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Fiat Money and Collective Corruption

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ABSTRACT: In this article it will be argued that collective corruption—which is the logical result of government interventionism in the field of money production—can explain why public opinion accepts adherence to an economically and socially destructive fiat money regime. Collective corruption can explain why returning to sound money faces such high, perhaps insurmountable, hurdles once fiat money has been put into place.

KEYWORDS: Austrian economics, fiat money, corruption

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I. INTRODUCTION

In the Austrian Business Cycle Theory (ABCT), Ludwig von Mises explains the recurrence of boom-and-bust cycles by pointing to public opinion, which he maintains falls victim to false economic theories. Public opinion is, Mises says, in support of a monetary

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policy that brings down the interest rate by expanding the supply of bank circulation bank credit[1]—as such a policy is widely seen as being conducive for raising production and employment; and it considers a policy of lowering the interest rate and expanding circulation credit a remedy against the crisis which has been caused by circulation credit and fiat money expansion in the first place.

However, what makes public opinion accept false economic theories? Is it just ignorance of sound economic theories on the part of the public? Or is it due to misinformation spread by, as Rothbard calls them, "court intellectuals"? In this article it will be argued that collective corruption—which is the logical result of government interventionism in the field of money production—can explain why public opinion accepts adherence to an economically and socially destructive monetary policy. Collective corruption can also explain why returning to sound money faces such high, perhaps insurmountable, hurdles once fiat money has been put into place.

The rest of the article has been structured as follows. The major characteristics of the ABCT will be briefly outlined as a priori theory (II.). Thereafter, it will be explained that a fiat money regime is a logical outcome of public ownership of government (III.). Against this backdrop, the phenomenon of collective corruption will be explained and identified as the driving force for explaining the recurrence of boom-and-bust cycles (IV.). Thereafter, collective corruption will be integrated into Mises's interventionism critique (V.). Finally, it will be pointed out why collective corruption poses such a great hurdle to a pre-emptive monetary reform (VI.).

II. A PRIORISM AND THE AUSTRIAN BUSINESS CYCLE THEORY

"There is no means of avoiding the final collapse of a boom brought about by [circulation] credit expansion. The alternative

[1] In Mises's terminology *circulation* bank credit refers to bank credit, which is not backed by real savings, and through which new money is created. *Commodity* bank credit, in contrast, denoted bank credit through which existing money balances are transferred from the saver to the investor; commodity credit does not alter the existing money supply.

is only whether the crisis should come sooner as the result of a voluntary abandonment of further [circulation] credit expansion, or later as a final and total catastrophe of the currency system involved."[2] These sentences were written by Ludwig von Mises (1881–1973) in his magnum opus *Human Action* (1949). What makes them particularly noteworthy is the fact they are logically deduced from the irrefutably true axiom of human action, an a priori synthetic proposition, as the great philosopher Immanuel Kant (1724–1804) would term it.[3]

Mises's words must be understood in the following way: If bank circulation credit is increased further and further, through which the supply of fiat money is increased further and further, then it is inevitable that the economic and monetary system will eventually collapse. This we can say is apodictically true: It is actually an inference from the axiom of human action, which forms the centerpiece of Mises's praxeology—the science of the logic of human action, which is the foundation upon which Austrian economics in the Misesian tradition rests.

Praxeology is therefore *a priori theory*. It yields irrefutably true propositions anterior to, and independent of, experience—and is thus diametrically opposed to today's positivism-empiricism oriented mainstream economics. Praxeological truths can be illustrated by historical events, but historical data cannot confirm or refute the truth value of a priori theory. In this context Hoppe notes: "Even if historical experience is necessary in order to initially grasp a theoretical insight, this insight concerns facts and relations that extend and transcend logically beyond and particular historical experience."[4]

As a priori theory, the ABCT, as developed by Mises, shows that bank circulation credit necessarily lowers the market interest rate to below the rate level that would prevail had the credit supply

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[2] Mises (1949), p. 572.

[3] Hoppe points out that Mises in fact explained that praxeology provides the foundation for epistemology. See Hoppe (2007 [1995]), pp. 49–83, here p. 64.

