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MONETARY FALLOUTS IN SINGLE LEGAL TENDER, IN GLOBAL AREA UNIONS

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Abstract

Since 15 August 1971, with the second Worldwide pull down of the Gold Standard, most of the scientific comments had gone from Robert Triffin, Jacques Rueff, Milton Friedman, Anna Schwarz, and all the followers of the "short time" John Maynard Keynes literature, along the evolving line from microeconomics to macroeconomics. Pretending to put "real money" on the same perspective of "artificial money" or vice versa, as has always been, the "legal tenderable money" may be considered inconsistent.

After the gold dismissal, during five decades 1971 – 2021, all the monetary issues have rotate around the collapsing New Economies, the banking industry evolving as social accounting centers, and money as a mean of exchange, in an uncontrollable monetary unpredictable value evolutions, from inflation to deflation to uncertain temporarily means of exchange in a confused world of unpredictable strange evolutions.

The Bretton Woods agreements, defined gold exchange standard, the growth of the dollar and its connected convertible foreign currencies within the Western World have shown the significance of the Fisher equation. Effects on a strict and easily inflationary path, up to the transition from the classic pattern to a first Paul Volker, appointed in 1979 and substituted by Alan Greenspan in 1987, strict pull of monetary brakes in an expanding roaring financial years, generally producing some first signals of prices' elasticity. The Fed rate fell from 18% in 1979 to 5% at the Greenspan take possession of the Fed Presidency. The natural gravity forces induced a first financial debacle in the Nasdaq trading and a DJ index falling from 2,600 to 1,600 points in one single night loss of almost 34%.

It is a first of a long row of bubbles linked to the monetary evolution, as soon as the legal tender currencies are historically freed from the Gold Standard or the Gold Exchange Standard that follows down the line with the dotcom, Enron, Twins Towers attack, 1999-2001.

The huge liquidity promoted by the Fed led by Alan Greenspan, with decreasing rates, starts the real estate bubble that show its monetary effects in the 2006 subprime bubble, followed in two years by the subprime and derivative products bubbles in the period 2006-2008. The huge fall of industrial sectors: automotive, assurance, financial institutions is colossal and the leader Lehman Brothers is wiped out of history as was the Enron's Auditor Arthur Andersen in the year 2000.

At the time of the crisis, the ten years leading to 2006, the real estate value surge raised household wealth by \$6.5 trillion. A giant boost to the United States and to the world economy. As US consumer spending surged toward \$10 trillion, to be added to the global demand between 2000 and 2007, fluctuations on such huge scales can clearly help account for a business-cycle downturn in 2007.

To understand how this could trigger a financial crisis, with bank failures spreading panic and a credit crunch across the whole world, there is one crucial thing to add. Real estate is not only the largest single form of wealth, it is also the most important form of collateral for borrowing. It is mortgage debt that amplifies the broader economic cycle and links the house price cycle to the financial crisis. Between the 1990s and the subprime crisis in 2007, American housing finance was turned into a dynamic and destabilizing force. First the securitization of mortgages, their incorporation into expansive policies of the Republican administration, were putting America at risk. Rather than mitigating the pressures of global competition. This risked provoking both an anti globalization backlash and a catastrophic financial crisis that would call into question America's monetary stability and the global standing of the dollar as the only global currency. The high-risk strategies of banking leverage, the mobilization of new funding sources and globalization with widespread growing unbalances.
The general picture as it appears today in the present literature, shows a common recurring nostalgic rekindling of the self-adjusting monetary issues with a Central Banks cooperative improper monetary policy function. Most of the agreeing scientific convergence, researchers have issued only hopes and projects, without any real concrete result in definitely stabilizing the unpredictably fluctuating real world. A the moment some reflections appear in the literature showing three different moments, the 2012 general convergence over the remedies, the reflections at midway, and the final incumbent crash. (Blinder, 2014) (Helleiner, 2014) (Drezner, 2014) (Eichengreen, 2016) (Wray, 2016) (Tooze, 2019) (Kay and King, 2020)

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

JEL classification: G28

Perplexities and fall-outs of monetary recurring inconsistency and reform

Monetary functions among value reserve, value measurements and accounting transaction units, have permitted the economic settlement of humans since the very first local economic activities get used to a wide distribution out of a barter scheme. In the first settlements, the premise of a stable family structure was strictly connected to the livestock ranching, cultivation of agricultural marketable products, and starting craftsman's that could be exchanged against other different items, easily sellable, finally monetary coins, with the same goal and substitution function to the former.

