

Sustainability as an Aid to the Interpretation of the Economic Scenario

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ABSTRACT

Is it possible that the principles of sustainability economy offer some more inspiration in our eternal attempt to look beyond the present time? This hypothesis certainly cannot be denied, because we must choose between a kind of development positive for nature and another kind forged instead by the human selfishness. Some help to stay in the right direction are the useful aid offered by nature (universal and constant laws in economics) and the curative character of natural interventions implemented when we derail from the correct path of constant growth. As saying that the irregularities of false development, starting with the conjuncture cycle and its companions (inflation and deflation), are a real protection from the danger of an irreparable fall of the economic mechanism and then of whole civilization. The fact remains certain that once off the path of constant development, the correction introduced precisely by the conjuncture cycle is certainly painful and somewhat complicated. Nevertheless, it offers some opportunities to find the way out of the imbalance. Thus, believing that long-term deflation can be overcome with ultra-Keynesian remedies means to suppose that we can control the economic cycle and its evolutions. But unfortunately, it does not work that way. And are equally unfounded the suppositions that see in speculation - which takes the financial market away from real values - a way to help the weak and depressed economy within a deflation scenario. Still on this subject, the choice of Central Banks to follow or anticipate - in the event of deflation - the drop-in interest rates down to zero or even below, should be limited by introducing a lower threshold that should not be exceeded when interest rates are falling. Because otherwise the excited speculation, so fueled, will lead us to a probable financial crisis. Instead, it is just an irregularity created by the abandonment of constant growth with minimal damage to nature. An irregularity on the development path that we have identified as the sub-world. On the other hand, we should not forget that the community or rather its majority is the only accredited counterpart of the forces of nature, so the close alliance between a good governance and the community is the key to maintaining or rediscovering the path of constant growth with minimal damage to nature.

Keyword: deflation, conjuncture cycle as a cure, speculation, low interest rates

INTRODUCTION

The topic we intend to address in this analysis concerns the possibility or not, allowed by the Sustainability Economy, to look into a future which would be made possible through two alternatives of development for a territory. Moreover, we will consider the relationship of the development lines with nature, given that the growth process creates an amount of waste that

is hard to be 'metabolized' by our environment. So that the non-metabolized excesses produced by humankind in turn require a correction process that would tend to settle some sort of reparation for our planet. Therefore, we can essentially speak of at least three development lines. One we'll call classic which follows a constant line with minimal damage to nature; the other in opposition which instead we will indicate as sub-world and finally the third which tends to balance the different behaviors between humanity and the planet that ensures our survival.

But why should we talk about development? Well, we should do it not only because development is the synthesis and the focal point of feverish human activity, though the complex of human activities is not unique but offers different paths, unfortunately not all in the right direction. And we should do it above all because the human life is conditioned by development and the economic evolution coincides with the human history. On the other hand, the success or failure of a territory is measured on its economic course. In general, we must assume that the natural tendency is generally towards an equal development between the different parts of the planet. The differences between the various continents depend in part on the climatic conditions and on the opportunities offered by the various territories. However, the fact remains that this natural tendency towards the homogeneity of the development process is still present, and the development prospects are higher and stronger in the most backward countries, as in the case of Africa. The "Black continent" has huge and partially unknown wealth in its subsoil, and enormous well-known surface wealth, that is, a young population; it can therefore accelerate the development pace, provided that sub-colonial interests do not prevail with their negative robbery attitude over the potential of the area.

In any case, the rule of constant and continuous development seems engraved in the DNA of every population worldwide. We must in fact believe that the vocation to development is a necessity, then not only an economic and survival attitude, but also an intrinsic factor in life itself. That is, nature and humankind are both subject to the rule that development is necessary for a spiritual reason that transcends individual wills, so becoming instead a collective will. We should also consider that the *imprimatur* in every human being is shaped by a constant development, that it will last over time: hence a constant economic growth, albeit balanced in relation to the disposal needs of the planet. From our confidence on the fact that development continues over time, it would depend on the alarm level that shocks everyone when the trend of constant cycle becomes negative until it leads to the inconstant economic situation.

We should consider this important 'imprimatur' engraved in the DNA of every human being ("tomorrow same as today") as a necessity for their life on the planet. An inner driving force that is to be aligned with two potential goals. First, development as an appropriate method to reduce and subsequently even to cancel in the future the economic growth limits imposed by the nature protection. Second, to create alarm and concern within the community if we fall into the sub-world characterized by bad economic situation and monetary anomalies (inflation and deflation).

In fact, it's to be assumed that if we manage, with the continuation of economic growth, to reach the stage of full neutrality of our presence on the planet, we will free ourselves as humankind from the limits imposed so far by the duty to protect the planet and therefore, we could witness an important acceleration of the process. But for what purpose? Well, there is certainly a link

between development and preservation of life. But we must also admit that it is a link conditioned by the basic objectives of our presence in this lost corner of our Galaxy. And what is it as a whole the place in which we live? It is evidently important the knowledge of our environment and by extension also of the Space around us. And then again, for what purpose? Knowledge is the real purpose of life, to understand the ultimate reason for our presence in this remote corner of the Universe. On the other hand, there is no doubt that knowledge is destined to become the calling card of the new generations, thus overcoming the negative attraction for money and possession, unfortunately still felt by many people.

But also, on this last issue we must distinguish. In the sense that the economic activity certainly influences the satisfaction or dissatisfaction degree of individuals regarding the economic trend. It is a fact that financial crises go in a direction opposite to equity in the income distribution within a community. In other words, the anomalies of conjuncture cycles and the diversions caused by inflation and deflation, all move in the direction of altering social relations. All development anomalies conspire to complicate the relationships between different social classes, thus creating the basis for the fragmentation of society into several distinct groups.

We must never forget that in a balanced economy that follows the classic development line, that is, according to nature, the wealth and income distribution is realized according to the equity allowed by the market economy system. Therefore, the first characteristic of a balanced development with constant growth is the positive influence on class relations and solidarity. Not only because the constant growth, albeit contained due to respect towards the environment, is in any case the most direct and perhaps the only way that leads us to the desired neutrality of the human presence on the planet. But also, because meets most people's expectations and predisposes everyone towards a peaceful horizon of relative tranquility and social solidarity. So defined based on a constant development pace over time and on the assumption of minimal damage to the environment, the classic economic growth is certainly complex and difficult to maintain. For what reason?

The fact is that it is based on some unavoidable assumptions. First, the direction and feeling conformity between government and community regarding the economic development. In other words, a good governance is needed which relies on experienced personalities rich in undoubted knowledge of their areas of competence. Furthermore, a good governance must rely on the common sense of community, intended as the only counterpart of the implicit and explicit indications coming from nature. We must in fact admit that a pact, written according to the universal laws of economics, is stipulated between nature and community for the humankind survival, as it was in the past and as it shall be in the future. As saying that also humankind is useful for the Universe around us because we are anyway part of it, and we somewhat contribute to the balance of forces. As seems evidenced by the fact that there are universal laws also for all human relations and that these laws are anyway parts of the general laws on which the current universe is based. (*Cossiga, 2018*)

Nevertheless, there is no lack of difficulties because the community majority, which is the only interpreter of the purposes of relationship with nature, must be the polar star to which a good governance refers to maintain the consensus of the whole community. In other words, this also means keeping the appreciation of nature around us about the direction and values we intend to give to development. Nevertheless – and this is not easy at all – the government must set the

basic conditions to be able to make the community converge towards the formation of a stable majority to express its consent towards the choices and direction given to development.

In short, to make the path between government and community paved with good intentions, there must be a common orientation and consent between government and community. These common views are a positive indication to confirm that the development path is the best among those possible. In short, there should be a continuous exchange of views between the administrative activities of the country and the community. And this relationship must exist and be maintained also and above all in the case that the development path undertaken by the country does not meet the criteria of constancy and less damage at all, and therefore it would be necessary to direct the economic management attitude according to the wishes of community majority.

Therefore, it is not only a question of having certainties on the development line to follow (which is useless when we are following the right direction), but rather and above all when we deviated thus falling into what we call sub-world. A bad reality where selfishness takes over solidarity, where the wealth accumulation is the reward that will make the speculator to feel at the end just a *parvenu*. That is, if we deviate from the line of constancy and least damage in the management of country, the worst human aspects will emerge precisely because they are aroused by the re-emerging negative values within a community that is fragmented in its objectives, and which forgot that the first objective of the group (and of the whole humankind indeed) is to survive together with natural environment which allows our survival.

