

THE PRAXEOLOGY OF COERCION: A NEW THEORY OF VIOLENCE CYCLES

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ABSTRACT: As the first application of the praxeological discipline of “Cratics” (Taghizadegan and Otto, 2015), a theory of the supply and demand of bads is developed. On this foundation, a violence cycle theory will be introduced in analogy to the praxeological business cycle theory (according to Ludwig von Mises). Central to this approach are the subjective perceptions of threats and possible bluffs regarding the backing of those threats. Such a violence cycle theory can explain the stability of structures of violence and reveal new interpretations of the “long peace” hypothesis.

KEYWORDS: Austrian school, praxeology, catallactics, coercion

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Those actions and things which render a marginal utility to men can be described as goods. In analogy, those actions and things which cause to expect a “marginal disutility” can be described as *bads*. Catallactics, i.e., the economics of direct and indirect

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exchange, can describe the process of the interaction of men who mutually promise and transfer goods to each other. In this case, concrete exchange relations are documented in the form of prices, reflecting subjective preferences and promises. The supplier of a good communicates the following promise:

I promise to give the good A to a person who offers me, at least, X in return.

A potential counterparty, however, communicates:

I promise to give, at most, X to a person who offers me the good A.

The exchange, i.e. the contracting, follows as the implementation of the given promises.

Similarly, coercive interactions as described by the discipline of cratics (cf. Taghizadegan and Otto, 2015), contain promises as an essential element. In analogy to catallactics, we can distinguish suppliers and counterparties regarding bads. The supplier of a bad pursues a marginal utility on his part by making the counterparty act in a certain way through promising a bad in case of that counterparty's refusal. Critical herein is the specific and subjective expectation of the ensuing damage, the marginal disutility, rather than some objectively quantifiable harm. In particular, the expected disutility depends on the counterparty's situation. The promise, i.e. the threat, to kick a paraplegic's leg might lead to a smaller expectation of disutility than is the case with a non-paraplegic person.

A threat can be considered as an "offer" of a bad. It is an offer only in an extended sense, since it can be rejected by the counterparty—but not without incurring costs. The actual interaction, however, runs contrary to a catallactic process: In catallactics, the offering party endeavors to contract in order to obtain a certain good in exchange for another good. In cratics, contracting implies the unilateral transfer of the good in order to avoid the bad. Non-contracting on the part of the counterparty implies to keep the good and to "test" the validity of the threat to execute the bad. The "supplier" of the bad makes the following promise:

I promise to not execute the bad B on those who, at least, provide me with good G in return.

The “consumer” of a bad is a party that acknowledges the validity of the threat and therefore gives in to it. Thus, the term “bad” might be somewhat counterintuitive, however, it helps to establish the mirror-inverted analogy to catallactics. The consumer of a good ascribes a higher marginal utility to this good than to the asked exchange good and therefore wishes to transact. The “consumer” of a bad expects a higher marginal disutility from the bad than from giving up the demanded good. Herein, the “consumer” confirms the (validity of the) bad and encourages the “supplier” of the bad to provide more thereof, much like a catallactic consumer encourages a supplier to offer more of the same good. In effect, the “consumer” of the bad communicates the following promise:

I promise to give G if the bad B is not done to me.

Goods are offered in the hope of meeting demand—meaning, a willingness to pay more than the costs, i.e. the marginal disutility from employing the factors of production. Bads are offered based on the expectation that, for the “consumer,” the willingness to evade the bad is inferior to the marginal utility of the good. The willingness to evade therein denotes the amount of utility or value that the counterparty is willing to risk in order to evade the respective bad. Namely, the “consumer” risks that his costs to evade the bad exceed the costs of the bad itself. In effect, a high willingness to pay implies a large demand for goods, or a large willingness to contract, whereas high willingness to evade implies low demand for bads, or a low willingness to contract. In catallactics, the willingness to evade is irrelevant, since evasion costs are typically zero. In cratics, the willingness to pay—i.e., the readiness to contract—amounts to a willingness to obey, to give in to threats.

In analogy to the turnover of goods, the turnover of bads can be illustrated with analytical functions. Such supply and demand functions, to be sure, do not reflect reality in an exact manner, but rather serve to illustrate certain mechanisms: the higher the willingness to pay for a certain good, the more suppliers can expect turnover and will therefore join the market. In the case of bads, the tendency is the same: The higher the willingness to pay

(willingness to obey), the more bads will be offered, whereas the higher the willingness to evade, the less bads remain as effective threats on the “market.”

