

Original Paper

The Instability of Economic System and the Errors in Economics

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Abstract

The instability of an economic system is an almost normal condition, because it's widespread. But it is a distortion if compared to the path of a stable economy. A stable economy follows a straight growth, with a steadily rising slope. In the world of instability, however, the economy follows a sinuous path, because the recession and the monetary signals come into play. Inflation and deflation are only the messengers of the unstable state and also signals to change course. They are ectoplasms created by the world of instability, to stimulate the return to the stable condition. A full frontal against the messengers makes no sense. Instead we need to hold the message and eliminate from the management of the economy those errors which derail from the compatible path and in parallel from the environment around us. The derailment is not definitive, because the events of the unstable sub-world show that the forces acting therein (the recession and the speculative excess) and the monetary messengers have the function of correcting the errors. The cycle of the conjuncture and, in extreme ratio, the speculative excesses are the correction tools, to bring the economic system back to the stable condition. Basically, the recession is a sequential intervention curbing the economy growth, to rebalance the systems' potential according to the distinct but coherent course followed by our planet. The inflation is the messenger that measures the intensity of the gap between the two levels of development: the humanity and our natural environment. The deflation is instead the measure of the excesses suffered by the economy for the improvident idea to push the economy development beyond the limits imposed by compatibility. The deflation is the measure of excesses in terms of private and public indebtedness, and cheap credit. It is accompanied by a weak growth, which also requires new debt and money availability. The process, if not interrupted, starts the phase of misleading and doped speculation, which will end with a serious economic depression and new social troubles. We should not fight these instability monsters. We need to prevent them, instead. Our world seems to be running towards a new speculative fire. Trying to force the exhausted systems' course is to light up the smoldering fire. The economy needs a period of calm to heal and reabsorb excesses. Monetary policy must raise up its guard, while fiscal policy must renounce the belief that we have the tools to tame the conjuncture cycle and to

submit it to the wishes of our unscrupulousness.

Keywords

deflation, instability of economic system, errors in economics, messengers of instability

1. Introduction

The issue of the instability of economic systems is widely used, in the common as in the scientific language. It could be considered even a misused term. Yet, despite its use out of line, we can say that the meaning of the term *instability* in economics remains generic and undefined. Nonetheless, the stability as that condition coming from the respect of the physical laws governing the human relations and the economy, is there to indicate when an economic system follows over time a course in harmony with the planet evolution process, which feeds and protects the life. In other words, stability in economics means harmony between intelligent life development and natural environment.

Beyond the criticism of those who would like to return to the time of James Monroe, the father of the isolationist doctrine, the concept of the environment inside economic world, is in itself a global idea. In other words, it's recalling the global balance of the economy events developing over time worldwide. For this reason, the stability of economic systems shouldn't be measured only at the level of individual states or continents, but must involve, in an insuperable interweaving, the whole of humanity in its relations with our habitat.

Thus, we can understand why the stability of economic systems remains a *desired utopia* and the very concept of stability in the economy tends to fade in an undefined concept. And yet, do not focus our consideration, in economics as in other sciences, on the instability issue can be a great mistake. Indeed, to disregard the "normal" condition of economic systems could lead to neglect the welfare goal aimed by a vital context. And, alternatively, could lead to follow the ghosts created by the unstable economy, instead of investigating about healthy behaviors in relation to the environment, which could bring economic systems closer to the stability ideal condition.

And the ghosts created by the economy instability are really a lot. Starting from the economic cycle, following with the inflation monetary tensions, the deflation dead swamp, until the continuous recessions, the speculative excitement and the following severe financial crisis. But these are all specters created by the instability. So, we risk to run after ectoplasms and then to fight in order to mitigate and to contain the impact on the everyday economy of these monsters, which we created indeed through an unrestrainable sequence of errors.

Given the global nature of the balance between economic events and compatible use of resources, the stable condition therefore seems utopian. Against the divergence between human activity and compatibility with the environment, the nature offer show ever some opportunities. We can thus ascertain that the natural context guarantees an elasticity and a consequent tolerability to the aggressions carried out by the mankind for its incurable egoism and robbery spirit.

This flexibility allows living beings to remain in harmony with the natural system, so ensuring a favorable context for the progress of mankind. But it also allows us to give a concise, though not conclusive, definition of stability in the economy. An economic system is relatively stable if it follows a development profile proceeding in a straight line and according to an inclination depending on potential. Such an environment would exclude, by definition, a cyclic trend of the economy, monetary accelerations or decelerations, any kind of speculative phenomena and of economy's recession or depression phenomena. It's therefore excluding all the monsters sown by the accumulation of human errors along the path of life progress on the planet.

1.1 Does It Make Sense to Accuse the Inflation Cycle of Laziness?

Given this approach, it doesn't seem that we can expect an excellent performance if the contrastation is against the disease symptoms rather than its causes. In the current global economy, there has been a long stagnant trend in inflation. Basically, the advanced countries suffer from a chronic tendency to deflation. Nor even the upward pressure of oil, which has recently exceeded \$ 80 a barrel and is still pointing up, is able to bring the price run back to its base value close to 2% (inflation for items other than food and energy) preferred by Central Banks (Note 1).

The anomaly of the peculiar laziness of inflation occurs when there is an excessive indebtedness with respect to the condition of the real economy. A scenario that implies an over-use of natural resources and an attempt to live above normal possibilities. It's a matter of a relative financial asphyxiation, which can benefit from an accommodative monetary policy that increases the liquidity availability for the distressed system.

In conditions of over-indebtedness, the availability of cheap currency mitigates the financial strain, but does not solve the basic problem of excess in consumption and the rising debt burden. In other words, the accommodative monetary policy benefits the starved system, but leaves the economic instability problem for future reference. Well, in a situation of excessive debt we cannot condemn the Central Banks' choice to increase liquidity in order to dilute over time the weight of excesses. Also, because it isn't the monetary policy that moves the market towards excesses, as it's up to the economy management the task to control or to curb the excesses and the speculative tensions within the market.

In a situation of deflation trend, it is unreasonable to think that we can act on the weak pace of inflation to influence the economy course. And this, in general, for a substantial reason. The GDP curve precedes the inflation curve by a few quarters. It follows that it's always the conjuncture line that is shaping the price line and not vice versa. On the other hand, a feedback process from the price cycle to the conjuncture cycle doesn't appear to be possible in general, except perhaps in the case of a sudden and unexpected increase in international prices (oil price). This simple consideration leads to exclude that monetary policy could become a sort of "strategic pivot" on which to rotate the economy fortunes.

Based on the above, it seems justified to argue that accommodative monetary policy plays a role of lightening the downward tensions of the conjuncture inside an unstable economy. In other words, the

very accommodating monetary maneuver can play a supporting role in the case of a severe recession, because it reduces the cascade effects on the fortunes of market and companies due to the lack of liquidity. It doesn't seem to have an effective role, instead, in the necessary work of restoring the compatibility conditions in the economic system development. We could rather assume that a temporary monetary relief could curb *the natural corrective action* on the unstable state of the economy. In fact, the deflation tendency should be read as a system's attempt to impose a slowdown along the economy's route, unfortunately through an inversion of the conjuncture cycle, thus mitigating the instability of the indebted system. As saying that slowing the economy mechanism is the natural shortcut to return to a development compatible with the natural environment preservation.

In other words, monetary policy doesn't show a significant role in defending compatibility within the development of economic systems. In addition, it's producing over time a delayed presence of the undesirable effects, with the result, however, to just postpone for a while the problems not only leaving them unsolved but even without starting a future solution. Therefore, the monetary policy, though somehow free regarding the economic and social policy of the governments in charge, actually moves according to a short-term perspective.

How could the Central Banks, on the other hand, be justified when they didn't have the capability to somehow feel in advance the storm that was approaching in 2007? There was certainly no lack of symptoms of the serious trouble that was falling over the world economy. This indirectly confirms that the monetary policy plays a role of market sentinel but does not have an effective role on the economy's fate and on its sustainable path, therefore can only be used when needed under particular circumstances. This says a lot about the markets looking at the policy of Central Banks as a beacon to orient themselves in the short or very short term.

