Management Studies, Mar.-Apr. 2020, Vol. 8, No. 2, 158-171
doi: 10.17265/2328-2185/2020.02.008

Monetary Stability and Crisis Predictions Fallacies

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In present days, our instable financial markets, characterized by heavier growing monetary responsibilities, are delivering and enlarging ever growing central banks' functions. The financial stability applied standards have been creating contradictory results in the recent Great Recessions since the year 1987 up to the central banks model, after the 2008 last financial crisis, with major central banks as the FED and the CEB (Diamond, 2007, pp. 189-200) conflicting main operative areas, monetary and financial goals with unexpected results. We have been living a very difficult and dramatic period, which suggests a lot of reconsiderations about what the monetary policy means and may pursue and in which area, with respect to the financial system restrictions, in particular, during the post-second World War, based initially on the pseudo gold dollar parity, things were relatively stable and major financial crises were happening in emerging peripheral markets only. Financial stability was ever relevant, but it was not something to which governments devoted institutional attention. Based on what happened during the recent crisis, it is now of capital responsibility connecting monetary and economic financial stability jointly. Central banks, on the contrary, seem not able to pursue both functions relying on classical market tools. Up to now, the only obligation, imposed to a central bank as a private agent, has been taking care of monetary stability, to contain inflation rates over upper limits, assumed in entering definitely in the legal tender monetary, regime almost everywhere over the planet. Originally, for specific monetary policy purposes alone, between central banks and possible financial entities, there were no guidelines or structural determined controls, only institutional and statutory single bank's operational clauses. There were no legal constraints such as formal loan to-value, or loan to cash-flows, or formal capital level limits, based on actual constraints. Free repurchase agreements and sales or purchases of securities (the most relevant tools of monetary policy guidelines), generally based on private financial covenants, were the sole most recurrent tactical interferences in adjusting the economic free activity. The assuming statutory thresholds were casual in the incorporating state, central banks used to monitor the activities of agents through economic incentives, rather than mandating and monitoring specific legal prescriptions. The evolving inconsistency of both activities has become even more manifest; two conditions should be fulfilled simultaneously: To avoid dilemmas in which a central bank might be called to make the autonomous independent management choice between monetary price stability, pursuing at same time, generally incompatible, financial stability, two different policies should be rarely jointly assigned to same bodies, especially central banks. As regards the first issue, the IMF nevertheless, with Brunnermeier and Sannikov (Brunnermeier & Sannikov, 2012), has argued that price stability and financial stability are interlinked Short-term debt financing played an important role in the run-up to the financial crisis, as increases in leverage helped boost growth but also made the economy more susceptible to a downturn. Since the recession, private agents have reduced their debt level while many governments have increased borrowing. This

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deleveraging process appears to be holding back the recovery, and the Japanese experience suggests that such deleveraging can continue over an extended period", unless in the long run we are all broken at state level, as history seems now to prove. It is true indeed, as reminded by Lamfalussy (Lamfalussy et al., 2010, pp. 7-9), and now widely proved by facts, that prices and the growth-employment objectives, run into each other because it is seldom the case that the pursuit of one is consistent with the pursuit of the second in global economies.

Keywords: central banks, monetary policy, financial instability, gold standard and exchange rates

The Early Problem Roots and Its Complexities

"The most peculiar profile in the new economic evolving markets is the difficult forecasts of crisis and recessions if not depression by the economists on a general scale. Historically, the best that forecasters have been able to do consistently is recognize that we're in a recession once we're in one", said Tara Sinclair, an economist at George Washington University. "The dream of an early warning system is still a dream that we're working on" (The NYT, by Ben Casselman, July 28, 2019, "The stock market is in turmoil, the trade war is dragging on and the global economy is slowing. Plus, it's been 10 years since the Great Recession ended, making this officially the longest expansion in American history. So perhaps it's no surprise that forecasters, investors and ordinary people are increasingly asking when the next downturn will arrive").

The termination of the international gold standard, after the latent huge banking crisis of the years 1907-1908, surfaced just before the first day of World War I. The previously denied shut down of the NY Stock Exchange, Friday 31 July, apart from some military historical minor events, suddenly and astonishingly last minute closure, on the first August 1914, came to avoid the announced huge deposits' withdrawal and the shares sales' unlimited orders, were coming from all over the World, actually a *bolt from the blue*. The suddenly but slowly announced previous weeks requests were planned to hoard gold, the universal basis of most legal standard currencies; an ultimate financial consequence to the likely war expenses; expected in every single country, involved in huge previously unforeseen military event.

Free to issue currency without a sizeable value base, any emergency started to justify any short of political monetary problem. The related events are clearly represented in the literature (Reinhart & Rogoff, 2008).

The misapprehension aroused recently around the incompatible two concurrent goals: the primitive monetary stability object, after the historical frequent collapses of most of the legal tender monetary systems, experienced in the history and the recent confused institutional role of central banks, mostly clearing hubs of inter-banking payment systems as it reached its azimuth in coincidence with the dissolution of the last *quasi gold standard* phase. The shrewdly managed by Harry Dexter White system, originator of the Bretton Woods agreement with a remodeling of the international monetary system, with agreed fixed rates of exchange, based on the actual assumed single national gold reserve basis.

After the Colombian age, at the end of the Second World War, two systems survived: the pseudo gold standard, with the IMF and the WB, new coordination functions outlined after the previous effort in establishing the Basle, BIS (*Bank for International Settlements*, operative in the year 1930) in the international clearing mechanism. The problem was to roll out the international trade imbalances, surfacing in the international trade, out of the gold standard, with over 200 legal tender currencies over the globe.

