

The Lasting Resilience of a Principle That Seems Stainless

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Abstract

The hope or the illusion that economic science has the tools to ensure a growth path for the economic development of states and continents, seem to have entered a grey area. Not only and not so much for the today's uncertainties, market anomalies and development asynchrony. But above all for the unsolved issues raised by the monetary and fiscal policy, which allowed to mitigate the downward pressure of the 2008-2010 financial crisis, though not without a price to pay. On the other hand, some concerns are raised by the fact that ten years after the serious crisis we are still dealing with the unsolved issue of a too low inflation. The imminent danger is that the economy instability has not been removed, also because of the support interventions of the monetary and fiscal policy. The risk of a new speculative event and recurrent financial crises could therefore hit again the global economy. Unfortunately, this hypothesis isn't such a remote risk. The unrelenting development of public and private indebtedness at a global level is regrettably a warning about the economy world, which is chasing an incongruous relationship between weak growth and excess credit. Thus, a sort of debt trap is envisaged, according to which the continuation of the weakening development is linked to the unlimited growth of credit. In other words, we are in the resumption anteroom of the paradigm speculation-financial crisis. An evolution that we can interpret as the humanity continuous attempt to live beyond the available natural resources, which are not unlimited and should be preserved for the future generations. Since there is the risk to renew the speculation-crisis paradigm, it would be better to reflect about the recession and the conjuncture cycle, which are not always enemies. Instead, they have the objective of rebalancing the unstable economy to bring it back in the stability area and within the linear economy growth, far from the conjuncture cycle. Denial can be painful. Unfortunately, the alternative is a potential laissez-faire of the unstable development that can start new speculative crises to correct the instability, yet with highly serious social repercussions.

Keywords: Instability; speculative event; global indebtedness; recurrent crisis; linear development

JEL classification: O18, O31, O38

Introduction

The believe that the economic systems are designed for a continuous development is stainless. Therefore, a break in this long-term project can be considered as just an anomaly that we can correct. Based on this supposed axiom, it follows that an economic system going into recession is sick, yes, but can be recovered. According to this emphatic thought, science should have the tools to restore the strength of the exhausted body and mechanisms of the economy. This presumed certainty is maybe based on the long course of the human history marked by the great progress of science and technology, allowed by the improved economic and social conditions.

There is no doubt that humanity follows in the long run a development line according to the science progress. But the attempt to overturn this absolute certainty, relying on deadlines relating only to a few years, it's at best misguided. As it's equally risky to claim that we have the tools to address in the best way the economic system entered into a grey area.

Specifically, we are facing a series of buttons for which we presume to know the results by pressing one or the other. Nevertheless, we often fail the goal. Yet, we remain convinced that through the economic science we can successfully ride the conjuncture wave. The same wave that trouble the government's ship in search of the good weather to maintain its power. Thus, the economic situation wave is favorable to

the current governments if the trend is growing, while a bad wind is blowing against the political power if the trend is decreasing.

This simplification is based on the opaque side about the issue of equilibrium and stability inside an economic system. A simplification due to the simple reason that the criterion of the economy raw growth is certainly not the only reason leading the community to prefer the leadership of a given political group. More reasonable seems therefore to look at the issue of social welfare and equal distribution of wealth and income. On the other hand, the communities seem to choose sometimes the rotation criterion in the selection of the leading groups.

Notwithstanding, even more important is to underline that the same idea of being able to ride the conjuncture wave is an abuse against the community of the governed citizens. In fact, the thesis that the economic system travels toward an evolution future not only is confirmed by the history of scientific and technical progress, which drags the economic process. But it's finding a final supporting proof when we say that the balanced economy scenario grows according to a straight line, without any cyclical alteration.

The economic cycle is the economic system disease that has strayed from the compatibility path with the environment that sustains the life. It comes out in the economic scenario to correct the unstable system and to return the altered system on the road of compatibility. It is therefore a correction mechanism of instabilities through the cyclical recession,

understood as a pause of the altered system in order to eliminate the errors that pushed the economy to fall into the instability sub-world.

Is it reasonable then, or just acceptable, to fight the symptom and not instead to find out the cause that brought the system to the disease? This simple question seems to have an almost obvious answer. Nevertheless, it happens that in economics this answer is not so obvious at all. Because often not only the governments most exposed to the mood of communities, but incredibly even (sometimes, at least) the Central Banks seem uncertain about which way the economy wind is blowing and, therefore, they look at the symptom.

Excessive Debt, Implicit and Explicit Symptoms in the Economic System

From the point of view of the common man: It shouldn't be so surprising that the man next door is informed about the economy facts. Only based on this certainty, that the community is informed and able to make the appropriate choices, is built the idea of the democracy primacy. We cannot ignore that the economic activity is the synthesis of every desire, intuition, and volition of individuals and collectivities. And therefore, these collective intuitions are deciding whether it's time to consume, to invest or to slow down the pace. It is therefore completely reasonable that the excess of public and private debt would become a collective concern which, therefore, is the cause of economic and price weakness.

The case of Italy is emblematic. The long history of Italian public debt from over twenty years is pressing with its excesses on the community feelings, pushing down Inflation and GDP. Despite the many years' evidence, unfortunately the political establishments that succeeded to power have anyway tempted the fate with fiscal support, therefore with debt increase. And this for the irrepressible desire to fascinate the masses by new provisions of public spending. The result of this unreasonable recurrence is the continued public debt rise in Italy and the GDP decadence, followed by the chronic price weakness.

It's this precedent that fascinates governments that are often weak and provided with a random consensus. Their hope is that the formula replicated through somehow similar rules with a welfare character, can be appreciated by the community again and again; but unfortunately, the public debt increase has also the ungrateful consequence of reducing the resources of the lower classes, while increases instead the income of the rich people. The increase of social imbalances, in the case of Italy and elsewhere, was accentuated by the 2008-2012 financial crisis, which acted as a sump pump, cutting the income of the poor, left without work, and increasing the income of the richest groups.

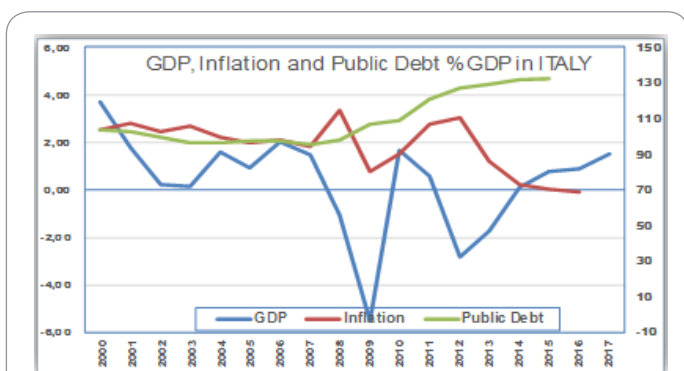


Figure 1: GDP, Inflation and Public Debt % GDP in Italy 2000-2017.

- Elaboration on OECD Data.

In this social crisis due to the income increasing gaps in households, the proposals that occurred over the last decade aimed to restore the income of the growing poor, giving an unfounded hope to the community. The hope not only to alleviate the troubles of families at the margins but also to give some breath to the congenital weakness of the economy cycle in the *Belpaese* (*Beautiful country*). This renewed hope to reduce the wealth gap, is the flywheel that, quite probably, has urged the community to give its vote to different parties over time, but always bearers of welfare formulas.

Repeated attempts to revive the economy exhausted by excessive debt did not give the expected results. Indeed, they are endlessly prolonging the cycle and price chronic slow and certainly didn't improve social equality. Instead, inequality increases seriously, precisely because the public debt rise under the pressure of excess public spending, is the mechanism widening the spread income in favor of the wealthy classes.

The engine of public debt increase is therefore the persistent dependence of the community or at least of its impoverished part on renewed requests for welfare measures to alleviate poverty. With no results, anyway. The objectives pursued by the leadership to search the vote through aid promises proved to be unfounded, as well shown by the increasingly discordant social distribution (Figures 1 and 2). A sort of community drift which certainly does not absolve the leaderships succeeded to the management of public affairs. To reach a wide consensus these groups followed the social desire for assistance, despite the awareness that the results would be unsatisfactory, precisely in the field of social relations.

It was noticed certainly that after a brief success, in practice the program of mere assistance does not reach its goal neither to increase GDP and employment nor to raise up the tired price profile. The consequences are obvious. Over a decade, at least four governments succeeded to power, and all have been punished with a serious loss of consensus.

