

After the Euro and Interstate Banking: Present Monetary and Financial Surfacing Conflicts 2023

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This paper reconsiders the outcome of the adoption of a single legal currency in the 1999 Euro Act. Installing a central bank, several different solutions surfaced among the EU members and in the global economy, since the 1922 Genoa summit. The last Euro solution came after the severe, unexpected stock market crash on October 19, 1987. Furthermore, the sub-prime bubble 2007, the financial collapse 2008 and the final 2012 the banking melt down, induce to reconsider the overlapping monetary and financial fallouts. The 89 *Interstate Banking Act* and the Riegle *Community Development and Regulatory Improvement Act* of 1994, induce a monetary and financial evolving infrastructure. This paper focuses on the conflicts at the enlarging EU community seen the unavoidable monetary and financial integration, considering that the unique definition of the monetary functions as its essence is misinterpreted, in a clear common asymmetry affecting the whole evolving situation.

Keywords: legal currencies, interstate banking clearings, monetary functions, community protection, economic integration

Euro—In the Monetary Deluge

I want to recollect and reassess, here, an angle of a research of mine, expressed in an article published in the *Italian Banking Association Review—Banche e Banchieri*, issue five, year 1998, just some days before the new Euro parities adopted were finally fixed and disclosed and the new paper legal currency ECU issued. The title of that unique Italian article in that historical moment was “*The single currency: Fall-out hypothesis.*” I want now to review my previous frame, after the almost thirty years of monetary disorders and chaos that changed the whole financial world.

The modern monetary disorder depressing economic growth and stability, has reached a world dimension and has some peculiar recurrent profiles that we may now understand in their real nature, dimension, value and consequences.

Actually, after the industrial revolution and the swelling of the whole world’s production, and trade relationships, the last synthetizing of the three phase in the twentieth century evolution, as prospected by Mundell, assume a new dimension and characters in the new century. The Great Depression of the last Century, as well, surfaces in the aftermath of the misunderstanding of the new economic relations, following the lecture of the last days preceding the First World War “*The century can be divided into three distinct, almost equal parts. The first*

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part, 1900-1933, is the story of the international gold standard, its breakdown during the war, then the mismanaged restoration in the 1920s and its demise in the early 1930s. The second part, 1934-1971, starts with the devaluation of the dollar and the establishment of the 35-gold price and ends when the United States took the dollar off gold. The third part of the century, 1972-1999, starts with the collapse into flexible exchange rates and continues with the subsequent outbreak of massive inflation and stagnation in the 1990s, the blossoming of supply-side economics in the 1980s, and the return to monetary stability and the birth of the euro in the 1990s.” (Mundell, 1999, p. 2)

In the third millennium, what we now see is a new permanent series of financial disasters and progressing in the complete social and economic regressing traditional schemes, in a monetary-financial new angle. The previous events, reflecting new monetary disorders, from John Law to Weimar’s Germany and first World War economies, there are transitory events restoring and redesigning previous balancing markets since the Genoa conference, in the year 1922. One of the Keynes first book: “Consequences of the Peace”, is a first attempt to face the real inconsistent emerging situation clearing project and dollar supremacy that produced two likely results: The huge monetary euphoria of the roaring years, the gold dismissal and the monetary collapse in the connected great depression of the thirties.

Until the 44 Bretton Woods agreements there was no definitive return to a lasting monetary stability, in order to allow long term financial planning and financial investments, free form recurring wavering monetary values to a reliable consistent financial structure. The history of the presidencies of the Central Banks is variegated discontinued and differently surfacing, without a clear and stable common values floor. After the 1971 15th August Nixon’s dismissal of the Bretton Woods convertibility, most of the temporary stability was linked to the 35 \$ stable oz. gold price.

In consistent historic evolution, after the material dismissal of the gold exchange standard, opposing the “school previsions”, the gold value on the market rapidly rose, according to the Rueff-Triffin forecasts along the Robert Mundell 900 four phases historical scheme. As says the recent literature, in the new century, the central bank function has become critical in the financial management of the multitude of enterprises in the market.

There are two possible alternatives: A planned economy, under a central accounting social clearing mechanism performed from by a banking system, under the central bank scrutiny on one side, originally at the international starting of the BIS in Basel and as an alternative in a free market competition, linked to the price monetary exchanges, on the other. Running on the value stability of the currencies, basically gold standard, and financial accounting stability of the emerging surviving single production units, the real-world present market situations that are the intermingling of the two alternatives.

From 1971 to the present times, each of the three decades presented an inflating, deflating or the two with interest rates swinging from the Italian central bank discount rate at 28% at the end of the inflating epoch, 80s. At the beginning of the new Century, after the excessive liquidity generated through deficit spending, the deflating measures brought the remuneration of the liquidity with the Central Bank in the negative area, reaching the opposite extreme.

After the 2006-2009 sub-prime regressive banking profits, activities and banking structure, the Gramm-Leach-Bliley Act 1999-*Commodity Futures Modernization Act*, breaking the *Glass and Steagall* legislation of the 30s which had severed the commercial and saving banking *versus* the financial intermediary sector, surfaced the collusion between short term deposits and long term investment financing, within the investment structure of same classes of banking industry. The result was assimilated to the great depression of the 30s and was not over

in the present scenario.

“But it happened again in 2008. The United States government—two successive presidents, Congress, the Federal Reserve, the Treasury Department, and thousands of public servants at a variety of agencies—had to confront the worst financial crisis in generations. And the three of us were in positions of responsibility—Ben S. Bernanke as chairman of the Federal Reserve; Henry M. Paulson, Jr., as secretary of the Treasury under President George W. Bush; Timothy F. Geithner as president of the Federal Reserve Bank of New York during the Bush years and then Treasury secretary under President Barack Obama. We helped shape the American and international response to a conflagration that choked off global credit, ravaged global finance, and plunged the American economy into the most damaging recession since the breadlines and shantytowns of the 1930s.” (Bernanke, Geithner, & Henry, 2019, p. 9)

The phenomenon appears after the final 1971 debasement of the dollar, last legal currency under the gold convertibility clause. The unavoidable choice to suspend the convertibility is not a free choice, but the unbalanced quantity of legal tenderable dollars and the actual gold reserves of the USA. This angle is new for the North American Federation in a new monetary profile, never experienced before in the new industrial era.

