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PRESENT BANKING AND MONETARY ISSUES IN THE ECONOMIC INTEGRATION PROCESSES

ABSTRACT

In the aftermath of the efforts to re-establish the gold standard, after the first quantitative paper money destructive expansion during the First World War, the legal tender was the only alternative to a commodity intrinsic value currency. After the second world war, the White plan brought the gold exchange standard, on which basis most of the Western industrial machine and cities were rebuilt, after the war disaster The present financial crisis starts with the gold repudiation announced by President Nixon on the fifteenth August 1971, which has triggered a chain of progressive unresolved continual monetary turbulences mostly linked to the legal tender of paper money uncontrolled expansion.

In the long run we are all dead, used to say Sir. John Maynard Keynes¹, but he was not foreseeing such a growing sovereign debt burden, as the modern one. “This long run is a misleading guide to current affairs. In the long run we are all dead. Economists set themselves too easy, too useless a task if in tempestuous seasons”² (Keynes, 1923)

The economic and political integration on the agenda, must face the inherited monetary asymmetries in a new perspective, not being applicable any fiscal or monetary policy, or general rescue plan on a global basis, as long the welfare social costs asymmetries, the role, duties, responsibilities and costs of all the public frameworks as indirect costs affecting the industrial and services production and consumption, are not clearly defined, understood and addressed.

Key words: financial crisis, banks, GDP growth, deficit spending, sovereign debt

JEL classification: G210

² Keynes, J.M. A Tract on Monetary Reform (1923) Ch. 3.
1. INTRODUCTION

Once upon a time, the young Mr. Alan Greenspan wrote, considering the monetary perspectives, towards the end of the Bretton Woods enduring gold-exchange standard in the '60, before arriving on the deck of the FED:

“An almost hysterical antagonism toward the gold standard is one issue which unites statists of all persuasions. They seem to sense - perhaps more clearly and subtly than many consistent defenders of laissez-faire - that gold and economic freedom are inseparable, that the gold standard is an instrument of laissez-faire and that each implies and requires the other”. (Greenspan, 1966)

In the aftermath of the efforts to re-establish the gold standard, after the first World war paper money destructive inflationary expansion, the unresolved deadlock in reintroducing the gold standard as requested at the Genoa conference by Sir Ralph George Hawtrey, lead to the unfortunate general adoption of the fiat money legal tender, as an alternative to the commodity money system as known trough the centuries. “Those metals seem originally to have been made use of for this purpose in rude bars, without any stamp or coinage. Thus we are told by Pliny (Plin. Hist Nat. lib. 33, cap. 3), upon the authority of Timaeus, an ancient historian, that, till the time of Servius Tullius, the Romans had no coined money, but made use of unstamped bars of copper, to purchase whatever they had occasion for. These rude bars, therefore, performed at this time the function of money” (Smith, 1991)

After the mishandled great depression, the adoption of tariffs trade controls, the confusing multilateral clearing systems, in 1944 the US undersecretary Mr. Harry Dexter White succeeded to foster a plan reinstalling the gold exchange standard, on which basis the western world was rebuilt after the nationalistic war disaster, in disagreement with John Maynard Keynes, the tough supporter of radical demonetization of gold.

2. THE PRESENT MONETARY ISSUE

The present financial crisis stems from the controversial choice: the gold repudiation announced by President Nixon on the fifteenth August 1971, and a consequent deficit spending option which started a set of relevant monetary continuous turbulences and sequence of inflation, bubbles and busts starting with oil and ending with the derivative crisis.

In the long run we are all dead, but in the short run some of us can’t get buried because of the credit crunch (Krugman, 2010), but he was not foreseeing such a growing sovereign debt burden as the one we are facing today, as stratified by general

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worldwide progressive Public Sector imbalances, casually designed and causing unreal markets prices and unjustifiable consumption levels. But this long run is the relevant present condition in current affairs, and saying, in the long run we are all dead, set economists themselves too easy, as it might justify an deficiency of long term actions in turbulent seasons. The economic and political integration on the agenda, must find solutions to the inherited monetary uncertainties since a very long time and in a new perspective, not being applicable either any fiscal or monetary policy or general rescue plan already experienced.