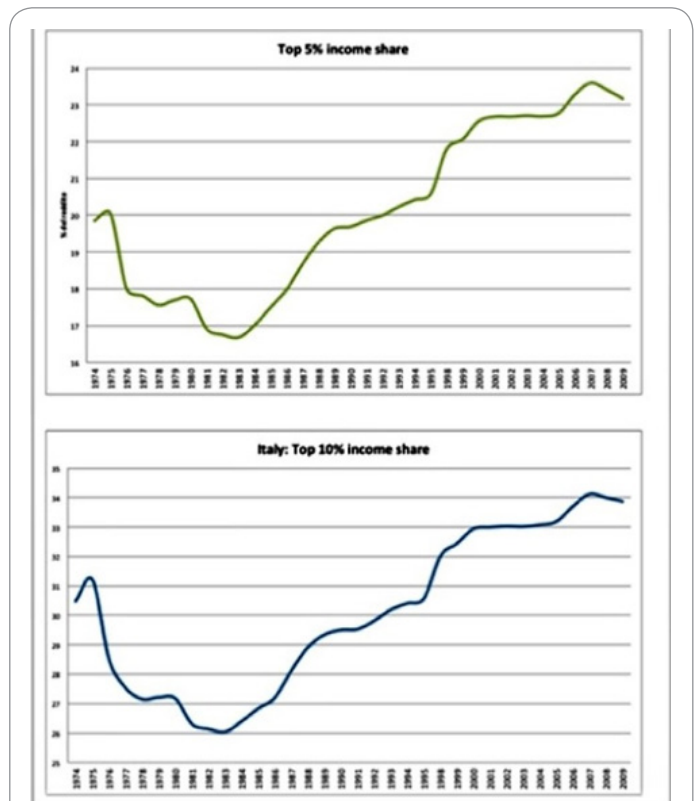


Figure 2: Top income share in Italy (1974-2009).

Source for all the graphs: Alvaredo, Facundo and Pisano (2010).

The most dangerous fact is the perseverance of the political classes that one after the other have pursued the same cliché, always at the end rejected by the community and always presented again with just some modest variable. It's always repeated because the proposal of new donations follows the collective drift created by the unsurpassed poverty increase. However, they are useless to maintain the consensus because the evaluation then given of the results is based on the job increase, on the unemployment size, finally on the reduction of social gap which instead remains unsustainable.

The problem of the excessive public and private debt: The peculiar relationship with the popular drift prone to the welfares has been repeated over time only due to the presence of political groups intrinsically weak and, therefore, prone to adopt the simple rule to follow the social concerns. And this became true and was repeated with the worsening of social tensions, due to the growing gap in income and wealth.

The improper relationship between social drift and weak political groups is destined to expire, because the search for welfare is seen as just a transitory phase, waiting for a real job that would give back their dignity to the popular classes. It follows that the breakup of this improper relationship between social hatred and weak governments is realized when a leader or a political group would appear, finally focusing again on the issues of work, dignity, social well-being and fair redistribution.

In fact, a possible recourse to the additional deficit in the case of high indebtedness is acceptable (with reserve) only on condition that all the resources would be reserved to the creation of new jobs. We should consider, on the other hand, that experience shows that the economic systems have a great elasticity, before to be finally submitted to the pressure of excess debt. I mean that even strong exposures on the debt front may not generate the well known tensions on the economic and price side.

In general, the economic and social tensions would occur when the debt ratio in relation to GDP exceeds 90-100%. Unusually, under this measure the downward ripples of prices and economic situation are not felt, while the options offered by Keynesian measures may have the desired effects. Thus, in the case of a sudden breakthrough in the economic cycle, the support offered by additional expenditure in deficit shows to be able to curb the economic downturn and over time allows to anticipate the timing of the return to recovery, even if weak.

As I said, we are facing a flexibility of the economic systems that seem to tolerate the deviation of their course from the stability track. Stability considered as a relationship between the course of economy in single systems or at a global level, and the slower evolution of natural systems and, in particular, of the environment that allows life. As saying that stability is a necessary objective of the global system, but the relationship between economy and environment is linked by a paradigm endowed with an elasticity that could be narrowed.

Not only and not so much for the consequences that the gap between the two routes can cause to our planet. Humanity seems to finally be aware about the importance of our natural system's health. A higher awareness promoted by the science and technological revolution that can narrow the gap between the paths followed by the economy and the environment. In particular, the transition from the so-called fire energy to the renewable energies is destined over time to bring the human development motion closer to that of the planet in which we are living.

Then we should consider that the flexibility shown by the recurring use of deficit to finance the economy in crisis, is essentially an aspect of the natural tolerance. Therefore, the excessive indebtedness, public or private, is essentially an evident deviation from the natural order that wants to maintain the stability of the economic systems over time. It is

the symptom of our attempt to live beyond the available resources and to force the status quo, especially when the system is requiring a pause to rebalance the tensions generated by errors made by weak rulers and uncertain communities.

The elasticity of flexibility cannot be extended beyond a certain limit: beyond that limit, in fact, the typical anomalies of the unstable situation would appear. It's arbitrary to believe that, once that limit for public debt has been reached and exceeded, the opportunities experienced in conditions of stability or controlled instability should continue to occur. Yet, even recent experience shows how is widespread the error of continuing to trust in fiscal support, even when the debt excess is troubling the markets.

In practice, the over-indebtedness acts as an increasing limitation to the potential growth pace and push down the prices. The warning launched by prices is perceived by everyone, regardless of social status, during the normal daily life. It is a privileged indicator because it provides in brief *erga omnes* an immediate flash on the economy state. Cold prices are usually accompanied by a worsening of social relations, due to the reduction of job opportunities and the increasing poverty.

The system reaction to public or private indebtedness excess is similar. The economic system shows a tendency to recession and the prices tend to deflation. This response, which doesn't change over time, is to be recognized as the attempt of the natural correction mechanism to restore the balance of economic systems, with the main correction measure that is the recession and the deep inversion of the economy cycle.

In the case of excess public debt, the reaction of the economic system is cautious, and the symptoms are a very weak economic situation and colder prices. The system reacts to the debt increase with a creeping deflation that advises families, companies and institutions not to continue the debt path, due to the progressive increase of debt cost and the risk of a value loss of the outstanding stock.

When the economic system denounces a creeping deflation, to think that we can reverse this trend with the usual palliatives of Keynesian policies means to enter in the dream world. Deflation slows consumption and investments; families and companies tend to wait for better times and to keep money in cash. In other words, the currency pace is decreasing and the liquidity is narrowing. We are thus collectively induced to reduce expenses and to postpone any investment. These are guidelines that are shared and are functional to the outcome of the natural corrective maneuver, which essentially relies on the functional slowdown of the growth process.

In other words, the message coming from cold prices, quite before the economic slowdown, has the effect of inducing a spending slowdown within households and companies. It could be suggested that this collective feeling, which induces a pause in the economy, could be a sort of implicit and cryptic message sent by the system in crisis, to help the instability solution. In other words, it could be suggested that, besides the explicit messages represented by the fixed prices and the economic situation fall, other implicit messages would reach the community members, inducing common behaviors.

A growing gap can therefore be created between this feeling of system malaise permeating the collectivity and the divergent behavior of political leaders who, on the other hand, still believe that they can curb the lethargic tendency of the economic system through new Keynesian or ultra-Keynesian measures. A gap that goes to the detriment of the political class, because trying to hinder the natural corrective process is just irresponsible and leads to new and worse problems at social and economic level.

Dystonia in the assessment of implicit and explicit symptoms sent by the economic system: This insensitivity of the rulers, indeed, cannot be

ascribed only to the naivety or opportunism of the weak political class. We should consider, in fact, that no government in democracy can make programs in contrast with the prevailing public opinion. When condemning the government opportunism, therefore, it should be considered as possible a potential delay of the community in receiving and implementing the implicit message of the natural corrective system, in case of excessive debt.

In other words, the position assumed by the government in charge can also be motivated by an apparent consensus of the community, or rather of just a part of the community. In fact, it could seem obvious that the implicit message sent by the system to individuals and companies on the difficulties of the economic condition could be understood without any misunderstanding by companies and by that community part with an adequate income. Instead, the society part that has or thinks to have a poor income or is aspiring to higher resources can misinterpret the message coming from the creeping deflation. Therefore, that society segment could bet also on the wrong horse.

A gap in the collective prediction - in the case of a creeping deflation - which cannot last for long; nevertheless, the eventual obstinacy of the political leadership may cause some damage that worsens the *status quo* of the weaker social classes. This divergence within the social group can exacerbate the economic situation, which will therefore react with further pressure on the economic situation and falling prices. On the other hand, it should be considered that weak governments with a declining consensus can take missteps and above all persist in error, in the desperate purpose of maintaining the position and keeping - even if shortly - the political consensus that is rapidly dissolving.

The damage suffered by the economic systems struggling with excessive debt, even of a public nature, may appear on the economy horizon only later on. This is due to the natural flexibility of the natural system in evaluating the path convergence of the global economy and the natural system. This flexibility can be misinterpreted, in the sense that political opportunism and social readiness can ally by approving as appropriate the interventions of fiscal policy in deficit, so promoting the creation of excessive debt.

