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What Happened to Jacques Rueff and Robert Triffin?

Mario Pines
University of Trieste, Trieste, Italy

A present monetary theory of the Great Depression has been explained as stemming from Milton Friedman, ignoring the previous Davanzati, a Florentine finding, in the 16th Century, an explanation solution to the increase of prices due to the arrival of Spanish silver from the New World. Designed to counter the Keynesian notion that the Depression resulted from instability theories, characterizing most modern capitalistic economies, Friedman's explanation identified lately the monetary trend as a disordered monetary policy, carried out by erroneous Federal Reserve Board interventions, possible after the Aldrich-Vreeland innovations, introducing Treasury money in the year 1908. More recent works about the Great Depression reconsider the attempts to restore the international gold standard, suppressed on the brink of World War I. We learnt that current views of the Depression, as analyzed in the 1920's by Ralph Hawtrey and Gustav Cassel, while recommending a gold standard reset, reflect that such standard risk deflations, unless the resulting increase in the international monetary demand linked to physical gold, could be satisfied. Although their early warnings of potential disaster became actual and their policy advice was consistently correct, their contributions were ignored and forgotten. The vanishing of their comments was firstly outlined not a long time ago, by Batchelder and Glasner "What Ever Happened to Hawtrey and Cassel?" (2013) This paper explores the possible reasons for the remarkable historical disregard of the Hawtrey-Cassel monetary explanation of the Great Depression, even by Nobel Prize winner Robert Mundell in his 2000 historical Nobel reconsideration of the monetary 20th century (Mundell, 2000). The paper stresses the identical historical conditions surfacing after the Bretton Woods agreements. Robert Triffin and Jacques Rueff comment likely warnings as in the first Great Depression, under the monetary policy illusion and the Central Banks excessive disregard of the basics of the quantitative theory on the long run, mostly ignored. Robert Triffin started to address the problem in March and June of 1959, Italian Banca Nazionale del Lavoro Quarterly Review. The first of these articles (Part One: Diagnosis) explains in the simplest possible terms, the extraordinary success of the nineteenth century system of international gold based convertibility, and the calamitous collapse of the late 1920's attempts to bring it back to life. It may hold for us today an indication of the main efforts facing the similar attempt at "reconstructing the past" expressed some 64 years later, after the first of August 1914, by Triffin during the 1978 Christmas weekend. To deal with them in simple, commonsense terms would inevitably classify the author as an unrealistic whose views deserve no more than a raising of eyebrows. Jacques Rueff, with his *The Monetary Sin of the West*, a logical consequence of the Triffin previous notes of the 1960's, went straight to the consequences of the Camp David resolutions of President Nixon who just temporarily asked his Treasury Secretary, John Conally to suspend the gold convertibility. There were two changes in United States (U.S.) government policy toward the monetary role of gold in the last 100 years. The first was in 1933-1934;

Mario Pines, professor, Department of Economics, Business, Mathematics, and Statistics (DEAMS), Faculty of Economics, University of Trieste, Trieste, Italy.
Correspondence concerning this article should be addressed to Mario Pines, University of Trieste, Piazzale Europa 1, Trieste 34100, Italy.

all holdings of gold were confiscated in March 1933. Then, the U.S. Treasury adopted a parity for the U.S. dollar of $35.00 an ounce at the end of January 1934. Gold production surged, the private demand for gold fell, and the U.S. experienced large increases in foreign demand for U.S. dollar securities. In those years there was a massive flow of gold to the U.S. The second historical change in U.S. gold policy followed the meeting at Camp David on August the 15th 1971, when the U.S. Treasury closed its gold window fearing a run on its gold holdings, declining towards $10 billion. Some U.S. officials sought to diminish the monetary role of gold. The anticipation of some U.S. officials attending Camp David was that the persistent U.S. payments problem would disappear, once foreign currencies had no parities in terms of the U.S. dollar. The prices of these foreign currencies would increase and the U.S. trade surplus would become larger. Instead, many foreign Central Banks became larger buyers of dollars' securities, which led to a higher price of the U.S. dollar and a U.S. trade structural deficit. The U.S. international investment position morphed from the world's largest creditor country, to the world's present day largest debtor.