In the Comecon period, the multilateral clearing agreements, within the Soviet Alliance, tried to avoid trade imbalances trough agreed volumes planning, planned accounting settlements among the single members

under the Soviet dominant central control.

Same goal was pursued by payment areas union agreements, of which the UE is an example, but they have never resolved any imbalance but have been acting as unilateral clearing agreement opening the single solutions to the linked authorities.

The legal tender monetary system was first considered as the issuance of an emergency currency

> That the resort to legal tender powers was an evil justified only by extreme emergency, and that the circulation of Government notes in any form was a purely temporary measure, were the unanimous convictions of the statesmen who contrived the system. (Spaulding, 2019, p. 5)

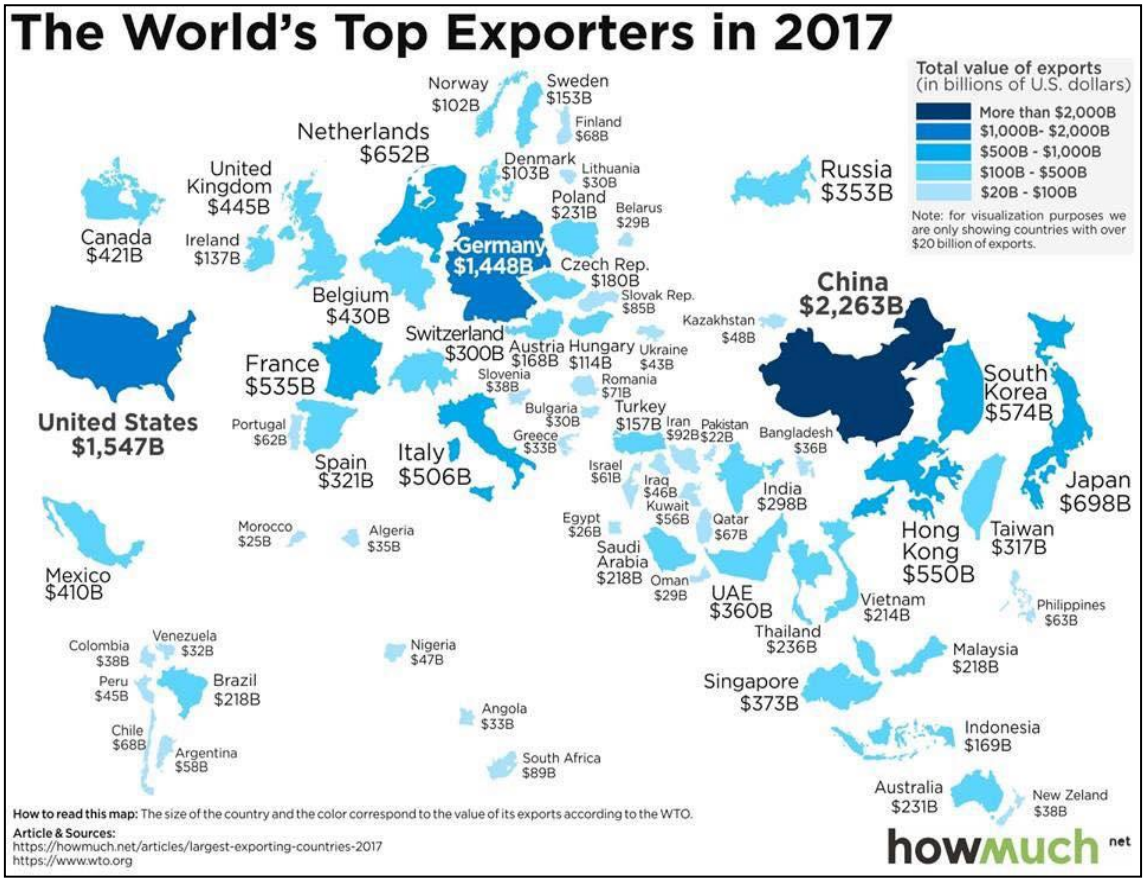

Figure 1. The debtors and creditors society, out of settlement imbalances hypothesis. Source: https://howmuch.net/article/largest-exporting.countries-2017, https://www-wto-org.

Nowadays, the world trade imbalances, in the new global market are steadily growing and reflecting the corresponding monetary growing debts, in a general legal tender interlinked international trade system unable to run fixed exchange rates. There is no re-balancing operating mechanism, like the self-governing of the gold standard: the Hume mechanism. The problem became evident in the 1960s when *The Age of Inflation* became a major topic (Rueff, 1964, p. XIV), who persistently anticipated the future collapse of the *pseudo gold standard*, as designed in Bretton Woods and the role money play in the human relations.

At same time, his colleague in Yale, the Belgian America professor Robert Triffin, outlined the

> extraordinary success of the nineteenth century system of international convertibility and the calamitous collapse of the late 1920's brave attempt to bring it back to life after World War I. It boldly tries to pry out of this musty record the

> lessons it may hold for us today and an indication of the main danger facing the similar attempt as "reconstructing the past" launched some thirty years later during the 1958 Christmas weekend… but whose revival and survival today require far more than a mere digging-up and dusting-off of a dead body from its fifty-year-old grave. (Triffin, 1961, p. vii)

Central banks faced in the 19th century the necessity to back up the interbank liquidity problems, linked to the growing fractional reserve lending practices, in conjunction with a booming monetary expansion, as a consequence of the credit functions of the banks' systems, universally booming, due to the increasing monetary basis and to the technological facilities allowing ever faster swelling any sort of transaction volumes.