The contingent monetary policy, nowadays labelled TARP as quantitative easing, follows a chain of short term monetary attempts to re-establish trade imbalances and financial default, after the last gold standard demise, as final decision of the gold committee chaired by Donald Regan in 1982. From the IMF special drawing rights, to the ecu and finally to the euro implementation, collateral effects as the oil price increases on one side and the skyrocketing gold price on the other, have seen growing trade imbalances and a general series of local currency collapses after the '70 two digits inflation.

From Argentina to Russia, starting with the US S&L crisis in 1980, the Japanese banking crisis in both 1990 and December 1994, the Mexico - Tequila Crisis in early 1995, then Argentina, Brazil, the Philippines, Poland, in 1997 Thailand, Indonesia and Malaysia in October 1997, Korea in August 1998, while Russia declared a debt moratorium in January 1999, meanwhile Brazil has suffered an exchange rate crisis, up to the present euro debate affecting Greece and Ireland, Spain and Portugal in the ecu area.

The quantitative easing monetary policy, with negative real interest rates and unprecedented large money supply, endorsed by Alan Greenspan since the year 1987, have only blow up a set of market bubbles from the dot.com technology companies collapse in the year 1999, to the sub-prime experience of 2007 and the derivative collapse of 2008.

Only the easing of some asymmetries in the global markets production costs and a sound monetary unit, could have reduced the general reallocation of the world production in the Eastern hemisphere of the planet, in a booming economy: the GDP of year 2002 was 32 trillion in US currency, now it has reached 80 trillion on the overall global basis.

In theory, quantitative easing endows the Fed with awesome power. It could buy up every U.S. bond in existence. Yet, in practice, this is to empower of central banking, taking the Fed into strange new worlds with unknown consequences.

One of the major risks of this strategy is that it could cast doubt on the Fed's political independence. When the Fed buys government bonds, it lends money to the

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government. This is called monetizing the debt. Even though the Fed wasn't forced by politicians to buy the bonds, some experts do worry that this is how the government eventually copes with the national debt: by making the Fed buy it. That won't happen as long as politicians respect the Fed's independence, which George W. Bush, Barack Obama, and even Congress, despite rumblings to the contrary, have so far done.

The second unknown effect is whether printing all that money will restart inflation. Monetarists who see a tight link between all those extra reserves and inflation certainly think so. But they're probably wrong as long as those reserves don't cause inflation because they aren't lent and spent, apart from special large financial market bubbles.

But reserves do pose a more technical problem. To raise the Federal Funds rate, the Fed ordinarily uses open market operations to reduce the supply of reserves. That's easy in normal times, when banks don't have much reserves, but harder when they have $1 trillion, which they will lend for next to nothing even if the Federal Funds rate target is 2 percent.

3. **KEYNESIANISM AND ITS EFFECT ON THE PRESENT CRISIS**

Gregory Mankiw, Harvard Economist and former chair of Bush’s Council of Economic Advisers, agrees that: “If you are going to turn to only one economist to understand the problems facing the economy, there is little doubt that the economist would be John Maynard Keynes. Although Keynes died more than a half-century ago, his diagnosis of recession and depression remains the foundation of modern macroeconomics” (Mankiw, 2008).6

Regarding the first point, there is no successful example of Keynesian applied economics principles apart from the Germany recovery after the First World War, when actually the theory was still shaping itself in the Keynesian studies and the General Theory had not yet seen the light. It didn’t work for Hoover and Roosevelt in the 1930s. It didn’t work for Japan in the 1990s. It didn’t work for Bush in 2001 or Obama’s 2008, and it has not been working for several historical reasons now surfacing at large in the scientific community.

The reason is that Keynesian economics has been focused on the transformation of saving into consumption. But a recession or depression exists when national income is falling, public spending patterns in a generally falling income has never shown any tangible result in adjusting the undesired trend.

Some Keynesians who supported Barack Obama’s $862 billion stimulus, on the trail of Henry Paulson TARP spending program, now claim it fell short of their goals not because the idea was flawed, but because the spending package was too small. Christina Romer, the departing member of Obama’s Council of Economic Advisers, coming from UC Berkeley, who was appointed to chair the Council of Economic

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Advisers, has become a minor cult hero through the Keynesians, thanks to news reports that said her analysis in 2009 suggested the stimulus should be in the range of $1.2 trillion, or 40 percent larger than it turned out to be. The notion that a much-larger U.S. stimulus would have been more successful isn’t backed up by any evidence after the second TARP trance was issued against Treasury paper.

