

The Influence of Keynes's Thought on Contemporary Euro Zone

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Submitted: 06 March 2026 Accepted: 16 March 2026 Published: 26 March 2026

Citation: Felis, F. (2026). The Influence of Keynes's Thought on Contemporary Euro Zone, J of Digit Mark E-Com Con Ana,2(2), 01-15.

Abstract

It is an ancient idea of Keynes that is readapted to the euro area to propose an overall change in the euro structure. A complete monetary union is lacking in the euro area because a common spirit is lacking. Therefore, Keynes' idea can be useful for getting out of today's contradictions.

Keywords: Keynes, The Bancor, The Euro, International Monetary System, Monetary Union, Economic Policy.

Introduction

Following many years of economic turbulence in the Eurozone which peaked in the 2011-2012 crisis on the back of the American sub-prime mortgage crisis of 2007-2008, the Eurozone appears to have achieved stability. In reality, the system has several flaws and potential risks which have been analysed by dozens of authors with strongly opposing views, leading to a debate between opponents and supporters which is as contentious as that between the fans of rival football teams from the same city [1]. In a footnote I have summarised both the critical issues and the seemingly insurmountable challenges for a unilateral (if legally possible) exit [from the Eurozone [2]. I do not wish to enter into these two debates. Here I merely reiterate that the system has two original flaws. Delors long ago said that Europe needed a soul. On another occasion he referred to the EU as 'an unidentified political object'. One might wonder what inspired such negativity; the answer is that the E.U. suffers from institutional deficiencies, democratic shortcomings and economic problems.

The origins of these problems can be traced back to what the well-known economist, Paul de Grauwe, referred to as the 'deep variable.' That is, the presence of a feeling of a common national purpose, which makes it possible to overcome technical economic aspects and democratic shortcomings such as a centralised budget, compensatory transfers between regions, political representation, etc. This 'Deep variable' was for example present at the time of the monetary union between West and East Germany in 1991 however at the European level, we can safely say that this is underdeveloped. Moreover, nobody wants to strengthen the federalism variable with a common fiscal policy. We merely need to consider the various criteria laid down in

Maastricht which were gradually strengthened, then suspended, first for Germany and France then for the others, before being reintroduced. These criteria serve only to place constraints and implement a so-called expansive austerity [3]. That is actually suffocating. No one wants to strengthen the federalism variable precisely because of the lack of this 'deep variable', the "idem sentire" in Latin, being limited to measures that only create misunderstanding and hostility between states, without a real mechanism to mitigate conflicts which are resolved at the level of temporary compromises where states are viewed as bad or at fault. In December 2009, when speaking about the large deficits of some member states, Angela Merkel reiterated that each state has a responsibility to keep its finances in order, before adding: "There are problem children in Europe". The ECB, this year, in a meeting that seems to be the most important since Mario Draghi decided on the famous 'whatever it takes' decided the following: to stipulate that interventions to purchase public securities in order not to make the spread rise would be subject to conditions; the shield to keep the spread from rising, by purchasing securities, would only be activated if the increase was 'unjustified', i.e. the ECB decides; the increase in the spread would be justified (therefore, if not, no shield, no purchase of securities). If a state's internal measures are spendthrift or how? Does this mean putting a state under permanent protection? Furthermore, there would be a peremptory prohibition for the ECB to lower the spread of a country in difficulty (hence conditional interventions). This is an action by a central bank that can have strong, even negative effects on employment. In this case, it seems that Christine Lagarde (as always, the French aligned with the Germans) reverses Mario Draghi's approach. So much for 'whatever it takes!' The ECB decision is irrational and unnecessary.

One cannot set up the Coast Guard only for calm sea scenarios or give medicine only in the hypothesis that one doesn't need it. Shall we tell a 'good' story about interventions by a Central Bank? On 7 July 2011, the ECB (Trichet) decided to raise interest rates by 25 basis points. The decision favoured Germany. In fact, it was enjoying a mini-boom and inflation had risen above 2 per cent and the ECB by doing so was helping Germany to keep inflation down. At the same time, it was totally insensitive to the dire conditions in Ireland for example where homeowners, already struggling with mortgage payments, would be further burdened by interest rate hikes. And in Italy? After the 7 July decision which was favourable to Germany, ten-year bond yields exceeded 5% and bank share prices plummeted. Due to the tight monetary conditions, it was estimated that the banks would go into default and possible support and rescue costs would increase. These costs, added to a rising public debt, would have made public finances more precarious. To compensate for the increased risk, investors demanded higher yields, which further weakened the government's ability to intervene to save the banks. A vicious circle had arisen with the ECB decision, which favoured Germany! A vicious circle that involved Italian banks, but also Spanish ones. As previously those of Greece and Ireland.

Moreover, German banks did not want to intervene to lend to Italian and Spanish banks in difficulty. So, they had to borrow from the ECB. From the very institution that had caused the problem. On 5 August came the famous letter signed by Trichet and Draghi (it also reached Zapatero's Spain, with the signature of the governor of the Bank of Spain) in which a monetary institution such as the ECB, which had initiated the problem (by raising interest rates, by refusing to start quantitative easing), dictated economic policy prescriptions that were the responsibility of political bodies.

Perhaps they were the Right Prescriptions however they:

- had not been made before and indeed were favourable to the policy choices made up until that point;
- do not belong to a monetary body
- were made but the situation whereby sovereign bond yields had exceeded the 6 per cent barrier had been brought about by the ECB's own decisions.

The ECB was led by Trichet. But Draghi was in agreement. The decision of 7 July was objectively (perhaps beyond intentions) a favour to Germany to contain its inflation.

Why was this decision taken, given the problem it was causing Italy and Spain? Why did Trichet (and Draghi) make it? When Trichet left the ECB presidency on 29 October there was an argument with President Sarkozy who accused him of not favouring French growth (it was not just an Italian or Spanish issue, for them only more so). During the quarrel Trichet tried to defend himself and Merkel not surprisingly tried to reassure him by saying 'You are a friend of Germany'. So why did Trichet act this way? And Draghi? After he had taken over from Trichet in November he began to change his approach. And before that? He had been very supportive of Trichet. So was the governor of the Bank of Spain. Could Trichet make them act in a way that they did not want? How come? Was it for one (Trichet) a test of friendship and for the other (Draghi) a test for admission?

What reason was there particularly for Draghi's behaviour? In any case, the situation was resolved in November... also thanks to the Fed (of Yellen who had always kept a different policy from the ECB that was too friendly to the Germans) which acted in such a way that the Central Banks could lend in dollars to the national banks at a lower cost.

The truth is that in October 2012, Blanchard, IMF chief economist, and his colleague Daniel Leigh demonstrated that austerity during a recession or in times of economic distress exacerbates the situation. In an article on the so-called 'fiscal multiplier' they estimated that in weak economic conditions, if a government reduced spending (or increased taxes) by one Euro, GDP would fall by almost two Euros. This would have led to a decrease in GDP and consequently in tax revenues. Austerity would have increased the repayment burden and an increase in the debt/GDP ratio. In May 2012, Alan Auerbach and Yuriy Gorodnichenko of Berkeley argued in a journal note that during a recession or in times of difficulty fiscal stimulus is more effective than fiscal austerity. Giancarlo Corsetti, André Meier and Gernot J. Müller stated that if a country is struggling to get out of a crisis, the fiscal multiplier is very high and can reach 2%. Other research went in this direction (Ashoka Mody. Euro. A tragedy in nine acts. cit, for the works of the cited authors) The European Commission Vice-President Olli Rehn reacted very badly and almost insulted Blanchard. The ECB (until Draghi) did not want to start any quantitative easing, unlike the Fed, which had already started in 2003 and between 2007 and 2008. It should now be clear that Blanchard's economic approach and almost all economic doctrine (in addition to those mentioned, there were articles by Batini, Callegari, Melina, Baum, Ribeiro, Weber, as well as very contentious ones by Krugman, Stiglitz and Mody) is not anti-European. It is just an example of a policy in the American case (because the US may invent theories that may be restrictive and then export them but do not apply them at home) and it is not an illiberal policy.

