Journal of Business and Economics, ISSN 2155-7950, USA
May 2024, Volume 15, No. 5, pp. 281-291
DOI: 10.15341/jbe(2155-7950)/05.15.2024/003

http://www.academicstar.us

Demographic and Monetary Issues Looming Ahead on the Horizon — To Be Considered Immediately

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Abstract: Historically, moving from the gold standard, as a predominant self-ruling mechanism, towards all different types of payment systems, ranging to the final AI clearing central local networks, or multinational area agreements, with a world's population in a progressive geometrical growth since last century trend, from one Tn to a 9 Tn world's inhabitants, the planet shows a dramatic and generally unhappy experience.

Since the Vienna Congress in the year 1815, the original gold standard model has, self-ruled, resolving most of the international and local payments disparities, previously adopted and consolidated as a final universal overall standard almost worldwide, without national alternatives, as discussed by the Economic and Financial Organization of the League of Nations (EFO), presenting a report to the conference, which provided the first official articulation of the gold exchange standard. The second question case, at the end of last century's twenty' and middle thirty's financial new deal's disasters, consequence of the first World War, has been well raised and defined by Batchelder and Glasner, considering the pre-Keynesian Monetary Theories of the first Great Depression in their 2013 comment: "What Ever Happened to Hawtrey and Cassel", which must be supposedly understood and read, as an anticipation of the article "What happened to Triffin And Rueff", the last commentators of the '44 WW2 monetary settlement in Bretton Woods. The last two predicted in 1960-1961 that the Bretton Woods system, a post World War II rekindling of the previous gold-exchange standard, flawed as it was by the same official reserve currency contagion of the 1920s, would soon groan, under the flood weight of excess American paper dollars issuance (Batchelder & Glasner, 2013).

The two other authors published, first Robert Triffin in 1961: "Gold and the Dollar Crisis: The Future of Convertibility" and Jacques Rueff in 1964, "The Age of Inflation", stating their predictions of the convertibility. The general prediction of a collapse of local diverging adopted value mechanisms, started to indicate system collapsing as the famous first 301 C.E. Diocletian edict, then the continental dollar unit adopted in the American revolution fate, to the August 1914 July's Stock Exchange closures at the start of the WW1. Finally, the second Keynesian prediction in the "Consequence of the peace" and the final similar, temporarily, removal gold conversion by President Nixon in 1971 Camp David, 15 August famous sentence (Triffin, 1961; Rueff, 1964).

The roaring twenties, was indeed a large historical expansion in the USA, with the birth of the DuPont (nylon), Procter & Gamble (Soap powder), Revlon (Cosmetics), RCA (radio), IBM (accounting machines), Alfred Sloan (General Motors) (automotive industries), large new corporations, representing the immediate effect of the monetary expansion enacted by president Coolidge, culminating with the gold confiscation in the following

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President Roosevelt era. The gold confiscation and the general monetary restrictions in the single areas, had depressing effects on the economies with large unemployment and worldwide recession down to the second WW.

The Bretton Woods provisions of July 1944, with the harshly criticized rewording because of the implementation in the text of the word gold, adding “US dollars”, as first line monetary base is “de facto” a worldwide reserve for all the coming adherents to the IMF, leading “de facto” to a temporarily dollar-gold merger, still in existence.

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

JEL codes: G28

1. Adverse Monetary Events Affect the Gold Standard Trough History, From the Diocletianus Edict to the John Law French Legal Tender Experience, to the Comecon Clearing Systems, to the Unbased Token Chains

The original barter systems were fully left apart as soon as a monetary unit of account took place in some stable primordial payment systems, at the very beginning of any primitive economic activity, as a mean of payment in the credit debit settlements, arising while closing any commodities or services transaction.

From the primitive coins appearing in existing markets, the intrinsic monetary value was the prevalent base for each settlement and precious metals like gold, silver or other similar items were used in short time horizons. The gold coinage, typically in the recent most ordered communities, as the Roman Empire, were in force till the monetary demand of gold was satisfied, as the precious metal might not have been always available, or the available quantities were not in balance with the market value of all the transactions. The Diocletianus edict of AD 301 is a first example of a gold standard authoritative official restriction, with a consequent legal fixing of prices and salaries, assumed by the local Authority, as the Mesopotamian *shekel* - the first known form of currency — surfacing nearly 5,000 years ago, in ancient Mesopotamian silver coin, monetary denomination surviving nowadays.