[4] Hoppe (2006), p. xviii.

not been artificially increased.[5] In turn, this must set into motion an unsustainable economic boom. The increase in fiduciary media brings peoples' savings-consumption-investment relation out of equilibrium—compared with the relation which would prevail had there been no increase in circulation credit: Consumption and investment increase, while savings decline, so that the monetary demand outpaces the economy's resources.

In attempt to move back towards equilibrium, the market interest rate is driven back from its artificially reduced level towards society's true (and necessarily higher) time preference rate, through which investment and consumption decline and savings increase. This, in turn, reveals malinvestment, and the boom turns into bust. Investment projects and jobs, which were created as a result of injecting additional circulation credit and fiat money, become unprofitable. As economic adjustment takes time, output falls and unemployment goes up (temporarily).

Mises not only offered an explanation of boom-and-bust, he also gave an explanation of the recurrence of boom and bust. He noted that as soon as the economy heads for recession, public opinion—in an attempt to fend off the economic and political consequences caused by the expansion of circulation credit in the first place—would call upon the central bank to actually "fight" the losses in production and employment. The central bank would correspond accordingly, lowering the interest rate even further via expanding bank circulation credit and, *uno actu*, the fiat money supply.

However, such a policy does not correct the economic disequilibria caused by a preceding wave of circulation credit expansion. It postpones the correction of prices and production structures and causes more malinvestment, thereby increasing disequilibria even further. As a result, the inevitable final recession will be the more severe, the longer the correction had been prevented by further increases in circulation bank credit expansion. An ongoing increase in circulation credit will therefore necessarily result, as Mises explained, in a complete collapse in the monetary and economic system.

[5] For an explanation of the Austrian business cycle theory see, for instance, Mises (1978 [1996]), pp. 25–35.

III. FIAT MONEY REGIME AND PUBLIC OWNERSHIP OF GOVERNMENT

The destructive consequences of fiat money beg the question: How could fiat money have been established in the first place? In his book *What Has Government Done to Our Money?* (1963) Murray N. Rothbard demonstrated, by taking recourse to praxeology, the sequence of events through which government obtained full control over money production and finally replaced commodity money by fiat money.[6] Rothbard's explanation can be recast as the logical outcome of a specific form of ownership of government: namely public ownership of government.

A government is, as Hoppe (2006) notes, "a territorial monopolist of compulsion—an agency which may engage in continual, institutionalized property rights violations and exploitation—in the form of expropriation, taxation and regulation—of private property owners."[7] The defining feature of public ownership of government is that the monopoly privilege of expropriation is collectively owned, with coercive capacity being put into the hands of the caretakers of government, or elected politicians.[8] The most prominent form of public ownership of government is democracy-republicanism—which is actually the antipode of private ownership of government, which is represented by feudalism or monarchy.

The caretakers of public ownership of government do not personally own the expropriation power of government, but they can take advantage of its power to aggress against individuals' property rights. As a result, caretakers of public ownership of government have, or develop, a narrow group interest, to borrow a term from Olson (1932–1998).[9] Narrow group interest means that the caretakers of public ownership of government ignore the damage their action does to society—as they can reap the benefits from thievery in full while they have just to take a minuscule share in the damage caused by their action.

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[6] On the *rather lengthy* process of establishing fiat money see Rothbard (1963).

[7] Hoppe (2006), "On Centralization and Secession," p. 107.

[8] Hoppe (1995). See also Rothbard (2009), p. 11; also Hoppe (2006), p. 48; Rothbard (1977).

[9] See Olson (2000).

Voters, in turn, have an incentive to support those caretakers of government who are expected (rightly or wrongly) to improve the voters' economic situation—even at the expense of others; voters have every economic incentive to do so. The caretakers of public ownership of government, in turn, have, in an attempt to secure the majority of the votes, an economic interest in expanding policies of expropriating the (typically few) high productive income producers to the benefits of the (typically large group) of less productive income producers.

Public ownership of government reduces the economic incentive to limit aggression against individuals' property rights, and it increases peoples' interest in transfer incomes and reduces their encompassing interest in the market economy. It increases the societal time preference, thereby lowering savings and investment and thus weakening economic and cultural progress. Most important in this context, it is a necessary result of public ownership of government that commodity money will be replaced by fiat money.

