

## **The Economics of Systemic Disorder: Roots of and Remedies for Unsustainable Monetary Imbalances**

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### **I. Introduction**

Even admitting that economics is being more financialized over time, as financial problems with specific regard to banks, firms and several other private and/or public institutions become growingly significant, a structural analysis of crises cannot exclude a macroeconomic-monetary approach, which aims at analyzing current issues from a purely macroeconomic perspective with a strong accent on money and its role in crises. Thus, side by side with economic agents' doing, opportunities, expectations and uncertainties, there are economic principles, whose disregard leads to profound economics crises. If the international economic order does not comply with its macroeconomic nature, then every anti-cyclical policy measure will fail. Rightly, "economic theory has, since the year dot, focused on formulating laws out of economic events. In successive periods influenced by Rousseau and his jusnaturalistic doctrine, such economic laws have commonly been identified with 'laws of nature'. [...] This is what was meant by it: in the same way as the laws of purely natural events are valid in an immutable sequence, independently of human will and character, we should likewise be able to identify several laws in economic life against which the human will (no matter, if it is the powerful will of the State) has no power. They meant that – even with the artificial intervention of social forces – the flow of economic events cannot stray from certain paths, which must be followed under the imperious and constrictive power of economic laws. In other words, (this flow) cannot escape the laws of economics." (*Böhm-Bawerk* (1914) own translation) Now, because of the tremendous mismatch between the current economic order and a system complying with some basic (though inescapable) monetary laws, violent crises have become more recurrent and destabilizing. Therefore, the debate on the overdue reform of the so called inter-

national payments system, which defines how the international monetary system works and also answers to questions like ‘which currencies are internationally used to carry out payments?’ or ‘how do clearing and settlement operate at the international stage?’, has been object of discussion by great economists of the like of John Maynard *Keynes* (1936/1946), Robert *Triffin* (1968) or Hans O. *Schmitt* (1974) and is rapidly regaining relevance.

In order to highlight some major faults in the current monetary order, we adopt a particular innovative approach based on Quantum Macroeconomics. But why should this peculiar approach be of any significance for the analysis of global monetary imbalances or the internationalization of the economic order (f.i. through the issue of an international currency unit)? Precisely, because it combines a systematical macroeconomic approach combined with insights from modern banking theories (i.e. the present) and profound knowledge of the history of economic thought (i.e. the past), to avoid recurrent mistakes and suggest adequate solutions for incumbent challenges. The paper is also a pioneering work, because it opts for a new methodological research approach in association with theoretical as well as practical evidence. Hence, after having analyzed some major faults of the international economic order leading to imbalances, we will turn our attention to the Euro Area case, whose monetary instability is a direct (though very peculiar and unexplored) consequence of the structural weakness affecting the current state of economic (dis)order.

## **II. The Direct Link Between Monetary Macroeconomics and the Source of All Crises**

According to the Quantum theoretical approach developed more than two decades ago by French and Swiss economists Bernard *Schmitt* and Alvaro *Cencini*, as long as economics refuses to see the difference between three main concepts like ‘money’ and ‘income’ (secondarily, also ‘capital’) and their monetary implications, nothing can significantly change. Following their research findings, money:

- does not have any intrinsic (positive) worth;
- measures the physical result of human labour;
- is a pure medium of exchange and definitely not the payment’s object.

In turn, income is the economic result, i.e. the positive “worth” of human physical production. Furthermore, income is measured by money

units through the salary payments at the end of a given period of time: as a result, wages have a positive “worth” due to its real content (goods/services), which are thus the very object of money income. Therefore, monetary units are not assets spontaneously created by banks and/or Government. They only express numerically the economic “worth” of physical goods and services. To be more precise, to a statistician ‘our’ concept of income would not appear particularly common: thus, “income, as it is generally understood in economics, is theoretically defined as the maximum amount that a household, or other unit, can consume without reducing its real net worth.” (OECD (2012)) Be it as it may, what we mean by the implied definition of ‘income’ coincides with the general, commonplace concept of ‘Gross Domestic Product’ (GDP), which measures every Nation’s economic product – i.e. the physical output of human labour expressed in money units. For instance, if we accept the above described definitions and their implications, the conventional terminological distinction between ‘broad money’ and ‘narrow money’ becomes worthless, since every single money unit is still perfectly coherent with the only definition of ‘narrow money’, as a simple medium of exchange. In turn, ‘broad money’ cannot be constitutive of any bank deposit, because:

- it is the numerical expression of physical production
- and every single unit of GDP is – obviously enough – deposited in the national banking system.

If this is true, what need is there to distinguish between a ‘narrow’ and a ‘broad’ kind of money units? None.

Hence, in our analysis, ‘income’ essentially is not only the economic product of men’s work, but also the countervalue given up in order to buy any good/service – indeed, no payment can be completed, or finalized, in the sense of the Bank for International Settlements (BIS) by simply ceding money units. Logic requires that economists should be aware of the fact that “bank money is a means of payment and not a net asset (bank money is an object of mediation and not a final product).” (Schmitt (1988), p. 173, own translation) In Bernard *Schmitt’s* words, “the first law of monetary science – i.e. the counting of the (physical) product by means of a national currency – should be extended to the international economy. [...] The supranational money unit is the numéraire or the principle behind the act of enumerating national currency units, which sets the unit of measurement for counting products. Two logical fallacies must be avoided at all costs: (1) The international accounting unit entails a pur-

chasing power; (2) The international numéraire is an economic value to be set.” (*Schmitt* (1975), p. 34, own translation) In principle, the most evident sources of pathological misconception underlying the existing international payments system are represented by:

- the absence of an international currency to be used in transactions between residents of different countries, but certainly not as a common global money unit (i.e. no global monetary union would result from it). For instance, Special Drawing Rights (SDR) could become – if duly converted – a ‘neutral’ payments vehicle, which would not anymore add up in a net-asset-like way to the world monetary basis as it has happened until now;
- the absence of an institution – it could be the IMF itself operating like a ‘Central Bank of Central Banks’, which would issue the medium of exchange mentioned earlier while ensuring ‘payment completion’ at the international level.