The earliest known metal mints date to 650 B.C. in Asia Minor, where the elites of Lydia and Ionia used stamped silver and gold coins to pay their armies. Up to the huge French paper money circulation, as the one enacted by the Scottish John Law, fortune hunter first promoter of a monetary system based on paper which collapsed, on behalf of the French Regent Philip, Prince of Orléans. “Bread, cash, dosh, dough, loot, lucre, moolah, readies, the where-withal: call it what you like, money matters. To Christians, the love of it is the root of all evil. To generals, it is the sinews of war, to revolutionaries, the shackles of labor. But what exactly is money? Is it a mountain of silver, as the Spanish conquistadors thought? Or will mere clay tablets and printed paper suffice? How did we come to live in a world where most money is invisible, little more than numbers on a computer screen? Where did money come from?” (Ferguson, 2016, p. 1).

This basic question aroused by Ferguson, has not yet an answer, the question is several thousand years old and the only known currency keeping its original first name remains the Mesopotamian shekel, fledgling present official denomination of the primordial Jewish community, nowadays still the denomination of the official legal Israeli tenderable currency. One of my contributions to the initial discussion about the euro issuance, after the multiple currencies’ alternative agreements of the seventies and eighties, in the European Community, was originally stressed in one article: “*La Moneta Uunica - Fallout Hypotheses*” (Pines, 1998). I was thinking, in the year 1998, about the foreseeable progressive emissions, which would accumulate over any monetary compatible limit in the European global payment system. Without any quantitative real value linked, borderline politically instrumental over unlimited emissions, the ECU would end undermining any general quantitative prior equilibrium price limit, in any close clearing system, opening the unresolved problem about external settlements procedures, timing and financing and, for the first time in history, the working of an undervalued monetary unit, recalling finally the French revolution *assignats*, the unresolved Weimar Republic *rentenmarks*, the Comecon *clearing systems,* historical incontrollable union upsetting failed experiments.

Most monetary perturbations stem from political unsetting tendencies and from vast expensive last centuries wars, with costs and destructions overwhelming any possible foreseeable taxation. The financing of the wars have been the first ground and undiscussed reason of all monetary evolution and the goal of recovery the expenses through overburdening treaties of peace, have historically guided to heavier and worst solutions.

The last effort to recover war expenses is the French one, at the end of the WW1, reason that moved Keynes away from the treaty discussions. “So far as possible, therefore, it was the policy of France to set the clock back and to undo what, since 1870, the progress of Germany had accomplished. By loss of territory and other measures her population was to be curtailed; but chiefly the economic system, upon which she depended for her new strength, the vast fabric built upon iron, coal, and transport must be destroyed. If France could seize, even in part, what Germany was compelled to drop, the inequality of strength between the two rivals for European hegemony might be remedied for many generations.” (Keynes, 2023, p. 28).

2. Historical Transformations, Basic Evolution

To study and understand the changes, going on in our recent European social life and try to face the forthcoming likely evolution, the best approach was indeed to study and understand the historical previous transformations and their fallouts. Conditioned by all the local specific variables, linked to the weather and climate alterations, demographic exponential population, and the other contingent variables, we must consider the growth in a limited rigid living surface, deep technological evolution in the communication processes and melting migrations.

The French Revolution and its monetary consequences, due to the John Law critical American financial experience, was linked to the first paper monetary base expansion. The link of money to the real estate coming from the French Revolution itself, that is land and real assets confiscated to the dominant classes holding power: mainly nobles and the church, through the paper emission of the assignats, paper money issued by the National Constituent Assembly in France, during the Revolution. The assignats were issued after the confiscation of all church properties in 1790, being the government bankrupt. “Are the old assignats depreciated at market? What is the remedy? Issue new assignats. — Mais si maladia, opiniatria, non vult se garire, quid illi facere? assignare — postea assignare; ensuita assignare.” (Burke, 1953, p. 231).

Same experiences follow the monetary issuance of the Continental Dollar, in a revelatory history of how the newcomer United States paid for its first 1776 independence war. Farley Grubb upends the common telling of this story, in which the United States printed cross-colony money, called Continentals, to serve as an early fiat currency — a currency that was not tied to any commodity like gold, but rather to the legal authority. As Grubb details, the Continental was not a fiat currency, but as well a “zero-coupon bond” — a varied species of money. As bond payoffs were pushed into the future, the money’s value declined, killing the Continentals’ viability years before the Revolutionary War would officially end (Grubb, 2023).

