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Instability of Economic Systems: Signals, Asymmetric Reactions, Corrections

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Abstract

An economic system becomes unstable when it's deviating from the compatible growth course, because of human errors. Systems have a natural tendency to linear growth so that if they deviate, the growth and price profile takes a cyclical trend. The cyclical rhythm of the economy is not an end, but it's a natural order trying to bring the economy back to its lost stability, over time. The unstable system, in promoting this return to stability, has a whole range of tools, including the spread of implicit perceptions about the economy state among companies and families: a sort of signal widespread by the sick economy. So, every common man is perceiving the country system malaise, nevertheless without having a direct knowledge of the problems and their causes. Starting from this implicit perception, the democratic process and the periodic use of polls are to be considered not only as the exercise of civic rights, but also as a test for the choice of a good government that would implement the program to balance again the unstable system. The *collective wisdom* of the people in selecting their own rulers, thus is moving in the context of the economy's general tendency to the stability and to the compatibility with the natural environment. Moreover, the asymmetric market reaction is also reported. The system reacts to a prolonged instability with speculative waves inexorably converging towards the financial crisis, to clean up the corrupt system. Finally, a mention to the Euro theme is also made.

Keywords: instability, asymmetric reactions, natural correction, deflationary tendency

1. Introduction

Instability in the economic systems is so common in modern and past economies that it's difficult to define a background in which to place this phenomenon. It is difficult to delimit the sphere of the conditions that we could generally define as instability in the economy. Perhaps it's quite easier to take a snap-shot of an economic reality qualified as stable.

Surely, we can say that a stable economic system follows a development line which is basically growing. A line having an inclination depending on the potential of each country. Starting from this definition, consequently we can say that all the economic realities not showing a straight way in their development course, have overcome the stability limit and so have entered the underworld of the unstable economy.

In the world of stability, the recession or even the economic depression are unknown, because the development process is growing anyway, although the potential is and may be different. This corollary is bringing another important consequence: a stable system cannot know the deflation, such as falling nominal prices, because the fall in the recession and the economy crisis are excluded.

Likewise, it's very unlikely that a stable economic system may be subject to inflation (gradual rising prices), because even in this case the economy may be subject to deep recessions. Eventuality that is excluded according to the definition of stable economy.

In other words, a long-term straight development line is a standard configuration for a stable economic system. A configuration that should ensure a sustainable development, compatible with the exploitation of environmental resources and with the development trends in the area. This should imply that the economies development it isn't a mere possibility but a potential reality for all human societies.

How else we could justify the uninterrupted development of human civilization, despite the tragedies that have plagued mankind over the time for errors (wars, bad government, poor solidarity) or natural disasters, pestilences, etc., unless we admit the existence of an irrevocable tendency to the economic stability.

The problem then is to know how to analyze the state of the economy. We must investigate whether an economic system has derailed from the natural stability path and, in this case, whether it is possible to remedy the mistakes that have deviated its natural course. In the following pages we will try to explore the theme of the stability seen as the cornerstone of a good economy, related to the link between compatible development and rational use of natural resources. We will therefore look to some contingent situations, to appreciate the signals made available by the natural stability control mechanisms.

1.1 Prospecting the Problem

The compatibility of economic systems, understood as a safeguard rule for the environment and natural resources, seems to be closely linked to the irreversible nature of the system tendency towards stability. In fact, if we admit that the economic systems are pushed towards stability by an unavoidable order, at the same time we should believe that the same natural order must imply a kind of reasons mutually connecting the economy health and the nature preservation. The tendency of natural orders to the stability, just because it is so close to the mankind needs, seems to have the purpose of allowing - despite human errors and natural plagues - the successful path to a future of greater solidarity through technology and social culture in progress. The tendency of natural orders to the equilibrium, therefore, seems to link in an unbreakable bond the quality of life allowed by the ecosystem and the evolution of human relations, according to a line of global progress for the humankind.

Therefore, if we admit that there is a general tendency to maintain the economic systems in stable condition, we can assume that all the anomalies imposed by the system in the event of some alteration are directed to avoid the falling into the market chaos and thus to allow the return to a fundamental equilibrium. But it’s not enough. In fact, given the potential ongoing relationship between the ecosystem and the economic and social processes, we can argue that any action to correct economic aspects should be extended also to the damages caused on the biosphere health by the market, by the production and even by our own survival.

We should admit, therefore, that there is a close and continuous link between the efficiency of economic systems and the environment condition, at least for the part involved by human activities in the exploitation of resources and pollution. There is no doubt that the pollution phenomena of our ecosystem have the inevitable result of a serious incidence on the hygiene and health conditions of the affected populations. These real crimes against nature have a very strong fee to be paid, in terms of both direct costs for the economy in general and indirect costs, for the need of interventions sooner or later to eliminate or at least to mitigate the damages caused to the natural system. On the other hand, the nature itself, wounded by pollution, seems willing to restore its previous balances through extraordinary and hard natural events, leading destruction and death over the populations, due to unexpected climatic changes, plagues and infections.

There would be therefore two sides, not differing but cooperating, of the stability mechanism which is concerning on one hand the stable balance of economic systems, and on the other hand the evolving ecosystem natural equilibrium, as they are subject to be affected by the presence of human communities. The escape from the natural path of the systems is therefore causing potential phenomena on both sides. The economy instability is the gateway to a sub-world in which the economy is subject to both economic and price cycles. In turn, forcing the natural balance for the economy events, is causing troubles in the ecosystem, with potential violent phenomena for the natural order recovery and their connected reflections on the economy events.

As saying that the economy history, which in short can be considered the core of human social relations, is to be considered as an integral part of the planet complex mechanism: and the planet is the life cradle. Such a point of view is involving the biological equilibrium of our world and the unstable balance of human societies in the same path, so it seems undeniable that there is an overall equilibrium, which is delicate and modifiable, and which must be restored, sooner or later, when has been deviated from its natural course.