Maybe there would be an argument if some countries would now be booming because of larger packages stimulus, or if some previous administration had tried bigger stimulus with better luck. The fact is, the U.S. stimulus was the largest among members of the Organization for Economic Cooperation and Development, and the biggest ever tried in the U.S. history.

Nor does the academic literature support what we might call Not-Enough Keynesians. A 2002 study by the economists Richard Hemming, Selma Mahfouz and Axel Schimmelpfennig (Hemming et al., 2002) of recessions in 27 developed economies from 1971 to 1998 found that increased spending by government had, in almost all cases, a barely noticeable impact, and sometimes a negative one. The study found that heavily indebted countries grew about 0.5 percent less, relative to the general trend, than countries that didn’t. Supporters of this type of monetary stimulus are likely unfamiliar with the literature or willing to ignore it. The result is a policy that is harmful to our economies and inconsistent with modern economic science. As the economic data again are unsatisfactory, at least on a comparative basis, it will be much harder to devise successful economic policies because of the budgetary holes that the Keynesians have dug almost everywhere. In all likelihood, the data will soon be so convincingly bad that the debate will start again about the need for a new economic stimulus. Let’s hope that when that begins, all will finally concede that the ideas of John Maynard Keynes are as dead as the man himself, and that Keynesianism is the real wishful thinking economics of the twentieth century.

4. BANKING GOING GLOBAL

The enlargement of the markets and the tight connection of buyers and sellers of financial instruments in new financial centres around the world is mainly due to several factors:

- the expansion of the Eurocurrency markets in London since the 1960s;
- the fundamental changes in trading room technology in recent years, providing market makers with real time access to current market data on commodities and financial trading instruments mostly become trading platform run by computer networks;
- a trend of financial institutions to expand lending and other activities beyond national and regulatory boundaries; and

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• a desire to adjust balance sheet risk through diversification and other financial new
derivative products.

The growing use in international financial markets and related debt instruments, as
alternative to traditional bank lending, and sovereign governments debt, mainly
stemming from the lack of real bill credit opportunities and a shift from the industrial
and services financing to financial structured instrument meanwhile the far East
productions were climbing over Western markets shelves. Both commercial banks and
investment banks participated in this new products market. Outside the United States,
U.S. Commercial banks were not confined by Glass-Steagall Act limitations on
securities underwriting, and have always been active participants in the Eurobond
market but not affected by excessive liquidity.

Advances in Information Technology allowed traders to keep positions on a 24-hour
basis, and move their trading book to a different financial or continental centres on the
24 hours basis as the new commodity market ICE. This practice permits financial
institutions like investments funds or pension funds that make markets or trade in New
York, London and Tokyo, to maintain a single trading book.

5. FINANCIAL CRISIS AND REAL ECONOMY CRISIS, DIFFERENT
PERSPECTIVES AND PROFILE.

“The recent financial crisis demonstrates the importance of a global linkage between
the financial market, the financial system, and the real economy. The deterioration in
the U.S. subprime mortgage market impaired financial intermediaries. (FIs.) capital.
Combined with banking sector globalization, this led to the global malfunctioning of
the financial market and the financial system, which weakened world demand. Figures
1 and 2 demonstrate those recent global downturns. GDP and investment dropped
around 2007 not only in the United States but also in Japan and the euro area; in
particular, in Iceland and Ireland, we observe volatile changes in GDP and
investment.”(Kozo, 2010) Such a consideration referred to the year 2007, disregard
that, according to World Bank data, in the period 2000 – 2008 the World GDP has
shifted from US$32,00 billion to more than 60,58 billion showing an unexpected
growing trend on a global basis. Historically the World has never experienced such a
huge economic boom in such a short period of time. Since the first technological stock
market collapse in the year 1999, the dot.com NASDAQ bubble burst to the sub prime
crisis in the year 2007, when the real estate financing market was disrupted.

The largest growth is not at all related to any kind of monetary stimolous. During 2007,
the crisis caused panic in financial markets and encouraged investors to take their
money out of risky mortgage bonds and shaky equities and put it into commodities as
stores of value, to the final crazy derivative crisis in the year 2008, the economic
industrial boom in the East and far East hemisphere never ceased:

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8 Kozo Ueda, Banking Globalization and International Business Cycles, Discussion Paper No. 2010- E - 16
Bank Of Japan 2010.
this trend should never be confused with a global downturn or a global depression. The world has never seen such an impressive growth in the East during Western financial crisis years, such developments must be classified as economic asymmetries in an erratic global markets behaviour.

