

Journal of  
**Economics and Political Economy**

econsciences.com

Volume 10

June 2023

Issue 2

## The Austrian School and crisis cycles

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**Abstract.** The causal-realist approach to political economy, characteristic of the Austrian School, readily explains the causes behind credit cycles and the distinct phases between booms and busts. An underlying relationship between money, banking, property, contracts, and entrepreneurship is the key dynamic. Policy interventions that allow financial institutions to violate monetary property rights impart systemic risk leading to vacillations between periods of rhapsodic expansion and distressed contraction. Escaping the crisis cycle requires adopting policies that affirm monetary property rights, enforce deposit contracts, and denies any political authorities that inhibit the choice of a commodity-based currency, or tolerates the legal abrogation of fiduciary responsibility relative to money substitutes. Only when credit issuance is restrained by the level of genuine savings in proper money will a natural rate of interest harmonize the structure of production with consumer preferences.  
**Keywords.** Austrian School; Boom bust; Business cycle; Cost of living; Credit cycle; Crisis; Discount rate; Entrepreneurship; Individualism; Joseph A. Schumpeter; Ludwig von Mises; Money; Money creation; Monetary policy; Realism.  
**JEL.** B41; B53; E32; E52; E65.

### 1. Introduction

The causal-realist approach to political economy readily explains the causative factors behind credit cycles and the distinct phases between booms and busts. Insights derived from praxeological methodology reveal the specific policy interventions that impart systemic risk into the banking sector and credit markets, leading to malinvestment, entrepreneurial error, and widespread periodic disruptions. While forecasting the precise timing of financial crises remains elusive, the continued reliance on hazard inducing policies indicates economic turbulence will likely continue with increasing frequency and intensity until such time that political trends fundamentally shift toward a restoration of property rights in monetary affairs.

### 2. Causal-realist methodology

Understanding credit cycles requires a theoretical framework for interpreting the relationships between money, banking, property, contracts, and entrepreneurship. Theoretical and practical applications of economic science seek to explain the general relationships between concrete economic phenomena which are directed toward the satisfaction of human needs and

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desires ([Menger, 1985](#), Appx. VI). Political economy asks which institutional arrangements are most conducive to the production of wealth and includes economic policy, resource stewardship, and finance, with each having important roles in trade fluctuation research.

Jean Baptiste Say's 1880 Treatise described the methods of political economy as "rigorous deductions of undeniable facts" composed of "a few fundamental principles and a great number of corollaries" that provide a foundation for drawing conclusions about how wealth is produced, distributed, and consumed ([2014](#), Introduction). The psychology of choice between alternatives for satisfying human desires is the basis of economic thought and runs as a vital force through the administration of all resources and exchanges aimed at avoiding waste while securing efficiency. These principles apply not merely to commercial, industrial, or financial matters but for any conceivable good or service that can gratify or assuage human wants ([Wicksteed, 2013](#)).

The technique of using logical imaginary constructs to explain causal relationships governing economic activity in the real world derives from the basic premise that humans act using physical means to achieve desired ends. This innovative theoretical program for economic research began with Carl Menger's 1871 "Principles" text and was expanded by his student Ludwig von Mises, using the term "praxeology", the science of human action, with economics being the most developed field within this methodological approach to social science. Because writers in the tradition largely hailed from the same country and, for a time, engaged in an academic dispute with other geographically based centers of thought, causal-realism became known as the Austrian School. However, the dislocations of World War II, coupled with modern communications technology, led to a global diffusion of praxeological analysis. Rather than focusing on the country of origin, Salerno ([2010](#)) asserts the methodological approach is more appropriate as a naming convention. Hence, calling this scientific technique "causal-realist", rather than "Austrian", informs readers of the epistemological procedure involved in discovering the dynamic forces involved with the "pure logic of choice" (Hayek, in [Endres, 1991](#), p.279).