Continuing in the similitude, we could argue therefore that natural disasters worsened by pollution can find their equivalent in the monetary and cyclical reactions affecting the economy, when entering the instability sub-world. *As the natural reactions are to be considered as a nature reaction trying to restore natural balance, we could equally believe that the degenerations of the economy sub-world are nothing else than natural mechanisms to return to the stable state of the economy*.

On a speculative level, it seems confirmed that inflation, deflation, depression, speculative accelerations and financial crises are all corrections imposed for the gradual return of the economic system to its stable condition. Otherwise, if we wouldn’t admit a natural order correction, the unstable systems could fall into the chaos abyss, with a partial or total inefficiency. But this does not happen. Hyperinflation or severe deflation and, similarly, speculative alterations and crises do not produce the economic relations and market block. Systems continue to work, though with serious social consequences. This prerogative is clearly not casual, but must be part of a complex natural configuration that we can briefly qualify as the tendency of natural systems to stability. A unitary trend manifested both at the ecosystem level and, in the same way, at the social economy level, involved as well.

Therefore, it's incontrovertible that the instruments of the unstable economy to delimit the crisis cannot be considered roughly as enemies, but simply as obvious symptoms precursors of the economic system disease. Not enough. In fact, if they allow the economic system to survive after the most serious crises that have affected mankind, we must be aware that these natural instruments are like good guardians for the survival of systems.

Once you have labeled these instruments of the unstable world as "favorable" guardians, we can argue: "For what purpose?" Is it impossible that the unstable world of monetary alterations, limitless speculations, financial crises, cyclical unreasonable troubles of economy and prices, can use these messengers of the natural system? If so, if they are *militia* of an out-of-control system, it would be inexplicable the stable anchorage of the systems, which are saved from falling further into the vortex of helpless chaos.

Now, it is obvious that the hypothesis of useless messengers is completely unlikely. While it's more obvious and acceptable to think that the ecosystem nature, where all human social relations are realized, has its protected and implicit equipment. And this equipment has the very important task of supporting the natural mechanism - in crisis for the human errors - for the return to growth, compatible with the environment health.

For these reasons, the human science attempts to alleviate the social, economic, cyclical and price-related effects should move somehow within the wake of the correction natural process. If instead these support actions are directed to contrast the natural process - which of course, to be fully corrective, needs some social sacrifices - we can expect an unpredictable reaction of the natural system.

Experience is showing that systems do accelerate the corrective reaction both in the case of a prolonged instability, as in the case of any obstacle to the natural correction of the altered economy. This behavior is just corroborating the thesis that the natural system is always tending to a stable condition, by the way exactly the matter heart of the mankind development. There would be no sense, in fact, in a natural correction strategy reaction increasingly obstinate and hard, if wasn't evident the clear destination of the instability sub-world as a gateway to restore the normal operating conditions of the systems.

The general tendency towards the economic system stability over the centuries seems therefore to be an aspect of the tension to safeguard and maintain the ecosystem life. Our planet long odyssey, from its first formation to the dawn of the life suitable conditions, is showing a kind of general imprinting of the planet towards this goal and for its fulfilment over the time. The time of natural disasters that have cancelled generations of living beings to benefit new generations, including humankind, is showing not only a life preservation goal but also a life quality selection.

This trendy line towards life forms, not only suitable for the environment but also interacting with that environment, finds an astonishing analogy in the humankind history which, even though many errors and several disasters, finds the way to improve the survival conditions and the interaction with the ecosystem and the environment.

2. The Cycle Economy and the Parallel Wave of Prices

So defined the separation between natural stability and economic instability, we should admit that there is neither talk nor integration between the two worlds, while beyond any doubt it's possible to move from one to the other and vice versa. And this is because, if we admit a mixing between the two alternative worlds, there should be also a kind of mélange between the two different realities, which is inadmissible indeed. This incommunicability does exist to ensure that within the stability condition it wouldn't be possible any kind of events, which are instead the characteristic scenario of the instability sub-world. For this unsurpassable distinction, we can observe that systems on the recovery way continue to show, though with a weaker intensity and effect, the instability characteristic scenarios.

About the relationship between stability and instability, it shouldn't be surprising that the economic system - as an aspect fully integrated in our ecosystem-is able to appreciate and react, whenever necessary, to protect the natural system conservation. The economic system, in fact, *is part* of the ecosystem; so, it's not surprising that it's influencing and also it's affected in turn. Therefore, it can be argued that error correction factors can reflect directly or indirectly on the natural system as a whole. In other words, correction factors involve the economic system also for the effects directly or indirectly produced, in general, on the ecosystem health.

The clear distinction between the worlds of stability and instability, on the other hand, is also well needed to make it easy for institutions, companies and families to perceive information on malaise symptoms inside an economic system. These malaise symptoms are felt - directly and in unmistakable way-through negative variations in nominal prices, which are a major sign of the falling in the instability world (Dornbusch., Fischer, 1993).

It is generally accepted, as an equilibrium standard in the economic system, an increase in prices maintained by 2% or little lower. This is establishing the corollary that a stable economy configuration is tied to an almost neutral nominal price trend in relation to the economically compatible growth process. In a stable economy, it is therefore inalterable the corollary that nominal prices never can be subject to the development process variables.

Low inflation, however, cannot be always a valid gauge of the economy good health. Only a nominal price performance neutral related to the economy profile, is a reliable indicator of an optimal trend in economic activity. As saying that, given the price neutrality, the true gauge of a long time stable system is a compatible economic development moving along a straight line, though with an inclination depending on potential. Cyclical movements are therefore unacceptable in a basically stable scenario, both in the economic conjuncture and in prices. The stable configuration can ensure neutral nominal prices and compatible growth, without cyclical escalations and periodic recessions.

The nominal price rhythmic profile is therefore an explicit warning signal given to institutions, companies and individuals. The system malaise is made easily understandable by the direct transmission of system discomfort from the economy to the prices. The cyclical economy transmits its same cyclical rate to prices. In fact, when the unstable economy is in action, an alarm bell is sounding and is understandable to everyone without distinction, as to create a general resentment against policies that have favored the system degradation.