Money is the simple way to support a local settlement in alternative to a barter economy, which is not capable to exploit natural resources or artisan's products broadly out of their strictly local environment.

Money became therefore a mean of exchange alone, leaving with the receiver the choice of future new purchases through holders of goods of major interest.

From nomadism to the first local working settlements, surfaced the first necessity to solve the monetary issue linked to the necessity to postpone, through the use of money of future acquisition of different necessary commodities in the embryonic markets!

From the Elephantine island scrolls, *Receipt for a Grain Loan, December 402 BCE, Brooklyn Museum*, to the Hammurabi Code the economic activity is fully depicted and ruled by the primitive principles of private property, linked to some form of labor, previously incorporated in the merchandise. The latter to be sold from the supplier side, from the buyer point of view the market through marginal utility explains the reason of a price, of a negotiation going on in the private or public trading. Since the very beginning, there was not a single chance to keep running any kind of economic activity without the presence of some sort of monetary instrument, and saving and banking services allowed a delaying of otherwise reducing transactions volume and intensity of such phenomenon.

The first oldest form of monetary and financial instruments start with the economic activity on the planet Earth and are present up to last of its structured production facilities.

Figure 1: Receipt for a Grain Loan, December 402 BCE, Brooklin Museum

The monetary history of humankind starts with the first papyruses and follows an identical path down to the bit-coin. The monetary functions have never changed, in any specific circumstance ever.

The choice to dismiss the gold-based standard has no concrete basis and surfaced in a critical confusion, before the first days of fighting, during the week preceding the WW1. It happened on Friday 30 July 2014 as a consequence of a choice between a debased currency, and the Worldwide asked conversion in gold of any financial activity on a limitless selling orders coming to Wall Street from any corner of the financial World. On the US financial markets, the selling orders were balanced by the simultaneous linked orders to buy any available and reachable gold on the USA banks reserves.

The monetary disorder erupted in the year 2006 after the final effects of the Nixon's 1971 dollar debasement, when to combat the financial crisis problems, President Nixon in Camp David consulted the Federal Reserve chairman Arthur Burns, the incoming Treasury Secretary John Connally and the then Undersecretary for International Monetary Affairs and future Fed

Chairman Paul Volcker. The Bretton Woods agreement when the dollar, imposed by Henry Dexter White in July 1944, was associated to the gold standard in a mixed indirect conversion of the currencies linked to the Western financial system and gold base through the indirect parity, to be valued in later adhering to the IMF-WB-GATT agreements. As stated in the final papers signed by a tired departing conference, on papers where only the dots to be signed were presented to Keynes and to the other 44 participants to the Mount Washington Hotel conference, in the State of New Hampshire, 1944. (Tooze, 2019)

The arising *Robert Triffin dilemma*: "*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: vii) was expressed also by Jacques Rueff, both foresaw a difficult link between the international liquidity, likely in evolution and the fixed gold base available on a fixed parity, which was the indicated in 35 dollar an ounce. The gold, indeed, after being confiscated by the President J. F. Roosevelt in the year 1933 (an executive order signed on April 5, 1933), returned to the open market, after the dollar debasement, just at the end of the '70s, in the free gold market, where it reached almost the 1,000 dollar an ounce. It climbed up to 2,000 in the year 2020 and upwards on a constant trend. As interest rates became lower, the monetary policies prevailed almost everywhere, with Central Banks expanding their activity from the monetary stability goal, towards the financial stability interventions. This final step in a free gold market, considering the quantitative easing as a mathematical even digital set of parameters, became finally an accommodating alternative to the accounting and then prevailing auditing results.

During the eighties, the brackets pull over interest rates in a widely inflationary market generated the first financial collapse, on the black Monday October 1987, after the thirties great depression, when in the year 1987 the first fall in the Nasdaq Index induced the reopening of the monetary issues.

Figure 2: S & P Quotations.