Psychological factors may indeed compose the motivating force throughout all economic activity, however, choices are only manifested in the material world through action. Accounting for the "bewildering multiplicity" of external stimuli, internal perceptions, past experiences, present knowledge, and anticipated outcomes that motivate human choices in real-time is impossible for outside observers ([Mises, 1962](#), Ch. 1.5). Human action does not unfold under laboratory condition and cannot be isolated or controlled to test variables in the same manner as the natural sciences, such as physics or chemistry. Therefore, the causal-realist methodology uses logical reasoning, based upon an a priori understanding of intentional human action, to deduce propositions that explain actual economic phenomena without reliance upon empirical observations ([Hoppe, 2007](#)).

The apodictic certainty that humans act in the manifest realm of time, space, and form, using physical means to satisfy desired ends, provides explanatory implications for political economy that includes individual subjectivity, preference, utility, and association. Inequality of material conditions in the world, and across human capacities, drives social

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cooperation and exchange (Polleit, 2023, Ch. 5). Engaging in trade with others requires ownership of resources, whether acquired through original appropriation from nature or procured through a previous exchange. Overcoming the limitations of simple barter, and the inconveniences involved with needing a double coincidence of wants for each transaction, implies that self-interest is sufficient to explain the proclivity toward a common medium of exchange. Thus, the social conventions of property and money descend directly from the action axiom.

### 3. Money and banking

Money emerges organically as an eminently salable commodity that facilitates trade between parties without requiring a mutual desire for directly consuming each other's products. That is, money is neither a consumption good nor a production good but acts as an intermediary of exchanges for these other types of goods. Indirect exchange using a universally accepted medium enables the division of labor, widens the sphere of social cooperation, and allows for more complex economic activity that can then cater to more diverse and specific consumer demands (Mises, 1953, Part 1, Ch. 1.2).

There is no requirement for political involvement in the production of, nor does anyone need to "invent", money (Menger, 2007, Ch. 8). Selecting a commodity that is suitable for use as a common medium of exchange occurs gradually through multitudinous iterations of market-based choices. Money is a social institution that is a corollary to the fundamental requisite for every other kind of political-economic good: private property. Private property is essential to money, trade, and wealth creation. Just as Adam Smith argued in his 1776 *Inquiry into the Nature and Causes of the Wealth of Nations*, human beings are uniquely predisposed to "truck, barter, and exchange", things with each other (Book 1, Ch. 2) and money lubricates these social interactions.

Embedded in every wealth-producing exchange is the assumption that the trade is conflict free, the parties to the transaction *ex ante* perceive benefit by it, and each legitimately possesses title to the goods involved. Exchanges that do not meet these criteria, namely those involving force, fraud, theft, or encroachment upon another's property, are categorically uneconomic and, consequently, wealth destroying. Similarly, the absence of clear property rights, or disrespect for property as a social institution, stifles wealth producing trade. Confusion over who owns a good or resource leads to discord or, at the very least, stagnation. Protecting the integrity of private property is the singularly essential precondition to trade facilitation, wealth production, and, thereby, human flourishing (Mises, 1927, Ch. 1.1).

Money is a form of property with a unique social function and, therefore, preserving its soundness is crucial for healthy economic activity (Hülsmann, 2008, Ch. 1.1.3). In addition to facilitating trade, money provides a common denominator with which to compare every other available good and exchange relationship. Money based prices allow for the rational comparison of alternative courses of action given the relative availability, or scarcity, of resources. Investment, entrepreneurship, development, and consumption activities all depend upon accurate information about resource availability, and the human psychological importance attached to them, as conveyed through money prices that are developed through the process of market-based voluntary exchanges of private property.

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Absent private property, freedom of exchange, and sound money with which to develop prices, rational economic calculation becomes impossible (Mises, 2014). It should be noted that free exchange is embedded within the notion of private property. If one is prevented or impeded from exchanging their property it is not effectively owned by them but, in fact, is controlled by someone else. Similarly, if one cannot select the type of property they will use as a common medium of exchange, money cannot perform its indispensable social function as a figure for rational economic calculation. Every deviation from private property and market-chosen commodity-based money leads to economic distortion, resulting in perverse outcomes and inefficiency.