Moreover, the emphasis on the issue of inflation rate may lead to ambiguous results. Inflation within 2% may be a stabilization signal of the system. However, inflation standing for a long time under this limit can coexist with a creeping economic growth, as in Japan since the 2000s and in Italy after the 2007-2008 severe financial crisis. Creeping deflation and low growth are obvious symptoms of a crisis in the economy.

To overcome this ambiguity, we should take into account that a country stability or instability are always linked with no exception to the economy train. The economy should move for enough time along a straight line of growth, with a price system neutral regarding the economic affairs. *It is the neutrality between the linear rhythm of development and the nominal pricing profile, the safe guarantee that the economy is stable*. This is the essential and unavoidable feature of a rediscovered or preserved stability (Cossiga G. A. 2017).

In an unstable system, instead, the natural neutrality between economy and prices is replaced by a close and continuous relationship between the two fundamental variables. In the cyclical world, there is a close association between the economic cycle and the parallel price cycle, which therefore acts to penalize the transition of an economic system to the instability sub-world.

The supine and obliging character of the price cycle relating to the cyclical trend is clearly visible with a relatively low inflation (<20%) during the instability process preliminary stages. According to the classic Schumpeter model cycle (Schumpeter, 1939), the economy recovery pushes nominal prices to rise, while the recessive phase is dampening the nominal price rising. The relationship between the two cycles is not synchronous. The business cycle generally precedes by two or more quarters the nominal price cycle.

This relationship between economic and price cycles, is reproduced even with a greater visibility in the event of a serious financial crisis, following a serious speculative episode. In this case, the sharp reversal of the economy cycle is reflected heavily on the nominal price cycle; both are contracting while they are taking negative values. In this complex situation of severe instability, the two variables often run almost paired or with a time gap narrowing 'til the overlapping.

It's important to note that within an unstable system the two cyclical waves, the economic conjuncture and the prices, do not have a regular movement. Conversely, the shape, movement, and timing of the two concurrent cycles are directly dependent on the system instability degree. Thus, with the persistence and deterioration of instability, the system reaction - always in an attempt to recover the stability natural state – is modulating the economy cycle following the progressive aggravation of penalties in terms of recession extension (in the case of high inflation) and extended depression (in the case of financial crisis).

This is a clear signal that the strategy of economic system cyclical convulsions is not an event subject to the chaos rule. Instead, they are part of a program that develops following a coordinated and coherent strategy, embedded in the same natural rule regulating the life inside our ecosystem, to reactivate the economic system growth compatible with the environment.

The laws governing our world and the whole universe in which the planet is navigating, are basically the limits and conditions making possible the life development and evolution. Therefore, it seems completely acceptable that these conditions and limitations of natural rules - which have made possible the humankind development - are also limits and conditions for a social life correct evolution and thus for all economic relations. As saying that there must be a direct and continuous relationship between the environment regulating life and the social reality with its economic relations.

The extension to the ecosystem, also as a reference framework for relations in economy, is achieving a more organic rationality of the natural rules at the level of physical sciences and economy. Natural rules are regulating the life maintenance and, for this purpose, are directing the economic systems towards a stable condition. Tendential stability is synonymous of an economic growth compatible with the resources available. It is therefore confirmed the corollary that commercial behaviors and relations are proceeding according to a trend line, generally related with the evolution of our ecosystem.

Consequently, the alterations of the natural environment due to human behavior (in economic affairs), may have an impact on the economy performance, just like the human errors in the economic and social affairs conduction. It should be considered, however, that the undoubted capability of the natural system to counteract the damages, proceeds following times which may be different compared to the life cycle of various generations. In other words, our ecosystem, like our economic system which is anyway its inseparable part, must have incorporated some natural project for the restoration of the ideal or real natural state. An ideal condition that is a prerequisite for the continuation of life cycle in our ecosystem and for the development of the economic system, though following proper times and rules, which may be different but anyway consistent.

Therefore, the ecosystems' evolution way would have its equivalent in the parallel development of social and economic relations. This correlation is suggesting that economic systems are following an evolutionary process, strictly linked to that of ecosystems. In other words, the system stability process, while ensuring a balanced trend in social and economic relations, is following an evolutionary course as well, which can be defined as the guardian - despite all the adversities - of the line of progress followed by the humankind during its history. The derailment of the economies development train from this ideal track, and therefore the shift from the stability to the instability world, can only be a pause on this progress line. Just for this reason, the insuppressible trend of economic systems towards the stability course and the return to a compatible growth way, is like a watchdog that doesn't yield to our human passions.

3. The Reaction Physiology of Economic Systems

The singular ability of individuals, families and companies, even prior to know the current cost of living or economic conditions, to "sneeze" almost through a sixth sense the derailment of the economy convoy, can be used as a tool to assess the economy in a country.

By taking advantage from this "precognition" skills, we can analyze the state of mind, the operators, families and companies' mood about the economy state and the prospects. We can therefore taste that surface feeling (I would say almost skin sensations) that individuals, families and companies instinctively perceive about the social and economic relations real state.

A feeling that can anticipate the data that will be translated into real indicators by the actual trends of income, employment, prices, living conditions, environment and social relations. This skill feature, just naturally innate, is even more peculiar because it seems able to predict, quite in advance of real indicators, when the economy is in precarious balance during the passage from the stability to the instability sub-world. On the other hand, in an unstable situation, the current economic indicators have poor force to predict about social and economic conditions for a relatively long time.

Inevitably then, to make any economic action in the medium and long term, beyond the "personal instinct" about the evolution in the near future, we rely on the predictability of families, companies and operators specialized in a specific area. Now, how should we interpret this innate ability of individuals and groups to make predictions, going beyond the simple evaluation of their personal income and spending capacity in the current situation of the economy?

We must therefore believe that beyond the everyday feelings, there are also feelings about a near future of the social and economic environment that can overcome the terms of individual experience in the present state. In my opinion then, it becomes unavoidable to relate these feelings, widespread among common people and the operators, to the alarms or signals that the altered economic system is anyway sending, in very clear forms such as nominal prices changes, economic conjuncture and unemployment.