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

Introduction

Any list of the most influential economists in the 1920's and 1930's would certainly include the names of Ralph G. Hawtrey and Gustav Cassel. Both were internationally renowned theorists, who had advanced well known business-cycle theories, and whose recommendations about monetary policy drew the attention of economists and policy makers in most countries. After World War I, when policy makers sought to reestablish the gold standard, cancelled during the war by every country, including the United States, Hawtrey (1919) and Cassel (1920; 1921) warned that restoring gold standard, without also restricting the international monetary demand for gold, could spread deflationary crisis. The cautionary advice of Hawtrey and Cassel, reflected in the Resolution 5 of the 1922 International Monetary Conference in Genoa 1922 papers (which Hawtrey was instrumental in organizing) recommending that countries reestablish the gold standard, did initially restrict the monetary demand for gold. The standard of post-war monetary reconstruction, after Bretton Woods discussions, became a gold exchange standard, under which all countries would forego gold coinage, and most would hold their monetary reserves, not only in gold, but in foreign exchange assets convertible into gold (i.e., dollars, after the restoration of its convertibility into gold and sterling). After the monetary disorders and severe fluctuations in the immediate aftermath of the war, the various national monetary authorities seemed to heed those warnings for most of the 1920s, forestalling the deflationary danger about which Hawtrey and Cassel had cautioned in the 1920s.

In almost all the previous 20th century's literature, the Keynesian General Theory has been always prevailing, up to the Friedman historical review of the general quantitative perspective towards the generally pursued monetary stability. Even the Mundell century's synthesis in his year 1999, Ricks Bank Nobel speech, about monetary and fiscal policy under different exchange rate regimes and his review of monetary fallouts, faced the issue under the Bloomsbury lines. In the new century recurring monetary policies, based on Central Banks credit governance, in a deflating stagnation, with monetary policy prevailing, up to the last Wray MMT, with growing sectoral, both internal and external imbalances unhappily explained the growing new bubbles.

The only game left in town has been the relevant ascent of Central Banks governance, the prevailing monetary stability targets first and the financial instability mechanism later, which all signaled the approaching financial collapse.

In the previously planned economy countries, pulled by the Chinese miracle, the capitalistic mechanism, after its introduction by the property right and the free enterprise initiative, has on the contrary started a huge economic growth with the relevant new technological approaches.

The concurrent efforts of the WTO, the IMF, and the BCE have not been able to settle the structurally imbalanced Western capitalistic economies. "In retrospect, citizens finally saw Keynesianism for what it was mere window dressing for political expedience" (Shlaes, 2019, p. 13).

Monetary and Financial Interlaces

The present paper reflects most of my previous studies and papers, studying the swift to the Keynesianism from the Bretton Woods monetary mechanism, following the dismissal of the Gold Exchange Standard in the year 1971. The present troubles of the Dollar Standard, in a progressive evident regressive global economic system, seem a consequence of the huge USA trade imbalance and its role as the prevailing residual basis of most of the Central Banks' reserves.

The period 2010-2014 was a highly eventful one, with the implementation of the new constitutional framework established by the Treaty of Lisbon, the European elections, the affirmation of the European Council's role as a crisis-settler institution. The new European Commission, the swelling sovereign debt crisis, the Arab Spring, the Ukrainian crisis, the conflict in Syria, the migrant gyrations, every side of the picture looked like a dead end road. In any successive event, the European Union's capacity was under scrutiny. The dynamism and the very nature of the integration process within the EU were reconsidered.

The present literature shows a common recurring nostalgic rekindling of the self-adjusting, real value international settlements process, and most of the agreeing scientific convergence; researchers have issued only hopes and projects, without any real actual result, indefinitely stabilizing the unpredictably fluctuating real monetary and financial world.

> In the 1930s, the New Deal had failed to reduce unemployment. The prolonged periods of joblessness were what had made the Depression "Great". The memory of the New Deal failure had faded just enough that younger people liked the sound of the term. And memories of more recent success fueled Americans' current ambition. Many men were veterans. They had been among the victorious forces that rolled across Europe and occupied Japan at the end of World War II. … American society was already so good. To take it to great would be a mere "mopping up action," as Norman Podhoretz, who had served in Europe, would put it. (Isserman, 2000, p. 211; Shlaes, 2019, p. 5)

In the modern industrial age, characterized by the 18th century industrial revolution, the development of the economic activity has undergone recurring phases of expansion, contraction, and technological deep evolution, with always-new factors and evolving configurations. The comparative advantages as outlined by A. Smith have been always factors affecting the "Wealth of Nations" that almost after three centuries seem to result sound according only to synchronic circumstantial recurring factors of growth, depression, great depressions, and finally recessions.

