

## Sustainability and Inflation: A Bi-front Malaise

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### ABSTRACT

The singular presence together of inflation and deflation is only apparently improper because we must always distinguish on the subject of inflation, about which phenomenon we are talking. In general, we can say that the two phenomena - called classics - cannot share. With an important distinction. If inflation or deflation is - as already said "classical" - that is, it affects the economic system due to errors made by governments in managing the economy. In this case, inflation has its own characteristics: that is, it is subject to constant acceleration and its race continues until monetary policy intervenes with the rise in the interest rate. Different the case of inflation from international prices, due to the increase in the cost of energy and rare earths, as well as cereals, etc. Well in this case, the subjection of daily prices is linked to the evolution to which they are subject due to speculation and to the selfishness of producers. In the case of international price inflation, the decision of central banks to raise the cost of borrowing has a marginal effect on cost inflation. However, it has a strong indirect effect because the rising cost of credit puts lead into the pockets of speculators. With the result of containing the speculative thrust to the advantage of domestic prices which are slowing down. We are in a period of creeping deflation and tensions on the stock markets and capital assets front, two phenomena that have direct repercussions on daily spending and aggravate the difference between the rich and classes close to poverty. It is therefore essential to mitigate the social tensions that accumulate that the issue of international price controls, starting with wheat and energy, are addressed at the G7 and G20 level for a policy of moderation on these prices. On the topic of the recurring pressure of stock market values and of equity assets, in search of the reasons for the unjustified rise, we point out the hypothesis that this for the moment moody rise in values has the possibility that it could be a sort of hypothetical foretelling of human society when we have achieved full neutrality with nature. At the time, a sharp acceleration in development could change our economics of scarcity.

**Keynotes:** classic inflation and deflation, correlation. improper coexistence two phenomenon, neutrality

### INTRODUCTION

After all, it is a phenomenon that follows the fate of humanity, but the ancient wisdom is revealed in these words:

"The security of our city is shaken by the malice and baseness of a few, who attack and plunder the community. Because of them, speculation on the exchange of currencies has penetrated the market and prevents us from ensuring the supply of what is necessary for life."<sup>1</sup>

Far from being worn out by time, these expressions can be invoked to confirm that today the same dangers, moreover inflated, make our daily affairs even more tumultuous. As you can see, inflation or the increase in daily prices was attributed at the time to the antisocial behavior of citizens or non-citizens who speculate on the exchange rate and prevent the normal supply of goods and therefore creating a constraint that indicates a speculative increase in prices.

There is no doubt that inflation is a phenomenon that repeats itself over time and creates growing concern among the popular social classes. It is important to interpret - also in the light of these past episodes - the engine that drives inflation, i.e., the engines that put the recurring and hitherto unbeaten instrument of price and market alteration into operation. The complex issue is left to the care of the Central Banks which are entrusted with the stability of the currency. Yet already in the distant antiquity of the Greek colonies of Anatolia a significant difference was underlined between the reasons that relaunch inflation, in the hypothesis that at the time the motus of inflation was started by the "malice and meanness" of a few pushed by the selfishness of easy money who speculated on exchange prices. I would say that this dead hand of a few to the detriment of many is perhaps still today the main reason that fuels the expectation of a price increase and puts less fortunate families in difficulty.

The theme, therefore, is to better define the reasons behind the price push and then decide how to repress or stem the recent price anomaly. Therefore, once we have understood and established that the price variation is not a phenomenon that has a single engine or reason, the question we could ask ourselves is whether it is appropriate to leave, whatever the pressure (it is the cause) that modifies the prices and leave this task to a single institution, without assessing whether or not it has the technical resources and powers to intervene effectively.

We are certainly not here to criticize the monetary authority, because we must say right now that they may lack the powers to oppose the selfishness of the few who scrape together a lot of money at the expense of the community which suffers from price tensions and the lower value of the currency. Well, one can remain indifferent to this antisocial subject who sometimes subtly modifies, other times with great force, the transfer of wealth and income from poor to rich. Leaving that way, a part of the collective, even accustomed to a frugal life, can find themselves on the edge of poverty and exclusion.

Well, in the face of this special evil of the unequal distribution of wealth, it seems evident that the monetary authority does not seem to have the powers to "put salt on the wings of speculators". But let us go calmly to closely examine the problem that so torments us. First consideration, a clear distinction must be made between inflation, which is the product of the speculative game, and which is an unjust and antisocial instrument that alters the value of the currency, and what we can consider real inflation, which does not depend on the abuse of speculation but from the mistakes that have been made in economic policy by governments. For

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<sup>1</sup> Parte finale di un decreto del municipio di Mylasa (Μύλασσα), in Caria, città ad ovest dell'Anatolia, datato al 209 d.C., rivelando la preoccupazione che la borsa nera dei cambi mettesse in crisi le finanze cittadine

a paradoxical alteration of the reasons that feed the phenomena in question, the inflation that arises from repeated errors of governments in the management of the economy can be controlled - efficiently - by the central banks through the usual mechanism of intervention on the cost of money. On the other hand, it is different if we assume that the increase in prices derives from the trend in international prices (and the relative speculative charge), with reference also to the controversy of politicians on the interest rate increases decided by the European Central Bank, which is also pursuing the American Fed on the rate hike model. Well, in this case the issue concerns the pressure of international prices, in particular of energy, which are on the increase although supply is ample, and demand is slowly decreasing.

Now, part of the reasons, it is quite clear that the increase in interest rates by central banks to counter the rise in prices of primary products (energy and others), seems to have only a secondary effect for the containment of domestic prices 'internal'. The price increase in a community is driven by the runaway movement of international primary prices, which are gradually unloading at the national level. In this case, the rising cost of borrowing can stem the pressure on prices, unfortunately at the cost of a recession due to higher borrowing costs. All the more if the central banks move in harmony, so that the decrease in global demand indirectly induces the partial remission of international costs. With the feeble result that the increase in internal prices is not controlled at all but only reduced the quantities consumed. In short, the interest rate hike strategy has a weak and indirect hold on the event that causes house prices to rise. In other words, it is difficult to believe that, with the increase in the cost of money, it is possible to prosecute and curb the upward trend in domestic prices, which instead respond to the initiative with further domestic increases due to higher financial charges for army credit.