2. Method

2.1 The Issue of the Economic Systems' Stability and the Symptoms of Instability

It follows that the action of politics often is developed over the short term. So, a quick fix on serious or less serious problems is made, but a prolonged concerted action is not taken to reduce the imbalance of economic systems that have derailed from the compatibility course. The attention, often inappropriate and inconclusive, to the solution of economic problems when they come out may depend on the political short-sightedness about events not yet fully evident. But also, and maybe above all, on the estimation, neglected or forgotten, about the general state of the economy and therefore about the degree of country instability.

According to the common vision, there is no doubt that inflation beyond the magic number close to 2% indicates that the economy shows a monetary symptom of instability. A symptom that is more serious as the price increase deviates from the basic parameter. We are facing an event that everybody-institutions, companies and families-understand being based on direct perceptions, such as the consumer price index. Well, the intervention of the responsible subjects when the common sensors

begin to worry families at that point is just a duty, but it could be too late. Because price resentment is already a late symptom, anyway, preceded by various signals of the economic conjuncture.

On the other hand, it's better not to wait until the economy's malaise signal makes to start a tension on prices. In fact, even before the inflation occurs, the cyclical conjuncture movement is already present on the economic scenario. This is not a typical natural pace of the economic mechanism. On the contrary, the cycle of the economy is the basic symptom that the system has entered the instability sub-world, thus deviating from the compatibility relationship with the natural environment and from the balanced relationship in the use of natural resources.

The economy cycle is the basic criterion separating the instability concept from the opposite one of economic and social stability. The stability in fact outlines a scenario of linear development, compared to the cyclical motion characterizing the instability state. The relatively stable economic system, growing compatibly with the environment, is not subject to periodic phases of corrective recessions, for the simple reason that there is no need for periodic recessions. These are in fact periods of pause/slowing that the unstable system undergoes in order to counteract and reduce the instability state of the economy. It's therefore a remedy of the correction strategy that the system naturally undergoes in an attempt to return into the stability path.

Therefore, a stable system can run in a linear way without suffering any alteration in its path. Along this rectilinear path, the development capability depends on the potential, which therefore determine the inclination of the economic development's line. Defined in this way the general picture of a relatively stable system, therefore with a growth compatible with the natural environment, it should be clear that in this way we have defined just an ideal model, which is then quite rare in common experience. Most of the economic systems, even at a global level, apparently do not emulate the ideal model of compatible development. But facing the ideal model, they show a wide variety of instability degree inside their own economies and, consequently, also generally inside the global economy.

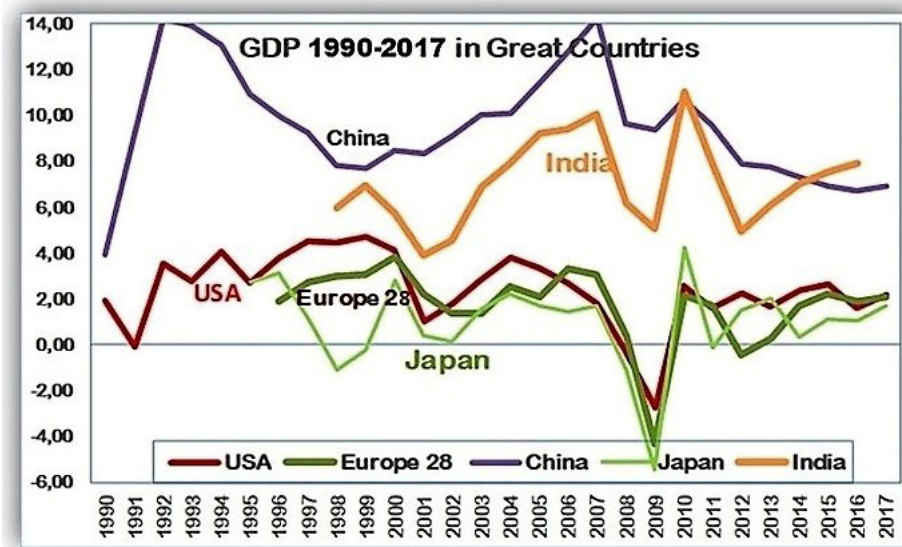


Figure 1. Economic Development Trend for Large Areas

- Elaborations on OECD data

The economic system's ideal model, a linear growth with an inclination dependent on potential, is still a utopia with no real evidence within the economic landscape. However, conditions in many ways similar to this basic model can also be found in the recent history. The reconstruction after World War II saw many nations following a path of prolonged growth and relative calm on the price front. It's not surprising that the second post-war period saw then a rapid growth for a certain time though always within the limits of the economy's relative stability. The reconstruction on the war ruins has in fact allowed a new beginning under the banner of a relative compatibility and a new social solidarity.

In general, however, the economy at a global or individual countries' level tends to deviate from the compatibility path, without any distinction between affluent and developing countries. The cause of this derailment from the natural path are always the errors in the management of public affairs, which however can find their yeast in the pressure exerted by companies and families in their improper attempt to force the natural growth trend. Despite these obvious discontinuities in the economy management, we should note that the natural correction mechanism, which is expressed through the economy cycle and the price tensions at monetary level, shows to have a considerable flexibility.

The price tensions, both in the case of deflation and inflation, are to be considered as clear messages of the correction system that are reporting on the irregularity and seem to be waiting for a positive reaction to amend the situation. On this last issue, it's noted that the economic system seems to be almost reluctant to enter the instability world, as demonstrated by the time frame elapsing before the monetary tension would plant and then embed.

Also, on the economic front, an even long season of calm and relative stability evolves towards the instability with a singular caution. The entry into the instability sub-world is always controversial and somehow slowed. There is almost a resistance to that passage, clearly visible in the times during which

the economic system begins to show the symptoms of a cyclical motion and, above all, the correctional decline of the growth trend.

The messages on the monetary front, which are perceived by families as adverse and that on the economic front do receive the attention of institutions and companies, generally do not go unheard so starting initiatives of antagonistic monetary and fiscal policies. Anyway, in most cases, the response moves on the monetary front trying to limit the price movement. In the sixties, the inflation appeared after the pause of post-war relative monetary tranquility. It was the system's response to the attempts to keep the growth on unsustainable rhythms after the long run. The answer was focused primarily on the monetary front, trying to curb the inflation. *But to a closer inspection, the inflation is only a signal, a sort of ectoplasm sent by the economic system.* It's a message about the system altered state and a symptom of the fall into the instability sub-world.

2.1.1 Inflation and Deflation as Messengers of the Instability of Economic Systems

The battle against inflation is essentially a fight against an image, a mere message coming from the instability world. A sort of war in the mirror, meaning that inflation is the real image at monetary level of the economic malaise. It's quite clear that a fight against an image in the mirror is useless. Also, because the battle is developed on the economic front, through the maneuver of interest rates.

The countermeasure on the economic front against inflation is the money cost increase, which has an impact on the economic trend so leading to a decline or a regression in the conjuncture cycle. In fact, the natural response of the system to the stresses trying to correct the instability status is always the recession, with a varying intensity depending on the degree of the economic system instability. A more or less long break of the growth trend, that unfortunately has reflections on the social, economic and organizational plan. Nevertheless, that pause is conditioned by the exclusive purpose of controlling the system instability and of restoring the development compatibility with the more gradual course of our planet evolution.

Pecunia non olet (Money does not smell, T.N.). The money has the maximum flexibility and adaptability to the environment created by the economy. It does not participate in the development drama nor does it have a master's voice. But it has an ancillary task and it's able, as in a mirror, to provide a vision of the good or evil that exist inside the economy. For this characteristic it's the frank messenger of the system fall into the instability, so creating a self-generated price tension during the inflation, or otherwise a price fall-but without gravity intervention-in the case of deflation.

The deflation is essentially the symptom of finance hypertrophy that the system seeks to counteract naturally through a partial compression of the price system. The price decline, though weak, disincentives new debt, although we have the opposite effect of a greater weight coming from the outstanding debt. Apart from the direct action, the message suggested by the altered system through deflation is about the error in trying to live above the available resources and in forcing the order of potential. It is the natural response to the unlimited greed of mankind and to the abnormal gap between the wealth of the few and the poverty of the many.