Needless to say that this analogy must not be misunderstood. The “market” for bads is no market at all. At this point another analogous term would be necessary. The term “market” is derived from the Latin word *mercatus*, which in turn stems from *merx*: a product or good. Bads in Latin would be *malae merces*, so that one could form the concept of a malmarket, but that would probably be too much of a play of words. Let us stay with the Greek language: catallactic for a market order, cratic for a coercive order, whereby the study of the first is called *catallactics* while the study of the second is denoted as *cratics*. This contrast resembles Franz Oppenheimer’s (1924) juxtaposition of the political and the economic means—the former would be cratic, the latter would be catallactic.

Back to the dynamics of the willingness to evade, where we can observe two extreme cases: A zero willingness to evade would mean to give up all values without resistance. There would be a maximum of bads, but a minimum of actual violence. As soon as “buyers” with a zero willingness to evade are discovered by “producers” of bads, the former—reluctantly—nurture the production of bads, which may entirely drive out the production of goods.

Let us clarify that example conceptually: “Production” of bads means the intention, preparation and propagation of harm to other people to the benefit of the “producer” at the lowest cost possible. In this case, a threatening appearance could constitute a “factor of production.” When a bully runs into a classmate who has no willingness to evade, an angry look alone could be enough to be recognized as the offer of a bad, whereupon the transfer of snacks may follow without resistance, amounting to the immediate contracting in this coercive exchange. This would typically lead to a marginal rise of the production of bads, both because the producer of bads will be encouraged to further employ his “production factor,” and because successors may appear who recognize how easy it is to obtain other people’s goods. If, in a given “market,” all the “buyers of the bads,” i.e., those who give away the demanded goods, exhibited zero willingness to evade, the production of goods would not be profitable anymore, because even the smallest bads would lead to their uncompensated transfer.

Such a society would break apart very quickly, because all those “buyers” would run out of resources. A short period of absolute non-violence—during which violence was not necessary to break the will of the “buyers”—would yield to a period of violence among the producers of bads.

In contrast, a maximum willingness to evade would require the highest degree of violence for coercive exchange. Every threat would immediately be checked for its “backing.” The “demand” for bads would be reduced to a minimum because the potential “buyers” preferred to risk the bad. A maximum willingness to evade may have two reasons: A maximum distrust in threats, and/or an absolute firmness with regard to one’s principles, whereby one would risk everything in order to avoid giving up one’s principles and values. In catallactics, analogous reasons would explain a minimum willingness to pay for offered goods: A maximum distrust in promises on the market, and/or an absolute firmness with regard to one’s principles, which do not allow for a gain in utility through exchange (hostility against trade, defeatism etc.).

A cratic “buyer” expects that the cost of the evasion is higher than the demanded payment (buying into the threat). A catallactic buyer expects that the gain in utility through the offered goods is higher than the loss in utility through the demanded payment. The cratic “price” amounts to the demanded payment (loss of utility) to evade the threatened bads. The higher the demanded price and the higher the willingness to evade, the less the “demand.”

In the field of catallactics, interventions in prices and quantities are known that have a cratic character by themselves. Namely, they are efforts to replace particular exchange relations of goods by means of the threat of bads. Every imperative or prohibition represents a cratic exchange: An “offer” (the threat) of bads is linked to an action or non-action preferred by the coercive party. At first sight, again, the analogy between omissions (caused by prohibitions) and services (preferred actions as goods) might seem overstretched. However, the objective character of the action to be performed or refrained from is a technical, not an economic question. An economic judgment of actions according to their technical content would violate the value neutrality principle, and amount to an arrogation of knowledge, respectively. In contrast, in the disciplines of medicine and religion, to name only two striking examples, action

cannot easily be distinguished from non-action. In addition, catalactic offers can aim at a non-action, such as an offer of money to a street musician in exchange to stopping the performance.