The real problem has been the monetary involved issues dawn in the huge inflation following the inconvertibility decision of the US in August 1971, in a panicking Camp David week-end, after the Nixon's rejection of the *pseudo gold standard* and the consequent universal gold inconvertibility of all the currencies adhering to the IMF mechanism. Since then, the inflation coexisted with a permanent economic stagnation labelled *stagflation* and a contextual inconsistency of both, the Taylor and the Phillips curve principles, clearing the monetary and real economy previous problems. The three unusually stable decades of a declared convertibility, a fixed exchange rates mechanism, and a permanent foreign deficit, mostly supported by the assumed consistent gold American reserves, but with an equivalent progressively legal tenderable dollar, had seen a huge economic growth, associated with the industrial reconstruction of Italy, Germany, and Japan, in a generally stable economic framework, without relevant financial international crisis.

After the successive 1970s Gulf Wars, a "de facto" oil standard upheld the dollar, up to the Paul Volker deflating policy and the taking over of the FED by Alan Greenspan, carrying a monetary releasing attitude, the monetary trends were split into two different paths.

On one side there was the monetary abnormal growth out of the Central Banks M0 liabilities, the related foreign exchange fluctuations, without inflation fallouts in the 1980s, and the financial instrument trading values expanding abnormally, up to unseen levels since the Wall Street foundation. On the international front, the problem aroused with the dollar debasement which lead to a peripheral series of default progressively reaching the center.

As Triffin used to say,

> … that the evolution of the last ten years has now brought us to a point where these issues have become inextricably tangled with one another, and where we can no longer afford to ignore the impact of our internal policies upon our external position, and vice versa. We have certainly licked that famous, supposedly permanent and intractable dollar shortage which dominated for more than ten years economic thinking and policy here and abroad. I only pray God that none of my bright colleagues come up tomorrow with an opposite, and equally absurd theory of a permanent an intractable dollar glut. Before placing before you a number of disturbing facts and ominous danger signals, let me affirm in no uncertain terms that I do not believe for a minute that our present difficulties are either permanent or intractable. The strength and resiliency of our economy and of our policies make it certain that they can and that they will, be solved. (Triffin, 1961, p. 5)

The new endemic problem, surfacing since Camp David 1971s had been the growing unbalanced foreign and internal debt structures and the likely spreading of national defaults, in an elastic exchange system, in absence of an automatic stabilizing mechanism, as was the rule with the gold standard compensating movements of the gold itself, with inflating and deflating balancing quantitative effects on the demand and supply of stable money. There was a single currency, gold itself, and self-adjusting rates of exchange fluctuations, linked to the trade imbalances, through compensating fallouts of the physical metal movements.

Ralph Hawtrey and Gustav Cassel (Cassel, 1922) brought, therefore, their reflections as members of the Finance Commission, which was attending the 1922 International Economic Conference in Genoa. They addressed the relevant operators about the monetary perspective, in the aftermath of the first world-war debasement, out of the gold standard, arousing undisputable arguments in the everlasting dispute about internal and external imbalances, money, savings, investments, finance, profit sharing, and the new *welfare state income taxation*, in the New Deal pending legacy (Batchelder & Glasner, 2013).

On a global perspective, the trading swelling transactions process ends up to enlarge local deficits of countries without enough resources in natural items, or skilled technological production. Characteristics allowing compensating the transitional monetary deficits arousing almost immediately as the local productions brands are not selling enough, compensating tradable industrial products, as reflected in the Figure 1.

The Solutions Adopted and Their Fallouts

At the origin of the national imbalances, the currencies of countries affected by durable and progressive trade deficits were degraded by marginal growing debts and general final monetary defaults, with irrevocable foreign exchange collapses if running a single currency and overpowered by unbearable financial austerities if members of a monetary union.

The austerity at present induces the *troika* measures, to ameliorate the damages incurred by the recession and has been the only uncertain solution left (Blyth, 2013). Through general national defaults and payment suspension, the countries involved have to issue a new reliable currency and suffer a depressive rehabilitating phase. The alternatives are simply these: Or the transactions are conducted in a third country currency, with legal tender of a reliable partner or, otherwise, the financial transactions imply exchange risks out of control, when the buyer must pay in an unpredictable currency, and the seller will ask for a reliable currency as an alternative to the devalued local purchaser's one, or will even not be interested to conclude transactions in the purchase's area.

This recent relative quiet markets' behavior may be partly explained by the economic world growth, perhaps more so by the public control of the domestic financial markets (in varying degrees) and the heavy-handed use of capital controls that followed for many years after World War II. (We are not necessarily implying that such repression and controls are the right approach to dealing with the risk of financial crises.)

The present or past crisis are within a single monetary area, the actual currency or monetary specie most of the times is expressed by a banks' debit, or letters of credit, that surrogate easily actual monetary species, and are transferred among economic entities as a medium better apt to close an economic transaction from a monetary point of view. This procedure is likely to satisfy both creditors and debtors, when performed within a common monetary area, when the currencies are different and exchange problems arise and may taint the payment, when the monetary value is not reflecting the base of the substantial originating material transaction. "Every borrower in fact has to take account of conditions that limit the amount which he borrows, and this very limitation of borrowing tends to confine the income and consequently the expenditure of the consumer to their previous limits" (Hawtrey, 1919, p. 10). Furthermore, from the same source*:*

> Thus the merchant and the banker share between them a larger rate of profit on a larger turnover. The credit created for the purposes of production becomes purchasing power in the hands of the people engaged in production; the greater the amount of credit created, the greater will be the amount of purchasing power and the better the market for the sale of all kinds of goods. (Hawtrey, 1919, p. 13)

There is no surprise that the worldwide Great Depression of the 1930s posts the highest readings of banking crises during the previous years' stretch. Widespread, "waves" of Global financial stress are evident during and around the Panic of 1907, that originated in New York, as well as the crises accompanying the outbreak of the First World War. Another striking feature in Figure 2 is the relative calm during the late 1940s up to the early 1970s, different origins and grounds: trade imbalances, foreign exchange crisis, inflation crisis, employment and production crisis, but generally there are some common tracts. This could be overall systemic "As we emphasize, particularly in chapter 16, different varieties of crises tend to fall in clusters, suggesting that it may be possible, in principle, to have systemic definitions of crises" (Reinhart & Rogoff, 2009, p. 4).

