

Economic Principles of Democracy and the “End of History”

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Abstract

F. Fukuyama, in the book “The End of History and the Last Man”, posited that liberal democracy, grounded in capitalism, triumphed over the authoritarian socialist system. He concluded that the victorious society’s political system was capable of fostering an economic environment that ensured stable growth and advanced development. Defining this situation as “end of history”, based on the ideas of Hegel and Marx, he pointed that there not indication of direct connection between political and economic systems. To elucidate this lack of an “end of history”, the author employs an approach developed in his prior works, focusing on the relationship between the political system—which serves as a control loop in the theory of control—and the economic system, which is a unified entity represented by taxes as an output parameter.

Keywords: Liberal Democracy, Productivity, Economic, Political System, Cybernetic

F. Fukuyama in his book “The End of History and the Last Man”, concluded that liberal democracy prevailed over the authoritarian socialist state (Soviet Union), which ultimately collapsed [1]. He sought to answer the question raised in his book: was the period of democratic development (1990–2000)—achieved through the defeat of communism and the victory of capitalism—rooted in “liberal democracy” as a political foundation that facilitated significant economic growth and state stability? He proclaimed liberal democracy as a more advanced political and economic formation than socialism, asserting that no foreseeable formations could emerge as the next stage of societal development. He described this situation as the “end of history”.

The book continued the approach first introduced in the article “The End of History?” [2]. By analyzing historical events from the last quarter of the 20th century, he found that [1, p. xi] “a remarkable consensus concerning the legitimacy of liberal democracy as a system of government had emerged throughout the world over the past few years, as it conquered rival ideologies like hereditary monarchy, fascism, and most recently communism”. He stated that “liberal democracy may constitute the ‘end point of mankind’s ideological evolution’ and the ‘final form of human government’”, thus representing the “end of history”. Fukuyama derived the idea of “end of history” from Hegel and Marx, who tried to explain the trajectory of societal development, applying it to the results of the competition between liberal democracy and communism’s authoritarian power.

The collapse of the communist ideology and the state that championed it (Soviet Union) provided Fukuyama with a basis to explain why liberal democracy won this competition. Liberal democracy succeeded because it was able to create

a state and economy that were more stable and productive, yielding better economic growth and quality of life than the political system founded on communist ideology. This primarily determined and justified the superiority of liberal democracy over communism. The failure of communism led Fukuyama to assert that liberal democracy marked the culmination of human societal development in terms of political and economic formations, having reached the highest level of achievement, as explained through Hegel’s approach. At the time of writing the book, this idea appeared more viable than the Marxist conclusion that communism represented the highest level of societal development, eliminating all existing contradictions.

As previously mentioned, Fukuyama’s concept of the end of history originates from philosophical ideas aimed at explaining the direction of societal development, grounded in the state of science—particularly economic, political, and philosophic science, especially at this time. “Both Hegel and Marx believed that the evolution of human societies was not open-ended, but would end when mankind had achieved a form of society that satisfied its deepest and most fundamental longings. Both thinkers thus posited an ‘end of history’: for Hegel this was the liberal state, while for Marx it was a communist society. This did not mean that the natural cycle of birth, life, and death would end, that important events would no longer happen, or that newspapers reporting them would cease to be published. It meant, rather, that there would be no further progress in the development of underlying principles and institutions, because all of the really big questions had been settled” [1, p. xii].

We might accept the idea that liberal democracy represents the “end of history” if not for the existence of China as a

single-party state that adheres to a communist ideology and is closely competing with liberal democratic states economically and has consequently reached the highest level of societal development as defined by the concept of the “end of history”. This fact contradicts the conclusion that only states practicing liberal democracy as a political system can demonstrate stable economic results and provide high quality of life for their populations. It is worth noting that at the time of writing Fukuyama’s book, China was not yet the world’s second-largest economy [1].

China has experienced steady economic growth of 10–15% over the past 30 years, improving the economic situation for hundreds of millions of Chinese citizens and elevating them from poverty to the middle class. This significant development must be considered, as the results do not support the conclusion that liberal democracy is the only superior politico-economic formation. China, as a communist country with a governing ideology that suppresses all political opposition, lacks a multiparty political system and the main characteristics of a liberal society as defined by Fukuyama. This situation contradicts his assertion regarding the complete superiority of liberal democracy.

China’s example illustrates that neither one (country) does not show any sign of having reached the highest stage of societal development, and that progress in societal development is not confined to the notion that liberal democracy is the state where the main principles and institutions governing society are settled. This contradicts the idea of the “end of history”. At the same time, Fukuyama acknowledges that the main appeal of the victory of liberal democracy as a foundation for economic achievements is the lack of understanding regarding the real mechanisms governing societal development. He notes that there exists no theory which predicts the direction and next stage of societal development. He articulates [1, p.125] this as follows: “There is an unquestionable relationship between economic development and liberal democracy, which we can observe simply by looking around the world. But the exact nature of that relationship is more complicated than it first appeared and is not adequately explained by any theories presented up to this point. The logic of modern natural science and the industrialization process it fosters does not point in a single direction in the sphere of politics, as it does in the sphere of economics. Liberal democracy is compatible with industrial maturity and is preferred by the citizens of many industrially advanced states, but no connection appears between the two. The mechanism underlying our directional history leads equally well to a bureaucratic-authoritarian future as to a liberal one. We will therefore have look to elsewhere to understand the current crisis of authoritarianism or the worldwide democratic revolution.” At the time of writing both books [1] and [2], Fukuyama noted the absence of any theory or concept that explains any link between economics and politics, as well as the rules governing their interaction and the development of the state. Moreover, the historical development of society has primarily been descriptive.