Consumer confidence, for its effect on consumption in the future, is an important indicator also for the financial market operators. In other words, confidence indicators are affecting markets, because they indicate what consumer general behaviors can be in the near future. A possible interpretation of this specificity, involving subjects and groups, seems to admit that there could be a direct effect (favorable or unfavorable) of these confidence indicators on the market trend. So, it's simplified the possible relationship between consumer feelings and economic trends (and then also financial market trends), taking advantage from this predictor good quality.

This is a commercial way of thinking, somehow too simple, neglecting the possible significance and importance of the forecasting ability on the individual economic matters, but only noting the opportunistic effects, especially on the financial side. In fact, the use of methodologies based on the attention paid to representative groups is assuming that this type of forecast is generally reliable and that it's useful to hear this voice coming from the labor market. On the other hand, the meaning of this listening channel should be that individuals and operators do have a kind of premonition or special attention to the implicit alarms sent by the market. These alarms are gaining a substantial importance when the system is off the stability road.

However, it would be unusual and even absurd to believe that consumers' confidence, based on investigation of a qualified audience, could somehow define in the present the platform on which the ex-post economy will be shaped. Indeed, it is difficult to accept that the opinion of individuals or consumer groups - an opinion expressed according to current contingencies - may have direct and tangible repercussions for the market future.

More simply, it seems legitimate to suppose that these techniques, based on consumer feelings, are providing a quite accurate estimate because the insights on perspective generated in the market - especially in the case of an unstable economy - can send qualified and significant signals on the near future trend. These signals are noticeable for individuals and are obviously added to those deduced from the direct assessment they do about their income and relative expenses.

According to this interpretation, we must reiterate once again that this peculiar ability of majority groups in a territory can only come from the unequivocal trend of economic systems to stability.

The systems' tendency to stability is attested by human history, as a sort of extraordinary *balance* that appears to be able to overcome every mistake and even the natural plagues that have affected the humankind. This unavoidable tendency to stability is the cornerstone of the material and economic evolution process of our society. If this is unavoidable, so it's quite admissible that this trend would be accompanied by such factors making it real and achievable.

In the daily routine, these signals are anyway accompanied by a kind of barometer used by each one of us to assess the economy state: particularly the nominal price trends, like real messages for a general but clear perception. For example, we know that medium-low inflation, i.e. less than 20%, is the situation in which the economy cycle presents a relatively regular trend, with recoveries followed by short recessions. A relatively low degree of instability can be corrected by the classic monetary policy maneuvers.

In these circumstances, a correct interest rate adjustment can operate in full compliance with the natural correction, which requires the economy to undergo a controlled economic recession to mitigate and to resolve the instability problems. The implicit concertation between natural correction maneuvering and monetary policy, if it's smoothly going, can be quite shortly successful, both in terms of eradicating inflation (i.e. return to system stability) and of economic growth compatible resumption.

A classic example of recession, cleaning the system from inflation and putting the economy on the right way, can be observed in the USA during the Reagan Presidency first term. As shown in the **Chart no. 1/a**, during the seventies the United States suffered, like most industrialized areas, for high inflation fueled by that decade oil crises. In the early stage of his presidency, Reagan started a deep disinflation, marked by a monetary policy tightening (in 1981 the market interest rate rises to 14%). The US economy suffered then a controlled recession (in 1982 the GDP was at -2%), but gradually recovered marking a 6.5% two years later in 1984. As a result, inflation fell from 12% in 1980 to 5% in 1982 to touch 2% in later years. It must be noted that during those years, the fiscal policy is maintaining its efforts to support the economy, as clearly evidenced by the public debt increase during the eighties, with a rise from 40% at the decade beginning to 60% at the period end.

In the case of the United States, the interest rate increase moved accordingly with the natural correction line. The implicit concertation between the directions of natural correction and monetary policy has been able to guarantee – quite shortly - a success, both in the inflation eradication (i.e. return to system stability) and in the economic recovery.

Same considerations can be referred to England during the "Iron Lady" government. Even in the case of Great Britain, high interest rates and public spending control forced inflation to go down to 3% in 1985, then stabilizing around 2% after 1992 (Chart no. 1/b).

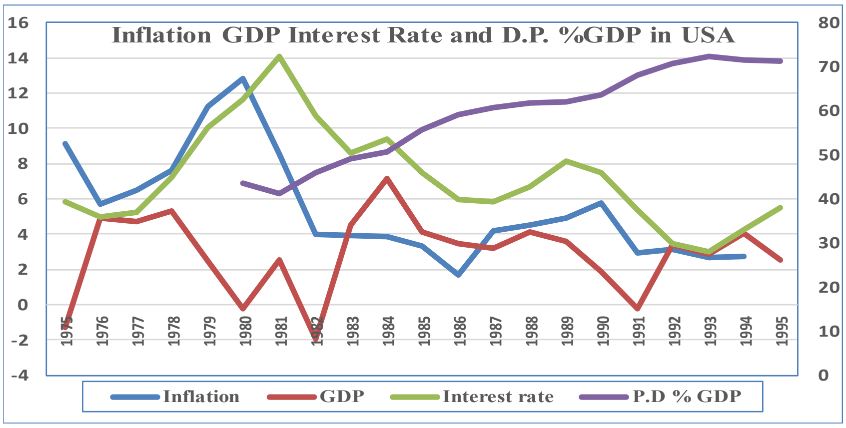
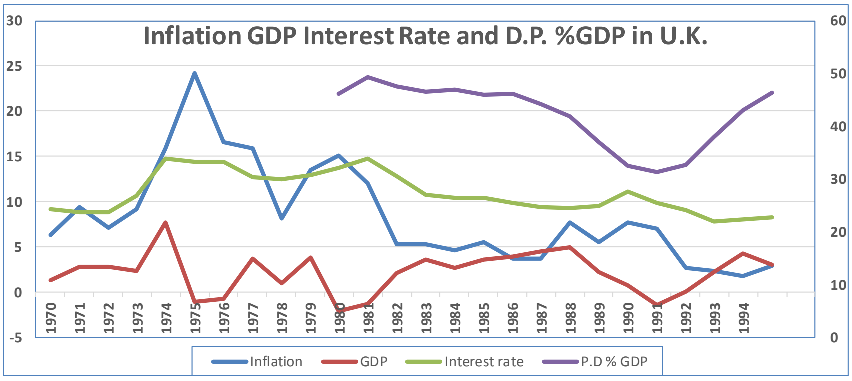


Chart no. 1/a. Inflation, GDP, Long term Rate in USA



• Elaborations on IMF data

Chart no. 1/b. Inflation, GDP, Long term Rate in U. K.