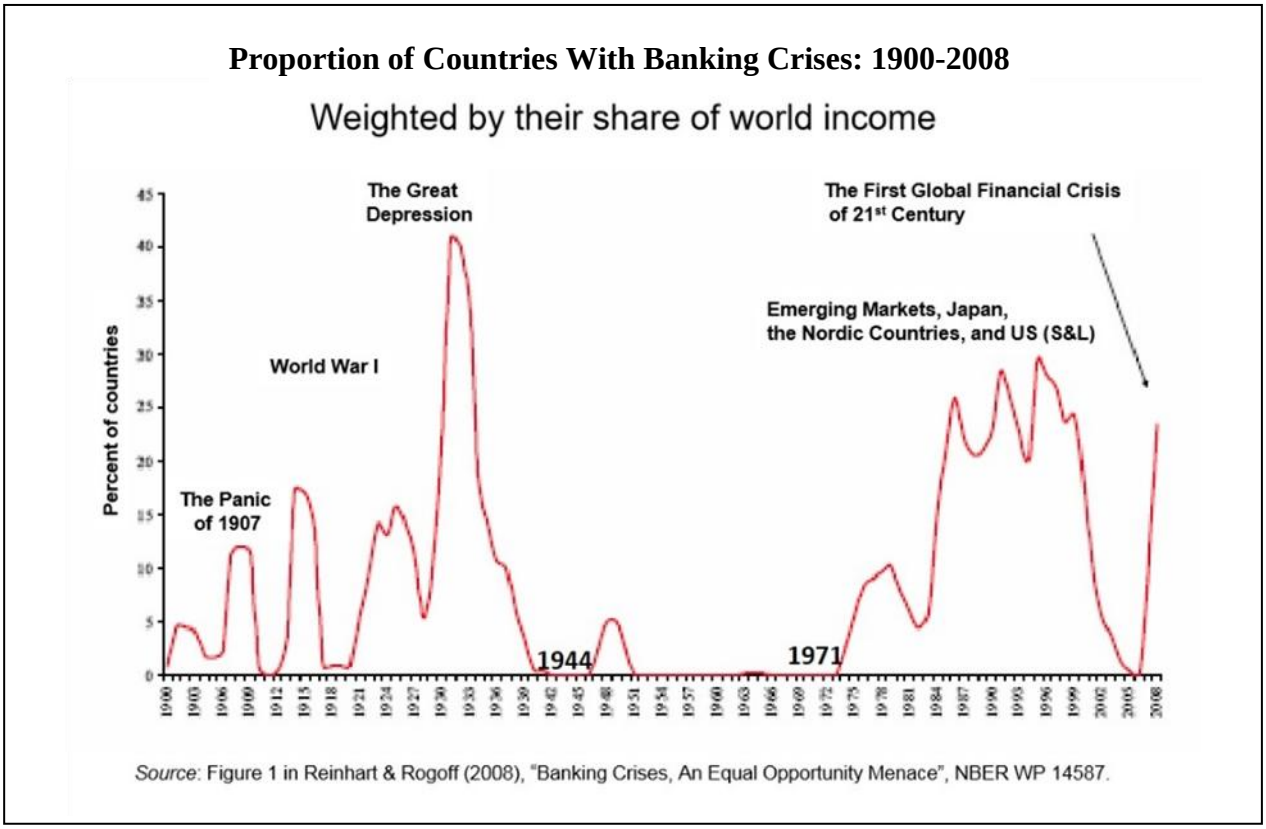

Figure 2. Proportion of countries with banking crisis, 1900-2008. Source: https://blog.iese.edu/xvives/files/2018/01/Lecture-1.pdf.

Since the early 1970s and after the Camp David debasement resolution, financial and international capital account liberalization progressively took root worldwide in a widespread floating exchange rates system. The main reason might be linked to the unusual long lasting period of stability and economic growth, since the end of the Second World War. Then was operating a fixed exchange rates system, with the dollar-gold anchor, in a quasi-gold standard international payment system, linked through the 1944 Bretton Woods renaissance Hume scheme, scheme of the GATT rule.

The GATT comes out of the resolution taken by 23 nations in Geneva on 30 October 1947, and has been operating since January first, 1948. It remained in effect until the signature by 123 nations in Marrakesh on 14 April 1994, of the Uruguay Round Agreements, which established the new World Trade Organization (WTO) on 1 January 1995, in an open new global market. Afterwards, up to the Smithsonian agreement in 1973, new

ideas were proposed to overcome the predicted Triffin-Rueff instability framework, which as last resort was faced with the variable exchange rate in a general legal tender system.

Although President Nixon, as a reorganization of all international monetary issues, hailed the Smithsonian Agreement, it failed to encourage discipline by the Federal Reserve, or the United States government itself. The dollar price in the gold free market while sliding continued to cause progressive pressure on its official rate: soon after a 10% devaluation was announced, on 14 February 1973, that Japan and the OEEC countries decided to let their currencies float without restraint. After 10 years, most of industrialized nations followed the example.

Immediately, afterwards, banking crises were progressively emerging around the world. The share of countries having banking difficulties began to expand during the 1970s. The collapse of the Harry Dexter White Bretton Woods plan, as expected during the sixties by both Rueff and Triffin, disrupted the fixed exchange rates, the sharp spike in oil prices, and the quasi gold standard released a new oil standard, a prolonged global recession that jumpstarted the financial sector difficulties, eventually in a number of advanced economies.