Even in the case of deflation of the economic system, the natural mechanism governing the restoration of equilibrium in the economy is always the recession, which must reduce the financial excesses not coordinated to the economy state. The path of the altered system on the road to correction, however, is not easy. In addition, the natural action is limited by the monetary and fiscal policy actions aiming to overcome the obstacle of falling prices.

Because of the reluctance of institutions, companies and households facing an announced recession, even if it's the way to restore stability, the fight against deflation is very difficult and ambiguous in terms of results. Again, there is no way to bypass the phenomenon of declining or stagnant inflation prices, because the *laissez-faire* is excluded from the natural correction mechanism that causes the economic system recession in order to control production and credit.

The contrast reaction, also in this case, is directed to the symptom of the disease and does not attack instead the real nature of the problem, that is the debt excess. Excess that afterwards is actually fed or at least diluted by the monetary policy. The monetary policy is called upon to find an antidote to the emergency of declining or stagnant prices. Also, because an intervention to support the economic situation, through the fiscal policy, can only make an indirect action, so mitigating the collateral effects due to the crisis in the industrial and commercial sectors.

But the goal of the contrast reaction is not so much to contain the ongoing deflation effects, but above all to block the potential economy fall. With an oblique eye looking at the economy facts through the price movement. Therefore, the monetary policy is called to act with the incorrect assumption of strengthening prices to redress the economic situation. The common strategy is to expand the market liquidity supply, in the overconfident expectation that increasing the currency quantity would be the useful incentive to bring the price index at the basic value next to 2%. Illusory hypothesis, because the basic inflation value close to 2%, can only be achieved if the instability correction has been effective. And yet, unfortunately the choice is to block the recession, that instead could mitigate the financial excesses to finally allow a gradual exit from the swamp of the deflation tendency.

However, the decision to feed the exhausted system with increasing liquidity, doesn't seem to be effective in curbing the deflation grip, but rather in postponing, though without eliminate it, the imminent danger of the corrective recession. The resistance of stagnant inflation can be found to a wide extent within the global economy. In the case of euro-Europe, despite the massive liquidity injections in the European area market through a QE (Quantitative Easing) which will continue at a reduced rate until December 2018, the inflation weakness doesn't seem to give up. And yet, the price system is prompted by the rise in oil prices, now close to \$ 80 a barrel, which however is marginally reflected in the cost of living.

2.1.1.1 If the Economy Accelerates, It Cannot Be Argued that We Are on the Right Track—The US Case

Quite different appears to be the US case. Inflation, measured according to the cost of living, has recently surpassed the basic parameter close to 2% and is pushing the Central Bank to plan four rate

hikes for 2019, equal to 25 basis points. A plan then set aside for a more accommodating policy at the end of 2018. Therefore, the IMF expects that, by the end of 2018, the inflation rate will touch 3.5%, while was at 0.75% at the beginning of 2017 (Note 2). Well, the attention paid to the long weak inflation profile seems to be misplaced, even when talking of the United States.

In the case of Europe, the weakness of the inflation rate is related to the slight decrease in growth. Both the two variables (Inflation, GDP) are coherent with the trend of the global economy, which shows signs of slowing down. The coherence of the two variables, both weak, can be interpreted as a partial success of the natural action, which pushes the economic system towards correction. In this context of a slight economic cycle, the conclusion of QE at the end of 2018 does not reduce the liquidity excess in the system but blocks its further increase. In the Euro area, however, the QE has been a factor that has contributed to shaping the economic cycle in recent years and to easing the collateral damage that is the residue of the serious recession during the years 2008-2011.

The potential trend to the economy recession in Europe is therefore not connected to the destiny of the extraordinary measures of monetary policy, which by the way during these recent years avoided the fall into the crisis. And, in any case, the end of QE cannot be considered the cause of the continuing trend towards recession. The stagnant inflation is an unequivocal signal that the corrective recession post speculative crisis of the last decade has not yet concluded its course, which gives back the altered economic system to the compatibility with the environment.

The Europe destiny seems emblematic. In the sense that it seems to represent an evolutionary line affecting the entire global economy. The different fate of the USA is perhaps only apparent and transitory. There is still a coherence in the trend of the two variables, Inflation and GDP, but in this case both variables are increasing. The increasing pressure inside the system appears as always on the GDP line, which according to the IMF should grow in the two-year period 2019-2020 in a range of 3% on average. The tension of the economy cycle is transmitted to the prices, which then become the echo of this tension. Thus, the price index for personal consumption expenditures marks the exceeding of the base parameter close to 2%.

The diversity in the behavior of the two variables in the USA and Europe occurred during 2018 with the adoption of the Tax Act signed into law by President Donald Trump on 22 December 2017 and went into effect on 1 January 2018 and will not affect the 2017 taxes. This is a "bill" that has a driving effect on potential growth and accelerates the formation of public deficit and debt over the next decade. This is a recent phenomenon, considering that in the aftermath of the 2008-2010 financial crisis, Europe and the USA moved almost in symmetry, although the United States came out of the serious recession earlier.

This anticipation was experienced by the American economy, which observed Europe following with some delay the FED monetary policy, emulating it in terms of new liquidity introduced into the system through the so-called Quantitative Easing and near to the QE conclusion, though late on this Atlantic side. Then we could expect that a similar destiny would affect the two great continental economies.

Instead, the almost parallel symmetry has recently changed, with Europe gliding while the USA accelerate the economy's pace.

Considering the common steps taken by the two big economies, it is however to be excluded that the great liquidity introduced with extraordinary monetary policy interventions could evolve in the direction of a moving towards inflation in America; inflation that seems unlikely also in Europe. In practice, the hypothesis of an inflation revival is to be discarded both in Europe and in America. Indeed, the existing liquidity excess is suggesting that it has been and still is a factor leading to the increase of public and private indebtedness. This excess is the underlying reason for the creeping recession tendency, which in turn has been slowed by the new liquidity floods. But these, however, have in turn fueled new debt, so causing new fragility inside the economic systems.

The fact that the US economy today is running, certainly doesn't change these common facts. The persisting correlation between the two variables, GDP and Inflation, on the two sides of the Atlantic is basically confirming that in the US case we are facing an episode of relatively short duration. On the other hand, IMF and CBO's projections do confirm, after two years of acceleration, a slowdown in the US economy, which would then return to that reduced performance as expected in Europe (Note 3).

It could be just an *éclat* of a political nature, in view of the Midterm elections in the USA. If the "political" component would prevail in the American conjuncture jump, then we can expect a rapid shutdown. Nevertheless, it seems more likely that, beside the tension promoted by the electoral appointment, there may be other motivations feeding the improper excitement inside the American territory. The fact that it's just a lit match inside a flammable situation, it seems to be confirmed by the isolated character of the US conjuncture, inside a global horizon that instead is slowing down.

Moreover, in the US economy scenario, we can observe the dispute between the promotional effect of liquidity excess in the market and the monetary defense policy, which if so would cease to be accommodating. In practice, we may tell that the supposed rate increases up to 3.5% is a prospect for over a year which could play the opposite role of accelerating in terms of debt and expenditure, so anticipating the expected credit increase.

The challenge coming from the tax reform implemented by the Trump presidency, increases the disposable income for the big companies and the wealthy class, but with a deficit and public debt increase. The probable effect is a potential increase also in private indebtedness, stimulated by the availability of further resources. In short, the major resources that the tax policy makes available for a three-year period and for the high-income sector can play a role of new indebtedness incentive for people and companies, in the same way as the planned increase of credit cost. In any case, therefore, it's a fire of relatively short duration, which will be followed -at best- by an annual growth decline at 1-1.2% from 2021. Thus, there would be a convergence with the slower economy's mechanism in Europe.

The issue of concern is the possibility that the growth yeast offered by fiscal and monetary policy will lead instead to open the doors to recession, which everybody would like to remove at all costs.

Essentially, the pressure increase in the economy seems to acquire the speculative motion characteristics. This tendency is by the way prompted by finance and credit excesses, which are stimulated by the slow march of monetary policy, no longer accommodating, and by the increasing indebtedness of the financial provisions in progress disposed by the fiscal policy.

About the drift of the US economy towards a new edition of the speculative excess, as suffered ten years ago, I would like to recall a previous article on this issue (Cossiga, 2018). In this regard, it is useful to highlight the similarities that can be found with previous events. And to recall also the long path that the economic system seems to follow, in order to reduce the economy alterations through the correction imposed by the recession. Until the almost paroxysm of speculative excitations that can only lead to a financial crisis of the excesses.