North American central banks had succeeded in stabilizing inflation and economic activity and now face new and difficult challenges, such as changes with the emerging of new economic imbalances, the risk of creating new bubbles through policy response after the bursting of each bubble, and the risk of involvement in tough fiscal policy through unconventional fiscal policy measures. Finally,

*Lets consider the Share of World GDP in the years 1969 – 2009*: 


Somewhat surprisingly, the Economic Research Service of the U.S. Department of Agriculture has some large international historical macroeconomic databases that reflect some particular not generally known details.9

These International Macroeconomic Data Set releases information since 1969 through 2010 for real (adjusted for inflation) gross domestic product (GDP), population, real

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9 <http://www.ers.usda.gov/Data/Macroeconomics/Data/HistoricalGDPShares Values.xls>
exchange rates, and other variables for the 190 countries and 34 regions that are most important for U.S. agricultural trade shows the annual shares of real world GDP for four geographical regions (European Union 15, Asia/Oceania, Latin America and the combined share of Africa and the Middle East).

Compared to the U.S. share of world GDP between 1969 and 2009 (data here above), what might be surprising is that the U.S. share of world GDP has been relatively steady for the last 40 years, and is actually slightly higher in 2009 (26.7%) that it was in 1975 (26.3%). It's also interesting that the EU15's share of world GDP has declined from about 36% of world output in 1969 to only 27% in 2009. Further, despite having a large share of the world's oil reserves, the Middle East's share of global output has increased from only 2.23% in 1969 to 3.16% in 2009 (graph shows Middle East combined with Africa). These data are a clear evidence that the financial chaos of the last decades has not affected the real economy on same level and with same morphology. Europe indeed suffered a low market and banking impact if considered to the USA but, on the other side suffered a 10% lost of the World’s GDP to the Eastern delocalization of most its production and is still on the same trail in loosing jobs and activities on a visible basis.

World GDP (real) doubled between 1969 and 1990, and has increased by another 60% since then, so that world output in 2009 is more than three times greater than in 1969. We might mistakenly assume that the significant economic growth over the last 40 years in China, India and Brazil has somehow come “at the expense of economic growth in the U.S. , based on the "fixed pie fallacy: “Most economic fallacies derive from the tendency to assume that there is a fixed pie, that one party can gain only at the expense of another”

but the data suggest otherwise. Because of advances in technology, innovation, and significant improvements in U.S. productivity, America's share of total world output has remained remarkably constant at a little more than 25%, despite the significant increases in output around the world, especially in Asia. Because of advances in technology, innovation, and significant improvements in U.S. productivity, America's share of total world output has remained remarkably constant at a little more than 25%, despite the significant increases in output around the world, especially in Asia.

The chart above represents about 91% of the world economy and does not include Canada and the European countries not included in the EU-15.

6. THE EUROPEAN SCENARIO

With regard to capital flows, we are living through a revolution in the degree to which capital is moving across-borders. In 2005, global cross border flows are estimated to have reached around $9 trillion, or almost a fifth of world GDP. Just a decade ago, these figures were around a quarter of the levels they now are. In addition, financial development has taken place outside the framework of the real economy and with a different geographical morphology. Between 1990 and 2005, the sum of equity market capitalization, outstanding bond issues, and bank assets rose from 81 percent of world GDP to 137 percent. And so, while the world was in the midst of a period of historically high and stable real growth, cross-border capital flows and financial assets have been expanding even faster, as countries invested in each other's economies to an ever greater degree than before.

![Market Capitalization as a % of nominal GDP (NYSE from 1925) plus (NASDAQ FROM 1985)](http://www.creditwritedowns.com/2010/07/stock-market-capitalization-exceeds-gdp.html)

This trend has been being driven by three dramatic changes: the rapid growth of assets under management of institutional investors; changes in asset choices, as home markets preferences have been declining; and the broadening of the global investor base, with an ever increasingly important role for the emerging market sector, central banks, and sovereign wealth funds, and on the other side, the increasing deplorable activity of idle funds attracted by ever growing hedge funds.
The globalization of financial markets has gone hand-in-hand with the globalization of institutional investors. Pension and mutual funds, asset managers and retail investors, are all increasingly diversifying their assets into foreign markets.