Obviously, it cannot be overlooked that these fragmentations among different collectivities can cause dissent not only internally but also and even more externally, with contrasts towards neighboring communities. It must be admitted that, if communities move together towards a solidarity that is always able to create stable and lasting majorities, there are no dangers that, in the absence of democracy, any autocrat pursuing dreams of glory and projects of other times to subjugate neighboring countries, may prevail. This is anyway a useless absurdity because the desire to join the national states into federations and confederations is commonly and naturally widespread within the communities; but obviously this kind of process must start and follow a path which should be not only peaceful but also collaborative.

PRIORITY ANALYSIS

The classic economic development, constant with minimal damage to nature, and the fall into the sub-world

The fact that natural phenomena - which therefore do not refer to a prince, an autocrat or even a democratic government - are self-repairers, helps to give strength to what said so far about the mistakes we can make. In the sense that the choice of *laissez-faire*, or rather of following the indications which meet the consensus of community, are basically natural rules that - if and when followed - can help us to get out of trouble. That is, we are not abandoned and condemned to an irreparable rupture in the economic system, because the natural remedies always come to our defense, even if unexpected or unwanted. Remedies, it should be noted, that are not connected to powers, forces, organizations, or governments, but autonomously arise when we have entered the altered domain of conjuncture cycle or monetary disharmonies (inflation or deflation). Even when the speculative fever takes hold of the community, well, even in that case the apparent magic of the endless growth of values finally meets the limit imposed by the

resulting serious financial crisis. Crisis that tells how important it is not to fall into the trap of useless wishes but at the same time it slows down the degradation which in this way never becomes irreversible.

On the other hand, also the economic cycle that breaks up the linearity of constant development with jumps back and forth, is a remedy. In this way, the constant growth of the economy is decomposed into a loop on itself and introduces into the scenario - otherwise in constant growth - the recession that slows down or stops the economic growth. Also, this method is natural, and does not find any authority or government or community or public body that manages these scenario changes; a method that aims to give the environment enough time to correct the excess waste not metabolized by the natural system. At the same time, it must be acknowledged that the recession is the only natural way to correct the derailment of the economic system from the correct path (i.e., constant and with minimal damage to nature). This is just to say that opposing the the conjuncture context means not having understood that the alleged evils coming from the universal laws are not in opposition to life but on the contrary, they are a cure, a treatment that over time will help us to get out of the negative and unexpected sub-world. But how to do? With what ends, by what means?

As saying that if we take the wrong way and run into the sub-world trap, we will have to follow a tortuous and complex path but if our actions move according to the natural pressure, we will be able to regain the right path towards constant development with minimal damage to the environment. In short, it is possible to fall into the naive trap of sub-world: naive because it falsely puts our instinct and our certainty about the future in opposition to the natural tendency of the economic condition, which instead must be consistent with each other. Nevertheless, it is always possible to find a remedy. Remedy that is indicated by the scenario itself that in general invites us not to oppose the natural drift, which in any case is always the escape tool to return to a balanced economic system.

Let us repeat that the basic rules of natural *laissez-faire* are transmitted to the economic governance by the community or rather by its majority. It therefore becomes mandatory that a provident government never neglects to listen to the opinion of community majority, to maintain the consensus level necessary for its own survival. The reason for all this is simple. The recession is the general cure to impose the right turn on the wrong course of economic system. A stubborn opposition to the natural motion given to the economy (recession) only leads to the sub-world with unexpected and sometimes dangerous results. Therefore, if we continue to obstinately oppose the natural *imprimatur*, we can only expect the arrival of sub-world monsters.

Even the anomalies of the sub-world are not real oppositions to the economic development, but rather warnings, direct messages once again to the community and its majority so that, due to the widespread dissent caused by the changed scenario, people change attitude and behavior and anyway change the government and its composition. Whatever the method of choice of political leadership, the fact remains that no government or leadership will be able to remain in office long if its collectivity, or rather its qualified majority, disagrees with the methods of managing the public affairs. As saying that a series of poor or even negative results on the front of economy and collective well-being, creates a widespread discontent among the various social

classes, and this discontent over time becomes a valid reason for the progressive and broad detachment of citizenship from the leadership in power.

This evidently means that the push to economic development is a basic and determining factor for the formation of mass judgment on the leaderships who want to manage the economy. How else to justify the resignation of Chinese people towards the loss of freedoms, the grip of censorship, the social conditioning in all aspects of life. It's inevitable to put in the balance all the goals and advantages in terms of well-being that have been acquired in over half a century of extended development in the whole Chinese economy, though remaining anyway unequal. Of course, the subject of the long incredible run of Chinese economy is only apparently an enigma. Let us not forget that imperial China for millennia was a pole of great culture, development, and refined civilization and that in the nineteenth century until the decline of empire and the constitution of Republic, China suffered a century of stasis and decline. It should not therefore be a surprise that finally China found the right impetus to become a global leader. This suggests that the regime has only partially influenced the rapid growth in the past half century. Just to say that the opening of China to the world market was the pedestal thanks to which the eclipse long a century and even more was over while instead started, despite the communist ideology, the development acceleration.

Now if this progress phase is over or rather if a new spectacular leap forward is possible, any assumption risks being wrong by defect or by excess. Nevertheless, episodes like the awakening of the Sleeping Beauty (in this case, the economy) are certainly not an anomaly. Just think about Japan which for two centuries and until the second half of the nineteenth century was a country closed in on itself and closed to progress and technology: until the second half of the 19th century, the country's ruling class was worried about the colonial tendencies in Asia of some European countries.

Recent episodes also move on the path of accelerated development, and we experienced it in Europe at the end of the two world wars. There was a general exhaustion after the war, which was equivalent to a serious block of development and well-being for the communities that were mourning the deaths and devastation. In the aftermath of World War II, Europe that emerged broken and bent from the conflict saw an acceleration of economic development that lasted for approximately twenty years. But everything has an end, and our rulers did not realize, did not perceive that the run on the development road would soon slow down. In the second half of the 1960s, inflation appeared in all European countries and then also in the USA. A clear message that forcing the development terms in the old continent was not a good option. History then put its seal on the inflation fire along the seventies and eighties: inflation accelerated - but not produced - by the oil crises of 1975 and 1979-80.

Well, how can we reinterpret these sudden and often extended accelerations of development, which start and cease with a high degree of independence from expectations and with a certain indifference towards the government forces. In fact, they develop regardless of democratic, autarchic, or other regime that prevails in a country. Nevertheless, these phenomena are always connected to a previous extended period of pause with the stop of growth process, of whatever type this blockage is: voluntary and corrective or even obligatory, for example caused by the state of war. Then how can we interpret these accelerations on the path of economic growth

that seem to have nothing to do with any extraordinary events or with the presence of any (improbable) outstanding governments?

Now there is no doubt that these leaps on the path of accelerated growth can last even for decades and are simply a result of the work of natural tendency. We must admit that the development of global economy is not an example of discrepancy and anarchy, but instead it is the result of a gradual approximation of the economic and social status of the various continents, albeit according to times that do not coincide with those of humankind. We can believe at this point that the leaps forward in various sectors can be the outcome, this time fast and somehow feverish, of some privileged areas. However, this hypothesis may be concurrent but not determining in any sudden and rapid rush towards growth. And it may even happen that it is achieved, as in the case of China, a competitive position of leadership in the global context with the leading nation, the United States.

So, how to attempt a theoretical explanation of behaviors, such as those of the economic super-growth in China? I would like to say that in my opinion it seems useless to talk about the different form of government and institutions, as the determining factor and the winning model regarding the stunning development growth. Instead, we can believe that it was precisely the Chinese model of government and institutions that benefited from the economic results, by using those achievements as a pedestal to enhance the alleged qualities of the centralized model of power within the country.

In other words, what really determined the phenomenon of GDP acceleration wouldn't be found in the current reality of the Republic of China, but rather in its past; because in that past we can find the natural strength that has so far driven the development running that over time raised the Chinese economic level to that of other great nations of the world. I certainly do not mean that the form of government and institutions did not somehow solicit and support the boom. But rather that a good governance - as already mentioned - is supported by its community if the country's development follows the line of constant and cautious inclination (slow growth) with minimal damage to the environment. In the case in question, instead, there has been - and this is undeniable - a constant and accelerated growth but with the result of increasing damage to nature and at a more than twice the speed of the classic line. So, what is the result?

At this point all that remains is to admit that it is the nature that - certainly not without merit - can make it possible to reach, even for almost half a century, an otherwise unattainable goal. Admitting that the propensity towards science and culture of the Chinese empire since the seventeenth century as well as its attention to well-being, can transmit through generations to the present day, may be acceptable. On the other hand, believing that after many generations the strength and conditions that allowed the "great leap" were *ex abrupto* suddenly released, seems rather unlikely. So again, what is the result?