2.1.1.2 The “Bill” of Errors in Economics Must always Be Paid

In other words, we can argue that the unstable economic system has an irrepressible impulse towards the return to the state of compatibility with the environment. On the contrary, the governments instead seem to be taken by an irrepressible desire to counter the natural message, opposing the tendency to the corrective recession which animates the systems. It can be argued that this behavior of the ruling classes is due to the searching for consensus. An asset that is destined to narrow if the economic horizon tends to recession.

Perhaps, however, this equation on consensus is somehow excessive. There is no doubt that governments fear the recession to preserve the position in the management of public affairs. But the widespread desire to oppose the recession is linked to our certainty that we have the tools able to push away the threat of declining conjuncture. Science and government practice have made finally available all the opportunities and techniques allowing us to overcome any way the cycle. Or better: some fake hopes have also been given that humanity is not only able to make errors in its relationship with the environment around us, but also to have the technical and scientific resources to escape the penalty to be paid for those errors.

Now we can admit-because established as truthful in reality or because false but supported for convenience-that there are tools able *not to really* eliminate but only to *postpone* the recessive turn of a system. This impeding capability against the natural tendency to rectify the economic systems through recession, couldn't make anybody happy, but it's more generally just *a trick* to benefit governments, only interested to stay in place.

A relationship not only incorrect towards the reality around us, but also-and perhaps above all-towards the political world, when to citizens is given the false message of a peaceful economic landscape. Instead, only a postponement of a few years or even slightly more is possible, before the inevitable showdown. A showdown that is discharged from the present to the near future, from the fathers' generation to their heirs, without even warning the society about this inter-temporal negative exchange. The issue we have before us is the absurd presumption that we are arbiters in the manipulation of the economic cycle. While the cycle is above all a ruthless symptom saying that the economy's course

derailed from the correct road of compatibility, to fall into the instability *sub-world*. Therefore, do not consider the deviation from the correct route, but rather to be willing to continue anyway, without paying for the errors made, for egoism, greed, lack of social solidarity, ambition or whatever. However, the fact remains that the errors must be paid, though maybe just a few years later.

In the case of inflation below the hyperinflation line, the fight against rising prices uses the symptom (inflation) as a target to correct the economy's course. The problem is always the system instability and the nominal price increase is a message of the system. However, in this case, the increase in interest rates to contain inflation moves in line with the natural correction system that feeds the ups and downs of the conjunctural cycle as an instrument to restore the development compatibility.

Things change in the case of the creeping deflation afflicting most of the developed countries. Deflation is a symptom difficult to correct with the common instruments of monetary policy. The problem itself is proving the presence of excesses in the economy management, attempting to force the development march. But it is unacceptable trying to force the conjuncture course, because it's a signal about the growing instability of the economy and the consequent need to slow down the march. It's therefore needed an action opposed to the effort to force the system's potential. With weak or declining prices, the cycle of the economic situation also weakens. Only for reasons of political survival, is therefore attempted a revival of the economic system and above all of the declining employment.

The results of a wrong-way choice may be opposed, ambiguous or apparently even favorable. In general, the hope to accelerate the economic weakness is misplaced and often doesn't occur. Despite the extraordinary interventions of monetary policy, the economy continues to report its basic weakness. Europe of the euro is the real image of that weakness. The long season of QE implemented by the ECB ends while is declining the prospect of the Old Continent's economy. The hope that we could act through monetary policy to correct the tendency to deflation is dissolving and the fear is increasing that the end of the extraordinary monetary policy intervention may lead to a recession in countries with a weak finance, such as Italy.

The destiny of Trump's America seems different. Emerging from the 2008-2010 serious financial crisis, America substantially preceded Europe, starting a very accommodative monetary policy and increasing the liquidity in the exhausted system through a Quantitative Easing of unusual liberality. As in the case of Europe, the long season of a cheap liquidity did not advantage, as expected, the fortunes of the inflation rate, which for a long while remained lower than expected.

The availability of low-cost credit, however, favored the indebtedness of companies and families, and above all provided resources available for the Stock Exchanges that have gradually reached new highs. The Dow Jones which at the top of the speculative wave in 2007 had reached 13.580 points, was sharply falling during the financial crisis to 8.027 points. But it was rising again from 2010 onwards, up to 26.149 points in January 2018. Finally, after a flat period of some months due to the uncertainty created by the protectionist program of the Trump administration, the Dow Jones began to rise again to reach and then to exceed its previous maximum level.

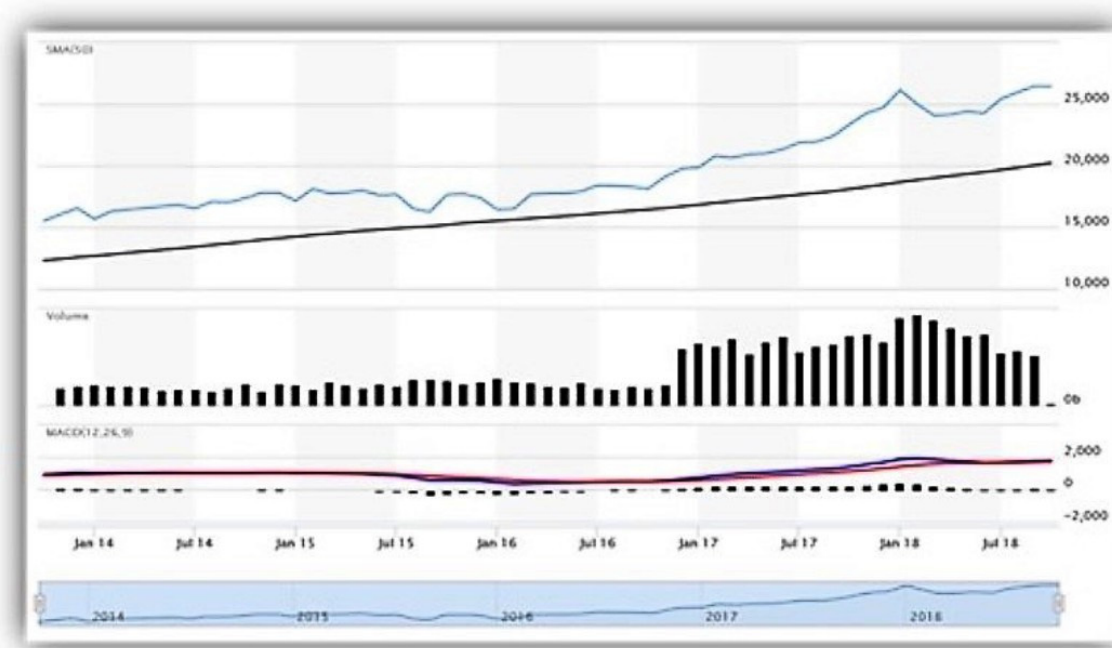


Figure 2. Dow Jones Industrial Average from January 2014 (15.545) to September 2018 (26.447)

Source: Market Watch, Financial information website.

The rise of technological titles is even stronger. In the early 2000s, the warning of artificial growth in American territory came out with the speculation of the so-called dot.com. Some parallel can be viewed in the price acceleration of Technology Stocks (Facebook, Apple, Amazon, Netflix, Google). Since last July, these Tech Stocks have sold about 350 billion, though their prices were returned to the level of two months ago.

Meanwhile, the household debt continues to rise in the 2018 Second Quarter (Note 4), as we can see from the Figure 3.