Uncertainty about future conditions leads people to hold money. The demand for money is established through the time dimension. Monetary purchasing power is based on past experience with exchange ratios, i.e., yesterday's prices. However, the less confident of what needs will be going forward, what resources will be available, or what tomorrow's prices will be, increases the desire for money reserves. Rothbard (2008, Ch. V) adds that the frequency of income, the types of available debt clearing systems, confidence in monetary quality, as well as inflationary or deflationary expectations also influence the level of demand for holding money.

To supplement the security of their cash holdings, people turn to banks for safekeeping services. The bank acts as a warehouse of their client's property, issuing a receipt for the commodity money placed on deposit. The money remains available for payment upon demand to the bearer of the deposit receipt and the bank traditionally charges a fee for the warehousing service. Huerta de Soto (2006, Ch.1.2) describes this arrangement as an "irregular deposit contract" on account of the fungible nature of the money being held. The bank is responsible for holding, available for immediate demand, an equivalent "quantity and quality" of the commodity on behalf of the client, but not necessarily the exact same monetary unit originally deposited. A regular deposit contract would be akin to a safety deposit box where the bank would be responsible for returning to the client the specific items held for safekeeping. Both regular and irregular deposit contracts share the obligation to maintain immediate availability of the depositor's property. However, the irregular contract allows the bank to mix mutually interchangeable commodities held in the depository on condition of immediate availability.

Over time, the convenience of carrying and trading with trustworthy warehouse receipts habituated the acceptance of money substitutes in many economic transactions. So long as banks honor the contract to continuously hold reserves of the same quality and quantity of that which was deposited, and are able to fulfill demand obligations, money substitutes offer social utility without violating any economic or legal principles. However, the tendency for banks to issue more money substitutes than assets held in reserve creates institutional risk. The incentive for financial institutions to engage in such fraudulent behavior comes from the profits available through loan banking.

Loan banking and deposit banking are legally and economically distinct business operations. Deposits are required to be immediately available upon demand by the bearer of a valid money substitute and, therefore, cannot be loaned out. Property rights to an equivalent amount and quality of the fungible commodity money remain with the depositor in an irregular contract arrangement. In contrast, loan banking deposits transfer ownership of the

money to the bank for a fixed term and are unavailable during the contracted time period. Here, the client is surrendering the present value of the money with an expectation of receiving a portion of the profit derived in the future from the bank's loan activities, i.e., return of the principal plus interest.

These separate business lines have different contractual obligations regarding the retention or transfer of property rights. Still, the banks actually hold the money in their coffers, largely concealed from outside observers, in each case. What happens when financial institutions amalgamate their activities or neglect their fiduciary responsibilities?

### 4. Crisis and interventionism

There are three basic methods and motives by which financial institutions can issue unbacked fiduciary media and practice "fractional reserve" banking (Hülsmann 2008, Ch 6.3). First, they issue notes in excess of the deposit money on hand so as to purchase goods, services, assets, and other investments. Second, by issuing more money substitutes than reserves held in deposit, banks can increase their profits from loan activities. To this end, financial institutions, and other supporters of the practice, have the incentive to dissolve the distinction between loan banking and "irregular" deposit contracts.

Yet doing so violates the depositors' property rights with a breach of contract and constitutes the crime of fraud. Money held as a demand deposit must be continuously available to the bearer of a claim check and, therefore, cannot be concurrently lent out via the extension of credit to a third party. When banks issue more money substitutes than actual money held in reserve, they cannot fulfill all their contractual obligations to holders of irregular deposits. Erosion in depositor confidence of the financial institutions' ability to redeem banknotes upon demand instigates bank runs, panics, and firm insolvency.

This leads to the third origin of fractional reserve banking. Political actors have a proclivity to expropriate resources from people and entities subject to their jurisdiction and the concentrated wealth held in banks offers an easy target. This incentivizes financial institutions to issue more loans and reduce the amount of confiscable money in their vaults. It also impels the financial services industry to enter an accord with political authorities and, thereby, obtain official sanction to indulge in what would otherwise be unscrupulous activity. Banks welcome political regulation, cartelization of the industry, and control from a state sponsored central bank because it allows them to evade competition on an open market and the discipline imposed by fully backed commodity based money (Rothbard, 2008, Ch. IX).