The core elements to understand these last statements are based on argumentations that are very similar to that of French economist Jacques Rueff: hence, “under this system, central banks are authorized to include in their reserves not only gold and claims denominated in the national currency, but also foreign exchange. The latter, although entered as assets of the central bank which owns it, naturally remains deposited in the country of origin. The use of such a mechanism has the considerable drawback of damping the effects of international capital movements in the financial markets that they affect. For example, funds flowing out of (country A) into (country B) increase by a corresponding amount the money supply in the receiving market, without reducing in any way the money supply in their market of origin.” (*Rueff* (1971), pp. 16–17) Undoubtedly, the reform of the international monetary order will redistribute resources from ‘richer’ to ‘poorer’ nations, since no country (no matter how powerful) will be entitled to settle their international transactions by simply handing over their promise of payment (i.e. national money). Dubbed ‘exorbitant privilege’, the phenomenon characterizes the US Dollar (but also other key currencies like the Yen and Euro), and will also come to an end. Thus, “by accepting money market liabilities (of key currency countries) in payment for their surpluses, the monetary systems of other countries finance these deficits through increased issues of their own money supply (currency notes) at the risk, of course, of accelerating their domestic price inflation. They let – to speak crudely – the United States (among other countries) run their own ‘money printing presses’ to

finance its deficits: what President de Gaulle called, quite correctly, ‘an exorbitant privilege’.” (Triffin (1985), p. 25)

### III. Reforming the System of International Payments

Oddly enough, there has been a plethora of early proposals for reforming the international monetary system (Bénassy-Quéré et al. (2011); Beretta (2011), (2012a), (2012b) and (2012c); Caliari (2011); Lin et al. (2012); Xiaochuan (2011)). Yet, although politicians and economists have repeatedly pleaded for a radical change in the global monetary system, i.e. the functioning of the international world economy, nothing has happened. There seems to be no doubt that speculative operations by funds, banks, investors etc. are a consequence of today’s non-system, not its origin. The latter is in turn represented by the pathological characteristics of the international monetary system stemming from the Genoa Conference (10 April–19 May 1922). It could hardly be otherwise, since the existing economic order, brought forth by the Bretton Woods Conference (1–22 July 1944), is the result of a cumulative decisional process.

Now, since the premises of current economic imbalances reach back to the last century, it is necessary to re-discover some bibliographic contributions containing still valid findings and proposals. Combined with the Quantum theoretical methodology we are now able to analyze the remedies for unsustainable monetary disequilibria. Let us therefore briefly define the core elements of the desired reform of the international payments system.

#### *1. The International Monetary Fund as a ‘Central Bank of Central Banks’*

As mentioned before, such a banking institution would be a *conditio sine qua non* in the renewed global economic structure. Why so? Of course, because of the necessity to (1) ensure the final clearing of every international (commercial and financial) transaction, as it is a commonly accepted standard in the national arena; (2) systematically monitor the evolving economic situation worldwide; and (3) guarantee the financial intermediation between net credits of ‘surplus countries’ and net debits of ‘deficit Nations’ under the supervision of such an international central banking institution.

## 2. *The International Money Unit*

The currency envisaged would be issued by the aforementioned ‘Central Bank of Central Banks’ and would have no intrinsic value. Thus, it would be a standard unit of measurement – like every single money unit nationally and globally –, in which international transactions would be expressed. From a merely *microeconomic* point of view, nothing would change in the daily lives of people, who would continue to pay for their international transactions in their national currency. However, the differences at the *macroeconomic* level would be significant. In this regard, there would be no more practical distinction in the payment process between so-called key-currency nations (i.e. the United States of America, the Eurozone, Japan, the United Kingdom): “in a recent article on Bretton Woods (Professor Williams) defines key currencies as ‘those which are used as international means of payment.’ One cannot be sure whether the currencies are of key significance because of the importance of the country in world trade, or because the currency is used as a means of making international payments.” (*Mikesell* (1945), pp. 567–568) as opposed to the majority of the remaining countries, which are currently obliged to settle their foreign (commercial/financial) payments by handing over a corresponding amount of ‘strong’ currencies (i.e. US Dollar, Euro, Yen). As a consequence of the current status of affairs, “permitting the continuation of a key or strong currency regime for cross-border transactions tends to perpetuate the export-led growth paradigm by requiring the majority of countries to shape their economies to censure that they can earn – or borrow – key currencies to conduct external trade and investment transactions. It also requires the key currency country to import more than it exports to meet the demand for its currency and to accept the resulting current account deficits and build-up in debt. The global economy can only regain balance if every country is able to use its own currency, backed by the wealth created within its own borders to participate in the global economy.” (*D’Arista* (2006), pp. 137–138) In this specific regard, it is common knowledge that the history of economic thought is punctuated by several proposals of reform of the international monetary system, which are definitely more complex and articulated than the ‘modern’ ones. For example, the International Financial Conference in Brussels (1920) brought together an enlightened think tank on the world monetary reform, where economists of note presented their innovative plans. Add to this that some contemporary scholars think that John Maynard *Keynes*’ famous proposal to establish an International Clearing Union

(ICU) was based on German earlier reform concepts (see *Lücke* (1985), p. 65), which seems to be (at least in part) confirmed by *Keynes'* admission that “the particular proposals set forth below lay no claim to originality.” (*Keynes* (1943) in: (*Horsefield*) (1969)).