Source: https://www.dropbox.com/s/6wpp1unolkpzkst/S%26P%20500.jpg?dl=0

During the nineties, the banking deregulation, the investment banks integrating with commercial banks and the abolition of the regulation (Q), imposing no remuneration of the money deposits, promoted a huge financial activity with the concurring technological innovation and new intermediaries. The opening of the immense financial intermediation from the investment funds down to the hedge funds and the Hamilton Program, out of the Brooking Institute, became a last scientific resource, to face long-term issues with short-term instruments.

Since the very beginning of the monetary history, without any exception "*The value or purchasing power of money depends, in the first instance, on demand and supply …The supply of money… is all money in circulation at the time … The demand for money, again, consists of all the goods offered for sale*" (Mill, 1852: 12-13). The Fisher equation has old origins, but the gold standard was not affecting the base of money, but »*de facto*« restraining the quantity which growth in a short time had induced unbounded growth out of long time effects.

Recurring leverage and deleverage unpredictable waves, monetary crisis and liquidity revolving connected traps waves

It was in Stockholm nearly half a century later, with the rename of the Stockholm's Banco of 1657, that this barrier was broken through. Riksbank began operations in 1668, after Sweden was served by the Stockholm's Banco, known as the Bank of Palmstruch, actually founded by Johan Palmstruch in 1656. Although the bank was private, it was the king who apointed its management: in a letter to Palmstruch, he gave permission to its operations according to stated regulations. (Fergusson, 2008: 50)

But Stockholms Banco collapsed as a result of the issuing of too many notes, without the necessary collateral. Palmstruch, who was responsible for the bank's losses, was condemned to death, but later received clemency. On 17 September 1668, the privilege of Palmstruch to operate a bank was transferred to the *Riksens Ständers Bank.* Although it performed the same monetary functions as the first Dutch Wissel bank, the Banco was also designed to be a *Lanebank*, meaning that it engaged in lending as well as facilitating commercial payments. By lending amounts in excess of its metallic reserves it may be said to have pioneered the practice of what later be known as *fractional reserve* banking, exploiting the fact that money left on deposit could profitably be lent out to borrowers. Since depositors were highly unlikely to ask *en masse* for their money, only a fraction of their money needed to be kept as the bank's reserve at any given time. The liabilities of the bank then became its deposits, on which it paid interest, plus eventually its capital; its assets became its loans, on which it could collect interest, plus its reserves.

The bank deposits, are irregular deposits, that means the bank acquire the ownership of the money due to the depositors for the third parties, not envolved in the bilateral pact running with the real holder title to the savings deposited.

From this peculiar double position, the depositors' monies became bank's own asset that may be lent, becoming new deposit if the beneficiaries of the loan lent redeposit it within the banking system in an unlimited leveraged expansion relying on the capability of the borrowers to reimburse their loans. The leveraged totality amount of money in the World economy, as long as confidence prevailed towards the United States according the Bretton Woods rules, the dollar remained a stable believed and held currency. However it became unable to finance monetary deficits, so artificially created, in consideration of the percentage of actual decreasing reserve of legal monies, assumed gold, in actual custody of the issuing banks.

The facility with which the leverage existing in the banking system may become unlimited, if the reserve get inconsistent but the borrower debt should be repayable in the same faster time as the potential deleverage could become a real juridical request by the lending bank, under pressure from their depositor.

Capitalistic basic role in that goods and production final merchandises flow in a market global economy with monetary restraints

In a free global economic World system, as the one emerging from a set of World Wars, warm and cold, in the twentieth century the unhappy return to the Gold Standard as the one designed in the Congress of Genoa, 1922 by Hawtrey and Cassel resulted not easily accessible. All the '20s tragically ended in the New Deal and Gold confiscation (1933) and all the set nationalistic borders and duties led to the final conflagration. The circumstance is clear depicted in Hawtrey – Cassel explanation of the financial turbolences linked to a common solution that made R. Batchelder and D. Glasner formulate the secular question "*What Ever Happened to Hawtrey and Cassel*" just at the end of the fifth huge financial and monetary turbulence after the 1971 decision to abandon the gold standard. (Batchelder and Glasner, 2013)

Rather, the opposite development has taken place in Bretton Woods July 1944 international monetary conference when the dollar has been playing a double role having served as national currency of the United States and as key currency of the world economy with the White plan proposing the FMI, WB and GATT lately become WTO. As long as confidence prevailed in the United States commitment to the rules of Bretton Woods, before the Vietnam War and the likely translation of the internal deficit on foreign holder of dollar, the dollar remained a reliable substitute of a genuine World currency. However, such a double role enabled the United States to finance growing external deficits.