The so-called economic fundamentals, as they are called journalistically, need to exist just as it is better for the sea to be calm or the weather to be fine. But apart from the fact that blizzards (economic shocks) can arrive even without the 'fault' of a state and with low public spending as Giavazzi and Alesina would say, if an intervention wants to be credible it must happen even when the sea is unexpectedly rough or the weather is bad. Otherwise, it is not credible, and the markets bet on non-intervention and go wild in fact Draghi had said 'intervention without conditions' unlike Lagarde. In response to those who were against intervention in the subprime crisis with the justification that some banks were at fault (the moral hazard fundamentalists as they have been called) Ben Bernanke and Larry Summers retorted that it is not a good reason not to provide a fire service just because you are asleep or you fall asleep with a lit cigarette. The fire service exists at all times and for all occasions. This anti-spread shield is/would be the same.

Just as you can educate people not to go to bed with a cigarette, you can establish macroeconomic parameters and controls but deciding not to use emergency measures on the basis that the fire won't burn and then watch as it destroys an entire building or neighbourhood (including those who aren't at fault) is irrational. Because the markets are betting in that case that emergency

measures will not be enacted for the undeserving (the smoker) and they attack him on purpose. They also attack him in order to set the whole building on fire, trusting in non-intervention or delayed and selective intervention. So, behaving in this way is the best way to make fires break out, which are severe. Not to prevent them. Keynes, after the First World War, was facing a situation in which several countries were forced to run continual trade surpluses in order to acquire the foreign currency needed to pay for reparations. They therefore poured large quantities of goods onto the international markets, exerting downward pressure on prices (deflation) on production and employment, with the consequence that France and England and other countries had a conflict between the requirements of external balance (exchange rate stability) and those of internal balance (inflation and deflation, accompanied by speculation and unemployment).

Keynes believed that not only should reparations and war debts be abolished, but also that a flexible exchange rate regime should be adopted by breaking the chains of international financial and monetary relations rigidly bound in terms of gold currencies, allowing each country to seek its own internal equilibrium first and exchange rate stability second. But his voice went unheeded and instead a system of fixed exchange rates pegged to gold was relaunched. When the crisis of 1929 arrived, caused according to many by international deflation in the real markets and speculative growth in financial values, the reaction was both to increase protectionism and, from 1931, following intense capital flight and increasing pressure for devaluation, to finally abandon the gold standard.

But the prevailing economic doctrine blamed the crisis of 1929 on monetary and speculative phenomena: the over-issuance of money would have favoured financial speculation and would first have drained capital from the rest of the world and then plunged it all into crisis when the securities values turned out to be unrealistic. It was a crisis of over-investment and price deflation which could even have been a useful tool to eliminate less efficient companies. There was a strong conviction that, according to Say's law, if prices and wages were flexible, the destruction of money associated with the financial crisis would not have a detrimental effect on the real economy: deflation would only have a nominal effect with no change in incomes, employment or production. Unemployment would have been the result of workers' resistance to accept the fall in nominal wages.

An expansive monetary policy would have delayed the cleaning of the market and the restoration of a balance between labour supply and demand. A policy of public works financed by new taxes or by issuing public debt would have diverted resources away from private enterprises and reduced employment still further (Treasury view). It would only have been necessary to wait and intervene to break the wage rigidity in such a way as to favour companies and when the fall in costs had exceeded that of prices, the reappearance of profit margins would have induced companies to invest and hire workers.

But even if it had worked, it wouldn't have set us up for the long run! But it didn't work because monetary changes have real effects in that they induce a contraction in investment in consumption and income. The banks, for example, were no longer willing to grant credit, the money was hoarded further depressing aggregate demand, deepening the fall in prices and employment. Today we have the Eurozone inside the E.U. without any form of a joint state. So, we have the drawbacks of the gold standard and zero benefits as there is no political union.

In the 1930s, many preached the need for wages and other prices to be inflexible – they believed this would alleviate the crisis for businesses thanks to the decrease in costs, thus allowing profit margins to reappear and businesses to invest. Such views however do not take into account the reality, the fact that money, for example, in times of crisis is hoarded, not used for investment and consumption, depressing aggregate demand even more and deepening the fall in prices and employment. During such periods, there are also psychological phenomena that do not push entrepreneurs to invest. It has rightly been observed that is we 'Replace the 2008 financial crisis with the Great War, swap European austerity budgets and the American foreclosure crisis for war debts and reparations, the result is a modern recipe for militant far-right nationalism' (Zachary D. Carter. The Price of Peace. Economics, Democracy and the Life of John Maynard Keynes..What happened in Italy and many European countries is reminiscent of the 'Treasury view' of the 1920s.

It starts from the assumption that the interest rate (the one banks apply to business loans) is the equilibrium point between investments and savings because, as neoclassical theory states, the interest rate is nothing but a 'price' at which demand (loans) and supply (savings) balance. Given this, here is what the British Treasury argued in 1929, and what neoclassical economists still argue.

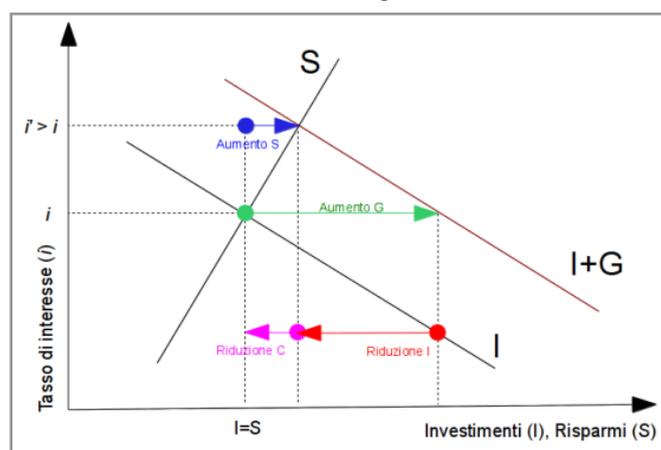


Figure 1

The graph represents the development of investments (I) and savings (S) as the interest rate changes. Where the two lines cross, the equilibrium price between supply and demand is determined, i.e. our interest rate i . Starting from an equilibrium situation, if we tried to increase government expenditure (G), we would obtain a new straight line $I+G$ which, crossing the savings line S at a higher point, would determine an interest rate i that is higher than the equilibrium rate i . However, this would have negative effects on (private) investment I, as entrepreneurs would incur higher costs to finance themselves. Furthermore, the increase in the interest rate would also have negative consequences for consumption as a reflection of the increase in savings. The higher government expenditure G, therefore, would cause lower private expenditure (in investment and consumption) equal to its amount. To use neoclassical language, public spending 'crowds out' private spending and raises the interest rate.

Conversely, a reduction in public spending could only have positive effects, which would be even more pronounced if accompanied by a reduction in taxes. In fact, the greater resources available to the private system and the lower interest rate would encourage investment.

What is wrong with this reasoning?

Firstly, it is quite difficult to establish a causal link from investment and savings to the interest rate. Keynes' traditional thinking was that investment decisions are made by entrepreneurs based on expectations and only secondarily to the interest rate. Savings decisions, on the other hand, are made by households and depend on disposable income: the more you earn, the easier it will be to save. Nothing therefore ensures that the interest rate is really the price that balances investment and savings. In today's capitalism, then, things are even more complex, considering that a significant part of household savings ends up in the financial markets through private pension funds, creating what Minsky called 'money manager capitalism'.

Finally, the interest rate charged by banks to their customers is linked to the central bank's monetary policy. For all these reasons, and others, it is good to consider the interest rate as an exogenous variable, i.e. not determined by the balance between investments and savings.

Thus, the first flaw in the Treasury's point of view clearly emerges: the claim that an increase in public spending leads to an increase in the interest rate. In fact, there is no justification for the relationship between these variables in the way described by the Treasury view. The second flaw in the Treasury view is consequential: increased government spending does not displace private spending, except under special conditions (full employment of productive resources).

After all, why should hiring a million teachers and nurses have a negative effect on consumption? And why should building a road, a railway or financing a mission in space have a negative effect on private investment? On the contrary, hiring teachers and nurses will provide income to people who had none, and will boost consumption rather than depress it. So, the construction of a road, a railway or a mission into space will lead companies to invest in carrying out these works, among other things by hiring new personnel.

Finally, it is clear that the Treasury's point of view explicitly denies that increased public spending can have a positive effect on gross domestic product, on the assumption that it is always 'unproductive'.

However, one point is clear: increased government spending must be financed. This can be done either by increasing taxes (but this diminishes their effectiveness, unless only those with large savings are affected) or in deficits. The second hypothesis is the most effective but is more difficult to implement for those countries that do not have their own currency and monetary policy, for which the rates on public debt are linked to the financial markets and cannot print money to finance additional deficits. Namely the eurozone countries. It thus happens that, through an external constraint, any expansive economic policy is in fact made impossible. Austerity, the Treasury's view, becomes the only way forward. But that does not make it effective.