Political actors benefit from the arrangement by gaining priority access to newly issued fiduciary media and spending it on goods and services before market prices adjust to the new monetary environment. In this way, political regimes are then able to artificially increase control over other aspects of economic life than what would otherwise, under a fully backed commodity money standard, only be possible through taxation or debt (Hoppe, 2006, Ch.3). States, in the pursuit and maintenance of territorial monopoly jurisdiction coupled with the power to expropriate resources from all those who are subject to their dominion, are incentivized to, gradually, sever linkages in popular consciousness between: first, warehouse receipts as money

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substitutes for commodity based money; second, fully backed reserves for each money substitute issued; finally, the need for a commodity to use as a medium of exchange.

Through a process of incremental changes to monetary policy over an extended period, political monopolists subvert the integrity of organic money and impose acceptance of unbacked fiduciary media through legislative decree. Supplanting a market chosen commodity with a “fiat”, or politically commanded, medium of exchange does not enhance the function of money, it, in practice, undermines it (Ammous, 2023, Ch. 15). Absent the “proof of work” involved in mining and minting a commodity money, banks, protected with political cover, are able to issue fiduciary media with impunity. An increase in the quantity of money does not grow wealth and more monetary units do not enhance the facilitation of exchange. Holding all else constant, an increase in the money supply only devalues the purchasing power of the existing currency units against the same level of goods and services. Therefore, unbridled fiduciary media issuance only alters prices, transfers wealth to the first recipients of the new currency units, disrupts the structure of production, and sets the stage for economic miscalculation. The effects of these policies manifest with a discernible pattern.

### 5. Circulation credit crisis cycles

Acting either with political sanction or in defiance of contractual principles, violating the restraint of only issuing money substitutes backed by a market chosen commodity positions financial institutions to expand circulation credit beyond the capacity of natural economic conditions (Mises, in Ebeling, 1996, Ch.2). Precise timing of the phases or predicting the exact sectors in which the distortions resulting from unbacked fiduciary media will appear is impossible. However, causal-realist political economy presents distinct contours to the pattern of economic crisis cycles that explains contributing factors and, thereby, corrective policy prescriptions.

The expansion phase begins with the issuance of fiduciary media unbacked by savings in proper money. Genuine savings would otherwise signal a change in consumptive preferences toward a longer time horizons through a lower interest rate based on the increased availability of loanable funds. Artificially increased credit in circulation precipitates a disconnect between consumer demand and production activities. Lowered interest rates entice longer term entrepreneurial endeavors, more capital equipment purchases, and investment in riskier projects at a time when savings have not, in fact, increased and consumption has not slowed.

The boom phase emerges from the bidding up of prices by both producers and consumers seeking the relatively same amount of accessible goods and services with an increased amount of currency units in circulation. Absent the inter-temporal coordination of demand for money, signaled though a natural interest rate, consumptive and productive dynamics are out of equilibrium even while speculative ventures and conspicuous consumption abound. Rising wages, inflated asset values, record profits, and investor euphoria result from the “wealth effect” of easy money policies. However, newly created fiduciary media does not enter the marketplace evenly nor in a neutral manner, the so-called Cantillon Effect is thoroughly potent (Seiron, 2019, p.75). Increased prices indicate decreased purchasing power of the money held, leading

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investors, institutional lenders, entrepreneurs, and savers alike to chase ever more precarious projects in search of commensurate yield.

The crisis phase begins upon the realization that there are insufficient actual resources to sustain the buoyant rate of growth. Fevered consumer and producer activities, with the attendant price increases, lead to a credit policy change. Fiduciary media issuance slows through increased interest rates and lending facilities become scarce. Resource malinvestments and clusters of entrepreneurial error are exposed as bankruptcies unfold.

The depression phase is characterized by liquidation and severe reductions in economic activity as corrections for the previous miscalculations occur. Layoffs, unemployment, and underemployment ripple through the labor market while asset prices plummet, firms disband, and pessimism resounds.