The systemic “de-leveraging” may imply a corresponding reduction of short term working capital financing, therefore essential credit to the economy, which should therefore represent an equal contraction of assets linked to the working capital, not compatible always and resizing the production levels.

The lending terms alteration is balanced by the monetary function of the improper use of commercial banking already loaned on a substantial long term basis by mismanaged banks. Once the Glass is broken, the modernization act set the premises of the banks’ insolvency.

“But maturity transformation comes with some risks. Every institution that borrows short and lends long is vulnerable to a “run on the bank”, as in the famous scene at Bailey Bros. Building & Loan Association in it’s a Wonderful Life. As Jimmy Stewart’s George Bailey had to explain to the residents of Bedford Falls who were clamoring for their money, very little of the cash that depositors and other short-term creditors lend to a bank is actually kept in the bank. This can be a problem in those rare situations where creditors lose confidence in the bank and demand their money back at the same time. And in those rare situations, it’s a serious problem, because most of their money has already been lent out. Even a solvent bank, with assets more valuable than its liabilities, can collapse if those assets are too illiquid to cover its creditors’ immediate demands for cash.” (Bernanke, Geithner, & Henry, 2019, p. 22)

Following the dollar debasement, the after the 70s inflation, the Paul Volker tightening policy produced a first huge financial market depression ending with the stock exchange collapse on the 19 October 1987, when in one single session the D.J. lost almost a 22.6% drop on that single day.

“DEFLATION AND FRIEDMAN’S IDEAS were at the center of a third speech early in my tenure, at the University of Chicago. The occasion was a ceremony honoring Milton on his ninetieth birthday. I knew Milton when I taught at Stanford and he was at Stanford’s Hoover Institution. A tiny man, he always seemed to have a smile on his face. He loved to talk economics with anybody, even a young assistant professor like me. It was from his work with Anna Schwartz that I had learned that the Federal Reserve’s failure to keep the economy from sinking into deflation had been a major cause of the Depression. With that in mind, I reminded the audience that I was now at the Fed and ended by saying, “I would like to say to Milton and Anna: Regarding the Great Depression. You’re right, we did it. We’re very sorry. But thanks to you, we won’t do it again.”” (Bernanke, 2015, p. 91)

This seems to be the crucial point of the new monetary and financial collision of the post gold standard. An independent and not affectingly steady meter of objective value, was removed in favor of the volatile fall-out of the monetary policy, QE money final market inflating in a relative multi-currency global variable exchange rate.

“A fully free banking system and fully consistent gold standard have not as yet been achieved. But prior to World War

I, the banking system in the United States (and in most of the world) was based on gold, and even though governments intervened occasionally, banking was more free than controlled. Periodically, as a result of overly rapid credit expansion, banks became loaned up to the limit of their gold reserves, interest rates rose sharply, new credit was cut off, and the economy went into a sharp, but short-lived recession. (Compared with the depressions of 1920 and 1932, the pre-World War I business declines were mild indeed.) It was limited gold reserves that stopped the unbalanced expansions of business activity, before they could develop into the post- World War I type of disaster. The readjustment periods were short and the economies quickly re-established a sound basis to resume expansion.” (Rand, 1966, p. 104)

The central problem, then arousing, was the choice between fixed or variable exchange rates, in an uncertain and fluctuating currencies’ value with world trade flows affected by currencies prices.

“This is the shabby secret of the welfare statist’s tirades against gold. Deficit spending is simply a scheme for the “hidden” confiscation of wealth. Gold stands in the way of this insidious process. It stands as a protector of property rights. If one grasps this, one has no difficulty in understanding the statist’s antagonism toward the gold standard.” (Rand, 1966, p. 107)

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Actually, this dead-end way appears at the beginning of the 21st century, when all the possible alternatives within the monetary policies solutions seems finally irrelevant. The first solution: the deficit spending monetary road, ends up in the great inflation of the 70s, with the recourse to Paul Volcker to chair the Fed Reserve Board, after the Arthur Burns inflating deficit spending years, culminated with the WIN (win inflation now) pins’ slogan at the end of the seventies.

The Volcker tightened monetary supply ends with the September 87 second financial crash, when a single day DJ index collapsing just when the *Maestro*, Alan Greenspan, was taking over the FED Presidency. Greenspan is a Gold Standard true believer as he states: “*The financial policy of the welfare state requires that there be no way for the owners of wealth to protect themselves. This is the shabby secret of the welfare statist’s tirades against gold. Deficit spending is simply a scheme for the confiscation of wealth. Gold stands in the way of this insidious process. It stands as a protector of property rights. If one grasps this, one has no difficulty in understanding the statist’s antagonism toward the gold standard.*” In 1967, Any Rand published her non-fiction book, *Capitalism, the Unknown Ideal*. In it, she included Gold and Economic Freedom, the essay by Alan Greenspan which appears below: “*His famous libertarianism (he had been a disciple of novelist and philosopher Ayn Rand) would show in offhand remarks, but he tended toward the pragmatic in making monetary policy.*” (Bernanke, 2015, p. 97)

The Greenspan 18 years of tenure at the FED survive the opposite effects of both policies: the monetary increases, deficit spending increasing *leverage*, quantitative easing policies as well the alternative tightening of interest rates, monetary contractions, *leverage restrictions*, deflating policies as previously implemented by Paul Volker. On the other side the monetary deposits limit is reached with the negative interest rates charge in the year 2022, during the eighties the *money deposits* remuneration was suppressed, original interdiction *Regulation Q*, foresaw that previously the *money deposits* should not be remunerated, in alternative to the time deposits and for

the first time banks were compelled to pay interests on the idle reserves with the clearing central banks, for almost all the year 2022. From the year 1998 to the year 2001 the dot.com bubble originated the Enron bankruptcy, the AIG collapse, the Arthur Anderson bankruptcy, the Bank of America, Wachovia take over by Wells Fargo. Same disasters, happened from 2008 to the year 2025, to Lehman Brothers, Bear Stearns. Merrill Lynch fell victim of the new financial derivative products crisis, like the credit default swaps and Joins the Bank of America in a surviving merger which is the relevant example of the ongoing trend.