And at the same time, the delayed appearance of the economy damage can produce the false certainty that, even in conditions of excessive debt, we can continue the practice of Keynesian interventions to support the economic situation. Interventions that should instead be considered useless if not dangerous, also because at best the income erosion due to the economic situation fall is only partially contained by the presumed advantages deriving from the higher spending. With a balance that remains negative and, moreover, with the debt increase.

Yet, the certainty that fiscal policy is able to play a fundamental role to overcome crises or to put the economic situation on the right path is hard to die, even referring to the events experienced during the severe recession of 2007-2009, born from the long speculative boom. Basically, it is assumed that the reaction of the economic system to the shock caused by the deficit spending would be decisive to refocus the exhausted system towards recovery.

It's a misplaced certainty, anyway, that could lead in the future to unforeseen and unexpected damage in the global economy. It should be asserted instead that the economic system has become unstable because diverted from the path of convergence with the environment evolution. In the case of excessive debt, there is always a collectivity that wants to live beyond its means, then resorting to public debt to increase the spending flows and the weak cycle pace.

This hypothesis, that it would be possible to mortgage the future in favor of the present, is completely wrong, also because this behavior would leave an improper burden to the new generation: sins of the fathers, children suffer. This aspect is underestimated, in a sort of delirium that chooses the present, just charging the problems on the

future. The use of public debt should be considered only a parenthesis, keeping in mind that in a near future part of the savings will be dedicated to pay the debt.

But there is no escape from the debt trap. In fact, the countries in the western and global areas have fueled a debt growing spiral. An evident sign that the growing debt strategy has no hope and that it's highly unlikely that its recurrence could improve the whole contest. In practice, the creeping deflation afflicting particularly the most indebted countries cannot be defeated by an increase in public sector spending. It should be considered, in fact, that the natural reaction of the community and companies in this situation would be to reduce consumption and investments and to keep resources in cash.

It makes no sense to believe that we could balance the declining economy by means of public debt. The inadequacy of the results, in fact, clashes with the economic situation worsening. It should always be kept in mind that when the system shows the classic dystonia of instability, it's senseless to attempt to fight against the corrective process imposed by the uncontainable tendency of economic systems to stability.

Our neighbor, at work or on the subway and in the everyday life, is generally willing that the economy would run in a plain and continuous rhythm, that is following a straight line. Inside the humanity's DNA, the cycle wave of the conjuncture replacing the ordered growth according to a straight line is a sign that the economy is in trouble. This general feeling is coming - it could be presumed - from the natural tendency of the development of economic systems, which tend always towards stability. In other words, maintaining stability means that the economy development moves following a straight line.

In the process of natural growth of the economies, the sinusoidal curve of the conjuncture cycle is not admitted, because there isn't any error to be corrected by pausing the development mechanism. Our certainty that the economy can travel along a safe development track, comes from the natural obligation that economic systems have to run according to a track of compatibility with the environment that sustains life (Figure 3).

The negative signs of the deviation from the stability path are worrying us, even before the consequences on the budget of families and companies, for the astonishment arising from the break of natural expectation on the present budget that would be the same if not better than the previous one, at least in most cases. In short, we are not surprised by a positive economic trend because it's within the logic and expected development, while we feel immediately hurt and worried for the underdevelopment paranoia on the wave of the conjuncture cycle.

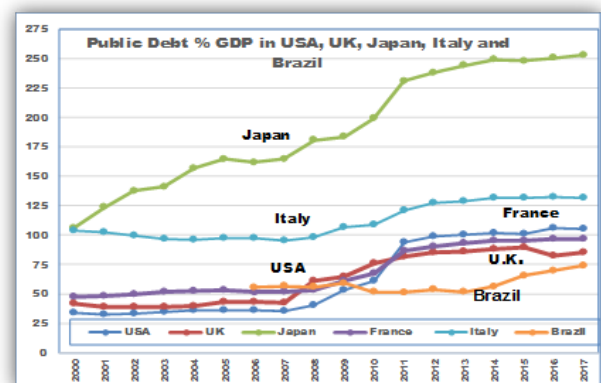
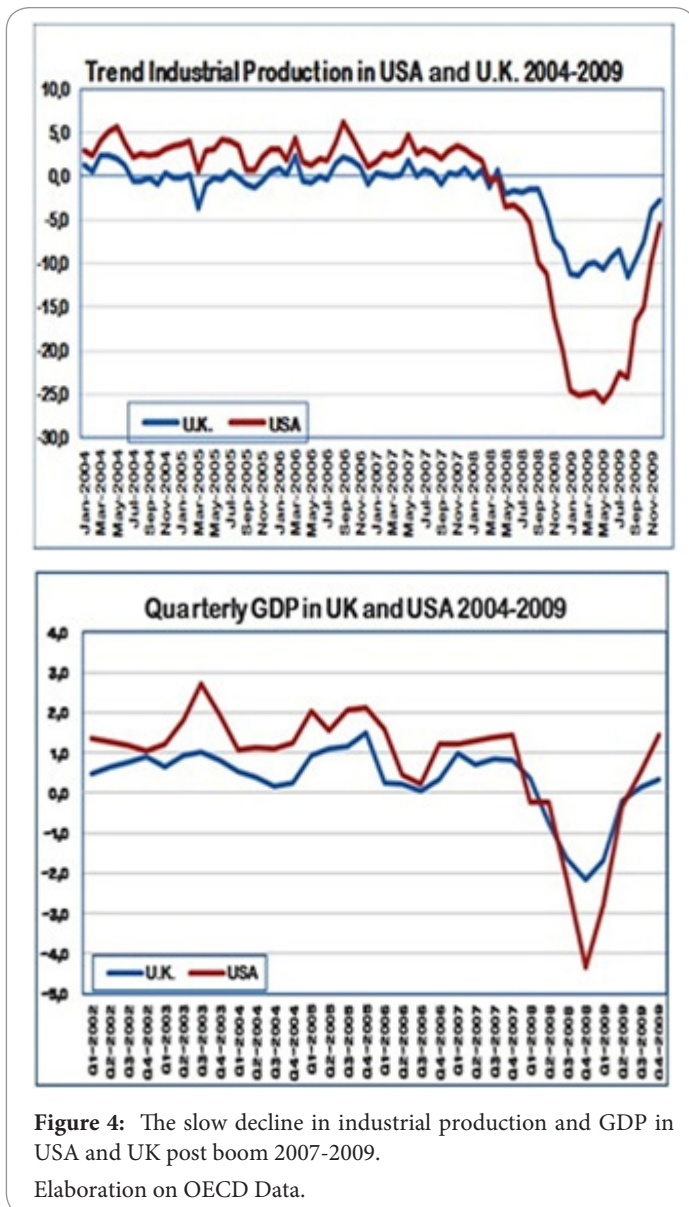


Figure 3: Public indebtedness trend in great areas 2000-2017. Elaboration on OECD Data.

The problem is not the debt itself but the instability state due to excessive debt: As above mentioned, the economic system shows a wide flexibility on debt issue. The warning for excessive debt sounds, through the progressive price cold, only when an extreme threshold has been reached that jeopardizes the good performance and opens the economy to the instability sub-world. Moreover, this threshold doesn't seem to be the same for everyone, being variable – as we can just suppose – according to the more or less virtuous behavior on debt.

The natural corrective systems do not have their own tools to act, but it's the collectivity that perceives the economy dissonance and embraces the message about the error responsible for the system's divergence from the natural path. In case of a speculative bubble, inflated for months and even years, the breaking of the emphasis reaches its climax from which will start the progressive cycle decline, with serious social consequences. As can be seen from Figure 4, the contraction is profound though not sudden. The cycle contracts as a sort of slowed spiral. In other words, the breakup of the speculative cycle is a negative spiral operation that develops for months. And in that negative situation, the economy gradually implodes, tracing backwards along that improper acceleration which seized the economy engine.

The boom and the following financial crisis show a graduality both in the formation as in the implosion, which essentially confirms that



the whole procedure has a natural character and also a precise purpose. That is, to correct the errors accumulated over time and to bring gradually the deviated system back on the path of economic and social stability. And all this is not enough, indeed, because the graduality of the formation process and of the fall into the crisis is a sign that the ultimate engine of the whole speculation-crisis paradigm is entirely in the hands of the collectivity: always, substantially, the arbiter of the whole process.

I mean that the corrective process does not work through some invisible hands, but rather through the decisions formed and spread among the operators and families with the necessary gradual approach. Nothing improvised or abrupt, but a gradual spread of the awareness that the hope of a development without limits is unfounded and that nothing remains but to give up for now.

