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MONEY, MARKETS AND MEN

Abstract

According to a common recurring analysis approach, most studies have defined the present external and universal internal deficit crisis, as the result of a wrong financial deregulation appearing in most modern financial markets. Speculation pressures, relaxing policies, monitoring over banks capital and bank governance models, seem as paying a widespread role as well. On the contrary, some historical and present new behavioral viewpoints show a uniform result of new general widespread monetary mismanagement attitudes, in a global new monetary perspective. Both Western financial markets and the new European single currency creation are showing same surfacing effects, which are generally large internal national deficits, huge trade imbalances and growing unemployment rates.

The general market collapses that occurred up to the last 2008 unexpected monetary disintegration, considered firstly as the logical final effect of deep systematic crisis, as never before interlinked during the the twentieth century, has brought to a confused and contradictory row of financial irrecoverable shocks. Stemming from the monetary dissolution materialized during the First World War and never recovered, but for the short Bretton Woods interlude, the international and most of national payment systems are nowadays in a liquidity, interest rates and severe taxation single trap.

My firm belief is that what happened at the end of the last century is not the consequence of some specific well-defined deregulation or mismanagement of financial institutions and markets, neither a structural collapse of some previous deteriorated model, or a cyclical *evolving of market tendencies. On the contrary, what surfaced from September 1987 to August 2008 and after, has been as well unfolding up to now as an unavoidable effect of the single monetary secular debasement and unproductive and inefficient macroeconomic policies and the disregard of minor welfare and micro-economic frontiers and boundaries inconsistent in a fast enlarging competitive world.*

In 2016, the 1987-2008 global financial bubbles, from peripheral defaults or market plunges, has become the "final euro crisis." As well, the 19 countries of the EMS, issuing the single euro currency, apart from symptoms of economic stagnation and useless recurring monetary policies, acknowledged internal and external huge rigid trade unbalances. Some countries have been sliding into deficits for years, while the governing powers of the Eurozone have intervened from emergency to emergency, most deeply in Greece. In the Euro contest, Nobel Prize-winning economist Joseph E. Stiglitz (Stiglitz, 2016) has been dismantling the first hour prevailing consensus around, which affected Europe, demolishing the stronghold of austerity, and has been offering a series of discussible plans that could rescue the continent and the related parties from further depression.

Keywords: *Banks; Other Depository Institutions; Finance; Internal and external deficits, International payments.*

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1. INTRODUCTION

In 2010, the 1987-2008 global financial bubbles, from peripheral defaults or market plunges, became also the "final euro crisis" as well. The 19 countries of the EMS, issuing the single euro currency, apart from symptoms of economic stagnation and useless recurring monetary policies, started to grow internal and external huge rigid trade unbalances. Some countries have been sliding for years, while the governing powers of the Eurozone have intervened from emergency to emergency, most deeply in Greece. In The Euro, Nobel Prize-winning economist Joseph E. Stiglitz has been dismantling the first hour prevailing consensus around, which affects Europe, demolishing the stronghold of austerity, and has been offering a series of plans that could have rescued the continent and the related from further depression.

Presented by its architects as an exit to the crisis and to the alternative remedies endorsed after the Camp David weekend on the 15th August 1971. While feeling some interest rate's panic, the weekend resting brigade choose the debasement of the dollar, which ignited during the following years the research of alternatives as the special drawing rights, the ECU, the weighted average European currencies, that should have fastened Europe and promote prosperity and all did not result successful. The major aim - the stabilization of the currency and the international liquidity issue - failed.

The euro had actually envisaged some financial self-restraining discipline requirements in Europe, split since the Reformation in Northern countries, ignoring the community protection instruments as the CRA in others less developed areas, which eased the interstate banking in the USA. With the interstate banking Act, promoted in 1994 by both Riegle and Neal, in an unavoidable technology recognition of the limits of physical boundaries in a globalizing world, with prices under a constant critical volume factor, predatory banking had been severely regulated.

The shortcomings of the EU euro Maastricht strict rules, surfaced with the 2008 crises and the structural reforms, as had been the antidotes experienced by the Japanese Abenomics, during the uninterrupted efforts to overcome trough monetary policies the enduring economic recession, were clearly all unsuccessful. Europe's stagnation and bleak outlook are a result of the fundamental decision to share a common *fiat currency* borderless among different nations, without a trade financial balancing common instrument, the euro flawed at birth. The desired economic integration has been outpacing political integration and has been merging deep developed areas with deep economic differences and values in others. Stiglitz shows how the current regulation promotes enlarging differences, instead of promoting convergence. According to Stiglitz, the European Central Bank's misguided inflation-only mandate and not homogeneous Eurozone policies towards the crisis countries have further aggravated the zone's flawed structural basis. Stiglitz outlines some possible ways to overcome such a deadline (Stiglitz, J, 2016):

- fundamentals structural reform of the Eurozone,
- a reconsiderations of the policies agreed over some member countries within the IMF Bretton Woods original policy,
- a well-managed general exit to the single-currency euro experiment,
- eventually an audacious, new system rekindling the *flexible euro*.