Drawing on decades of exhaustive mining of eighteenth-century records, the Continental Dollar is an essential origin story of the early American monetary system, promising to serve as the benchmark for critical work for decades to come. The painful experience of the runaway inflation and collapse of the Continental dollar prompted the delegates to the Constitutional Convention to include the gold and silver clause into the United States Constitution. The individual states could not issue bills of credit or "make anything but gold and silver Coin a Tender in Payment of Debts". However, in Juilliard v. Greenman, the Supreme Court of the United States settled an ongoing and very heated debate on whether this restriction of issuing bills of credit was also extended to the Federal government.

By the constitution of the United States, the single States cannot coin money, emit bills of credit, or make anything but gold and silver coin a tender in payment of debts. Anyway, no limit can be assumed to deny to congress either of these powers. From June 1775 to 1779, Congress ordered 11 emissions of Continental Currency to the amount of 226 million Spanish milled Dollars. These bills constituted 82% of the federal government's income during this period. At first, the currency circulated at a par with the Spanish milled dollar, but since the states were simultaneously emitting their own bills of credit and debt certificates to cover their growing war expenses, the glut of bills issued, without sound financial revenues, soon led to depreciation of all forms of circulating paper, but especially that of Congress. Great Britain contributed to this financial instability through counterfeiting the issues of 20 May 1777 and 11 April 1778, to such a degree that Congress recalled both issues in their entirety. In January 1777, $1.25 of Continental Currency could purchase $1 in specie (gold or silver coins). By January 1781, it took $100 in Continentals to obtain $1 in hard money. This depreciation had effectively put an end to circulation of the paper bills by 1779, when Congress resolved to stop issuing them altogether.

The Continental Dollar is a revelatory paradigm of how the untrained United States paid for its first national war. The Spanish dollar was the coin upon which the original United States dollar was based (at 0.7735 troy ounces or 24.06 grams), and it remained legal tender in the United States until the Coinage Act of 1857. In 1535, Spain opened a mint in Mexico, followed by other mints in Latin America, which produced Spanish dollars. These coins were called pesos, a unit of weight. Queen Anne's Proclamation of 1704 made the Spanish dollar a monetary unit in the American colonies, worth six shillings. In the Coinage Act of 1792, Congress used the Spanish milled dollar as the basis of the American system of gold, silver, and copper coins. The Coinage Act of 1857 ended the use of the Spanish dollar, and all other foreign coins, as legal tender in the United States.

"The Spanish Milled Dollar was a term English speakers gave to the Spanish dollar Reales that was minted on a coin press from the date 1732-1826. The term "milled" refers to the fact that the coin blanks (flans or planchets) were made on a milling machine and were of consistent weight and size."[1]

Many other currencies around the world, such as the Japanese yen and the Chinese yuan, were initially based on the Spanish dollar and other 8-real coins. Most theories trace the origin of the "$" symbol, which originally had two vertical bars, to the pillars of Hercules wrapped in ribbons that appear on the reverse side of the Spanish dollar.

"While Britain was first to adopt the gold standard, her example was not followed until the second half of the nineteenth century. Fears of inflation due to gold discoveries deterred other nations (Sayers, 1933), and until the

[1] Available online at: https://www.atlantafed.org/economy-matters/banking-and-finance/clash-of-the-coins/coin-09_spanish-milled-dollar.aspx.