We are certainly not here to criticize the monetary authority, because we must say right now that there is a lack of powers to counter the selfishness of those few who raise a lot of money at the expense of the community due to price tensions and the lower value of currencies. Well, one can remain indifferent in the face of antisocial subjects who subtly alter, sometimes with great force, the transfer of wealth and income from the poor to the rich, leaving a part of the community, even if accustomed to a frugal life, on the verge of poverty and of exclusion.

Well, in the face of this special evil of the unequal distribution of wealth, it seems evident that the monetary authority does not seem to have the powers to "put salt on the wings of speculators". But let us go calmly to closely examine the problem that so torments us. First consideration, a clear distinction must be made between inflation, which is the product of the speculative game, and which is an unjust and antisocial instrument that alters the value of the currency. And what we can consider real inflation, which does not depend on the abuse of speculation but from the mistakes that have been made in economic policy by governments. For a paradoxical alteration of the reasons that feed the phenomena in question, the inflation that arises from repeated errors of governments in the management of the economy can be controlled - efficiently - by the central banks through the usual mechanism of intervention on the cost of money. On the other hand, it is different if we assume that the increase in prices derives from the trend in international interest rates (and the relative speculative charge), but with reference to the controversy of politicians on the interest rate increases decided by the European Central Bank, which is also pursuing the American Fed on the rate hike model. Well, in this case the issue concerns the pressure of international prices, in particular of energy, which are on the increase although supply is ample, and demand is slowly decreasing.

Therefore, the intervention of central banks would be inappropriate as stated by politics in Europe and above all in Italy, pointing to the potential recessionary effect on the economy of the old continent. It is now clear that this can happen. Rising interest rates carry the risk of a worsening economy.

But there is a paradox in this somewhat hasty judgment. It is true that the Central Banks do not have truly decisive intervention powers with respect to the rise in prices induced by the increase in the prices of primary products. On the other hand, politics has limited its intervention to complaints about it. This is a special issue which should be the subject of coordinated interventions at the G7 or G20 level essentially to impose limits on speculation by producers and speculators. How then to cut the nails of speculators? It could be decided by the major countries to impose a global cut in speculative incomes which would hinder in part the paradox which feeds the wealth of producing countries and capital following the ups and downs of speculative prices. In fact, the increase in energy and metal and rare land prices are events that do not create wealth but transfer it from the world's poor to the world's rich. The logic of postponing central banks decisions and omitting global initiatives to curb this unnatural flow of money is a serious omission. On the other hand, it should not be overlooked that the abuse of raising prices beyond reasonable value does not add wealth but only transfers wealth and transfers it in the worst way to the world.

#### **THE DIFFERENT NATURE OF INFLATION: THE CLASSIC ONE AND INFLATION FOR INTERNATIONAL COSTS**

But the main issue - from our point of view - is to begin to define inflation as what we experienced in the 1970s and 1980s with inflation above even the double digits and which prompted the best minds in the economy, but which resisted for twenty years each intervention until the right route has been found to free the economy from the unwelcome guest. Inflation is not a phenomenon linked to the movement of international prices but to an event that arises without clear paternity for serious and repeated errors in the management of the economy, also capable of subverting the trend of the economic cycle which therefore moves into recession. A phenomenon which, if not fought with the right weapons, can last a generation, as happened in the last century, and involve the global economy.

An inflation, therefore, which does not arise in the event of speculative movements but on the contrary due to decisions of the economic system which derails from the classic path (limited and constant growth and less damage to nature). Based on these general indications, it is not easy to understand when and how it emerges. However, it is clear that it is connected to a deviation of the economic system in the management of the economy and must therefore be assimilated without any doubt to a natural mechanism that is produced by natural laws; the same universal laws that govern the universe. This means that the inflation triggered by the laws of the universe is not a disease of the system but rather a cure that is imposed on the management of the economy to facilitate the return of the unstable economy to the classical development model. That is, relying on his actions we would be able to get out of the inflationary movement of the economy. The experience of the seventies and eighties of the last century has accustomed us to the difficult acceleration of prices. Since our governors have not been able to choose the path of treatment proposed by nature (temporary pause) and have insisted on the logic of non-resolving remedies and which have lowered the inflation rate by only a few points - let us also remember that the inflation linked to the laws universal is not stable.

In fact, after a so-called trial period, the classical inflation linked to universal laws is not static but increases according to an acceleration that depends on the growing degree of instability. So, the course of inflation, grappling with the natural engine, tends to increase - as we have said - with an acceleration that varies in relation to the degree of instability of the economy, at the time of the take-off of the inflation-cure. Thus, inflation that is rampant for over twenty years even though the central banks of the individual countries have opposed the progressive increase in interest rates. With an unexpected result of being able only to contain the development of inflation rates, but at the expense of the economy subject to the economic situation and to recession. In short, an endless circle of inflation? No, because the formula has finally been found to successfully restore the economy, but under certain conditions,

It is interesting to note that the formula that solved the global inflation problem of the last century must be applied according to the somewhat dramatic scheme first used by the Federal Reserve of P. Volcker. Well, the United States as, on the other hand, most of the global economies had been suffering from double-digit inflation for twenty years that was difficult to eradicate with the usual increase in interest rates. Volcker decided, in agreement with US President Ronald Regan, to raise interest rates beyond those of inflation, which was marching around 15%. An undoubtedly dramatic measure because it implied the fall into recession of the American economy and therefore the disagreement of companies and the loss of jobs. But the Fed does not let go and the results were obtained and of great value. After two years of recession in the American economy, inflation dropped to 5% in the early 1980s and then fell again to 2% throughout the 1990s. A condition of relative tranquility that allowed the United States to reduce the public debt below 50% and to keep the economic situation up at better levels than in previous decades. The economies of Europe took the same path, such as France and England, which also experienced a period of prosperity in the 1990s.