With its lessons for globalization in a world economy ever more deeply connected, the Euro issue has become a general global issue, as the international liquidity problem has only temporarily been resolved in 1944 at Bretton Woods, arousing immediately major problems: the Triffin dilemma (Triffin, R, 1960).

The world's financial system collapsed in mid-September of 2008. Since then, it has become something very different from an efficient Harry Markowitz's model, as introduced in his 1952 essay (Markowith, R, 1952, 77-91). Central banks around the world started to follow an interesting new guideline: you can anyhow borrow and spend your way to prosperity. Great concept, but it seems to have failed everywhere and still is, even in Europe (Koo, C. R, 2009).

We have a manipulated financial system now and the public world has liabilities larger than at any point in history, even after the worst continental wars. Most governments are functionally in default, yet they want to borrow and spend more in the hopes that if it did not work before, maybe it will somehow work if they do more of it down the line. Our grandchildren and their children are going to be paying for this monumental insanity, being natural inheritors of such a catastrophe, having acquired a fully depleted endowed capital asset economy.

This is something that especially the major Central banks around the World worry about, firstly the U.S. Treasury bond markets. The U.S. T- Bond market looks as if it has made a blow-off in early July this year. In our manipulated financial system, Greek bonds were paying a lower interest rate then U.S. bonds. That is insane but no more than what has never happened in world history: we have $13 trillion in bonds worldwide with a negative interest rate. In the last 5,000 years, such a thing has never taken place. If it was such a great idea, you would believe that it would have occurred to someone somewhere before, but it hadn't.

2. AT THE BEGINNING, THE TWENTY FIRST CENTURY MONETARY CHAOS

From his first *Reconsideration of the '900 century monetary Fed policies*, presented in the year 1999 in a Nobel Prize conference in Stockholm (Mundell, R, 1999), Mundell started an everlasting monetary dispute, about the international payments systems disarray and the fiscal and monetary policies enforced during the short Century.

This issue was the formerly main topic at the Congress of Genoa, planned by British Prime Minister Lloyd George in April-May 1921, and it followed the theories of R. G. Hawtrey on the international payment system reconstruction, after the second Worl War and has ever since been a hot unresolved topic. The Triffin perceived a dollar dilemma and the Ruef statement about the perspective of a humankind doomed by the concept of money "*Money will decide the fate of mankind*" (RUEF 1963, xiv) was a request of a based currency. Again, the same issue have become a major problem to solve within the IMF and the World Bank as surfaced at Bretton Woods, at the second Century's conference, where H. Dexter White plan prevailed, and now within the EU monetary community where the Euro current issues the problem is still pending (Boughton, J., M., 1998).

Now the feeling is that, without a closer and institutional political union, there will always be turmoil on the sidelines, within local separate administrative authorities, jointly concurring to a single common disputed financial base.

H. D. White outlined his alternative plan under the Treasury Secretary Morgenthau guidelines and, *de facto*, then the gold standard was reintroduced, with the protection of the dollar coverage (Friedman, R., M., 1961). The US Government and the Fed sponsored the White design. In the Bretton Woods new monetary conference, just one month after the landing in Normandy of the US forces in July 1944 (Steil, B., 2013), started at Mount Washington hotel the demise of the New Deal, with the general will to defeat the national rivalries and all custom barriers trough the most favoured nation principle. The final resolution opened the road to the IMF, to the World Bank and to the GATT agreement, which led to the WTO, in order to avoid the nationalistic context of the previous thirty years. The unsuccessful experience between the two World Wars within autarchies resolution, never balancing bilateral and multilateral clearing agreements, through the General Agreement on Tariffs and Trade (GATT), which ultimately resulted in the World Trade Organization in 1994, finally were settled in Bretton Woods.

On the 15th August 1971, Sunday's weekly radio speech, from his retirement in Camp David, Nixon announced, the (temporarily) interruption of the US external dollar convertibility into gold at the price fixed in 1944, sentencing the second final gold debasement, with the definitive termination of the multi secular gold standard. The monetary gold basis, as known, was enacted with the Glorious Revolution, events of 1688–1689. That event led to the overthrow of the Catholic James II (ruled 1685–1688) in England (and thereby also in Ireland and Scotland and his replacement by the Protestant William III and Mary II (ruled 1689–1702), was definitely over, for their successors, after more than 250 years. All what happened thereafter in finance, micro and macroeconomics up to now, has a single common origin and determinant unique drive, the paper *fiat money* global revolution and the *deficit spending* monetary archetype out crowding the financial markets worldwide with interest rates on over 13 trillion dollars Treasuries below zero.