At this point all that remains is to argue that the long pause in terms of economic growth - but also of culture and knowledge - lasted in China for over a century. A long pause in development that may have been somewhat accumulated and not dispersed by an unknown universal constant acting in the economy. Each continent could have a similar potential amount of development to ensure a fair and equal growth of the different areas into which the globe is divided. The disharmony in the economic growth and in the tension towards culture would be

just one phase in the overall development. The heritage accumulated during the long pause, if not used, can come into play due to favorable circumstances, and will not follow the classic rule of constant and contained development but it will follow sudden and unexpected modes. The favorable circumstances that occurred in the second post-World War II - with the Western economy quite interested in the globalization of industry and economic activities - allowed the development strength inherent in some Asian countries to be developed in all its potential energy.

We should expect that also in other parts of the world, and in Africa, the globalization forces will be able to coagulate but taking other directions than in the past, by moving towards areas and continents left behind on the path of global development. It is likely that some factors present in Asia are not available instead inside the Black continent, especially in terms of culture and education. This may be the cause of some delay in having a different dislocation of globalization – that is, directed this time towards Africa – that can finally bear fruit.

METHOD

The 'Japanese syndrome' or the fall into the deflation sub-world and the difficulty of returning to economic balance

As we mentioned, there is a consistent difference between the classic and constant development line and the accelerated one that has affected many countries and continental areas over time. Well, while the classic line ensures a constant growth with minimal damage to nature, it appears evident that an accelerated development is certainly not on the side of the least damage to nature, although it is an option made possible by the forces of nature. This should mean that a run on the accelerated development path cannot be indefinite but must at a certain point slow down. How and when this traumatic change in the growth pace can happen is certainly an information not available, however there is no lack of signs in terms of economic and monetary anomalies that can play a premonitory role about the transition.

To this end, it may be useful to follow the evolution of the accelerated growth process that developed in Europe and particularly in Italy along the second post-World War II. Well, after a decade and more of high growth, in the mid sixties an incipient inflation has arisen first in Europe and then in the United States. A monetary phenomenon of minor importance – or so it seemed - but which, like any inflation, is not so easy to limit and above all tends to develop according to a model that is also accelerated and no longer linked to the pace of economic development. With the onset of inflation, the phase of growth acceleration was about to end, and then any attempt to maintain the development pace - now declined - encountered the contrast of growing inflation, difficult to be absorbed. Afterwards, in the early seventies inflation in Europe and particularly in Italy tended to grow, then accelerated to double-digit rates under the blows of the first oil shock. The long history of high inflation continued for another two decades, until the partial tranquility of prices during the nineties, throughout the Western world.

It is certainly not easy (and even improper) to compare all that with the case of China, but it is quite clear that the signs of an arrhythmia in prices have long been a problem to deal with, for the Chinese former "Celestial Empire." On the other hand, on the growth front of the Chinese economy there are also some downward shocks, attributed to the hard fight against the pandemic through the lockdown of entire cities and vast areas (which, being China, translates

into hundreds of millions of people). But as in the case of Europe, it is possible to note that also the Chinese economy seems to have become extremely sensitive to external factors and this sensitivity seems to be destined to last. In other words, if the model experienced in Europe during the post-World War II could lead the way, we should expect that the growth pace of Chinese economy starts a new phase of moderate growth to have time to recover.

In Europe, the administrators believed that they could boost the economic productivity to maintain higher rates of development for a long time. It was a mistake that cost us the advent of inflation for a long time and on a global level, as well as the slowdown - in Italy - of development. In these cases, when the signals of accelerated development phase exhaustion are approaching, it seems more appropriate to enter a *laissez-faire* phase and to avoid further soliciting the system productivity. Regarding China, the bankruptcy of the real estate giant "Evergrande" and at the same time the problem of houses that remained unbuilt or left in the middle of construction that no one will complete, are all evident symptoms of an overheating due to unrealistic and speculative prospects in the sector which - as also in Japan in the 1980s - just preceded the inevitable breaking of the huge bubble inside the real estate sector.

On the other hand - as in the post-World War II in Europe and in the USA - the monetary alterations are undoubtedly the most evident and widespread symptom that an era is about to end and that the phenomenon of development acceleration in Asia could also be about to end. In **Figures 1** and **2** we can follow the inflation trend in China over the last 20 years; this time we are not facing inflation but a probable fall into deflation that could get even worse in the future.

Indicator	Data	Period
Consumer Price Index (CPI)	103 index points	Sep/22
Food Inflation	8.8 %	Sep/22
Inflation Rate YoY	2.8 %	Sep/22
Inflation Rate Mom	0.3 %	Sep/22
Core Consumer Prices	101 Index Points	Sep/22
Core Inflation Rate	0.6 %	Sep/22

Figure 1 - Inflation indicators in China
Source: Take-Profit.org

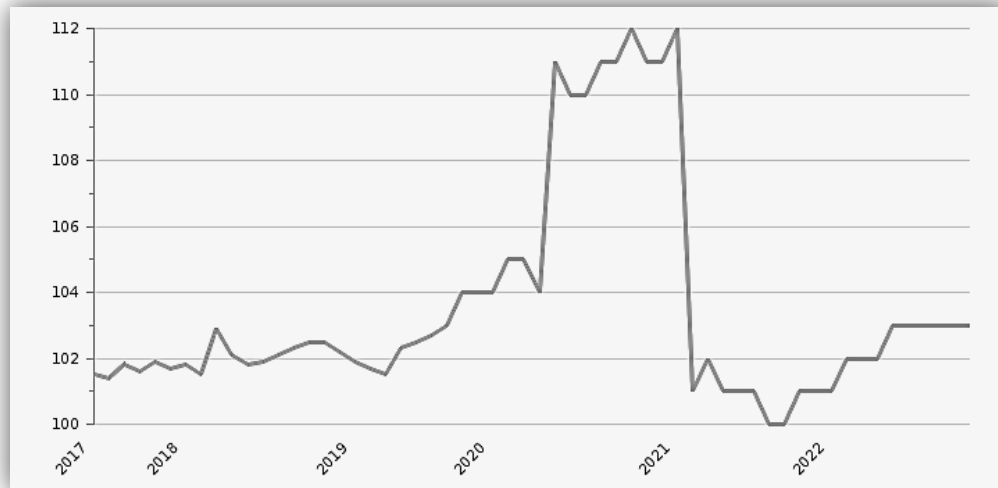


Figure 2 - Consumer Price Index (CPI) in China 2017- 2022
Source: Take-Profit.org

In the global scenario, the increments of rising prices in the Western area seem to depend on the mitigation of the tendency towards deflation, rather than on inflation revival according to a recurring model during the seventies and eighties. The inflation charge that comes from energy prices is causing great concern to families and businesses, due to the upward pressure on prices and then on the cost of current and operating expenses. However, the pressure exerted by international prices shows that deflation is slowly introducing a more balanced stage. In other words, we are not facing a new manifestation of inflation that affected the last century, but rather a deflation weakness in the Western area that makes evident the effects on prices and costs of the increased energy cost. The deflation easing in Europe and the USA suggests that there is the possibility of a resumption of world development after the double slowdown due to COVID-19 and to war in Europe. In other words: rising deflation = less economic growth; decreasing deflation = more economic development.

Regarding the potential trends of the Chinese economy, in the coming months we could observe a downward pressure on prices, due to deflation which could affect the southern area of the Asian continent. In other words, the inflation that relentlessly poisoned the world economy for twenty years, could now split in two parts. In the sense that the expected decline of inflation due to international costs, which mainly affects Europe and the United States, could be faced by deflation in the China- India area, precisely because the long run of the two Asian giants would have been exhausted. An inflation revival in that Asian area therefore would not be possible, as was in the 1970s and 1980s in the Western world, because after the hard fight against inflation, starting with the tough monetary policy in the USA ¹ at the end of the seventies, the monetary

¹ Paul Volcker, a Democrat, was appointed as president of the Federal Reserve in August 1979 by President Jimmy Carter and was confirmed in 1983 by President Ronald Reagan, who will replace him with Alan Greenspan only midway through his second term in 1987. He was a giant in the fight against the stagflation crisis of the seventies, caused by the OPEC decision to raise oil prices. Despite the difficult economic situation, Volcker implemented a restrictive monetary policy ("the Volcker shock"), raising the interest rate to take action on the very high inflation (which was running for years around 10% *per annum*).