The development models had focused, instead, mostly on monetary and social prevailing forces, assumed in explaining growth, depressions, and economic crises.

Some experiments, historically surfacing in monetary narrative, start with the John Law Louisiana bubble and the uncovered connected issuance of John's *Bank of France*. Then the French Revolution exploited the printing of the "assignats". After, Germans induced the dissolution of their huge war debt, as the WW1 marks Weimar's inflating issuances. The WW2 monetary collapses started the EMA (European Monetary Agreement), after the EPU (European Payment Union), a sort of European local multilateral clearing system, based on the external convertibility. Then, the Triffin dilemma was foreseeing the unavoidable 15 August 1971, when President Nixon declaration and "de facto" dollar debasement led to the end of the Bretton Woods dollar-exchange epoch. Since then, the international interstate payment systems have never regained a settlement of the trading unpaired national balances of payments.

Till the dump of the gold standard, the dollar coverage at 35 dollars an oz. based on a fixed exchange rate performed an indirect paper money standard. Since the 1907 financial crisis, the urgency of artificial money and the value of the monetary titles were an assumed issue. The U.S. Congress had passed the *Emergency Currency Act*, Aldrich-Vreeland Act, signed into law May 30, 1908.

The Aldrich-Vreeland Act provided a mechanism that permitted banks to use securities, other than U.S. government bonds, to obtain short-term increases in their monetary circulation.

National currency associations accepted securities from single member banks and applied to the Comptroller for additional circulation.

The total amount of emergency currency issuable was set originally at $500,000,000. This amount was immediately raised over $1 billion by a hastily passed amendment, dated August 4, 1914, immediately following the outbreak of World War I and the unavoidable close of the NY Stock Exchange trading.

Actually, the exit from the gold standard in July 1914 has no scientific or economic justifications; neither has been ever proposed, planned, or foreseen. The *Keynesian Barbaric Relic*, as later defined by Keynes, was published as "a bolt from the blue" on the front page of the New York Times on Saturday August 1. The previous July Friday 31, in resuming the outcome of the Morgan informal Vanderbilt Thursday meeting, the newspaper wrote the opposite, as anticipated to William G. McAdoo, U.S. secretary of the treasury. In the Vanderbilt Hotel, at the meeting of the local Clearing House association, on Thursday July 30 indeed, the decision was not to close the New York Stock Exchange, at the ultimatum day to Serbia. On Friday 31, the previous decision is reversed, by markets forces. The markets will remain closed everywhere all over the world, until December. "Britain suspended temporarily the convertibility of its currency into gold during the Napoleonic Wars, America suspended it during the Civil War, and France suspended it during the Franco-Prussian War" (Bordo & Rockoff, 1996, pp. 414-415).

Evolving Markets and Monetary Fallouts

After WW1, the Genoa Conference adopted the Hawtrey's view and proposed the return to the gold standard; but such theory lost ground after the predominant Keynesian approach, which lasted as long as it could satisfy fundamental political conveniences. Most of the theoretical base brought by Ralph Hawtrey, at the Bruxelles Conference and to the two commissions appointed by the League of Nations, led to the Resolution 5 of the Economic Commission in Genoa 1922, promoting to the dollar re-basement. The Price Specie Flow Mechanism (PSFM) seemed a solution to an international debt imbalances' prevailing global status. The Hyman Minsky Financial theory explains why the Hawtrey-Cassel model of the financial turbulences was connected to an unreliable monetary base. R. Batchelder and D. Glasner put the secular monetary standard basic question, in "What Ever Happened to Hawtrey and Cassel?" just at the end of the fifth huge financial and monetary turbulence, after the 1971 Nixon's decision to abandon "temporarily" the dismissed standard (Batchelder & Glasner, 2013).