The dollar-gold standard up to the Camp David 15th August 1971 Nixons' announcement (Laffer, 2009) hang on in a confused endemic revolutionary and full of local wars. After the breakdown of the White mechanism, the dollar remained the single key currency in the world economy, although a rather unstable one. This is resulting from the fact that the dollar exchange rates have fluctuated much more strongly than the exchange rates of any other reserve after thirty years of fixed exchange rates.

The monetary policies dogma was opposed only by Lucas Robert (Lucas and Sargent, 1979) who always challenged the foundations of macroeconomic theory (previously dominated by the Keynesian economics approach), arguing that a macroeconomic model should be built as an aggregated version of microeconomic models, noting that aggregation in the theoretical sense may not be possible within a given model. He developed the "Lucas critique" of economic policymaking, which holds that relationships that appear to hold in the economy, such as an apparent relationship between inflation and unemployment, could change in response to changes in economic policy. That led to the development of new classical macroeconomics and the drive towards microeconomic foundations for macroeconomic theory, after the Thatcherism rediscovered the inconsistencies of both Taylor and Philips curves. Several Countries found themselves in hard austerity monetary defaults, with irrevocable foreign exchange collapses and unbearable financial crisis, at present implying the troika measures to ameliorate the damage incurred by the recession and austerity connected. (Blyth, 2013)

Legal tender monetary basis, a short time remedy, with long term present potential disruptions

The former Goldman Sachs financial conglomerate CEO plays an important role in the evolution of the 2006 subprime crisis, as it survived, with selected financial entities through Government cooperation, the TARP (Troubled Assets Recovery Plans) as Hank Paulson, former CEO of Goldman, appointed in 2006 to become the nation's next secretary of the Treasury. After a long experience in China, to design the new free market lines, knowing that his move from Wall Street to Washington would be daunting and challenging, he was trusted in the new likely scenery as a geopolitical expert as well. The strict cooperation in both experiences assured he would have been able to perform properly, within major institutions, literally teetered at the edge of collapse, at the center of the most cataclysmic financial crisis since the Great Depression.

Henry M. Paulson Jr., alias Hank, was called he faced the situation with Ben Bernanke, Timothy Geithner, Sheila Bair Chair of the U.S. Federal Deposit Insurance Corporation (FDIC), Nancy Pelosi, Barney Frank chairman of the: House Financial Services Committee (HFSC), presidential candidates Barack Obama and John McCain and then-President George W. Bush. The TARP solution and the Automotive, Insurance and other industrial sectors intervention was a monetary alternative to a Nation's Chapter 11 alternative.

The '90s are the financial revolution period, the Glass Stegall 1933 Act is cleared of the separation between commercial banks and investment banks in removing the banks' limits to assume financial asset and activities linked to the capital markets on their own account. The division between commercial and investment banks becomes an operating rule, the interstate banking is practically a general rule and interest rates may be paid to money deposits after the abolition of the Q' Regulation. Savings and Loans banks, equally generally removed over the Planet: from the U.K Building Societies, to Japanese Saving Banks, to Europe and the US as a rule.

LTCM (Long Term Capital Management) as hedge fund, was founded in 1994 by John Meriwether, the former vice-chairman and head of bond trading at Salomon Brothers. Board of directors members included Myron Scholes and Robert C. Merton. They shared the 1997 Nobel Memorial Prize in Economic Sciences, for a "new method to determine the value of derivatives". Initially successful with annualized returns of over 40% (after fees) in its first years, in 1998 it lost $4.6 billion in less than four months following the same year Russian financial crisis, requiring financial intervention by the Federal Reserve Bank, and the fund closed in early 2000.

The Modernization Act, signed into law by President Bill Clinton in November 1999, rejected large parts of the Glass-Steagall Act, which had separated commercial and investment banking, since 1933. This led to the creation of financial holding companies, over which the Fed was granted new supervisory powers. Removes investment operation from commercial banks and, starting with the first 1987 bubble, up to the dot.com debacle and the Enron emblematic international collapse.