On that day the gold exchange standard and the dollar gold parities were dropped, with the termination of most of the Bretton Woods pact as well. A softening monetary policy started thereafter, during the seventies, eighties, nineties and current turbulences. Stagflation and, since black Monday's fall of the Dow Jones index in October 1987, when the index slipped 23% to 1.738, the easing open window monetary facilities swelling started. Firstly Alan Greenspan supplied, through all the *roaring nineties* liquidity, rising the index D.J. up to 10.500, the unexpected inflated rise from 1.000 points levels in the year 1987, to the current levels of almost 20.000 today.

The constant correlation between the monetary quantity as defined M2 in circulation and the general level of prices, according to the Fisher exchange equation, was broken down definitely in the real economy products and services demand and supply schedule. Meanwhile in the financial markets, most of the indexes reflected the huge deficit spending worldwide policies (Lown, Stavros, Robinson).

After the convertibility repudiation, the '70s showed new phenomena: an increasing monetary expansion pursuing liquidity goals, a starting deficit spending prevailing policy and an economic stagnation, challenging the previous Philips curve law.

Returning to the seventeenth Century, in 1696, the English Parliament besides the silver coinage established a price ceiling for gold. Except within a limited price band for gold, England introduced a legally fixed, bimetallic standard that favored gold in domestic circulation by undervaluing silver relative to gold. These tensions between substitutes were still at work later when England converted silver coins into token money and adopted an official gold standard in 1717, (Reddish) after the "Stop of Exchequer" in 1671, the deficit spending became not possible. However, the ruinous strain on England's silver standard had begun with William III and the Glorious Revolution that opened the doors to the great monetary and economy stability trough the Hume monetary rule up to the first WW.

In April 1921, both Ralph Hawtrey and Gustav Cassel (1919), who played a key role at the Genoa Conference in 1922, were attempting to explore ways and means for a stable return to the golden standard. Ralph Hawtrey and Gustav Cassel (Cassel, G., 1921) brought their reflections as members of the Finance Commission, on behalf of the League of the Nations, attending the international economic conference in Brussels (1921) and in Genoa (1922). They addressed the great operators about the monetary perspective, in the aftermath of the first great world war's *de facto* debasement from the gold standard, pointing undisputable arguments and arising the since then everlasting dispute about money, savings, investments, finance, profit sharing and the new welfare State income taxation. Since that point, the present soft lives of most of the corrupted actors in the downgrading political arena have become possible, in the growing outlook of what has become a global worldwide crony capitalistic economic system based mainly on the deficit spending policies.

At the very beginning, the first observer and interpreter of these future monetary events seems to be (Simmel, G., 2004) expressing his philosophical consideration about the objectivity of money value. He first defines the potential conflict about two different patterns in structural essence of the modern monetary and financial deep disputes: is money a token, a symbol without any value by itself, just an IOU, a recognition of debt. Or it should be anyhow an intrinsic value, in order to carry out services of measurement, exchanges and allow a deferred transaction, instrument that should be, a store of value? The unresolved dilemma has led to the present issues, after the stalling cold war, a seventy years interlude, up to a standstill in the search of a way out of an endemic economic potential financial secular crisis. It happened without any apparent solution in an endless row of disappearing collapsing currencies debasements, first from gold itself, then from an oil standard, finally out of the trust and faith in the debtor Sovereign States.

There is a single row of events, starting with the first World War debasement, which jump starts the primordial legal tender of a debased fiat monetary unit. It happens after the exceptional automatic stabilizing gold standard mechanism, which according to the Hume model, had been adjusting automatically any national imbalance in both external and internal directions, allowing freely adjustments in the interest rates system in a fully market economy. Simmel depicts as, potentially impracticable and unsuccessful any legal tender system in a plural currencies world, unless money has not finally become a clearing accounting mean in a planned state economy, which requires an utopian totalitarian single global Authority.

In a variety of monetary species, any currency, aiming to likely become an international settlement mean of payments, must smoothly run over a generally accepted single value base, be silver, wampum, salt, sheep, shell, gold or whatever has been generally accepted as value represented base, generally accepted over the broader area covering the potential and actual range of monetary transactions. The North America colonists adopted wampum as their own currency; however, the Europeans more efficient production of wampum caused inflation and ultimately the obsolescence of wampum as a currency.