The recurring monetary shocks have always reflected the specific conditions or unusual events like wars, technological innovations, natural unforeseen circumstances, that might start some specific positive or negative trends.

> As Germany's outspoken chancellor Helmut Schmidt put it, Volcker pushed real interest rates (interest rates adjusted for inflation) to levels not seen "since the birth of Christ". He did not exaggerate. In June 1981, the prime lending rate touched 21 percent. The result was to send a shuddering shock through both the American and the global economies. The dollar surged, as did unemployment. Inflation collapsed from 14.8 percent in March 1980 to 3 percent by 1983. In Britain this was the crisis with which the Thatcher government began. In Germany, it would contribute to Schmidt's unseating and his replacement by the conservative government of Helmut Kohl, France's Socialist government under President Francois Mitterrand would be forced into line in 1983. Volcker's shock set the stage for what Ben Bernanke would later dub the great moderation. It was an end not just to inflation but to a large part of the manufacturing base in the Western economies and with it the bar of the manufacturing base in the Western economies, and with it the bargaining power of the trade unions. No longer would they be able to drive up wages in line with prices. And there was another part of America's postwar political economy that did not survive the disinflationary shock of the 1980s: the peculiar system of housing finance that had emerged from the New Deal era. (Tooze, 2019, p. 14)

Since the market, economy removed the primordial barter economy and the first human settlement started to produce and exchange some merchandise, money became the functional mean of exchange. To avoid the barter solutions, money has always permitted savings as an alternative deferment of consumption, future choices, as a means of fixing values and mainly as an exchange instrument, among different needs and different surpluses. The classic origin of industrial and financial unbalances has also been understood, described, and explained, in terms of: unbalanced trade, production, and consumption. This always happens in a multitude of national factors, linked to natural resources, savings, and social-political local factors, which have been the basis of any economic evolution.

The local expansion and depression phases in the various economic social systems have mostly been associated to the speculative, arbitrage, and quantitative evolution of the entrepreneurial projects as described clearly by Minsky (1992, p. 1): "… capitalist economies exhibit inflations and self-deflations, which seem to have the potential to spin out of control..." or to the innovative Schumpeterian industrial processes. Now they seem out of the "rules of the game", since the industrial activity, related to the global market, seems to respond to different impulses. The new century has disregarded most of the classical economic rules, in the new global competitive arena where, after almost two centuries of unchanged models, the prevailing rule of the game has become the original competitive game based on cost of production and comparative market potentials.

The current excessive leveraged financial systems show unusual high volumes, since the present monetary system is merely based on legal paper currency, but the bubble might burst at any signal of irrational exuberance.

> Leverage has come down throughout the U.S. financial system, including on household, business, and bank balance sheets. That's good news, even if some of the deleveraging came in a painful way—as debts were wiped out by default. Regardless, our financial system is now fat less leveraged, and hence less vulnerable, than it was in 2008. But let's not pat ourselves back too hard for the bigger question is whether leverage is down for the count. My answer is: Don't count on it. As confidence returns, so in all likelihood will higher leverage. But for now, the leverage coast looks clear. (Blinder, 2014, p. 450)

The system, actually, "did not work" as foreseen by Drezner in the year 2012.

The second question case, at the end of 1920's and middle 1930's financial disasters, after the First World War, is well raised by Glaser and Batchhelder, considering the pre-Keynesian Monetary Theories of the first

Great Depression. "What Ever Happened to Hawtrey and Cassel" must be understood and read, as "What happened to Triffin and Rueff", the commentators of the WW2 settlement in Bretton Woods. The two authors published, first *Gold and the Dollar Crisis: The Future of Convertibility* (Triffin, 1961) and, again, *Gold and the Dollar Crisis: Yesterday and Tomorrow* (Triffin, 1978), his predictions of the convertibility. Jacques Rueff in the year 1964 expressed his concerns about the convertibility, "temporarily" suppressed by President Nixon, in *The Age of Inflation*. In 1972 he published *The Monetary Sin of the West*, linked to the deceitful approval in Bretton Woods 1944, of the "misrepresented" monetary solution. The agreement was signed by Keynes, without being able to read the final melting of the word USA dollar with the word gold, in indicating the reserves of the participating Central Banks to what became a system of gold-dollar reserves. The "magic" was possible due to the strong position of the USA, after the Normandy invasion and the progressing collapse of the sterling linked to the WW2 British financials.