As Banks started to gain on leveraged increasing quantities and their supply of monetary means originating from savers and money holders of time deposits, the financial leveraged size available to the production of activities overrun the monetary nature of commercial banks' deposits, in adverse peculiar situations, compromising the monetary nature of deposits themselves and the whole monetary system, consequently arose the financial veil overlapping an instable and critical liquidity unbalanced short time horizon. Banks lost their nature as holders of money surpluses and become financial intermediaries, clearing their unstable equilibrium through short time borrowed positions, inside the payment clearing systems resembling a social accounting centers system.

Any sound deposits multiplier may be associated to one legal monetary unit at most, if not to an asset performing monetary function alone, as what gold has traditionally always been doing, reflecting the stability of the political entities in modern economies, ever more erratic or roaming.

After the dollar final debasement, any kind of innovating means of payment have been tried, without ever resolving the main central issue, what is money in an international system? The issue I was then considering in the euro starting day, was linked to the new currency substantial base never well outlined, neither through the special drawing rights mechanism, nor through the ecu, European Currency Unit, in its previous releasing efforts, nor it the final dollar deluge that fatally engulfed the whole monetary systems of Central Banks reserves, assuming the latest legal reserves functions could become simple one single nation "fiat money", without any material substantial base. Indeed, in every ongoing industrial process, the financial structure must rely on both external, short and long term negotiated and internal owned financial sources, in order to keep going and fluent the continue exchange of production assets and liabilities and financial means essential to the industrial processes conducted.

As lately as in the middle of the subprime crisis, Minsky stressed the structural instability of the market economies as functional to the fine tuning of the financial equilibrium in all its profiles. Banks are supposed to operate out of investment risks, without compromising savers goals and expectations, restraining themselves from moral hazards, adverse selection and penalized shocks absorbers parties, in or out bailing casually. The financial instability becomes structural and persistent, the regressing economic models may not be misrepresented (misguided) by complex mathematical and statistical algorithms.

"Dependence upon investment for normal functioning is also dependence upon external finance. If the demand for external finance exceeds the supply at given financing terms, then financing terms, that is, what is written on the contract, in which money is exchanged for promises to pay money in the future, will rise. Financing terms include provisions for collateral, maintenance of net worth, and the coverage of debt payments that must be satisfied before dividends can be paid as well as interest rates. The existence of codicils that state the other terms makes interest rates, by themselves, a misleading indicator of conditions under which investment can be financed. Analytically, these codicils are largely designed to protect financing units from the dissipation of assets by debtors. Money contracts used to finance asset holding and investment contain clauses that protect financing units against the moral hazard of borrowers conveying assets." (Minsky, 2008, p. 254)

Ben Bernanke, in describing his inclusion in the “*Concerto*” as the Greenspan “*Maestro*” circle was named, stresses the difference between the Maestro basic beliefs, he had been a disciple of the novelist and philosopher Ayn Rand, supporter of the *gold standard*, and his social attitude, strictly monetarist, if the dollar was surrogating the gold base after the Nixon unequivocal declaration of the 25th of August 1971. Bernanke recalls his experience as 14th chairman of the Federal Reserve from 2006 to 2014 and was awarded the 2022 Nobel Memorial Prize in Economic Science jointly with Douglas Diamond and Philip H. Dybvig for research on banks and financial crises, more specifically for his analysis of the Great Depression. He actually was member of the Board since 2002 to 2005. “*I received invitations to receptions at embassies and the like but I turned down most. I did enjoy attending several dinner parties at the home of Greenspan and his wife, Andrea Mitchell.*” (Bernanke, 2015, p. 96) Actually, Ben Bernanke had been at strict contact with the *Maestro* and his *Orchestra*, as he himself describe his younger experience in the Greenspan circle. Apart from the “*Maestro circle*”, the other source of policy Bernanke’s lines comes from Goldman & Sachs “*Goldman had long been associated with the political establishment. Critics dubbed it “Government Sachs”. Sidney Weinberg was a confidante of FDR, and Presidents Eisenhower and Johnson reportedly followed his recommendations for appointments of Treasury secretaries. Bob Rubin, secretary of the Treasury under President Clinton, had been a top executive at Goldman, as Hank Paulson had been. In the world of central banking, Mario Draghi (governor of the Bank of Italy, later president of the ECB), Mark Carney (governor of the Bank of Canada and, later, the Bank of England), and Bill Dudley (the New York Fed’s markets chief and later president) were also Goldman alumni. Gary Gensler, the head of the Commodity Futures Trading Commission at the time, had also worked at Goldman. Not surprisingly, the close connections have led to concerns about undue influence. I understand the concern. On the other hand, it seems unrealistic to expect government agencies to effectively regulate markets or industries if no one in the agency has relevant experience in that market or industry. I can only say that the Goldman alumni with whom I worked brought not only substantial financial expertise to their government duties, as one would expect, but also a strong dedication to the public interest.*” (Bernanke, 2015, pp. 373-374)

After his “*Concert*” training, broadly speaking, on the global converging flow of Central Banks functional clearing preferences, Bernanke gets around the crucial point expressing his tactical converging opinion. “*I think, though, that the gold standard would not be feasible for both practical reasons and policy reasons. On the practical side, it is just a simple fact that there is not enough gold to meet the needs of a global gold standard and obtaining that much gold would cost a lot. But more fundamentally, the world has changed. The reason the Bank of England could maintain the gold standard even though it had very little gold reserves was that everybody knew that the Bank’s first, second, third, and fourth priorities were staying on the gold standard and that it had no interest in any other policy objective.*” (Bernanke, 2015, pp. 24-25) This objection also misunderstands the value issue, gold went easily from 35\$ envisaged in the Bretton Woods agreement, to 2100 in the disordered recent monetary bubbles’ fallouts. Secondly, the gold standard represents a single global base solving the until now irremovable obstacle of the coexistence of internal and external unbalances in domestic and international economies. The classic gold standard solved both the problems and allowed an open global single market to develop by itself all over the planet, even till the Comecon devalued clearing balances as negotiated in Zurich at the sunset of the planned single Socialist states, in the Comecon monetary multi clearing solution, were traded down to 40% face value as light currencies against hard Western currencies.