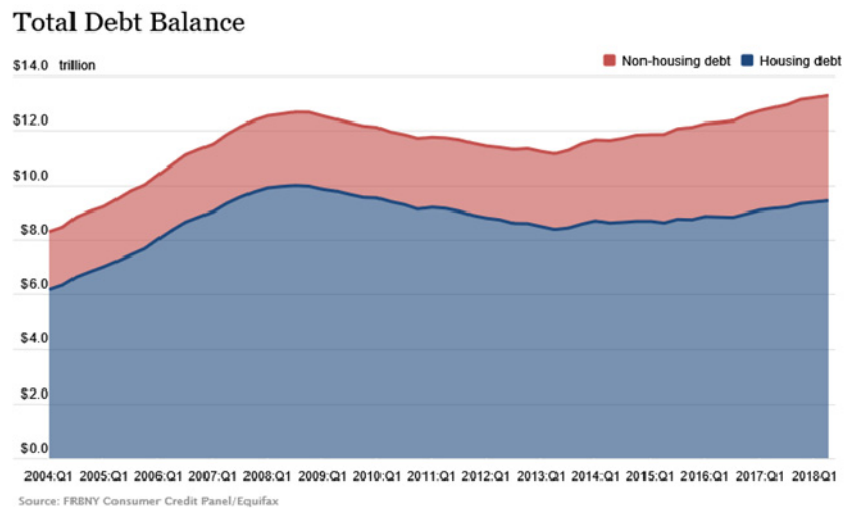


Figure 3. Household Debt in USA 2004 1st Q.-2018 1st Q

Source: Federal Reserve bank of New York-Center for Microeconomic Data.

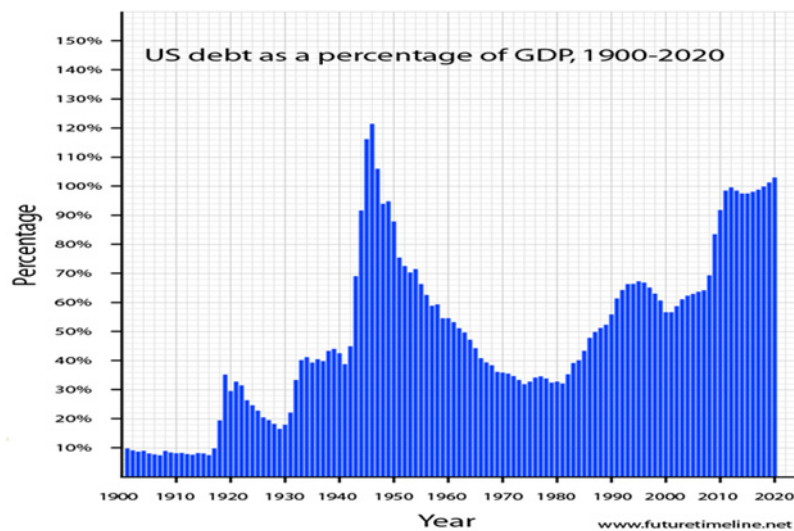


Figure 4. Public Debt Trend in USA 1900-2020

Source: www.futuretimeline.net/

In this run towards indebtedness, also the public debt is involved and in the USA is expected to reach and exceed 100% of GDP over the next two years. In particular, the public debt accelerated from 2009-2013 for the ultra-Keynesian policies adopted to counter the economic depression at the speculative bubble burst in 2007-2008. A new incitement to increased public deficit is pushed by the Tax Act signed into law by President Donald Trump, causing also a shortfall in tax revenues, and by the strength of the Public Investment Program (Note 5).

2.1.1.3 In Any Case, the Issue Remains That the Economy's Balloon Cannot Expand Beyond a Certain Point

The great liquidity opened the way for easy credit, but it did not affect the inflation strength that remained weak for a long time. The prospect of an inflation revival under the pressure of accommodating policy has not been confirmed, however. Indeed, the increase in public and private indebtedness not related to the state of the unstable economy has acted instead in the opposite way, keeping the prices cold. This scenario (cautious growth and weak prices) considered unsatisfactory, is now changing with the development acceleration which in 2018 could exceed 3%. The inflation also moves and has reached the base rate close to 2%, in the version preferred by the FED. The annual inflation rate, in the CPI-U version, reached instead 2.7% in August 2018.

At first glance, it seems like a turning point. It seems we are facing good news, but we're not indeed. The Federal Reserve of Jerome H. Powell recently moves the basic rate by 25 base points and reserves the right to proceed with further increases according to the evolution of the US economic situation as well as with "readings on financial and international developments". In short, a position on alert. We can share the Fed's holding position, also because we are facing a global situation that is changing. It's changing with the USA in good shape and the growth prospect of 3% for the next two years, with Europe gradually slowing down also in the coming years, while in China the annual growth targets are narrowing.

The fact remains that the balloon cannot expand beyond a given point and that the further economic momentum in America can occur on the condition that: -the possibility of asking and obtaining credit for companies and families would continue; -the willingness to absorb a new wave of US treasuries wouldn't decrease; -and, finally, the US Stock Exchanges could continue to rise beyond the historical highs already reached (Note 6). This is to say that, in any case, the tension towards growth cannot continue without an end. The prospect of endless growth is in fact an ambiguous and irrational message that appears in the opinion of companies and families during the development of the speculative bubble. It couldn't be understood otherwise how a community economically committed and with a historical view on the growth issues can run along the excitement of the speculative bubble and towards the inevitable financial crisis concluding the economic intoxication.

We must realistically accept that the rules regulating the economy are not dissimilar from those regulating the physical forces. And the basic rule of the laws of economics is the irrevocable need of economic systems to tend towards balance and stability, understood as compatibility with the universe around us. Therefore, the economic systems can derail from the stability and natural balance path, but over time the natural tendency towards compatible balance must prevail.

It could be argued that in the end a development line of about 3% for a few years is not an anomaly. Even looking at the recent past, this level of speed certainly seems in line. But the issue under discussion here is not so much the across the Atlantic sprint, but rather under what conditions is taking place in America a whatever movement in the development process, while the global economy is

generally moving much more cautiously and gradually.

It isn't therefore the sprint that worries, because during the speculative crises the speed of the economic system growth involved remains contained and reaches its maximum of 3.5-4% at the end of the excited run. The anomaly of a system running at breakneck speed in some sectors, while remaining quiet in others, is the strange feature of unhealthy development during the speculative crisis. It is exactly the potential meaning of a checkerboard growth in the United States that is really worrying.

The dual nature of the economy growth, so forcing the mechanism only in some sectors where prices and employment increase, can be interpreted as an unequivocal sign that the economy is in the wave of a speculative movement, not consistent with the state of the real economy. This dichotomy can explain the economy growth, generally contained when compared to the violent excitement investing the scenario subject to speculation. The anomaly also affects prices that show a singular difficulty in escaping stagnation. For this reason, once they reached and exceeded the base value of inflation close to 2%, it's quite probable that the system has entered the speculation tunnel so remaining stubbornly embroiled. So, anything but the premium for the near stability of the economy could be seen in the recovery of the inflation rate.

A speculative spiral is always the symptom of a serious instability, which is moving towards the rebalancing of the altered system. A march that in any case is requiring the recessive action in the system, to remove or to overcome the most serious risks connected to the errors in the economy management and in social relations. In other words, the real function of the speculative crisis is an unprecedented tension pushing an economic system to recession and depression, an inevitable result of all excesses not related to the real economy.

3. Result

3.1 The Recession as a Threat. But Not Really, Because It's a Cure of the Unstable System

As I have already had occasion to say, the conjuncture cycle is nothing but a corrective mechanism of the unstable economic system. The normal trend of the economy towards a linear development, changes with the conjuncture sinuosity thus admitting inside the normal sequence a phase of GDP growth followed by a decrease period. The sequence of cycles accelerates if the system becomes more unstable and increases the recession corrective phase, so affecting the growth phase that declines and even disappears if there are persisting levels of instability.

The brake-in of the conjuncture cycle into the scenario makes inevitable, sooner or later, the relapse into the corrective recession. Left free to work, the cycle inversion seems to be able to gradually bring the economy on the road of stability and linear growth. That being the case, it appears controversial and contrary to common sense the attempt of the public managers to slow down or curb the fall into the periodic phases of recession. The cycle is the bitter fruit of recurring errors in the management of public affairs. Attempting to force this natural order acting to restore the troubled balance, is therefore against nature. Alongside the tangible results of an action naively attempting to level again the growth

trend, this action adds new errors to the old errors that have made the system unstable.

So, opposing the recession through the misuse of Keynesian policies, does not make sense. In the short term it doesn't lead to the desired results and, in the medium term, it introduces the economy in a period of chronic weakness and stagnant prices. The condition of chronic weakness and stagnant prices appears even more intriguing, because at first glance it seems to require a massive spending intervention. In practice, instead, it's a scenario—quite widespread, unfortunately, in which the excessive public and private indebtedness discourages both too accommodative monetary policies and great Keynesian spending interventions to support the economy.

