷ without government aid.

The Monarchy Today

As mentioned above, Liechtenstein retains many characteristics of the old regime. The Monarchy has extensive powers, including the right to appoint judges, veto legislation, and dissolve Parliament. Furthermore, as Hoppe's theory would predict, the Monarchy maintains numerous businesses (such as Liechtenstein's LGT Bank and a rice technology company) so that it does not have to support itself with tax revenues; the Monarchy, in fact, is *entirely* self-supported, receiving no tax revenue.³⁸

The Monarchy has also proven receptive to libertarian ideas. Prince Hans-Adam II, who reigned as Sovereign Prince from 1989 until 2004, when he turned power over to his son (he remains Head of State), eloquently defended his country's low taxes in a dispute with the Organization for Economic Co-operation and Development (OECD). In 1996, the OECD began a project on "harmful tax competition."³⁹ After a series of reports, the OECD designated Liechtenstein (along with Monaco, Andorra, and other small states) an "Uncooperative Tax Haven."⁴⁰ The OECD—despite the fact that Liechtenstein was not a member—called for sanctions against Liechtenstein unless it harmonized its tax policies and banking secrecy laws with those of the larger, more centralized democracies. Low taxes and liberal banking secrecy, the OECD contended, encouraged international businesses to move capital into smaller jurisdictions. Prince Hans-Adam II, in an effort to get Liechtenstein removed from the list, began negotiations with the OECD. However, when the OECD refused to give Liechtenstein the same treatment it would give a member state, he ended the negotiations.⁴¹

Hans-Adam offered prescient criticisms of economic centralization during the debate with the OECD. He argued that, despite the good intentions of OECD members, the ultimate result of their proposals would be "a world-wide tax cartel."⁴² The Prince noted that centralized taxation and limited financial privacy would treat ordinary citizens like

³⁷Beattie (2004a, p. 140).

³⁸See Beattie (2004a, pp. 184-86).

³⁹Beattie (2004a, pp. 323-27).

⁴⁰Beattie (2004a, p. 327).

⁴¹See Beattie (2004a, pp. 323-33).

⁴²Beattie (2004a, p. 331).

criminals, forcing them to prove their innocence even when they had not been accused of a crime. Even criminals, he pointed out, are considered innocent until proven guilty. Beattie (2004a, p. 331) explains this position in his account of Hans-Adam's 29 March 2001 Speech from the Throne:

A comprehensive and world-wide exchange of information would leave citizens completely transparent before the state in all their financial affairs, obliged permanently (unlike the common criminal) to prove their innocence to the authorities. The intentions might be good; but the logical consequence would be a world government called the OECD, responsible to nobody except a few politicians pulling the strings in the background.

Hans-Adam succeeded in a libertarian “reform from above” when Liechtensteiners approved his package of constitutional amendments in 2003. Beattie (2004a, p. 176) notes that Article I was amended to read: “The purpose of the Principality of Liechtenstein is to enable the people living within its borders to live in freedom and peace with each other.” This sentence, Beattie (2004a, p. 176) says, was inserted “to emphasise that membership of the State is based on free will and that the State is not an end in itself.” Under democracy, however, the state tends to indeed become “an end in itself.” Democracies are prone to an emotional, nationalistic collectivism⁴³ in which no dissent is tolerated and individuals are depersonalized in favor of a glorified, abstract nation-state. Erik von Kuehnelt-Leddihn (1943) devoted an entire book—appropriately titled *The Menace of the Herd*—to this troubling feature of democracy. Referring to modern democracy as “ochlocracy” (mob rule), Kuehnelt-Leddihn (1943, p. 116; emphasis in original) writes, “[T]he only liberty compatible with the true spirit of ochlocracy is the *collective liberty—the liberty of a class or a nation state*.” The U.S. government's restrictions on civil liberties during World War I—the war America entered to “make the world safe for democracy”—provide perhaps the best evidence of this tendency. Of all the countries in the war, America was arguably the most democratic. Yet, as historian Niall Ferguson (1999, pp. 222–23) has noted, the most severe measures against dissent occurred in America; he describes them as “draconian” and says they “made a mockery of the Allied powers' claim to be fighting for freedom.”