The absence of an independent comparison objective value term of comparison, lets the monetary machine print unlimited quantities of fiat legal paper, out of any value quantitative limit. So started the unpredictable great

alternatives among roaring expanding markets and huge great depressions without any logic or provisional advising algorithm. “*Many accounts of the financial crisis focus almost entirely on the triggers, particularly the housing bust and irresponsible subprime lending. These triggers, like a powerful hurricane, would have had destructive effects in any scenario. But in the absence of key structural vulnerabilities in the financial system itself, the hurricane would not have come nearly so close to bringing down our entire economy. The American financial system had become increasingly complex and opaque, the financial regulatory system had become obsolete and dangerously fragmented, and an excessive reliance on debt—particularly short-term debt—had rendered the system unstable under pressure.*” (Bernanke, 2015, p. 115)

Some Global Perspectives

After the large and general monetary QE (*Quantitative easing*) cascade and the Weimer style huge inflation trends, the illusion to rewind general conditions of equilibrium shortly disappeared and the: “*as long as it takes*” perspective shortly was unemployed. “*Financial and economic angst spread across the continent. A collapse of the Italian banks would have a greater impact on the entire European economy than a Greek, Spanish, or Portuguese crisis because Italy’s economy was bigger and more complex. Italy’s requests for assistance from the EU and ECB were rejected. The country’s debt-laden banks took a hammering on the stock market. The Banca Monte dei Paschi di Siena, one of the world’s oldest continuously operating banks, slid toward bankruptcy. The ECB demanded Italy reduce its €46.9 billion bad-debt burden.*” (Prins, 2022, pp. 97-98) “*The Italian head of the ECB, Mario Draghi, would go on to become the prime minister of Italy on February 13, 2021. It’s possible that even back in 2016 his post-ECB ambitions were brewing beneath the surface. However, among other reasons he gave for denying requests for a bank bailout were the new EU “bail-in” rules introduced on January 1, 2016. Ostensibly intended to remove the moral hazard that stemmed from bailouts, the rules required investors to cover the first part of bank losses before any taxpayer-financed bank bailouts kicked in.*” (Prins, 2022, p. 98) “*The greater irony over the Italian situation was that the ECB had been studiously manufacturing money and using it to buy bonds for its QE program since March 2015. That timing coincided with the Fed halting the growth of its QE program in 2014. It was a sign of how the world’s major central banks coordinated actions to keep the cost of global money low—no matter the consequences. (When the Fed resumed QE in the second half of 2019, so did the ECB.) The ECB was struggling over which bonds to buy with all its fabricated QE money. The ECB was creating so much money that it didn’t have enough of what it deemed to be “strong” EU member sovereign bonds available. While that is not to say that the Italian banks should have been bailed out, the same double standard that existed during the Greek bailout crisis had resurfaced. The ECB could help any member state it wanted. But, much like in Orwell’s *Animal Farm*, some states were more equal—or, apparently, more deserving—than others. At the time, the ECB was buying €60 billion a month of mainly core eurozone government bonds, down from a monthly purchase of €80 billion. This exercise pumped up its book to more than €3 trillion by March 2016.*” (Prins, 2022, pp. 98-99)

The Eurodollar London market, now disappeared, had been the only surviving assumed standard based currency, after the Bretton Woods gold exchange standard was “temporarily terminated”, in the twentieth century (1971) by the President Richard Nixon. That means all the dollar assets located outside the American banking system, both in Europe and elsewhere, were definitely inconvertible into gold bars, but easily and soon equivalent of the crude oil traded in the global market as a homogenous interchangeable common potential base.

The reason for the Eurodollar success was stemming from the tangible real gold dollar standard first, to oil

value as a potential featured base later. The base had changed “*temporarily*” from the gold consistency, legally agreed at the Bretton Woods¹ Conference, to the oil standard, which has *de facto* been, implemented and put into practice in 1973, after the first Arab Israeli² war and after the consequent collapsing of the gold exchange first, the oil system later.

Since the price of the oil barrel has always been listed in US dollars, and the dollar was *the facto* universally exchangeable as a most valuable standard homogeneous and universally accepted merchandise, it is understandable a consequent very close link between oil and the following fluctuation of its dollar price. Then, as the general inflating purchasing power of the US dollars, in the USA and everywhere in the world, progressively went down, the oil prices generally started to raise.

We are presently living through a unique and peculiar monetary phase, with great changes and transformations; one of the most relevant of these is the appearing of the second big monetary reshaping, after the oil standard interlude. In the world globalization dollar standard epoch³, interrupted dramatically by the first world war and the fall of the ancient standard, with the intense nationalistic and impassable isolation phase, consequence of the unsuccessful successive effort to return to the gold standard. After the first world war, Keynes was writing his essay about the return to gold meanwhile Hawtrey⁴ supported by Gustav Cassel was addressing through the Genoa Economic Conference in 1921, stressing and promoting the return to the gold standard. Indeed, the *Economic consequences of the Peace* were already a *main issue* according to Keynes himself (Hawtrey, 1919; Cassel, 1921).

After two world wars, a dramatic sequence of revolutions and local endemic conflicts, following the third millennium, a regressive economy based mostly on mathematic and statistics algorithms, is still clogging up the unsolved fundamental historical issue of a common reliable currency basis. A consistent standard and stable exchange rate’s global working system, in accordance with the worldwide *real time gross settlement systems, the Swift still legal tenderable dollar based*. The final goal would be to avoid the recurring monetary crisis, recently affecting Mexico, Malaysia, continuing in the far East and, nowadays, looming over the dollar and Euro systems themselves.

The single currency has been issued in Europe approximately at the same time as in the USA was the *Neal and Riegle Banking Act*. In 1994 the *Branching Efficiency Act*, and the *Riegle Community Development and Regulatory Improvement Act*, allowed for the first time in local USA history banking activities over the State’s border, taking off the limit of the practice of one single State banking, accompanied by a *Community Protection Act*. This rule provided the savings collected in one single State would be allocated in the same State, in

¹ Bretton Woods Conference, popular name of the United Nations Monetary and Financial Conference that took place July 1-22, 1944, at Bretton Woods, a vacation resort in New Hampshire. (Garten, 2021)

² In 1973 and again in 1978, oil crises occurred when oil production in several Arab countries was disrupted, first during the Arab-Israeli War, and then during the Iranian revolution. Following the 1973 crisis.