The first inevitable negative consequences led unemployment level over 10% and sparked widespread protests due to the effects of high interest rates on the construction, agricultural and industrial sectors: farmers paraded on their tractors across C Street NW in

anomalies take rather the form of deflation. However, let us not forget that monetary anomalies (inflation and deflation) are above all messages to the community, alerting that things in the economy are not going well and some action must be taken, essentially with the recession being used as a tool, as a weapon.

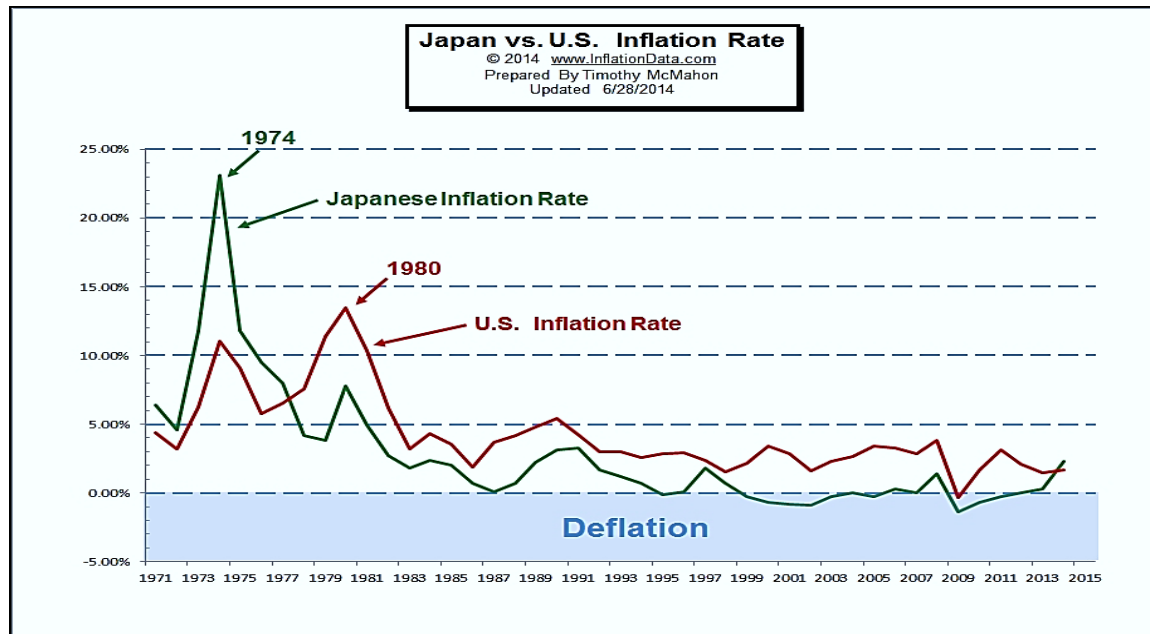


Figure 3 - Inflation trend in Japan and USA 1971 - 2015

Source: InflationData.com

It is interesting to note that the price trend in China tends to deflation - except for 2020 - and that prices remain low even in 2022, while the international price tensions for energy and commodities in general are the reason of an inflation widespread rise in the whole Western area. And wanting to give another example, regarding the Asian accelerated economic growth let us look at post-war Japan. In **Figure 3** we can see the comparison between the price trend in Japan and in the USA from 1971 to 2015. As can be clearly seen, from the eighties to today the economy of the “Land of the Rising Sun” has traveled for over three decades within the deflation zone. This was a result of the great speculative bubble that burst in the 1980s and essentially blocked Japan's accelerated development. But a clarification is essential: there was not an immediate decline in development but a gradual though consistent decline, while the fall into deflation of the Rising Sun's economic system was quick and lasting, and continued for decades. All this to say that the reaction of the economic system in the second post-war period in Europe was the spread of inflation, which also continued for two decades and more. While in Japan the rupture of the serious speculative bubble left deflation as a bitter legacy.

Washington DC and finally they blocked the Eccles Building. Nevertheless, despite the disastrous effects also on the debt of Latin America mostly at variable rates, the Fed achieved the desired goal: the price stability had been obtained and the American economy began to grow again after an easing of monetary policy in 1982. Inflation, that reached 13.5% in 1981, after an increase of prime rate to 21.5%, lowered to 3.2% in 1983.

(See: Joseph Treaster - *Paul Volcker: The Making of a Financial Legend*, Hoboken, N.J.: John Wiley Sons, 2004 [ISBN 978-0-471-42812-1](#))

I would like to repeat, we should not confuse the two monetary anomalies (inflation and deflation), because they are in fact very different phenomena, although both with very troubling results. However, we must also not forget that the two monetary alterations are essentially “messages” to the community that things are looking bad in the economy and that a recession is needed to bring the system back into balance again. The community, which is the natural adviser for a good governance about the direction to take to regain the shore of a constant and controlled growth, should suggest the line of development to follow. All this to say that the line to follow in both anomaly cases (inflation or deflation) is always the same: give the economic system time to re-establish its balance with a natural recession, that is, suggested by nature through the monetary messages. As we have seen, the fight against inflation has found a fixed point in the successful initiative of Paul Volcker at the Fed, which essentially paved the way for all other countries to fight against the inflation strength: therefore, by following that example it is possible to break free from the inflation grip.

However, the battle of monetary policy is different in the two cases of inflation or deflation. In the case of inflation, the Central Banks proceed to raise interest rates. Increase in rates that leads the economic system to recession, especially when inflation is in the double digits and has been present for a long time. Therefore, the fight of monetary policy against inflation moves according to the natural tendency that wants the recession to remove the excesses produced by the accelerated development. The approach of monetary policy is different in the case of deflation. The experience of Japan, which has been struggling with deflation for over three decades, tells us that it is very difficult to contrast the price tightening imposed by deflation. In fact, following the downward pressure of prices with the interest rates fallen even to zero does not help the real economy, which confirms instead the natural tendency towards recession that is the only possibility - with obvious gradualness and with some economic and social penalties – to escape the monetary imbalance.

Japan's long experience confirms that attempts to revive the economic system had in return a slower contraction of the economy in the middle of financial crisis since the bursting of speculative bubble. But the *quid pro quo* was also an unwelcome guest: deflation. A monetary anomaly which is nothing more than a recurring and continuous message to the community about the poor economic health; anomaly that cannot be counteracted by giving unlimited space to public debt. **Figure 4** shows the long-accelerated run of GDP in Japan from 1960 to 1990, followed by a substantial stability in the economic growth even in the presence of deflation.