The Prince's package of amendments contained another libertarian proposal: a guaranteed right of communes to secede from the state. Some of his critics argued that the measure would encourage division and, in any case, was not necessary because the communes had a right

⁴³See Kuehnelt-Leddihn (1943).

to secede under existing provisions. Hans-Adam II, however, wanted the right to secede explicitly stated for two reasons. First, he is a firm believer in the right of self-determination and wanted to set an example internationally. Second, in a particularly far-sighted observation, he noted that, at some point, Switzerland might join the European Union and, if it did, Liechtenstein might well follow because of the close economic and political connections between the countries. Some communes, however, may not want to join the European Union, and codifying a right to secede would guarantee them a way to opt-out.⁴⁴

Interestingly, Hans-Adam's initial proposals on secession were not limited to communes; he wanted to give districts and even *individuals* the right to secede. His critics, however, considered these aspects unworkable. Beattie spends little time on the debate over Hans-Adam's proposal to allow individuals to secede, only noting that some critics argued that individuals could already secede by leaving the country.⁴⁵ However, since individuals could already leave the country, it would have made little sense to constitutionalize that right. Thus, the Prince likely wanted to guarantee individuals the right to declare themselves independent of the State in a manner similar to that suggested by libertarians such as Herbert Spencer (1851), Hoppe (2001), and Murray Rothbard (1982, p. 182).⁴⁶ This proposal, considered in light of the amendment to Article I that emphasizes that membership in the Principality is based on free will, suggests that Hans-Adam has been influenced by libertarian views on secession and the state. As Andrei Kreptul (2003) notes, even liberal democratic thinkers who recognize a right to secede consider the modern compulsory state absolutely necessary for a "just" society and do not favor secession by individuals.⁴⁷

However, while Liechtenstein resembles the old regime in many ways, it is no longer a private government *in form*; the Monarchy no longer owns the state. Raton (1970, p. 106) notes that the principality is no longer "the personal property of the Prince." Liechtenstein's Constitution incorporates many elements of direct democracy and the people can even vote to abolish the Monarchy.⁴⁸ Thus, the democratic

⁴⁴On the constitutional right of secession in Liechtenstein, see Beattie (2004a, pp. 181-82, 263-64).

⁴⁵See Beattie (2004a, p. 263).

⁴⁶Professor Hoppe, who is acquainted with the Prince, has informed me that Hans-Adam is not opposed to secession by individuals and has only "practical" concerns about it.

⁴⁷For an overview of differing theories of secession, see Kreptul (2003).

⁴⁸On the role of direct democracy in Liechtenstein, see Beattie (2004, pp. 238-42).

idea that the public owns the state has taken hold even in Liechtenstein. The above discussion, however, strongly suggests that Liechtenstein remains a private government *in substance*. We must now address the question of why Liechtenstein has retained the libertarian aspects of private government ownership when it is no longer a private government in form.

WHY LIECHTENSTEIN MAINTAINS ITS FREEDOM

The answer to the question posed above is twofold. First, Liechtenstein has been relatively insulated from the political ideas and violent upheavals associated with the French Revolution. While some democratic ideas have taken hold—it would be impossible for them not to—Liechtenstein has not experienced any sudden, violent changes in its political culture. Second, while some democratic ideas have taken hold, the state's small size discourages democratic politicians from pursuing any radical changes.

Insulation from the French Revolution

The French Revolution and its aftermath—extending up to the present day—caused most of the West's current problems, and Liechtenstein's relative insulation from these events explains its prosperity. As Erik von Kuehnelt-Leddihn (1990, p. 319) famously wrote, “For the average person, all problems date to World War II; for the more informed, to World War I; for the genuine historian, to the French Revolution.” Thus, our inquiry begins with the French Revolution.