There are no hidden hands or angels maneuvering the market. Only the diffusion within the market of the perception (implicit message) that the elasticity of values in the sector under speculation cannot be strained longer and that the system should be brought back to its natural normality. Therefore, the start of the speculative phase comes from a development process that has exceeded its potential, because stressed by economic and monetary support policies. An excitement is born from these excesses, fueled by cheap credit and large indebtedness. A sort of euphoria that introduces in the market the crazy feeling that we can continue to extend the development pace. A feeling that is widespread also because it leads companies and institutions to increase employment, in view of growing markets.

Only gradually this widespread excitement evaporates and finally arises the doubt that the collectivity went a step too far. Also, because the possibility for an unlimited growth lies in a perpetual availability of new and cheap credit. This is impossible, of course. Thus, in this way begins the awakening phase from the opiate sleepiness of the speculative development. So, the speculation implosion is unavoidable, due to the lack of new liquidity to keep going. But the graduality of the whole process, access in the speculative phase and forced exit, could mean that before the resource decline is activated, it's the collective sensitivity that awakes from the congestion of speculation.

All this just to say that the corrective hand of the unstable system is in possession of the community. Nevertheless, the therapy used by the economic system to recover its deviated course is always the same over time. Perhaps because when deflation occurs inside an economic system and the excesses that caused deflation are continuing, the message sent by the system is anyway a long phase of cold prices. If, in this circumstance, the support of the economic situation is attempted through accommodative monetary policies and greater public spending in deficit, this may cause accidentally the start of the speculative process. The evolution of the speculation-crisis paradigm is therefore a sort of mechanism that, once started, does not stop until its end with great social damage.

All this seems to confirm the thesis that the economic system follows the same physical laws just like all the rest of the world. We are part of the environment around us. Also, the social relations that generate the economy relationships are a part, not dissociated at all but integrated, of the physical world. Therefore, it isn't surprising that we, as a community, are free to act as we desire but if we deviate from the stability and compatibility path we'll meet, sooner or later, the corrective mechanism stop on the development path.

The Disease of Economic Systems Carries Inside the Treatment

The repeated sequence of behaviors in the unstable economic systems: The thesis that economic systems follow a pre-established path seems to have a value extendable to all the scenarios entering in the instability world. In fact, the problem that we're investigating now

regards the unstable world with its scenarios, which have the ultimate and also unique goal to restore as soon as possible the natural stability of the systems. Stability that we must consider as the condition verifying the natural compatibility between the natural order and that of the economy and social relations.

It must be added that pre-established does not mean that the path of the return to stability would be always the same, because the problem remains the restoration of the natural condition and not through which process. In any case, even in the case of the speculation paradigm, which is the final phase of instability, nothing is excluded but above all it is not excluded that the community could intervene during every phase of the speculative wave for corrective purposes. Provided, however, that the intervention would be directed to give a new direction to the economy, in the sign of error correction and stability recovery. Therefore, the discretion to do or not to do remains in the hands of the community.

On the other hand, only inside the instability world the economic systems follow patterns potentially repetitive but varying according to the intensity of the instability in progress. Then it would not make sense that procedures and paradigms like those intertwined in the unstable world, could develop when the economy is travelling in a stable and compatible relation with the environment, house of everything. The stable and sustainable economy moves according to a trend of continuous improvement and of adhesion to the natural system. There are no monetary or trend shocks because the development line is marked according to the potential and evolution of science and technology.

Otherwise, in the case of the unstable world, the basic problem is no longer the development line, tending downwards for the instability, but rather the way back to the necessary stability of the systems and the action of the correction mechanisms. It is therefore possible to imagine that all the correction ways, although they are predisposed to the final objective of restoring the compatibility of systems even with patterns repeated over time, are nonetheless variable. Variability according to the instability degree, the specific response of the communities, the social and economic evolution and, finally, the defensive actions eventually implemented by institutions, companies and families.

Deflation is an arduous phenomenon, which can introduce an ambiguity within the families about the meaning to be attributed to falling prices. And anyway, the entire deflation cycle, which could continue until the extreme consequences of speculation, is enveloped in the ambiguity sign. This is perhaps to indicate the difficulty of eradicating the pathology that is based on credit and liquidity and is the bitter side of the human desire to force the limits of compatible development.

Otherwise the signal coming from inflation is unambiguous and goes directly to the heart of the problem. For this reason, it is perceived without error by institutions, companies and families about the disease that is engaging the economic organism. Also in this case, the sensors of the difficulties wake up in the families who feel the effects of the high prices. The inflation is reflected in the price increase not linked to external factors, such as the unexpected price increase of raw materials in 1975. It's an autonomous, self-fueled movement which, when left to act, tends to increase over time following a rhythm directly linked to the system instability degree. Therefore, any institutional act intended to curb the price run is doomed to failure, if it wouldn't be directed to leave to the recession in fieri the action of correcting the public management errors.

The theme of the eternal struggle for the liberation of economic realities from the limitations, however friendly and almost maternal, of the natural environment - where moves the whole economic history - is expressed in the paradox of corrective scenarios. Even in the inflation case, the behavior of companies and households is tending to conform. During the initial phase, however, there are some contradictions. Because when the phenomenon is beginning, the revival of the

conjuncture cycle, awakened for the system instability, is still substantial and the recessionary turn is still weak. Was born in this phase of initial uncertainty the legend of *Phillips's Law*, according to which there would be a *Trade-off* between Inflation and Unemployment. A statement of outrageous falsity, given that with inflation the economy introduces into the scenario the recession, which is intensifying, so dragging down employment and unemployment.

It is a monster relationship, like the unlimited development scenario that creates an opiate circuit during the speculation. There cannot be a way out towards development, when there are the monetary signs of inflation or deflation. These signals occupy the economic scene, when we deviated from the compatibility and sustainability path. These are monetary scenes that bring the bad time of recession and correction of sick systems.

It can therefore be argued that in the two scenarios, deflation and inflation, there is an initial phase opening to the instability world that gives ambiguous messages, such as when it seems that we could not only live with the monetary disease for a long time but also modulate it with the science resources to achieve some good economic and social results. Nothing could be more wrong. The human inclination to the false reality of selfishness and pride in the economic and social fields, led to believe that the economy scenario at the global level or of individual countries is the instability scenario. The economy of the business cycle, with the monetary disease, the recurrent recessions, the spiral of anomalies would be actually the norm, and not the aggressive symptoms of a disease affecting the economy and the society. With the multiple experiences that we live and that we don't know how or cannot control.

Some examples related to Trade-off in the Sixties: The typical flattery and relative normality of the monetary phenomena at their initial stage can be indicated as the basic reason why anomaly was misunderstood as normality. It would be fine, if there weren't serious consequences for the postponement to tomorrow. Because the possibility to fight the diseases, including the economy malaise, is relatively easy at an early stage. But it becomes arduous and brings unexpected troubles if these initial symptoms are neglected or almost coddled. As in the case of the Phillips Law, this grants to politicians seeking an easy consensus even the option of a higher inflation to support employment. A true betrayal in the name of a dreadful sloppiness.

The possibility that this Trade-off could come true in the today's reality is absurd. However, in the mid-sixties, Western economies were living the long growth wave post World War II. Particularly in Italy that was growing at "Chinese" rhythms, the results of the run-end were already felt and the attempts to keep the sprint were the starter for the newborn inflation. Now, the inflation initial stages can be corrected relatively easily, but at the time concerns for the economic development prevailed, so that inflation previously positive rooted badly in the economic system.

Then, during the recovery long wave at the time of neo-inflation cycle it's quite clear that an inflation increase could occur with a parallel unemployment decrease at the same time. Nothing wrong. Nevertheless, to state that this ordinary eventuality would be a potential scientific law is not only improbable, but even worse it may allow rulers to make use of the public enemy, what it's really the inflation, for their small-scale operations. So, dragging as always the unsolved problem for a few months or even years. As we presently know, the low inflation of the Sixties at a continental level was then the pedestal on which the world inflation of the Seventies was anchored, under the blows of the unexpected and brutal increase of the oil price during the first and the second crisis, in the middle and then also at the end of the decade.