1870s, there did not exist a critical mass of gold standard countries to attract others to the system. Indeed, at mid-century the dominant direction of movement was away from the gold standard, not toward it. The possibility of inflation due to newly mined gold flowing into the coffers of central banks led governments to suspend gold coinage. This was the response of Belgium, Switzerland, and the Netherlands, although larger countries like France and England hesitated to take this step for fear of further destabilizing the international system. In the end, the anticipated inflation never materialized, due in part to the operation of the bimetallic system itself. As gold flowed toward the bimetallic countries, their silver flowed toward countries on silver standards. Thus, the impact of the gold rushes in California and elsewhere on the money stocks of the bimetallic countries was minimized by the operation of this 'parachute effect'. By 1860 it had become clear that the gold-silver exchange rate would not be significantly displaced by discoveries in California and elsewhere; in response, Belgium and Switzerland resumed coining gold. Their resumption of bimetallism turned out to be the first step toward the creation of a global gold standard. The expansion of Europe's trade in the 1860s heightened the attractions of exchange-rate stability. Although France's bimetallic system helped to stabilize the exchange rates linking the gold and silver blocs, a common basis for Europe's currencies would have been even better for weaving together the continent's trade. In 1867 an international conference was held in Paris for the purpose of establishing a common standard. With gold now comprising the majority of the French monetary circulation and England on the gold standard, the yellow metal was the natural focus of negotiations. The bimetallic lobby remained powerful, however, and the 1867 conference failed to overcome its opposition and agree on international action. …… The more countries adopted the gold standard, the more attractive it became for the others. Gold soon became the monetary standard in virtually every European country. The international gold standard reached across the Atlantic in 1879, when the United States, putting civil war and reconstruction behind it, restored gold convertibility, and into Asia when Japan followed. By the early 1900s most of the non-European world had gone on to gold; the principal exceptions were China, which remained on silver, portions of Latin America with silver and bimetallic standards, and bimetallic Persia (Eichengreen & Flandreau, 1996)." (Eichengreen, 2005, pos. 216).

"There were important differences in how different countries operated their gold standards. Gold coin circulated only in France, Germany, the United States, Australia, South Africa, and Egypt. Other countries issued token coin and paper currency convertible into gold. Some countries were on full gold standards, where gold convertibility was automatic (Britain, Germany, and the United States), while others operated 'limping' gold standards, where gold convertibility was at the option of the authorities, who reserved the right to make use of the silver clause of their still officially bimetallic monetary statutes (France and Belgium)." (Eichengreen, 2005, pos. 251).

The main case against the Gold Standard arises in the twentieth century with the major world wars and related huge legal tender paper money: in England, John Maynard Keynes faces the gold problem after the first World War and as a related consequence. "Thus, after all, the system voluntary savings will have worked successfully. That is to say, the money will have been raised "voluntary" without an unlimited increase of prices. The only condition for its success is that prices should rise relatively to wages to the extent necessary to divert the right amount of working class and other incomes into the hands of the profiteers and thence into the hands of the Treasury, largely in the form of taxes and partly in the form of extra voluntary savings by the profiteers." (Keynes, 1940, p. 67).

In Italy, such a problem is faced by Cabiati, facing the related problem of financing a great war, "Il Finanziamento di una Grande Guerra" where he sees in the money issued to support the rising military expenses, through the monetary base expansion, linked to their circulation velocity, a recurring vicious merry go round of enlarging central banks unbased liabilities. The internal deficit and the external one are simultaneous growing up to the final armistice negotiations between winner and looser of a perpetual unbalanced world. So, with the WW2 with the IMF, World Bank and dollar gold assured convertibility, which lasts up to the final Nixon statement about the “temporarily” convertibility suspension, opening a new unknown faith to the worldwide monetary uncertainty which is not reduced neither by the WTO innovation, nor by the Euro funding, the inter European financial new currency issues. (Cabiati, 1941).

Both innovation don’t consider the main deterrent constituted by the absence of the value base, up to the 15th August 1971 represented by the gold rule, the dollar issuing Nation has assumed the commitment to convert in gold the adhering currencies registered to the IMF only (temporarily) suppressed by President Nixon from Camp David, but never reinstalled again, letting the dollar become an unusual world empty currency, printable according to the Aldrich-Vreeland Act, originally enacted in the year 1908, when a United States law passed, in response to the Panic of 1907, the issue of uncovered legal currency. This legislation established the National Monetary Commission. The act aimed to address the monetary crisis, by providing elasticity to the currency circulation, special provision, as a temporary remedy to US potential insolvency.

The years following the gold standard regime are full of alternative leading to the clearing monetary systems without any success. From the parity adjustments to the European currency units, to the final Euromoney unit, all is related to the interstate balances adjustments, but without reaching such goal.

No solution is found to the fundamental issue that gold was the mean of payment value standard to be fixed and generally accepted, in a system where inflation and national deficits were always out of line and ungovernable.