The 2006-2008 period is the worst financial framework in the US economy, the Hamilton project and the Brooking Institute, developed all their influence under the leadership of Clinton, Robert E. Rubin, Goldman's cochairman for 26 years, was appointed as Director of the White House National Economic Council. In 1993 Rubin had moved from his position at the top of Wall Street, as cochairman at Goldman Sachs, to serve as the first head of the National Economic Council, which Bill Clinton had called into existence as a counterpart to the National Security Council.

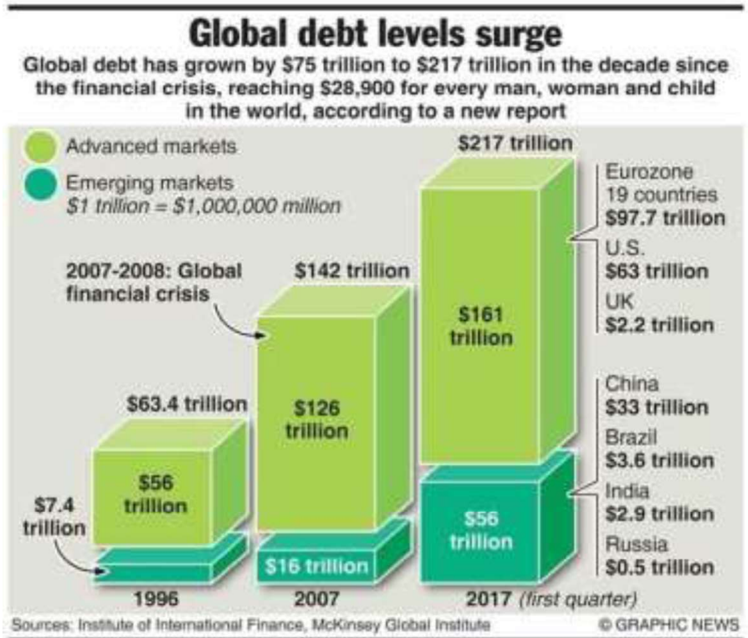
Lawrence H. Summers senior U.S. Treasury Department official throughout President Clinton's administration, ultimately Treasury Secretary, 1999–2001 Rubin's number two, the mastermind of the "Committee to Save the World," not forgetting the social policy envisaged also by Peter R. Orszag, started the Hamilton project. The goal considered: "*Currently the vast majority of tax incentives operate through deductions or exclusions, which link the size of the tax preference to a household's marginal tax bracket, Higher-income taxpayers, who are in higher marginal tax brackets, thus receive larger incentives than lower-income taxpayers.*" (Orszag and Batchelder and Goldberg, 2006: 3) under the dollar man Alan Greenspan, who was an ultimate monetary policy supporter, before the dot.com 2000 crash.

Considering that, the dollar is the fundamental currency in the global economy:

- since the oil standard the price of the energy market is mostly expressed in dollars,
- the Margaret Thatcher's London big bang, bringing Worldwide online the dollar currency reduced to the dollar and to the English language the World Finances,
- the dollar represents the "vehicle currency" in the super national foreign exchange market, insensible to the fixed or floating exchange rates,

the dollar has actually become the global effective currency, allowing to the USA the largest ever imaginable perennial external liabilities conceivable, financing therefore an immense internal public deficit out of any imagination, at present 30 trillion dollars.