Figures 5 and 6 show the graphs relating to the "Inflation and Unemployment" trends, with GDP (Industrial production for USA

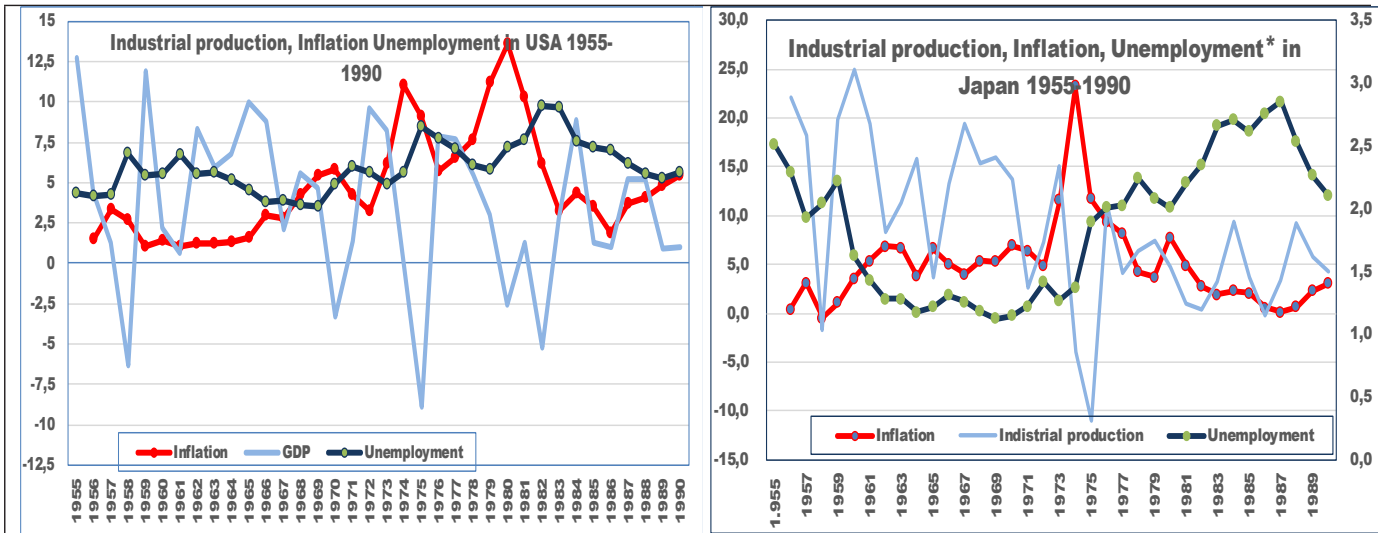


Figure 5: Inflation, Industrial production and Unemployment in USA and Japan 1955-1990.

*Unemployment = right axis.

and Japan). The analysis of reciprocal behavior of Inflation and Unemployment does not seem to confirm the hypothesis that there is any correlation between the two variables. As we said about Italy in the sixties, a potential Trade-off can be found even in the United States during those years. It's a combination that at the time occurred for the recovery of the economy cycle still robust inside a scenario of instability and inflation at the beginning. So in this scenario, there has been a decline in unemployment driven by the cycle rise. A Trade-off relationship essentially not repetitive, which in fact didn't reproduce again in the following decades. In fact, since the Eighties the relationship between the two variables, Inflation and Unemployment, disappears or they move jointly.

On the other hand, we note that the system deflation was followed by a development slowdown. After reaching a low and constant level of inflation, in the Nineties a clear inverse relationship between Inflation and GDP becomes evident (Figure 6). A general phenomenon which, during the Seventies and the Eighties with global inflation and constant price control, required a cost in terms of development failure in the global economy. The economic system has only one way to reduce instability: the pause or reduction in the potential development pace.

Monetary care against inflation in many countries has been partially balanced through the cycle support with public spending in deficit. The result of this intensive use of public spending has extended the times for the unstable system correction. Above all, in many countries this behavior dragged public debt beyond the danger level. With the result of pushing the economy towards deflation, while the growth capacity has become creeping in the systems burdened by excessive public debt. It's an ambiguous mechanism to combine a less accommodative monetary policy with a pro-cyclical fiscal action, which essentially penalizes the system recovery and places "in nuce" (i.e. structurally hidden) the phenomenon of credit and debt expansion that in fact overflowed into the global economy.

The potential link between a joint growth of public and private debt could also lie in the very accommodative monetary policy: The problem of high public debt also drags the gradual and steady decline in economic growth. It seems that there is a sort of divide that modifies the development chances, when the public debt reaches and exceeds the level of 90-100% in terms of GDP or less, according to the country's greater financial fragility. The rationality of this behavior lies perhaps in the real nature of the indebtedness of companies and families, as well as



Figure 6: Inflation, GDP and Unemployment in Italy and France 1980-2010.

Elaboration on OECD Data.

of States. It is indeed evident that the economy needs credit and debt for a balanced and sustainable development. On the other hand, there are experiences showing that there is a fair level that is sufficient to ensure a balanced economy growth; in other words, an unforced development

and, therefore, in harmony with the natural system evolution. We could even hypothesize an upper limit which is alerting about the pathological recourse to indebtedness, especially in the public sector.

Excessive public debt becomes insidious also because it tends to influence the behavior of companies and families, who would pursue a dream of economic expansion. The problem lies in the persistent tendency to deflation of the ultra-indebted economic system, which can promote monetary policy interventions aimed to counteract the falling prices. With uncertain results in terms of prices, but with possible consequences on the willingness of individuals and companies to restart spending through new credit. It's true that deflation increases the debt burden for companies and families. But it's also true that the money low cost and the liquidity increase, created by the Central Banks in the context of falling prices, can promote a doped growth caused by the credit availability and the recourse to debt.

The economy weakness, which is extended due to excessive public debt, becomes another reason to support the economy with new public debt. The rulers in search of consensus are prone to the requests for new pro-cyclical interventions. But it's a hopeless contrast action. The possibility to give a boost to the economy through the usual neo-Keynesian operations is a pure illusion. The underlying trend already announced by the weak economic situation, cannot be relieved certainly by recurring again to the very cause of the nearly recessive economic system. On the other hand, the pressure on the public budget is nothing different from a way able to lead the community to believe in the impossible dream of an endless growth, which is indeed the yeast of the speculative spiral of the 2000s.

The potential link between a joint growth of public and private debt could also lie in the very accommodative monetary policy that accompanies the creeping development and the deflation tendency. In fact, it can be argued that the tendency to price deflation, the low cost of money and the availability of credit are all incentives for the debt increase of companies and households. But in the perspective of a blocked growth, the incentive to increase the cash availability is not a sort of panacea for the economic system, which then can only react by stimulating the unhealthy growth of the economy. The economy, that is, therefore is growing on the wave of credit anomalous growth and on the system's increasing debt.

Actually, this is a scenario quite similar to that offered by the global economy (Figure 7). In that scenario, most of the great actors of the world economy have accumulated a growing public and private debt,

which supports the downward holding of the economy. This picture is then almost exasperated in the United States, where there is a performance above potential, assisted by the tax reform that exacerbates the public debt, by providing new liquidity with lower taxes in favor of the higher income classes.

Just to say that the different performance of the United States doesn't represent an anomaly, in a context otherwise progressively falling. Otherwise it could be argued that, through operations to sustain the economic situation, with the offer of new liquidity to companies and families, it would be possible not only to escape the debt trap, but above all to avoid the natural corrective process that oversees the sustainable development of the economies. Anyway, both arguments are unlikely. It's only a lie to think that the economy could have in store the tools to overcome the limits to the regular relationship between humanity and natural environment.

Otherwise, we should admit that the world drugged by the speculative excess is a possible reality and that we have all entered inside the confused world that believes in the unlimited growth. Or rather we can continue to suck credit and accumulate debt endlessly, because this uninterrupted process will lead us to nirvana: yes, the nirvana of the opium dreams, however.

Well, doesn't exist the endless cornucopia of the public budget, from which we can pump money like a crazy ATM. An excess threshold will arrive, where the economic system will react with the depression of the economy and prices. A statement sanctioned by the experience. We should therefore believe that the community of families and companies, but also simply of our neighbors, could rely on the improbable policy of resorting to debt when we have already largely exceeded the limits, as evidenced by the price trend and by the economic situation cycle. I would say no, definitely.

It's false to think that companies and families as a collective body would be an easily manipulated and incompetent entity. The democratic history is based on the certainty that the community has its own rational knowledge of the economy state and, in general, the motivations that create instability. To say the opposite means simply to undermine the very foundations of democracy principle. Politicians often seem to forget that the people - and above all, the part less favored in terms of income - have learned, unfortunately for centuries of experience, not to believe the vague promises of politicians seeking consensus¹.

¹ An ongoing search.