³ Field, Cyrus West (1819-1892), American financier and trader, in partnership with the other American industrialist Peter Cooper and other partners formed in 1854 the *New York, Newfoundland and London Telegraph Co.*; two years later he organized in England the *Atlantic Telegraph Co.* Both companies were incorporated in order to lay the first undersea transatlantic cable. The British and American Government support succeeded in starting in July 1866 the first telegraphic communication between Europe and North America. (Ferguson, 2008)

⁴ Hawtrey was educated at Eton and the University of Cambridge, graduating with first-class honors in mathematics in 1901. He spent his working life as a civil servant and played a key role in the Genoa Conference of 1922, which attempted to devise arrangements for a stable return to the gold standard. Hawtrey studied economics after leaving Cambridge. He held few academic positions; he taught at Harvard (1928-1929) and was Price Professor of International Economics at the Royal Institute of International Affairs (1947-1952). He was knighted in 1956.

corresponding percentages—*loan to deposit ratio requirement*—requiring funds to be located where acquired and therefore invested within the same *communities'* creditors with the specific local lending banks, both as a peculiar community and as a social class⁵. In Europe the banking activity has been geographically unlimited “*The Banca Monte dei Paschi di Siena, one of the world’s oldest continuously operating banks, slid toward bankruptcy. The ECB demanded Italy reduce its €46.9 billion bad-debt burden.*” (Prins, 2022, p. 98) It is Sunday 26 April 1478 in Florence, and the church bells ring out from the towers above the rooftops of the city. Lorenzo the Magnificent, accompanied by his circle of favorites, is making his way through the colorful crowds towards the cathedral of Santa Maria del Fiore, to meet tragic *congiura dei Pazzi* where his brother Giuliano was killed (Strathern, 2003, p. 1).

The European Transition from Monetary to Financial Stability

The European Union institutions have always assumed a fluid personality: part liberal, part conservative, part nationalistic. Last Europe’s century is justifiably when seen as a story of the perils of nationalism and of its ugly sister, widespread racism, part Catholic according to the strict observant doctrine, part reformed according to the spirit of the Protestant capitalistic ethic, as prevailing thesis expressed by Max Weber at the beginning of the same Century.

Yet it also still suffers a syndrome about the dismal consequences of *beggar my neighbor, stop the world, I want to get off*, economic nationalism.

The single currency, debased since the 1971 dismantling of the international parities introduced with the International Monetary Fund artificial mechanism, was possible as long as the fixed 35 dollar conversion was “*de facto*” extending the dollar veil all over the adhering World Central Banks, *de facto* and formally attributing the gold role to the USA dollar, solution critically considered unsustainable by both Robert Triffin and Jacques Rueff during the sixties.

The history of riches and wealth in Europe, still nowadays reflects the morphology of these beliefs and both, observing the per capita income of the European Union Countries and considering some minor local distortions, one may easily see the distribution of the Reform throughout Europe, strictly statistically connected to the level of the *per capita* income up through the present time in both the Renaissance and the Enlightenment at the dawn of the industrial Revolution. The local peculiar differences inspire the foundation of Central Banks in the USA per areas, and not States, twelve altogether, and a single Federal Reserve System to coordinate the common goals.

The Federal Reserve System replies practically the BCE Euro system of Central National Banks coordinated through the Sector directives as a single currency, unitary monetary and control system, let nationally monetary policies to partially adapt themselves to the most relevant general Directives.

“As Wilson observed, “We have purposely scattered the regional reserve banks and shall be intensely disappointed if they do not exercise a very large measure of independence.” Congress accepted the plan, approving the Federal Reserve Act in 1913, and the Federal Reserve System began operations the following year—although not in time to stop another major panic, in 1914.” (Bernanke, 2015, p. 70)

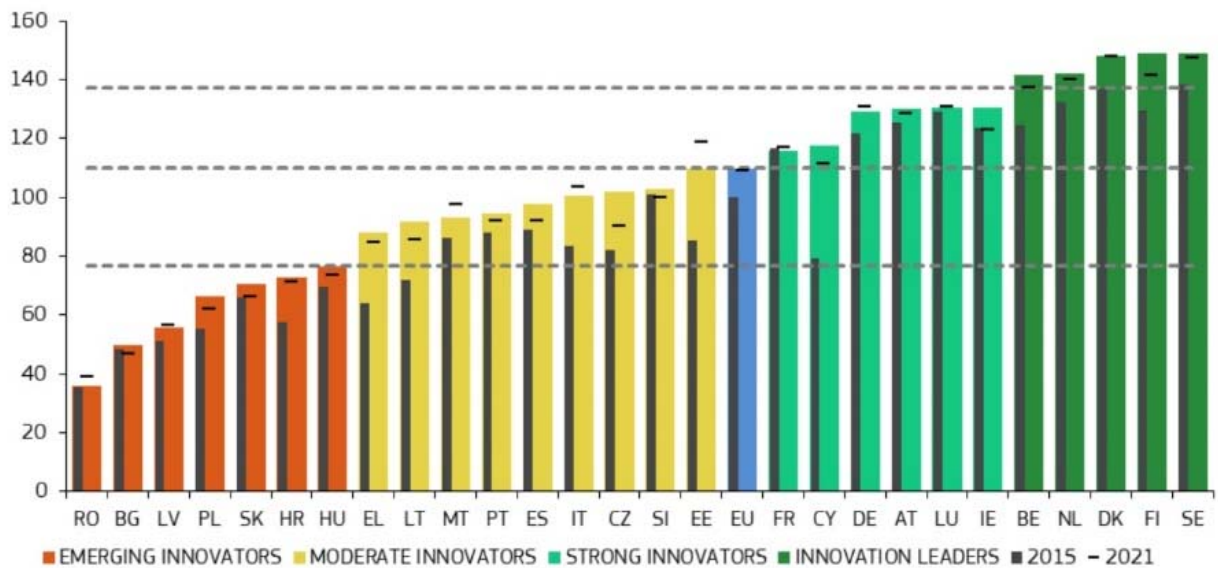
⁵ The Federal Reserve Board, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation have issued the enclosed host state loan-to-deposit ratios. Retrieved from <https://www.federalreserve.gov/newsevents/pressreleases/files/bcreg20210521a1.pdf>