A scenario we can find in many countries, including Europe and the USA, which contains an unequivocal message. This message implies that the natural system needs a more or less prolonged recession to correct the accumulated vices. The vocation to linear economy is inside the compatible growth DNA, in harmony with the environment. It's to be excluded, however, that we can force the systems altered by persistent errors, by means of the rough mechanism to maintain the *status quo*. The deprivation of the natural way to correct the unstable systems doesn't offer any alternative to be seriously considered.

The basic problem is to check the issue that the conjuncture cycle is also a message to the institutions, companies and people that the economic system has exceeded the compatibility limit. Moreover, it is a natural tool that imposes the sinuosity of economic development to start the recession, with various degrees of corrective intervention. Pretending to force this natural order can only lead to the threshold of an unexpected and larger recession. The persistence of a development support line without limits is the main responsible for the terrible speculative bubble of the 2000s and for the violent economy depression, struggling with a financial crisis only comparable to the 29' great crisis.

This line of reasoning, however, does not exclude that the use of ultra-Keynesian policies of intervention could reduce the damage resulting from a recessive excess. Activated to mitigate the 2008-2010 financial crisis, these policies have performed well in America and in many European countries. The exit from the crisis has been relatively rapid and a new development cycle has started, though weak. However, one question remains unresolved. At what future cost have been obtained these undoubted advantages?

3.1.1 We Can Reduce the Correction Costs, although There Are Reservations

If we admit that a financial crisis is the price to pay for the ascent from the instability sub-world, clearly appears the fracture inflicted by fiscal policy on the correction process, by imposing the interruption of an ongoing process. It could be argued that the preventing behavior imposed on the natural module may be responsible for the extension of the economic system recession, beyond the limit needed for a successful correction. That's like saying the mechanism could act "*ultra petita*", so dragging the speculation emphasis beyond the requested level so that the following financial crisis could be adequate to restore the balance of the altered system.

Such a hypothesis, namely that the speculative emphasis lasts for a long time and anyway more than necessary, is logically acceptable. An otherwise accurately measured mechanism to restore the unstable system, on the other hand, doesn't appear to be consistent with the market behavior. Moreover, also from the physiological point of view, the speculative reality moves beyond the logic of common sense and calculated risk so dragging the market into an almost doped state, which is the only thing that could justify this inconceivable run. In this exceptional contingency, to speak about millimeter accuracy in the corrective action appears to be a long shot.

This implies that there must be a stage on the speculative course that could start a sufficient correction of the unstable system. *Ergo*, action can be taken with the tools of monetary policy in the course of the speculative affair, so giving the alt to its continuation. Now it's quite clear that the interruption of the speculative movement in any case opens the door to the corrective mechanism and to the financial crisis.

Nevertheless, the advantages of this action, really complex indeed due to the doped state surrounding the whole market, are quite remarkable. The corrective action is not limited, and then can start in order to possibly solve the problems. Furthermore, the speculative emphasis produces a false growth that must be removed as first action of the corrective mechanism. Only after this removal of the speculative surplus, the correction starts a recession that instead removes all the effects of errors in the management of public affairs accumulated over time.

Therefore, taking action before the system starts the speculative maneuver or at least making some intervention to put an end to speculation has the undoubted advantage of not creating or at least of limiting a false development, which anyway must be removed despite serious social damage. Therefore, it becomes essential not to fall and stay out of the speculation swamp. Essential then is the control function of the responsible for monetary policy, who in any case wouldn't trust the markets, which during the crisis fully absorb the doped intoxication that makes possible the speculation.

However, if the short-sightedness ruling institutions, companies and families during the starting speculative phase doesn't allow to limit the improper excitement, the possibility to impose as low down on the phenomenon remains open, thus initiating the controlled recession of the system. In fact, if we can admit as realistic and possible the fact that speculation, left free to work, reaches its conclusion beyond the limit required for the natural correction, then it's equally possible to restrain the speculation-recession paradigm before reaching its ultra-destructive end. Also, when considering the global rationality context where are acting the forces of nature: a contest inevitably projected on the economic scenario.

The possibility to close the speculation-recession cycle before the final hypertrophic boom allows us to understand, perhaps more clearly, the meaning of the so-called ultra-Keynesian policies, used to loosen the depression grip. And, in particular, to see the effects on delicate aspects of the social life and not only the economic ones. Recent experience shows that the massive use of new public deficit spending placed in the vortex of the deep post-speculation depression has the undoubted merit to mitigate the

sharp decline in the economic situation, then sustaining an early economic recovery. An advantage that reverberates above all on the social level. In fact, in the wealth distribution, unexpectedly, the long financial crisis tends to favor the great patrimonies while it's reducing the income of the lower classes, especially for the employment decline. Therefore, to restrain the post-speculation depression means to loosen the major troubles created on the social level.

Well, equally the monetary policy, with the new liquidity rivers introduced into the market, and the fiscal policy, with the ultra-Keynesian massive expenditures, both are acting primarily through the mitigation of side effects of the economic depression. The relief produced by the low-cost credit and the policies supporting the productive activities in crisis, are the most evident effects of those policies aimed at alleviating the side effects of the crisis. Side effects having repercussions on industries and businesses and being amplified with a cascade effect. We can consider this crisis accelerating movement as a collateral consequence of the demolition of that false economy created by speculation.

During the post-speculative phase of financial crisis, the aim pursued by the instability natural correction essentially concerns the removal of the growth share generated by errors in the economy management. In other words, to remove from the altered system the part responsible for the economic system's escape from the stability path. Consequently, there would be no interest in the corrective adjustment maneuver to reduce industrial or commercial activities that are moving in line with the indications of technology and scientific research.

Given the basic objective of economic stability, we can then admit that scientific research and new technology are necessarily moving in the direction of improving the relationship between the planet life and the environment around us. As saying that the interaction of humanity with the planet inexorably must change from the use and misuse of fossil fuels to the natural sources, the reduction and limitation of pesticides in agriculture, the reduction of useless mobility through the new available telecommunications, the less invasive care systems, etc. The scientific research and the technology at this stage of the human evolution have entered a new era, where they are mediating the issue of relations with the environment, in view of a progressive closeness and coherence between the life development and the evolution of the planet, the planet making that life possible.

Going back to the topic, it's reasonable to think that the longer duration of the speculative crisis is increasing the collateral damage, i.e., the cascade of interlinked failures that accentuate the economy depression. A negative chain that is prolonged over time also due to the duration and intensity of the speculative excesses. It is therefore essential that the speculative excess, if started, could be interrupted as soon as possible. Also, because the interruption of the speculative wave shouldn't interfere with the correction of the unstable system which in any case runs its course.

Now, it can be assumed that the accommodative monetary policy mostly plays the buffer role in the chain of financial imbalances occurring with a cascade effect during a severe financial crisis. From this point of view, it can be stated that the greater liquidity introduced by the Central Bank to provide low-cost credit to banks and companies, doesn't create any obstacle to the normal work correcting the

altered economic system.

Otherwise, the ultra-Keynesian policies in the dimension experienced during the 2000s' financial crisis could have put a real obstacle to the natural correction. In fact, allowing the rapid exit of the economic system from deep recession and promoting the recovery, it may be assumed that they reduce the effectiveness of the corrective recession due to their shorter duration and amplitude. It shouldn't be forgotten, however, that the support through the public budget during the post-speculative recession also involves the rescue of relatively healthy industrial firms, which otherwise would have to close down.

Now these interventions are similar to those labeled as collateral, when we were speaking about accommodative monetary policy. Also, in this case, these are actions aimed at limiting the collateral damage produced by a deep recession. In short, therefore, we can admit that at least a part of the monetary and fiscal policy interventions supporting the cycle contraction do not interfere frontally with the natural correction maneuver, which aims to bring the altered system back to the natural compatibility condition.