In particular, in recent years, following the global financial instability caused by the sub-prime crisis, there has been renewed interest in the proposals Keynes made on the eve of the Bretton Woods Conference that gave rise to the multilateral institutions that still govern the world economy today, the International Monetary Fund (IMF) and the World Bank.

In this regard, the speech by the Governor of the Chinese Central Bank, Zhou Xiaochuan, attracted particular attention ("Following this example [i.e. Keynes' proposal] Troost formulates a proposal that combines some historical aspects of Keynes' International Clearing Union with the current European situation [4]. First, it is crucial to recognise that the responsibility for the future of the single currency lies with the deficit nation as much as with the trade surplus nation. Rather than the Stability and Growth Pact and rules to curb public spending, limits should be set for current account imbalances, e.g. in the short term a threshold of 3% of each country's GDP, whether in surplus or deficit. In the long run, sanctions, albeit minimal, should also be imposed, proportionally affecting excessive accumulations of trade surpluses. The money thus collected should finance a fund for maintaining trade balances without, however, taking the form of a repressive or penalising system. Surplus nations should also present to the Council and the European Parliament within a maximum timeframe the policy programme they intend to implement to increase national aggregate demand and correct trade imbalances. This is the case for Germany today. In order to defend the interests of the EU area, the Federal Republic - Troost concludes - should reorient its development strategy from an export-led one to a growth model based on domestic demand, abandoning the idea of austerity and thus regain esteem and trust among its European partners. Today, monetary policy is no longer an effective economic policy instrument; only greater coordination of European fiscal policies can save the single currency project, the common Europe and the message of peace it represents, as recognised by the 2012 Nobel Peace Prize award. It is therefore up to Germany to recognise its role in the European crisis and to launch the initiative for those reforms that can give this project a new future'.)

In fact, the Governor of the Central Bank of China recalled Keynes' proposal, and partly modified it, to refer to a need for reform of the international monetary system. I have examined

the principles expressed by Keynes, certainly not to the full letter of his proposal, which is found in the footnote together with the reference to the intervention of the Governor of the Central Bank of China, in order to verify whether at least some of these principles could be used to make some changes to the Euro or at least ensure they are considered in the event that an alternative to the Euro is sought, in the knowledge that the Euro system suffers from a contradiction whereby it either evolves towards a federalist perspective (also as a political evolution of the EU) or it cannot survive. The governor of the Bank of China in his speech, for example, "forgot" to refer to a central element of the Keynesian proposal, which I'd like to add with regard to the euro, and that is "the symmetry envisaged in the adjustment mechanism of the balance of payments of the countries participating in the monetary system had to involve not only the countries in deficit but also those in surplus." [5]. Keynes, after all, went through a phase in his life of adhering to the gold standard and then rejecting it because he saw it as a system that created internal misery, deflation and poverty.

There have been various versions of the plan that Keynes proposed and in referring to his proposal I will try to take some principles that are more or less common to the various proposals, precisely because I need to transfer his general idea to the Euro situation, without going into technical details or individual proposals [6]. My paper is intended as a starting point for discussion around the principles Keynes referred to and to see whether these principles can, with a political choice, be accepted. Keynes, taking into account the two periods discussed above, would have prepared about a dozen versions of his proposals. The response to the German proposals consists of a plan drawn up in two versions. The first dates from 25 November 1940 and is entitled Proposals to Counter the German 'New Order'; in January 1941, a second version was drafted and sent to the Treasury, the Bank of England and the Foreign and War Ministries. From then on, Keynes' ideas became the content of what was to become his plan for Bretton Woods, the first version of which, called Proposals for an International Currency Union, was dated 8 September 1941; on the basis of the initial comments he received, Keynes drafted a second version on 18 November 1941, in which the unit of account he proposed was called the grammar (see Proposals for an International Currency Union, Appendix A) and, after a new round of consultations, a third version was drafted, destined to become the official position of the British government, on 15 December 1941; the fourth version of the plan, dated 11 February 1942, was entitled Proposals for an International Currency (or Clearing) Union; on 4 August 1942, a fifth version was drafted, entitled The International Clearing Union. After reading the plan by Harry D. White, Keynes drew up a sixth draft that he sent to him and, after initial discussions with the United States on both the White Plan and the Keynes Plan, on 9 September 1942, drew up the seventh draft; on 7 April 1943, following the impossibility of arriving at a common plan between Great Britain and the United States, Keynes drew up the eighth and final version that became the official document of the British government in view of the Bretton Woods Conference (this reconstruction is based on the following volumes: Robert Skidelsky, John Maynard Keynes: Fighting for Freedom, 1937-1946, Vol. 3, New York, Viking, 2001; and: J.M. Keynes, Eutopia - Proposals for an International Currency, Milan, et al. Editions, 2011. In addition to the plans proposed by Keynes and

White, there were also proposals by representatives of the Canadian government and the French government, but they did not have a significant impact on the discussions during the Bretton Woods Conference (J. Keith Horsefield, The International Monetary Fund 1945-1965 - Twenty years of International Monetary Cooperation, Washington D.C., IMF 3, 1969)."

Keynes' Attitude to International Trade

As is well known, Keynes shifted the focus of the economy from the production of goods to demand, observing that in certain circumstances aggregate demand is insufficient to guarantee full employment. Hence the need for state intervention to support demand, in the knowledge that the alternative is high unemployment. State intervention must be aimed at increasing aggregate demand even under conditions of public deficit (deficit spending), which in turn leads to an increase in consumption, investment and employment. This theory is opposed to the conclusions of so-called classical economics, which instead advocate the market's ability to rebalance supply and demand thanks to Say's law. Effective demand is composed of consumption and investment. The former is demanded by households (the consumers); the latter is given by the output expectations of entrepreneurs/producers. Production capacity is usually never fully utilised. If demand increases beyond production capacity, this leads to changes in the labour force and employment, price changes and, ultimately, inflation.

Regarding Keynes' views and the international imbalances, after an initial, youthful phase of adherence to the gold standard and free trade he changed his opinion

According to Keynesian theory, trade deficits are harmful. Countries that import more than they export weaken their economy. When the trade deficit increases, unemployment rises and GDP slows down, with surplus countries getting rich at the expense of deficit countries as they destroy the production of their trading partners. John Maynard Keynes believed that surplus countries should be taxed to avoid trade imbalances. Early in his career, Keynes was a Marshallian economist who strongly believed in free trade. Starting with the crisis of 1929, he gradually moved towards protectionist measures.

On 5 November 1929, when he spoke before the MacMillan Committee with the aim of bringing the British economy out of the crisis, Keynes indicated that the introduction of tariffs on imports would help to balance the trade balance. The committee's report stated, in a section entitled import control and export subsidies, that in an economy where there was not full employment, the introduction of tariffs could improve output and employment. On 7 March 1931, in the *New Statesman and Nation*, he wrote an article entitled Proposal for a Tariff Income. He noted that the reduction of wages leads to a decrease in domestic demand which limits market opportunities. Instead, he proposed the idea of an expansionary policy combined with a tariff system to neutralise the effects on the balance of trade. The application of tariffs appeared to him as inevitable regardless of which party held the office of Chancellor of the Exchequer. In the post-crisis situation of 1929, Keynes considered the assumptions of the free trade model unrealistic. He criticised, for example, the neoclassical assumption of wage adjustment. In 1930, while working for the Economic Advisory Council, he criticised the static dimension of the theory of comparative advantage. In

his view, definitively fixing comparative advantage led, in effect, to a waste of national resources.

In the Daily Mail of 13 March 1931, he called the assumption of perfect sectoral labour mobility 'an absurdity' because it stated that a person made unemployed would contribute to a reduction in the wage rate until he found a job. But for Keynes, this job change could involve costs (job search, training) and is not always possible. In general, for Keynes, the assumptions of full employment and automatic return to equilibrium discredit the theory of comparative advantage. In July 1933, he published an article in the *New Statesman and Nation* entitled *National Self-Sufficiency*, criticising the argument of specialisation of economies, which is the basis of free trade. He proposed seeking a degree of self-sufficiency. Instead of the specialisation of economies advocated by the Ricardian theory of comparative advantage, he preferred the maintenance of a diversity of activities for nations. In, 'National Self-Sufficiency', he refuted the principle of pacifying trade. He noted: "A considerable degree of international specialisation is necessary in a rational world in all cases where it is dictated by wide differences of climate, natural resources, native aptitudes, level of culture and density of population. But over an increasingly wide range of industrial products, and perhaps of agricultural products also, I become doubtful whether the economic cost of national self-sufficiency is great enough to outweigh the other advantages of gradually bringing the producer and the consumer within the ambit of the same national, economic and financial organisation. Experience accumulates to prove that most modern mass-production processes can be performed in most countries and climates with almost equal efficiency."