Government acquires its revenues in a way that is diametrically opposed to, and irreconcilable with, the free market. In a free market, goods are acquired through mutually beneficial voluntary transactions. Government revenues, however, mean that the ruling class expropriates resources from the ruled. Such a seizure is called taxation. Taxing people openly is politically unfavorable, though. For the caretakers of government it is much more convenient if they can increase the money stock out of thin air. By making use of a de facto fraudulent scheme, they can acquire resources slyly and almost unnoticed, provided the effects of the issuance of new money do not become too obvious.

The control over the money supply actually increases the scope of government aggrandizement and the financial benefits for government collaborators well beyond the boundaries set by commodity money. Fiat money can be expanded in line with political expediency in any quantity and at any time. Perhaps most important, fiat money makes it particularly easy for the government to issue debt, through which resources can be transferred from the ruled to the caretakers of government and its protégées.

If the rise in the supply of government debt is accompanied by a rise in the money stock, the market interest rates can be held low—that is, at a level that is lower than the interest rate which would prevail had the credit and money supply remained unchanged. This, in turn, reduces public resistance against issuing government debt: The market interest rates can be pushed below the societal time preference rate. And so the crowding-out effect caused by issuing government debt, which harms private business, can be kept at bay.

Having said that, it was a logical consequence that with the spreading of public ownership of government, the last remnants of the gold standard were finally abolished. This is what actually happened on August 15, 1971, when then US president Richard Nixon closed the "gold window," effectively putting the world on fiat money.[10] It would be premature, however, to draw the conclusion that fiat money, once established, would be upheld solely because of the economic interest of the ruling class, and at the expense of the class of the ruled. In fact, fiat money, once established, increasingly finds its supporters among the electorate, that is, public opinion.

IV. COLLECTIVE CORRUPTION

In his ABCT Mises maintains the view that public opinion is to be held responsible for repeated increases in bank circulation credit which follow from an initial bank circulation credit-fueled boom. He wrote: "In the opinion of the public, more inflation and more credit expansion are the only remedy against the evils which inflation and credit expansion have brought about."[11] However, the crucial question in this context is: What makes public opinion sympathetic to false economic theories in the first place? Mises answer is "(…) that public opinion could favor spurious ideologies whose realization would harm welfare and well-being and disintegrate social cooperation."[12]

[10] The exchange value of most currencies was fixed against the US dollar. As a result, via the greenback, most currencies were effectively linked to gold. With the link of the US dollar to gold thus severed, all other currencies also lost their gold backing too.

[11] Mises (1949), pp. 576–577.

[12] *Ibid*, p. 864.

However, what explains then the emergence, spreading and acceptance of such false economic theories? Theories emerge from ideas.[13] Ideas are at the heart of human action, and they are developed by "uncommon men." Mises noted: "The masses, the hosts of common men, do not conceive any ideas, sound or unsound. They only choose between the ideologies developed by the intellectual leaders of mankind. But their choice is final and determines the course of events. If they prefer bad doctrines, nothing can prevent disaster."[14] If these "uncommon men" become "court intellectuals," the door will be opened for effectively spreading of false theories, supporting government-friendly ideas.[15]

"By virtue of their connection with definite parties and pressure groups, eager to acquire special privileges, [court intellectuals] become one-sided. They shut their eyes to the remoter consequences of the policies they are advocating. With them nothing counts but the short run concern of the group they are serving. The ultimate aim of their efforts is to make their clients prosper at the expense of other people."[16] Clearly, those in and close to government power have an economic incentive for seeking intellectual legitimization of their privileged status. They have the financials means to pay "court intellectuals," giving them incentive to create wide spread acceptance of false theories.[17]

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[13] "Ideas engender social institutions, political changes, technological methods of production, and all that is called economic conditions. And in searching for their origin we inevitably come to a point at which all that can be asserted is that man had an idea." Mises (2007 [1957]), p. 187.

[14] Mises (1996), p. 864.

[15] If, for instance, court intellectuals take the leading role in education (in, for instance, schools and universities), their teachings are bound to determine society's intellectual landscape.