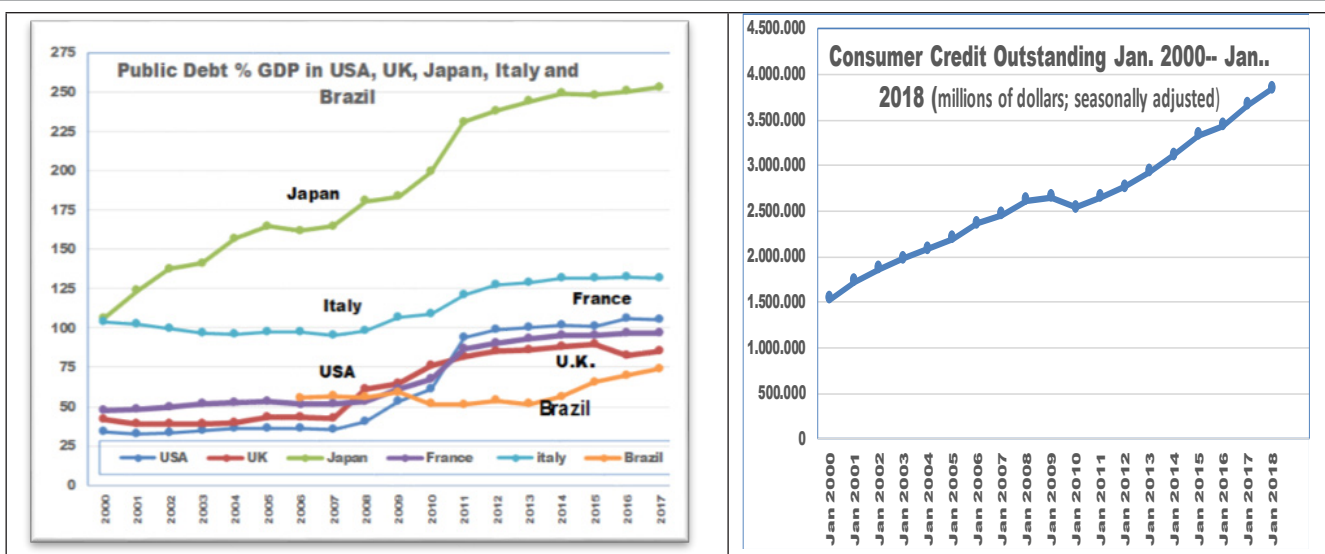


Figure 7: Public debt in some countries 2000-2017; Consumer Credit Outstanding Jan. 2000-2018.

The Italian case in this regard is a textbook case. Within a few years, during the last decade after 2008-2010 crisis, succeeded to the government of the country at least five political teams, from right to left of the political spectrum. Each one required approval by voters, announcing welfare aid through new deficit spending. Unavoidable that, with a troubled economic situation due to the stressed public budget, the power was soon lost by one government after another. It's impossible to go against the natural common sense of the collectivity.

But let continue the analysis of an economy with excessive public debt: the tendency to deflation that accompanies the economic system risks over time to stimulate new private indebtedness, taking advantage of low rates. The very accommodative monetary policy can therefore directly play a role to promote debt, which moves upwind in relation to the rules of credit control, imposed by the structural price decline. To clarify, the policy of low interest rates is a somehow obliged measure to adjust the money remuneration to the depressed economic situation. However, it cannot be denied that these conditions will be favorable to a debt increase, where the low-interest policy is supported by the growth of the monetary base, promoted by the Central Banks in the hope of some rebound in economy and prices.

It's obvious that giving again liquidity to the market has an immediate effect on the confidence of operators. However, it should be put in the list of problems provoked by an accommodative monetary policy, in terms of rates and liquidity, the risk of an extension of the instability state due to excessive debt. At this point, there could be a deadlock. During which, the conjuncture and prices remain cold despite the accommodative monetary policy. This phase can stimulate the promotion of an ultra-Keynesian fiscal policy in a situation already doped by the general willingness of companies and families to credit, on the assumption that the favorable conditions of the credit market are destined to last for long.

Certainly, it's no accident that the problem of increasing public debt coexists in the global economy together with the more general phenomenon of total debt increase (Figure 8). In other words, we can think that the social malaise caused by the gap in the wealth distribution is the engine pushing the community to look for some treatment against this growing and worrying phenomenon. A gap that can only be corrected if and when the work availability would increase, and the remunerations would be adequate to the needs of families. Actually, instead we see a decline in employment opportunities, while a revival in the labor market may be a signal of speculative development.

The attempt to correct the status quo with the misuse of public budget can therefore increase the income distribution gap. The treatment is not only far from being effective. But in addition, it could encourage the monetary support given by the Central Banks which, in turn, can incentivize the debt of companies and families, so creating the debt trap that supports an unhealthy growth.

In other words, when walking on the road of the economy instability for over-debt, insisting on the options offered by monetary treatment and ultra-Keynesian support can open the way to the debt trap. A condition linking every potential (and weak) reaction of economic growth to the continuous supply of an upward borrowing by institutions, companies and families. The terminal of this escalation of sick debt is only the financial crisis, which cancels the excess of credit and debt, with serious social and economic consequences.

A way out of the Debt Trap? Not only the financial crisis and the recession!

The excess of the system's debt is an empirical value, indicated by the economic system: The pressure to increase credit and indebtedness in order to force the development is always a sign of instability become chronic and, therefore, of deviation towards speculative excesses. The realization of the speculation-financial crisis paradigm extends as a network over economic systems that are financially very integrated. A sort of mutual financial support is therefore achieved between the great continental economic systems. So, in a sort of global economy's bowling, the great economic systems like pins stand all together, supporting the excess of credits and global indebtedness. Or, if the precarious balance breaks down, they all fall under the impact of the loss of confidence in one of the big countries, as in the case of the disruptive wave started from the USA in the 2007-2010 financial crisis.

A phenomenon that can be repeated in the future with the disruptive impulse coming from a great country, like the USA or China. The network aggregating the economies in a global *unicum*, relating to the hard-corrective maneuver of unstable systems, it's the finance... I mean the money. So, the international account currency, mainly the dollar, becomes the glue that transforms the economic front into a single global system.

The money is an instrument for exchanges, a completely inert and transparent element that does not participate in the unfolding economy and social organization. For its neutral character it is a sincere mirror of the market condition and its excesses. In fact, it's the main messenger

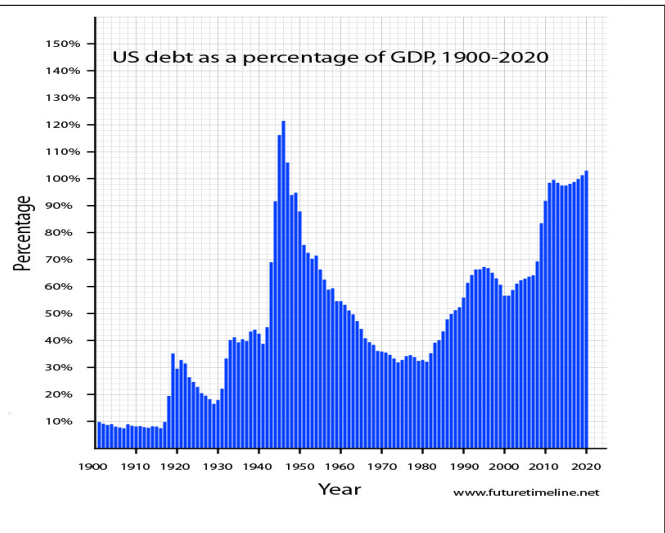
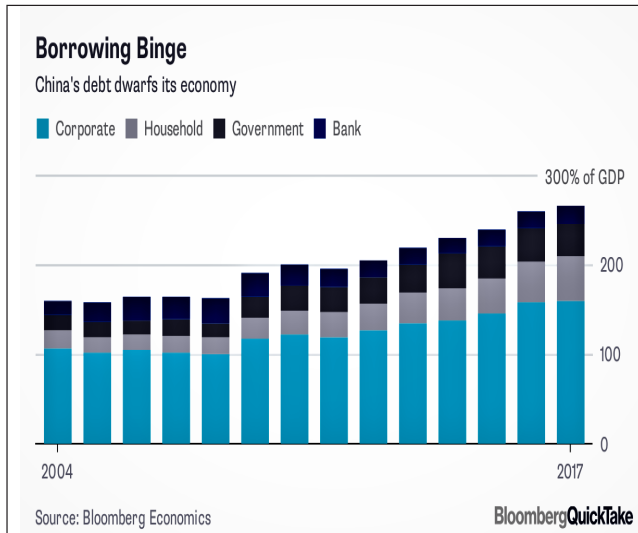


Figure 8: China and US Debt.

of the troubles assailing the economy, providing institutions, families and companies with an immediate test if economic and social things are going bad, through inflation or deflation.

Therefore, from the point of view of the money-messenger, the debt trap (i.e. the debt-growth ratio) must be considered a message of the economic system, which is warning on the drift of development from the natural path. In other words, also in this case the currency is not involved in any way in the system excitation, but it is its soft voice through which we can notice that the economy things are in trouble. The multiplication of monetary signals cannot be attributed to the currency, which is a simple handmaiden at the service of humanity. The currency though involved blameless in the economy motion, however it's far from being silent. In fact, the credit acceleration becomes an improper motor of the (weak) economic growth, while the falling prices indicate that the debt maximum limit has been exceeded. I mean the optimal level that can guarantee the natural sustainability of the economic process and, therefore, the balance between natural system resources and their use to ensure the continuation or conservation of life on the planet.