In the early 1980s, a surge in global commodity prices, resulting from the CRB (Commodity Research Bureau) combined with high and volatile interest rates, contributed to a spate of banking and sovereign debt crises in emerging economies, most famously in Latin America and then Africa, finally at the center of the financial systems, with the major countries running unbelievable combined external and internal deficits. It was the Paul Volker monetary effect raising rates to fight inflation, win inflation now (WIN).

We understand inflation crises, both because of their universal scope and long historical significance. Interested in cataloging the extent of defaults (through inflating debt and not only its frequency) central banks attempt to mark not only the beginning of an inflation or currency crisis episode, but its duration as well. Therefore, the monetary stability seems to be the prevailing issue in central banks plans.

The leveraging and de-leveraging roots of such economic crisis reflect themselves on banks' size and affect the ongoing recession or expansion phases of the economy in general. Therefore, the financial systems, supposed to reflect a smooth flow of funds from savers to firms through the banking sectors and side financial intermediaries, motivated by interest rates and dividends, are destabilized by monetary factors and, the economic logic at the base of the entrepreneurs choices, becomes confused and irrational; the irrational exuberance might be sustained by immoral hazard.

As Hayman P. Minsky says, "Three distinct income-debt relation for economic units, which are labeled as hedge, speculative, and Ponzi scheme finance, can be identified" (Minsky, 1992, p. 8). The monetary market conditions verified through the financial activity of intermediaries, can determine the expansion or the contrary deleveraging position of the banks' system. "Thus bankers (using the term generically for all intermediaries in finance) whether they be brokers or dealers are merchant of debt who strive to innovate in the assets they acquire and the liabilities they market" (Minsky, 1992, p. 8). The base of any economic impulse is the connection between savers and investors and the efficiency lays on the financial market operators and their stability. When the financial market allows and promotes savings confidently, then the capital base grows by the progressive stratification of savings, as income not disposed but channeled through the financial structure, to the buildup of capital base and investments in productive renewed assets. The financial stability is the result of an efficient allocation of saving resources, through intermediaries stimulated by credit prices, interest rates, and earning prospective in full balance within themselves.

The Present Deadlocks and Alternatives Possible and Their Likely Fallouts

Bernanke expressed the overall shared conclusion: "the view is increasingly gaining acceptance that without the forceful policy sponsor that stabilized the financial system in 2008 and early 2009, we could have a much worse outcome in the economy" (Bernanke, 2015, p. 87; Rajan, 2013). Actually the Great Recession has been on the stage since its formations years 2006-2008 for almost a 10 years' time span and was not under control; on the contrary, it has induced some worse effects on the global economic order not foreseen or accounted for by any econometric instrument and model.

However, Diamond and Dybvig argue that unless the total amount of real expenditure needs per period results, available with certainty, suspension of convertibility cannot be the optimal mechanism for preventing instability linked bank runs. Instead, they argue that a better way of preventing bank runs is deposit insurance backed by the government or central bank. Such insurance pays depositors all or part of their losses in the case of a bank run. If depositors know that they will get their money back even in case of a bank run, they have no reason to participate in a bank run.

On the other side, banks' deposit insurance has always raised comments about the implied moral, or even immoral hazard, the adverse selection and the shock absorbers issues, inferred by a bank's unfair, or irrationally exuberant management. When public insurance provisions protect clients and the case has actually surfaced, the immense immoral hazard that has been involving the whole crony world banking systems has become visible; if banks are operating on legal tender basis and deficit spending sourcing unlimited coverage, their image is blackened.

Central banking, after the Great Recession (2012), has started a large QE (Quantitative Easing) monthly issuing and to feed banks, often, to expand unsound credit. With quantitative unlimited easing emergency currency, the problem is not likely to be reversed as there are moral hazards progressive expansions and no limits to pull already unbearable taxation levels, or pursue areas of tax evasion to be captured, without improving low cost global delocalized productions, to accentuate the ever growing crisis.

Such policies, according to the section 13 § 3 of the Fed Act [12 USC 342. As amended by act of Sept. 7, 1916 (39 Stat. 752), which completely revised this section; June 21, 1917 (40 Stat. 234); and March 31, 1980 (94 Stat. 139). With respect to the receipt by Reserve Banks of checks and drafts on deposit, see also this act, section 16] [12 USC 343. As added by act of July 21, 1932 (47 Stat. 715); and amended by acts of Aug. 23, 1935 (49 Stat. 714); Dec. 19, 1991 (105 Stat. 2386); and July 21, 2010 (124 Stat. 2113). As enacted by Public Law 111-203 (124. Stat. 2115), "any reference in any provision of federal law to the third undesignated paragraph of section 13 of the Federal Reserve Act [FRA] (12 USC 343) shall be deemed to be a reference to section 13(3) of the FRA"] do not need political authorization if considered *emergency finance*. Started by Bernanke in big bail out facilities issue in order to save falling institutions: J. P. Morgan Chase supported by the Federal Reserve Bank team, bailed out Bear Stearns, a last ditch move to save the investment bank through mergers and acquisitions financed by public issues, took place. Such move has placed the central bank out of plane custom monetary goals; essentially it was a preliminary path in the new legal tender paper currency QE system, entering the area of monetary policies, aiming to the stabilization of the financial system. The initial imbalance was already a historic issue of Bernanke at his very beginning chairing the FED (Bernanke, 2005).