The French Revolution marked the rebirth of mass democracy in the West. Before that time, nearly all Western governments had been relatively decentralized monarchies or aristocratic, elitist republics.⁴⁹ Though they did centralize, the process was slow, and certain restrictions on liberty were never tolerated. For example, no monarch, not even the most despotic, could institute mass conscription. Kuehnelt-Leddihn (1990, p. 22; emphasis in original) illustrates this point:

[I]t seems that monarchs such as Louis XIV, Joseph II, or George III were genuine liberals—*by modern standards*. None of them could have issued a decree drafting male subjects into his army, nor a decree regulating the diet of his citizens, nor one demanding a general confession of all economic activities from the head of each household. Not until the democratic age were conscription, Prohibition, and income tax declarations made into law by the people's representatives, who have far greater power than absolute monarchs ever dreamed of.

⁴⁹See Hoppe (2001, pp. 50-54).

The French Revolution led to the rise of nationalism. Monarchy, being an international institution, was not conducive to the rise of nationalism, as most monarchs were foreign to the people they ruled, married to a foreigner, or both.⁵⁰ Furthermore, as mentioned above, the subjects of a monarchy are less inclined to link their interests with the state as a whole. The monarchies managed to temporarily stem the tide of nationalism and democracy after Waterloo, but the seed had been sown. Democracy gained ground until it finally destroyed Europe's monarchies at the end of World War I. By the end of that war, most of Europe's monarchs had either been overthrown (as in France, Germany, and Austria) or reduced to figurehead status (as in the United Kingdom). Thus, Hoppe's "process of decivilization" began with the French Revolution.⁵¹

Liechtenstein, however, managed to avoid becoming entangled in these tumults. For example, Raton (1970, pp. 29-30, 103) notes that the revolutions of 1848 had little effect in Liechtenstein; there was some initial unrest but it quickly subsided without causing any significant political changes. Several factors combined to insulate Liechtenstein from experiencing any wholesale change in its political culture. Some of the reasons are fairly obvious. Liechtenstein has no natural resources and is located in relatively remote, mountainous terrain. Although it became one of the wealthiest countries in Europe after World War II, Liechtenstein was poor throughout the nineteenth and early twentieth centuries. These facts combined with Liechtenstein's small size to make it an unattractive target for potential conquerors.⁵² Hitler, for example, contemptuously dismissed the country as insignificant.⁵³

Geography was not the only thing that insulated Liechtenstein while the rest of Europe went to war, however; its monarchs played a leading role as well. In fact, Liechtenstein probably would not have survived the Napoleonic Wars and World War I without the efforts of its respective princes during those troubled times.

During the Napoleonic Wars, Beattie (2004a, p. 21) notes, Liechtenstein "ought logically to have vanished from the map of Europe." When Napoleon defeated Austria, he dispossessed many smaller German rulers, and Liechtenstein would have been an ideal territory with which to compensate them.⁵⁴ Napoleon forced the Holy

⁵⁰See Kuehnelt-Leddihn (1952, pp. 153-55).

⁵¹See Hoppe (2001, pp. 36-39, 40-43).

⁵²See Beattie (2004a, p. xi).

⁵³See Beattie (2004a, p. 101).

⁵⁴See Beattie (2004a, p. 21).

Roman Emperor Franz to abdicate and started the Confederation of the Rhine, a collection of sixteen German states (including Liechtenstein) under his protection.