In his 1972 *Monetary Sin of the West* after the exchange gold standard collapsed, Jacques Rueff goes straight to the points raised by Robert Triffin since the 1960's.

The reproduction of the interview "Return to Gold—Argument With Jacques Rueff", by the assistant editor Fred Hirsch, appeared in the Economist, February 1965, as reproduced in a pamphlet issued by Professor Machlup in his International Finance Section, No. 47, June 1965, with the title "The Role and the Rule of Gold" Princeton University,

> F.H. (Fred Hirsch) You say, and many people will instinctively agree, that you don't believe that any human management could be so all knowing as to manage credit correctly in exactly the right way. But the objection many people have to your preference for the gold standard as such, is that this would leave the volume of credit not, as now, in the imperfect hands of the best central-banking authorities we have, but rather, in the completely arbitrary hands of the goldmining companies of South Africa, the trading policy of the Communist Party of the Soviet Union, or whatever technical discoveries happen to be made. That might increase or decrease the world's credit base by quite wild amounts, in a way that not even the stupidest monetary authority would do.
>
> J.R. (Jacques Rueff) I am not in favor of floating exchange rates. I am not in favor of daily changes of parity. But, when you have had very exceptional situations, you may need exceptional policies to clean up the past. Let us take a positive example. It is what President Franklin D. Roosevelt did in raising the price of gold in 1934—and I would like my friends in Washington to keep that in mind. It is often said that what we want to avoid is the return of the trouble and the mischief of the gold standard in the twenties. But if you take the balance sheets of the central banks you will see that the mischief was not the mischief of the gold standard but the mischief of the gold-exchange standard. The evolution of the balance sheets of the central banks is exactly the same, exactly parallel in the years 1927, 1928, and 1929 to what it is now, and it is the collapse of this system in 1931 that was responsible for the depth of the depression. (Rueff, 1972, pp. 83-84)
>
> F.H. So, in other words, you do see the return to gold as one of the means of imposing a much greater discipline over credit expansion, in particular domestic credit expansion, than we have had in recent years?
>
> J.R. I think that internal credit expansion has not been the main fault of the system. The main fault has been the result of the gold-exchange standard, and if we restore a real system of payments internationally, I think that would leave more freedom for internal policy. (Rueff, 1972, p. 91)

This comments with the Economist within the J. R. 1972 book start to take note of the falling dollar system bound to destroy part of the human saving while enlarging the USA standard of living in a one-way road map.

The Over the Border Activities, the Monetary Fallouts, and the Great Society

In the contribution to the Vice President Johnson's, an outstanding figure is the Prof. Michael Harrington, whose narrative about *The Other America*, or the Great Society in 1961, supported the New York Office of

Governor W. Averell Harriman, before his joining the Administration of President John F. Kennedy in the year 1961. There he worked as Secretary Assistant, managing the relations with the Labor Unions, under both President Kennedy and his successor President Lyndon B. Johnson.

In the year 1965, he published his controversial Report Moynihan, considering poverty among Afro-Americans. Daniel Patrick Moynihan left the Johnson Administration in the year 1965 as he got a teaching position at the Harvard University. His contribution, then relevant in fighting poverty, must be considered as the second experience in a new sort of New Deal, as promoted by Kennedy, but recurring as a pilot program that prolonged unemployment. The most important political event of the 20th century, declared the commentator Irving Kristol in 1976, "…. is not the crisis of capitalism but the death of socialism…" When, in 1989, the year the Berlin Wall came down, Michael Harrington published a book titled *Socialism*; he looked like yesterday's fool. In Britain, the rise of Margaret Thatcher reflected a post-socialist respect for the individual: "There is no such thing as society", Thatcher said, "There are individual men and women and there are families" (Joseph Memorial Lecture of 1996, given to the Centre for Policy Studies). In the period following the 1970's from Reagan to Bush, Clinton, Bush again, and Obama, the Great Society collectivism was outgrown in its ideal structure, but the period of both monetary and financial crises started their old performances, which have become a definite model in connection with the prevailing artificial legal currency "misrepresentation" epoch collapses, looming not far ahead.