On the other hand, it is interesting to note that the formula that solved the global inflation problem of the last century must be applied according to the somewhat dramatic scheme first used by the Federal Reserve of P. Volcker. Well, the United States as, on the other hand, most of the global economies had been suffering from double-digit inflation for twenty years that was difficult to eradicate with the usual increase in interest rates. Volcker decided, in agreement with US President Ronald Regan, to raise interest rates beyond those of inflation, which was marching around 15%. An undoubtedly dramatic measure because it implied the fall into recession of the American economy and therefore the disagreement of companies and the loss of jobs. But the Fed did not let go and the results were obtained and of great value. After two years of recession in the American economy, inflation dropped to 5% in the early 1980s and then fell again to 2% throughout the 1990s. A condition of relative tranquility that allowed the United States to reduce the public debt below 50% and to keep the economic situation up at better levels than in previous decades.

European economies that followed the same path, such as France and England, also enjoyed a period of prosperity in the 1990s. Different and punitive for other European economies, including Italy, which believed at the time that it could not follow the Volcker scheme and therefore kept interest rates below the average inflation rate which at the time exceeded 20%. There were fears of cutting the pace of development which had been particularly favorable to Italy in the post-war years. The result was worse than expected. Because inflation has not let up and stayed above 5% throughout the 1990s. In addition, the country's economic

development suffered a decline or rather an immobility that lasted for over twenty years. Why these negative results, especially since the beautiful country was behind a period of strong acceleration of development that lasted about twenty years after the Second World War.

It is certainly no mystery that the persistence of inflation does not admit the presence of maneuvers to support the economy, for the simple and irremovable reason that inflation requires the corrective maneuver of the recession. Only the economic recession, to an extent appropriate to the stamp of inflation, is able to eradicate it, as demonstrated by the courageous choice of FED chairman Volcker. In other words, if the maneuver is mild and the system is not corrected by instability (inflation) it is not possible for the conjuncture cycle to start again. Any attempt to derogate from this inalienable truth is useless,

An essential premise, therefore, is to distinguish the classic inflation created and supported by natural and universal laws with respect to the phenomenon of free exit prices due to the unexpected rise in international prices, oil, wheat, rare earths.... In the second case, the engine of domestic price increases is driven by the relative or otherwise scarcity of raw materials and above all by an unequal dislocation. Conversely, in the case of classical inflation, the price movement is not linked to the market but follows an acceleration which depends on the state of instability of the economy at the time of the birth of the phenomenon. An underlying acceleration, therefore, which drags the increase in prices upwards, which are then held back by monetary policy (higher cost of money). Thus, the phenomenon of classical inflation does not stop but tends to grow under the unchanged pressure of its underlying acceleration. Ergo, monetary policy, by increasing the cost of money, can slow down the primitive upward push of inflation. However, it can block it and arrest the phenomenon only if the cost of money for an adequate time exceeds the rate of increase of nominal prices, so that the economic situation tends to become recessionary. This is Volcker's order. Going back to the theme of prices subject to international tensions, it is clear that in these cases there is no underlying accelerator of classic inflation, nor a cyclical recession that gradually eases pressure on prices. In short, we are in a very different combination that does not react to the recession of the economy or even to the increase in the cost of money. Even the worsening of the economic situation does not affect international tensions because the reduction in consumption does not affect international tensions. It must therefore be considered that monetary policy has no weapons to try to react to the price movement triggered from outside and continues on the line of the maneuver on the cost of money.

Even more strange that, in the face of the weak reaction of prices to monetary measures, a continuation of the maneuver on the cost of money is announced yet to get to grips with the tensions in domestic prices. Yet an increase in the cost of money cannot have any effect directed at international tensions. All wrong? No, despite the contradictions just briefly stated, it must be said that the intervention on the cost of money is indispensable and necessary, at least in the current framework of the global economy crossed by speculative phenomena on the main raw materials. The topic will be taken up again with the attention it deserves immediately afterwards. In the meantime, allow me to continue by opening the chapter on deflation, which is not the opposite of inflation, but inflation that rotates in the opposite direction (it reduces and does not increase with the same universal laws). We cannot call or create an inflation which counteract and annul deflation and obviously not even a deflation which counteract and annul inflation. Why? For the simple and far from trivial reason that we are incapable of putting either

inflation or deflation into play. Both of these motions regulated by the universal laws of matter are manifested in economic activities, when we make mistakes in management that move us away from classical development (constant growth and reduced damage to the environment). They are only apparently opposite, but inflation and deflation are both cures that the natural system gives us to keep the economy in balance and in any case avoid the irreversible fall of the systems.

So, care! Still, they do damage due to price movements and the unequal distribution of wealth that is exacerbated by the prolonged stasis of both monetary anomalies. Well, these mechanisms for protecting our economy are not without penalty, as if to say that a small or large penalty obviously - as for children - is necessary so that we avoid the mistake in the future. Mistakes are made by rulers, who superbly rarely rely on the community to make decisions *cum salis*. Well, the responsibility for the life and survival of future generations falls on the community or, better, on its majority, which is the first to have an intuition about the trend of the economy. In fact, it is the majority who see the change for the worse of the economic situation and thus limit expenses and investments. It is also the majority who sense the wind of recovery and move their resources to support the bouncing cycle. It is therefore useless for the government in charge to take steps to reverse the direction of the economy, which will not change if the majority does not agree. Otherwise, any intervention will be useless (Cossiga, 2023)

These few observations to say that good governance should not decide the course of the economy and the measures to take to return to classical development when the boat of the economy has embarked on inflation or deflation, without having first probed the will of the majority. Not only that but it must work to ensure that alien currents and groups are not created within the majority which alone has the intrinsic characteristics of solidarity and participation. These are the characteristics for which the majority of a community is called to play the role of safeguarding the survival and life of future generations.