### 3. Eurocurrencies as ‘Raw Material’ for Speculation

“The system, as *Jacques Rueff* would have said, permits ‘demand without supply.’ Whether it be for commercial or financial transactions, the USA (but also every ‘key currency’ country) pays its international creditors by handing over dollars (more generally, their local ‘strong’ currency), dollars it itself issues or which the international banking system creates for it. In this system, instead of settlement being made by the transfer of ‘supranational’ means of payment, which could result in a reduction in the quantity of means of payment in circulation in the USA, the central banks of countries having overall surplus balances lend to the American financial system the dollars received by their nationals. These dollars are in fact instantaneously recycled to the USA by the central banks which accept them as international reserves. At the same time, they act as the basis for domestic monetary creation in the countries receiving them (*Rueff*, 1989). In our system of nonconvertible paper currency, where money returns to the USA and leaves it at the same time, where the dollar is used as a counterpart for money creation at the periphery of the system without any equivalent reduction in the stock of means of payment in circulation at the center.” (*Bartholon* (2003), pp. 297–298)

The above quotation is particularly eye-opening: it helps us pin down the discrepancy between ‘key currency’ nations and ‘weak’ currency countries. Thus, the former are entitled to ‘pay’ by handing over their debt recognition or IOUs (‘claims on bank deposits’) – therefore, only in *nominal* terms. The latter, on the other hand, have to settle their foreign operations in real terms, which means that they have to provide the external economic agent with goods and services or, in case of a current account deficit in their balance of payments, financial claims (i.e. the entitlement to *real* (future) resources). As we have seen, the pathological duplication of the international credit pyramid (determined by the system itself) is due to the fact that (1) the original bank deposit (although signed over to the foreigner benefiter) naturally remains in the country of origin and continues to be domestically lent; (2) while the claim on it is firstly registered and secondly monetized in the receiving Nation, which

nowadays leads to a duplication of the total international credit pyramid. Thus, “under that standard the external deficit of the United States is settled in dollars which foreign central banks hold in New York. Thus, the debtor country received back the amount of its settlement on the very same day that such settlement was made. To this extent, there was no contraction in its purchasing power ...” (*Salant* (1968), p. 580) and: “at the same time, these amounts in foreign currency against which the creditor country has created money are reinvested in the market of the debtor country. Thus everything happens as if these amounts had never left the debtor country.” (*Rueff* (1971), p. 26)

Banking System of the Importing (Key Currency) Country (Kc BS)			
Assets		Liabilities	
Commercial importers	x Kc	Banking system of the exporting country	x Kc

Banking System of the Exporting (Non-Key Currency) Country (N-kc BS)			
Assets		Liabilities	
Banking system of the importing country	x Kc	Commercial exporters	x N-Kc

*Figure 1: The ‘Boomerang Mechanism’ Attached to Key Currencies Resulting in International Monetary Imbalances*

As Figure 1 evidently enough shows, the first accounting entry represents the payment of net commercial imports by the economic subjects of an hypothetical key currency country (Kc BS). Obviously enough, this transaction is denominated in local ‘strong’ currency (Kc). On the other hand, the banking system of the exporting (non-key currency) country (N-kc BS) simultaneously receives the same amount of claims on bank deposits (x Kc) and issues a corresponding sum of local money units (x N-Kc) to the benefit of the commercial exporters. Now, it is pretty manifest that the initial amount of x Kc has undergone an inflationary (and fully pathological) duplication: on the one hand, these internal resources (x Kc) have remained deposited in the banking system of the importing (key currency) country (Kc BS), although their legal owner has become the banking system of the exporting (non-key currency) country

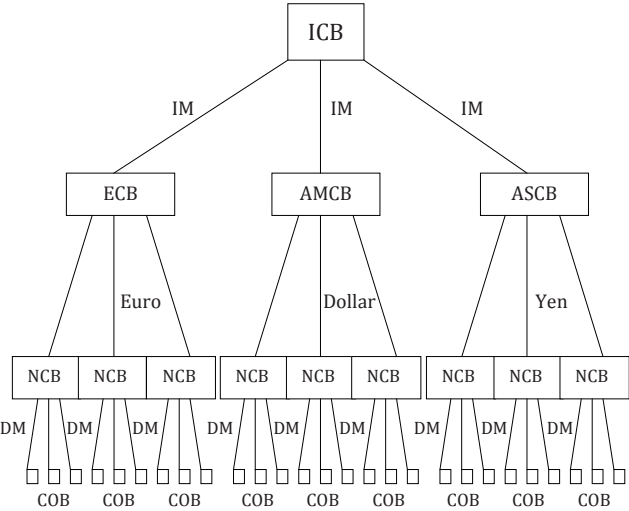


(N-kc BS), which has registered the claim on this foreign bank deposit in its international reserves. On the other hand, commercial exporters have been credited of the corresponding amount in national money units ( $x N-kc$ ). As a result, the international credit base is now (inflationary) twice as high as before ( $= x Kc + x N-Kc$ ) and is constituted by the initial bank deposit ( $x Kc$ ) owned by the creditor country's banking system and the respective amount in national money units ( $x N-Kc$ ) at the disposal of the commercial exporters.

It is worth pointing out that this 'boomerang mechanism' has *macro*- (i.e. structural) and not *microeconomic* roots (i.e. depending on investor behaviour): bank deposits denominated in any money unit cannot leave the banking system of any country unless in the form of claims on bank deposits, which are entitlements on the income remaining in the Nation of provenance. Evidently, there is a substantial difference between obtaining a bank deposit, which is possible only at the national level or, more precisely, within the same banking system, and being 'credited' with the right to withdraw savings from the bank deposit left in the original banking system. Hard to believe that "in the year (2012) there are still economists believing in the physical nature of money. Modern banking, e-money and speculative financial transactions are a clear proof of the substantial dematerialization of money. How is it possible to claim that a simple, numerical means of exchange can be transformed into an object of exchange? If it is true, as shown by *Rueff* and definitively confirmed by the double-entry book-keeping, that national currencies may enter a foreign banking system only as mere duplicates, how can it be maintained that, once abroad, national currencies are transformed into a stock of autonomous monetary assets?" (*Cencini* (2001), pp. 12–13) Other scholars besides Quantum macroeconomists have also recognized the intrinsic inflationary potential of 'Euro currencies': "by accepting money market liabilities in payment for their surpluses, the monetary systems of other countries finance these deficits through increased issues of their own money supply (currency notes and bank deposits) at the risk, of course, of accelerating their domestic price inflation." (*Triffin* (1985), p. 25) or: "It causes any capital from key-currency countries to generate an increase in purchasing power, which is in no way associated with an increase in the value of goods that can be purchased." (*Rueff* (1971), p. 37).