7. EUROPEAN PERSPECTIVE ON INTEGRATION AND GLOBALIZATION

From a European perspective, the increase in cross-border activities has become impressive, as Europe understood that integration was the right answer to globalization, and that integration could bring efficiency and stability. There has been a pronounced increase in cross-border financial flows in Europe. The ECB's report on financial integration shows that the European money markets and Euromid have become fully integrated, with government and corporate bond markets also achieving high degrees of integration. The share of cross-border holdings of long-term debt securities has more than doubled in the new Century, the use of cross-border collateral has doubled, the share of cross-border holdings of equity has almost doubled. These impressive figures stand in contrast to those of the banking system, where available indicators show slower progress and some regression in Europe, particularly for retail banking.

This is likely to have a negative joint impact on global financial stability. The increasing diversity of cross-border investors with differing investment behaviours’ and time horizons should contribute to a wider distribution of risk holdings and tolerance for volatility over the longer term but the real economy world is presenting new and never experienced frameworks, risks and fall-out effects.

From a commercial point of view, the trade and production have both shifted to the Far East as shown in the underlying table:
### Overall Traffic: first 20 ports (over 2 mil. teu)

<table>
<thead>
<tr>
<th>Geographic Area</th>
<th>Year 2002</th>
<th>Year 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asia</td>
<td>84,951,148</td>
<td>199,818,414</td>
</tr>
<tr>
<td>North Europe</td>
<td>22,448,422</td>
<td>27,514,279</td>
</tr>
<tr>
<td>North America</td>
<td>14,381,242</td>
<td>14,095,000</td>
</tr>
<tr>
<td>Middle East</td>
<td>4,194,264</td>
<td>11,600,000</td>
</tr>
<tr>
<td>Mediterranean</td>
<td>2,954,571</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>128,929,647</td>
<td>253,027,994</td>
</tr>
</tbody>
</table>

Source: www.ci-online.co.uk

### 8. IMPACT OF GLOBALIZATION OF MARKETS

The impact of larger cross-border flows through integrating financial markets has become relevant and noticeable. First, markets across the world jointly follow a common path much more than they did in the past as trading has become a 24 hours business. The bond and equity markets of Europe, Japan, and the North America move closely together. As the world's economies become more integrated through trade and investments, their financial markets react in similar ways to common developments and shocks.

The increasing volume of financial transactions in some segments of the market has been more and more chasing out on a narrower band of investment banks and consolidating payment and settlement platforms. They have been concentrating their transactions through a tight group of investment banks, who have been trading and hedging their positions heavily with one another, and settling their transactions on fewer exchanges and platforms. The latter consolidation can, in many ways, be a healthy development as it can result in a dramatic reduction in settlement and payment risk. However, this does mean that the global financial system has become even more reliant on the resilience of a few institutions and providers.

The innovation and shift in client risk management has increased, and has definitely affected the nature of banking itself as long as traditional activity has mostly shifted to the East. The growth of credit derivatives and securitization has brought new areas to banks to assume newer risks in the West. As consequence of the industrial realocation,
in the global scenario, the deficit spending has started a new role in affecting markets, values, prices and reconsidered the nature of money itself.

After the Bretton Woods collapse in 1971, a progressive stratification of national debts has qualified the economic policies of the Western World in a growing debt scenario annually increased trough massive public spending programs.

**Growth of United States National Debt over the past 50 years**

The ever growing monetary basis mass has blown up the total money in the system, from the Eurodollar to the euro rescue plans, within the final *quantitative easing* assumption that the Treasury Secretary Paulson TRAP plan would have restarted the financial institution, after their capital base erosion trough three consecutive bubble bursts events.

The major balance between the external and the internal deficit, has been assured to the United States thanks to the dollar international liquidity function and thanks to major local financial turmoil around the world which have reduced the chance of a substitute liquidity currency.

So what can be done to ensure that the risks are properly assessed so that any threats to financial stability in general are reduced, and the benefits of financial globalization widely shared? To answer this question, it would be better to start to investigate the specific role of the players involved in the global game to consider the specific roles and responsibilities that households, unions, financial institutions, banks and national authorities jointly share.