Differently, in the case of Italy the prolonged inflation in the seventies, reinforced by the oil price strong rise, slowly fell from around 22% in the first five years of the eighties to remain stable above 5% during the nineties. The low level of concertation between natural correction and monetary policy (which becomes more restrictive only since 1981, so leaving the real rates negative for a long-time) seems unable to control the system instability. Moreover, the public debt of Italy, since the eighties, gets beyond 100 % of GDP in early nineties. A framework of uncertain policies, maybe even contradictory, in which the creeping and unmanaged instability imposes to the country a severe weakening of its development capacity (Chart no. 2/a). This instability, by the way, will worsen due to the 2007-2008 financial crisis.

New Zealand, like Italy, follows an accommodating monetary policy until 1987, keeping negative the real rates, with high inflation and a partial obstacle against the natural correction process. In the next decade, a Reaganomics' policy implies a rapid decline in inflation and a recovery in the economy cycle. Curiously, in the 2000s monetary policy was again accommodating during the speculative bursting years, while became hard again in 2008-2010 during the financial crisis, despite the deflationary trend outlined also in this country (Chart no. 2/b).

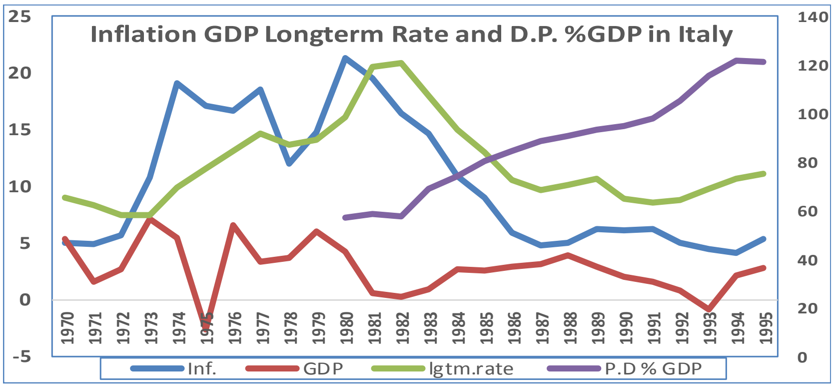
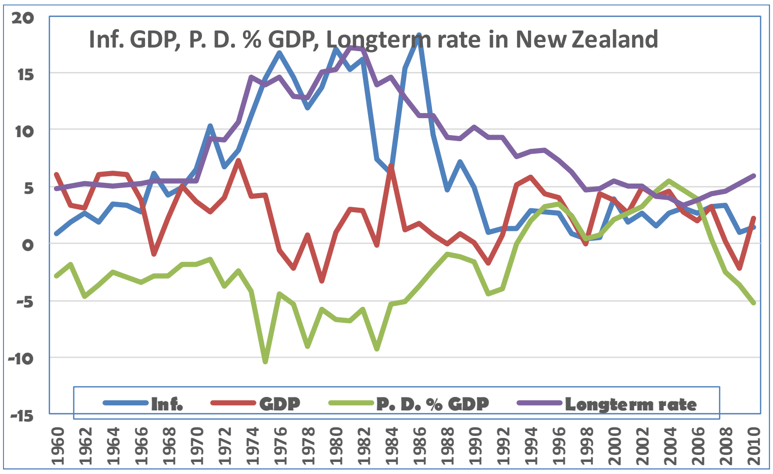


Chart no. 2/a. Inflation, GDP, Long term Rate and P. D. as % GDP in Italy

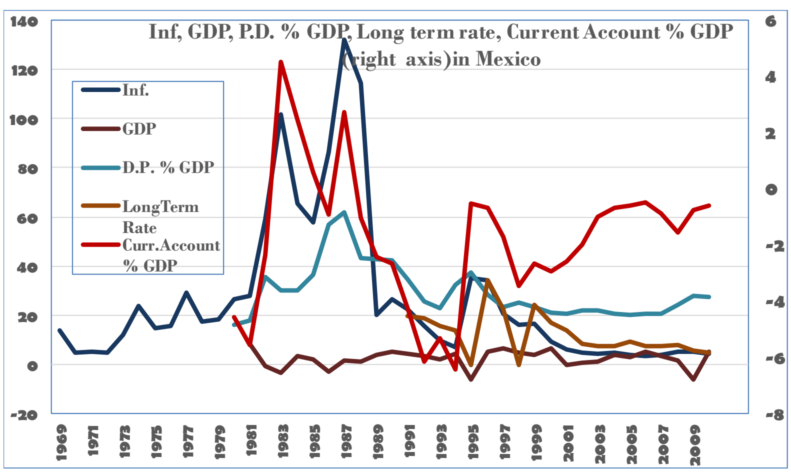


• Elaborations on IMF data

Chart no. 2/b. Inflation, GDP, Long term Rate and P. D.as % GDP in New Zealand

A persistent inflationary history affects Mexico (Chart no. 3). High inflation in the seventies, hyperinflation in the eighties. In the following decade, inflation had a sharp decline, notwithstanding suddenly increased in the mid-period, to finally remain at 5% average during the 2000s. During the seventies the country faced enormous financial difficulties, for the accumulation of heavy foreign debt, made to meet the commitments taken for colossal imports of industrial machinery and equipment as well as consumer goods. An accommodating monetary policy and a strong foreign debt have slowed in fact the natural correction process. So, the conditions for a strong acceleration of inflation have been created. Afterwards, during Carlos Salinas' mandate (1988-94), the monetary and fiscal policy tightening along with the current account deficit containment (encouraging capital inflows), had positive results. So, the inflation rate dropped from 159% in 1987 to 8% in 1993. However, the economy instability was not resolved. To curb inflation, the *peso* was anchored to the dollar and all dollar reserves were controlled.