[16] Mises (1996), p. 869.

[17] "Throughout the ages, the emperor has had a series of pseudo-clothes provided for him by the nation's intellectual caste. In past centuries, the intellectuals informed the public that the State or its rulers were divine, or at least clothed in divine authority, and therefore what might look to the naive and untutored eye as despotism, mass murder, and theft on a grand scale was only the divine working its benign and mysterious ways in the body politic. In recent decades, as the divine sanction has worn a bit threadbare, the emperor's "court intellectuals" have spun ever more sophisticated apologia: informing the public that what the government does is for the "common good" and the "public welfare," that the

There is, however, another route for explaining the acceptance of false economic theories—knowingly or unknowingly spread by court intellectuals: Namely, the insight that to get accepted, false theories do not necessarily need to be shoved down the throats of the people. And it is here where corruption comes into play. In economic literature, corruption typically denotes the misuse of legislated power by government officials for illegitimate private gain or favoring their beneficiaries. It may take a number of forms, such as patronage, nepotism, cronyism, bribery, extortion or embezzlement.[18] In that sense, corruption refers to "public sector corruption." However, there is also "dual-sector corruption," characterized by the cooperation of individuals from both the public and private sectors."[19] Dual-sector corruption is typically associated with rent-seeking, the socially wasteful process of expending resources by special-interest groups for influencing public policy in their favor.[20]

The term collective corruption denotes that corruption is not confined to the actions of just a small number of individuals of society (both in the public and private sector) but becomes the common theme that guides the actions of a growing fraction of society. In fact, collective corruption logically implies that individuals will increasingly develop a disposition for violating others' property rights. By taking advantage of government coercive action, an individual can (immediately) reap the benefits from aggressing against the property of others, while he has to bear only a fraction of the damage his action does to society as a whole. He has every incentive to act in this way; he would have to bear

process of taxation-and-spending works through the mysterious process of the "multiplier" to keep the economy on an even keel, and that, in any case, a wide variety of governmental "services" could not possibly be performed by citizens acting voluntarily on the market or in society." Rothbard (1973), p. 24.

[18] "Corruption is an act in which the power of public office is used for personal gain in a manner that contravenes the rules of the game." See Aidt (2003), F623. Likewise, Benson (1981), p. 309, notes: "Corruption, like a private black market, arises because government statutes, regulations, or purchases do not allow a free and competitive market allocation." Also, the widely cited article by Shleifer and Vishny (1993) and the analysis of Rose-Ackerman (1999) focus on government corruption.

[19] Osterfeld (1992), p. 212; see also Chapter 9 "Corruption," pp. 204–218.

[20] See Tullock (1967) and (1993); and Krueger (1994).

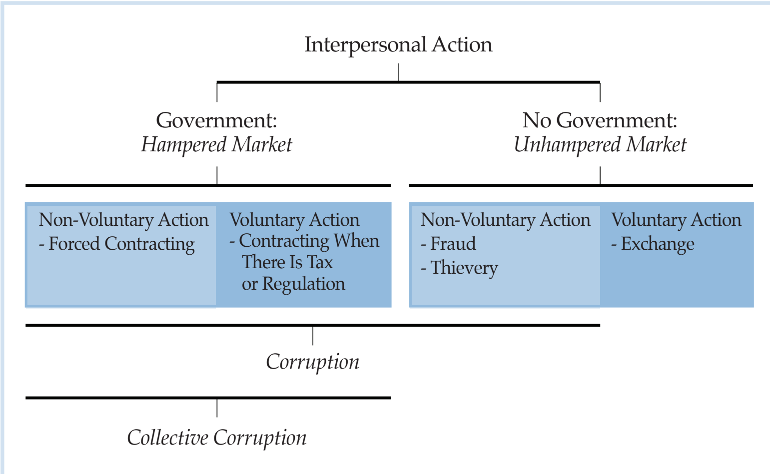
the losses of whatever opportunity for violating other's private property he passes up.