Figure 1 Gold Spot Price in U.S. Dollars Since Bretton Woods July 1944[2]

Source: 35 dollars one oz. at Bretton Woods, 2.029 dollars in Jan. 2024

So, the syntheses of the alternative Bretton Woods proposition, after the first New Deal depression, made by White, removes the left British monetary gold linkage supremacy transferring to the U.S, monetary and political

[2] Available online at: https://www.kitco.com/price/precious-metals/gold, https://it.investing.com/charts/future-charts.

predominance without left competitors. The short Japanese industrial and commercial supremacy in the reconstruction after the second WW lasted till the banking huge demise in the building sector of the eighties, closed down the financial Japanese supremacy. The cross over of the second Millenium left Japan under the contradictory short term Keynesians projections, but unfortunately on the necessary but different structured long time.

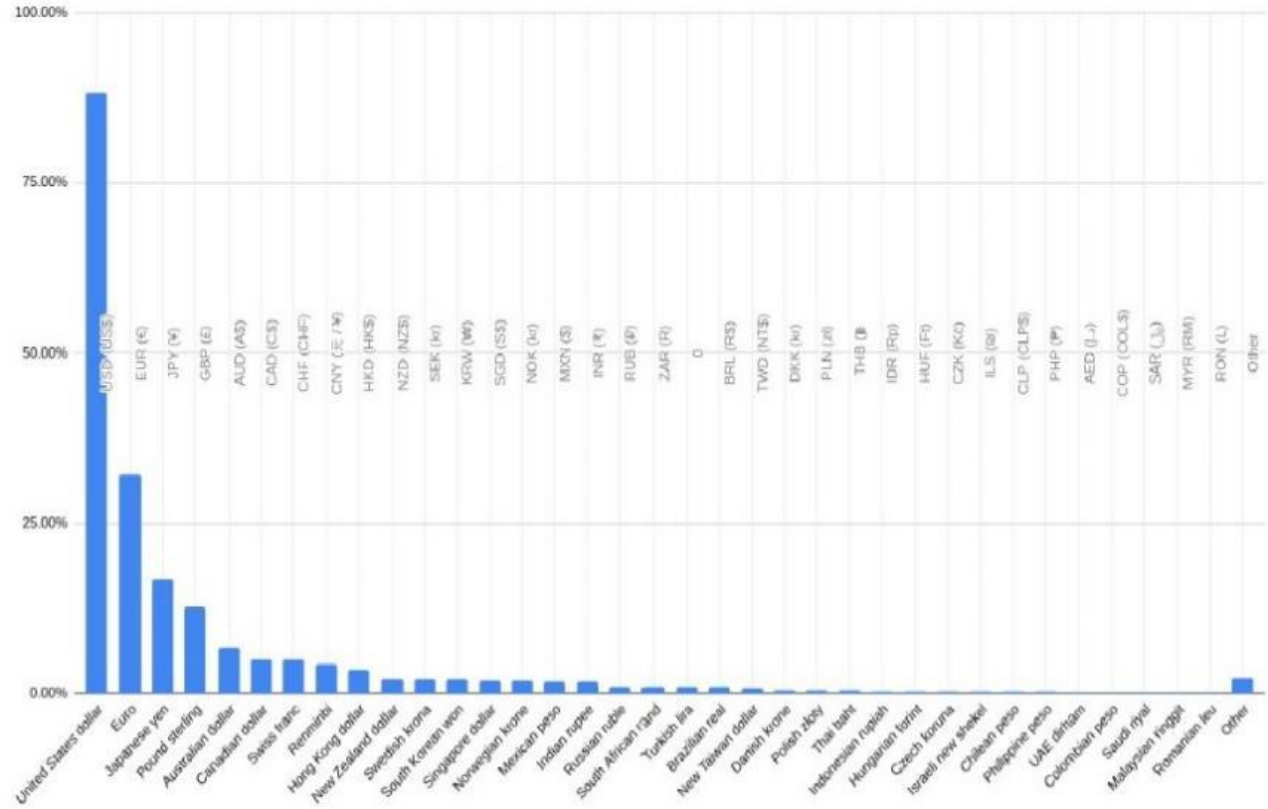

Figure 2 Most Traded Currencies (27.10.2022)