4. *The Euro and the European Central Bank (ECB)  
in the Reformed Monetary System*

What consequences would there be for the Eurozone and its currency if such a reform were implemented? Without going into the current debt crisis affecting some European countries and the structural flaws of the Euro as a common currency for 17 different Nations, the European Central Bank (ECB) would nonetheless be part of the new international payments system, which would have a pyramidal structure (Figure 2).



Source: Cencini (2005)

Figure 2: *The Coexistence of Continental Central Banks, National Central Banks and the “Central Bank of Central Banks”*

As we will analyze in the next pages, there can be a perfectly compatible co-existence between:

- National Central Banks (NCB), which would issue together with the affiliated Commercial Banks (COB) the domestic money unit (DM);
- Continental Central Banks like the European Central Bank (ECB) and the eventual American Central Bank (AMCB) and Asian Central Bank (ASCB), which would also issue their own currency unit (respectively, the Euro, US Dollar and Yen);
- the International Central Bank (ICB) alias International Monetary Fund (IMF), which represents the “Central Bank of Central Banks” and

would be responsible for issuing the international money unit (IM) to settle commercial/transactions between residents of different countries.

The configuration described would also comprise different levels of banking institutions and currencies: 'Central Bank of Central Banks' (→ Stage 1), Continental Central Banks (i.e. European Central Bank) (→ Stage 2), National Central Banks (→ Stage 3), National Secondary Banks (→ Stage 4). As a result, there would be no competition between the Euro as a continental currency and the international means of payment of the 'Central Bank of Central Banks', which is positioned at a higher level and would be used by the National Central Banks to settle the international commercial/financial operations of their residents. In other words, we should stop thinking *dichotomously* of the Euro as opposed to national currencies. In the contrary, the new European monetary order would be based not only on the Euro as a continental payments vehicle, but also on national currencies subsisting no dilemma between having both. Interestingly, the majority of modern economists (not to mention politicians) are not aware of the larger part of anomalous characteristics of the actual non-system. Therefore, these experts tend to stubbornly suggest contingent reform proposals mostly based on (restrictive) fiscal and/or household related measures (for example: 3 % deficit cap compared to GDP; 'Tobin tax' for financial transactions; generalized VAT increase), although the nature of the crisis is principally macroeconomic (i.e. structural). But why should the new pyramidal structure (Figure 2) be characterized by three levels? For sure, there is no binding necessity to found other Continental Central Banks like the American Central Bank (AMCB) acting as intermediaries between National Central Banks (NCB) and the International Central Bank (ICB), but this improvement could be for sure a valid intermediate, i.e. regional, step towards the extended reformulation of the International Monetary Fund (IMF) and the creation of a corresponding international money unit (IM) to be in turn approved by (at least) the majority of IMF member countries.

#### IV. The Euro Area Case

##### *Some Threats to the European and Global Economic Equilibrium – Explaining the Overdue Reform of the International Monetary System*

So, what kind of solution should policymakers envisage? Of course, they should give up their outdated and well-worn microeconomic ap-

proach to macroeconomic problems: indeed, the modern scientific community needs more than ever a change from microfounding to macrofounding macroeconomics (see *Cencini* (2005)). If so, then reform proposals that are inflexible and clearly not structural like the plan to set up a European rating agency competing with historical market leaders such as Standard & Poor's (1941), Fitch Ratings (1913) and Moody's (1909) would be consigned to the past. Of course, this is only a recent, but certainly not exhaustive example. After all, how can such plans really be seen as systematic reforms to eradicate the causes of crises? In this section, we therefore continue using the Quantum theoretical approach in association with some prescient findings like Jacques Rueff's on Eurocurrencies. Because of the rather unexplored character of the Euro Area imbalances and their repercussions on monetary stability we will present a new, unmapped analysis of the main causes of instability triggering the sustainability of the Euro currency and EMU countries' economic growth.

Consider the critical comments of Heinz-Roger Dohms in the Financial Times Deutschland ('Debatte auf Ramschniveau – Bis eine europäische Ratingagentur seriöse Bewertungen abgeben kann, werden noch Jahre vergehen', 31 January 2012), who reminds buoyant economists and politicians of the strategic, but also practical difficulties to establish this sort of complex institution. Even leaving those aside, how would investors, speculators and, more generally, the market react to a higher rating awarded by the European rating agency to a member country that had already been downgraded by one of the three market leaders? The honest answer is that the European rating would scarcely be believed to be more truthful or reliable! Of course, if European politicians and economists had been more forward-looking and had established this new Community rating agency from the beginning of the European Monetary Union (i.e. in the dim and distant past), the new European rating institution might have had better chances to assert itself on the market and to give alternative (and credible) ratings to influence any investment decisions. Furthermore, the recently approved European taxation on financial transactions would not root out the mechanism behind the steadily increasing volume of securities, certificates, and other financial instruments, which are irretrievably 'worthless' inasmuch as they are uncollateralized, not backed by any real asset (i.e. real product or 'income'). By adopting a tax policy on financial securities à la James Tobin (1972), we might have to face, and suffer, at least three consequences. First, the international payments system would continue to be subject to the automatic duplication of the worldwide credit pyramid (=  $x$  (bank deposit in

country A) +  $y$  (claim on bank deposit in country B)), which leads to increasing instability on the financial and currency markets. Secondly, the economic (private and public) institutions, which have (a) over-increased their financial transactions (b) by basing their action on this credit pyramid, would carry on undisturbed on their well-worn path. Thirdly, all economic agents, ranging from public administration to the banks themselves or private savers (households), would have to carry the burden of much higher taxation. Meanwhile, it would be business as usual for our economic disorder.

In any case, these are only contingent reforms, which are merely complementary to a new, restructured international monetary system. Most probably, a very big mistake has been made, recently, which thwarted all efforts to find a solution to the persistent crisis. This error is directly interrelated with the missed reform of the global economy, which should rise from a new 'Bretton Woods Conference' like a phoenix from its ashes. Is it really so out-of-the-way? Particularly in view of the fact that the above mentioned famous summit took place during World War II (1–22 July 1944) and consolidate economic institutions like the International Monetary Fund (188 member countries), the World Bank (188 member countries (IBRD) and 172 member countries (IDA)) and the United Nations (193 member countries) were absent, the reform process would be nowadays much easier than in those decades. Nonetheless, what is still missing is the determination to comprehend that the (economic/financial/market labour) crisis, pathological manifestations like speculation or erratic fluctuations in exchange rates and stock prices and uncertainty on the survival capability of the entire capitalistic system will endure until the day the international monetary system is, finally, duly reformulated.