Take, for instance, government beneficiaries such as firms receiving orders from the public sector, or those employed by government, who will become increasingly in favor of an expanding government, as big government will give them (at least the chance of) bigger business and higher (monetary and non-monetary) income. It is the possibility of taking advantage of government coercive power for influencing the course of events in one's favor that makes people developing an interest in—intentionally or unintentionally—violating the property rights of others. Frederic Bastiat captured the logic of collective corruption succinctly: "Government is that great fiction, through which everybody endeavors to live at the expense of everybody else."[21]

How does collective corruption differ from aggression against private property (or: collective aggression, for that matter)? The answer is that the term collective corruption represents, on the one hand, an encompassing concept, capturing physical aggression against property rights as well as two of its corollaries, namely, intimidation—the (direct or indirect) threat of physical violence—and fraud, the appropriation of someone's property without his consent ("implicit theft"). On the other hand, collective corruption signifies that the practice of violating individuals' property rights is becoming, and increasingly so, a commonly accepted "rule of the game." In sum, collective corruption can be understood as action that violates, or threatens to violate, others' physical property rights, or leads to implicit theft, and individuals' self-interest results—once collective corruption is set into motion—to ever greater violations of individuals' property rights. This is a development in which the rule of law is destroyed, human rights are undermined, and peaceful and productive social and economic development is greatly hindered or even made impossible.

[21] Bastiat (2007), *The Bastiat Collection*, p. 99.

Figure 1. Interpersonal Action and Collective Corruptions



Collective corruption can be viewed as invasive action in hampered markets: that is, markets in which government, in one way or another (by regulating, prohibiting, taxing, ordering, etc.), pursues, and thereby provokes, action which (increasingly) violates individuals' property rights (Fig 1).[22] However, collective corruption is not necessarily confined to action in hampered markets. It can also occur in unhampered markets.[23] To see this, one may wish to introduce the distinction between voluntary and non-voluntary action. If exchange in unhampered markets is non-voluntary (such as, for instance, fraud and thievery), it certainly qualifies as a form of invasive action. Of course, such invasive

[22] Hoppe (2010, p. 174), in explaining the expansion of the socialist-democratic state offers three answers: "(1) by aggressive violence; (2) by corrupting the public through letting them or rather parts of them share in the enjoyment of the receipts coercively extracted from natural owners of things; and (3) by corrupting the public through letting them or parts of them participate in the specific policy of expropriation to be enacted." He goes on, concluding that the state causes corruption (p. 181): "Either way, the state generates support for its role. The recipients of transferred incomes as well as the users/consumers of state-produced goods and services become dependent to varying degrees on the continuation of a given state policy for their current incomes, and their inclination to resist the socialism embodied in state rule is reduced accordingly."

[23] See in this context Rothbard (2006).

action is entirely foreign to the principles of the free market and will (have to) be sanctioned; it is irreconcilable with an unhampered market system.

Voluntary exchange in hampered markets covers exchange which is, directly or indirectly, influenced by government action, and it also qualifies as invasive action. For instance, imposing a tax on a good, or law restricting the freedom of private property owners, may push the market price above the level that would prevail had no tax been levied. In the case of taxation, for instance, the supply of the good subject to tax will be necessarily smaller than without taxation—at the expense of the marginal consumer and to the benefit of the tax receiver and his beneficiaries. Needless to say, non-voluntary action in hampered markets (such as, for instance, forced contracting) is self-evidently invasive action.

Having said that, action in hampered markets—be it voluntary or non-voluntary action—and non-voluntary action in unhampered markets can thus be considered corruptive action. However, corruption in hampered markets is of a rather special nature. This is nicely suggested, for instance, by Gary S. Becker, who writes: "Corruption is common whenever big government infiltrates all facets of economic life, never mind the political and business systems."[24] Becker's explanation points towards collective corruption: namely, that in hampered markets a growing fraction of society becomes increasingly interested in action that violates individuals' private property rights, thereby undermining integrity, honesty, virtues and moral principles.[25]

Establishing and running a fiat money regime is an example par excellence for government causing, and spreading, collective corruption (possibly on the grandest scale). Pure fiat monies spread after the end of World War II, under the spell of expanding democratic republicanism, when the concept of socialist-redistributive policies gained ground among the public at large. Therefore, many societies

[24] Becker (1994). And so Becker's recommendation is as follows (Becker, 1997): "The only way to reduce corruption permanently is to drastically cut back government's role in the economy." Osterfeld (1992) concludes along the same line (p. 218): "Those concerned about corruption …should focus their attention on reducing the scope of government activities."