3.1.2 The Risk of Natural Correction, Interrupted by Massive Measures to Support the Economic Situation

Then it cannot be excluded that ultra-Keynesian massive interventions could have a negative impact on the outcome of natural correction maneuver, preventing the recession from carrying out its role to clean up errors together with their impact on development. But it cannot anyway be excluded that the pressing impact of the sharp recession post-speculation may exceed the irrevocable problems of rebalancing the economic system, which has become incompatible with the natural balance. Intervening in order to bring back within the necessary correction limits the sudden conjuncture slipping becomes, therefore, an imperative social need. This social imperative is to avoid that the excessive over-correction could hit the most vulnerable social groups, who see their incomes shrink with the unemployment prolonged increase.

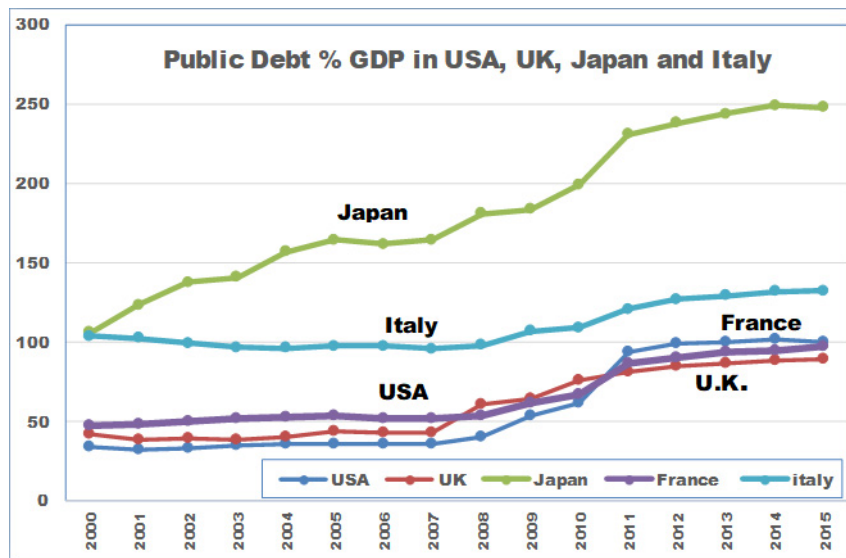


Figure 5. Public Debt % GDP in USA, UK, Japan and Italy 2000-2015

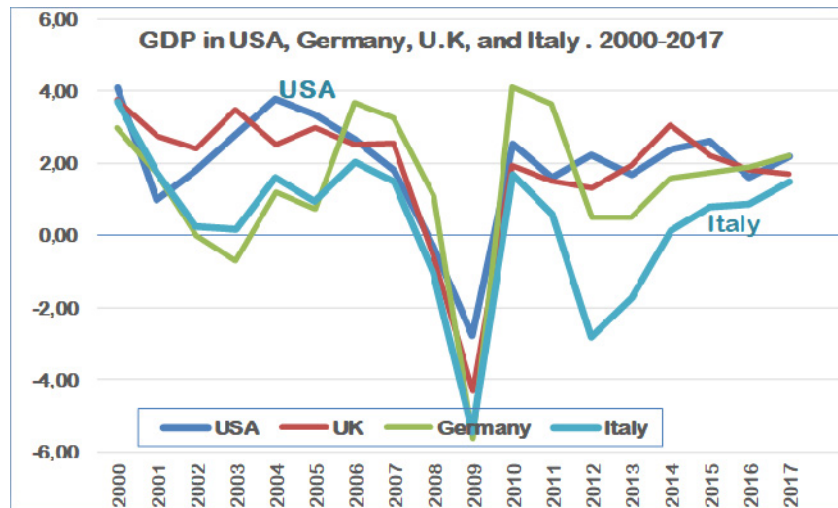


Figure 6. GDP in USA, Germany, U.K. and Italy 2000-2017

- Elaborations on OECD data

An issue involving the responsibility of governments and monetary authorities. In the financial crisis of the 2000s, the United States saw the public debt exploded from 60% of 2007 to over 85% of 2017 in terms of GDP, as clearly shown in Figure 5. Well, this exceptional exploit was possible because during the years of the Clinton presidency in the 1990s, the mountain of public debt inherited from the Reagan presidency was gradually eroded up to 50% of reduction in terms of GDP. An inheritance that allowed

a possibility to manage the public budget, in order to play an essential role during the financial crisis of 2008-2011.

A not different situations we have also in France and Great Britain, which have made great recourse to the deficit and to new debt to mitigate the bites of the deep recession. Instead, Italy has faced the turning point of the speculative excess with a public debt load of over 100% in terms of GDP. The “Beautiful Country”, due to little room for maneuver in public finance, couldn’t oppose the strong ultra-Keynesian maneuver against the very heavy crisis. The result is visible in Figure 6, which shows a fairly rapid recovery, considering the intensity of the crisis, in the countries that heavily resorted to Keynesian expenditure. Italy, on the other hand, has undergone a double deep recession and only in 2017 has resumed the development path, anyway still at 1.5%.

What are the potential consequences in the medium-long term of policies aimed at hindering the natural course of deep recession? It appears simplistic to say that intervention policies so massive for the size of the resources and the shortness of the activation times, do not have any delayed results. Also, because we have previously distinguished between the forms of public sector interventions, which could hinder the natural correction by reducing the recession times and by accelerating the economic recovery. Of course, we do not have an answer to the question on the long-term outcome of exceptional support policies. At least not yet. We can only make some hypotheses based on the scenario ten years after the serious post-speculative recession.

From the above, it seems possible that the incomplete correction due to the aggressive fiscal policy, could be the precondition in a near unidentifiable future for a new cycle of speculative excesses. Please note, for eventual consultation, that this topic was the subject of a previous article (Cossiga, 2018). In other words, it’s assumed that the partial success against the post-speculative recession in the 2000s could restart or reopen the unhealed wound of the economic system instability.

The force controlling the economy mechanism is irrevocable, just like the laws of physics. But it doesn’t completely lack in flexibility, because it disregards the decimal numbers in the relationship between humanity and the environment but is careful about the long journey of life in the universe, in which man is a spectator and also an attentive philosophical speculator. For this reason, it seems reasonable to argue that the natural law in social and economic relationships properly oversees the development of scientific research. Like a guardian angel—let’s say—to whom has been given the protection task on scientific knowledge, intended as a tool to move closer to one another the journeys of man and nature.

Perhaps not surprisingly the best expressions of scientific thought, art and knowledge have occurred frequently in countries and areas advanced in the capability to produce wealth and social well-being, in a virtuous relationship with the marvels of human accomplishment.

4. Discussion

Well, the market, its institutions and the Central Banks didn't feel the wave of the speculative excess that was charging the economic environment in the years 2006-2007. In the midst of general lethargy, therefore, the shock has reached the improper progression maximum to decline then into the major financial crisis, only comparable to that of the 30s of the last century. With this bad precedent, what kind of future protective net can we find to avoid a relapse into the negative speculation world with the harsh natural correction?

As seen in this way, the problem could appear without solutions. At least in the immediate future, we cannot see any warning system on the precipice to which the economy world could be near in the possible event of a new speculative cycle. Although the economy, taken by the negative vortex of speculation, would give continuous clear messages about the growing degradation of the economic environment. First among others, the fateful delay between the price curve and the conjuncture trend. Precisely these singular but not too much tired prices tending to deflation, are the sure signal of the route towards the speculation euphoria. The language of prices also in this case is not ambiguous and it doesn't make sense to think that the growth promotion can push the price weakness or vice versa.

Deflation or inflation are both signals of the economic system diseases, similar though opposite and they can be cured with the bitter medicine of the recession. Pretending with the usual human arrogance to subvert this humble truth is obviously insane. For this reason, when the systems are bearing the stigmata of a previous speculation episode and of a serious financial crisis treated with massive doses of new public debt, the economy's destiny is causing some concern. Especially when inflation raises by a point or so, after the economic situation has risen to 3% or more.

There are no spaces for a new growth, compatible and in accordance with the environment around us, when the economic system shows the tendency to inflation or deflation. In these circumstances, forcing the limits or even trying to do so can only expose to the serious risk of an unexpected response from the economic system. The problem, however, lies in the continuous pressure of rulers and their advisors to open the public expense in order to distribute advantages-even unsolicited-to broaden their consensus basis and maintain the power.