The limit that signals the excess of the system's debt is an empirical value, indicated by the economic system and due to the gradual decline in potential and prices, so reporting the deflation trend. We must grab

these implicit or explicit messages that an economic system sends when the economy becomes unstable. But obviously not only we should get the messages that are commonly understandable and easy to read. The problem is above all to attribute correctly the deflation of economic systems and the economy decline to the eternal desire of human beings to live beyond the available means.

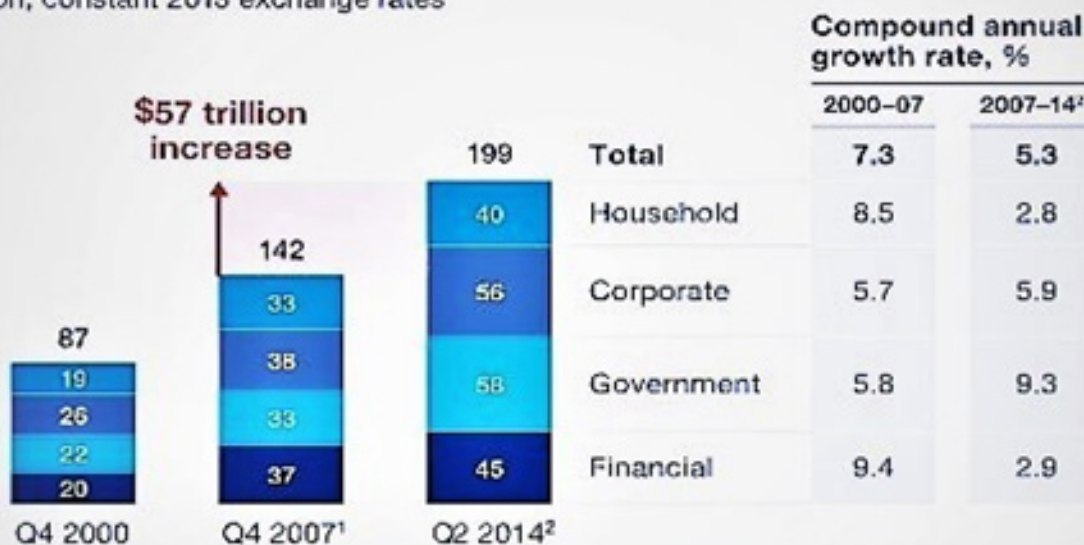
The economy lagging and poorly growing under continuous credit stimulation, supported by excess liquidity, it's a clear signal that has been exceeded the maximum borrowing limit tolerable by the economy. It seems almost absurd. These are signs to be interpreted correctly as a warning of the forthcoming recession. A recession that is actually an opportunity in a future requiring a stop in the run to correct the errors that are troubling the natural economy motion.

In fact, if the economic system suffers from excess debt, the recession or the development pause would put a limit to the mad increase in liquidity and credits, so contributing to a gradual reduction of the debt volume of companies and households. The negative understanding of this pause scenario to be therefore corrected unfortunately is often misguided.

The economy has its own natural growth track compatible with

Since the Great Recession, global debt has increased by \$57 trillion, outpacing world GDP growth.

Global stock of debt outstanding, \$ trillion, constant 2013 exchange rates



246% 269% 286% Total debt as a share of GDP

¹ Figures do not sum to total, because of rounding.

² Q2 2014 data for advanced economies and China; Q4 2013 data for other developing countries.

Source: Bank for International Settlements; Haver Analytics; International Monetary Fund *World Economic Outlook*; national sources; McKinsey Global Institute analysis

Figure 9: The increase of global debt.

the environment, which in the medium term offers the possibility of maximizing the development trend. To expect therefore that the economy would follow a trend in continuous and progressive rise is a desire that coincides with the behavior of the stable economic system. The economy in equilibrium with the natural system does not suffer from monetary anomalies or from the conjuncture movements but follows a linear course with a gradual and progressive rise. And here is the problem. Because it's an unbearable arrogance of human vanity to expect that the system performance would continue according to the natural path of a balanced growth, when human errors and the desire to live beyond the available resources have undermined its natural health.

Yet the feeling that we can overcome the natural order continues to prevail, hoping to control the economy direction with monetary and fiscal policy. The refusal of the recession is understandable, also because the resulting drop in income mainly affects the less favored classes, with significant social effects that we would like to avoid. Unfortunately, there is no alternative to the process of system correction.

There is obviously the social and economic obligation for governments and governed not to exceed the threshold of sustainability with the environment around us. If, despite all, this limit has been exceeded, then we should be very careful in evaluating the messages sent by the economic system in the form of monetary alterations and economic movements. It is clear, in fact, that a timely treatment of the disease process, when it is announced by monetary facts and by the economic movement, wouldn't have the same negative effects caused instead by the serious recession to the social structure.

The serious financial crisis of the years 2008-2010 is one of the worst untreated excesses of the free-running credit and liquid assets; a disaster that unfortunately can be renewed because in the past we have waited for the crisis before trying to give some answers. On the other hand, the reactions dictated by the emergency are often such as to curb but not remove the serious instability causes. And they leave a tail far from resolute, full of poisons (in cauda venenum). As the present events are demonstrating, all this happens ten years after the severe world recession.

The impulse of the public and private world towards indebtedness finds a possible partner in the support policies: The perspective of a greater balance in the global economy is problematic. The spiral of self-fuelling debt to maintain a moderate growth does not end. Abandoned to this demon, the economy could once again start the speculative excitement, because the symptoms that preceded the 2008-2018 financial crisis didn't disappear and may reoccur. We are on the brink, so we have the possibility to absorb the system malaise but under certain conditions. Otherwise, the debt disease tends to worsen and can revive the symptoms of speculative excitement. A new speculative rush in the near future would have the implicit meaning that the global

recession of the 2000s did not remove the reasons for the serious economic instability. Therefore, we can imagine a repetitive sequence of speculative events followed by financial crises, to reduce the instability and bring the economy again in line with the evolution of the natural system.

The question now is the quality of the tool used to contain the strength of the 2008-2010 financial crisis. The defense initiative was based without exception on the massive use of monetary policy and on the support to the conjuncture cycle through public spending in deficit. The poisoned fruit of this defense is precisely the tendency to use the credit for the revival of the depressed economy at both public and private levels. As mentioned, the treatment by public debt has provided good results globally, so allowing an exit from the depression and the economy recovery in a short time. But all that glitters is not gold... In fact, recent experience shows that this behavior is at least partially responsible for the renewed willingness of companies and families to use credit to finance new expenses, so that the economic system mechanism would require new energy through credit to maintain the development (anyway weak) of the global economy.

Now, this impulse of the public and private world towards indebtedness finds a possible partner in the support policies of the negative economic situation after the speculative bubble burst. In that circumstance the corrective system induces recession as an instrument to reduce the pressure on liquidity and to limit the tendency to new credit. The credit system suddenly starved under the blows of the financial crisis is dangerous and can cause both social and economic serious damage. It follows that the reaction of the Central Banks to mitigate the drastic change would be aimed to expand the money availability and to reduce the interest rates. This double action - new liquidity and low rates - is certainly a necessary strategy, also because it's somehow limiting the collateral effect of the insolvency of companies, which is spreading like wildfire.

Nevertheless, these measures also have some repercussions on the tendency to endemic recourse to credit, which actually caused the speculative excitement and the subsequent financial crisis. In fact, the easy credit strategy before the crisis was aimed to comply with new spending requirements. In the new recessionary horizon, it can be seen as a panacea not only to set aside the liquidity problems but also to climb the slope and start the activity's recovery. Despite the correctness of these guidelines, the fact remains that the economic system suffers from an excess of recourse to credit that the serious economy recession tends to correct. In fact, the credit excess in the economy feeds a development surplus that goes beyond the limit set for a compatible and sustainable development. In short, it would be a development not necessarily excessive, but certainly moving in disharmony with the natural system evolution.

	2001	2007	2015	2016
United States	20	34	46	48
China, Mainland	2	5	24	26
Japan	13	16	17	18
France	3	6	7	7
Advanced Economies	55	100	117	119
Emerging Market Economies	6	16	41	44
Low-Income Developing Countries	0	1	1	1
Total	62	116	158	164

Table 1: Selected Countries and Income Groups: Total Debt (Trillions in US dollar).

Sources: Global Debt Database and authors' calculations. Note: Data refer to the global gross debt (both public and private) for an unbalanced sample comprising 190 countries. For each country and year, public debt corresponds to the largest institutional unit for which data are available.