[25] See in this context Hoppe (2010), p. 70.

did not return to commodity money (i.e., the gold standard), which had been suspended for financing war outlays with inflation, as fiat money offered an unprecedented way of financing the welfare state and government aggrandizement.[26] The last remnants of a pseudo gold standard came on August 15, 1971, when US president Richard Nixon de facto ended any form of convertibility of the US dollar into gold. The decision put effectively the world monetary system on an unfettered fiat money standard.

In the US, for instance, the process toward a pure fiat money system was possibly set into motion at a much earlier stage, namely in the "Progressive era" from the 1890s to the 1920s.[27] It was the period of, as James Grant put it, "democratizing credit": a period in which credit was increasingly made available and accessible (in particular to consumers and farmers).[28] This process was actually greatly influenced by growing government interventionism in the field of banking. For instance, the Federal Farm Loan Act in 1916 offered federally backed loans to farmers. By taking over credit risk from private borrowers, the government artificially reduced the cost of borrowing. The culmination point of attempts to increase the supply of credit at ever-lower interest rates was certainly the Federal Reserve Act in 1913, which established a central banking system.

From this viewpoint, therefore, the establishment of a pure fiat money system is the logical consequence of public ownership of government and collective corruption which necessarily spreads. Mises seems to have identified the collective corruption that comes with fiat money when he wrote: "It would be a mistake to assume that the modern organization of exchange is bound to continue to exist. It carries within itself the germ of its own destruction; the development of the fiduciary medium must necessarily lead to its

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[26] See Hoppe (2006), *On Monarchy, Democracy, and the Idea of Natural Order*, 56–57. For the pre-WWII period see Kemmerer, E. W. (1944), *Gold And The Gold Standard*.

[27] "The Progressive Era of 1900–1918 fastened a welfare-warfare state on America which has set the mold for the rest of the twentieth century." Rothbard (2002), A History of Money and Banking in the United States, p. 179. See also Part 2 "The Origins of the Federal Reserve," pp. 179–259.

[28] See Grant (1992), *Money of the Mind*, ch. 4, "Democratizing Credit," esp. pp. 76–110. Grant notes (p. 113): "The democratization of credit was an idea that, though rarely expressed in just those words, was entering a long and glorious bull market."

breakdown."[29] To see this, it is necessary to bring to attention how fiat money violates the principles of the free market.

First, once fiat money serves as the universally accepted means of exchange, trade is no longer mutually beneficial to all trading parties concerned, as it is inflationary money. While any rise in the money supply erodes the purchasing power of money, increases in fiat money tend to be (much) more pronounced compared to increases in commodity money. The "Cantillon effect" is therefore (much) more pronounced in the former than the latter: The early receivers of the newly created fiat money benefit at the expense of those receiving the money at a later point in time. Fiat money benefits those in or close to government (early receivers) at the expense of those receiving the new money later (late receivers) or not at all (non-receivers).[30]

Second, inflationary fiat money distorts price signals, provoking "bad" investment decisions and costly malinvestment for entrepreneurs, and a lower degree of want satisfaction of the consumer.

Third, once a fiat money regime has been put into place, the ensuing collective corruption—that is, the development among the people of an increased personal interest in invasive action—makes it increasingly difficult, if not impossible, to seek monetary reform in the sense of re-establishing free market money.[31] First, people embark upon careers in industries which are artificially boosted, or created, through bank circulation credit expansion. They develop a vital economic interest in a policy that keeps the artificial boom going; otherwise, they would lose their source of income. Second, people invest their savings in bank and corporate bonds, bonds that were issued for financing investment projects provoked by an increase in fiat money. They will develop a vital interest in keeping a fiat money fueled boom going—otherwise their investment would take a bad turn. Third, government revenues become dependent

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[29] Mises (1912), p. 448.

[30] In this context, it should be noted that view of the *principal-agent problem*, bank managers rather than the owners of banks (stockholders in the widest sense) may be the major beneficiaries—if and when they can secure relatively high wage and compensation payments.