However, there is a way to explain the relationship between economic development and the political system—in this case, liberal democracy—through a mechanism that determines the direction of societal development, which consequently explains the phenomenon of China’s economic success. This mechanism was developed by the author in works [3-5]. To determine this nexus, an analysis of the results of economic experiments conducted in the 20th and 21st centuries was undertaken. This analysis established the nature of the relationship and explained the historical economic and political development of society through a holistic, unified concept. This was first articulated in the publication “Productivity and Democracy in Terms of Theory of Control – Systems Approach” [3]. It was found that productivity growth, which generates taxes, is driven by the workforce based on psychological motivation factors such as financial rewards, working conditions, and working hours at the production level, and by production, distribution, and consumption taxes—for convenience, we will abbreviate these as PDCT—at the state level.

At the same time, since taxes are collected at the state level along with other sources of state income, they are subsequently distributed at the production level through two flows: financial means per se, including benefits for the workforce and their families, and legislation that stipulates PDCT. It is important to note that production taxes represent one side of the concept, while the other side encompasses the real income of the workforce and businesses. Later, motivation factors were also applied to capital and business owners at the production level in work [4]. Together, these elements allow us to view this mechanism from the perspective of the theory of control as a control system with positive feedback (based on experimental results indicating that increased motivational factors lead to greater productivity). The most significant conclusion made for this system is that the production system and government are interconnected through the political system—particularly a democratic (multiparty) one—via elections and other components of democracy such as freedom of the press, religion, and assembly, which represent liberalism in Fukuyama’s terms. This framework provides the workforce and businesses with incentives to work productively, as they have means to influence PDCT. At the same time, it allows capital owners to produce goods and services that also generate taxes. We can apply the ideas of the theory of control to this mechanism and observe that society operates as a two-way control system: at the state level, the government controls the most critical parameter for the state’s existence—taxes, which form the material basis for economic growth—while at the production level, the government controls the production, distribution, and consumption of taxes. It was formulated as productivity being directly proportional to the access of workforce, capital, and business owners to PDCT [4].

The conceptual model allowed us to formalize this concept by creating a cybernetic model that provides a more formal description of this process. This was done in the publication “Cybernetic Model of Dependency of Productivity and Economic Growth on Taxes” [5]. It was determined that there

is a dependency between productivity and economic growth which connected to GDP because the cost of goods and services which GDP consist, includes taxes, and productivity relies on the access of the workforce and businesses to PDCT. This dependency of productivity and economic growth on the access of the workforce and businesses to PDCT acts as feedback to and from the government, which was called the economic principles of democracy [5]. Based on this, we can observe that the political system becomes part of the control system of the economic system. It was noted in [3] and can be observed historically that there are two primary methods to control the link between inputs to the workforce at the state level: authoritarian control through directives or orders regarding PDCT by a single individual or party, and democratic control through the election of government using a multiparty system based on law and justice to govern economic and political processes. However, the nature of this dependency is more complex. It was found that this link represents positive feedback, which, by the definition of the theory of control, means that each input signal from the controlling system must increase the output of the controlled system. Theoretically, this implies that productivity and economic growth could grow indefinitely. In reality, however, this never occurs. According to the theory of control, positive feedback creates instability in the control system. Nevertheless, there are methods to control positive feedback by issuing control signals that can filter, limit, or reduce positive feedback by introducing negative feedback into the control loop.

Now we turn to the nature of the psychological signals that create negative feedback regarding productivity to be included in the concept [3-5]. This includes the physical and mental limits of humans, as well as the educational and cultural levels of the workforce at the production level. At the state level, we must consider psychological factors that may create negative feedback regarding productivity growth. This negative feedback includes unequal distribution of budget funds, issues with the functioning of legislative, judicial, or law enforcement systems, and the execution of laws, which may foster perceptions of injustice in society, ultimately suppressing motivational factors for productivity. Additionally, problems with the healthcare system, personal insecurity, and mortality rates due to criminality in society affect the psychological state of the workforce, shifting focus from productivity to psychologically suppressive factors. All these factors create negative feedback that may hinder productivity growth. This explains why, in reality, productivity does not grow indefinitely when production and state levels implement positive motivational factors. Democracy works to mitigate the negative feedback from psychological factors that contribute to decreased productivity. Consequently, the implementation of the economic principles of democracy enables the workforce and capital owners to manage negative motivational factors while simultaneously activating positive factors in the workplace to increase the motivation to work productively and gain greater access to tax revenue.