In other words, the speculative excitement, which has its driving force in the credit overabundance and in the debt willingness of households and companies, is always an economic development excess becoming virtual. Virtual, that is unstable and therefore ready to be removed and eradicated from the financial crisis in preparation. It follows that a very accommodative post-boom monetary policy can create the conditions for an unwanted tendency towards the cheap credit which then would push the attitude of companies and families, and also of public power, towards an indebtedness increase. It's obvious that this openness to debt is contrary to the process of instability correction, which instead tends to reduce the debt mountain through the compression on the credit system exerted by the economy recession.

The problem is therefore always whether or not to accept the recession as an instrument to rebalance an unstable economic system. Because the acceptance of the recessive instrument as a treatment tool means that there would no longer be the technical necessity to allow the system to continue on the unhealthy development path, because all together, institutions, companies, families, would run to repair anomalies.

In fact, it's necessary to clarify that it's the kind of instruments we adopt to correct the recession tendency of the economic system, that can contribute to start a series of speculative events and corrective financial crises. The readiness of monetary policy to act as a lender of last resort for companies and households is actually increasing the private sector indebtedness and sustaining the new public deficit.

On the other hand, the support to conjuncture by generous amounts of deficit spending has the undoubted advantage to avoid the economy collapse in case of a financial crisis, as happened in the 2000s. However, while the danger of a serious social involution goes away, actually the economic turnaround is blocked and therefore does not allow the relief of excess debt. The formulation of a sustainable credit, which the recession should have established, is therefore blocked thus increasing the risk that the push to a cheap credit would increase and not decrease.

Therefore, if the implicit and explicit solicitations of the unstable system towards a controlled recession to re-establish the economy sustainability are not accepted, the possible result would be only an increase of instability degree over time. There is therefore a reduction in system performance and a fall in strong deflation. At this point will be unavoidable the reaction of monetary and fiscal policy, which essentially play to sustain over time the economy instability.

The problem is therefore to take action in advance and not to let the perverse mechanism of the debt pincer self-powered by the substantial laissez-faire. Only to be forced to solicit afterwards the intervention of policies that are unable to solve the congenital instability, but rather can only postpone the solution so keeping the economy in the condition of a persistent instability.

Conclusion

At the end, the strategy to leave the recession carrying out its corrective action brings also some social and economic benefits, if compared with the laissez-faire of an unstable system. We shouldn't forget in fact that to leave the system running towards the final paradigm speculation-crisis, means not only to suffer a deep depression of the system, which in the 2000s was comparable to the '29 great crisis, but above all to suffer a deep social alteration. In fact, the loss of jobs and the fall in real wages are causing a drastic drop in the incomes of poorest families, with reactions that can alter the intrinsic capacity of the community to select the best government program in the electoral cycle. With the anomalies that we can observe in these years around the world; anomalies that undermine the value of democracy.

Ergo, it is quite clear that a possible relapse in the speculative excitation spiral of the global economy would be a sign of institutional context weakness and inadequate leadership, which are facing a magmatic consensus trend. Today's picture of the global economy does not correspond certainly to that of the second half of the 2000s. However, there are several signs of progress towards a resumption of the speculative wave.

The problem is the ambiguous relationship between debt growth and economy (weak) growth. If this abnormal link is tolerated, without putting any remedy to the debt-conjuncture relationship, the economy then would tend to converge towards the speculative excess with an unhealthy recovery. It is therefore clear that curbing the abnormal debt development is a priority, just to avoid the worst. It is clear now that the factors promoting the abnormal credit and debt development inside the global economy are the money low cost and the currency availability. Therefore, we have the paradox that financial excitement may not be able to drag the economy that remains apathetic.

The action on these two factors lies in the hands of Central Banks. It is essential firstly that interest rates would increase, to discourage the appetite of speculators. The Fed decided to continue the slow rise of the money cost, which could have touched 3.5% in 2019, considering the possibility of two further increases of 25 basis points each in the next year. The decision of the US Central Bank was motivated by the sprint of the American recovery that could reach 3% in the two-year period 2018-2019. An US scenario that brings a less accommodative monetary policy². But the measures for monetary control taken by the Fed may be lagging and weak, especially if the rate hike slowed in 2019.

In any case, the problem is not to move away the inflation danger with the shield of rising rates. In fact, this is not the danger of the US recovery, which suffers from unresolved instability and therefore from low inflation, despite the recovery sprint. The real danger is the exasperation of the speculative tendency, also prompted by the fiscal policy that mitigated the taxation, then causing a public debt increase. It would be a serious error, therefore, a Fed retreat on the restrictive monetary policy, which unfortunately can reinvigorate the private indebtedness together with the public debt running.

Also on this side of the Atlantic, the uncertainty on the EU economy's recovery is advising the Central Bank to adopt a soft movement on the issue of money cost, which in the intention could be kept to the minimum for the whole next year. The fact that the QE (Quantitative Easing) has concluded the purchase program of the securities of the European area countries is positive, and above all is positive that the ECB did not decide to restart the T-ltro program (Targeted Long-Term Refinancing Operation), which would give new operational space to the banks for credit to companies and families³.

On the other hand, it is also evident that the restriction of the monetary policy and the stop to the continuous resort to Keynesian measures could have as consequence the economic recession on this side of the Atlantic. In this hypothesis, it wouldn't be certainly the economic and social upheaval caused by a repetition of the speculative wave that involved the world economy in 2000. In this circumstance, are not coming out the serious economic and social damage caused by the removal from the economic system of the virtual economy created by the long speculative phase, nor comes out the market uncontrolled reaction trying to contrast to the end the change imposed by the financial crisis.

In the hypothesis of a recession guided by a careful monetary and fiscal policy, the main issue to be kept in mind is the social aspect. It's necessary firstly to avoid that the cutting of jobs and incomes of the poorest classes, would increase the gap in the distribution of income and wealth. That is, the phenomenon responsible for social troubles,

due to the worsening of the living conditions of popular classes. In fact, the heavy cyclical inversions post speculation not only act as an engine increasing the income of wealthy people to the detriment of the remaining population. But in addition, once the new equilibrium in the income distribution would be restored, the opposite phenomenon in favor of the popular classes doesn't occur. Instead, in the new equilibrium imposed by the post-speculation crisis, the disharmony in wealth distribution tends to worsen, with potentially increasing social troubles.

An exacerbated climate due to the worsened living conditions of a large part of the population, that may cause the formation of new leaderships unprepared for power and without real consensus, but with the prejudice against all previous governments that have failed in trying to safeguard incomes.

A guided and controlled recession could instead limit the social malaise, because it mitigates the gap damaging the poorest classes, for the minor impact of the cyclical change on the employment. On the other hand, it's anyway essential to keep active the intervention capability of the public sector but avoiding the crazy indiscriminate use of indebtedness. It's essential, in fact, to support those policies promoting employment and protecting the workers requalification within a technological frame in continuous evolution.

The Committee judges that risks to the economic outlook are roughly balanced but will continue to monitor global economic and financial developments and assess their implications for the economic outlook. In view of realized and expected labor market conditions and inflation, the Committee decided to raise the target range for the federal funds rate to 2-1/4 to 2-1/2 percent.

In determining the timing and size of future adjustments to the target range for the federal funds rate, the Committee will assess realized and expected economic conditions relative to its maximum employment objective and its symmetric 2 percent inflation objective. This assessment will take into account a wide range of information, including measures of labor market conditions, indicators of inflation pressures and inflation expectations, and readings on financial and international developments. Federal Reserve issues FOMC statement December 19, 2018

INTRODUCTORY STATEMENT

... Based on our regular economic and monetary analyses, we decided to keep the key ECB interest rates unchanged. We continue to expect them to remain at their present levels at least through the summer of 2019, and in any case for as long as necessary to ensure the continued sustained convergence of inflation to levels that are below, but close to, 2% over the medium term.

This assessment is broadly reflected in the December 2018 Eurosystem staff macroeconomic projections for the euro area. These projections foresee annual real GDP increasing by 1.9% in 2018, 1.7% in 2019, 1.7% in 2020 and 1.5% in 2021. Compared with the September 2018 ECB staff macroeconomic projections, the outlook for real GDP growth has been revised slightly down in 2018 and 2019.

QUESTIONS AND ANSWERS

Draghi: On the first question, the answer: no, we haven't discussed other options or other tools of monetary policy. But certainly, the general intention of the Governing Council is to keep liquidity as available as it needs to be for a monetary policy to be geared for objectives to be attained. But specifically, there was no discussion on this. The TLTROs, as I mentioned before, were mentioned but not discussed in any substance. Of course, the Governing Council is aware of the different factors that will affect liquidity and excess liquidity over the coming two, three years. At some point in time, our committees will start to work on that and we will have a discussion of this and a decision on this. - PRESS CONFERENCE Mario Draghi 13 December 2018

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