### **THE SINGULAR NATURE OF DEFLATION AND TROUBLES IN FINANCIAL MARKET**

As we have said, inflation and deflation are not tools that have different tasks; the essential purpose is common: the cure of an economic system in conditions of imbalance. They are not manufactured at home but take shape in an unstable economic system when the risks increase. It is not clear or certain when the first one appears and when it is instead the turn of deflation. Experience shows that, after the Second World War, the economies in Europe showed a strong acceleration of the march of development, which had run out in the 1960s, thus slowing down the pace. The good *gouvernantes*, in an attempt to maintain the growth rates with support interventions, had the nasty surprise of the appearance of an initial inflation. The attempts not to slow down development - by now exhausted - had the consequence of confirming the monetary anomaly, which would then last for over twenty years and indeed would accelerate the price race in the mid-seventies with the unexpected strong increase in prices of oil. How we got out of it and with what problems we saw it in the previous pages. Now we are interested in the jump from inflation to deflation, which involved the global economy in the 2000s. How and why this leap from inflation to deflation, after a ten-year period of substantial price calm in the 1990s? Nineties in which the global economy experienced a period of sustained growth and prices under control.

A suitable light to clarify this leap in quality. In terms of monetary anomalies, it can come from the events that affected the first decade of the 2000s. Well, in the second half of the first decade of the 2000s, a monstrous speculative wave swelled which then broke out in 2008, dragging the world economy into the fearsome financial crisis of 2008-2010. A period, therefore, almost ten years in which the greatest speculative disturbance of the new century developed and accelerated until it broke out, no less than the devastating one of the Thirties of the last century. Why do we recall this dreaded phase of the world economy? Because deflation, which has repercussions on the entire globe, arises and emerges ever more clearly during this period of formation and finally bursting of the great speculative bubble. Well, we can consider deflation as the cure-remedy that appears when the unnatural conditions are created that favor the improbable hope that values can grow without limit and that we have entered a new, still improbable period of history. This nightmare-hope that enraptures operators and individuals dragged by selfishness and cheap wealth has not found any obstacle even in the defense of central bank, which have underestimated the abnormal development of speculation.

Without intending to illustrate the partly obscure phenomenon, we can meanwhile state that inflation was entered the field when an attempt was made to force the development of the economy with the normal methods of financial policy and with the creation of public debt to support and force development. We have mentioned the case of European countries which have seen inflation rise to maintain the level of growth of the economy, even if it has now exhausted. The case of deflation is different. A natural expedient perhaps more ambiguous and how to say, subtle that is established and spreads when the economy is surprisingly dragged into the ambiguous dream of the development of values without end. An improbable and illogical acrobatics which, during the training phase, however, creates a sort of opiate drowsiness involving operators and companies, since the rising values, included in the speculative carousel, become an irresistible source of attraction. All the stronger and more attractive because they also add the enchanting sirens of deflation. Which works by intoxicating not only speculators, but also ordinary families because the prices of daily shopping tend to decrease, under the pressure of falling prices. In short, an apparently fog that introduces us into an alien world where everything seems possible, but which instead hides the awakening of the rupture of the speculative bubble and the dreadful showdown. It must be added that this almost magical alchemy of attraction is extremely dangerous because we have the impression that things are getting better and not worse.

Now we can ask ourselves why deflation or the magic of endless development that follows the decline in nominal prices are the arduous and dramatic portion of the cure that forms part of the compound envisaged by the laws of nature to put a stop to the sugary atmosphere that leads to decline and despair for many. Well, the answer will always be the same as we have already given when speaking of inflation: to avoid the final catastrophe of economic systems and the economy of living beings. Or to prevent the very survival of humankind from being endangered. The partly unresolved issue is the apparent fog that also can envelop those responsible for financial policy, as we experienced in the 1930s and more recently in the serious speculative bubble that inflated in the first decade of the 2000s. Of course, in the face of these historical turmoil in the global economy the question remains: "At the time of the dreaded global speculative crises, the central banks, after a period of (agreeable) easing, resisted the drift with strenuous tenacity, finally tightening monetary policy." The increase in the cost of money

brought back to reality the imbalance created by speculation and gradually to the bursting of the big bubble.

It is interesting to note that the maddening condition which deprives operators and households of risk sentiment, to the point of inflating the speculative bubble, requires – as we have said and repeated – the strong action of monetary policy which acts on interest rates to raise the money price. A counter-action capable of restoring value to the risk and dismantling the emphasis of bettors who relied largely on credit for adventures on the stock market and in real estate contexts.

It is time to resume the discussion on the intervention of central banks regarding the thesis that the excessive cost of money, especially in Europe, may be the cause of a potential mini recession in the West. Given that the expectation of an imminent short recession is highly problematic, we can say that we are reliving the events we experienced in the first five years of the 2000s, but this time under the protective umbrella of central bank's policy, active in repressing the current trends of the speculative bubbles.

Since 2022 central banks have raised interest rates progressively to stop inflation - not the classic one - but the inflation sparked by the rise in international prices appears dubious in terms of results. Well, there seems to be no doubt that the maneuvers on the prices of energy, rare earths, metals, and wheat are guided by the selfishness of the producers who are joined by speculation in support of prices, which thus rise well beyond the fair exchange value. On the other hand, we must recognize that, with the substrate of a creeping deflation, a favorable climate is being created for tensions, which aim at easy profit and the selfishness of minorities disinterested in the general well-being. That is, we seem to be experiencing an endless repetition of the mirages of never-ending growth and biased (certainly not general) values and well-being.

Having said this premise, it is time to resume the discussion on central bank intervention with respect to the thesis according to which the increase in the cost of money, especially in Europe, could be the cause of a potential mini recession in the West. Given that the expectation of an imminent short recession is highly problematic, we can say that we are reliving the events of the first five years of 2000, but this time under the protective umbrella of central bank policy, active in repressing the new trend of speculative bubbles.

The thesis that since 2022 central banks have raised interest rates - progressively rising to stop inflation - not the classic one, but the inflation sparked by the rise in international prices, appears dubious in terms of results. Well, it seems undoubted that the maneuvers on the prices of energy, rare earths, metals, and wheat are guided by the selfishness of the producers which is accompanied by speculation in support of prices, well beyond the fair exchange value. On the other hand, we recognize that, with the substratum of a tortuous deflation, a recurring climate of tensions is being created, aiming at easy profits and the selfishness of minorities disinterested in the general well-being. That is, an endless repetition of the mirages of endless growth and partisan (certainly not general) values and well-being.