It made little sense for Napoleon to include Liechtenstein in the Confederation, as it was “incongruous among these much bigger fish.”⁵⁵ This was all the more surprising given Prince Johann I’s refusal to renounce his loyalty to Vienna and place himself directly under Napoleon. Uncharacteristically, Napoleon went out of his way to accommodate Johann, including a clause in the act that formed the Confederation that allowed any ruler who wished to remain loyal to a foreign power to abdicate in favor of one of his sons. This clause—apparently designed for Johann’s situation—let him abdicate in favor of his three-year old son, who was obviously in no position to rule. Napoleon maintained this stance even when German rulers requested that he give them Liechtenstein.⁵⁶

The reasons for Napoleon’s partiality toward Johann are unclear. Johann clearly made every effort to retain his principality because he knew that, if the House of Liechtenstein lost it, they would lose their princely status and become mere members of the upper aristocracy. Napoleon apparently liked and admired Johann on a personal level and might have believed Johann could be useful as a contact in Vienna or a replacement for uncooperative German rulers. What is clear is that Liechtenstein would not have survived the Napoleonic Wars without Johann I’s diplomatic skill, independence of mind, and determination to retain his principality.⁵⁷

Thanks to the efforts of another Johann—Johann II—Liechtenstein survived World War I, the war that destroyed the Old Order throughout the rest of Europe. As mentioned above, Johann, despite some popular pressure to enter the war alongside Austria, Liechtenstein’s close ally at the time (Austria represented Liechtenstein’s interests abroad), maintained a policy of strict neutrality. Had he fought with the Allies, his country would likely have fallen victim to Woodrow Wilson’s efforts to “make the world safe for democracy.” After the war, the Allies dissolved the Austrian Empire; this prompted Johann II to realign Liechtenstein away from Austria and toward neutral Switzerland for representation abroad.⁵⁸ Johann II’s farsighted policies—his dissolving of the army, policy of neutrality during World War I, and realignment with

⁵⁵Beattie (2004a, p. 21).

⁵⁶See Beattie (2004a, pp. 21–22).

⁵⁷See Beattie (2004a, pp. 21–22).

⁵⁸On the realignment with Switzerland, see Beattie (2004a, pp. 50–57).

Switzerland—laid the foundation for his country to remain neutral during World War II (under Franz Josef II) and thus avoid another great disaster of the twentieth century.

The clever diplomacy of Johann I and foresight of Johann II reflect two aforementioned traits common to monarchical rulers but usually altogether missing in democratic leaders: cosmopolitanism and farsightedness. Johann I's cosmopolitanism and diplomatic skill earned the respect and admiration of one of history's greatest, most ruthless conquerors—who then displayed his admiration by preserving Johann I's principality when it may have been in his best interest to confiscate it. Johann II's foresight saved it from World War I and laid the foundation for its neutrality in World War II. It is doubtful that a democratic ruler could have saved Liechtenstein from either the Napoleonic Wars or the World Wars.

Liechtenstein's insulation from the French Revolution helps explain its libertarian tendencies. Changes in the country's conception of the relationship between government and people have been slow and piecemeal, rather than quick and violent. The Monarchy's extensive powers exert a moderating influence on Liechtenstein's politicians. They avoid proposing any drastic changes for fear of a royal veto and, under Franz Josef II, they would even discuss potential laws with the Prince before proposing them.⁵⁹ Hans-Adam II has utilized less conventional methods—such as his speeches and the media—to get his message across.⁶⁰ Therefore, while the country is no longer a private government in form—in today's day and age, it would be virtually impossible for a monarch to claim a state as his property—it remains a private government in substance; the old monarchical policies of minimal taxation and intervention in the economy remain in place. The result is a degree of liberty and prosperity not found in any other Western state.

The continued primacy of the Monarchy—Beattie (2004a, p. 225) notes that “Hans-Adam II has sometimes been described as a party in his own right”—discourages the worst demagogues from even entering politics. Power-hungry demagogues are unlikely to try to rise to power when they know they will always remain below the Monarchy in influence. Jaime Balmes (1850, p. 143) eloquently describes this advantage of monarchy:

Regarding things in the abstract, there is nothing more strikingly absurd than hereditary monarchy, the succession secured to a family which may at any time place on the throne a child, a fool, or a wretch:

⁵⁹See Beattie (2004a, pp. 218-19).