He also wrote: "I sympathise, therefore, with those who would minimise, rather than with those who would maximise, economic entanglement between nations. Ideas, knowledge, art, hospitality, travel - these are the things which should of their nature be international. But let goods be homespun whenever it is reasonably and conveniently possible; and, above all, let finance be primarily national."

In March 1944, Keynes got into an argument with Fleming after the latter had written an article entitled *Quotas Versus Depreciation*. On this occasion, it became clear that he had taken a definitive position in favour of protectionism after the Great Depression. In fact, he believed that quotas could be more effective than currency depreciation in dealing with external imbalances. To avoid the return of crises due to a self-regulating economic system, he believed it was essential to regulate trade and stop free trade (deregulation of foreign trade). Many economists and commentators of the time supported his view of trade imbalances. As Geoffrey Crowther put it: "If the economic relationships between nations are not, by one means or another, brought fairly close to balance, then there is no set of financial arrangements that can rescue the world from the impoverishing results of chaos."

Influenced by Keynes, the economic texts of the immediate post-war period place significant emphasis on the balance of trade. However, in recent years, since the end of the Bretton Woods system in 1971, with the growing influence of monetarist schools of thought in the 1980s, these concerns - and in particular those

about the destabilising effects of large trade surpluses - have largely disappeared, although they are receiving some attention again in the wake of the 2007-2008 financial crisis.

We come now to Keane's proposal at the Bretton Woods conference. His plan for the creation of a central bank known as the ICU, International Clearing Union became the official proposal from the British government, building on aspects already present in the Currency Treaty. The plan was barely considered by the Americans, both for political reasons and since they wanted to assert their supremacy, but it may be useful for a possible reform of the euro system. Instead of being used in a global context, Keane's proposal could be used in a European context.

Keynes and the discussions about the Bretton Woods agreement

Keynes believed that the essential problem was not scarcity but mismanagement. Depressions had been caused by financial instability and uncertainty rather than production shortages. Both the British general strike of 1926 and the rise of Hitler had been fostered by desperate people seeking solutions to domestic misery. The cause of their problems had not been a lack of dedication to comparative advantage, but deflation coupled with falling prices that had caused redundancies and business closures. In other words, Keynes moved away from the beliefs of his youth and decided that deflation had spread around the world thanks to the free-trade gold standard he had previously admired.

After completing the *General Theory*, which he undertook as a practical rather than a theoretical work, Keynes went on to prepare a diplomatic position on behalf of his government, which was in reality a revision of the *General Theory* where it had been lacking.

Keynes had already begun to attack the gold standard in the *Essay on Tax Reform* many years earlier, when he called for flexible exchange rates. The situation after the First World War had convinced him that countries should be able to revalue their currencies, within reasonable limits, to correct economic imbalances. It was difficult to distinguish between acceptable devaluation, in harmony with a supposedly natural order of things, and a predatory attack, and one of the advantages of the gold standard was that it could provide a clear and even mutually agreed understanding of a mutually accepted attitude.

After completing the *General Theory*, Keynes had resolved the question of what was or was not a fair-play attitude by refusing to consider international commitments as important priorities. He believed that demand could be managed through public works, fiscal policy would make policies characterised by tariffs and currency 'manipulation' obsolete, while increased domestic demand would increase imports, helping other countries that depended on exports. If each government had been allowed to provide for its own needs, a solid system of international rules might not have been necessary. His enthusiasm for nationalism was seen as a tool to combat predatory strategies [7].

There were limits to this idea, particularly for weak states. All countries except the US were weak and it was feared that Britain would not be able to rebuild its industry, ensure the welfare of a population that had suffered the effects of war, pay off the debts it had incurred during the war and meet the costs of main-

taining the Empire. Keynes believed that even with robust government spending and low interest rates, protectionist measures were necessary to give weak nations some economic breathing space. Even if, at that point, it was uncertain who could determine whether such measures were fair.

With the Currency Treaty he had introduced an idea that he was now beginning to rework. He had argued that central banks could solve all the economic problems of the day. Central bankers were usually in charge of raising and lowering interest rates to preserve gold reserves and balance trade flows. Keynes believed that their action of managing interest rates should also extend to ensuring full employment. In practice, this is very similar to what is being said today, contrasting the action and what should be the mission of the Fed with that of the German-led ECB.

Keynes called for a new supranational bank to regulate global money supply, currency and trade flows. This international central bank would issue a supranational currency to ordinary national central banks around the world. The Fed, the Bank of England and their counterparts would have borrowed from the supranational bank's currency as standard to carry out normal monetary policy operations. By managing the new international currency, the Supranational Bank could allow individual nations to deal with their domestic problems without resorting to deflation. Countries would never have to worry about running out of money in an emergency, because there would always be the Supranational Bank to supply them on reasonable terms. Consequently, no government would have to intentionally create unemployment to solve a currency or trade problem [8].

What was also wrong with the gold standard system was an implicit conception that there were good and bad countries, that countries in deficit, or worse with debts, were to blame, were bad, that they should suffer as the price of their laziness or weakness. But in economics, this has never been the case. Let us take a simple example. There may be extraneous circumstances which hit a country (a bad harvest, a sudden increase in a raw material due to a war, a flood, or any other event that is not the country's fault). There are two countries, A and B, which are in equilibrium and have a balance of trade between them. The example can be extended to 'n' countries. The two countries have fixed exchange rates (they can devalue with difficulty, in the Eurozone it is just impossible) and fixed prices that are difficult or not subject to change (e.g. wages cannot go down or go down very little, so that companies can recover, with cost reductions, margins of competitiveness if necessary).

Then the extraneous circumstances mentioned above hit country A and this induces a reduction in imports from country B (because its income falls, through no fault of its own), i.e. a reduction in B's exports. There is therefore also a reduction in B's exports.

Nothing has changed in A's exports to B (whose income is constant): it is well known that if imports depend on a country's income (the more its income increases, the more its imports may increase as a result of the increase in consumption), a country's exports do not depend on its income but on the income of the other countries, those to which it exports (exports may also depend on the competitiveness of national goods, technology,

specialisation, etc., but let's not go into details). So we are in the situation that as a result of A's circumstances (through no fault of their own), their imports from B have reduced, but A's exports to B have not reduced because B's income is unchanged. We continue. B will develop a balance of payments deficit and A surplus. A, the country that has reduced income and imports but not exports, has a surplus and B, the country that has not reduced income, has a deficit. Quite a paradox!

But the Effects Continue

B's exports to A are an important part of B's aggregate demand: if that demand falls, B's income does. It no longer remains the same. But if B's income falls, its demand for A also falls and so does A's income (which will export less to B). The theory states that this continues until B's deficit disappears and A's trade balance returns to balance.

But an equilibrium is re-established at a lower level of income and employment for both countries. But with neither of them specifically at fault or being more virtuous at the beginning. The example is abstract and very simplified but gives the idea.

During the gold standard system Keane used to say that there was a gold standard ethic that shamed certain countries for accumulating debts, but it was often other countries in surplus that benefited and, in the international order just as in ordinary life, the beggars were rarely the real villains. What has happened, as mentioned, in Italy and in many European countries (Greece in the lead) is reminiscent of the 'Treasury view' of the 1920s. It starts from the assumption that the interest rate (the one banks apply to loans to businesses) is the equilibrium point between investments and savings because, as neoclassical theory states, the interest rate is nothing but a 'price' at which demand (loans) and supply (savings) balance each other out. Starting from an equilibrium situation, if one tried to increase government spending (G), this would result in an interest rate (i') higher than the equilibrium rate (i). However, this would have negative effects on (private) investment (I), as entrepreneurs would incur higher costs to finance themselves. Furthermore, the increase in the interest rate would also have negative effects on consumption as a reflection of the increase in savings. The higher government expenditure (G), therefore, would cause lower private expenditure (in investment and consumption) equal to its amount. To use neoclassical language, public expenditure 'crowds out' private expenditure. Conversely, a reduction in public spending could only have positive effects! In fact, the increased resources available to the private system and the reduction of the interest rate would favour investments. What is wrong with this reasoning? Firstly, it is quite difficult to establish a causal link from investments and savings to the interest rate. Investment decisions are made by entrepreneurs based on expectations and only secondarily to the interest rate. Savings decisions, on the other hand, are made by households and depend on disposable income: the more one earns, the easier it will be to save. Nothing therefore ensures that the interest rate is really the price that balances investment and savings. In today's capitalism, then, things are much more complex, considering that a significant part of household savings ends up in the cauldron of financial markets ("The market can remain irrational for longer than you can remain solvent", said Keynes").