The modern banking system grew up with the memory of the calamitous experiences of inflation in the eighteen century – John Law's Mississipi Scheme, the American Continental Currency, and the French Assignats. (Hawtrey, R. G., 1946, 51)

3. THE KEYNESIAN MODEL AND ITS PRE-REQUISITES FROM GENOA TO BRETTON WOODS

The Keynesian General Theory is assuming the consequences of the German lost first WW scenario: public spending and large scale public infrastructure projects, large scale industrial reconstruction projects to be put in existence, with an almost full unemployment, in an after war destroyed economy. A unique short time experience, which is not a hopefully economy recurring case, even in a market fluctuating economy. The deficit spending and the introduction of the based *renten mark,* realized the investment driving expansion that actually worked out and gave Keynes the model to reproduce in his General Theory and deficit spending hypothesis in the year 1936.

The Keynesian model becomes the deepest and hardest to remove pretext to the immense debased deficit spending worldwide attitudes. The phenomenon surfaces in the post II° WW scenarios', when Keynesians and post Keynesianism, induce a growth economic policies package that end up into final Japanese last Grail. Then even negative interest rates cannot stimulate new economic enterprises to promote productions in a zero sum game activity, when taxation is eroding almost all profit's expectative in a mutuality social environment, with a following out worldwide huge Sovereign debt situation.

The social revolution of 1979, when the Western new welfare State meets his first worldwide crisis, starts with the Iranian revolution, the choice of a Polish Pope, the Deng reform of the Chinese economic system, the appointment of Mrs. Thatcher, the invasion of Afghanistan by the Russian troops after the Muslim break down with the Warsaw Pact. These are the factors closing the huge long inflationary period succeeded at the first worldwide monetary debasement. "*We used to think," James Callaghan told the Labour party conference in 1976, "you could spend your way out of a recession and increase employment by cutting taxes and boosting spending. I tell you in all candour that this option no longer exists*" (New Statesman, 1976).

The conflicting widespread macroeconomics theories, stemming from the 20th century first great depression, the disregard of microeconomics and governance economics guidelines in most market economies, relevant from classic market efficiency preconditions, point of view, in facing the present monetary fallout effects, have led to a dead end path, trough an obsolete indisputable prevailing monetary policy. A huge final quantitative easing attitude supports deficit spending, everlasting erroneous guidelines in management and widespread corruption policies in the crony political arena.

In the Papers relating to the International economic Conference, held in Genoa in April-May 1922, the first resolution in the Report of the Second Commission (Finance) states: "*The essential requisite for the reconstruction of Europe is the achievement by each country of stability in the value of its currency* (Papers, 1922)." Furthermore, it is determined that "*Banks, and especially banks of issue, should be free from political pressure, and should be conducted solely on line of prudent finance* (Papers, 1922)." The clear view of the Commission foresaw that all European currencies should be based upon a common standard which in Genoa was agreed to be nothing but gold, not being by the perceivable the idea of a single *fiat money* currency. "*Whatever may be said, from a theoretical point of view, against gold as a standard of value, particularly with regard to the violent fall in the value of this metal which, as shown under (III), has taken place during* *recent years, it seems pretty sure that most countries look forward to the restoration of a gold standard and the resumption of gold payments as the real rescue from the hopeless muddle of the present paper – money system* (Cassel, G., 1921, 78)."

The first effort to regain the gold base to back the fiat money circulation is generally assumed to be the culprit of the great depression that started in the year 1929, after ten years of roaring years. Then most of the industrial brands came in the booming market, which reached its highest value in October 1929, in the expansionary effect of an increasing and enlarging monetary base. In Europe, the reconstruction and recovering plans, and the incapacity to establish a new international payments monetary base, lead to the collapsing payment clearing systems, firstly bilateral the multilateral with the slow paces through a single depositary bank in Basel, trying to settle bilateral unbalances in neutral territory and structures.

The monetary policy financial conflict Hitler - Hjalmar Horace Greeley Schacht, about the deficit spending in the military sector, was the starting point that preceded his dismissal from the Presidency of the Reich's Bank and the large monetary base consequent growth. The fact is reflected in the Keynesian General Theory that under very special circumstances and short time, was recalling the huge economic growth and recovery of the defeated Germany, which repudiated its war debt but became the single Country that did not suffer the unemployment and depression during the thirties.