Source: Ashersea, CC BY-SA 4.0[3], via Wikimedia Commons

The banking crisis from the late 1990s in Japan remains the most memorable incidental event in the Japanese financial history. It was commensurate with the Showa Kin'yu Kyoko, the Showa financial crisis in the 1930s, following the global Great Depression starting in the year 1929, after the President Coolidge roaring years. The banking crisis led to a restructuring of the banking industry and related financial entities, which had not changed for 50 years after World War II. The crucial point of the financial crisis is that neither Japanese banks nor financial authorities had recognized the meaning of deregulation and its associated risks in the financial markets. During the financial crisis the real economy stagnated in terms of both production and consumption throughout the 1990s. Deflation loomed as an important threat. Ironically, the end of bank restructuring opened a gateway to the deflationary economy of the subsequent decade. "The fundamental business of a central bank is to control the commercial banks in such a way as to support the monetary policy directed by the State. The basis of its control is its relationship with the commercial banks — the central bank is the banker's bank. This means that the

3 Available online at: https://creativecommons.org/licenses/by-sa/4.0.

commercial banks ‘bank’ with the central bank; they look to it as a safe deposit of their basic cash reserves, which they can exchange for legal tender money on demand; and they also look to the central bank either directly or indirectly for the relief of temporary but critical shortages of cash reserves.” (Sayers, 1951, p. 83).

This paper is concerned with the surfacing in Britain, in the early 1990s, of a large group of domestic mortgage holders with negative equity (i.e., whose property had fallen below the value of the mortgage advance used to purchase their property). The emergence of negative equity is traced to the conjunction of the long-term trend towards wider homeownership in Britain and the effects of deregulation of the financial system in the 1980s. Using individual records from a major building society, the temporal, geographical and social distribution of negative equity is assessed. The results suggest that negative equity was far more likely to affect certain social groups living places and that these appear to be the people least well placed to “help themselves” out of debt. The concluding section attempts to draw out some of the policy conclusions from these findings.

3. The Monetary Base and the Internal and External Deficit Conflicts, the Bretton Woods Design, Its Likely Evolution

Most of the confusion about the real meaning of the word money arises from the underlying significance and substances of the money itself, whether a substance with intrinsic value or a symbolic sign in a clearing accepted close system circuit, previously formally accepted or established. The monetary base, since its primordial origins, was some precious metal, like typically gold or silver or very previously, at the first human nomad’s settlements exchanges, some not depreciable valuable merchandise. Most of the present profile arises after the high Middle Ages monetary chaos in the American discoveries and wars, the American civil war, the French Revolution, the lates World Wars, finally the new payment clearing systems designed in the socialist planned Eastern Economies. The Bretton Woods temporarily unilateral agreements, as Keynes described the acceptance of an unread final text, signed on the exit of the July 1944 conference in Bretton Woods, laying the ground of the Monetary Financial Fund and the World Bank and the reinstalling of a mixed dollar-gold standard.

The US gold reserves were not definitely sufficient to maintain the parity of the US dollars and the binding conversion agreement, as expressed at Bretton Woods, all together were not sufficient to keep the gold dollar intrinsic value. The first request from the French president De Gaulle went unanswered on the 4 February 1965 and the conversion incapability surfaced progressively, up to the 15 August 1971, when, being the convertibility impossible, it was “*temporarily suspended*”. After the gold debasement, the unpaired paper money, floating, de facto, under legal tender provisions, reached ultimately a 34 trillion level, out of any possible conversion hypothesis, leading the whole central banks systems to the original starting point of 1779, when the first Continental dollar was unconditionally terminated. The United States constitution foresaw at article 1) that only Confederation money would have been gold, Section 10: “No state shall enter into any treaty, alliance, or confederation; grant letters of marque and reprisal; coin money; emit bills of credit; make anything but gold and silver coin a tender in payment of debts ….” The provision has been now disregarded, as assumed “*temporarily*”, treasury deficits have been singularly authorized since the Aldrich - Vreeland Act, a law passed in response to the Panic of 1907, which established a National Monetary Commission and, under special circumstances, currency issues without value intrinsic base or convertibility rights. Then was designed the final funding in the Jekyll Island of the Federal Reserve Board.

The only relevant and disrupting event lies in the final Bretton Woods Commission: American delegates, after a night's paper work, presented an emended test restructuring the international payment system through the IMF and World Bank projects and added the words U.S. dollars to the word gold, as the precondition of the adhesion to the Fund and to the global convertibility for any applying member State.