Table 1

Economic and Demographic Indicators for EU Countries 1999

	Gross Domestic Product (GDP)				Population, 1999 (Millions)
	1999 (Bill. of U.S. Dollars)	Real GDP Growth Rate		Per Capital GDP, 1999 (U.S. \$)	
		1999 Estimate	2000 Estimate		
Denmark	\$178.2	1.6%	1.2%	\$33,547	5.3
Luxembourg	NA	NA	NA	NA	NA
Austria	\$215.8	2.2%	3.3%	\$26,700	8.1
Germany	\$2,160.3	2.5%	1.6%	\$26,274	82.2
Sweden	\$231.5	3.8%	3.8%	\$26,097	8.9
Finland	\$130.4	3.5%	5.3%	\$25,256	5.2
France	\$1,478.0	2.9%	3.5%	\$25,038	59.0
Belgium	\$253.6	2.6%	3.4%	\$24,810	10.2
Netherlands	\$388.3	3.5%	4.0%	\$24,594	15.8
Un. Kingdom	\$1,401.0	2.1%	2.9%	\$23,616	59.3
Ireland	\$85.6	9.1%	8.9%	\$22,911	3.7
Italy	\$1,205.4	1.4%	2.8%	\$20,909	57.7
Spain	\$574.9	3.7%	4.4%	\$14,592	39.4
Greece	\$125.4	3.4%	3.5%	\$11,888	10.5
Portugal	\$111.6	3.1%	3.2%	\$11,191	10.0
Total	\$8,539.9	2.3%	3.7%	\$22,754	375.3

Source: WEFA World Economic Outlook.



Agencies will use these ratios to determine compliance with section 109 of the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 (Interstate Act). These ratios update the data that was released on September 3, 1999 (see our letter dated September 10, 1999). The Gramm-Leach-Bliley Act expanded the coverage of Section 109 to include any branch of a bank controlled by an out-of-state bank holding company.

Twentieth's century *socialism in one country* has been a tested disaster. But so was the *capitalism in one country*, that many West Europeans attempted to put into practice, as the first world war commenced with the monetary debasement of gold, previously single world monetary standard. As declared on the front page of the New York Times on the first August 1914, the gold standard release, opened the monetary deluge inducing the huge issuance of paper fiat money, *emergency currency*, type of currency issued by governments as legal tenderable at paper, bit, or bond cost. The value of such a specie was based solely on decree or law, rather than on actual coin or precious-metal reserves (called *specie*), and the redemption of which was never guaranteed. Such money was issued in quantity in the United States, first during the American Revolution and then during the American Civil War. The Civil War currency, known colloquially as *greenbacks*, was redeemable in specie by the issuance of *Specie Resumption Act of 1875*. The issuance of fiat money always resulted in a steeply spiraling inflation, as specie-based currency has always been withdrawn from circulation, causing a sharp rise in prices.

The 1875 Act was the law in the United States that established and restored the nation to the gold standard, through the redemption of previously-unbacked United States notes and reversed inflationary government policies promoted directly after the American Civil War.

After the successful globalization stage in the nineteenth century monetary steady standard, thanks to the free trade and self-ruling system, European countries could develop rapidly and were not quite protectionist. Just after 1914, with high tariffs on imports in France and Germany, and even Britain, once the high priest of free trade, committed apostasy in 1915 starting a huge deglobalization of its own. In the 1920s and 1930s, economic nationalism, much worse, became the rule of any single European nation, with surfacing effects on the oncoming world depression.

One immediate cause of the deep de-globalization, after 1918, was the creation of new Countries, that meant new currencies, new tariffs, new import quotas and new subsidies. Both against outsiders and against the formerly integrated global markets, they were just missing. Another event came with the establishment of the Soviet Union, which erected an ideological and substantial high barrier to trade until its last existence years, enclosing all the socialist Countries within the Comecon trade agreement, founded in 1949, which adopted a formal charter in 1959.

Intra-European conflicts grew large and wide. So did the notion, arising from the First World War, that self-sufficiency was the only rule for survival as well as to outlive the war periods. But the outside world also played its role. America raised its tariffs in 1921 and 1922, making it harder for the Europeans to export goods to repay their war and reconstruction debts, activating additional preconditions to the great depression.

In 1924, the Congress shut off immigration from Eastern and Southern Europe and from Asia, taking away Europe's safety valve. Concern in Europe was growing about new, low-wage rivals in Latin America, Canada, Japan, Australia. And then, in the biggest blow of all the times, because of the European effort to return to the gold standard, and the consequent deflationary policies all over Europe, starting in 1925 after the Genoa Conference adopted the Hawtrey solution, adversed by Keynes. The Conference led to a general return to the gold, to the pre-war standards and its exchange levels, with the consequent world economic collapse, America in 1930 raised its average tariff to 59%, with the Smoot-Hawley protection tariff act⁶.

⁶ The United States was the worst among the offending countries. As the nation slipped into the grip of the Great Depression, Congress adopted a virulently protectionist trade law. Its name—the 1930 Smooth-Hawley Tariff Act will live forever in the annals

The Europeans retreated into various form of isolation. Britain, France and the Netherlands settled down with their empires, raising outside prices to give preference to imperial trade. Fascist Italy went for corporatism, favoring national firms in alliance with government. Nazi Germany, hit hardest by the depression of the 1930s, went through arms manufacturing and barter trade, which generated a huge deficit spending.

Unnatural divisions, as well as the better-known background of war and the Holocaust, are the economic nationalism we need to bear in mind when thinking about the emerging Union, or Common Market, or European Community, then definitely European Union as it has variously been known, since it started life with the 1957 Treaty of Rome.

The economic map of Europe in those days was a strange one: not at all the sort of map that nature would have drawn. Normally, a country's neighbors are among its largest trading partners, certainly on a continent such as Europe with close historical and cultural links. Transport costs favor the neighbors, and it is generally likelier that firms physically close to one another will establish the trust and depth of mutual knowledge that favor business transactions.

Yet in the 1930s, France's third biggest trading partner was Algeria. In 1957, Germany's biggest one was America. The natural patterns of trade and personal interchange had been distorted by two wars and 50 years of economic nationalism, diverting the eighteenth century globalization phase with 70 millions European reaching North and South America and the huge growth in both communication and transportation sectors.

But despite those multilateral initiatives, the desire to blunt economic nationalism alone might have been enough to explain the Common Market's creation. After all, if taken at its word, the essence of the European idea, and indeed the Rome Treaty itself is liberal, and goes well beyond the Customs union. The denial of national policies which had seemed individually desirable, but were collectively disastrous, the use of Rome and later treaties made the renunciation binding and credible. The transfer of sovereignties away from capricious national politicians⁷. What could be more liberal than the unconfined movement of people, goods, capital and services?