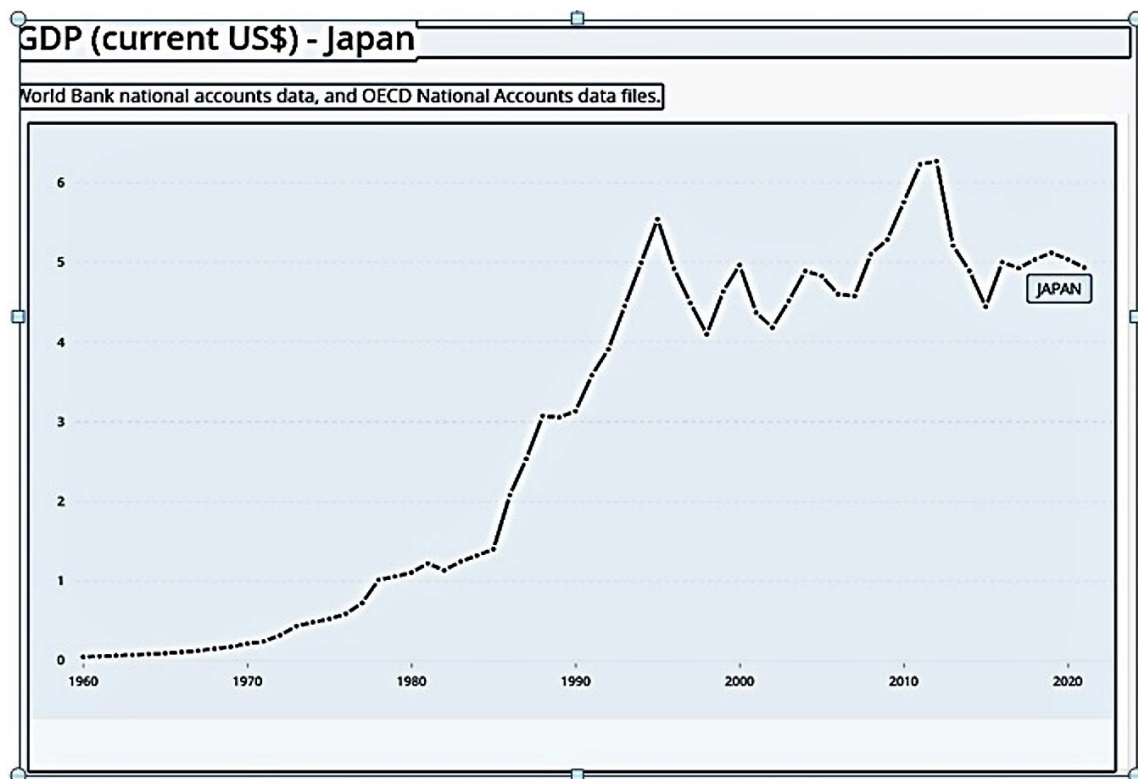


Figure 4 - GDP trend in Japan (current US\$) 1960 - 2020
Source: World Bank Data

Essentially, the accelerated run of the economy is never indefinite, but usually stops on the threshold of inflation or deflation. In all these cases, in Europe and Asia, the rulers have tried to extend the course of accelerated growth indefinitely, but with no other result than to fall into the sub-world trap. Thinking that the accelerated growth of an economic system can go on without end is obviously wrong. Not by chance the model that allows a constant growth without damage to nature, moves according to a contained inclination of economic development. Therefore, we cannot think that this prerogative coming from the past (that is, from the frozen development potential accumulated for decades or even centuries) would not be a source of troubles for nature, caused by the waste not digested and not metabolized by the environment and the consequent need for a stop even extended after a frenetic development run.

This scenario of the past serves to teach us that even China's breathless march for over fifty years must finally meet a stagnation phase. The property speculation that led to the bankruptcy of the real estate giant "Evergarde" looks like a step towards a potential financial crisis in China. The expectation in China of a continuation of the accelerated growth path for a long time, leads us to believe that the authorities will move according to the model that has been already tested in Europe and Japan. But with the same result, that is, in the next few years there will be a GDP slowdown (3.5% on average) with the unwelcome company of a deflation quite difficult to tame.

The reasons for the choice made by the economic system when sending - together with the economic cycle - the monetary messages of inflation or deflation

It would really help us in this work of analysis of the global scenario, to understand the reasons for the choice made by the economic system when sending - together with the conjuncture cycle - the different monetary messages. Let me say once again that the economic cycle should not be considered as a plague but rather as a cure for the unbalanced economy. In the sense that the change of the usual scenario with classic constant growth with the least damage to environment, to the alternating motion of development does not play against but in favor of communities. Nevertheless, the communities are concerned about the change in the economic tone and thus discontent begins to arise with the incumbent leadership that must work to adjust the direction of the government program. As already mentioned, in general it seems appropriate to choose the *laissez-faire* line, for the simple reason that the economic cycle inserts recession into the economic course. That is, the pause or decline in the development line that essentially offers the environment the possibility to eliminate the accumulation of toxic material produced by human activities. Thus, we must always keep in mind that, according to the Anthropoc Principle, nature and humankind are allies to protect life and development. On the other hand, development itself is a source of well-being and resources for life and at the same time it is the ideal way to reach (soon, this is the hope) the stage of a complete neutrality of life impact on nature that allows our survival. But to achieve this we must avoid and stop poisoning our world.

For this reason, the recession is the treatment that nature and the economic universal laws have placed at our disposal to curb - when necessary - a development that is too onerous for the environment. But be careful because the *laissez-faire* cannot always solve the difficulties. Above all, when we have fallen into the sub-world, the phenomena described are the basis for conjuncture cycle and monetary alterations but can also generate other 'monsters,' such as the endless speculation fever that hides the problems of risk from the eyes of operators, or the gap between real economy and finance. In the latter case, the factor of gap between the two sectors, otherwise linked by a mutual relationship, is produced when there is an extended deflation pause: as in the case of Japan during the nineties. Basically, the real economy remains weak and somehow subdued while the values of stock exchanges and assets continue to increase, although there are no reasons to justify that rise. Well, in the latter case therefore, the economic recession may not be enough to cure the disease that pushes towards speculation.

Monetary policy, in the case of deep deflation, enters in a self-defense mode by lowering interest rates according to the limit indicated by the price system. In doing so, essentially the monetary policy becomes a sort of support for the economic policy that in turn tries to support the conjuncture cycle. That is, it moves against the flow of natural direction that demands a liberating and even deep recession. This is certainly one of the reasons that hinder the exit from the sub-world of a country struggling against a long-term deflation. As already mentioned, inflation and deflation are messages directed to the community to intervene and show dissent towards the economic direction. But they are also serious troubles especially when monetary phenomena are not addressed in the right way and therefore last for a long time. Long-term inflation is the cause of a shift of wealth and income towards the privileged categories, as usual at the expense of the poorest families. A phenomenon that certainly cannot be mitigated with mechanisms, automatic or not, of revaluation of labor income. Deflation, on the other hand, may appear as less worrying for the poorest classes, because it keeps their daily spending under

control, but over time it will cut development and work possibilities, with evident depressive effects on the social and economic condition.

But how does an unbalanced economic system decide to fall into the arms of inflation or rather to remain caught in the even harder grip of deflation? It is evident that the choice between the two equally unattractive alternatives is not in the hands of princes or heads of state, autarchies, or dictators. The descent towards the domains of these two monetary anomalies is obviously a calamity, linked to the universal constant that coordinates, supervises, and controls the natural mechanism of rectification of the general economic balance. Now, according to the Anthropic Principle even a small variation in some of the constants would make life impossible. *Ergo*, the monetary calamities are a natural way to force, sooner or later, intolerant economic systems to return to the classic rule of constant growth with minimal damage to nature. Otherwise, they would not fully perform their task of custodians of life on the planet.

Well, with this clarification we can now investigate how the natural mechanism decides whether an unbalanced economic system should fall into inflation or deflation. It could apparently be indifferent, but the analysis of experience along the previous century confirms that the selection follows rules that are implicit in the natural system and does not happen by accident. And then, more precisely why?

The two phenomena of accelerated economic growth in the previous century seem to show the presence of a provident hand to safeguard the very unbalanced systems from irreversible ruin. In any case, the two phenomena we mentioned of accelerated economic growth are different from each other. In the Europe of second post-war period, the triggering factor was the inopportune hope (or presumption) of being able to continue for a long time with rapid steps along the economic development path. Therefore, it was the somewhat excessive good faith of our rulers of the time about their actual capability to control and govern the economic mechanisms, that set-in motion the phenomenon of inflation which then spread during the 1975 oil crisis. Instead in the case of Japan in the nineties, the Land of the Rising Sun had already gone far beyond the extended acceleration of development by setting in motion a speculation uncontrolled and without limits, which didn't explode immediately but was dragged along over time with continuous attempts to support the conjunctural cycle, even to the detriment of public debt which has therefore gone out of control.

Therefore, it is evident that we are in two quite different situations. In the first case, Europe made the same mistake of supporting the economic cycle but did not suffer the violence of a wild and reckless speculation. It is instead clear that Japan in the 1990s was in adverse and worse conditions, compared to post-war Europe. So, we can conclude that Japan had already fallen into the sub-world, while Europe was still on the edge of that fall. Therefore, the hardest challenge of deflation fell on Japan and not on Europe, which was later also affected for a long time by inflation, but mainly due to the unexpected increase of oil prices in the first and second crises of 1970. Nothing in the world of natural economy happens by accident but all that we have now stated is simply the translation into action of the unavoidable treatments made by natural safeguard mechanism against the fall into the sub-world.

RESULT

Speculation is like a siren song coming from the subworld and opens the door to a severe financial crisis

That the Chinese economy is entering in the shadow of the “Japanese syndrome” is questionable. Especially since the Chinese authorities have decided not to finance the real estate giant “Evergrande” in bankruptcy. A decision that is meant to fight (or to cancel) the real estate speculation in China, albeit at the cost of a large number of houses planned or already under construction and despite the serious financial problems due to the people’s widespread decision not to pay the mortgage costs for homes they do not have and will not have. Following the decision to let the real estate giant go bankrupt, the main Chinese stock exchanges marked a sharp downturn, which essentially blocked the strong upward trend due to the pressure of real estate speculation and much more. In **Figure 5** we can see the performance of the Shanghai Stock Exchange for the period November 2020 - September 2022, which shows the upward tension of the previous year and the progressive decline of stock market values in the most recent period. Another sign that the margins for a continuation of the speculative rush have for the moment been reduced.