Finally, the interest rate charged by banks to their customers is linked to the central bank's monetary policy. For all these reasons, as mentioned, and others, it is good to consider the interest rate as a variable not determined by the balance between investments and savings. That is an old, outdated idea. The interest rate is determined by the central bank possibly raising rates to fight inflation. It is not, however, determined by the balance between investments and savings. Thus, the first flaw in the Treasury's view emerges clearly: the claim that an increase in public spending determines an increase in the interest rate. Indeed, there is no justification for the relationship between these variables in the way described by the Treasury view. Which has been in vogue in the E.U. causing the same damage as in the 1920s. The second flaw in the Treasury view is consequential: increased government spending does not displace private spending, except under special conditions (full employment of productive resources). Let us pause for a moment and imagine Keane's proposal transported to the present day with the ECB acting as a supranational bank for the European Union and issuing its own currency, but with the other central banks and their respective governments remaining in full fiscal and monetary control.

In the Monetary Treaty, Keane had outlined his proposal in about three pages, but as the Bretton Woods conference approached, Keane detailed his proposal in a paper which became the British Government's official submission and which he named the ICU (International Clearing Union).

Keynes stated that the gold standard was outdated because it caused deflationary effects in countries (like the Euro today one might add). Keynes believed that countries running a trade deficit had become responsible for restoring the balance of trade and would be put in a position where they could only obtain competitive prices for their goods abroad by lowering domestic wages and causing mass unemployment. If, for example, Britain had a trade deficit with the US by importing more than it exported, this would have created a balance of payments problem whereby Britain would have paid more money to the US than it received. If the situation lasted long enough, Britain would run out of money to pay for American goods.

The problem could be solved with international loans. If the Americans, rich and flush with money because of their exports, had made loans on reasonable terms to Britain (similar loans from Germany often took place before the Euro), the British would have had the money to continue buying exports. The gold standard, Keynes proudly added, had survived because Britain had shown itself to be a wise creditor and had lent money abroad where it was needed.

But if the availability of borrowing had ceased or otherwise not existed (due to war, banking instability, monetary policy, a stock market bubble or disinterest or unwillingness to lend abroad - at times Germany before the Euro was accused of insensitivity, after the Euro even worse) the only way for a country with a trade deficit to rectify the situation would be to lower the price of goods on foreign markets.

That is, the gold standard system often led to deflation and unemployment. With an entirely moral approach, it was believed that the gold standard system contained the inherent notion that

suffering was a price to be paid because a country was lazy, useless, weak etc. There was a failure to understand that if a country had an inefficient economic infrastructure, they need to remedy it, but that sometimes trade deficits were unavoidable and not due to specific mistakes (price increase in raw materials for example) and not because they had been more or less reckless than the countries with a surplus (which often had no particular merits).

The governments that had surpluses were not actually harmed by the countries in deficit which accumulated large debts, because the surplus countries enjoyed a large export trade that employed their workers and increased their income. The gold standard ethic distinguished and shamed certain countries for accumulating large debts, but the surplus countries benefited most from those debts, at the expense of the debtor country's employment rate.

To make a trade regime sustainable according to Keynes, it was necessary to make the surplus countries - the main international creditors - participate in the adjustment of the trade balance. There was a need for an authority that could punish countries for a persistent trade deficit or a persistent trade surplus! Because both violated an orderly trade balance adjustment. In essence, an authority would have to force rich countries to pay to correct their imbalances with poor countries. For Keynes, this could be achieved with the ICU.

The central bank of each participating country would have opened an account with the ICU. International trade payments would be made through these accounts, using a new currency called the 'Bancor', which the ICU would have the power to issue at will.

When a country had a persistent deficit, or a persistent surplus, the ICU would require it to revalue its currency to bring the system back into balance. Deficit countries would have to depreciate their currency by up to 5%, while surplus countries would have to increase the value of their currency by up to 5%. At the end of each year, the ICU would also requisition particularly high surplus balances, although Keynes considered this to be extremely rare.

The linchpin of it all was to create an international commitment to balanced trade and provide a mechanism to enforce that commitment! Certainly, there was interest in the Keynesian design because Britain was in a very weak position commercially, the weakest in several centuries, with the economy dependent on foreign aid [9]. Keynes's plan not only created international regulators to monitor the power of rich countries, but also forced them to help poor ones. In the name of free trade and international harmony, Keynes was also quietly defending collapsing British interests against American power.

But the plan might have been valid beyond the circumstances of the time and, with some adjustments, it could now be useful for Eurozone, which would have been the ICU zone. The Americans rejected the proposal for geopolitical reasons: they wanted to assert their supremacy without losing any power. Moreover, as has been observed they had a conception of their so-called national manifest destiny (of Wilsonian inspiration) and a mistaken view of the causes of the Great Depression that led them to one-sided

judgements. Europe was a swamp of rivalries and medieval conflicts while America was the land of enlightenment and of progress, free from ancient rivalries. The US had recovered quickly from the inflation that followed World War I, while Europe had found itself in the midst of military conflicts, currency mismanagement and trade disputes. The Fed had intervened with low interest rates during the 1920s to help Britain and when it finally moved to impose some regulations in 1928 it was too late: the bubble that triggered the Great Depression burst. But all this had been the fault of a relaxed monetary policy to help Britain for too long during the 1920s. Nevertheless, America, under Roosevelt, had warded off the Depression by inventing a new policy, the New Deal, while Europe had unleashed protectionism or similar policies that sought to support industry with tariffs.

This summary of events is a bit crude and the only point of truth was that America's isolationism had left Europe to the Europeans without exercising any leadership [10]. But the causes of the Great Depression were not British backwardness or cheap money. Everyone was at fault but it was the Fed's overly restrictive policy since 1928 and the excessively high interest rates in 1928 in 1929 which triggered the crisis and, when they were reduced, they were not enough to avoid the chain of bank and non-bank failures [11].

Not to be overlooked were a series of decisions inspired by a faulty logic as Galbraith later highlighted. Logic very close to what passes today as the theory of expansive austerity [12]. Returning to the gold standard, Keynes argued, would only have meant putting Europe in the hands of the US and of the Fed which had behaved so badly in the crisis.

The solution was that all countries adhering to the Bretton Woods project would make their currencies convertible into dollars at a fixed exchange rate. Only the dollar would be convertible into gold. The IMF would be created instead of the Keynesian Supranational Bank to regulate trade deficits and surpluses, which would only provide emergency loans in the event of a crisis. In order to prevent capital from moving too easily, putting states in crisis and effectively limiting their sovereignty, it was envisaged that measures could be placed on the free transferability of capital. Keynes wanted an international regulatory apparatus to prevent predatory strategies of states: think today of the modern behaviour of certain states to get cheap goods and spark financial crises. He had succeeded in obtaining the gold standard with a bail-out fund as has been said [13]. But his ideas contained a lot of cultural baggage that we will return to.

The project envisaged a multilateral clearing system, the establishment of a Reserve Fund financed by the structural surpluses of the surplus countries, the setting up of a body to support the development of the most backward countries financed by the Reserve Fund, a commodity price guarantee fund and the establishment of an international police force with the task of ensuring peace. As far as the world monetary system was concerned, Keynes envisaged a mechanism that would function like the banking system within a country, i.e. a mechanism capable of channelling savings deposited in banks by those with net income in favour of those with net outgoings to finance their activities. His idea was to introduce an International Clearing Union (ICU) that would allow the balance of payments surplus vis-à-vis one

country to be offset against the debit balance vis-à-vis another country. Keynes believed the key factor was the overall balance of a state vis-à-vis the rest of the world and not towards a single country.