Yet, all those dates, coming long after 1958, carry powerful evidence. It has taken more than 40 years to establish anything like an integrated, "*common*" market. Only during these years an integrated financial market has begun to develop, thanks to the euro. In many areas - transport, telecommunications, and energy, to name but three, the common market has only just begun to be shaped. Far from moving too rapidly towards integration, as the EU's British skeptical often claim, the opposite is true: it has moved far too slowly. The reason has been persistent economic nationalism, combined with sharply different perceptions among the member countries about what the Union is for. This is not surprising in a collective effort of six, then nine and now 28 countries. But it has blunted the Union's effectiveness and makes predictions about its future hazardous.

Most notably, the liberal ideas of unity and free movement have been widely distorted. Subsidies, non-tariff barriers, closed financial systems, overlapping monetary systems: Have been implemented by EU members to keep their economies autonomous, ever since 1958. At the same time, some countries have sought to divert EU powers and resources to their individual national benefit.

Monetary Factors in the Euro Basic Choices

of infamous legislation, alongside the Anti-Sedition Act and the post-Civil War Reconstruction Act. Smoot-Hawley raised average tariffs on U.S. imports to over 50 percent.

⁷ The WTO's agreements are often called the Final Act of the 1986-1994 Uruguay Round of trade negotiations, although strictly speaking the Final Act is the first enactment of the agreements.

The biggest collective spending policy, the common agricultural policy, under which half the EU budget was devoted to farm subsidies, has become a nationalist feeding mechanism.

It is a Central Bank case study of how a system of subsidies, once created, becomes almost impossible to be cleared. It is also highly protectionist, impeding poor countries' farm exports. A study by Patrick Messerlin, a French economist, carried out for the Institute for International Economics in Washington, DC, estimated that the total cost to the EU itself of its external protectionism: covering goods and services as well as food—adds up to around 7% of the Union's GDP each year. That is \$600 billion. Regional and structural funds, designed to improve the infrastructure and industrial development of poorer regions within Europe, are another tough issue.

A few parties still believe in coordinating central planning, research, protection or subsidies at European level. Others believe that, in an economic space much larger than a single country, change must be kept at bay. Yet, others think European common rules are the only way to make their national politicians act according to external common economic free market's rules.

Others still see all this economic and trade ruling as a price to be paid for the establishment of a unit large enough to deal on equal terms with the United States, Russia and Japan, and to carry foreign-policy common goals. Britain, according to the special relationship with the USA, has always tried to influence events on the continent, though has never really wanted to ally itself to its neighbors wholeheartedly, down to the Brexit of 31st January 2020, as ratified at the end of a specific political referendum.

It is a muddled, contradictory picture. Recently, with stronger competition enforcement, the single currency and the single-market program, have gained ground. As the Union becomes larger, perhaps expanding to 30 countries, an activist supranational government is becoming harder to operate. Liberal optimists think the euro will force national governments to free up their own labor and goods markets, in the hope of creating enough jobs to reduce unemployment from its lagging rates of the workforce.

That more liberal trend looks set for the next future years, during which collective thinkers may well have their minds more on foreign policy co-operation, than on economic or social intervention. But it cannot be counted upon to turn the EU into the environment familiar to Hayek's dreams: a Federal Europe whose rules tell its members what not to do, but do not try directly to tell them what they should do. The picture reflects a common party with different dressing attitudes, from hunters to fishermen, from golfers to hikers. (Jones, 1999)

Still, there is little chance of possible break-up. The EU is improving its role, as measured by the desire of more countries to join it. The chances are not, so far, of a sort to pitch nation against nation. The only real candidate for such a fight could arise from the euro and its fall-out hypothesis. Mainly hypothesis due to the huge Banks' unbalanced outstanding monetary circulation. In most countries, about 3% of our money originates from government-owned mints that make notes and coins. The rest is digital and created by private banks, out of nothing, when they issue loans. When we go to a bank to take out a loan, the bank does not lend its own money or that of its depositors. As a deputy governor at the Bank of England put it: "*Banks extend credit by simply increasing the borrowing customer's current account ... That is, banks extend credit by creating money.*" As banks create the amount borrowed, leverage effect, but not the interest to be paid on that loan, there is now more debt in the world than money. That means there must be an increasing amount of lending to pay off debts plus interest, while maintaining the amount of money in circulation, which means economic activity should continually increase. Otherwise, as debts are paid off, so our money supply shrinks (deleverage), which leads to defaults, foreclosures, bankruptcies, unemployment, depression, and, history shows crime and extremism as well.

There could be a moment in the depths of a recession in which one government is under pressure to do

something about unemployment but finds itself unable to act on its own. Anti-European emotions could become stirred up from the economic policy allocation in one single central body.

Searching a way to accommodate each member's concerns is both the most maddening thing about the European Union, and its greatest talent for survival. That is also a talent that will be needed in the world's other big, should-be federal but-isn't, country: Communist China.

What is happening in Europe is not a local phenomenon but it represents the return of the previous globalization process with more sophisticated tools and technologies.

Actually, the currency problem and the proper base to support the currency circulation is a not yet resolved problem that afflicts the entire world community. The development of the Euro dollar market, at the beginning of the sixties, was a consequence of the growing assets linked to the oil production and the need of an international liquidity instrument that was not available, as was gold during the first globalization period, which marked the gold standard epoch. (Triffin, 1961; Rueff, 1964)

What is likely to happen now is:

- migration of capital and financial resources toward most developed areas, within the monetary union: in the EU. Especially towards the northern areas, previously linked to the German mark, the Max Weber Calvinist temples of the sophisticated financial markets, supplied by the gathering capabilities of the integrating banking sectors, developing in the more efficient financial markets and related technologies; (Weber, 2003)
- fallout due to the absence of any provisions or instrument comparable to the Neal Riegle Act, *community protection act*, affecting the allocation of financial resources within the enlarged European open market.

The development of the industrial structures linked to fiscal facilities and lower labor costs may alleviate some side effects of the enlargement, but cannot balance the likely concentration of some highly developed areas, with financial and industrial infrastructures and facilities.

The globalization requires a temporary reshuffling of the economic activities, which could last for several decades before a competitive reallocation process may level off the steep differences emerging out of the first stage unconditional integration. I don't want to enter the confused and complex field of the European facilities provided by the EU legislative bodies which unfortunately just considers very soft regional remedies to the restructuring of the industrial preferences of the European business community linked to the world financial decision-making centers.