On this occasion it is worth remembering that even the stock exchanges of the industrialized Western world, headed by the New York Stock Exchange, had recorded a strong and highly speculative acceleration in the 2020 spring, even though the COVID-19 virus at the beginning of the year was already starting to hit hard and globally. The sharp economic fall and the terrible chain of mourning during the fight against the virus then forced the markets to rethink the issue of a serious economic and social risk due to the high incidence of infections. In **Figure 6** we can observe the trend of Dow Jones Industrial in the period from the beginning of 2020 to the end of 2022. In particular, in the spring of 2020, after a strong push the main New York Stock Exchange had shown a marked regression under the constraints of the heavy conditions affecting the global economy at the time, due to the fight against infections. All this leads us to consider the danger always present in long-deflationary economic systems, of solitary, speculative actions on the financial markets. And therefore, a constant state of alarm by the good governance is needed to look at the issue of speculative temptation always present, when there are the basic conditions for a fall into the sub-world and for a separation of the financial markets from the real economy.

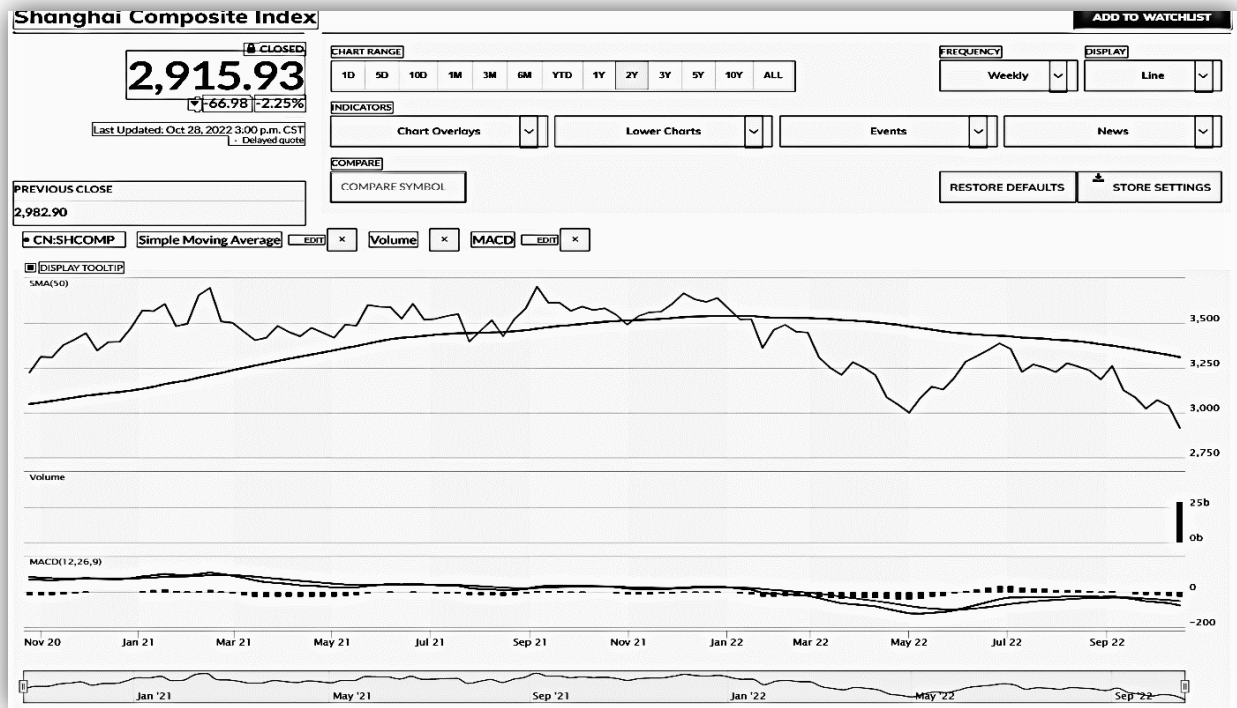


Figure 5 - Trend of Shanghai Composite Index in China, Nov. 2020 – Sep. 2022
Source: MarketWatch

But let us return to the problem of deflation and the long season of economic weakness imposed by the long-lasting deflation. We have already said that the stage of extended deflation can be considered already placed deep in the sub-world. A condition that also involves the growth stagnation, despite every attempt to somehow restore the very weak recovery. Monetary policy also seems to have any tool to move a very static condition. In fact, the usual decision of Central Banks - in the case of long-lasting deflation – resorts to a model which seems the opposite of the solution adopted by Volcker to eradicate inflation in the USA in 1980. In other words, the decision is usually to bring down interest rates when the deflated prices are decreasing or to speed up the rate cut in advance, thus preceding the movement of falling prices. A method that has proven to be of no help for the real economy which hopes for a recovery and instead finds itself in the middle of speculation fire, due to the low cost of money with its negative attraction exerted on the mass of speculators.

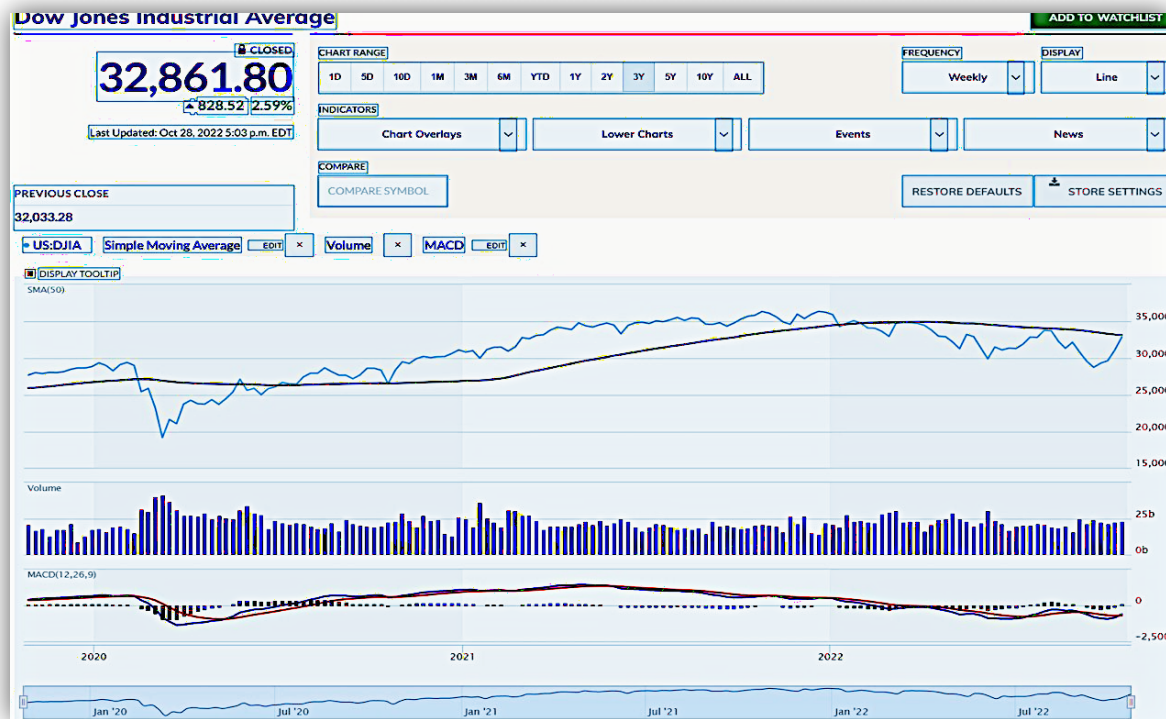


Figure 6 - Trend of Dow Jones Industrial Average, 2020 - 2022
Source: MarketWatch

Now it is clear that this affirmed dichotomy between the weak economy and the value of capital assets together with growing stock exchanges, breaks the link between finance and real economy. Thus, finance ceases to play the proper role of reinforcing the real economy, with an alteration that continues until the financial crisis, which can only blow up the speculative bubble. How to solve the dangerous problem of the attraction exerted by the "speculation siren" on the army of speculators is still a matter of research and investigation... Nevertheless, it seems evident that any strategy used up to now has had no effect. For what reason?

The leverage that acts as an incentive for the speculator who bets on the stock market or in assets is the low or zero cost of money. As a first remedy, therefore, interest rates should be kept by Central Banks at a level up to a minimum threshold and never below. How to establish this minimum threshold? Well, it is largely accepted that this minimum threshold could be set at a value close to 2%, which indicates the condition of healthy balance of an economy that is in conditions of full neutrality with the natural world. It is a constant and stable value that is not subject to alterations when the economy reaches the stage of complete natural neutrality; an ideal value currently unattainable, but to be pursued as an objective to be achieved globally.