Following these introductory remarks, let us now proceed to the core of this work, the analogy to business cycle theory. Namely, broadly speaking, the cratic character of offers or threats is not always obvious. Bluffs (or deceptions) might have the same effect as price and quantity interventions. A particularly important field of such deceptive interventions is described by the business cycle theory according to the Austrian school of economics (see Mises, 1912). It describes the periodical emergence of an economic boom, followed by a bust. The reason for this typical pattern is a credit expansion beyond the level of real savings, which is revealed in suppressed interest rates. Such interest rates would be untenable and, in particular, would cause illiquidity, were they not enabled by cratic interventions (compulsory wealth transfers, privileges such as those arising from central banking, contract breaches without consequences, etc.).

This distortion of interest rates is, on the one hand, a price intervention, and, on the other hand, a deception. The lowered interest rate has a similar effect as a maximum price coercively set at a level below the market price. In this case, demand is higher than supply. The interest rate is the price for savings; the demand for savings—thus indebtedness—rises; the supply of real savings—the propensity to save—decreases. This would cause a supply gap, if the created circulatory credit had not filled that gap. But since the circulatory credit is based on the assumption that bank deposits will not be withdrawn, it is a *deception regarding the true extent of available savings*. During phases of credit expansion arising from artificially low interest rates (a “maximum rate of interest fixed below the market rate”), consumption and investment are booming at the same time. The overestimated savings and thus resources considered as disposable are unbacked promises. The insufficient backing within the financial system will be uncovered through a bank run, a run on illiquid banks, which without bailouts would have to default on their depositors. In the economy, an insufficient backing of promises with resources will be visible through unexpected price increases, which cause the illiquidity of entrepreneurs who are now unable to finish their projects.

An analogous, systematic discrepancy between promise and backing—namely, between threat and capability to execute—exists in the field of cratics. An actor can, very easily, issue threats that exceed what he himself is capable and willing to execute. In the same way, entrepreneurs can make incorrect estimations about their own liquidity. Whenever such miscalculations accumulate, cycle patterns appear. In his “General Theory of Error Cycles,” Jörg-Guido Hülsmann describes such accumulations of errors as illusions of legitimacy (Hülsmann, 1998). When, in the above schoolyard example, at some point in time it becomes common practice to hand over one’s snacks to the bully, the need to “back” his threat disappears. One day he could lose his physical ability to supply the bads—punching disobedient schoolmates. As long as this ability is not checked, the bully can still collect the goods—until the day when a person again takes a risk and the illusion of the powerful bully bursts.

This pattern of deceptions and bursting illusions resembles the business cycle. The illusion starts a phase of apparent stability that actually appears to be particularly peaceful and free from violence: the *threat boom*. The issuer of threats is peaceful at this stage—he might even thank the classmates for handing over their snacks and return half of them. At this stage, the contracting of bads is high. Let us remember: The contracting of bads does not imply a preference for such bads (they are, after all, bad). However, it does imply the willingness to engage in cratic exchange, which consists of the delivery of goods or the execution or omission of actions in exchange for the non-execution of the threat. After the revelation of the incapacity to execute the threats, the stage of apparent voluntariness is followed by an explosive correction: The willingness to contract falls extremely rapidly. Even if the bully seeks rapid execution, he now detects that his power is “illiquid”: it does not suffice to meet the suddenly accumulating challenges. While, during the boom, the physical overpowering of an individual was sufficient, now the physical overpowering of larger groups becomes necessary. The threat boom ends with a correction of the level of coercion, in which the power of the aggressor competes directly with the resistance of the victims. Now the schoolyard exhibits a high level of violence. Actually, it is a period of the reduction of (implicit) violence in which unsustainable cratic relations finally

yield to catallactic relations. Clueless teachers might intervene to stop the violence, by sanctioning the challenging pupils. Thereby, the correction might be postponed, creating the impression that the bully stood up against the challenges to the backing of his threats. In the worst case, the teachers intervene for the purpose of a superficial reduction of violence by artificially legitimizing the bully's claim: "The wiser head gives in!" Through this, another threat boom could follow, where the bully could increase his demands even more—after all, the wiser head has to give in! Apparent peacefulness would increase again, up to the point where someone decides to challenge the bully again.