The shift from the monetary stabilization target to the financial stabilization policies implies a row of likely consequences we can deeply analyze and without previous comparable situations experiences. The only

alternative to money-values was the social concept of the bank becoming an accounting center, previously unsuccessful planned economies in the Comecon bilateral or multilateral foreign exchange clearing systems, within strict quantity plans determined volumes and official agreed exchange rates. With reference to the intrinsic merchandise values available, the system did not work as the strong currencies convertibility system developed within the FMI adhering countries and a grey discounted market for available residual Comecon single countries balances heavily underpriced, were finally traded currently in Switzerland during the evolving European Monetary Agreement.

After the 2008 both IMF and FED econometric models misunderstood the financial destabilization, when the financial indexes were climbing and showing previously never seen levels, from the centennials historical upper limit of 1,000 points at most, for the DJ index. Meanwhile the real economy started to slow down, only huge monetary flood of emergency currency as TARP. The *Troubled Asset Relief Program* (TARP) was an initiative created and run by the U.S. Treasury to stabilize the country's financial system, restore economic growth, and mitigate foreclosures in the wake of the 2008 financial crisis. TARP sought to achieve these targets by purchasing troubled companies' assets and stocks saved, through temporarily bailing out the major institutions from unavoidable financial break-down without any quantitative binding upper limit.

Based on what happened during the crisis and its missed predictions, we are still wandering, whether it is clear that monitoring financial stability is just important as maintaining monetary and economic stability and whenever they can coexist. The attribution of heavier duties in pursuing financial stability to central banks created inconsistencies, with the previous recessions, splitting the central bank model, into two different directions. The first inconsistency was that the central bank could no longer carry out its impartial clearing functions, nearly exclusively by means of classical monetary market tools. Instead, statutory and structural monitoring were required. Indeed, the only, or at least the most important restriction, imposed by the central bank to private entities banks, for monetary policy purposes, was the holding of compulsory reserves. Furthermore, as the example of England showed, this obligation could be easily transformed into agreement between the central bank and individual banks, through moral suasion. The tools to pursue financial stability are instead mostly of a statutory nature. For example, constraints on bank lending in terms of loan-to-value or loan-to-income ratios or fixed capital requirements based on legal obligations, unlike repurchase monetary policy facilities based on private contracts. The exercise of statutory tools is intrinsically dependent on the authority of the state and does not fit easily with the model of an independent central bank, used to influence the behavior of agents through economic incentives rather than mandating given courses of action and relates to the involvement of the authorities in the market economy.

Other necessary choice is between price stability and financial stability, when the financial indexes are showing wide fluctuations, in absence of reflecting movements in the economic activity. Often, price variability and financial stability are not necessary inconsistent or intertwined. The classical assumption is that price stability, growth, and employment objectives are consistent tasks; they must be independent on a global perspective, when major production factors are economically affecting final prices like the cost of labor.

Financial stability implies a constant smooth, flow of savings to the financial markets and intermediaries without excessive risk, connected to sudden uncertainties due to potential monetary instability in a stable environment. Even the appearance of derivatives, immediately after the 1971 gold debasement, with hedging, speculative, and arbitrage functions, was not able to limit market and systemic risks that was at the base of the

huge volumes of losses registered towards the years 2000 and afterwards. The second bubble burst after the dot.com, sub-prime, derivatives, and central economies recessions produced large scale central banks interventions, spread between bailouts and bail-in solutions in the single monetary areas, from distant peripheries, to core markets' centers.

The paper money gold debasement opened the Pandora Vase to the unlimited monetary expansions through quantitative easing procedures, through a system of decreasing rates down to the negative interest rate standard now in practice, trough he decreasing moral hazard, enrolling the adverse banks' client selection, opening the shock absorption necessities split between bailing in and bailing out the financial institutions. The connected costs in both, bail out and in, negative spreads, and quantitative easing, are enlarging huge deficits split between public debts increases and fiscal loads over the tax payers.

Most of present confusion and uncertainties arise from the absence of a value parameter, stable monetary function performances, and huge deficit spending policies, from the monetary illusion to the political monetary goals based on legal tender instruments. On one side we have a classical monetary inflation theory, as described originally by Bernardino Davanzati (Davanzati, 1588) in Florence, during the 16th century and afterwards by Von Mises and Hajek, thereafter by Friedmanians-Wickselians, during the two gold debasements, on the first day of World War I, and the second, on the 15 August 1971 in the panicking Nixon's Camp David "*temporarily declaration*". After the monetary stable decades, 1940s-1977s, running from Bretton Woods to the 1971 Camp David experience, both Robert Triffin and Jacques Rueff predictions became realty, we enter the new era of monetary unresolved troubles searching for a solution up to now.

During the stagflation in the seventies, the recovery of the 1980s, the first market crash signal in 1987, all the efforts have been directed to the discovery of gold-clauses or alternatives to be institutionalized on large continental areas, without success.

The Only Possible Solutions and the Alternative Looming Between Scylla and Charybdis

Central banks are peculiar institutions whose origin comes from different environments, necessities, and customs that we cannot characterize homogeneously. In order to satisfy different recurring necessities, central banks have mostly acted as clearing houses first and in different environments, lender of last resort later, monitoring the compliance of area banks, after the banks started to issue credits under fractional reserve practices. This was the case of the Dutch Amsterdam Wisselbank, literally Amsterdam Exchange Bank in 1609. Then came the Sveriges Riksbank in 1668, first promoter of the transfer of titles of deposits and fractional lending. Monetary bills issuance started by the Bank of England in 1694. After the 1907 US bank crisis, when finally, a lender of last resort institution was designed in a secret gathering chaired by J. P. Morgan at a secluded Jekyll Island, off the coast of Georgia in 1910. The idea laid the foundations for the Federal Reserve System, designed to become a law in 1913, and actually instituted as Federal Central Bank, at the end of 1914. Other central banks contributed to unify monetary areas as the BCE, after the launching of the Euro in 1998. The clear public nature has as well been pivot in some cases but not in others and a common definition of the functions performed by central banks is not possible as their origin stem from peculiar functions in different ages and with different grounds.