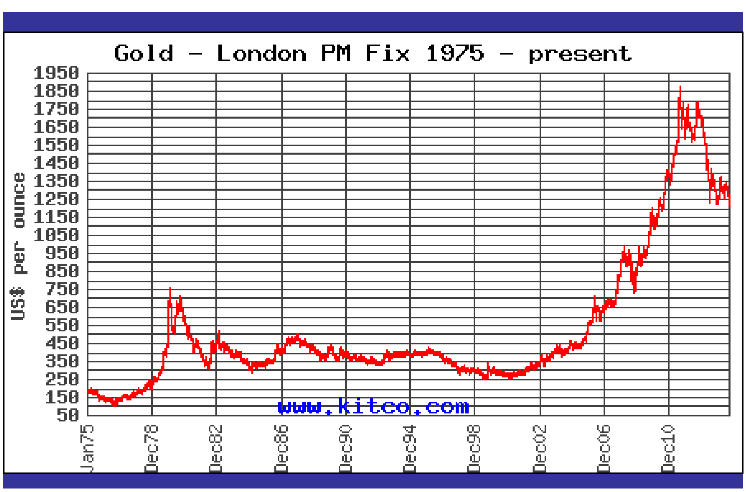
All the other European Nations suffered heavily in the aftermath of the first modern fiat money event and the unsuccessful clearing unions that couldn't establish a smooth new international trade and settlement fully working monetary system.

The raising of custom barriers, trade quotas and foreign exchange monopolies lead from the recession to the great depression that was overcome only by the new foreign exchange open market, within the Bretton Woods agreements as outlined by Henry Dexter White and Henry Morgenthau in Bretton Woods. The Marshall plan and the European Monetary Union in 1952, allowed a smooth reconstruction of the international payment system under the return to the gold trough the external convertibility into the specie for Central banks of the States adhering to the IMF agreement. During this period, the world trade reached enormous peaks and the economic growth was rocketing towards unforeseen levels, Italy was in an economic boom, the Italian miracle, and the lire won in 1959 the Oscar prize for the best performing currency.

4. THE DOLLAR DEBASEMENT AND THE BANKING SYSTEM CRISIS

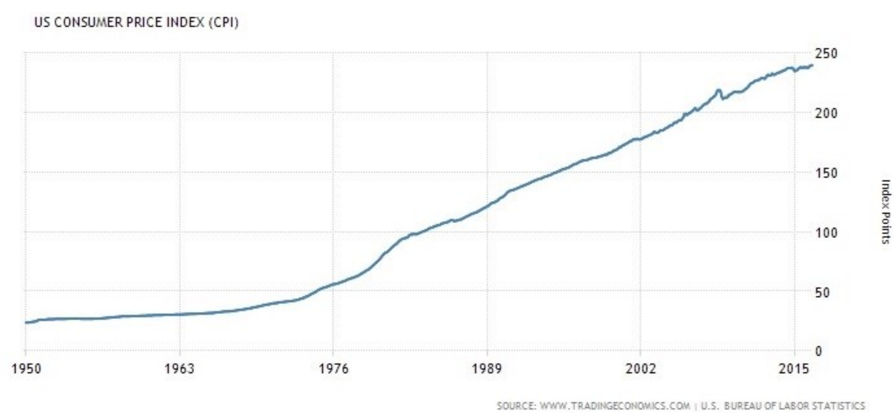
The first debasement of the dollar without recourse, stemming from a frenetic Camp David weekend, when the gold base was still formally recoverable trough central banks at 35 dollar an oz. is due to the increase of dollar M2 over a declining base of gold held at Fort Knox Fed deposit. The dollar became a problem during the fifties with what was defined the Triffin dilemma, after the Triffin deep research on the future of convertibility. His paper is a perfect picture of what would happen in Camp David in 1971 when the brief announcement of President Nixon triggered the greatest slowly but deeply forty years enlarging greatest depression in history.

Figure 1. Gold price – London Fixing - 1975 Present



Triffin in October 1959, as a Yale professor, while sitting in front of the Congress' Joint Economic Committee and calmly announced that the Bretton Woods system was doomed without hope. The dollar could not survive as the single world's reserve currency without requiring the United States to run ever-growing deficits and keeping as well ever-growing quantities of gold in order to keep exchange rates stable, on the parity assumed in 1944. This austere scientist was Belgium-born Robert Triffin, and the history proved that he was right. The Bretton Woods system collapsed in 1971, and today the dollar's role as the single reserve currency, has been running the largest current account deficit in the world as a *fiat money* currency. The old Genoa 1922 issue, has become a long concern and no remedy up to now has proved to be working. Starting with the Smithsonian effort, the IMF special drawing rights, the European efforts trough the European monetary agreement, the European monetary system and all the EBC efforts to jump start the economy has been productive of effects.