The currency problem and the proper base to support the currency circulation is a not yet resolved problem that afflicts the entire world community. The development of the Euro dollar market at the beginning of the sixties was a consequence of the growing assets linked to the oil production and the need of an international liquidity instrument that was not available as was gold during the first globalization period, which marked the gold standard epoch. (Triffin, 1961; Rueff, 1964)

Final Considerations

Euro dollar rates from year 2000 through 2023 reflection. *"It can be shown that if hedge financing dominates, then the economy may well be an equilibrium seeking and containing system. In contrast, the greater the weight of speculative and Ponzi finance, the greater the likelihood that the economy is a deviation amplifying system."* (Minsky, 1992)

The history of the Euro during its first experience as a tenderable currency is that of a declining steady trend, without any possible misunderstanding or plausible explanation diverging from the ones above referred. Apart

from the oil barrel price which has supported the dollar gold debasement of Camp David.

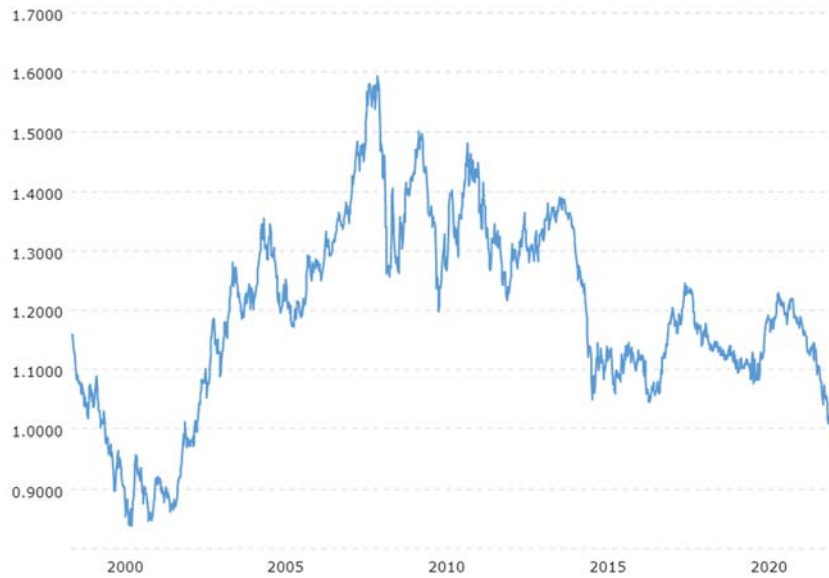


Figure 2. Euro dollar exchange rate (EUR USD)—Historical chart.

Source: <https://www.macrotrends.net/2548/euro-dollar-exchange-rate-historical-chart>

The dollar Gold after the convertibility refusal of summer 1971, is the great new scenery that surface in a yet confused cold war reflecting uncertain trend that, fundamentally marks the new paper money outlook in a new uncertain general trend of demonetizing legal tenderable currency out of any connection with a sound real value. The expanding dollar liabilities after the dollar debasement.

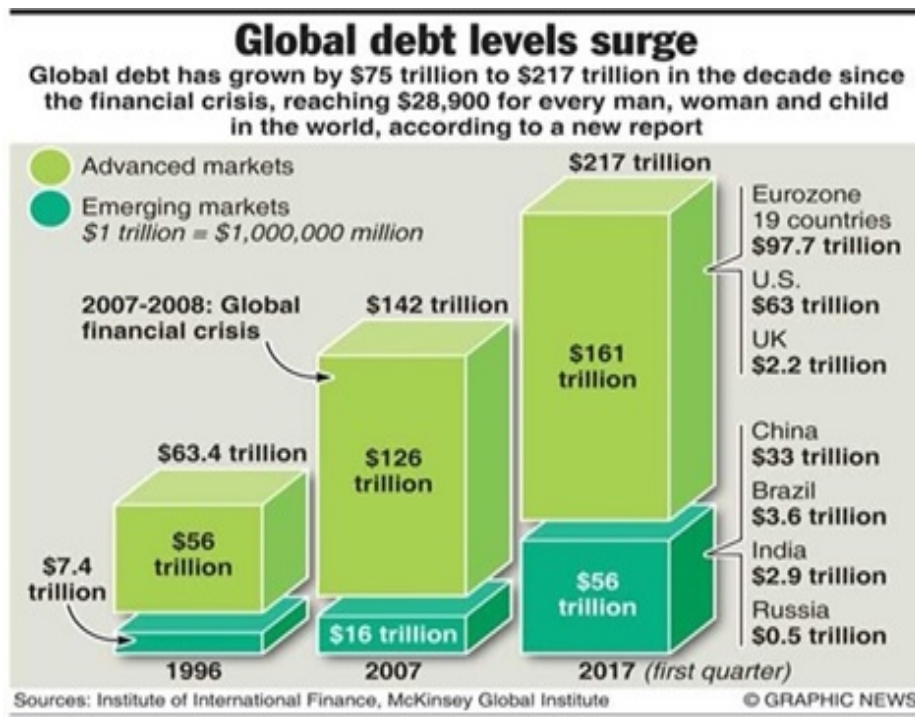


Figure 3. The expanding dollar liabilities after the dollar debasement.

Source: Institute of International Finance, McKinsey Global Institute



Figure 4. Dollar gold price.

Source: <https://goldprice.org/gold-price-history.html>

The conclusion is that money is now capable of allowing short term transactions easily in the global market, short time accounting reflecting current values but not able to represent a sound instrument qualified in deferring values and forming capitals out of consistent activities and long time deferred consumptions, its essential basic function.

I can assert that any currency under such limits is a dissolving fallout likely instrument, or prospective, and we must consider a changeover with other value instruments, temporarily was the energy or basic material assets like oil able to keep a long time steady value, and I don't see in our times new projections.

“For reasons which will become clearer as the book goes on, I have come to see economics as a fundamentally regressive discipline, its regressive nature disguised by increasingly sophisticated mathematics and statistics.” (Skidelsky, 2009)

“A bank is not a money lender that first acquires and then places funds a bank first lends or invests and then “finds” the cash to cover whatever cash drains arise.” (Minsky, 1975; Wray, 2016, p. 87)

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