⁶⁰See Beattie (2004a, pp. 224-25).

and yet in practice there is nothing more wise, prudent, and provident. This has been taught by the long experience of ages, it has been shown by reason, and proved by the sad warnings of those nations who have tried elective monarchy. Now, what is the cause of this? It is what we are endeavoring to explain. Hereditary monarchy precludes all the hopes of irregular ambition; without that society always contains a germ of trouble, a principle of revolt, which is nourished by those who conceive a hope of one day obtaining the command. In quiet times, and under an hereditary monarchy, a subject, however rich, however distinguished he may be for his talent or his valour, cannot, without madness, hope to be king; and such a thought never enters his head. But change the circumstances,—admit, I will not say, the probability, but the possibility of such an event, and you will see that there will immediately be ardent candidates.

The Size of the State

Another factor has helped restrain the growth of government in Liechtenstein: the Principality's small size. Liechtenstein covers a small territorial area, and the population was only 33,525 in 2001.⁶¹ Small states have little incentive to interfere in the economy for several reasons. First, all areas of the state are in close proximity to neighboring states, making it easy for citizens to learn about other states and, if necessary, “vote with their feet” by moving; citizens of small states can emigrate easily because they are invariably close to a neighboring state. This gives small states an incentive to keep taxes low and generally maximize prosperity by intervening as little in the economy as possible. Unlike large states, who can, for the most part, tax and spend as they please because it is difficult for their citizens to leave, small states must compete with other governments.⁶² Hans-Adam II has observed this and views it positively; he has argued that “States must compete with each other peacefully, to offer their customers service at the lowest price.”⁶³ Large states, by contrast, dislike competition. The United States has taken this to extreme lengths, recently increasing taxes on Americans who live abroad (and thereby prompting many to renounce their citizenship).⁶⁴ The United States is “the only developed country that taxes it[s] citizens while they live overseas.”⁶⁵ This policy is particularly egregious given that Americans who do not live in America receive none of the supposed “benefits” of American citizenship.

⁶¹See Beattie (2004a, p. 335).

⁶²See Hoppe (2001, chap. 5; 1998).

⁶³Quoted in Beattie (2004a, p. 181).

⁶⁴See Carvajal (2006).

⁶⁵Carvajal (2006).

Second, protectionism can be disastrous in a small state. In a large state, such as the United States, people can remain prosperous despite excessive tariffs as long as the government does not restrict internal trade, as most goods can be obtained within the borders. In a small state, by contrast, the internal economy is far less diverse and people must trade with neighboring states to subsist.⁶⁶ Therefore, as legal philosopher Carlo Lottieri (2002, pp. 35–36) writes:

Swiss Cantons, Liechtenstein, San Marino, Andorra, or Monaco never dreamed of obtaining advantages by refusing international trade. These small political communities—the true and only heirs of the great European spirit—are interested in the diffusion of libertarian and free-market principles. They want to export their specialties and buy all the goods they can't (or won't) produce. In fact, these small political entities are in the best position to teach an important lesson: the international division of labor is useful for individuals, families, communities, and companies.⁶⁷

Finally, as Lottieri (2002, pp. 34–35) notes, citizens of a small state are less likely to tolerate redistributive programs than their large-state counterparts. In a large state, the costs of redistribution programs can be spread out among millions of taxpayers. Thus, the economic consequences are not so immediately apparent as to cause a revolt. In a small state, by contrast, the impact from tax increases would be felt instantaneously and would provoke either revolt or mass emigration.⁶⁸

Liechtenstein's insulation from the French Revolution and its small size have made it the one of *the* freest—if not the freest—states in the West. The uninterrupted strength of the Monarchy has left the old policies of limited intervention and low taxes largely intact. Furthermore, while the state has democratized, it has not been overrun by demagogues because the Monarchy's preeminent place discourages them from entering the political arena. Finally, elected politicians are unlikely to pursue any radical interventionist policies because Liechtenstein's small size precludes them.