The recovery phase is a time of adjusting to the new economic status quo. Resources are reallocated and firms reorganize while business operations reorient on present and anticipated opportunities. Depending on the policy environment, an interest rate based on authentic savings could restore coordination between the structure of production and consumer demands, or new rounds of artificial credit expansion may restart the crisis cycle (Huerta de Soto, 2006, Ch.6.18).

### 6. Austrian views: Causal-realism in practice

Most mainstream economists concede that asset bubbles lead to crises yet also advise stimulating aggregate demand as a policy tool for alleviating recessions (Oppers, 2002, p. 10). This differs significantly from the causal-realist approach of the Austrian School that distinguishes sharply between sustainable economic growth, financed by genuine savings, and unstable booms fueled with unbacked circulation credit authorized by politically connected central banks. The mainstream sees “the economy” as a mechanism with fixed levers that can be manipulated when “capitalism” appears to “fail” to deliver preferred outcomes.

Austrians recognize that economic transactions are the result of human choices made at the margin of individual subjectivism, in an instant of fleeting time and circumstance. As such, there are no constant relationships to manipulate in a way that can consistently render political goals. This is why Ludwig von Mises stated that interventions upon the functioning of markets “can never achieve the objectives” of political authorities (1996, Ch. 1.1). Rather than following mainstream economists in blaming economic problems on “capitalism”, which is nothing more than a private property legal order that includes the freedom to save, invest, or trade voluntarily, Austrians identify government policies, and the policy of easy money in particular, as disruptive to market processes and the crucial role of entrepreneurship.

Capitalism is a process of allocating resources guided by the calculation of profit and loss as dictated by the satisfaction of consumers who exercise choice in the voluntary purchase of goods and services. It relies upon entrepreneurial perception to anticipate and adapt to consumer preferences based on alertness to opportunities and feedback. The savings that precede capital formation as well as the management of business operations are, indeed, essential to all productive endeavors in an advanced, modern, and complex economy. However, the entrepreneur, as Mises described (1998, Ch. XIV), is the “driving force” behind the entire market order.

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Entrepreneurs assume the risks involved with organizing production amid a time period of uncertainty about the prospects of success. It is possible that individuals can, and often at the start of a new venture do, embody more than one, or all three, productive functions: capitalist, manager, and entrepreneur. However, the roles are distinct. The capitalist accumulates savings and invests resources with the entrepreneur who, in turn, exercises judgement as to which business operations are most likely to maximize returns on the capital employed. To do so, the entrepreneur directs resources to managers who then, ideally, employ resources, labor, and equipment efficiently down the business line to deliver value to consumers. The functions are complimentary yet dependent upon entrepreneurship for ultimate direction on which areas of production to pursue or abandon (Ammous, 2023, Ch. 12).

While not a strict causal-realist, the Austrian economist Joseph Schumpeter described "creative destruction" as a key feature of the capitalist production process (2012 [1942], Part 2.4). As circumstances change and more innovative production methods evolve alongside the quest for new entrepreneurial profit opportunities, older and less effective formulas fall into disuse, such that the "nature" of capitalism is a "perennial gale" of reinvention. Creative destruction, too, has a cyclical nature where there are steady-state phases interspersed with rushes of rapid change. Scientific breakthroughs, advanced technologies, and optimizing equipment significantly contribute to industrial reorganization, yet the "fundamental impulse" behind the constant change of capitalism is competition among vendors to earn business by satisfying consumers.

Policies that hinder creative destruction, and the resultant economic reordering based on entrepreneurial discretion, only hamper market functions and disrupt the balance between supply and demand. Such policies include extending artificial credit to favored firms, crony corporations, and "too big to fail" companies, as well as subsidizing unemployment or "make work" projects. During the crisis, depression, and recovery phases of a cycle, the deleterious effects of interventionism become even more acute. Losses are socialized, with tax-payers and holders of the debased currency bearing the burden, while benefits are concentrated to the beneficiaries of the interventionist programs. It is a classic example of moral hazard compounded by lost opportunities, a reduction of the production possibilities frontier. Rapid assimilation to emerging conditions requires redirecting resources to where they are most urgently needed and these allocations can only be rationally guided into equilibrium by the price mechanism. Rather than stabilizing economic conditions, government interventionism that prevents price discovery and the signals conveyed through profit and loss only distort the perception of reality, retards adaptability and, consequently, create chaos (Mises, 2006, Ch. 3 Sec. IV).