What makes today's crisis different from those of earlier decades? Only secondarily, the increased interconnectedness between economic agents from all over the world or new financial instruments/intermediaries. The really distinctive characteristic is that the post-Bretton-Woods-system has almost reached its maximum expansion potential. Anticyclical (mostly inflationary) policies applied by Central Banks have become more and more ineffective, because the anomalous liquidity expansion worldwide has reached its sustainable peak. Thus, in the Seventies, Eighties and Nineties the world economic system was 'young', flexible and more responsive to policymakers' decision – 'rejuvenated' as it was after World War II. For example, "one day in June 1948, in West Germany a monetary reform reabsorbed by a resolution of the Government authorities 90 % of

all unused purchasing power. From one day to the next, people got their motivation to produce again.” (*Rueff* (1956), own translation) Hence, monetary reforms and, ultimately, the War were responsible for staunching the effects of decades of careless over-issuing and ‘softening’ currency designed to pay for war armaments. After more than half a century of inflationary policies, disorderly and unregulated capitalism, this perpetuum mobile has lost its vitality and (1) either it drags on sluggishly by registering zero growth or (2) it is incessantly buffeted by the winds of over-indebtedness, exchange rates, stock prices, inflation/deflation and market labour conditions. Starting from the Seventies, “the printing-press phenomenon has assumed new modalities, which are called SDR’s, swap arrangements, or quota increases in the IMF.” (*Rueff* (1971), p. 199) and “the general arrangements to borrow, swap agreements, Roosa bonds, increased quotas in the International Monetary Fund – all these have increased the holdings by non-Americans of American liquidities, which can be designated by the general term ‘dollar balances’. Finally, this system blossomed into the indiscriminate, preposterous, and monstrous oversupply of Eurodollars, which gravely endangers the stability of the entire Western world.” (*Rueff* (1971), p. 161) Furthermore, “according to *Rueff*, it allowed the United States (but also the entire industrialized world) to live for a time in a fool’s paradise in which it could ignore the deficit, oblivious of the fact that the day of reckoning, though postponed, would be all the harsher when it came.” (*Salant* (1964), p. 166) Postponement (as opposed to prevention or, at least, solution) may well be the keyword which helps us understand why no significant change took place immediately after the worldwide financial crisis of the late 2000s. Now, *postponing*: what precisely? Since the problem is very articulated, the answer comes in different shapes.

*Postponing* the day in which the United States of America will be identified as technically (nearly) insolvent both internally and externally (in this last regard, in the measure of USD 14,825 bn), – little surprise there, since they were obliged, in the aftermath of World War II, to play the role of world banker.

*Postponing* the day in which Europe will recognize that monetary unions involving 17 countries with different languages, cultural, growth/inflation/unemployment rates, GDP per capita and development levels are not viable. The economists of the past, in their wisdom, knew it well. On the contrary, the Euro could be maintained as a common currency for international payments between member countries, but also for finan-

cial/commercial transactions abroad, while every country would regain (at least part of) its monetary sovereignty, which has never been so necessary. As Table 2 clearly shows, the tremendous gap between the lowest (MIN. (EMU)) and the highest GDP per capita (MAX. (EMU)) (2002: USD 37,885/2011: USD 98,482) is very significant and symptomatic of the fact that there is very little space for successful economic policies under such conditions. Furthermore, beside Ireland, whose economy has been affected by a severe banking crisis mainly imputable to hazardous investment decisions, (nearly every) country characterized by structurally lower GDP per capita as compared to the EMU average (AVER. (EMU)) (1) either has already requested communitarian financial loans or (2) is treated as a bailout candidate. It is no secret that ballooning GDP per capita imbalances ( $\Delta \text{MAX.} - \text{MIN. (EMU)}$ ) potentially expose the EMU to asymmetric shocks. Now, let us think about possible economic measures that are still available to the joining EMU Nations. As commonly known, every textbook identifies the following three intervention options: monetary policies (1), budgetary policies (2) and fiscal policies (3). The first one (1) can be today adopted only to a very limited extent, since the European Central Bank has become the most relevant monetary authority of the European Monetary Union (EMU): therefore, there is no room left for those interest-rates- and/or exchange-rates-policies that enjoyed great popularity in the 1980s and 1990s. Budgetary policies (2), too, have been reduced to virtually zero, if we consider the fact that States will no longer be allowed to contract new debts exceeding 0.5 % of the yearly GDP (cf. the European fiscal pact signed on 9 December 2011). Hence, intervention policies are left with little space for manoeuvre except by adjusting the fiscal leverage, which is clearly the most problematic one. Why? The reason can only be that companies, workers, retirees and consumers will not accept (excessive) hikes in direct and indirect taxation, the only economic policy to survive. For example, turmoil in Greece is one of the consequences of restrictive fiscal policies: there is no doubt that, if the Greek Government had regained its budgetary (cf. deficit spending) and monetary (cf. interest rate; exchange rate) sovereignty to intervene, the crisis would not have had such a devastating impact. The European Monetary Union may be therefore compared to a chef who is forced to cook the same menu for different guests with completely diverging food preferences and dietary requirements: one is vegetarian, another is vegan, another one is bulimic, while the remaining guests are respectively anorexic and obese. How on earth is our cook (alias European Central Bank (ECB) and Euro currency) to feed all these guests with one single menu,

*Table 1*  
**Standard VAT Rate Before and During the EMU**  
 (Author's Own Processed from *European Commission* (2012))

