

APPENDIX II: A NOTE ON THE ACCELERATION THEOREM

—WHERE WE COMMENT ON HOW THE THEORY OF POLITICAL UNIFICATION
CAN BE INTEGRATED INTO THE ACCELERATION THEOREM.

For many year, my friend, the fact is
That honesty is out of practice
And honey'd words and fawning smile
Are ever mixed with fraud and guile.¹

—*Anonymous Latin rhyme*

In our article “Defining the Business Cycle”, we formulated the acceleration theorem as follows: “the inevitable crisis [of the fraud cycle] can be temporarily, but never indefinitely, delayed by creating fiduciary tokens at an ever accelerating pace.” Here we wish to comment briefly on how this theorem remains valid outside the context of the business cycle (which concerns fraud strictly in the domain of money and banking), and how it can also provide insights in the domain of political science, more specifically in the theory of political unification.

In this respect it is well worth analyzing the contributions of Guido Hülsmann. In his remarkable 1997 article “Political Unification: A Generalized Progression Theorem”, prof. Hülsmann gives an exposition of how and why the progression of ever increasing monetary planning and growing government takes place. He begins with the statement that “[t]he growth of government ... can be explained by the change of opinion among the ruled,” and continues by recounting how throughout history citizens have been convinced of the alleged virtue of monetary unification (being a form of political unification in order to secure continuous government revenues). Hülsmann lays emphasis on the fact that every time a general crisis of confidence looms, a new and larger *deus ex machina* is invented to ease the concerns. In the domain of money, he shows how taxation is followed by inflation generated by fractional reserve commercial banks, which in turn is followed by central bank generated inflation:

“The fractional-reserve commercial banks are inherently bankrupt, and sooner or later this becomes obvious. Then they abdicate, and the central banks take over. As the latter are structurally bankrupt as well, it is but a question of time until they also voluntarily abdicate.”²

Hülsmann makes a similar analysis on why on the political level one can observe a seemingly continuous progression into ever larger and more encompassing political entities. The starting point in the article is the point where the inflationary policies have driven governments towards bankruptcy and the only viable solution left is the provision of “liquidity from other governments that are not yet bankrupt.”

Hülsmann continues:

“The price to be paid for the assistance is, of course, in terms of political favours. Let us point out again that here, as in the case of fractional-reserve banking, *each* government has an interest in this deal. It is obvious that the bankrupt governments have incentives to pay the political price. The not-yet-bankrupt (but already highly indebted) governments have an incentive to bail them out, too. As a consequence of the high degree of international division of labour, the bankruptcy of one government has immediate repercussions on the budgets of all other governments. Therefore, highly indebted governments have an interest in avoiding the slightest disruption on the international financial markets, as this could precipitate

¹ This is a translation by nineteenth century “scholar and wizard” Charles Leland, of this anonymous Latin rhyme:

Multis annis jam transactis
nulla fides est in pactis
Mel in ore, verba lactis,
Fel in corde, fraus in factis.

Charles G. Leland, *Meister Karl's Sketch-Book* (Parry & McMillan: Philadelphia, 1855), p. 335.

² Guido Hülsmann, “Political Unification: a Generalized Progression Theorem”, *Journal of Libertarian Studies* 13:1 (Summer 1997), p. 90. (italics in original)

their own fall. Even the bankruptcy of a small government would threaten them. This has to be avoided.”³

He concludes:

“All kinds of breakdown or uncontrolled sudden change are a nightmare for the establishment. The paramount interest of today’s politicians and bureaucrats is *to make the show somehow go on*. Therefore, bankrupt governments want to be bailed out and not-yet-bankrupt governments are ready to help them. The result is political unification. This is the mechanism at work that incites political unification in modern democracies.”⁴

We can relate this conclusion back to a statement from the same author's 1998 article on error cycles:

“Although an embezzler cannot avoid that the nature of his activities will sooner or later be detected, he can try *to keep the show going* for a while by extending the illusion on which his activity is based.”⁵

Hülsmann, in our mind, in fact shows in his brilliant analysis of political unification how government officials (trustors), who want to “make the show somehow go on”, i.e., who want the inflationary boom of the fraud cycle to last, necessarily have to extend, at an ever accelerating pace, the already existing institutions, i.e., how they have to extend the fraud by creating more imaginary goods. In doing so, he describes an accident of the fraud cycle, a cycle we could call the “fraud cycle of government”.

3 Ibid , pp. 91-92.

4 Ibid, pp. 91-92. Italics are our own.

5 Guido Hülsmann, “Toward a General Theory of Error Cycles”, *The Quarterly Journal of Austrian Economics* vol. 1, no. 4 (Winter 1998), p. 18. Italics are our own.