Several historic episodes illustrate the Austrian view. The Great Depression is a classic example of a circulation credit fueled boom that led to a bust with further political interventionism that prevented economic recovery. Higgs (1997) detailed how interference with prices and business operations, under new regulatory restrictions such as the National Industrial Recovery Act, created an atmosphere of "regime uncertainty" that impeded investment reallocation and entrepreneurial acclimation. Particularly between 1933 and 1940, the general government of the United States, under the the Roosevelt



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administration, ushered in over thirty-nine major legislative acts that attenuated private property rights and undermined commercial resilience. Austrians even criticize 1929-1933 U.S. President Herbert Hoover, whose "attacks" on laissez-faire capitalism set the managerial precedent for Roosevelt's later New Deal policies (Rothbard, 1972, Ch.7). By organizing the Finance and Reconstruction Corporation, a government agency that made loans to troubled banks and local governments, Hoover, too, stood in the way of the painful but necessary "creative destruction" process from the beginning of the Great Depression.

In contrast, the relatively quick recoveries in the Panic of 1819 and the "forgotten" depression of 1920-1921 demonstrate the self-correcting nature of the market process in action. 1819 was the first major financial crisis in the newly formed American republic and, arguably, the first modern business cycle based depression (Rothbard, 2007 [1962], Preface). Following the War of 1812 the United States experienced a period of rapid industrialization with demand for loans to boost manufacturing and exports. The Second Bank of the United States pledged support to state and regional banks and acted as an expansionary influence by accepting loan installment payments in debt instruments rather than in commodity specie. Bank credit stoked investment in real estate, turnpikes, agriculture, and ship building, as well as imported products. When redemption of bank notes and payment to foreign creditors in specie began to drain the treasury, the Bank of the United States announced a halt to its expansionist policy and the contraction began. Debt liquidation, falling prices, urban unemployment, and bank failures swept the land. However, calls for debt relief, protective tariffs, infrastructure projects, and easy money were largely resisted by a majority public that held that a return to humility and frugality would restore a moral foundation to economic affairs. As a result, signs of recovery began as early as 1821.

Writing in 1937, Phillips, McManus, & Nelson (2007, Ch. II) posited that fundamental shifts in "the machinery of banker's banking made possible the creation" of credit necessary to finance World War I. More specifically, amendments to the Federal Reserve Act in 2017 allowed bank issued credit instruments held at Federal Reserve member banks to act as lawful reserves while also lowering the reserve ratio requirements. Thus free to issue even more fiduciary media, bank issued circulation credit preceding the slump of 1920-1921 altered the pattern of investment, consumption, planning, and production (Grant, 2014, Ch. 5). Continued easy access to credit money dampened the effects of post-war industrial demobilization and kept otherwise bankrupt firms afloat as prices adjusted upward. Price inflation instigated complaints about the high cost of living, particularly from those on fixed incomes, and shortages of real resources spurred disputes between interest groups. Responding to the unrest, in October 1919 the Federal Reserve Board acknowledged alleviating the cost of living woes and economic imbalances would require deflation of fiduciary media instruments in circulation by way of gradual increases in the interbank lending interest rate. The announcement bears quoting at length due to the admission of havoc generated by unbacked circulation credit and that the hardships involved in undoing the consequences of prior inflationary policy were necessary to restoring economic balance:

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The dollar has lost purchasing power because expansion of credit, under the necessities of war financing, proceeded at a rate more rapid than the production and saving of goods. The return to a sound economic condition...will be a reversal of the process which has brought the country to its present pass...As the way in was expansion of credit at a rate more rapid than expansion of production and saving, so the way out must be an increase in production and in saving...to place a larger volume of goods against the greatly enlarged volume of our purchasing media and thus to reduce prices. The effect of increased saving will be a reduction in the volume of purchasing media in use and, by consequence, a reduction of prices also...