But why should we use this threshold close to 2% as the lowest limit for interest rates in a deflated economy? Meanwhile, it is necessary to avoid the interest rates decreasing to zero or under-zero to prevent the risky game in the Stock Exchange or in the supply of raw materials and essential commodities. Moreover, why should we place that minimum threshold at the same level as the balance point of a stable economy in conditions of full neutrality?

To answer this question, we can recall the 'sobriety principle' used by nature in the context of the universal laws that govern physics and matter. In addition, it should be remembered that the constant economic growth with the least damage to nature, is also placed around 2-2.5% per year. So, there is an almost magical relationship around the 2% value, considered as a limit to constant growth in the current condition, but also as a fixed point for the complete stability of an economic system fully neutral with the natural environment.

Its application as a minimum threshold also for the interest rate implemented by Central Banks finds its more logical counterpart in the fight against inflation. In this case we should recall how Paul Volcker raised the interest rate just a few points above the inflation rate and held his inflexible position for over two years until the US inflation fell to 3.2% in 1983. Applying the same concept to the interest rate in the case of deflation, that is, a few points higher than the very low level reached by inflationary prices, therefore does not seem so eccentric.

The economic cycle is neither recurring nor predictable and similarly recessions and recoveries of the economy cannot be predictable or regular

The fall into the sub-world, that is, the farthest point from the classic constant development with the least damage to nature, is also the most difficult condition to be achieved for the return to the desired economic balance. We stated earlier, with some margin of doubt, that China could be experiencing, albeit with the usual fog around the Chinese mysteries, what we called the "Japanese syndrome," that is, the deflation cage that cannot be mitigated. Even in this case China is experiencing, it is not clear how cautiously indeed, a phase of unlimited speculation in the real estate sector, which leaves serious consequences for the Chinese economy and causes great concern in families waiting for a home that most likely will not even be built.

These are symptoms that leave no doubt and that could find confirmation also in the future due to the inevitable slowdown of the economy, especially due to the stubborn trend towards deflation. The Chinese phenomenon exerts a great fascination, after the long march of development with super-accelerated rhythms for half a century and more, for the possibility that the accelerated process may continue even further. Although it seems rather unlikely. As we mentioned, a collaborative relationship with nature that allows our survival, postulates a contained and constant growth that we have defined as an average annual limit of 2.5%. In this happy stage, the economic growth can last for decades without dragging shadows from the sub-world. This is a difficult condition to achieve and equally difficult to maintain, at least until we will reach the optimal state of full neutrality of our presence inside the environment.

That is why we can say that the development road is paved with good intentions but often leads to the embarrassing appearance of the ghosts coming from the sub-world. It is in this stage of uncertainty that the sinusoidal growth of conjuncture cycle and the natural warning voices appear in the form of inflation and deflation. All ghosts that would not and could not arise if and when we are in the balanced state of a constant growth. Because the economic cycle and the respective anomalies of deflation and inflation must be interpreted not as ailments that fall on us by misfortune, but rather as natural remedies. A natural remedy that is available to return to the state of grace, which is only the one with constant development. Therefore, in a world with balanced economy all treatments for economic diseases are unnecessary.

Simply rely on kindness of mother nature seems to be the easiest message if the development interruption is due to an excess of waste materials produced by humankind. In this case, it is necessary to rely on the natural *laissez-faire*, which pauses the development path according to natural times needed to "digest" the excess waste produced by human activities.

More complicated is the case of an economy struggling with the mess of conjuncture cycles and with monetary anomalies. In the case of inflation, we are faced with a nominal acceleration of prices that follows a constant acceleration over time, which appears linked to the economic state. And in the meantime, it generally continues independently of the evolution that affects the country or area under consideration. In other words, it remains independent of the current market and economy trends. Once inflation has taken root within an economic system it is not easy to free an unstable economy from its tentacles.

So, what does this mean? It means that the conjuncture cycle is neither recurring nor predictable and that the intensity of recessions and the possibilities of recovery are not predictable or recurring at all but depend on the time in which an economic system has been struggling with an extended inflation. On the other hand, the fight against inflation through the recession must be decided - as proposed with a winning strategy by the former head of the Fed, Paul Volcker - with a variable strategy based always on the correction offered by the recession - even deep - in the economic system. All this to state that if it is wrong to say, "after a recession a recovery is expected" it is also wrong to say, "after a recovery a recession is expected".

There is no specific rule that surrounds the conjuncture cycle's evolution because the terms of its manifestation depend exclusively on the state of the unbalanced economic system. It is therefore useless to expect regular recurrences or pre-established orders. That said, we must always remember that the lockbox where the economic and financial assessment for the near future of a given territory is stored, is always the community. So, we must always keep in mind that the community majority can really speak for the nature and therefore it is the lockbox where a reliable answer on the near future is kept. But on one condition. That is, provided that the will of the community is not fragmented into a myriad of even antagonist opinions. As already mentioned in a previous work (Cossiga, 2023), the majority is in the best position to express a sufficiently valid uniformity of views. It is therefore the true 'spokesperson of nature' that assists humankind for the survival of life when all community members are in solidarity and in agreement with each other. This condition is generally independent of the economic state and in fact depends exclusively on some important preconditions:

- **Mitigate** the income gap between families and between individuals.
- **Reduce** the widespread poverty as much as possible.
- **Arrange** the compulsory schooling up to high school for boys and girls and **support** the gifted young people in university studies.
- **Eliminate** the still existing discrimination forms between men and women in the world of work and in all aspects of social life.
- **Promote** a long working life for the elderly (who want it, of course) and their participation in study and personal advancement activities.

These measures are necessary to create solidarity and common feelings within the community, which is the necessary condition for the coherence of collective behavior. Above all because in this way a majority can be formed that will become the undoubted spokesperson of nature. A

spokesperson to whom the good government can appeal to find out which is the most appropriate direction to take to finally return to the classic state of constant growth with minimal damage to nature.

Returning then to the question of the different imbalances present in economic systems, in the case of alterations due to the speed difference between creation (human side) and "digestion" (natural side) of the excesses, the solution seems easy. In fact, the recommendation is to follow a sort of natural *laissez-faire* suggested by the inspiration coherence between nature and the community majority, and by the tendency of environment to a temporary block of development. The way out of an economic system that is instead on the edge or already at the bottom of sub-world, is certainly less easy and even complicated. The sub-world is a reality positioned very far from the state of classic growth with a constant line: we can fall into that negative reality if the economic decisions are made following a direction contrary to the natural tendencies of environment. The adverse condition persists if we stubbornly continue to follow the path forbidden by nature. If this contrast behavior persists, we certainly cannot hope for an improvement in the *status quo*. Indeed, just like in the biblical Babel, disagreements within the community are multiplied and people's tendency to selfishness and lack of solidarity is increased. The income and wealth gaps within the community widen with a subsequent poverty increase. At this point the opportunity is propitious to make finance the meeting place for speculators looking for easy money to grab.

At this point we are in a condition exactly opposite to that predefined by a constant development with minimal damage to nature, which instead involves: - a greater solidarity within the community; - the reduction of wealth and income inequality between the members of community; - the employment increase with no gender preferences, indeed facilitating women's access to work; - convergence of views between the government and the community majority, and so on.

The real problem for both the good governance and the community majority is therefore how to get out of the embarrassing situation poisoned by the sub-world alterations, especially in the case of "Japanese syndrome," which does not allow easy or even less easy ways out towards a normal balance. Nevertheless, we should not forget that any amount of time spent inside the economic sub-world does not always lead towards the irreversible and inevitable catastrophe, because we could consider it like the "Ariadne's thread" ² that could take us out of the sub-world negativity.

² When we refer to the thread of Ariadne, we go to the heart of Greek mythology. In short, the hero Theseus went to Crete to kill the Minotaur (a monster half man and half bull) to whom were regularly sacrificed seven boys and seven girls from his town, Athens: a tribute paid as compensation for the killing of a son of Minos, king of Crete. When Ariadne, daughter of king Minos (father of the monster, too), saw the young hero, she fell in love with him (no surprise, as he was protected by Venus, goddess of Love, Beauty etc.) and to allow him to safely get out of the maze where the Minotaur lived, she gave him a thread gathered into a ball suggesting him to tie it at the entrance of the maze to find the way back. Theseus killed the Minotaur and was able to get out of the maze thanks to the thread of Ariadne... Nevertheless, he was not so grateful, because shortly after he abandoned Ariadne, who later became the wife of the god Dionysus (All is well that ends well, as much later will say W. Shakespeare).