"At 9:30 a.m. on July 14. Morgenthau began a meeting of the full American team by reporting cheerily that White had 'worked' up until three o'clock this morning with the Drafting Committee on the Fund and he feels [the text] is in excellent shape. Morgenthau achievements of the committee, composed entirely of White's technicians, was strategically replacing 'gold' with 'gold and U.S. dollars' through the 96-page Final Act. Dexter White never submitted the changes for consideration in Commission I, yet they would deliver copies at 9:30 a.m. on July 14. Keynes would only discover them after his departure from Bretton Woods." With the July 1944 overnight modifications of the Dexter White wordings, adding US dollars to the single gold monetary basis, which would have allowed an international payment system to operate unfairly. Facing the settlements of the international unpaid balances on a Worldwide basis has become the main unresolved present problem of a secular conflict. (Proceedings Bretton Woods, 1948).

The Euro, a European single currency agreement, has been the temporarily solution to the last Century huge economic problem as outlined by Sir Halford Mackinder. In his great essay that made him famous in 1904, about the pivot of history, in an article submitted by the new Director of the London School of Economics, in the year 1904 he advances to the Royal Geographical Society his heartland theory. In his article, Mackinder extended the scope of geopolitical analysis to encompass the entire globe. We have for the first time in history, truly interconnected financial markets, so that a crisis in one major market can ignite a crisis in another stock exchange, halfway around the world and that can have political effects. So that's one angle of it, the unity of financial markets, which of course, is brought about by technology in the communication and supply systems.

4. The Fallout Hypothesis and the Consolidation of the Inconsistency of Any "Fiat Currency", Paper Money Viable Economic System, Not Able to Survive Any Market Discovery for Its Inconsistency

Prices adjust in the market so that the real value of governments debt equals the present value of taxes less spending. Inflation breaks out when people do not expect, and the governments can't fully repay their debts. The Continental dollar is a clear and efficient example of all the limits of a paper fiat money, especially in war periods, which represent the clear fall-out of any system where real monetary substance is not considered or cared about. The political horizon and the political strategy are not compatible with a legal monetary base inconsistency. After the industrial revolution, economics has mostly studied the cycle linked to the investments, production, and allocation of products to recover the original financial instruments.

The financial, monetary and material connected processes have been adjusted to the connected specific markets, sources of financing, management of costs and regular flows of values revenues and expenses, mostly from sales and purchases of services, production parts and labor.

The general production equilibrium relies mostly on the stability of the monetary means employed and accrued in their regular balancing flows. If cost overcome revenues, the equilibrium ends up being broken and the activity must terminate in regular cycle.

The low labor costs and new softer labor relations have misplaced most of the industrial procedure in the Eastern countries, in the East world hemisphere, especially China and India and badly hit all Western affluent consolidated high-cost productions, ever more progressively. This reorganizing of the world economy is focused on modern literature. “For reasons which will become clearer as the book goes on, I have come to see economics as a fundamentally regressive discipline, its regressive nature disguised by increasingly sophisticated mathematics and statistics.” (Skidelsky, 2009, p. 10).

The financial deregulation with the Gramm–Leach–Bliley Act (GLBA), also known as the Financial Services Modernization Act of 1999, has repelled the Glass and Steagall Act which had separated the commercial from the financial credit operators in the thirties.

In the academia, meanwhile, being struck down by cancer, Fisher Black could not be a reliable partner. Instead, Merton and Scholes found John Meriwether, a former head of the bond arbitrage group at Salomon Brothers, who had made his first fortune out of the Savings and Loans meltdown of the late 1980s. The firm they created in 1994 was called Long-Term Capital Management. It seemed like the dream team: two of academia’s hottest *quants* teaming up with the ex-Salomon superstar and a former Federal Reserve vice-chairman, David Mullins, another ex-Harvard professor, Eric Rosenfeld, and a team of ex-Salomon traders (Victor Haghani, Larry Hilibrand and Hans Hufschmid). The investors LTCM attracted to its fund were big banks, among them the New York investment bank Merrill Lynch and the Swiss private bank Julius Baer. A latecomer to the party was another Swiss bank, UBS. The minimum investment was $10 million. In its first two years, the fund managed by LTCM made mega-bucks, posting returns of 43 and 41 per cent. The partners’ stakes had increased by a factor of more than ten. Admittedly, to generate these huge returns on an ever-growing pool of assets under management. Their mathematical models said there was next to no risk involved. For one thing, they were simultaneously pursuing multiple, uncorrelated trading strategies: around a hundred of them, with a total of 7,600 different positions. One might go wrong, or even two. But all these different bets just could not go wrong simultaneously. That was the beauty of a diversified portfolio — another key insight of modern financial theory, which had been formalized by Harry M. Markowitz, a Chicago-trained economist at the Rand Corporation, in the early 1950s, and further developed in William Sharpe’s Capital Asset Pricing Model (CAPM).