The period between the declaration of the dollar debasement, August 1971 and the disregarding of the deficit Maastricht's parameters, typical fate of the agreements signed in the Dutch City of Maastricht in December 1991, looks like a progressive confiscation of the existing currency value. Its value indeed is the inverse function of its quantity, according to the Fisher equation, practically reduced to the essence of artificial uncovered money. In this perspective, the banking activity, from custodian of peoples' real value assets, becomes potentially that of an accounting-clearing machine of valueless accounting annotations. Without reliable savings and related trustworthy values, from the artificial instruments, the whole investment function was trimmed.

> As Minsky insisted "stability is destabilizing"—and this seemed to perfectly describe the last few decades of U.S. experience, during which financial crises became more frequent and increasingly severe. We could list for example, the savings and loan crisis of the 1980s the stock market crash of 1987, the developing country debt crises (1980s to early 1990s), the Long Term Capital Markets (1998) and Enron (2001) disasters … and the dot-com collapse (2000-2001) as precursors to the final "great crash" in 2007. (Wray, 2016, p. 138)

During the last large unpredicted financial instability, 2008-2012, the recovery possible was the "quantitative easing" policy.

On the contrary, the assumed line reflected the monetary and financial doctrines by then prevailing:

> By September 2008, it was clear that the US financial markets were seizing up, but non-American actors treated the news with more than a little schadenfreude. To Europeans, the subprime mortgage crisis was the fault of US market fundamentalism. In a March 2008 interview, the French foreign minister Bernard Kouchner declared, "The magic is over for the United States. Six months later, German finance minister Steinbruck predicted, that the United States would soon lose its status as financial superpower". (Drezner, 2014, p. 9)

The Drezner comment coincides with the deeper crisis ever at the center of the financial world, which deepens down in the year 2012 at the deepest.

At that corner, the gold overpassed the 2,000 dollar an ounce price and the interest rates fell to a symbolic positive value, then even negative around 2020, values never seen before in history. The following monetary adjustment, according to the prevailing perspective, led to a different profile in the economist comments. The center may be located in the Eric Helleiner comments, quite different and considering for the first time a new dollar evolution, in the transition from the G8 to the G20 meetings:

> Financial and central bank officials of this grouping had been meeting since 1999—that organization had failed to carve out much of an influence independence of the G7countries that had dominated global financial decision making since the 1970s. This dynamic changed rapidly after Bush's announcement, with the G20 leader' forum quickly displacing the G7 from the control role in global financial governance. (Helleiner, 2014, p. 25)

The problem faced by the G20 was on the international regulatory agenda, stating technical issues policy makers drew preventing the worst:

- market contents of international standards, Basel III agreement;
- governance and content of international accounting rules;
- international standards for credit rating agencies, hedge funds, over the counter derivatives;
- lessen cross borders capital mobility.

> After the failure of Lehman Brothers pushed the global financial system to brink, they asserted that no additional systemically significant financial institution would be allowed to fail and then delivered on that promise reforming the governance and the content of international financial regulations. (Eichengreen, 2016, p. 1)

Unresolved Issues the Surfacing Triffin-Rueff Converging Dilemma

The Triffin perspective comes from his first experience at the International Monetary Fund, and World Bank, outcome of the Bretton Woods 1944 compromise, associated with the final European experience since the first EPU (European Payment Union) to the multilateral monetary convertibility, through the central role of the BIS (Bank for International Settlements) incorporated in the Neutral Swiss Basel. They are clearly expressed in his two essays of 1961 *Gold and the Dollar Crisis*, later in his *Gold and the Dollar Crisis: Yesterday and Tomorrow* 1978.

The Jacques Rueff warning lies in his *Age of Inflation* 1964 and specifically 1972, *The Monetary Sin of the West*.

In these four essays stands the monetary history of the Bretton Woods agreement: from the primordial Henry Dexter White Friday 17 July 1944 nightly rewriting of the agreement, to the 1971 Camp David break, to the international payment system in total chaos.

> The Fed was criticized equally for doing too much and too little. Members of the too-much school warned that its insistence on keeping interest rates low augured an explosion of inflation. When that inflation failed to materialize, they then dismissed the Fed's credit market interventions… The central they warned, was only setting the stage for more financial excesses like those that caused the crisis. (Eichengreen, 2016, p. 304)

Most of the recent financial and monetary crisis stem more or less, from the function of Central Banks, and their actual invasive role, as public employees and as political entities.