> The main monetary policy tools of central banks are of a private law, rather than a statutory nature. Indeed, the compulsory requirement for banks to hold reserves at their respective central banks is of a private law, rather than a statutory nature. Indeed, the compulsory requirement for banks to hold reserves at their respective central banks is the only

> notable exemption. Statutory tools are, instead, mostly used in supervisory activities by those central that have this responsibility. Some central banks—like the ECB, the Fed, and the Swiss National Bank—dispose of substantial independence in pursuing their statutory objectives by means of monetary policy. Some other central banks—like the People's Bank of China and the Bank of England (until 1997)—are (or were, in the case of the Bank of England) subject to government control. Moreover, the objectives of various central banks changed over time. Price stability, financial stability, funding of the government, and growth-employment appear in different periods as the objectives of central banks, with diverse rankings and in various combinations (Fischer, 1995; Bordo, 2007, 2016; Reinhart and Rogoff, 2009; Goodhart, 2010; Hellwig, 2015) (see Box 1). (Papadia & Välimäki, 2018, p. 10)

Central banks adopt a fundamental role in monetary policy configurations; they supply liquidity to the market and their operators, mostly banks, and institutionally, strictly control and fix credit prices through interest rates policies and open market repo agreements, in controlling inflation they even could assume GDP or CPI target guidelines.

This strategy is possible only and if longer and riskier interest rates are controlled, whenever their behavior has become very uncertain to allow short-term intervention. In the conditions of the contingent markets, after the final derivatives' bubble and the following present Great Recession, these objectives seem not to be locally and likely at hand anymore.

> But the revolutionary changes of communication have unified markets to such a degree that … there is practically a single market and a single world price… it was fallacious to explain the adjustment wholly in terms of the price level. There was even at that time, an approximation to a world price. (Hawtrey, 1932, p. 144)

If the scope of central banking becomes wider, a targeted reserve and capital set of requirements might be issued to financial operators, often incompatible with each other and the free global market competition. The special role was experimented in the socialist reform called new economy, reducing banks to *center of social accounting*, to supply and control legal tender fiat paper money, in the decaying planned economy inconsistent mechanism.

The difference between the basic local central banks commercial credit interest rates management and the spread with industrial long term credit is at the origin of the first decade financial crisis in the 21st century, after the Greenspan monetary deluge, characterized by conflicting high rates and unlimited monetary issues pulling up asset related values, on the financial market, starting from the dollar area to the UK and Euro currency at the end.

In order to avoid the failure of the Lehman Brothers, the FED started to affect the real economy via substantially increased bank lending liquidity.

After the 2011 European recession symptoms, the CEB shifted from the monetary stability target to the financial stability goal, starting the QE, LTRO, and other similar policies out of the original Euro single currency scheme without local exchange rate mechanism among Euro countries and without a CRA Community Reinvesting Act or Community Protection Act, as happened in the USA interstate banking extension, with balancing geographical effect (Pines, 2001, p. 335). After 10 years of constant QE and LTRO and similar monetary policy instruments, a deep ruling on capital base, lending policies, and *non-performing loans clearing procedures, bad banks and mergers*, the Great Recession has not yet shown any sign of progress, consolidating in an unexpected definitive stagnation age. The result is a general increase of growing moral hazard, adverse selection and finally shock absorbers, split between bail-in, bail-out, and finally too big to fail, or too big to bail, crossing roads.

The original adoption of an inflation higher rate limit of 2% as the FED and the CEB did, was an original target assumed as prevailing and strategic choice to develop the single currency in a real variegate society, without a community protection act like the USA did in allowing the interstate banking, a local community protection legislation act as well was not provided. The consequence was the shift from the necessary inflation target to the complementary monetary stability instruments and, during the Great Recession, the further weakening of the empirical basis of the Friedmanian approach to monetary policy, is in the perspective that the interest rate policy was leading to the monetary stability as well. Indeed, the balance sheet tool, inflating both liabilities and assets with the central bank, was also relevant during the Great Recession to influence the interest rate conditions, not a fair assumption of a quantitative approach to implement a sound monetary policy. Central banks managed their balance sheet either to regain control of the short-term rates, or to re-establish an orderly relationship between the short-term rate, presumed an operational target by the central bank and longer, riskier rates, that are more important for the macroeconomy, or to further release the monetary conditions in the lower brackets corridor, through lower interest rates. The common belief was not envisaging a "base money-monetary aggregate-inflation approach" according to the Friedman-Wicksell approach, with the relevant complications that turned out to be necessary, during the Great Recession, to discover that it was just the analytical framework for conducting further monetary policies in order to reach conditions of financial stability. From a different point of view, the central bank should no longer target a fixed rate of inflation, but rather the price level or, in another variant, the nominal GDP. The two proposals are considered as alternatives, the argument of the proposal to raise the target for the rate of inflation from 2% to something like 4% is mainly due to the will to support the remuneration of the public debt and that the nominal rate cannot be negative. The dilemma of Scylla and Charybdis, arises from the conflict between the monetary stability objective and the monetary policy prophecies, adopted worldwide by central banks, on the trail of the 1990s Japanese lesson and not on the verified experiences of the 2010s Japanese lesson.

The central banks, in the present Great Recession and with a monetary stability function, have to keep, at the same time, the 2% inflation limit and act as macro prudential agents, pursuing macroeconomic goals and financial stability targets. After the 2012 determination by the BCE to implement M0 through QE, the elastic monetary quantity in the system ends up to inflate central banks financial statements at each issue of public debt, financed by commercial banks, by mean of growing reserves with central banks. An explosive situation without recourse is presently almost identical to the one preceding this Great Recession, when the 2006-2011 excessive debt fallout started worldwide financial crisis.