Figure 2. Consumer price index 1950 - 2015

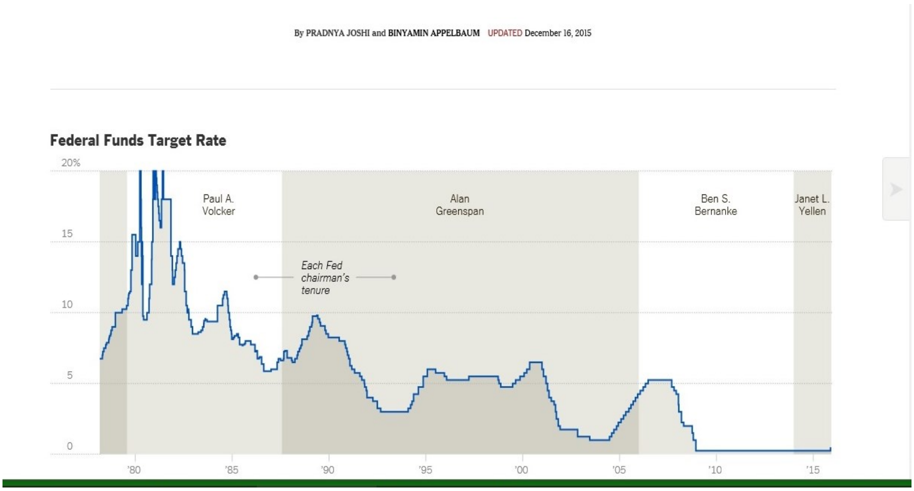


Source: <www-tradingeconomics-com> U.S. Labor Statistics

Starting from the peripheral areas, towards the southern and eastern countries, at the end of a monetary Greenspan large easing liquidity policy, a new stagflation environment led to the final bursting bubbles. Since the years 1987, just at the exit of Paul Volker, down to the year

2000 dot.com first bubble burst, the 2006 subprime and the final derivatives' definitive financial crack down in the year 2008, the breakdown of the M2 inflation strict historic correlation was definitely broken.

Figure 3. Interest rates at source



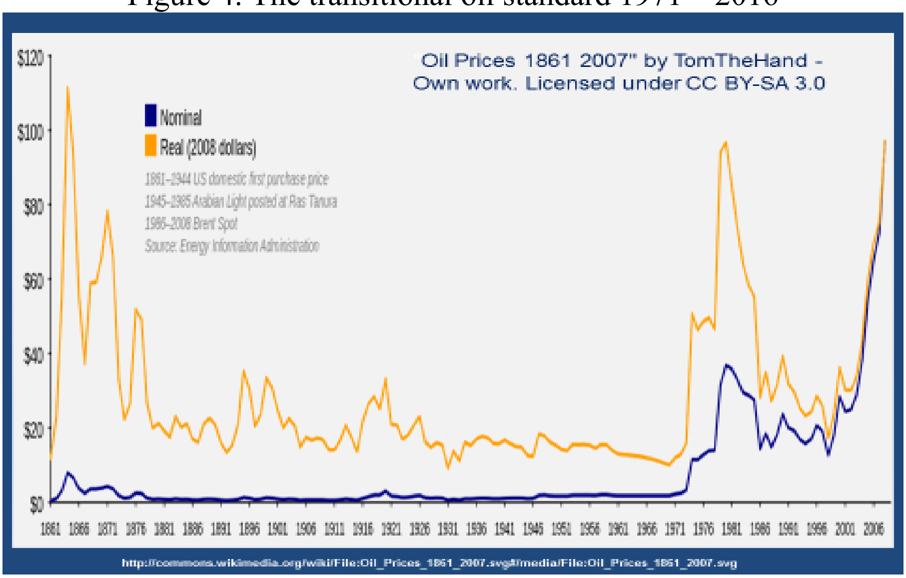
The supply side economics, the Smithsonian remedies and the constant growth of the market indexes have distorted the attention of most economist from the deep contradictions between the monetary remedies and the absence of inflation, especially during the Greenspan tenure at the FED. The absence of inflation in a generally deflationary frame, should be understood under the determinant overwhelming prevalence of Eastern low labor costs that have been out-crowding in the markets the generally higher Western cost of labor affected by large welfare costs.

In March 2008, the FED started to enter the provision of the Sec. 13 n. 3 of the Federal Reserve Act, enacted December 23, 1913, that foresee discretionally monetary intervention. In March 2008 in the taking over of Bear Stearns, J. P. Morgan was allowed a 29 B. facility that started the expansionary growth of the monetary basis up to an amount never seen before, trough the TARP (Troubled Asset Recovery Plan) and

QE (Quantitative Easing) systemic salvage of the American automotive, insurance and banking industry.

The cultural huge swift from market economy to a banking system, operating in the same way, as a kind of social accounting center, is the first sign of the final debased fiat money. The further collapse, were not for the fact that, on the global market, the dollar has become to survive as the last single currency unit, capable of a residual monetary function, as an apparent war allowed by the oil coverage until that market was redenominated in dollars. Already in 1990 Friedman wrote "*Though the United States has not adopted central economic planning, we have gone far in the past fifty years in expanding the role of government in the economy. That intervention has been costly in economic terms* (Friedman, R. M., 1990, 64)."