The link arises from what we state the functional role of money. There are only two possible considerations: Money is a title with intrinsic value either representative of such value, or money is a legal release of a paying debtor, whose only consideration is the hope to utilize it in future transactions, under an unconditional trading of value risk.

The simple monetary stability boundaries, like the 2% limit rate, within the EU monetary agreement and the FED 1970's programs, are mere political strategies. The shift of Central Banks into the financial stability mechanism must still be revisited.

> The credibility of its commitment to maintaining price stability would be damaged, undermining the ability to achieve its goals. Memories of the 1970s, for those who had lived through the decade and histories of the 1970s for those who had not, strongly informed the outlook of officials, shaping and constraining policy. For all these reasons, raising inflation above 2 percent and keeping it there would not be easy. (Greenspan, 2014, p. 228)

The Central Banks are coming across their specific statutory role between monetary and financial stability: "In the last three years plus, central banks have had little choice but to do the unsustainable in order to sustain the unsustainable until others do the sustainable in order to restore sustainability" (El-Erian, 2016, p. 48).

Up to the 1970's monetary crises in the planned economies, the Central Banks' monetary balances accrued within the COMECON were eventually sold on the Swiss market (Zurich), down to 40% of their nominal value, denominated "light currencies", against main "hard western currencies", mainly dollars and German marks.

Actually all papers issued under Central Banks legal tender rule, since John Law first experiment, finally lost their nominal purchasing power in real terms.

The cost of labor, main factor in the capitalistic Eastern reforms, grown on the global free market, being lower in the East, ruled the competition.

> The share of our private sector workforce belonging to unions declined from around 35 percent in the 1950s to 7 percent in 2013. Strikes or threats of strike—labor most formidable tool of the fifties—rapidly diminished. In 2013 the number of workers on strike was less than 4 % of the average number that "hit the bricks" throughout the 1950s. The Gini coefficient's dramatic rise starting in the 1970, reflected in part the diminishing clout of labor unions. (Eichengreen, 2016, p. 303)

The support to the dollar attributable to China is understandable, even in a debased dollar system because

> The fact that China and other foreign official dollar holders had many reasons to continue to support the dollar meant that the United States itself did not have to work too hard to cultivate this outcome. To be sure, if the United States had closed off its markets to foreign exports, foreigners might have reconsidered their support for the dollar. (Helleiner, 2014, p. 68)

Conclusions

> In November 2001, Alan Greenspan received a prestigious award, adding his name to a roll of honor that included Mikhail Gorbachev, Colin Powell and Nelson Mandela. The award was the Enron Prize for Distinguished Public Service. Greenspan had certainly earned his accolade. From February 1995 until June 1999 he had raised US interest rates only once. Traders had begun to speak of the "Greenspan put" because having him at the Fed was like having a "put" option on the stock market (an option but not an obligation to sell stocks at a good price in the future). Since the middle of January 2000, however, the US stock market had been plummeting, belatedly vindicating Greenspan's earlier warnings about irrational exuberance. (Ferguson, 2008, p. 169)

The period from the first bubble, 1987 to the Dot Com collapse on the NASDAQ, was stable, to induce the Clinton's *Modernization Act* with abolition of the *Glass Steagall Act* and the doomed melting of the financial and commercial activities by commercial banks.

In a financially correct profile, commercial banks should keep their deposits liquid and only long-term liabilities could finance risk-taking investments within strict "moral hazard" boundaries.

The economic cycle has always shown a random trend with expansions and contractions. Such periodical evolutions are due to causes linked to the market, connected to the monetary quantities and spinning velocity.