If the competition becomes global, the single areas of production must compete with all the cost structure of all the production factors, labor included on a world basis. If this becomes a socially given fixed variable, then local production shifts toward less expensive areas supplying cheaper production specific factors, as happened with labor costs in Asia. Most of essential production has a common world price, in an integrated world market, the only local labor costs which are considered invariable unionized elements, rigid enough to stay out of the global competition. The consequent market response has been *delocalization*, with volume suppliers of just in time logistic chains, on a world single market. Central banks attitude to monetary counteract the local consequent recessions are unproductive palliatives, without sound results but, banking and foreign exchange imbalances out of control.

> Experience suggests that the euro area is far from the "optimal currency area" economists envisioned in the 1960s and

that its advocates foresaw. Among the reasons: diverging business cycles across member countries, wage (and price) rigidities and limited mobility of labor and capital between euro economies. The present situation reflects this huge world gap in term of areas imbalances and single nations' external and internal growing debt, in comparison with local net product. (Garcia & Grossman, 2016, p. 1)

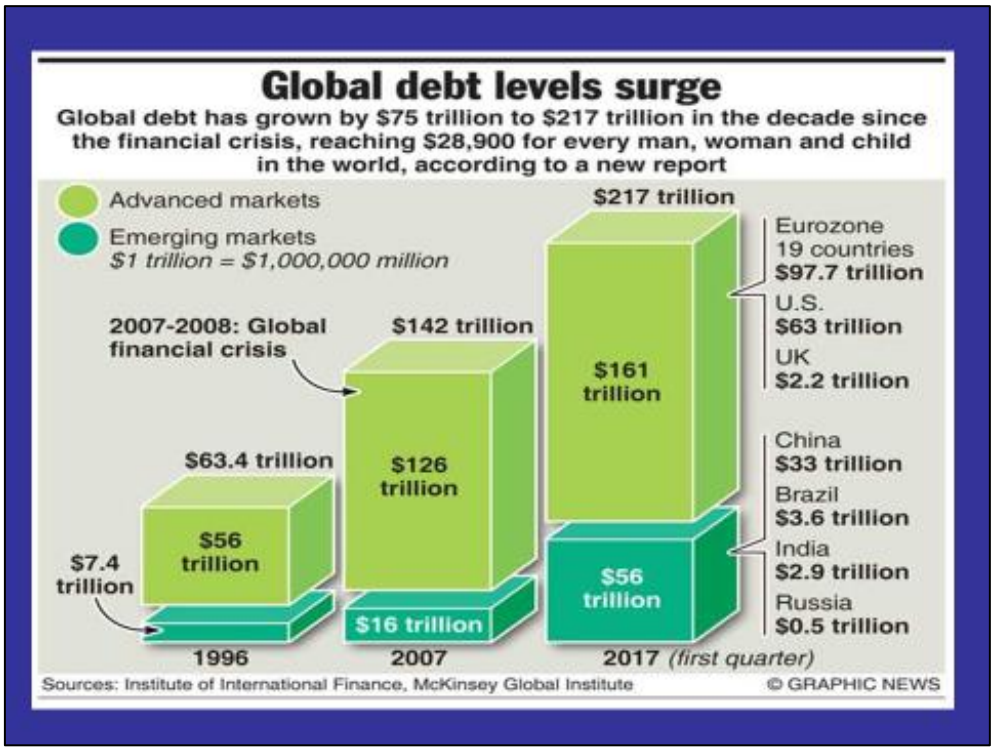

Figure 3. Global debt growth. Source: Institute of International Finance, McKinsey Global Institute.

Conclusions

The present paper, considering a problem affecting most of the present financial systems and the monetary ultimate theories, seems not to find a common base to extrapolate the central banks activity and the economics calculus of the monetary conflicts in a progressive globalization of both markets and production.

All the efforts to find a common currency working mechanism and avoid exchange risks have been fruitless since the gold debasement.

The alternatives, introduced with the first day of the market closure on July 1914, when the gold standard was dismissed, up to the Roosevelt gold complete confiscation in 1933, have left open the issue of a global legal or based currency and monetary system and after the pseudo gold standard, from 1944 to 1971, the world transactions have been influenced by a single legal tender debased currency unit, the US dollar, granted a special central banks' reserve privileged function, supporting local currencies circulation on a free base, and not even the introduction of the Euro Union could remove the reserve single function of the dollar. On the other side, the dissolution of the planned economies and a capitalistic affirmation of the huge economic industrial empire in Asia have removed all the competition hindrances, especially the inefficiencies and the low quality of the eastern countries industrial output.

The Chinese competition and the presence of a rigid labor costs unionized local mechanism have permitted the overcome of western productions with cheaper technologically industrial advanced production,

up to the financial collapse of firms not anymore competitive on the global market with consolidated rigid labor costs.

The first role of central banks, to support the interbank clearing function and financing the liquidity imbalances of the interbank daily settlements was necessarily over expanded to the monetary policies, pursuing a coverage of banks losses on not performing loans, through in and out bailing, and finally through a smooth clearing of banks too big to fail or to be bailed from the taxpayer to support the great General Recession due to the before listed causes, from a private to a public function, from private legal contracts to statutory functions in an ever closer relationship with the Treasury and Public Finances. The coverage of bank deposit risk, the bailing out of non-performing loans, and the TARP trouble assets recovery programs, through emergency currency issuance, slowly are leading banks to a social accounting function in a non-planned economy using the banking standards of planned economies of the past, without a likely believable exit from a gold standard base to a spread political management unpredictable way out.

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