Unexpected by the Salinas government, in 1994-95 a new serious financial crisis hits the country. A peso devaluation of 15 percent, intending to fix the dollar severe shortage, unleashes a monetary storm spreading over the whole world market. Inflation rising to 35% and the partial dollarization of the peso, plunge the country into a deep recession. Mexico's potential default is solved by the United States with a $ 50 billion extraordinary aid plan (March 1995) to avoid a perverse spiral spreading over the Latin America, as well as Canada and USA, all Mexico partners in NAFTA. The timely aid enabled the launch of a new development stage, while maintaining the monetary policy at high level and the fiscal policy well controlled. In the 2000s, inflation then stabilized at 5% and economic growth to 2.5% within the decade average (Capistrán, Ramos-Francia 2009).



• Elaborations on IMF data ** Current Account % GDP on right axis

Chart no. 3. Inflation, GDP, P.D. % GDP, Long Rate, Current account % GDP in Mexico

Essentially, all the attempts to accelerate development during the seventies and the eighties, by a massive industrialization led by the State, brought the country to the hyperinflation of the eighties. In the following decade, the correction course was deviated by the currency maneuvers introduction to curb the rising inflation. Inflation that slowed down but was not defeated. A failed attempt, solved only by the USA timely financial help.

4. The Reaction of Economic Systems and the Democratic Factor

The Mexican case of the eighties: hit by the unexpected and strong acceleration of inflation, is an example of the asymmetric reaction of an economic system, activated by trying to modernize the country regardless to its real resources. *In these cases of persistent instability, a sharp deviation from the natural correction course can activate an asymmetric reaction of the system, unexpected and abnormal*. In the case of Mexico, inflation around 20% in the seventies jumped to 100% at the beginning of the following decade and then increased to around 140%.

Against the abnormal acceleration and the transition to hyperinflation, with a parallel decline in economic growth, the economic system has reacted in apparent discontinuity with the past. The logical deduction is that in the case of a drastic change in the economy trend, the implicit information about the future condition provided by the system to companies, operators and households, would suffer a sharp fracture. The market is therefore unprepared for the adverse events that are developing.

This evident asymmetry between the system reaction to the instability worsening and the premonition capacity of economic operators relating to the ongoing change may depend on the adaptation times to expectations. In other words, the change forcing in the Mexico economic scenario has been partly misunderstood by operators and families, also for the inflation level relative stability during the previous decade.

The shock produced in the market, due to an asymmetry between the expected and the real scenario, can explain the ambiguous and disorganized reaction following the events. We must consider that usually the synchrony between the expected and the real scenario is a useful track for the market decisions. In the case of asymmetry or breakdown of this synchronicity, the problem is that suddenly the past predictable certainty disappeared and, at least in the short term, there are no hypothetical paths where the future expectations can be anchored. The financial market can therefore take a violent trend, as long as operators and families can be able to retrieve new schemes to accommodate their near future expectations.

Stability is the ideal condition allowing a good match between expectations formed according to the implicit information transmitted by the market, and the real scenario. Instability is a condition progressively reducing the correspondence between the market expectations and the real economy profile. In the case of a mild instability, this divide between expectations and the real trend is modest. When instability is persisting and even worsening, there is a growing asymmetry between expectations and the real economy, which only gradually is re-absorbed.

Operators and families, in normal conditions, refer to a mix of implicit information from the market about the near future and information taken from the recent past, usually a good messenger about economic trends. As instability increases, however, there is a discontinuity with respect to the supposed development path based on implicit information and to recent past data. This discontinuity is solved - though only gradually – through the direct information coming from the system in crisis. Only with time, therefore, expectations would be adapted to the economy changing scenario.

At the end, this asymmetry increasing amount, compared to market expectations, seems to act as a kind of lubricant to favor the return of the economic system to its natural stability. This means that the social and economic damages produced by this discontinuity is an incentive for governments, operators and families to remove the discomfort causes. From this point of view, it seems undeniable that the best reaction to an economic crisis would be never or almost never the wait or the country government smooth intervention for the correction of the errors causing instability.

On the issue of how to correct mistakes made in economics, we should suppose that the collective intuition about economic conditions in the near future is the origin of a political damage perceived as unsustainable by the national rulers: so, they don't care about the convergence of the system to economic stability. In the case of choosing the "not to do", the image and political consensus damage for the government team will be much greater if compared with an eventual damage resulting from a conscious choice for correcting the errors, with the assumption of the related political risks. Based on the widespread collective intuition, which is a real implicit signal of the system, then we should assume that the brave choice to act on the system troubles - without delay - can bring advantage in the medium-term not only to the economy, but also to the reliability of the government team.

The perspective of a medium-term advantage for those governments making actions on the economic system mistakes is based on the inexorable deterioration outlook affecting the economy trend if the *status quo* is maintained. Such a deterioration can result in competitiveness loss, economic development weakness or decline, social problems and rising unemployment. It can be deduced that the minimal option in the economy conduction, will be translated over the time into a socially negative choice, or even suicidal. In addition, the option for a possible collapse of the inert government simply represents for the whole social community the removal of a minimalist choice, in exchange of an alternative governmental structure carrying forward a program consistent with the natural imperative of the system economic stability.

The democratic process is over time the real gauge of the mankind civilization level. An evolutionary path revealed during the whole human history and apparently leading us to a culture of solidarity and mutual interaction. Given its importance in the social development context, the democratic process is at the same time also an essential mechanism for the economic systems' balanced development because it allows periodically to give the society guidance leadership back to citizens. To the citizens who collectively are the real guardians of the public well-being and of the positive economic and social things general trend.

The election announcement to choose the leaders, other than an essential expression for the inhabitants to belong to a territory, is also a privileged tool to allow the choice and the turnover of those political parties that can better adapt over time to the economic and social rules correctness. Given the unavoidable prospect of a stability return for the economic systems, the choice to prevent, extend and dilute the call to the polls, would contrast with the natural right of all citizens to contribute with their collective choices. Consequently, denying this fundamental right also contradicts the original objective of any economic system to follow a positive course of social and economic stability.