9. **INVESTORS AND HOUSEHOLDS.**

Many households have clearly benefited from radical changes as turn out in all financial markets and institutions and in the present *quantitative easing*, either through increased access to larger credit at lower cost, we are living in a *Keynesian zero rate environment*, or through a wider range of investment options. However, the outcome now is that risks are spread trough households with far fewer layers of intermediation to soft the impact in real market values, clearing off all the inflationary potentials on
general purchasing power and realized savings. In the past, adverse shocks were spread through intermediaries and financial institutions and so were mostly affecting larger shareholders individually, but now risks widely located are felt by most of the larger and minor households. Many countries with still generous pension plans supported by the public sector are generally restructuring most of the welfare infrastructure and are shifting market risk directly to the final beneficiaries. Also, higher education, health care costs and old age care is being reconsidered on a wide scale all through the planet, causing general unrest if not social turbulence in the poorest areas. At the same time, households are required to take final care of financial responsibility for their future living standards in an exploding growth of population, demand and world style qualifications.

Households and private investors were not financially equipped to understand and support the risks that have been transferred to them. Around the world, understanding and management of financial matters, have become, perhaps have always been too complex to be handed by investors not equipped to face the new global scenarios of present financial innovation.

Financial institutions have contributed to financial instability by increasing the sophistication of their financial products to match the growing expectations of new global players, to ensure that their actions do have a prevailing impact on other competitors in offering new financial products in new areas. Financial market joint actions agreed among regulations and controlling structures, on other side, have a responsibility to perform greater fair scrutiny on financial institutions, by promoting better risk management systems and disclosure practices, and double checking where such systems are not meeting the required standard by lowering geographical and operational operating areas. Overburdening banks and other institutions with costly new filing requirements, for both taxing and screening goals, can be self-defeating if it causes transactions to move to less heavily regulated entities that may be even less transparent. And when most of the industrial activity has been reallocated in the Eastern Countries, banks have chosen to follow their clients in the most profitable business linked to logistic, production and trading financing in the global activity, keeping most of the securities and derivative products as a residual local activity on the West hemisphere.

10. THE BANKS CRISIS AND THEIR CRITICAL MASS WITHIN THE GLOBAL MARKET

Turning now to national authorities and regulators, we see they need to have in place a regulatory and supervisory framework that ensures the relevant financial institutions, particularly banks, in their jurisdiction adequate management as outlined in the CAMEL\textsuperscript{11} principle, with verified adequate capital reserves and efficient risk

\textsuperscript{11} CAMEL refers to the five components of a bank's condition that are assessed: Capital adequacy, Asset quality, Management, Earnings, and Liquidity. (A sixth component reflecting a bank's sensitivity to market risk was added in 1997). <http://www.frbsf.org/econrsrch/wklyltr/wklyltr99/el99-07.html# subhead1>
monitoring. Supervisors have a responsibility to ensure that the information they provide and the information requested are sufficient for free market relations. Supervisors must also ensure that crisis management and resolution procedures are adequate and observed. And third, national authorities have a responsibility to consider the international implications of their actions and the interactions that can arise from institutions within their own jurisdiction. These cross-border mutual relations of different national policies are becoming more relevant as the globalization proceeds. This requires all the parties to pay more attention to international relations, considering that the economic equilibrium of modern banks relies on an ever growing dimension pursuing the minimum critical size, where the hypothesis of maintaining an acceptable profitability as financial, economic and net equity balance, may be described as follows, considering the weighted average interest rates both active and passive including the opportunity costs of the liquidity and when

\[
S' \times \Delta D > | - \Delta S \times D |
\]

\[
S = \text{original interest rates spread;}
\]

\[
- \Delta S = \text{reduction of the interest rates spread;}
\]

\[
S' = S - \Delta S, \text{ spread after a reduction of active rates and a rising of passive rates;}
\]

When the reduction in the spread between weighted average interest rates \(\Delta S\) produces a reduction in the absolute value of the gross typical operating income

\[
| - \Delta S \times D |
\]

as referred to the volumes existing, before a policy of acquisition of marginal deposits is implemented, pursuing a marginal quantity of deposits \(\Delta D\), which is lower of the positive gain as \(S' \times \Delta D\), whenever the reduced spread offsets the loss of gross profit with a larger operating volume

\[
+ \Delta RA \times VA \times ia' = (\Delta RP - \Delta Rn) \times VA \times ia' \quad \text{higher active interests}
\]

\[
- RA \times VA \times (ia-ia') = (RP-Rn) \times VA \times (ia-ia') \quad \text{higher active interests}
\]