Figure 3: Global monetary debt

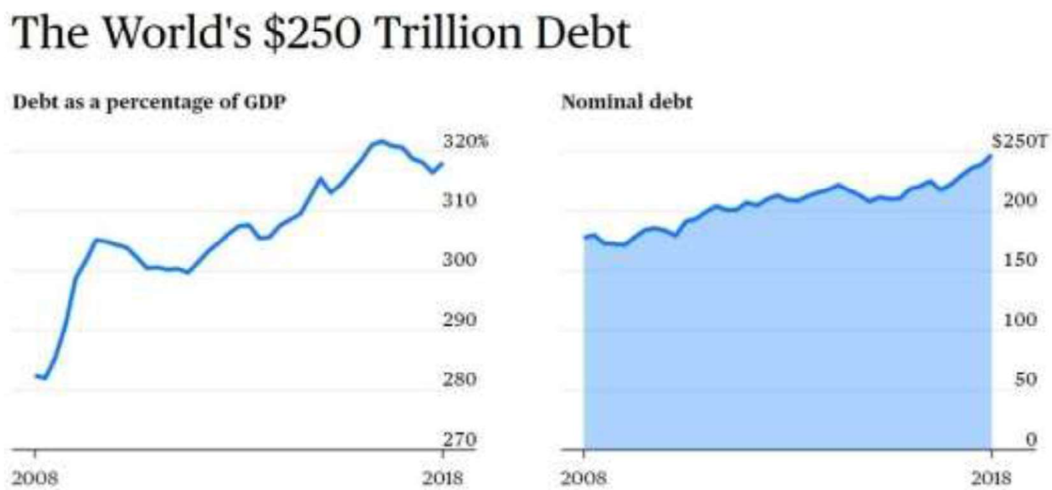


In this framework the gold debasement of the dollar, as expressed by Nixon using the word "temporarily" on the 15 August 1971, has become a constant hinge of the World monetary variable exchange rates unforeseeable future. The peripheral foreign trade unbalances, the financial market euphony and depressions have ultimately become a huge US disequilibrium in revenues and expenses shown in the national budget and general financial condition, supported by the improper legal tender, "*de facto*" existing at the center of the World financial market. There is no chance to have a "*Stop the Exchequer*" and "*Glorious Revolution*" to balance the US state of accounts out of control, both internal and external.

Based on information related to the U.K. Stop of Exchequer, 1672, this proposition calculates the current yields of sovereign debt and examines the effect of the coming Glorious Revolution on the government's credibility. The results show that even though the real interest payment had not been paid for years, when the U.K. Parliament authorized the resumption of payment, the current yields fell not only below the level when the interest payment was made by Charles II, but quickly converged to the rates of return of alternative investment. The movement of current yields supports that the constitutional remedy of 1689 did enhance the government's credibility.

The Glorious Revolution or Revolution of 1688, is the name commonly used for the deposition of James II and VII, king of England, Scotland and Ireland, and his replacement by his daughter Mary II and her husband, William III of Orange, stadtholder and de facto ruler of the Dutch Republic. The term was first used by John Hampden in late 1689; debate continues among historians as to whether it should be considered an internal coup d'état or a Dutch invasion but in any way it imposes the constitutional prescription of previous coverage of all the public expenditures.

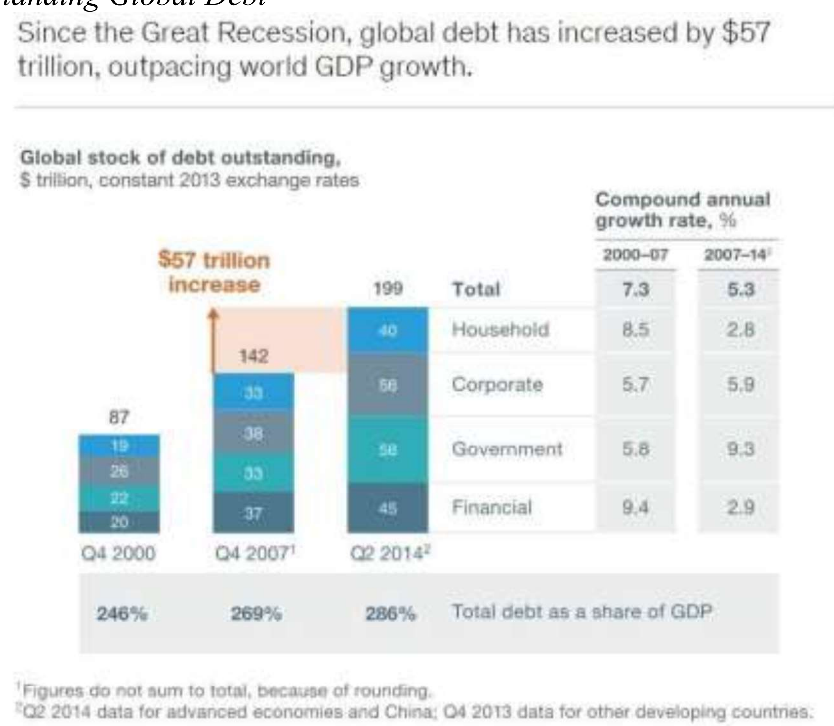
Figure 4: Global monetary debt



Source: https://www.bloomberg.com/graphics/2018-lehman-debt/

The idea to keep on the long run a single currency as the World's unique actual monetary unit requires a prominent role of the issuer Country that was the case at the end of the eighties. The reshuffle of the public monies is easier out of the gold standard and especially out of any unlikely monetary basis.