Figure 4. The transitional oil standard 1971 – 2016



The disregard of the monetary basis enlargement both trough the FED issuing M0 and the leverage enlargement due to the commercial banks lending has provided all the classic instruments of a classic hyperinflation prerequisite, which effect did not appear just because most of the supply prices have progressively been affected of Asiatic cost of production. This found a large base of low cost of labor which induced a huge worldwide reallocation in Asia, not any more affected by Marxist Cold War pressures, and ready to start a new capitalistic era out of most of the welfare state provisions operating in the West.

Figure 5. Monetary base

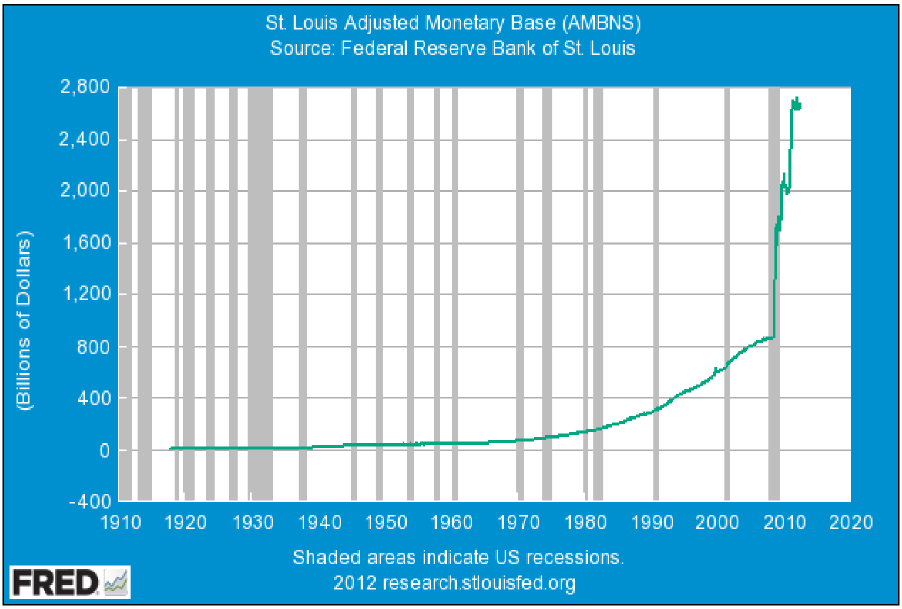
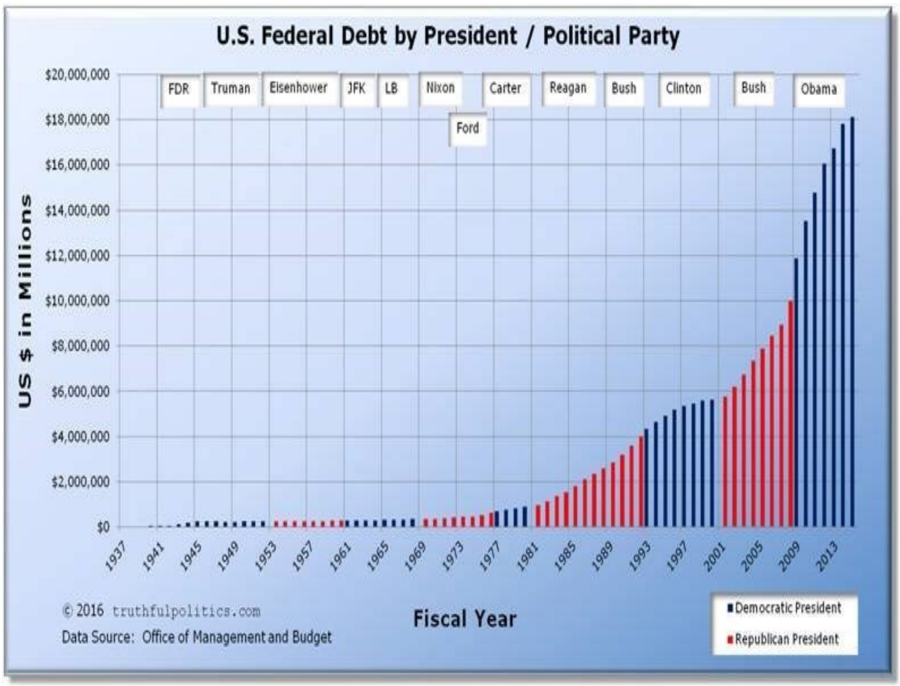