In the development of cybernetic model, it became necessary to identify the most valuable input parameters for

the workforce that affect productivity. It was assumed that these parameters are psychological motivation factors (in terms of a psychological approach)—specifically, the quality and quantity of working and non-working time [5]. This assumption was validated by analyzing workforce demands recently observed in countries such as France and Germany, where workers have called for a reduction in working hours from 38 to 35 hours, as evidenced by recent strikes. It was confirmed that there is a dependency between productivity, the economic growth of the state, and PDCT as influenced by the workforce and capital owners, which is controlled by the government as a feedback element for democratic society [5]. It was demonstrated that a multiparty political system, through the electoral process, creates a government comprised of the workforce and capital owners (and other segments of the population) that establishes a control loop (in terms of the theory of control), with the workforce and capital owners serving as feedback elements to control PDCT through legislation, the justice system, and budgeting. It enables government to maintain productivity and economic growth at a desirable level through the production system while satisfying the needs of the workforce, as well as those of capital and business owners.

Based on this, we can explain the phenomenon of economic growth in China. China's specific context is that decisions regarding PDCT are made through a one-party system. The government formed by this party represents the same feedback element (from the theory of control) and utilizes the legislative and justice systems similarly to how it is done in a democratic society—through elections in a multiparty system. The key difference is that this party and government cannot be changed through elections; they may remain in power indefinitely if they provide PDCT that meets the needs of the workforce and capital owners, thereby ensuring economic growth that satisfies the ruling party's requirements. Conversely, if economic growth becomes unsatisfactory, it could lead to the state's collapse, as observed in the Soviet Union, where economic growth fell to 1–2% in its final years, coupled with excessive military spending. We can only highlight that the Chinese Communist Party has adopted elements of a liberal approach, incorporating them into the legislation and justice of its political and economic system. We can observe that some aspects of liberal and communist ideologies overlap, particularly in China, especially in the economic realm, such as the primacy and inviolability of private property and a robust economic legal and justice system. This has enabled China to achieve its current economic success. However, a one-party system is more rigid in terms of altering the access of the workforce and businesses to PDCT, allowing for changes only under severe circumstances, such as the anticipation of loss of power or a threat to the state's existence.

Now we can address the question posed in as to why democratic states are more stable than autocratic ones [3]. The answer lies within the psychological framework of the model discussed above. The stability of a democratic state is rooted in psychological terms, as it fosters hope for change, and the workforce and business owners possess mechanisms

for realizing that hope via election, which cannot occur in an authoritarian state. At the time of writing works (1) and (2), communism had been defeated by democratic countries, and Fukuyama attempted to explain this process. To elucidate the core of the democratic process, Fukuyama split it into two concepts one being democracy as a multiparty system of governance, and the other being liberalism, which encompasses the freedoms that contemporary democratic countries have established throughout their historical development: freedom of speech, assembly, religion, political organization, etc. He referred to this as liberalism. This framework allowed voters to express their opinions on various aspects of the state's life. "Liberalism is often subsumed under the term 'democracy', though strictly speaking, liberalism and democracy are based on distinct principles and institutions. Democracy refers to rule by the people, which today is institutionalized in periodic free and fair multiparty elections under universal adult suffrage. Liberalism, in the sense I am using it, refers to the rule of law, a system of formal rules that restrict the powers of the executive, even if that executive is democratically legitimized through an election. Thus, we should properly refer to 'liberal democracy' when we talk about the type of regime that has prevailed in North America, Europe, parts of East and South Asia, and elsewhere in the world since the end of the Second World War. The United States, Germany, France, Japan, and India were all established as liberal democracies by the second half of the twentieth century, although some, like the United States and India, have been backsliding in recent years" [6,3].

The idea of splitting the concept of democracy into two notions obscures the reality that a multiparty system cannot exist without freedoms such as freedom of speech, the formation of political organizations, freedom of religious belief, assembly, and the distribution of information. These freedoms are intrinsically linked to the multiparty political system; without them, there can be no process of discussion and election. The electoral process necessitates the existence of these freedoms. In summary, analyzing all factors developed in the conceptual and cybernetic model from a historical perspective, we can conclude that the development of human

civilization does not exhibit any signs of the end of history as formulated by philosophers and adopted by Fukuyama. The evolution of society from its earliest stages to the present is based on increased level of productivity, which has enhanced military superiority in addressing external challenges and ensuring internal security and stability. The primary driving force behind this development is the ongoing struggle among different population groups—whether in autocratic or democratic societies—for access to PDCT, which are essential for the existence and functioning of states or can lead to their collapse. States that can derive greater benefits from this process will be more successful in competing or simply existing in the world. This approach suggests that the development of human civilization is an infinite process, as long as it exists per se and establishes a connection between economic and political systems. We can therefore assert that each stage of societal development—be it slavery, feudalism, capitalism, socialism, or liberal democracy has succeeded because productivity growth was facilitated by extended access to PDCT for both the workforce and capital owners on the latest stages, motivating them to work productively. The main conflict within society is the struggle among different segments of the population for access to this process.

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