As regards the pressure exerted by the cost of energy and raw materials, as well as grain and basic necessities for poor or very poor populations, there is no doubt that the speculations of

producers - to which bettors are added - prices are driving up. Well, one question! Because in the experience of twenty years ago the so-called speculation of subprime mortgages and junk bond ABS and CDO; the prices of the daily shopping had been controlled, while today they are on the rise. Well, the phenomenon is due to the delay with which the central banks started raising interest rates and consequently the cost of money; a delay that allowed the global spread of speculation on the prices of oil and other raw materials. The current belated but decisive intervention by central banks with the increase in interest rates, albeit gradual, is curbing the creeping deflation<sup>2</sup> and is putting salt on the tail of the horde of speculators against the well-being and survival of the poorest populations. It is not surprising that international price inflation may share with a creeping or less deflationary trend. Why do we ask us? Can they share inflation and deflation together? Well, no, if we are dealing with classic inflation and classic deflation, that is, which derive from errors in the management of the economy and therefore require the intervention of the recession to control the price trend. I would add that both classic inflation and deflation, are treatments to amortize and contain the damages that the management of the economy is producing. In this case, it is absolutely not possible that the two different opposite reactions to the imbalances in the economy can share, because the two medicines, instead of treating the symptoms of disease would cancel each other out. Hypothesis that contrasts from a logical point of view, but above all with respect to the regularity and accuracy of the universal laws that we have said are the basis of the classic intervention in the matter of monetary anomalies.

Well, what is denied in the event that the economic system is being treated for inflation (or deflation), i.e., the concomitant presence of one and the other, is obviously entirely possible when it is not a question of a cure (Inflation) for the economic system, but the effects of an increase in the prices of raw and rare materials. In this hypothesis, the two currents, so to speak, which feed the price reaction can be cumulate. With what results? That prices are subject to a double force, i.e., deflation which pushes values downwards, even of daily products and, conversely, upward pressure due to the increase in international prices. At that moment we observe a slight decline in domestic prices, which unlike the prevailing opinion does not depend on the increase in the cost of money decided by central banks. Rather from the drop in international prices subjected to the increase in the cost of money, which then weighs less on daily spending; even if the drop in the prices of energy and rare raw materials is weak due to pockets of speculation which continue to emphasize the rise in daily prices.

### **THE AMBIGUOUS DREAM OF THE DEVELOPMENT OF VALUES WITHOUT END**

We can doubt that the upward maneuver in the cost of money can affect consumer prices, at least directly. Instead, it has an important indirect effect because the increase in the cost of money places lead in the pockets of operators who turn to non-credit cheaper to support speculative maneuvers. If anything, we have to complain that the central banks have responded late and gradually to the financial maneuver. The idea that unspecified inflation can always be controlled by money-cost maneuvering is a potential fallacy. Why?

As we have said, it is necessary to evaluate the reasons supporting the increase in the cost of living. If it is due to classical inflation, i.e., the cure of the system for path errors in the

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<sup>2</sup> We consider that the improvement in the economic situation - especially in the western area - has the coexisting effect of loosening the grip of deflation, with the paradoxical effect of making daily pressures rise

management of the economy, the decisive maneuver to raise interest rates is welcome and with diligence - in the manner of Volcker. Indeed, in this case the natural cure prescribes a downturn in the economic system to beat the accelerating upward strain of inflated prices. Otherwise, in the case of creeping deflation (creeping because little felt) and combined inflation from international prices, the two sisters (deflation and inflation) can coexist. In this case the economy has fallen into the sub-world of instability and the cure cannot be a simple adjustment of interest rates. Now it is not clear whether the tendency towards deflation is the status on which the characteristic tension of opiate speculation is then established. Or if, on the contrary, the cause that brings out the deflation of the currency is the widespread sensation of the great potential of some asset and the singular sensation that finally leads to the speculative bubble and its inexorable bursting.

But let us go slowly. Basically, in recent years it seems that the sequence we have already experienced in the first decade of the 2000s is being repeated with the formation of a speculative bubble in stock market values and equity assets. A sequence that is also characterized by the simultaneous presence of deflation in the economy. A double condemnation that sees the progressive separation of stock market and equity values from market values, i.e., the financial market evades the essential task of supporting and nourishing the real economy and is dragged along by the sugary and sibylline upward growth of financial values, without support for the economy. Unfortunately, the prospect is a recurring speculative bubble that could lead to an absurd repetition of the crisis of the years 2008-2010 at a global level.

An ambiguous and particularly efficient circuit between deflation which induces central banks to reduce the cost of money in order to continue the course within deflated prices. And at the same time, the presence of cheap credit on the market attracts speculators who resort to it increasingly, thus fueling the off-market values of the stock exchange and of equity assets. A status quo to the advantage of speculators and which subtracts resources from the real economy, which therefore tends to contract.