Figure 6. Federal Debt Dynamics from Office of Management and Budget USA



5. CONCLUSIONS

China, India and several Eastern industrial countries together, as the largest market economy coming, out of the bankrupt cultural revolution, unforeseen by all the economic previous development theories, finds not a single model of economic policy according to the development model as presented by most of the 21st century economists. As stated in on the occasion of the 100th anniversary of the birth of Jacques Rueff address by Lewis E. Lehrman at the parliament of France (Assemble nationale) November 7, 1996 "*The overthrow of the historic money of commercial civilization, the gold standard, led, during the next decade, to the great inflations in France, Germany, and Russia. The ensuing convulsions of the social order, the rise of the speculator class, the obliteration of the savings of the laboring and middle classes on fixed incomes, led directly to the* *rise of Bolshevism, Fascism, and Nazism. They were, linked to floating European currencies, perennial budgetary and balance of payments deficits, central bank money printing, currency wars and the neo-mercantilism they engendered*.**"**

Statement by Dr Zhou Xiaochuan, Governor of the People's Bank of China, 23 March 2009. "*Theoretically, an international reserve currency should first be anchored to a stable benchmark and issued according to a clear set of rules, therefore to ensure orderly supply; second, its supply should be flexible enough to allow timely adjustment according to the changing demand; third, such adjustments should be disconnected from economic conditions and sovereign interests of any single country*"

Monetary policy has become a very tough political issue and econometric science, since the global generalization of fiat money at legal tender without an intrinsic value base, after the unsuccessful efforts in Genoa (1922) in Bretton Woods, and the recourse to the alternative monetary quantitative easy central banks funds after the collapse of the planned economy risks. The three phases through the globalized world economy has been passing may be recalled with the

- J. M. Keynes, liquidity trap,
- Arthur Laffer, taxing rates,
- Raghuram Rajan, interest rates.

It seems now that a way out of such clearly and quickly traps is still not known and perhaps we will not discover a solution easily and shortly. As Koo clearly explained (Koo, C. R., 2009), the short time effects of macroeconomics policies have not yet been fully analyzed and verified on a long time basis. After the Camp David 1971 debasement critical decisions, the absence of a *sound monetary unit*, as the convertible to central banks dollar till then had been, which afterwards became a full *fiat currency* and only liquidity instrument of payments, started the series of financial, social and economic undesired events. We are still experiencing the fallout that are object of deep, complex and contradictory studies.

The following financial turmoil has moved in different directions, with several different market events: the inflationary seventies, the index booming eighties and continuation nineties, the further nineties dot.com singularities, when the financial markets booms led to a misinterpretation of the derivatives structure and their implication over the financial institutions with consequent and widespread large bank crisis.

States spread insolvencies and default, a large general unemployment that led to a definitive Western depression, under the pressure of the huge Asia expansion and low prices, free of micro economic boundaries. From the Koo angle, the contraposition of a free market economy and a State presence in the economy through Keynesian long - term remedies is leading Japan and most Western economies in a dead end. The public sector, while dismissing its management and intervention role, is conditioning the prices and costs structures through the widening welfare State, due to the crisis itself.

"I have to admit that, as most free-market economists, I feel surprised by the favorable comments Friedman has made about Keynes (Skousen, Friedman, 1998)*."* The leader of the Chicago school has always been a strong anti-Keynesian. His Monetary History of the United States clearly shows Keynes's thesis that the capitalist system is inherently unstable, when not stimulated by the State. The Koo's book shows that the Fed's unilateral policies, not free enterprise cycles, caused the Great Depression, somehow in line with Mundell reconsideration. Friedman's permanent-income hypothesis modifies Keynes's consumption function and undermines the case for progressive taxation. His natural-rate-of-unemployment doctrine denies any long-run trade-off between inflation and unemployment (the Phillips curve), particularly after the '70s experience of the long lasting stagflation.

In *Capitalism and Freedom*, Friedman challenges the effectiveness of the Keynesian multiplier and declares that the federal budget is the "*most unstable component of national income in the postwar period*". The most recent public debts swelling worldwide are confirming the emptiness of the deficit spending theory, as disregarding the micro economy law of profit expectations. Microeconomic principles are performing correctly in explaining and classifying the huge recent China's growth with an average rate of GDP close to 8% on annual basis. Since the demise of socialistic planning, cooperatives production and full property of means of production acceptance, the whole Asia has become a never seen before booming area. The new Western challenge, after the 2008 final demise of the monetary base constraints are heavily and improperly loading up the huge public debt and the self-sustaining call at the monetary stimulus that, has been setting uncertain perspectives over interest rates, wrecked secular monetary functions, especially saving instruments, and exalted inflationary waves or Central government spread likely defaults.

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