A doubly wrong choice. From an economic point of view, the solicitation on the public budget beyond measure leads to serious troubles in the distribution of income and wealth, leading to an unfair distribution in favor of the wealthy classes (Note 7). The following moral discomfort is in turn a cause of development weakness and of deflationary tendency, as found in the super-indebted countries. Bad leadership is aimed at short-term benefit, regardless of potential damage in the near future.

Also, about the hoped benefits of these policies in terms of political consensus, the final bill is doubtful or even negative. Exactly because of the short vision of weak leadership, its duration is limited. On the other hand, the guiding idea that the masses are stolid and therefore controllable is an incredible dullness. Instead it's undeniable the argument that the community is judging governments and their action based on the public management results. Somehow regardless the country growth and the

numbers and figures, but rather based on the widespread diffusion of social welfare. Policies such as the misuse of public finances are urging the income disparities and are not perceived as a positive value to be assigned to the rulers.

Nevertheless, we should consider that the poor doesn't love the rich man granting him alms. We can deduct from this that the policies of banal welfarism, particularly in conditions of a serious fiscal inequality in favor of the rich and influential classes, do not bring consensus. Also, because it's marking the assisted people as subjects excluded from the economic and social history of the country. However, there is no doubt that the area of consensus increases-far beyond those directly interested-strictly related to the unemployment decrease and the corresponding employment increase in the area. The focusing on assistance and not on increasing the world of work in all its components and sectors, is based on the belief so difficult to eradicate that the people, as the Helots (*in ancient Spartan subjugated population group mainly used as almost slaves. T.N.*), can be attracted with the "carrot" of welfarism. This is a serious error of judgment, that can only be justified with the naivety or even the incompetence of the leadership.

Not accepting the paradigm of the great rationality of the communities in the selection and choice of leadership, it's just to oppose the respect for human dignity and to accept the obscurantist vision of an oppressive dictatorship. We may wonder at this point why we note the presence of unprepared leadership who choose the debt way, despite being a way only apparently easy. The capability of communities to select the best rulers in the end means to maintain or regain their dignity as human beings. The errors made in the selection of the leadership can lead instead to accentuate and not reduce the social imbalance in the income distribution and, therefore, to act against their human dignity.

Well, in the last ten years in Italy we have had governments of different political beliefs who have all aimed at welfare policies and public debt increase to obtain easy consensus and afterwards trying to preserve that consensus. The results were unequivocal. The community didn't accept anyway that the economic scenario was still gray due to the high number of unemployed people looking for a job, and the great social imbalances.

It's quite strange that, after the rejection of the previous political formations, the team called to lead Italy has requested and obtained consensus based on assistance proposals not dissimilar indeed from those attempted by previous governments. A repetitive pattern, at least in its general terms. Public management continues to heavily take resources from the public debt, despite the intolerable levels reached, in the attempt to seduce the community once again with a policy of handouts. But this policy, expanding in the case of Italy beyond measure the size of public debt, creates the conditions for a continuous wealth increase within the privileged area at the expense of the poorest classes and to the detriment of dignity conferred by the labor and its fruits.

It's the short-sightedness of weak governments and essentially without a real consensus, except that coming from previous disappointments. And this is perhaps the reason that we can identify to justify the collective behavior that continues to choose, despite the contrary signals, the same policies

implemented by those previous governments rejected by the polls. Essentially, the community in the “Beautiful Country” rejected the policies carried out during the post-financial crisis years because the expected results were not achieved in reducing unemployment and reducing income inequality. In this climate and in the absence of alternatives, the community had to choose the only different leaderships present in the political scene. Basically, not a desperate choice as predicted by various subjects, but an apparently reasonable choice. These political forces, not comparable with those inexorably rejected, were called to lead the country.

The problem, therefore, goes back to the leadership formation and to their selection, although also these aspects are a distinctive part of a community and its prosperity or malaise.

5. Conclusion

The conjuncture cycle is the right instrument of the corrective principle. The applied correction can be considered functional to the instability state of an economic system. In the case of inflation, the increase in the nominal price run is related to the economic recession, gradually deeper in parallel with the price run. In the case of deflation, the economic decline trend paradoxically may reach an insane speculative acceleration in one or more of the economic sectors and, if unblocked, becomes confused so to start a deep depression of the economic system.

The mediation between the troubled economic world and the perennial movement of our Universe should be absolutely possible. We can argue that this necessary mediation, then not only possible but absolutely vital, relies on the natural system flexibility, to absorb the effects of human errors and of the corrective principle, that as a sort of *absorbent paper* has the task to reduce the negative impact. Since a route against nature is inadmissible, we must admit that the humankind intelligence is the main instrument to progressively reduce the gap between the human adventure and the environment course.

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Notes

Note 1. 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. ... Looking ahead, underlying inflation is expected to pick up towards the end of the year and thereafter to increase gradually over the medium term, supported by our monetary policy measures, the continuing economic expansion and rising wage growth.

This assessment is also broadly reflected in the September 2018 ECB staff macroeconomic projections for the euro area, which foresee annual HICP inflation at 1.7% in 2018, 2019 and 2020, which is unchanged from the June 2018 Euro-system staff macroeconomic projections (PRESS CONFERENCE Mario Draghi Frankfurt am Main, September 13, 2018).

Note 2. Consumer price inflation, as measured by the 12-month percentage change in the price index for personal consumption expenditures, moved up from a little below the FOMC's objective of 2 percent at the end of last year to 2.3 percent in May, boosted by a sizable increase in consumer energy prices. The 12-month measure of inflation that excludes food and energy items (so-called core inflation), which historically has been a better indicator of where overall inflation will be in the future than the total figure, was 2 percent in May. This reading was 1/2 percentage point above where it had been 12 months earlier, as the unusually low readings from last year were not repeated. Measures of longer-run inflation expectations have been generally stable (Monetary Policy Report submitted to the Congress on July 13, 2018).

Note 3. In CBO's projections, real GDP expands by 3.3 percent this year and by 2.4 percent in 2019. It grew by 2.6 percent last year. Most of the growth in output in the next two years is driven by consumer spending and business investment, but federal spending also contributes a significant amount this year. After averaging 1.7 percent from 2020 through 2026, real GDP growth is projected to average 1.8 percent in the last two years of the 2018-2028 period. ...

As deficits accumulate in CBO's projections, debt held by the public rises from 78 percent of GDP (or \$16 trillion) at the end of 2018 to 96 percent of GDP (or \$29 trillion) by 2028. That percentage would be the largest since 1946 and well more than twice the average over the past five decades (CBO's

Budget and Economic Outlook for 2018 to 2028).

Note 4. “The CMD’s latest Quarterly Report on Household Debt and Credit reveals that total household debt reached a new peak in the second quarter of 2018, rising by \$82 billion to reach \$13.29 trillion. Mortgage balances, the largest component of household debt, rose to a total of \$9 trillion during the second quarter. Auto loan balances increased by \$9 billion to reach \$1.24 trillion, continuing a six-year upward trend” (Federal Reserve bank of New York-Center for Microeconomic Data).

Note 5. The United States recorded a government debt equivalent to 105.40 percent of the country’s Gross Domestic Product in 2017. Government Debt to GDP in the United States averaged 61.70 percent from 1940 until 2017, reaching an all time high of 118.90 percent in 1946 and a record low of 31.70 percent in 1981.

Note 6. It’s continuously widening the gap of investment rate between European markets and Wall Street: The Credit Suisse is suggesting to reduce the exposure on Wall Street, despite the dollar strength: the gap with the European stock exchanges reached “alarming levels”. Year-to-date the index MSCI World, without the USA, is losing 4.4%, while the index MSCI USA is earning 9.5%: such a gap didn’t appear in the last 30 years. The P/E (Price-Earnings ratio) of Wall Street is twice the average of World stock markets: levels never seen from 2005 (Source: FIRST online).

Note 7. The United States’ modern, debt-driven warfare is, in other words, a political choice, not a necessity. Yet given the Republican lawmakers’ track record on tax cuts, it is eminently unlikely that they would support an approach relying on higher income taxes. As the left considers what a neo-progressive foreign policy would look like, it should make equitable war finance policy a part of its agenda. Barring such a partisan shift, however, we should expect borrowing to fund America’s wars to continue, exacerbating inequality in the United States for the foreseeable future (U.S. Wars Abroad Increase Inequality at Home-by Rosella Cappella Zielinski).