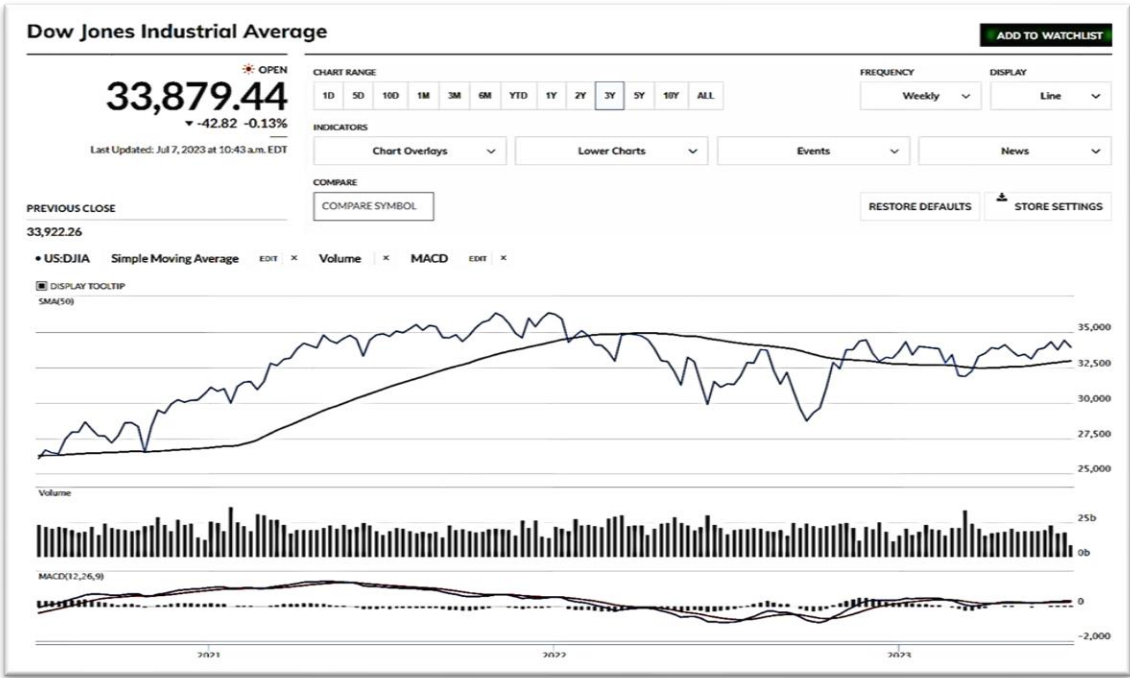


**Figure 1**  
Source: Market Watch

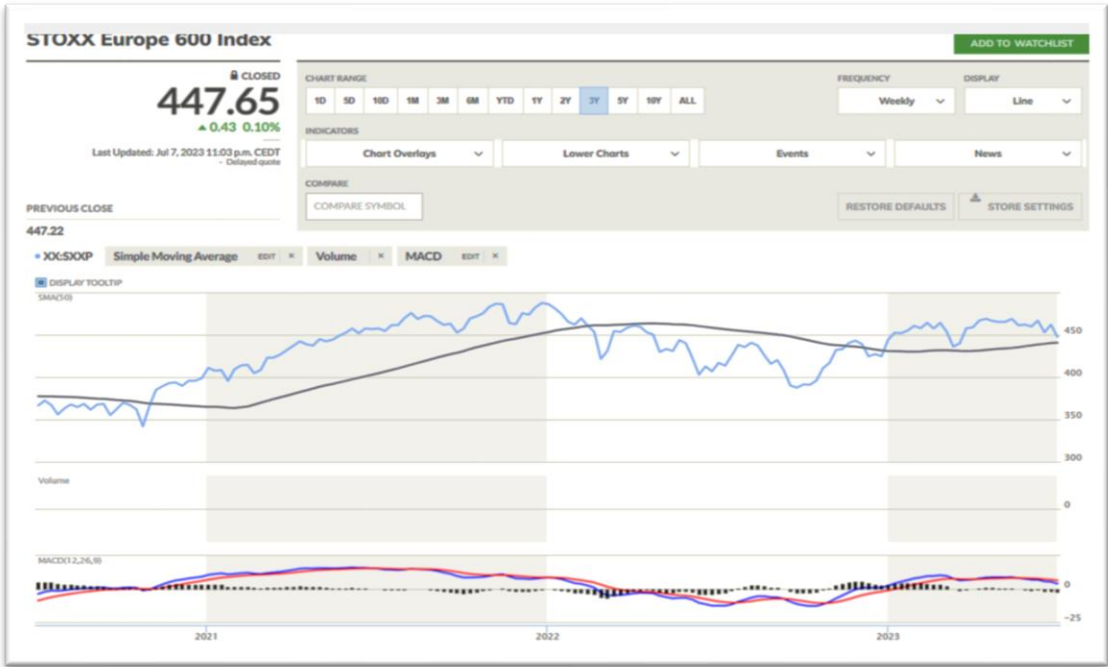


**Figure 2: Stock Europe 800 trend 2020 2023**  
Source: MarketWatch

It is understood that, if creeping deflation absorbs the rise in domestic prices to a greater or lesser extent due to the pressure of international prices, a state of apparent balanced condition is created for household purchases and even more attractive for speculation.

In Figures 1 and 2, we can observe the trends in the three-year period 2020-2023 of the main US Stock Exchange and the Stock Europe 600 which show an almost compliant trend of the main Western Stock Exchanges: as can be observed, the trend is the search for new highs in a continuous ups and downs of values. The performance of the main Chinese Stock Exchange (Shanghai Composite Index) is similar, indicating that the trend towards deflation is now global, investing all the main economies in the various continents. Apart from this synchronicity, from our point of view it is interesting to observe that in the spring of 2020 when the world was grappling with the COVID epidemic, the two price lists reached new highs. Then the continuous upward trend was interrupted by the collapse in the meantime of the global economy, knocked out by the spread of the epidemic and the blockage of economic activity. Of course, that is not enough. In the following months (we are still under the squeeze imposed by the epidemic) the upward tension in values resumed and continued throughout the following year. Until it suffered a new decline, this time due to the initiative, late but still decisive, of monetary policy. The important central banks have finally given a hand to monetary policy by gradually raising the cost of money and thus limiting credit to speculation, which has slowed down coinciding with the successive rounds of interest rate adjustments.

### **THE CHANGE IN THE SCENARIO DUE TO THE PROGRESSIVE TIGHTENING IMPOSED BY THE MAIN CENTRAL BANKS**

That said, it is clear that we should find a correlation between the cost of money and the performance of stock and asset markets during the 2000s. So that the trend towards monetary deflation in the West may correspond to monetary policy decisions that they reduce interest rates to follow the downward trend of money (deflation). Likewise, a sharp rise in stock prices should be observed in line with the fall in the cost of credit and, at the same time, a rapid drop in stock prices in conjunction with the increase in the cost of credit decided by the central banks. Figure 3 (ECG rates 2000-2023) is particularly eloquent in delineating the steps we have indicated. The great real estate speculation of the second five-year period of 2000 is marked by the cost of money. In this period, residential real estate speculation is impressive and extends globally, up to the bursting of the speculative bubble. Followed by the serious financial crisis which requires that the cost of money be at historic lows to recover the economy from the hyper-recession that followed the bursting of the speculative bubble. Again, with reference to figures 3, it can be noted that precisely during the formation of the large speculative bubble in the early 2000s, monetary policy opted for a rapid decline in interest rates which then remained at historic lows until 2006, when the increase in the cost of money had the decisive effect of bursting the speculative bubble, changing the scenario of easy credit.