At the time of its start-up, the ICU would have granted a credit facility to all participating countries. The credit opening would have been denominated in a currency which, in later versions of the plan, came to be called the *bancor*. The currency would have been merely the instrument on the basis of which, at the end of each year, credits and debits arising from trade were to be settled. The credit opening granted to the countries participating in the clearing mechanism would have been especially advantageous for those countries that, after the conflict, would have needed to import more than they were able to export in order to support the reconstruction of their economies. This mechanism would have prevented a slowdown in international trade.

With regard to the mechanism for adjusting passive or active balances, the Keynesian proposals were very innovative and, above all, relevant. Keynes's idea was to spread the burden of balance of payments adjustment - which in the medium to long run should be balanced - both on the creditor countries and on the debtor countries - until that point the burden of adjustment had been borne solely by the debtor countries. In the Keynesian scheme, there was thus a shift from an asymmetrical to a symmetrical adjustment mechanism: This in my view was the essence of the proposal! There was an integration of the burden of adjustment that would also be borne by the creditor countries!

Indeed, Keynes' concern was the insufficiency of demand, domestic and international, which could manifest itself in the fact that countries with an active trade balance did not spend the surplus on new purchases, thus depressing the demand for goods and services on the world market. The Keynesian project therefore envisaged an incentive to adjust external accounts, similar to a sort of tax to be applied to countries whose external surplus exceeded a certain threshold. In particular, a surplus country would pay 5% and 10% interest on credits exceeding, respectively, 25% and 50% of its share in the clearing. Moreover, not only was it not envisaged that those who had a claim on the clearing would receive interest, but both surplus and deficit countries - the latter increasing with debt - would pay interest on both the overdraft and the excess of claims on the clearing.

In addition to these measures, Keynes' plan stipulated that if a country's deficit exceeded 25% of the value of its share in the clearing, it would be allowed to devalue its currency by 5%.

Whereas if the deficit exceeded the 50% share, the country would be obliged to devalue its currency by 5% (or sell gold from its reserves to the ICU and/or prohibit the export of capital). The opposite would have been the case for surplus countries and Keynes' plan even foresaw the confiscation of the surplus that exceeded their share in the ICU. These resources would have been used to finance the Reserve Fund. Keynes' proposal, in essence, aimed at the introduction of multilateral institutions which would allow the adjustment of imbalances in the balance of payments, so to speak, upwards. These mechanisms would not be based solely on the contraction of production and thus imports by the deficit countries, but through, on the one hand, the expansion of production and imports by the surplus countries

and, on the other hand, the time frame given to the deficit countries to gradually reduce imports and increase exports.

What Keynes envisaged with his plan, however, presupposed that the market could not speculate on the currency of a country that found itself in deficit (or surplus) and not excessively aggravate the latter's difficulties, so as to give it time to deal with the real causes of its external deficit (or surplus) and not the financial causes fuelled by speculation. This is why Keynes envisaged that the movement of capital had to be controlled! Only capital movements justified by fixed asset investments in the rest of the world and thus likely to stimulate a new demand for goods and services and future production of goods were permitted.

Conclusions

Keynes and the Currency Treaty; discussed and challenged at the time by von Hayek but ultimately successful and convincing. Not only for the currency but for what needed to be done to promote employment and investment.

But the Currency?

According to Keynes, Smith and others had confused the invention of money with its minting. Money has existed in a 'representative form' long before the invention of coins. The true meaning of money is a 'unit of account', i.e. a demarcation of debt and a means of 'o', which governments had maintained for millennia in ledgers, parchments or clay tablets.

Economically sophisticated empires had developed without recourse to coinage. States had always maintained a policy of managing money as a condition of government. They created and abolished debts as reward or punishment and reformed units of measure by devaluing or debasing currency not only as 'a means of tricking their subjects but also as a stimulus to trade and a way of easing social tensions'. A state-centred theory of money [14]. Money was a political instrument. This awareness was lost when the euro system was created. Or by glorifying it, it was forgotten that the creation of a currency should have entailed the creation of a state.

It has always been the state that determined which substance - gold, paper or something else - counted as money, which 'thing' the people and the government would accept as valid payment. The state has always created the currency and regulated its value: 'this right is claimed by all modern states and has been so for at least four thousand years'. The source of monetary stability was the 'public legitimacy of the political authority that had come to choose gold as the preferred medium of exchange.' What were the consequences for Keynes?

There were Two:

Money had no meaning without political authority economic history is fundamentally political, the history of the riches conquered and surrendered by political powers as "empires rose and fell." Economics is not a scientific investigation of the unshakable laws of nature but simply "a set of observations on tendencies in human customs and behaviour".

Therefore

Keynes proposed the *bancor*, a currency decoupled from gold and managed by a world bank. Now the new version of the

bancor, which is the Euro, could be managed by the ECB. This world bank in Keynes' vision would produce it according to the needs of the international economy and trade. But he would not abolish the various states, with their currencies, by creating the *bancor*. The ECB, with the Euro, could create the bank according to the needs of the EU economy and trade.

Above all, the idea that the burden of adjusting the balance of payments, which was to be balanced in the medium to long term, was to be borne by both the creditor and debtor countries should be reconsidered. Until Keynes' time, the burden of adjustment had been borne solely by the debtor countries. In the Keynesian scheme, there was thus a shift from an asymmetrical to a symmetrical adjustment mechanism: the burden of adjustment would also fall on the creditor countries! Certainly, the ECB would have to change its nature. The fact that the European Central Bank (ECB) was born as an institution with the objective of controlling the price level, with an inflation target, indicates how important this variable is. But it should no longer be the only target.

If anything, this makes me reflect on the fact that many countries (of which Italy is one example) which have increased the size of their public debts, not helped by the pandemic (and the new cost of energy crisis) could find themselves in great difficulty if the ECB were to raise rates to combat inflation. The worst combination is high public debt and high interest rates. A crisis could ensue, not only in Italy but also in Europe. Therefore, many alternatives should be considered.

On the subject of the objectives of a Central Bank, recently some academics (Stefan Eich and Jean-Paul Fitoussi) have also delved into the forms of governing money under the aspect of the crisis of liberal democracy in addition to examining the question of the return of inflation [15].

A de-politicised currency would be the negation of democracy: monetary policy choices, in fact, have decisive consequences on the lives of citizens (including those that are being taken to fight inflation again) And the fact that these decisions are taken outside of any democratic debate only risks aggravating the detachment and distrust of citizens towards politics and democracy. The deflationary policies implemented in the past to decrease inflation in the 1970s created the possibility of "de-democratising money" by convincing philosophers such as Habermas and Walzer to "remove money from politics".

The new regime, which is also the result of the monetarist approach that became prevalent with Friedman, Paul Volker's Fed, and the political work of Thatcher and Reagan, winning over the central banks, relieving them from considering aspects of social justice, would have de facto 'transformed the state', leaving the parties to compete for the unenviable goal of 'governing nothing'. Jean-Paul Fitoussi published a much discussed and highly controversial paper with a provocative title. In general terms it is true that a rising exchange rate can penalise exports, but neoliberal economists tend to say that foreign exchange markets reflect a rational assessment of the level of confidence in the strength of an economic system and the profitability of its enterprises. Their critics, on the other hand, and Fitoussi is among them, claim that this is not just "an objective examination of economic prospects,

but rather the manifestation of a preference for agreements and policies that increase the rate of exploitation and weaken the organisation of workers' interests.

National currencies would thus be rewarded for their governments' compliance with the economic guidelines of neo-liberalism - low levels of public spending, especially on the welfare state, low taxation, flexible labour markets, privatisation and market deregulation. These policies weaken trade unions and attract capital flows to both state bonds and corporations. According to critics of neo-liberalism, moreover, certain sociological theories that present globalisation as an irresistible 'steamroller' constitute an ideological mask that 'normalises' the advancing power of cosmopolitan money capitalists in dictating the conditions of domestic politics in democratic countries. So, either form a European state or, rather than taking a step backwards, at least take a step sideways!

Dissolving the E.U. is Undesirable more than Impossible

The problems created and solved in Europe by the pandemic or the energy crisis (notwithstanding all the examples of selfish behaviour that proves there is still no common feeling) demonstrate how the E.U is essential.

In terms of Italy, it is enough to look at its international trade figures and overlook the osmosis, the transference and trade of reciprocal cultural realities. In fact, even if it were not entirely true that a single currency facilitates trade, because even with non-fixed exchange rates companies have the means and the skills to protect themselves, the figures clearly show that moving from one regime to another creates setbacks and the proposed solution, which would be agreed upon and involve a symmetrical set-up, seems to me the most painless. The figures for Italy's main trading partners are shown below. As can be seen, Italy's foreign trade is mainly intra-EU, and in the short term there would still be repercussions.