Coercive rule as a systematic implementation of cratic exchange is possible either through a physical superiority of the rulers or through the illusion of superiority, as De la Boétie observed a long time ago:

He who thus domineers over you has only two eyes, only two hands, only one body, no more than is possessed by the least man among the infinite numbers dwelling in your cities; he has indeed nothing more than the power that you confer upon him to destroy you. (La Boétie, 1550)

The paradox of prolonged apparent peacefulness of coercive rule can thus be explained through the violence cycle theory presented here. That puts the observation in its true light—that open violence may have decreased throughout the last centuries. One of the most detailed expositions of this development is Steven Pinker's (2011). He reasoned that in the course of history the "better angels" within human nature have prevailed against the "inner demons"—leading to modern man being more civilized. The presented empirical evidence seems conclusive: The violence among individuals as well as between states (wars) seems to have decreased.

Two of the many reasons that Pinker proposes for this development are of direct concern to the field of cratics: On the one hand, he argues, the growth of Leviathan—the centralized state monopoly on the use of force—has displaced the violence between smaller units, while on the other hand, commercialization has made people more peaceful. The latter argument finds confirmation in the fact that catallactic transactions are able to replace cratic transactions: After all, for each bilateral action he envisions, man can choose whether to employ the

cratic or the catallactic mode. The former argument finds, at best, partial confirmation. Phases of cratic legitimacy may indeed have a pacifying effect. This idea goes back to Thomas Hobbes and can be confirmed by praxeological analysis—but with serious reservations that lead to conclusions which differ completely from those drawn by Hobbes and Pinker.

Indeed, the violence cycle has a paradoxical effect which complicates its quantitative assessment—just like the business cycle. The possible “evaluation of the backing” of promises of violence can lead to violent corrections after peaceful periods, a *cratic recession*, during which the violence is bid up dramatically. This explains the conclusion of Hobbes that such “evaluations of the backing” should be completely avoided, which can only succeed through the subjects’ complete renunciation to challenge the government. Otherwise a civil war would be imminent:

For those men that are so remissly governed that they dare take up arms to defend or introduce an opinion are still at war; and their condition, not peace, but only a cessation of arms for fear of one another; and they live, as it were, in the procincts of battle continually. It belonged therefore to him that hath the sovereign power to be judge, or constitute all judges of opinions and doctrines, as a thing necessary to peace; thereby to prevent discord and civil war.” (Hobbes, 1651, chapter XVIII)

The fallacy lies in considering the high potential of violence during the cratic recession as the natural state—just like the fear of the high “clean-up costs” of economic recessions, which usually show a steep rise in unemployment and insolvencies. In fact, however, the recession is a corrective process, revealing the discrepancies between economic actions and economic realities which had accumulated during the artificial boom. Hobbes sees fear of violence as the only chance for pacification and dismisses catallactic alternatives, the possibility for people to reach complementary or inverse goals by peaceful means without harming each other. This leads to an interventionist perspective on politics, seeking a monopoly of fear, analogous to economic policy claiming the monopoly of trust for the state, as the supposed guardian of money and contracts. Hobbes’ concept of man is, accordingly, biased:

Of all passions, that which inclineth men least to break the laws is fear. Nay, excepting some generous natures, it is the only thing (when there is appearance of profit or pleasure by breaking the laws) that makes men keep them. (Hobbes, 1651, chapter XXVII)

If fear were really the main reason for rule-consistent behavior, the costs of violence would be uneconomically high for Leviathan: The sanctions for breaches of law would have to be backed to a degree where the related costs would reach the level of income from cratic action. In the short term, it may be possible to compensate for a lower likelihood of revelation of violence with more draconian penalties. But in this way the legitimacy further decreases and thereby also the subjects' "willingness to contract" (willingness to obey). These dynamics are missed by Hobbes, as well as the observation that in times of long and far-reaching peace obtained through a highly stable coercive setup (i.e. a high level of implicit fear and obedience), the probability of a "black swan" of massive violent corrections—or, more generally, reactions—is growing: in particular, our violence cycle theory suggests a correlation between the intensity of violent reactions and the lengths and intensities of the respective preceding coercive periods, that is of those periods within a certain culture or society that are characterized by a stable coercive setup. Following Nassim Taleb, the distribution of the intensity of violent outbursts indicates a fat tail (Taleb, 2012); accordingly, we assume a fat-tail distribution regarding the length (and intensity) of preceding *coercive periods*. Hence, we also agree with Taleb's criticism of Pinker, particularly regarding the evaluation of our present-day situation. On a side note, to be sure, Taleb's analysis does not distinguish between the internal and external type of a violent outburst (civil war versus interstate war). Indeed, we argue that a violent reaction does not necessarily have to affect the coercing party or institution, as would typically be the case in a civil war. Rather, we hold that interstate wars have consistently been employed by coercing institutions as a means to divert internal backlashes.