\[
\Delta RP \times VA \times ip' \quad \text{higher passive interests}
\]

\[
RP \times VA \times (ip'-ip) \quad \text{higher passive interests}
\]

\[
\Delta RP \times VA \times (ia'-ia') - \Delta Rn \times VA \times ia' \quad \text{higher active interests}
\]

\[
RP \times VA \times (ia-ia') - Rn \times VA \times (ia-ia') \quad \text{lower active interests}
\]

\[
\Delta RP \times VA \times (ia' - ip') - RP \times VA \times (ia - ip) + RP \times VA \times (ia' - ip') - Rn \times VA \times ia' - \Delta Rn \times VA \times ia + Rn \times VA \times ia > 0
\]

\[
\Delta R \times VA \times [\delta'i] - RP \times VA \times [\delta'i] + RP \times VA \times [\delta'i] - Rn \times VA \times ia' - \Delta Rn \times VA \times ia' + Rn \times VA \times ia > 0
\]

\[
\Delta D \times [\delta'i] \geq [\delta'i - \delta i] \times D
\]
\( \DeltaRP \) represents the fiduciary mass or critical marginal amount of deposits to be acquired in order to maintain satisfactory growing conditions in the dynamic evolving monetary environment.

11. ROLE AND BANKS IN THE EUROPEAN CONTEXT

In the European context, the concern of public authorities to control the international fall-out of banks activities and products is particularly rigorous. The progressive integration of European financial markets and the growing complexity of cross-border banking relations, require that joined supervisory cooperation, crisis management, and regulation procedures need to be further fine tuned. At same time, the European Union has several instruments and tools at hand, including directives, committees, and coordinating mechanisms with joint monitoring controllers, the ECB and the national Central banks.

About the financial crisis issue there are key areas where the European supervisory framework can be strengthened further to help mitigate the risks induced by deeper integration of financial markets. The need to exploit the maximum potential for cooperation among different national supervisors, in order to minimize regulatory overlapping, and to ensure fair competition across borders, while containing the supervisory burden may pose a further cooperation goal. This can be pursued by strengthening the original Lamfalussy\(^{12}\) first process, and broadening the national supervisors mandates to reconsider the European implications.\(^{13}\) The second key area of reform of the European financial framework is the need to move to a more predictable and rule-based system for efficient remedial procedures, which seem not to be deferrable. This would strengthen confidence among member countries that cross-border operations are carried out effectively and in a fair context without predatory procedures or transferring huge amounts of funds over the borders, a kind of Community protection Act as implemented in the USA.

12. CONCLUSION

"Annual income twenty pounds, annual expenditure 19 pounds 19 shillings and six pence, result happiness. Annual income 20 pounds, annual expenditure 20 pounds and six pence, result misery," said Charles Dickens' Wilkins Micawber in the novel David Copperfield.

If such a statement is true for a single person, family or association, why the old Micawber statement should not be true for a whole Nation? Why can we believe that


\(^{13}\) European Banking Authorities: European Insurance and Occupational Pensions Authority, European Securities and Markets Authority, European Systemic Risk Board
printing money and spending not existing richness would bring happiness and welfare? After the collapse of money creation with declared IMF parities through the White plan as agreed in Bretton Woods, after the promotion of Central Banks Keynesian attitude, the quantitative easing is the last resort, why should the market and all the transactions be based on true fair values and not corrupted by the money offer swollen out of thin air, paper or toner ink of the issuing print machine?

This is the first side of the present crisis, the second stems out free market forces active on the China and Eastern countries, and the huge paperwork and indirect costs associated to a welfare system based on huge taxation and indirect production costs in the West.

The two effects can easily explain and justify the bubble explosions in the first decade of this century and the outsourcing of most of the industrial production out of the Chinese land, and its Asiatic neighbours putting the Western economies in the progressive depression likely to erupt in repression and revolt of the masses, all through the sophisticated western industrial States.

In this picture the size, capital and structures of our banks play a minor role linked to some time adjustments of financial events that are already deeply rooted in our recent economic endorse political social story.

Although economists have consistently stressed the overall gains from international trade, and in recent years have stressed the measurement of those gains, the debate over trade policy is a never ending one. When it comes to free trade, as Adam Smith once stated, "Not only the prejudices of the public, but what is much more unconquerable, the private interests of many individuals, irresistibly oppose it." (Smith, 1991:222)

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