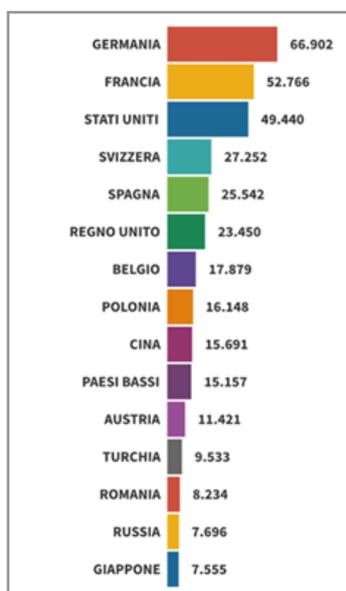


Figure 2

Tabella 4A - Aree geografiche di destinazione dell'export italiano (valori in milioni di euro)^{1,2}

	2018	2019	2020	2021	Gen-Apr '21	Gen-Apr '22
Europa	311.553	322.747	295.963	348.588	130.296	133.539
Unione Europea a 27	239.283	245.447	224.793	269.805	96.188	105.860
di cui UE14 a 19	193.674	196.436	180.847	217.380	69.395	84.715
Paesi europei non UE	72.270	77.300	71.171	78.783	24.109	27.679
Africa	18.012	17.302	15.042	17.957	5.941	6.399
Africa settentrionale	12.485	11.785	10.003	11.855	4.095	4.338
Altri paesi africani	5.527	5.518	5.039	6.102	1.846	2.021
America	68.874	63.955	58.538	69.282	20.348	20.229
America settentrionale	46.534	50.032	46.702	54.276	15.936	16.633
America centro-meridionale	22.340	13.923	11.836	15.007	4.412	3.596
Asia	65.324	66.291	58.304	68.493	21.337	24.929
Medio Oriente	18.139	17.538	15.187	18.462	5.299	7.417
Asia centrale	7.288	7.037	5.352	6.711	1.963	2.430
Paesi ASEAN	8.012	8.421	7.296	7.946	2.662	2.788
Altri Paesi Asia orientale	31.864	33.096	30.668	35.393	11.412	13.213
Oceania e altri territori	9.563	10.057	8.871	12.853	3.424	4.065
MONDO	465.325	465.352	436.718	516.262	261.549	276.121
Peso percentuale su totale export Italia						
Europa	67,0	67,2	67,8	67,5	68,3	68,4
Unione Europea a 27	51,4	51,1	51,5	52,3	53,4	54,3
di cui UE14 a 19	41,2	40,9	41,4	42,1	43,0	43,4
Paesi europei non UE	15,5	16,1	16,3	15,3	14,9	14,2
Africa	3,9	3,6	3,4	3,5	3,7	3,3
Africa settentrionale	2,7	2,5	2,3	2,3	2,3	2,2
Altri paesi africani	1,2	1,1	1,2	1,2	1,2	1,0
America	14,8	13,7	13,4	13,4	12,6	13,4
America settentrionale	10,0	10,4	10,7	10,5	9,9	10,6
America centro-meridionale	3,1	2,9	2,7	2,9	2,7	2,9
Asia	14,0	14,2	13,4	13,3	13,2	13,8
Medio Oriente	3,9	3,7	3,5	3,6	3,3	3,8
Asia centrale	1,6	1,5	1,2	1,3	1,2	1,2
Paesi ASEAN	1,7	1,8	1,7	1,5	1,6	1,4
Altri Paesi Asia orientale	6,8	6,9	7,0	6,9	7,1	6,7
Oceania e altri territori	2,1	2,1	2,0	2,0	2,2	2,1

^{1,2} I dati del 2022 e 2022 sono provvisori. Fonte: elaborazioni Osservatorio economico su dati ISTAT

Figure 3

When dealing with the Euro issue, as I have said, on the one hand we need to consider the reality that suggests that other crises could occur which would be even worse than the past one since, being faced with an incomplete monetary union, as De Grauwe says, and with a conception that the ECB has a different and more limited scope than, say, the Fed, and that it is sufficient to impose formulas and doses of expansive austerity on governments and states that are otherwise independent, another crisis could occur that would, among other things, jeopardise the political project for which the Euro was created. On the other hand, it does not seem and is not the intention of any state or government to go in the direction of greater integration and a common fiscal policy. That is, to go in the direction that a whole range of economists, even those critical of the current Euro system, see as the way to overcome the difficulties. Even Ashoka Mody, Paul Krugman, R. Dornbusch and others, who have criticised the current system, see greater federalism as a way out of an obvious contradiction that could lead to the failure of the economic project, which inevitably leads to the failure of the political project as well, having unwisely linked the two issues, namely, as De Grauwe would say, moving from an incomplete monetary union to a complete one. But while waiting for the political evolution, which presupposes an 'idem sentire' between European states, which the Euro system and expansive austerity with its lack of debt and budget sharing does not favour, why not think of an alternative to relaunch the European project? Relaunch the political project, temporarily uncoupling it from the monetary one, precisely to give rise to or further develop that idem sentire that is now missing? The USA became a single nation also thanks to Hamilton's action that established that the debts of one state were the debts of all (Nevada received automatic transfers from the federal government amounting to almost 20% of GDP for three consecutive years in order to counter the deep economic recession into which it had fallen [16]. Among other things, the proposal to revise and resume Keynes' proposal of the Icu and the Bancor (which could be the old version of the Euro) to adapt it to the European area also takes into account certain economic dilemmas.

It is well known that Mundell coined the popular expression 'impossible trinity' to indicate that a country cannot have the following simultaneously: a) freedom of capital movements, b) fixed exchange rates (in the Eurozone even between the states that make it up, the exchange rate is no longer there, the fixity is maximum), c) freedom to determine its own monetary policy for the purpose of full employment. Recently, the subject has been taken up again and even carried in the daily press [17]. Mundell took commercial freedom for granted. Therefore, he insisted on the impossible trinity: if you want to keep the exchange rate fixed and a monetary policy different from that prevailing abroad, capital must be prevented from moving across borders. With free capital, exchange rate stability requires a common monetary policy. Europe wants to allow savers, companies and banks to invest, lend and borrow in EU financial markets. It must therefore focus on the convergence of national monetary policies, even to the point of merging currencies and central banks. But it must go further otherwise it finds itself in the contradiction indicated. Macroeconomic policy, in an economy open to international trade and capital movements, has long since followed Mundell's ideas. Tommaso Padoa-Schioppa, added with respect to Mundell, that there was an impossible quartet: it was impossible to

have the freedom of trade in goods and services, the freedom of international capital movements, fixed exchange rates and the autonomy of national monetary policies together. With different monetary policies, macroeconomies move goods and capital in ways that are incompatible with exchange rate stability. Mundell took trade freedom for granted and insisted on the impossible trinity: if you want to keep the exchange rate fixed and a monetary policy different from the one prevailing abroad, capital must be prevented from moving freely across national borders. With free capital, exchange rate stability requires a common monetary policy. Europe wanted to allow savers, businesses and banks to invest, lend and borrow freely in the EU financial markets; it also wanted to prevent exchange rate fluctuations and uncertainties from hampering trade, competition and thus the prosperity of the common market. It therefore had to focus on the convergence of national monetary policies, even to the point of merging currencies and central banks. So, it happened. But Mundell later went further, and as Franco Bruni recalls, in a lecture he said, he thought that what was irreconcilable was even half of Schioppa's quartet, a duet: regardless of the exchange rate regime, national monetary autonomy is now impossible if a country does not barricade itself with administrative controls preventing the free entry and exit of capital. With financial globalisation, the idea of manoeuvring the exchange rate of one's currency at will, in order to allow oneself a more or less expansive monetary policy than elsewhere, is illusory: interest rate differentials and expectations of exchange rate changes are ridden by investors and speculators with such impetuosity that they cannot control the exchange rate, moving it in a disorderly and destabilising manner. Two current consequences of the impossible duet, one for the world and one for Europe. Wanting the benefits of global capital circulation requires coordination of monetary policies, otherwise speculative exchange rate movements become a source of global instability. The implicit coordination due to the dominance of US monetary policy is becoming increasingly inadequate, unfair and destabilising, especially for emerging countries. A more self-confident Euro would also serve to broaden and politically articulate global monetary leadership with the European alternative to the dollar, pending the maturation of an Asian equivalent. Mundell was not only one of fathers of the Euro: he was also an inheritor of the fundamental reflections Keynes had been making since the 1940s about the world monetary system. "The massive creation of Special Drawing Rights (SDRs) issued by the IMF, which Mundell would have liked to see happen in various ways for so long, would not constitute an illusory 'single world currency' would be less than Keynes's bancor, but would relaunch a fruitful global monetary collaboration".