> There is no means of avoiding the final collapse of a boom brought about by credit expansion. The alternative is only whether the crisis should come sooner as the result of voluntary abandonment of further credit expansion, or later as a final and total catastrophe of the currency system involved. (Von Mises, 1949, p. 570)

The main relevant observation, I would put at the end of this long statement, comes from Skidelsky:

> I would describe myself as an economically literate historian. The advantage I would claim is that of not having been brainwashed to see the world as most economists view it: I have always regarded their assumptions about human behavior as absurdly narrow. 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. x)

To assist banks, businesses, savers, and consumers, all of them facing specific challenges, seem to be a hard task, in the blowing and expanding market volatility. In doing so, in the USA, the Central Bank is issuing under the Section 13(3) of the *Federal Reserve Act*. In the last financial crisis 2000-2012, these actions appear to aim to stop business and to face directly financial instability, extended to a range of borrowers themselves, rather than a seizing up of the illiquidity and non-performing loans.

> These historical episodes are evidence supporting the view that the economy does not always conform to the classic precepts of Smith and Walras: they implied that the economy can best be understood by assuming that it is constantly an equilibrium seeking and sustaining system. (Minsky, 1992, p. 10)

The 1990's legal tender paper money excess, and the competing China lower costs would have destroyed the Western "comparative" advantages; it was just a pure Wicksell effect, monetary bubbles ready to burst.

> I had ongoing conversations with Bob Rubin on the subject. We were both somewhat concerned. We'd now seen the Dow break through three "millennium marks"—4,000, 5,000, and 6,000— in just over a year and a half. Though economic growth was strong, we worried that investors were losing away. Stock prices were beginning to embody expectations exorbitant that they could never be met. (Greenspan, 2007, p. 176)

When Henry M. Paulson, Jr. then CEO of Goldman Sachs, was appointed Secretary of the Treasury in 2006, he had no suspect that he would soon be at the world's most cataclysmic financial crisis since the Great Depression.

> I came to Treasury I was concerned for example about the riskiness of the biggest banks, but to stem the crisis we allowed some big banks to get even bigger and even more complex. The consequences of our decisions will make the job of policymakers who follow us more difficult. (Paulson, 2010, p. xiv)

In the US, some major institutions, including Bear Sterns, Fannie Mae, AIG, Merrill Lynch, Lehman Brothers, were collapsing, and many more actually collapsed soon after.

> Many of the actions I took—seizing control of the quasi-governmental mortgage giants Fannie Mae and Freddie Mac and injecting capital into the banks through the Troubled Assets Relief Program (TARP)—were deeply distasteful to me. But today I believe more ever that they were absolutely necessary. (Paulson, 2010, p. xv)
>
> When Paulson was worried about a Chinese dollar sell-off, he knew whom in Beijing to call. Larry Summers's cold war analogy proved more apt than he realized. The balance of financial terror held. But in the meantime, what became

> increasingly been focused, as Bradford DeLong would put it, on the "wrong crisis". The crisis that will forever be associated with 2008 was not an American sovereign debt crisis driven by a Chinese sell-off but a crisis fully native to West capitalism—a meltdown on Wall Street driven by toxic securitized subprime mortgages that threatened to take Europe down with it. (Tooze, 2019, p. 41)

These considerations lead to a critical standpoint in the general market economy, after the exhausted planning or mixed economies of the 20th century.

> Beginning in 1998 some of us who had adopted the MMT approach began to warn that the Goldilocks economy had produced unsustainable sectoral balances in the United States. We had recognized that the economy of the time was in a bubble, driven by unsustainable deficit spending by the private sector—which had been spending more than its income since 1996. As we now know, we called it too soon; the private sector continued to spend more than its income until 2006. (Wray, 2015, p. 34).

The only solution was clearly perceived by Jacques Rueff when he said, just after the Bretton Woods contradictory pact, that "Money will decide the fate of mankind" (Rueff, 1964, p. ivx). Amity Shlaes in her *Great Society* (2019) clearly has reconstructed the monetary and financial catastrophe that led to the Nixon Camp David resolution: to debase the dollar and to start the great new MMT showing real prophecies made by Von Mises and outlined by both Triffin and Rueff. The present financial and monetary crisis stems from to the unresolved question: What might be a sound monetary basis? Presently 90 percent of currency trading involves the US dollar. Could that change? Yes, of course. Nothing lasts forever. As MMT economist L. Randall Wray put it "the dollar will not always reign supreme, but it has a lot of life remaining as the most desirable asset to hold in portfolios" (Kelton, 2020, pp. 141-142). People are referring this situation, when they say the US dollar is the dominant global currency.

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