That there may be a correlation between the cost of credit (towards the minimum) and the unjustified upward tension in financial values can be ascertained by observing figure 3 which shows the stock market performance of banks and non-financial companies in the Euro area and USA. Throughout 2021 there is a bull run on stock exchanges on both sides of the Atlantic whose only justification is the cost of money, low if not close to zero, while the global economy is collapsing under the formidable blows of the Covid epidemic, which occurs with Italy in early 2021 and spreads globally. 2012 is therefore a "terribilis" year for the real economy which suffers from the blockage of activity for health reasons that cannot be postponed. Yet, as seen in Figure 5, stock markets are emphatic, while a sudden and more reflexive decline only occurs in 2022, when central banks will finally act, albeit gradually, by raising interest rates on both sides of the Atlantic

The change in the scenario due to the progressive tightening imposed by the main central banks with the tightening of interest rates not only reverberates on the climate of the Stock Exchanges and assets, which coincide with a drop in values but also with an unexpected increase in inflation on Western markets. Therefore, the stock market price front falls while the cost of household genres rises. We have already said that inflation and deflation are not sisters who can live together. For a seemingly paradoxical reason, deflation is losing its edge as inflation rises. Yet, there is an unexpected reaction between the two phenomena. Let us remember that the current inflation is due to the cost of rising international prices and not to classic inflation, which is instead the cure for the unbalanced economic system. The question we ask ourselves: why so much inflation virulence - insensitive to the bites of the rising cost of money - while the cost of energy is declining, which was a primary factor in the rise of inflation? The singular stickiness of daily prices to respond downwards, for the aforementioned reasons (above all the rising cost of money), is linked to deflation which loses weight in coincidence with the economic situation recovering. No surprise because deflation is a dangerous addendum linked to the severe imbalance of the economy. The clear recovery of the economy, which is taking shape in Europe and America, is the factor that contains deflation.

In this scenario of declining deflation and active cost inflation, the usual upward money-cost monetary policy has little influence on the fate of commodity inflation, while it has a powerful influence on speculation which is the real engine of inflation. driven by the cost of energy, rare earths, and cereals.