Attempts to escape from the embarrassing “Japanese syndrome” with a flat growth profile, did not meet the expectations for an economic revival in Japan. In particular, the so-called Abenomics³ - implemented by Shinzo Abe in his long stay as Japan’s Prime Minister - was intended to break the rigorist line and implement an ultra-Keynesian program of public spending fueled by the expansion of the Bank of Japan's balance sheets and aimed at bringing back sustained growth levels and investments in the country.

Therefore, this is the question: is it possible to beat deflation with Keynesian spending policies and wage increases to relaunch the weak cycle? Well, it may seem somehow strange, but it is instead realistic that the correction of the economy in the grip of conjuncture cycle and deflation (or inflation) can go only one way: recession. There is no other way that can allow to escape the troubles created by the sub-world, than the narrow and hateful path of recession. On the other hand, thinking that deflation can be corrected with a little amount of inflation is another perspective error. There is no prince, autocrat, monarch, or president of ministers and not even the best economist who are able to activate inflation or deflation on command, because both are governed exclusively by the universal rules that support our survival on the planet.

It is hardly necessary to recall that the fight against the long inflation of the 1970s and 1980s was won by the firmness of the president of Federal Reserve who, with the support of the US President Ronald Reagan, raised the interest rate of some points above the inflation level, And only after two years of recession in the early 1980s he managed to cope with the double-digit inflation in America, which from 1983 fell to 3.2% and then to 2% for the following decade. Believing that deflation is just the opposite of inflation, which therefore can be beaten by Keynesian-type policies, is not only an error of perspective, but of substance. Because deflation, like inflation, is a message to the community that must intervene to make its disagreement heard by the leadership that manages economic matters. A message, but also a sort of calamity for the community condemned to a prolonged period of economic stagnation with no way out.

It is interesting to observe that after the hard decline of activities and then following a patient wait, nature nevertheless offers a sort of consolation prize. Thus, the long recession in the USA in the early eighties was paid off with a fall in the inflation rate, which returned to 2% until the end of the nineties, but also with a long period of economic growth in the nineties at levels higher than previous decades. To return to the present day, we can recall that the drastic reduction in production activities due to the lockdown imposed to contain the spread of COVID-19 infections during the spring-summer of 2020 had consequently the income falls in Europe. The epidemic, therefore, led to a severe economic recession which essentially slowed the creation of pollution released into the environment. So, it moved in line with the natural trend that postulates the need for periodic pauses in the economic development path. After the lockdown interlude, the economy in the Old Continent and USA has restarted with strength,

³ Shinzo Abe, for nearly eight years chief of the Japanese government, broke the traditional rigorist and neoliberal line of his party by launching the wide-ranging policies of “Abenomics”, an ultra-Keynesian program of public spending fueled by the expansion of the Bank of Japan and aimed at restoring sustained levels of growth and investment in the country. The program has increased, from various points of view, the sustainability of the Japanese public debt by increasing the power of the BoJ, but at the same time it was affected by all the typical problems of quantitative easing summarized in an excessively financial attitude. Despite the very high profits of companies, over the past six years investments have only registered a moderate increase, but the expected wage increase didn’t materialize.

with an imbalance of supply versus the demand for raw materials, energy, and intermediate products. The result was the emergence of unexpected double-digit inflation, which was the bitter fruit of a strong recovery. Therefore, the post-lockdown economic recovery has led to a completely unexpected jump in prices, which should not be attributed to an inflationary acceleration of nominal prices but rather and above all to speculative upward prices of raw materials. Therefore, an inflation of nominal prices transmitted not by nature (i.e., by the universal laws) but due to the rise of international process inflated by the speculative impulse. But the theme deserves further reflection. In fact, the excitation of prices that are on the rise again seems to be due to the easing of deflation grip in Europe and the USA. Deflation, at the end of the decade, had accentuated its grip after the severe financial crisis of the years 2008-2009. It remained then as an unwelcome companion until 2020. In the aftermath of the long lockdown, however, the improvement of economic condition led to a general recovery and to an attenuation of deflation in the Western world. Deflation, in fact, is a sign of a weak and exhausted economy. The improvement recorded with the strong economic recovery, consequently, has also brought an attenuation of deflation, due to the inverse relationship that supports the two phenomena of economic cycle and economic deflation. If the conjuncture cycle is resumed, deflation is weakened and *vice versa*.

Given the characteristic of current inflation due to international costs, its dynamics are linked - in large part, I would say - to speculation that pushes international prices for an easy profit. Quite different, therefore, from the inflation of the seventies and eighties, which at the time was a message from nature on the conclusion of ten years of strong growth after the end of Second World War, in all the countries involved in the conflict. A message that was unheard at the time and later exasperated by the oil crises of the seventies.

CONCLUSION

In today's case the cost inflation has acted as an alarm, given the late intervention of Central Banks which are progressively raising interest rates.⁴ Not a very significant action, however, on

⁴ Russia's war against Ukraine is causing tremendous human and economic hardship. The war and related events are creating additional upward pressure on inflation and are weighing on global economic activity. The Committee is highly attentive to inflation risks.

The Committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run. In support of these goals, the Committee decided to raise the target range for the federal funds rate to 3-3/4 to 4 percent. The Committee anticipates that ongoing increases in the target range will be appropriate to attain a stance of monetary policy that is sufficiently restrictive to return inflation to 2 percent over time. In determining the pace of future increases in the target range, the Committee will take into account the cumulative tightening of monetary policy, the lags with which monetary policy affects economic activity and inflation, and economic and financial developments. In addition, the Committee will continue reducing its holdings of Treasury securities and agency debt and agency mortgage-backed securities, as described in the Plans for Reducing the Size of the Federal Reserve's Balance Sheet that were issued in May. The Committee is strongly committed to returning inflation to its 2 percent objective.

Federal Reserve issues FOMC statement. November 02, 2022

- Inflation remains far too high and will stay above the target for an extended period. In September, euro area inflation reached 9.9%. In recent months, soaring energy and food prices, supply bottlenecks and the post-pandemic recovery in demand have led to a broadening of price pressures and an increase in inflation. The Governing Council's monetary policy is aimed at reducing support for demand and guarding against the risk of a persistent upward shift in inflation expectations.

The Governing Council also decided to change the terms and conditions of the third series of targeted longer-term refinancing operations (TLTRO III). During the acute phase of the pandemic, this instrument played a key role in countering

the front of current inflation, which is linked to the increase in international costs. But it is anyway important to face the speculation strength, which was activated precisely by the near-zero credit cost, with interest rates remaining at historic lows until March 2022. Now the growing increase in credit costs, in addition to affecting the real economy, will have the effect of mitigating speculation thus finally bringing the daily prices under control from next year.

In conclusion, there is no solution to the long stagnation in deflation maybe through economic policies supporting the cycle or by the hyper-Keynesian programs of “Abenomics” or with ultra-permissive monetary policies. These support actions cannot move the *inertia* of conjuncture cycle but can instead fuel the speculative raids on the stock market or on assets, in contrast with the weak economy while fueling at the same time the public and private debt. The road to recover the balance of an economic system struggling with a long story of deflation, is only one but it has the merit of being effective. The road to recession is certainly painful and problematic to explain to the community. However, it must say that a community which maintains good solidarity relationships within the group (especially with the preconditions mentioned at the beginning of this paragraph) is the spontaneous spokesperson of natural world. Therefore, the majority in that cohesive community can only accept unanimously the natural tendencies that reward the recession as the only way out of the maze haunted by monetary deviations.

Therefore, it should not be surprising that the proposal to follow the natural tendencies by accepting the recession for the necessary time, can find the substantial general agreement of the community or rather of its majority, albeit with some obvious difficulties. Also, because after the time of renunciations and painful moments, nature offers the promise of a recovery even for those economies that have endured the “Japanese syndrome” for a long time.

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downside risks to price stability. Today, in view of the unexpected and extraordinary rise in inflation, it needs to be recalibrated to ensure that it is consistent with the broader monetary policy normalisation process and to reinforce the transmission of policy rate increases to bank lending conditions. The Governing Council therefore decided to adjust the interest rates applicable to TLTRO III from 23 November 2022 and to offer banks additional voluntary early repayment dates. The Governing Council decided to raise the three key ECB interest rates by 75 basis points. Accordingly, the interest rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility will be increased to 2.00%, 2.25% and 1.50% respectively, with effect from 2 November 2022. *ECB -Monetary policy decisions. 27 October 2022*

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