The implicit message sent by the system to companies, families and individuals on the state of the economy, as already noted, is the immaterial mean modeling the feeling on the satisfaction or discontent about the economic management within a territory or country. Based on this almost epidermic information, the community seems to be able to select, at the time of electoral consultations, a good government that would be suitable for the country economic situation. In other words, the majority population in a given territory or country seems to be able to set up *a sort of collective wisdom*.

This collective wisdom can represent the best judge to select the political party offering, compared to the others, the ideas and programs right quality to realize the choices for the maintenance and restoration of stability in economic systems. Therefore, in a democratic context the periodic call to the polls can be considered as a privileged mechanism to impose a virtuous strategy of error correction inside an unstable economy.

The governments' turnover for the recovery of economic and social stability was somehow successful in the 2000s, especially in the United States and in some western countries. At the beginning of the 2000s, in the United States the FED monetary policy remains accommodating, although the cycle resumed and the effects of the Dot.com crisis are still dangerous. The interest rates rapid rise in the USA, however too lately decided, doesn't seem to be able to curb the long drift towards instability. The new republican administration, on the other hand, opens to a wide deregulation policy that becomes functional to a new liquidity creation and this will provide the basic material for the formation of a huge speculative bubble in the real estate sector.

This monetary policy, moving in contrast with the path of natural correction, and the administration policy, making the system free from financial constraints, together seem to create the conditions for a general feeling lethargy spreading among companies, workers and families. This lethargy seems almost a supine acceptance of the serious risks involved by an imminent speculative bubble. The 2007-2008 financial crisis (the second most serious since 1929) following the speculative madness, became the turning point for the entire history of the American democracy with the revolutionary choice of a black, democratic and innovative president. The new president seemed to indicate the right way for a relatively quick recovery of the economy, for the unemployment decline and the financial sector rebalancing.

The long tail of the financial crisis in Europe has left behind some ferments, generally referred to as populist, in many countries of the continent. New formations that seem to be moving in contrast with the continent cohesion choice. This strong choice in over sixty years has created then various multi-speed aggregation forms. Some of these formations propose to put their country out of the constraint of belonging to the Euro or the EU. In the United Kingdom, a recent popular consultation has proposed the exit of the island *(Brexit)* from the European Union.

There are fears that a consensus increases for these formations, which receive strength from the economies' different reaction in the post-financial crisis, could promote the preference, in electoral consultations, for the release from the continent integration programs. In other words, the concerns about a possible evolution of the electorate choices in favor of these formations, are questioning the skills and wisdom of communities. Nevertheless, peoples do have a full awareness when discerning government programs to be preferred at the polls, to maintain or readdress the economic systems on the stability path.

Given the economic systems' tendency to stability and the implications for the care of economic affairs, we shouldn't believe that the collective perception, mainly deriving from implicit information provided by the system, can be confused so far that individuals and families become estranged: so that they could converge in favor of a somehow alternative government. Nevertheless, if a paradox happens and collective wisdom is diverted by the message ambiguity to the electoral body, then errors are added to errors and this can only worsen the status of social and economic relationships.

On the specific issue of Europe problems underlying these disaggregating trends, only a merely superficial analysis of the ongoing difficulties can lead to the conclusion that EU membership restrictions are partly responsible for the uncertainties suffered by many countries in Europe. The primary cause for the development capabilities decline of the continent, and particularly of those countries more exposed to the financial crisis consequences, cannot be attributed simply to have or not the EU membership.

As will be better clarified, the problem of the 2008-2009 financial crisis long tail in Europe seems to lie in the reduced factual and institutional capacity concerning both the Community institutions and the member national states, in resolving the instability various degrees in certain countries of Europe. From this point of view, the exit from the Euro would not be able to solve the main countries of Europe stability problems, but would add instead to the difficult context also the transition problems while finding a new economic and monetary equilibrium.

We should consider that the positive force of this collective and individual sensibility to good governance, will be reflected not only on the natural evolution of economies, but more generally on social relationships and on all relations within and outside countries and continents. The free expression of the popular will, if procrastinated or even suppressed, certainly is becoming the cause of potential conditions for the relations' degeneration both inside and face to other states. Looking back, we have unfortunately some dramatic examples in Europe.

5. Asymmetric Reaction of Economic Systems

At this point, it must be remembered that some asymmetry phenomena can occur between the information implicitly sent by the market and the actual occurrence of the expected events. The asymmetry may be a "delay" in the shaping of valid expectations about the state of the future economy. If the asymmetry between implicit information and expected events increases, there could be a deep alteration in the market forecasting capacity. When such a serious anomaly occurs, the prediction capacity of institutions, individuals and families is obviously compromised.

Under these circumstances, the weakening of implicit prediction capacity can anachronistically degenerate into a sort of resignation making acceptable even the pseudo-information that could be completely "fake". In other words, the operators are observing an almost soporific situation, the illusion of an apparent normality condition of the economic system, almost completely hiding the economy very serious situation.

This is an anomaly somehow extreme that may arise when the system has become really unstable, and therefore have been exhausted all time margins available for institutions to run some correction on the economy to reduce instability. Since the system is definitely and spontaneously tending to stability, we must believe that there is a sort of *non-return point*, beyond which a decisive action is activated to naturally force the altered system into an obligatory conversion to the straight stability path.

In these serious and exceptional circumstances, the economic system seems to follow the proverb "The worse, the better". In the case of a speculative acceleration, uncontrolled and uncoordinated to the real economy, the irresistible speculation pressure can be considered as a final resource at disposal of the system to solve, when at the *non-return point*, the persistent and unresolved unstable state of the economy.

A remedy that is almost an anti-remedy, for its disruptive effect on the social context. However, it's the last chance activated when the severity of the unstable condition does not allow any delay, nor to wait for a corrective reaction of the social community. Generally, this final stage can be reached when all attempts have been uselessly experienced to correct the long-time unstable system; attempts that the system can autonomously promote.