⁶⁶See Hoppe (2001, chap. 5; 1998).

⁶⁷Thus it is no coincidence that most of the other “tax havens” that came under the OECD's fire—such as Monaco and Andorra—are also small states.

⁶⁸Beattie (2004a, pp. 275–76) acknowledges this as well, noting that Liechtenstein's small size combines with the vigilance of the voters to restrain the growth of government.

CONCLUSION

Liechtenstein is important for students of liberty. Throughout its history, the low time preferences of its rulers and high degree of class consciousness among its people have combined to minimize the growth of government. Accidents of geography and highly competent leadership have insulated the Principality from the upheavals accompanied by the rise of democracy. Hoppe's theory of private government helps explain the Principality's continued success and, in turn, Liechtenstein's development provides ample evidence of his theory's validity.

However, it should be noted that Liechtenstein has adopted policies some libertarians may find objectionable. For example, there is an official religion (Catholicism), and religious instruction is mandatory in public schools. Catholic churches receive taxpayer funds. However, the Constitution guarantees freedom of conscience, so Liechtensteiners are still free to choose their own religion.⁶⁹ Drugs and prostitution are illegal, but this is slowly changing, at least regarding drugs. According to Beattie (2004a, p. 347), "Liechtenstein's philosophy is to give support to everyone in their personal responsibility for looking after their own health, rather than to prosecute them for behavior that endangers it." Thus, Liechtenstein is gradually decriminalizing drug consumption. The Principality is taking a slow approach "in order not to compromise its neighbours' interests, send out wrong signals to the rest of the world or provoke an uncontrollable expansion of dealing and consumption."⁷⁰

Liechtenstein's freedom and prosperity also gives libertarians an idea of what may be the most tolerable form of state in existence today. This study suggests that, if there must be a state in its modern, democratic form—a return to the old regime, in which the state is the monarch's property, seems impossible—then the most tolerable form is a constitutional monarchy, with the monarch retaining extensive powers to discourage demagoguery. The state should also be restricted to a small area (in both population and territory), giving politicians little incentive to expand the state. Under such a situation, as Liechtenstein shows us, monarchy is, in the words of Charles Maurras, "the least evil and the possibility of something good."⁷¹

⁶⁹See Beattie (2004a, pp. 265-70).

⁷⁰Beattie (2004a, pp. 347-48).

⁷¹Quoted in Kuehnelt-Leddihn (1990, p. 329).

Skeptics may point to Switzerland as a conflicting example of a free and prosperous democracy. Switzerland, however, is not the counterexample it appears to be at first glance; democracy in Switzerland differs from democracy in other Western states. As Jonathan Steinberg (1996, chap. 3) and Thomas Fleiner (2002) point out, Switzerland is much less centralized than its neighbors; cantonal and local governments enjoy considerable autonomy. Switzerland, like Liechtenstein, has not adopted mass democracy in the style of the French Revolution.⁷² Thus, the source of Swiss liberty is not modern mass democracy, but a combination of localized direct democracy and genuine federalism⁷³ not found in other Western states. In fact, Fleiner (2002, pp. 108-112) argues that democracy could not function in Switzerland without federalism (and vice versa).

Most importantly, we should remember Prince Hans-Adam II's desire to set an international example by constitutionalizing secession. A return to monarchical rule in large states is likely impossible and, in any case, when considering modern nation-states, monarchy is only a lesser evil than democracy. Our goal should be to create, through secessions, "tens of thousands of distinct countries, regions and cantons, and hundreds of thousands of independent free cities such as the present-day 'oddities' of Monaco, Andorra, San Marino, Liechtenstein, Hong Kong, and Singapore."⁷⁴

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⁷²See Steinberg (1996, p. 88).

⁷³As practiced in America under the Articles of Confederation and the Constitution until 1861.

⁷⁴Hoppe (2001, p. 118).

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