All the financing out of commercial banks time deposits brought to the huge financial collapse in all the sectors of operations, from program trading to real estate sub-prime lending, from hedge funds to all forms of derivatives.

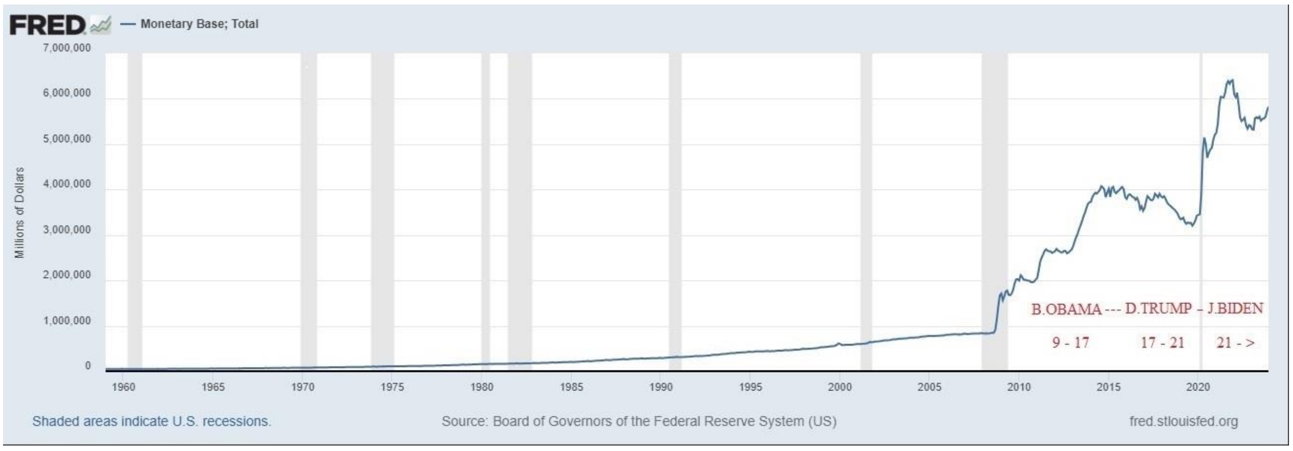

Figure 3 FRED Monetary Base Total[4]

[4] Available online at: https://fred.stlouisfed.org/series/BOGMBASE.

The section 13 (3) of the Federal Reserve Act, section 13 (3) empowered the Federal Reserve to lend unlimited cash to virtually anybody. On March 16, 2008, it empowered, according to the Aldrich Vreeland Act 1907, the Federal Reserve Bank of New York to lend $29 billion for the acquisition of Bear Stearns by JPMorgan. Bear Stearns, the smallest of the major investment banks, founded in 1923, was on the edge of bankruptcy, having run through nearly $20 billion of cash just the previous week. "Its demise was the beginning of a six-month erosion in global financial stability that would culminate with the Lehman Brothers failure on September 15, 2008, triggering possibly the greatest financial crisis ever. To be sure, the Great Depression of the 1930s involved a far greater collapse in economic activity. But never before had short-term financial markets, the facilitators of everyday commerce, shut down on so global a scale." (Greenspan, 2014, p. 1). The huge uncovered monetary issues induced the public debt to double its size during the Obama Presidency, in an unusual growth since the first dollar collapse in the first Continental dollar issues during the independence wars.

The monetary solution is described by Randall Wray in his "Why Minsky Matters" recalling the "Stabilizing an Unstable Economy", as anticipated by Hyman Minsky. "Because he saw 'it' (the Global Financial Crisis, or GFC) coming. Indeed, when the crisis first hit, many of those familiar with his work (and even some who knew little about it) proclaimed it a 'Minsky crisis'. That alone should spark interest in his work." (Wray, 2016, p. 1) (Minsky, 2008).

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