To accept the depreciation worked in the dollar by war conditions and to standardize the dollar of the future on this basis would be to ratify the inflation wrought by the war and the injustices it produced. No artificial solution for an economic situation of this kind is likely to commend itself to the better judgment and the sense of equity of the country, even could some artificial method of dealing with the question of monetary depreciation be devised which would not bring in its train a crop of new difficulties and problems..." ([Federal Reserve Bulletin, October 1919](#), p. 914-15).

Allowing interest rates to rise, prices to fall, and liquidations to occur allowed a return to relative normalcy by the latter half of 1921. That the Federal Reserve Board at the time confessed the "injustice" of inflation, as attributed to the "greatly enlarged volume" of currency units in circulation, affirms the Austrian view of credit induced booms necessitating an eventual deflationary correction. The Board also cautioned against normalizing the extraordinary measures involved in financing what was, at the time, thought to be a one-time "war to end all wars" for the damage it would do to "equity" while also ushering in a "train" of new problems.

That governments have adopted inflationary policies as a regular course of intervening in monetary and economic affairs marks a departure from the political-economic outlook that allowed the resilient responses to crises demonstrated in 1819 and 1920-1921. Propping up crony corporations with cheap credit only inhibits the essential process of creative destruction while ordinary citizens see their savings and purchasing power wither away from price inflation. It is important to remember that the United States was on a gold standard before and after the 1914-1919 suspension of convertibility and "standardizing the dollar" meant stabilizing the exchange ratio of the currency unit relative to the commodity metal. The original injustice of the *in extremis* wartime measure was issuing fiduciary media unbacked by proper money and every other deleterious consequence flowed from that policy intervention. In the ensuing years, failure to heed The Federal Reserve Board's own words has assured that circulation credit crisis cycles will continue with only an open ended question of when the next one will occur. That, too, is an example of policy generated regime uncertainty.

## 7. Outlook and solution

Crisis cycles are the result of unsustainable consumption and unjustified investments made possible through the circulation of artificial credit instruments. Issuance of fiduciary media, unbacked by genuine savings, is a feature of a fractional reserve banking system that is inherently: 1) inflationary, the total money supply expands exponentially as banks are able to issue

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multiples in fiduciary media with every deposit, 2) fraudulent, the total amount of money substitutes cannot be simultaneously redeemed, and 3) bankrupt, firms are unable to fulfill the fiduciary responsibilities to their clients according to irregular demand deposit and loan contracts (Salerno, 2007).

Crises are institutionalized under the legal and regulatory conditions that countenance unbacked fiduciary media and deny market chosen commodities as a voluntary medium of exchange. As Deist (2023, Ch. 24) notes, contemporary systemic fragility stems from the 1971 Nixon Shock of severing convertibility of United States Dollars in gold and the destruction of the international Bretton Woods exchange arrangement. Since then, critical incidents appear to be occurring more frequently with the 1987 Black Monday stock market crash (16 years), bursting of the 2000 Nasdaq Tech Bubble (13 years), the 2008 Global Financial Crisis (8 years), and the 2020 Coronavirus crash (12 years). Of course, localized credit cycles occurred prior to the current era of global fiat money. However, as Huerta de Soto (2006, Ch. 6.17) abandoning any allusions of a gold standard fundamentally altered the international monetary landscape by enabling each country to engage in economic nationalism and inflationary contests that made financial coordination amid rampant credit expansion ever more chaotic.

Vacillations between economic periods of rhapsodic expansion and distressed contraction arise from political and legal policy interventions that allow financial institutions to violate monetary property rights. Escaping the crisis cycle requires adopting policies that affirm monetary property rights and enforce deposit contracts. In practice, this means denying any political authorities that inhibit the choice of commodity-based currencies, while also rejecting the legal abrogation of fiduciary responsibilities relative to money substitutes. Unbacked fiduciary media must be recognized as a breach of contract and fraud committed against depositors. Only when credit issuance is restrained by the level of genuine savings in proper money will a natural rate of interest harmonize the structure of production with consumer preferences.

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