Figure 5: Outstanding Global Debt



Source: BIS, Haver Analytics

After the financial collapse surfaced at the beginning of the First World War, because of the belligerents' free debased paper money huge potential, aimed to cover by mean of fiat money the excessive military expenses, the system was reestablished. The International Conference in Genoa in 1922 opened a Pandora vase, after the roaring years twenty, the monetary unlimited issues, the 1929 first sudden financially inflated collapse.

The consequent WW2 bailout of GB, in July 1944 in Bretton Woods, produced a gold-dollar first and then a residual oil standard, supporting base to the dollar, as a unique left international liquidity instrument. The US dollar became the single world currency, and the fiat money present FED debt went up to 30 trillion US$; the problem of a new economic order is again stringent on a regional, if not global base and within the EU imbalances particularly. The globalization on the stage, without a global not artificial money, is a source of potential endemic conflicts, as it is happening now.

Conclusions

As Robert Triffin and Jacques Rueff used to point out "*Money will decide the fate of mankind*" (Rueff, 1964: IVX), the dollar dilemma was always present in the international commercial and financial relationship, since the foundation of the IMF-WB-WTO organizations. The external peripheral crisis started to regularly close around the source of the center, were the problem was started: the disequilibrium in the US external and internal debt, when its coverage was deliberately and too longline covered with the international monetary functions of the dollar.

"*As a basic preliminary statement, I want to recollect an article of mine that was published in the Italian banking Review Banche and Banchieri, number five year 1998, just some days before the Euro parities were finally fixed and disclosed. The title of that article was "The single currency: fall-out hypothesis." The issue I then expressed was that the currency substantial base has not yet currently been devised, neither through the special drawing rights nor through the ecu issuing efforts. The Eurodollar had been the only surviving currency during the twentieth century that means all the dollar assets located outside the American banking system both in Europe and elsewhere.*" (Pines, 2001: 334).

The oil standard, linked to the commodity with a material consistency comparable to the gold function, limiting the monetary basis expansion, actually limited the public expenditure and granted holders a stable consistent value. It was a substitute of the Bretton Woods effects up to the loose of faith in the state of mind general common belief that the dollar value was supported by a stable purchasing power, which was the case of the interest rate balancing the inflation expectative. As long as the euro-dollar market was under control and the cold-war was excluding any alternative and the COMECON unsettled balances were traded at a substantial discount the mechanism worked.

Commerce and manufactures, in short, can seldom in flourish in any state in which there is not a certain degree of confidence in the justice of government. The same confidence, which disposes great merchants and manufacturers, upon ordinary occasions, to trust their property to the protection of a particular government; disposes them, upon extraordinary occasions, to trust that government with the use of their property. The first Stockholm's Bank, first bailed out bank in modern banking history, from the Florentine Medici's, operating as a structured European franchising banking body, based on the draft and foreign exchange trade. The Dutch Wisselbank, the Bank of Amsterdam *Amsterdamsche Wisselbank*, literally "*Exchange Bank of Amsterdam*", an early bank, in the city of Amsterdam, and established in 1609, started to insert in its activities the payment system by direct debit. The Swedish Bank Riksbank started the lending activity in a partial reserve coverage activating a first clearing coverage necessity, which is a nucleus of a Central Bank.

At present, from the dissolution of the Gold Exchange Standard, through the fifty years of monetary extinctions, restructurings and inflation-deflation, *quantitative easing* and expanding financial stability functions, the Central Banks' system comes under scrutiny in an open discussion. The issue involves the economic systems, the industrial and commercial systems, after a complete set of capitalistic, central planning and mixed public and private structural assets systems.

Banks are essential tools to any form of economic organizations. Central Banks are necessarily clearing accounting centers in planned economies or temporarily holder of stable defined value to be protected in a choice between monetary bailing functions, or monetary stability protectors, in no case could Central Banks become, both at the same time, monetary stability tutors and financial instability resolutions authorities.

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