[31] By this it is meant that market agents can freely decide about which means shall serve as money, and that money production adheres to the principle of the free market.

on the expansion of fiat money. The greater the number of people benefiting from government (handouts), the stronger will be public support of upholding the fiat money regime.

V. COLLECTIVE CORRUPTION AND THE INTERVENTIONISM CRITIQUE

The conclusion reached so far—namely, that fiat money necessarily leads to *collective corruption*, and that fiat money is a *logical* result of public ownership of government—can be harmoniously integrated in Mises's interventionism critique. As Mises explained in *Interventionism: An Economic Analysis* (1998 [1940]), under interventionism, government "(…) forces the entrepreneur and the owner of the means of production to use these means in a way different from what they would do under the pressure of the market."[32]

Mises concluded that interventionism is not a lasting system of economic organization. The curse of interventionism is that, once the undesirable effects of interventionism come to the fore—such as recession and unemployment—more of the same follows: "Popular opinion ascribes all these evils to the capitalistic system. As a remedy for the undesirable effects of interventionism they ask for still more interventionism. They blame capitalism for the effects of the actions of governments which pursue an anti-capitalistic policy."[33]

Fiat money is an example par excellence for interventionism: namely government depriving the free market from producing money, and the concern about the ultimate consequence of collective corruption was actually implicitly embedded in Mises's anti-interventionism argument, when he concluded: "If governments do not give them up and return to the unhampered market economy, if they stubbornly persist in the attempt to compensate by further interventions for the shortcomings of earlier interventions, they will find eventually that they have adopted socialism."[34]

Ongoing interventionism is, to Mises, ultimately a function of a misguided public opinion: "In the opinion of the public, more

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[32] Mises (1998 [1940]), p. 10.

[33] *Ibid*, p. 77.

[34] *Ibid*, p. 91.

inflation and more credit expansion are the only remedy against the evils which inflation and credit expansion have brought about."[35]

And so, collective corruption can also explain the recurrence of boom and bust and thus the "crack-up boom": "The boom can last only as long as the credit expansion progresses at an ever-accelerated pace. The boom comes to an end as soon as additional quantities of fiduciary media are no longer thrown upon the loan market. But it could not last forever even if inflation and credit expansion were to go on endlessly. It would then encounter the barriers which prevent the boundless expansion of circulation credit. It would lead to the crack-up boom and the breakdown of the whole monetary system."[36]

VI. COLLECTIVE CORRUPTION AS A HURDLE AGAINST MONETARY REFORM

The line of reasoning has now come full circle. Collective corruption has actually been explained as a logical result of interventionism;[37] and today's fiat money regime is a manifestation of interventionism in monetary affairs—emerging from public ownership of government—with far-reaching destructive effects for the free market society. This, in turn, explains why collective corruption makes a reform of the fiat monetary order such a difficult, perhaps insurmountable, task—with the outlook of a successful pre-emptive reform declining the longer the fiat money regime has been kept in place.

Under a fiat money regime, people will be corrupted on the grandest scale. From an individual's viewpoint, the hoped-for economic benefits of keeping the fiat money regime going (such as, for instance, protecting income and life time savings) can easily exceed the costs of a policy that seeks keeping alive a fiat money system (that are the costs in the form of (ever greater) inflation, distortion of market prices and undermining peoples' integrity and moral values); this is especially so if and when people have

[35] Mises (1996), p. 576–577.

[36] *Ibid*, p. 555.

[37] *Ibid*, p. 736.

reason to expect that the costs of the fiat money system will be born by third parties (at a (much) later point in time).

Mises, therefore, concluded back in 1923 that a monetary reform—namely a return from fiat money to sound, that is commodity, money—is not a technical issue but first and foremost depends on an unconditional acceptance of the principles of the free market: "The belief that a sound monetary system can once again be attained without making substantial changes in economic policy is a serious error. What is needed first and foremost is to renounce all inflationist fallacies. This renunciation cannot last, however, if it is not firmly grounded on a full and complete divorce of ideology from all imperialist, militarist, protectionist, statist, and socialist ideas."[38]

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[38] Mises (2006), p. 44.

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