	VAT stand. rate pre-EMU	VAT stand. rate during EMU	Change
<i>Austria</i>	20 %	20 %	–
<i>Belgium</i>	21 %	21 %	–
<i>Cyprus</i>	10 % (2002); 15 %	18 %	8 % (2002); 3 %
<i>Estonia</i>	18 % (2002); 20 %	20 %	2 % (2002); –
<i>Finland</i>	22 %	24 %	2 %
<i>France</i>	19.6 %	19.6 %	–
<i>Germany</i>	16 %	19 %	3 %
<i>Greece</i>	18 %	23 %	5 %
<i>Ireland</i>	20 %	23 %	3 %
<i>Italy</i>	20 %	21 %; 22 % (07/1/13)	1 % (2002); 2 %
<i>Luxembourg</i>	15 %	15 %	–
<i>Malta</i>	15 % (2002); 18 %	18 %	3 % (2002); –
<i>The Netherlands</i>	19 %	19 %; 21 % (10/1/12)	–; 2 % (10/1/12)
<i>Portugal</i>	17 %	23 %	6 %
<i>Slovak Republic</i>	19 %	20 %	1 %
<i>Slovenia</i>	20 %	20 %	–
<i>Spain</i>	16 %	21 %	5 %
<i>Aver. (2002–2012)</i>	18 %	20.39 %	–
<i>Aver. (EMU adh. –2012)</i>	18.45 %	20.39 %	–

which does justice to all their needs and upsets? He simply cannot! Hence, the vegetarian guest will probably be compelled to eat (at least, some) meat, the anorexic dining partner will overeat and the vegan invitee will inevitably eat animal products: once more, the ‘one-size-fits-all solution’ is inadequate, unsuitable, unsatisfactory, and prejudicial. Although Table 1 clearly shows that the average VAT standard rate in the EMU countries has risen by almost 2 % since the adoption of the Euro currency, such heavier indirect taxation needs not to be linked with the event: thus, as the distinguished British economist Susan Strange has pointed out on several occasions, the past few decades have shown a pro-



nounced tendency to sharp increases in the taxation burden, which should be in contrast with the 'Neoliberal paradigm of the weak State'. Therefore, we believe that such higher taxation burden is a consequence of the State's reduced ability to adopt monetary and budgetary policies, since 'replaced' by fiscal interventions.

Once again, its macroeconomic effects are undeniably negative, as Table 3 clearly shows. The general deterioration of fundamental economic data is evident – all the more so, if we consider the dramatic increase in the gross external debts of the 17 Nations as a whole (1<sup>st</sup> quarter 2004: € 5,501 bn/3<sup>rd</sup> quarter 2011: € 11,527 bn (European Central Bank (2012))). Why? The renowned German economist Wilhelm *Hankel* et al. (2010) point out that “the reason for the financial difficulties experienced by some EMU-Member-States is their fairly limited competitiveness, which is in turn due to the exchange rate of the Euro. As economic forecasts show, the Greek currency unit should be depreciated to a value of USD 0.34 so that companies would become more competitive in the international arena. Furthermore, the Euro also dampens the competitive potential of these relatively under-performing EU member States (or, at least, the European Monetary Union), because the value of the European single currency does not reflect their economic performance. With regard to Germany, the value of the currencies of the other States should be drastically reduced. However, this might conceivably spark a corresponding rise in the value of the German money unit.

This economic principle remains uncompromising.” (*Hankel* et al. (2010), own translation) In this specific regard, the gap between the lowest and highest Gross External Debt Position in EMU soared from 2003 to 2012 from USD 3,141.03 bn to USD 5,759.83 bn (+83.37 %) (The World Bank Group (2011)). Furthermore, the Total Government Gross Debt of the Euro Area (% of GDP) has meanwhile worsened by 19.36 %, while the delta between the less and the most publicly indebted EMU country has increased by 52.64 % reaching € 2,087.51 bn (Eurostat (2012)). An easily predictable consequence in this timespan, the same deterioration path is also true for current account imbalances reaching USD 276.15 bn (+337.92 %).

Table 2

**Discrepancies Between GDP per Capita Levels in the 17 EMU Member Countries (1991–2011),  
Current USD (Author’s Own Processed from *The World Bank Group* (2012a))**

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
<i>Austria</i>	22,076	24,812	23,748	25,375	29,996	29,464	26,072	26,725	26,530	23,974	23,832
<i>Belgium</i>	20,785	23,088	22,013	23,914	28,068	27,153	24,533	25,051	24,888	22,695	22,600
<i>Cyprus</i>	9,696	11,310	10,526	11,618	14,212	14,133	13,277	14,069	14,237	13,422	13,797
<i>Estonia</i>	3,065	2,601	2,583	2,710	3,029	3,339	3,608	4,038	4,147	4,144	4,575
<i>Finland</i>	24,990	21,851	17,242	19,774	25,608	25,036	23,928	25,182	25,230	23,530	24,025
<i>France</i>	21,305	23,385	22,000	23,110	26,451	26,357	23,727	24,416	24,132	21,828	21,867
<i>Germany</i>	22,604	25,605	24,736	26,351	30,902	29,751	26,285	26,548	25,961	22,946	22,845
<i>Greece</i>	9,772	10,687	9,914	10,536	12,274	12,889	12,494	12,485	12,238	11,396	11,858
<i>Ireland</i>	13,692	15,276	14,263	15,504	18,576	20,339	22,087	23,734	25,680	25,427	27,111
<i>Italy</i>	21,059	22,286	17,965	18,540	19,809	22,152	20,957	21,386	21,096	19,269	19,609
<i>Luxembourg</i>	35,444	39,236	39,727	43,561	50,600	49,688	44,145	45,571	49,219	46,458	45,748
<i>Malta</i>	7,572	8,244	7,319	8,018	9,457	9,663	9,487	9,896	10,072	9,982	9,798
<i>The Netherlands</i>	20,130	22,151	21,434	22,833	27,100	26,937	24,767	25,650	26,033	24,180	24,969
<i>Portugal</i>	8,852	10,644	9,388	9,827	11,611	12,032	11,445	12,100	12,396	11,443	11,662
<i>Slovak Republic</i>	2,483	2,689	3,032	3,685	4,708	5,077	5,023	5,431	5,551	5,330	5,637
<i>Slovenia</i>	6,331	6,272	6,443	7,233	10,523	10,623	10,282	10,969	11,236	10,045	10,291
<i>Spain</i>	14,392	15,680	13,009	13,110	15,151	15,766	14,467	15,126	15,476	14,422	14,958
<i>AVER. (17)</i>	<i>15,544</i>	<i>16,813</i>	<i>15,608</i>	<i>16,806</i>	<i>19,887</i>	<i>20,024</i>	<i>18,623</i>	<i>19,316</i>	<i>19,654</i>	<i>18,264</i>	<i>18,540</i>
<i>AVER. (EMU)</i>	–	–	–	–	–	–	–	–	–	–	–
<i>MIN. (EMU)</i>	–	–	–	–	–	–	–	–	–	–	–
<i>MAX. (EMU)</i>	–	–	–	–	–	–	–	–	–	–	–
<i>Δ MAX. – MIN. (EMU)</i>	–	–	–	–	–	–	–	–	–	–	–