As for the Euro, the 'irreconcilable duet' has an urgent implication: it makes no sense to stand in the middle of promoting the free movement of capital in the Eurozone and the integration of its financial systems. Opting for a single monetary policy means ensuring that it reaches every corner of the monetary union with equal effectiveness and intensity; it means preventing funds from hesitating to invest in a member country because banks, banking crises, and securities markets are managed in different ways there, generating different country risks for investors. It means avoiding getting into trouble as we did with the spreads in 2011-12 when we had to resort to Mario Draghi's miraculous whatever-it-takes. It means quickly overcoming the technical and political obstacles that still stand in the way of completing

the European banking union and really starting the capital markets union. If this can be a goal, it clearly means the integration that several economists have indicated as the way forward (after all, Mundell cannot be dispensed with; but neither is it logical to consider only by half). But if this is not politically feasible, why not in the meantime think about Keynes' proposal, which would not be a step backwards but a step sideways, while waiting for Europe's new versions of Hamilton, Madison and Jefferson.

In particular, according to Maria Rita Canale, a model has been created in Europe that consists of "the negation of the direct relationship between public spending and growth and of a possible active role of monetary policy in influencing the level of income balance. An institutional set-up has therefore been created that has affected most countries with advanced economies and not, based on: 1) separation between fiscal and monetary policy; 2) fiscal policies to be managed within a general criterion of expenditure restraint; 3) monetary policy with the sole objective of maintaining price growth constant. In Europe, two elements have been added that make the old continent an absolutely exceptional case: 1) a single monetary policy; 2) fiscal policy entrusted to the individual states based on strict budgetary discipline. This model has shown - as stated by a scholar who certainly cannot be called unorthodox [Bini Smaghi 2011. who uses this argument to justify the need for monetary policy to intervene with extraordinary measures in times of crisis]. - all its limitations in dealing with situations such as those arising from the 2007 financial crisis". The author adds that "paradoxically, those who oppose the return to the past brought about by 'reforms' are called 'conservatives'...with a distortion of the meaning of the words to which we seem to have become accustomed." Regarding the Mundell concept, it is known that the concept was developed by John Marcus Fleming in 1962 and Robert Alexander Mundell in several articles between 1960 and 1963. For this reason, it is also called the Mundell-Fleming model. This model is an extension of the IS-LM (Investment Saving - Liquidity Money) model, a synthetic representation of Keynesian economic thinking as interpreted by the neoclassical synthesis.

While the IS-LM model describes the economy under a condition of autarky, the Mundell-Fleming system tries to describe it as an open economy. The term is borrowed from the expression impossible quartet, defined by Tommaso Padoa-Schioppa in 1982, which also included the element of free foreign trade. Case 1: perfect capital mobility and fixed exchange rates: let us assume that there is perfect capital mobility and a fixed exchange rate regime. In this case, it would not be possible to have autonomy in monetary policy, because any change in the domestic interest rate that changed parity with the international one would cause an inflow of capital in the direction of the country with the higher interest rate. This inflow of capital would lead to the appreciation of the currency belonging to the country to which capital flows against that of the country from which this capital flows, changing the exchange rate parity inherent in a fixed exchange rate regime. The central bank of the country that has to keep the exchange rate fixed should intervene in the foreign exchange market, increasing or decreasing the foreign exchange reserves it holds. This, by increasing or decreasing the amount of money in circulation, would tend to cause the money supply to change to the point where it would determine a new parity between domestic and foreign interest rates. Case 2: Per-

fect mobility of capital and autonomy of monetary policy: In the case of flexible exchange rates, perfect mobility of capital and autonomy of monetary policy would be easy to reconcile, for the same reasons as just described. A change in the interest rate would lead to a movement of capital which, in turn, would cause a change in the exchange rate. The absence of intervention by the monetary authorities, who are not obliged to keep the exchange rate fixed, would leave the exchange rate free to change in either direction. Case 3: Monetary policy autonomy and fixed exchange rates: In the last case, it would only be possible for monetary policy autonomy and fixed exchange rates to coexist if there were no perfect mobility of capital. Indeed, the presence of barriers limiting or blocking the entry and exit of capital would prevent the incipient movement of capital caused by the presence of the interest rate differential.

Keynes advocated giving up free capital, he also did so in his draft presented at Bretton Wood and this was partially accepted, so as to maintain border controls on capital and so as to maintain a certain autonomy in the management of monetary policy. In fact, according to the British economist there is no reason for monetary policies to be identical from country to country, in essence interest rates should not move together in the same direction. One country might raise them and at the same time another country might lower them depending on economic policy priorities.

Since the 1980s, perfect capital mobility has become a permanent reality and impossible to change due to neo-liberalism and the internet explosion. The challenge for a government's monetary policy, therefore, lies in choosing which of these options to pursue and how to manage them.

In general, most countries prefer the freedom of an independent monetary policy and allow politics to guide the flow of capital. In Europe, the trilemma was solved with this compromise: by forming the Eurozone and using one currency, the EU countries opted for a single currency with free flow of capital.

Alexander Hamilton came up with an economic-legal solution that allowed the individual American confederate states, which had just emerged victorious from the struggle against Great Britain for independence, to become a federation, overcoming the stalemate of a dramatic economic crisis and facing the future with determination and hope, laying the groundwork for what would become the great America of the last two centuries. After independence from Great Britain in 1783, the victorious states refused to internalise the debts accumulated from the War of Independence. Some were unable to repay them; others were unwilling to do so. In essence, the fledgling Confederate country functioned as the European Union functions today, with no real central political authority and no single government of the economy, and thus of the debt. George Washington returned to the leadership of the country and convened the Philadelphia Convention in 1787, designed to lay the foundations for a new vision and governance of the United States. It was during that event that Alexander Hamilton, the first Secretary of the Treasury, resolved the crisis with one of the most fundamental steps in American nation-building. Hamilton transformed the financial disaster of the previous years into federalist growth and political coherence. The selfishness of individual states prevailed

over a unified vision. A Magna Carta of fundamental rights that would create a new national government capable of minting a stable currency, borrowing, and repaying debts, including those of the states that had become insolvent after the huge expenses incurred during the War of Independence. With the ratification of the Constitution of 1789, Washington became President and appointed Hamilton to head the Treasury. Only a fiscally strong country could afford adequate military capacity to defend itself against the European powers that, at the time, it was feared might return in force to American soil. Finding the financial resources to repay the accumulated debt, however, was no easy task. The real problem was convincing the US Congress to pass a law that would resolve the assumption of the debts of individual states by the federal government. This was the challenge that Hamilton faced and overcame. How? Virginia and some southern states that had few debts or had already repaid them (like the Frugal Four today), voted against Hamilton's first bill on the assumption of all state debts and blocked the bill. The leaders of the party opposing the assumption of the debts of the various states in the then Confederacy were two other founding fathers of the newly formed nation of the United States of America, Madison and Jefferson. When the stalemate between the two factions now seemed irresolvable, Washington suggested that the three political leaders arrange a private and confidential meeting to seek a solution to the seemingly irresolvable problem. Hamilton, Madison and Jefferson met and reached an agreement that finally broke the crisis. Madison and Jefferson did not want the capital of the new state to end up in the North, and Hamilton envisioned the capital's relocation from Philadelphia to a new, specially identified area between Virginia and Maryland. An area that would be known as the District of Columbia, all around the city of Washington that would become the new capital of the United States of America. In return, Madison and Jefferson pledged to find the votes in Congress so that the federal government could pass a resolution to assume all the debts of the states, pledging to repay them over time. Despite the enormous cost, the economy took off and entered a phase of sustained and permanent growth. This growth made it possible to repay the debts incurred in just three years! Of course it would take leaders, statesmen with the authority, the will and the vision to replicate in a modern version the example of negotiating skills demonstrated by Hamilton, Madison and Jefferson in that last decade of the 1700s [18- 53].

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