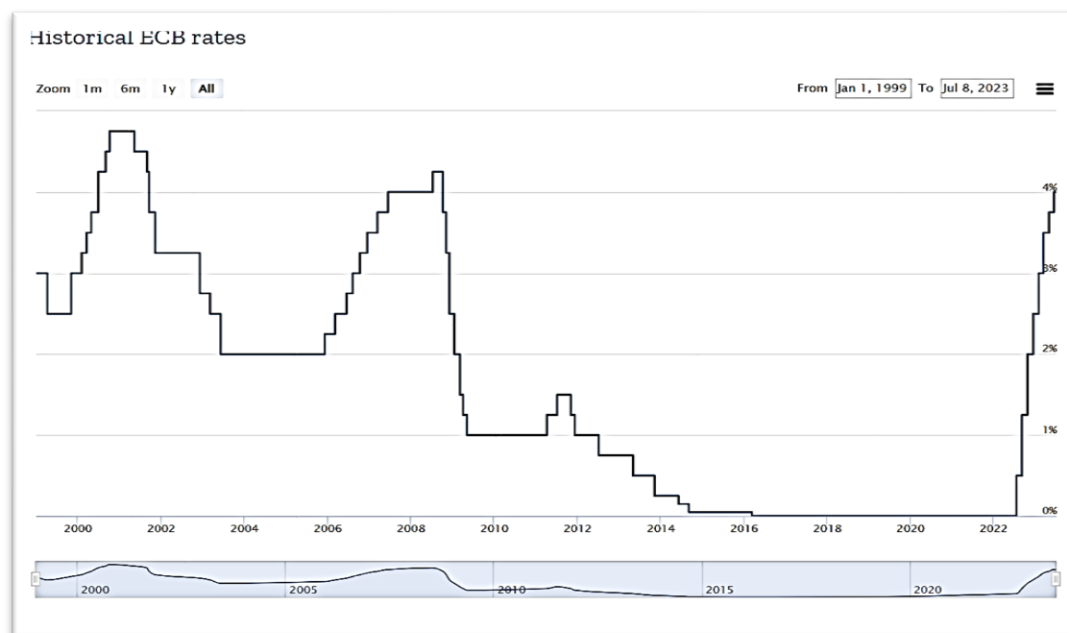


**Figure 3: Historical ECB interest rates from 2000 to 2023**

Source: Bulletin 2022 BCE



**Figure 4: Trend of Banks and non-financial societies Euro and US 2021 - 2022**

Source: Bulletin 2022 BCE

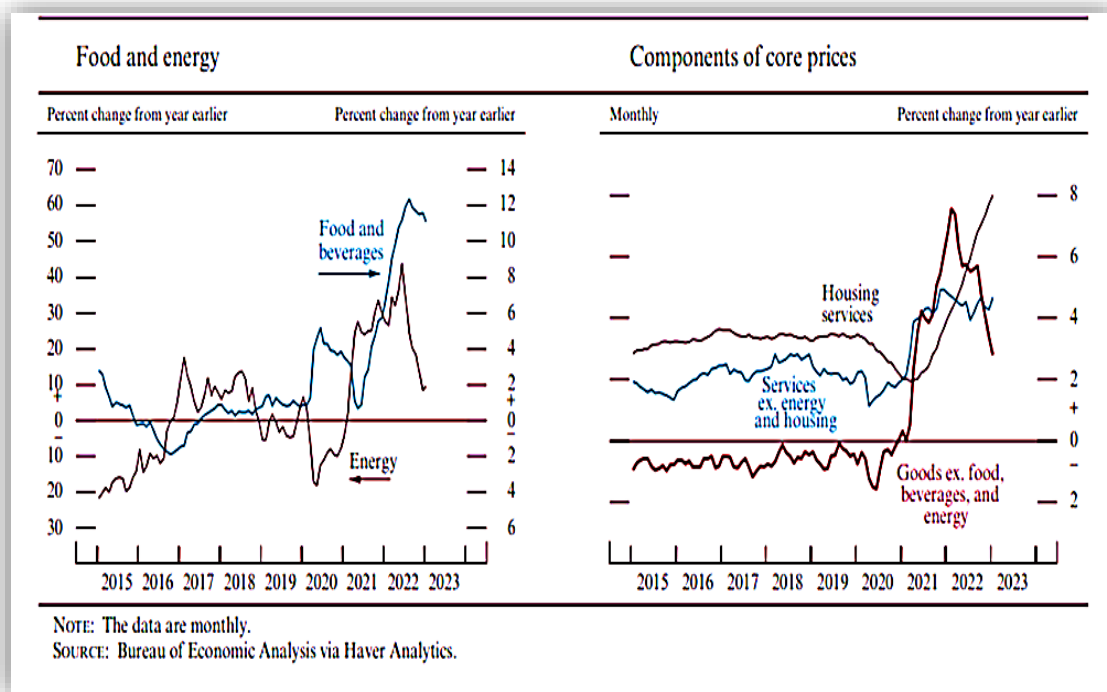


**Figure 5: Food and energy - Components Core Prices in US from 2015-2023**

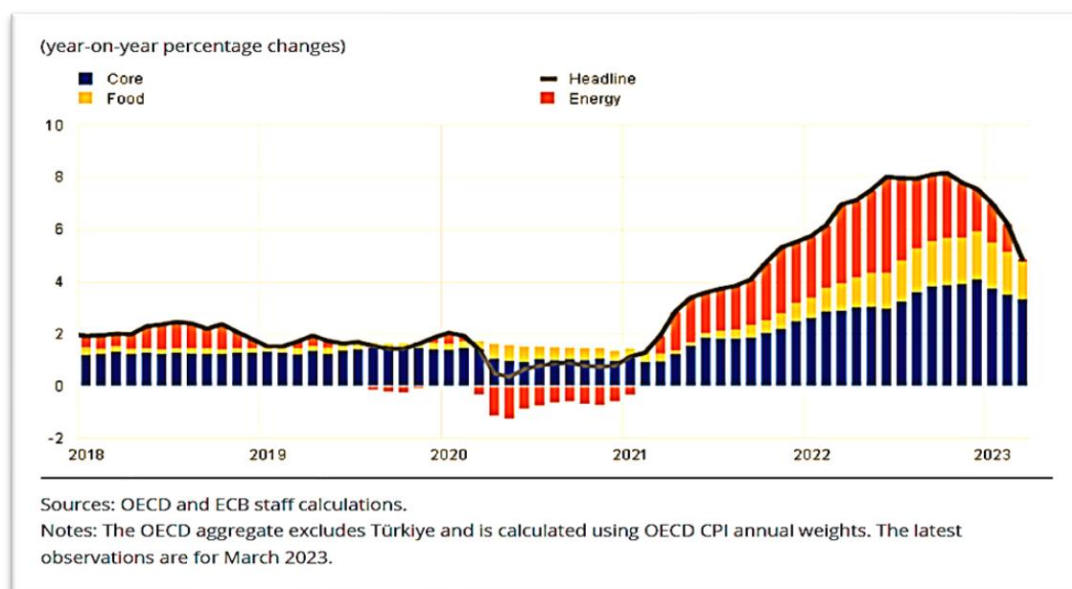


**Figure 6: Consumer prices inflation in OECD – 2018-2023**

### CONCLUSION

We have placed the emphasis on the singular anomaly that unjustifiably drags the value of stock exchanges and real estate assets upwards. Not only. It is a recurring phenomenon that has marked the world economy with the widespread unheard-of speculation of the first decade of the 2000s and which continues to envelop the singular canvas with the growth of values. Except then undergo a periodic halt coinciding with the seriousness of the stop of the economy coping with the globally spreading COVID outbreak. Now, it is strange that such devastating and almost global phenomena can not only occur but also be justified by a general disturbance that catches businesses and families in the pursuit of a well-being that can spread to all social strata including the poorest. It is said that the door attendant of the building where Keynes lived in 1929 told him that he had also gained on the stock market the day before. Surprised that the Stock Market game could also affect categories far from the mysteries of finance, the great economist decided to sell all the shares he owned just a few days before the great crash (the famous Black Friday, October 24, 1929). Well, not all stories, like this one, with a happy conclusion are trivial but can instead contain an echo of what could happen in the near future. In fact, the widespread character that at the time involved even poor families in the Stock Market game is surprising. Why? It is surprising that even the common people to whom we entrust - with the majority of the community - the task of the survival of humanity can participate in the game. It is astonishing that the part of humanity less sensitive to the lure of wealth and selfishness can be partially involved in the race that led to the catastrophe of the 1930s. Why do I wonder, this phenomenon that does not find justification?

How to justify that such a highly recurring phenomenon involves not only the network of speculators but also the man in the street, generally exempt from the abuse of risk? We have tried to find a justification with the call for the inexorable correction that always inexorably follows after the opiate and enticing panorama of widespread speculation has rarefied and we return to the correct assessment of risk and the gradual fall of values that have risen well beyond the good assessment.

This justification, however, is weak because as the proverb says: "He who climbs too high, often falls very precipitously". Therefore, because we are witnessing - in spite of everything - the phenomenon of recurring speculative pressure that is borderline unacceptable and perhaps the participation of fringes of the common people in this exceptional condition. One could hypothesize that the appearance in the sky of the global economy of the unexpected vision of an endless development is not an end in itself. But it could be a sort of foretelling of a near future that the economy will tend to change. Because, when a part of the economic universe has finally achieved total neutrality towards nature, we will witness an acceleration of research and science and, with it, a sustained acceleration of development at least for the provinces that will have achieved neutrality with the environment. A new cycle for humanity no longer grappling with the economy of scarcity but the opposite with the economy of surplus. A paradigm shift that will make poverty disappear and social classes themselves will be a thing of the past-Not everything will be rose-colored because part of humanity is quite far from this goal and a discrepancy will be created between land areas. Which, however, could be partly separated from the transfer of part of the surpluses to areas that still move in the world of scarcity.

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