2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Remarks
25,674	31,283	35,650	37,043	39,234	45,181	49,679	45,638	44,885	49,707	–
24,465	30,039	34,707	36,002	37,903	43,229	47,341	43,799	42,832	46,469	–
14,862	18,429	21,381	22,431	23,864	27,860	31,928	29,428	28,779	30,670	<i>Debt crisis</i>
5,391	7,274	8,919	10,329	12,510	16,143	17,578	14,375	14,345	16,555	–
25,994	31,509	36,163	37,319	39,487	46,538	51,181	45,085	44,090	49,391	–
23,555	28,870	32,874	33,913	35,558	40,460	44,117	40,663	39,170	42,377	–
24,320	29,365	33,040	33,543	35,238	40,403	44,132	40,275	39,851	43,689	–
13,292	17,494	20,607	21,621	23,506	27,241	30,363	28,521	26,432	26,427	<i>EFSF Loans</i>
31,226	39,540	45,559	48,523	52,220	59,489	59,573	49,738	45,873	48,423	<i>EFSF Loans</i>
21,326	26,164	29,700	30,332	31,614	35,641	38,382	35,073	33,788	36,115	<i>Debt crisis</i>
50,605	64,562	74,420	80,960	90,032	106,902	118,219	104,354	104,512	115,037	–
10,690	12,530	13,974	14,758	15,714	18,419	21,047	19,727	19,624	21,209	<i>Debt crisis</i>
27,111	33,177	37,458	39,122	41,459	47,771	52,951	47,998	46,597	50,087	–
12,720	15,460	17,596	18,122	18,996	21,845	23,716	22,027	21,358	22,329	<i>EFSF Loans</i>
6,439	8,521	10,418	11,385	12,799	15,583	18,133	16,126	16,036	17,645	–
11,603	14,607	16,944	17,855	19,406	23,441	27,015	24,051	22,897	24,141	<i>Debt crisis</i>
16,611	21,037	24,461	26,042	27,989	32,130	34,988	31,891	30,026	32,244	<i>Debt crisis</i>
20,346	25,286	29,051	30,547	32,796	38,134	41,785	37,575	36,517	39,560	+ 14,818 (+60 %)
24,742	30,708	35,186	36,879	39,436	43,867	44,976	39,025	37,922	39,560	+ 19,214 (+ 94 %)
12,720	15,460	17,596	18,122	18,996	21,845	23,716	16,126	16,036	16,555	+ 3,835 (+ 30 %)
50,605	64,562	74,420	80,960	90,032	106,902	118,219	104,354	104,512	115,037	+ 64,432 (+ 127 %)
37,885	49,102	56,824	62,838	71,036	85,057	94,503	88,228	88,476	98,482	+ 60,597 (+ 160 %)

Table 3

**The Evolution of Some Macroeconomic Indicators During the EMU**  
**(Author's Own Representation Processed from *EconomyWatch* (2012),**  
***The World Bank Group* (2012b and 2012c) and *VATlive* (2013))**

<i>Macroeconomic indicators – European Monetary Union (EMU)</i>		
	2002	2010
<i>Core indicators</i>		
GDP growth rate	0.94 %	1.74 %
Unemployment rate (% of labour force)	8.4 %	9.98 %
Gross fixed capital formation (% of GDP)	20.06 %	18.90 %
Gross national saving (% of GDP)	22.64 %	20.53 %
Current account balance (USD bn)	44,792	11,589
<i>General Government (% of GDP)</i>		
Net lending (+) or net borrowing (–)	–2.53 %	–6.07 %
Gross debt	67.92 %	85.04 %

Since nominal exchange rates are artificially the same both for more prosperous as poorer European countries, the latter aren't anymore able to compete with wealthier nations meaning that imports of goods and services are likely to increase more steadily than exports leading to a current account deficit and growing external indebtedness. Hence, the logical relations between exchange rate, low/lower competitiveness of poorer EMU countries and increasing external indebtedness are the following:

if: exchange rate of 1 Euro < exchange rate of 1 unit  
of Deutsche Mark  $\Rightarrow$   $\uparrow$  competitiveness on the international market  
 $\Rightarrow$  commercial exports > commercial imports  $\Rightarrow$  better  
International Investment Position

and:

if: exchange rate of 1 Euro > exchange rate of 1 unit of Greek  
Drachma  $\Rightarrow$   $\uparrow$  competitiveness on the international market  $\Rightarrow$   
commercial exports < commercial imports  $\Rightarrow$  worse  
International Investment Position (=  $\uparrow$  gross external debt).