With threat boom and *threat bust* as the two elements of a cycle, the total enacted violence across such a cycle—or in economically more precise terms: the total volume of contracted and enacted bads—may be considerably higher than it would be without the cycle, or with a less pronounced one. Analogously, the growth in

prosperity over the entire economic cycle is lower than it would be without boom-and-bust sequences. This is so both because the boom constitutes a distortion in which goods are misallocated—meaning, allocated not in accordance with the preferences and plans of the people—and because the bust, while it might correct this distortion, typically produces highly damaging side effects in the process, which would not have been “required” with a less pronounced or non-existing cycle.

However, this perspective does not only apply for archaic or low-level regimes of fear but also for modern regimes of legitimacy. Indeed, Hobbes praised fear, which he correctly recognized as a stabilizing element of cratic structures, as a corollary of freedom:

Fear and liberty are consistent: as when a man throweth his goods into the sea for fear the ship should sink, he doth it nevertheless very willingly, and may refuse to do it if he will; it is therefore the action of one that was free: so a man sometimes pays his debt, only for fear of imprisonment, which, because nobody hindered him from. (Hobbes, 1651, chapter XXI)

Similarly, legitimacy is used as a synonym for freedom in modern cratic systems, for example under the terms “rule of law” and “democracy.” However, whereas in catallactics unbacked promises can be corrected sooner and on a smaller scale, because the self-interest of the people serves as a corrective, cratic promises can expand to a higher degree. The potential “black swan” consists in a sudden implosion of legitimacy. In effect, the legitimization of cratic exchange reduces its costs below the otherwise necessary level and leads to the preponderance of the political (cratic) means over the economic (catallactic) means. The resulting preponderance of supply and contracting of bads leads to an allocation of means which, on average, corresponds less to the preferences and plans of the people than would be the case without such legitimization and the resulting violence cycle.

There is a similar problem in case of interstate violence. Peaceful coexistence is not only stabilized by mutual threat potential, but also by perceived legitimacy of predominance, respectively transfer of sovereignty. Praxeological analysis, however, shows that these seemingly stable arrangements are more fragile than is generally perceived, because these arrangements themselves sow the seeds of “corrective catastrophes.”

The problem of “black swans” in case of the threat potential through weapons of mass destruction is a matter of common knowledge. Nassim Taleb probably had precisely this in mind when criticizing Pinker:

Ancestral man had no nuclear weapons, so it is downright foolish to assume the statistics of conflicts in the 14th century can apply to the 21st. A mean person with a stick is categorically different from a mean person with a nuclear weapon, so the emphasis should be on the weapon and not exclusively on the psychological make-up of the person. (Taleb, 2012)

Let us translate this into the language of cratics: Frequent evaluations of the backings of geopolitical arrangements through small scale skirmishes may at first exhibit a higher rate of violence, while in the long term they could harbor a lower potential of violence than a peace order (or the order of a cold war), the backing of which can only be evaluated through the use of nuclear weapons. We have survived the 20th century without mutual destruction, but to deduce therefrom the superiority of a peace order based on massive threat potential would be a statistical fallacy, as Taleb observed. The fallacy of the “survivor bias” fits in every sense of the word: The world has frequently been on the brink of catastrophe. We have survived; that is why we can praise modernity as the best of all worlds, which, as Pinker empirically claims, may show less violence and war than earlier epochs. If that lottery had turned out differently, there would be hardly anyone left to sing such praises. A mere 100 years ago, a similar analysis would also have praised an apparent age of peace:

Panelists in 1912 could have produced compelling evidence documenting the decline of great power war. The previous century had been the most peaceful on record, continuing the decline in great power war over the previous three centuries. There had been zero great power wars for nearly four decades, a 50% decline over the last two centuries, and zero general wars involving all of the great powers for 97 years. This was the longest period of great power peace in the last four centuries of the modern European system.” (Levy and Thompson, 2013, p. 412)

As well, in the case of interpersonal violence, a low level of violence can have causes other than the development of so-called angelic behavior—unless one praises obedience as an angelic

virtue and condemns human freedom as a satanic temptation. Cratic structures which enforce obedience through physical superiority, rather than through habit and legitimization, correspond to the phenomenon of stationary bandits, which Mancur Olson (1993) analyzed economically. Olson concludes that the monopolization of the use of violence should minimize such violence. The stationary bandit replaces non-stationary bandits and contents himself with less, though continuous, prey. Our analysis, however, indicates that this compensation is not certain: The same rationality leads to a lower and thus cheaper backing of threats for a stationary bandit. On the one hand, this enables, *ceteris paribus*, a higher level of exploitation. On the other hand, since criminals (who also operate cratically) are the first ones who evaluate the backing of threats, a lower degree of backing by the “primary, stationary bandit” may imply that the quality of his “service” (security) relates very poorly to his cost level (appropriation of goods). In extreme cases, the population may be harassed to an insupportable degree through unbacked threats, while at the same time left completely and utterly at the mercy of criminals who operate with backed threats. In such a setup, peacefulness may purely result from defenselessness. The officials seem to get along with forms and stamps; weapons are hardly used. But behind this facade of peacefulness grows a black swan of cognitive dissonance that is expressed at first through declining trust and increasing resentment. It is difficult to predict the behavior of people who have been peaceful only due to apathy and blindness, when they suddenly fear for their survival. Explosions of violence at the end of such a cycle cannot be excluded. In effect, this is the risk of pacification through fear or legitimization of cratic threats. Ultimately, a level of violence at which threats are challenged and thus evaluated more often might be higher in the short term, but should be lower in the long term—even in the case where, during a long threat boom, people get accustomed to “angelic peacefulness.”

The threat boom is not only characterized by the fact that one day a correction is due, which can lead to an explosion of violence (revolutions, civil wars, uprisings), but also by the fact that it leads to a systematic overestimation regarding how well the existing order corresponds to the preferences of the people. It is similar to an economic boom: The order books and supermarkets are full, the

companies are flourishing, but the markets are distorted—less and less of what the people intrinsically demand is produced while, rather, value destruction takes place. Scarce and therefore valuable resources are transformed into less valuable things. Similarly, during a threat boom, behind a facade of legitimacy, hidden exploitation takes place. Of course, “value” and “exploitation” are normative concepts. Expressed in a value neutral way, it boils down to a situation in which actions are legitimized as valuable and just, and are thus encouraged, which, after revelation of the consequences, are regarded as destructive and exploitive in hindsight. The problem lies precisely in this encouragement, thus in the dynamics: A hidden tension between aspirations and reality is growing.

The violence cycle theory facilitates a critical analysis of the succession of periods of war and peace. Furthermore, it allows a new interpretation of the prevailing civilization and reduction of inter-personal violence in large parts of the world throughout modernity. Cratic analysis also nourishes the debate about an ethical justification of state violence with new insights, e.g., through a critical examination of the possibilities and conditions for a minimization of violence.

The violence cycle theory is more than a mere analogy to the business cycle theory. The business cycle is not a necessary result of monetary expansion, as Hülsmann has shown. Monetary expansion is usually linked to a cycle of erroneous trust by entrepreneurs in the institutional framework and distorted market signals. Hülsmann argues:

The mere fact that the quantity of money changes does not prevent the entrepreneurs from judging correctly what influence it will exercise on market prices. (Hülsmann, 1998, p. 4)

He concludes that the business cycle theory is “not generally and apodictically valid.” Thus, a more general theory is needed, even to explain the business cycle in the first place—the business cycle is not an *explicans*, but an *explicandum*, on which the cratic cycle theory may shed additional light. Trust in unbacked promises, misled by coercion, may play a larger role than previously thought. Of course, trust is a subjective category and does not allow for deterministic or quantitative predictions. Misguided

booms, based on unbacked promises or threats, are not necessarily corrected; if gullibility increases at the same pace, they may go on forever. If they are corrected, they tend to collapse; disillusionment is self-reinforcing.

Hopefully, these introductory considerations help to show the potential of further application of “cratics,” i.e., the praxeology of coercion and violence, in the fields of ethics, political science and history.

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