Once again, there can be no successful monetary agreement unless there is real and profound macroeconomic convergence of fundamental variables: if this is not the case, the common currency becomes an ele-

ment of weakness instead of being an economic driving force. For example, deeply divergent Government bond yields (10 years maturity) of countries like Greece, Italy and Spain as compared to German *Bundesanleihen* are also symptomatic of the fact that, since exchange rates are fixed at an implausible 'one-to-one level' (1 Greek € = 1 German € = 1 French € = ...) despite diverging economic performances, they have become the only medium to signalize intrinsic *real* differences between country groups. In fact, the economic mechanism the EMU is nowadays experiencing is comparable to a hydrogeological phenomenon called 'avulsion of a river', which is the abandonment of a river channel (i.e. exchange rate variations) and the creation of a new one (i.e. public bond spreads). In other words, since exchange rates should reflect the economic performance of each economy and precisely this indicator has been artificially fixed without considering the acuteness of infra-European imbalances, boosting differentials in Government bond yields of 'weaker' member countries have become a new channel which differences express themselves through. Incredible dictu, the current crisis also proves that during economic turmoil the Euro as common currency (characterized by huge internal imbalances) suffers a greater loss of confidence than national currencies, because the first is potentially reversible to national money units, while the latter can be of course devaluated, but that's it! And speculators are well conscious of this structural 'original sin', which should be removed as soon as possible being the European project 'too big to fail'.

*Postponing* the day of reckoning when Central Banks will play an inalienable role in coordinating the respective banking and financial system. From time immemorial, they have been on top of the pyramidal banking structure and have also acted as central clearing and settlement institutions, while secondary banks (no matter how eminent) were subordinated. Nowadays, most Central Banks are a shadow of their former selves, since their regulatory and financial powers have progressively dwindled after decades of turbo-capitalism and excessive Neoliberalism. It certainly does not count as 'scientific discovery' to claim that financial markets are not as 'perfect' and 'self-regulating' as they have been widely described. Therefore, the role of Central Banks should be restored as a matter of urgency, without obliterating the evidently right principles (e.g., independence from the legislative and executive powers) underpinning their activity even today.

## V. Conclusions

Most probably, what has stopped politicians and economists putting forward a structural (by now overdue) reform process of the international payments system is precisely the shift in monetary power to the benefit of the “Central Bank of Central Banks” and its new international money unit. That said, if we agree that some influential countries would suffer some, though not excessive, loss of current power as compared to emergent Nations, which would immediately gain more monetary influence, such reform will ensure enduring monetary stability, balanced growth and less economic imbalances. Key-currency countries will no longer be beset with their monetary dilemma of ensuring internal or external monetary stability: such problems were still present in the first part of the twentieth century (“Since 1931 the conflict of aims has twice found expression in international conferences. At the meetings of the Preparatory Commission in Geneva the central question was whether prices must rise before stable exchanges could be established or whether stable exchanges were a necessary prelude to and accompaniment of rising prices. How real is this antithesis and what future policies does it foreshadow? That a conflict does exist, in logic at least, between the aims of external and internal monetary stability can be simply demonstrated.” (*Williams* (1934), p. 63)).

The ‘modern’ version of the latter dilemma consists in (1) guaranteeing the world monetary liquidity, which can be achieved only by providing considerable and growing amounts of USD to non-key currency countries (i.e. by buying sizeable volumes of goods/services and paying for them in USD); and in (2) maintaining internally balanced private and public budgets without entering (excessive) liabilities with the rest of the world. As economists should remember, the ‘Triffin dilemma’ is definitely not limited to the Gold Exchange Standard, but applies much more to the current multi-polar key currency system, since the degree of interconnectedness has become much higher than it was in the Seventies. In our opinion, our global society is well on the way to mortgaging future economic stability to (try to) maintain the present state of affairs. Now, is this approach not the perfect opposite of what is desirable? After all, people should (if necessary) mortgage their current wealth to ensure future prosperity and stability. If this process goes in the opposite direction, we can quite safely deduce that economists and politicians are being driven by a shortsighted conception of wealth. The outcome of this attitudinal course of action is before everyone’s eyes!

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## Summary

### **The Economics of Systemic Disorder: Roots of and Remedies for Unsustainable Monetary Imbalances**

What are the principal steps to a truly new international economic order, which would structurally eradicate global monetary imbalances, namely crises due to the intrinsic properties of the current economic system? Why should an international currency unit (f.i. the “renewed” Special Drawing Rights (SDR)) issued by a so called “Central Bank of Central Banks” (f.i. the “reformed” International Monetary Fund (IMF)) cure many sources of disorders and structural imbalances? The article deals precisely with these ‘evergreen’ concerns from an innovative methodological as well as argumentative perspective. In the last sections, we analyze the intrinsic faults of the Euro Area case and focus on the impact of the Euro currency in terms of wide spreading trade, growth and debt imbalances. As we will see, the durability of the Eurozone as a whole is threatened not only by the intrinsic faults of the current international economic order (Sections I.–IV.), but also by the ‘one-size-fits-all’ approach underlying monetary unification (Section V.). (D51, E02, F02)

## Zusammenfassung

### **Die Ökonomie systemischer Unordnung: Ursachen und Lösungen für untragbare Währungsungleichgewichte**

Welche sind die wichtigsten Schritte zu einer wahrhaft neuen internationalen Wirtschaftsordnung, die globale Währungsungleichgewichte, d.h. aus den innewohnenden Merkmalen des heutigen Systems entstehende Krisen, strukturell abschaffen würde? Warum müsste dabei ausgerechnet eine internationale Geldeinheit wie z.B. neugestaltete Sonderziehungsrechte (SZR), die von einer Zentralbank der Zentralbanken wie dem reformierten Internationalen Währungsfonds (IWF) ausgestellt werden würde, viele Entstehungsgründe für Wirtschaftsunordnung und strukturelle Ungleichgewichte beseitigen? Der vorliegende Beitrag befasst sich genau mit diesen immer aktuellen Fragen aus methodologisch sowie argumentativ neuer Perspektive. Abschließend werden die intrinsischen Konstruktionsfehler des Fallbeispiels Eurozone und insbesondere die Auswirkungen der gemeinsamen Währung auf Handels-, Wachstums- und Verschuldungsungleichgewichte aufgeklärt. Dabei stellt man fest, wie die Nachhaltigkeit der Europäischen Währungsunion (EWU) nicht nur von den Gestaltungsfehlern der internationalen Wirtschaftsordnung (Abschnitte I.–IV.), sondern auch vom der Währungsunifikation unterliegenden Einheitskonzept selbst (Abschnitt V.) bedroht ist. (D51, E02, F02)