Finally, the serious possibility of a *last resort* can materialize when for errors, inexperience, or severe irresponsibility, decisions are taken, in sharp contrast with the natural correction path of the unstable system. In this case, in fact, the system reaction can become abnormal and can degenerate up to the *non-return point*, with unpredictable results.

In recent history we have experienced the succession of soft or hard corrections on unstable systems, imposed with a natural and automatic mode. Relying on the experimented events, it's acceptable and realistic that the natural correction can be materialized through a whole series of totally natural instruments, acting and occurring with a direct relation to the instability intensity. Among these tools, part of the natural components for the unstable economy correction, we can include the implicit information transmitted by the system to operators and families.

Listening to moods emerging from the market, implicitly and explicitly, can be provided a sensitive platform for a discreet and appropriate behavior of economic and monetary policy. In general, economic policies should pursue an equitable distribution of social charges, particularly in the case of those social costs resulting from error corrections. In other words, good policies should ensure, above all, the maximum social acceptance of their new charges. It is therefore essential that the goal of social acceptance would be pursued through the cooperation between monetary and fiscal policies, both quite sensitive to social issues deriving from the instability. A mediation between economic and monetary policies is then necessary, just to avoid the cover-up of the projected return to stability through a guilty release, facing the attempts to dodge the corrective measures (Reinhart, Rogoff, 2009).

Choosing the deadlock in the conduction of economic and monetary policies, with a tendency to postponement and hesitancy, may be responsible for the economic system fall into the stage we have called "*non-return condition*". A context of prone institutions can be the appropriate milieu for the triggering and developing of a speculative crisis, with a singular "sleepy effect" that may undermine the risk assessment so starting the *non-return point*.

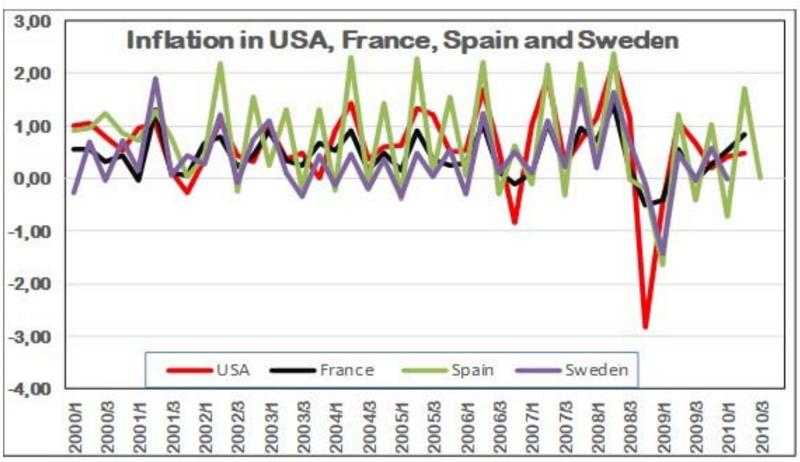
We would like to recall now the anecdote regarding the great Keynes on the eve of the '29 Great Depression. Then it is said that leaving his house, the famous economist was amazed by the concierge shouting and boasting his potential gains on the heels of the continual increases at the London Stock Exchange. With an intuition that resulted to be winning, Keynes immediately decided to sell all shares in his possession. Sometime later, Stocks from around the world, in the wake of New York, began their downturn till the world economy disaster (Keynes, 2016).

In other words, when instability becomes chronic and persistent, the message sent by the system is tending to become increasingly ambiguous, if not even misleading. There is the feeling that the economy has entered a new era of unlimited development, which would be perceived as the indefinable reason for the speculative growth in specific activity areas. An uncertain paradigm, this unlimited economy growth, nevertheless becoming paradoxically more widely acceptable because the economy is providing ambiguous information about the major variables' behavior. So, the inflation is stagnating, while the economy is mildly growing.

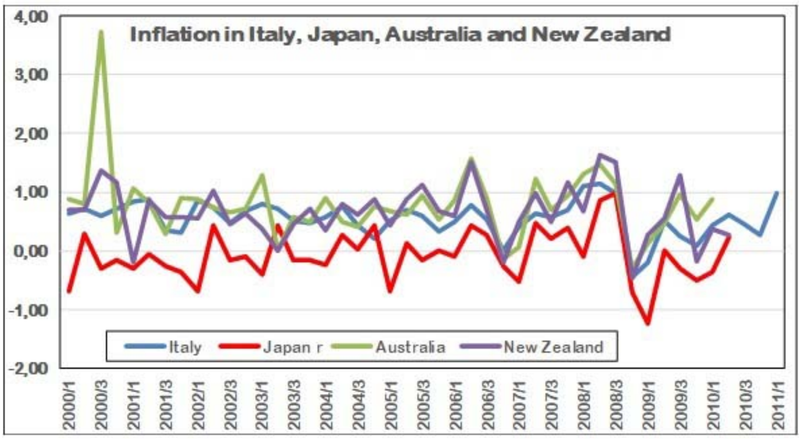
In such altered situations, the information implicitly and explicitly sent by the system to operators and families seems to converge into a message of relative serenity, highly ambiguous. Moreover, it's leading to the certainty that the economic system paradigm is changing into a new original scenario. In fact, the system seems to spread a soporiferous opium that will lead - within a few months - to the disintegration of the unlimited growth false ectoplasm and to a financial crisis abnormally serious.

The explicit information captured by most people focuses on the fundamental variables, Inflation and GDP, which though in this state of serious alteration are moving strangely in a discreet way within the economic scenario, otherwise so effervescent due to the speculative boom. As we can see in Chart no. 4/a 4/b, in those countries invested by the 2005-2008 speculative wave, the structural inflation is gradually demolished, to reach almost the zero level during the phase preceding the speculation peak. Thus, in the United States the price variation almost resets in 2006, the same behavior seen in most countries worldwide experiencing the speculative degeneration during the analyzed period (Roubini, Mihm, 2011).

An unusual behavior is presented also by the GDP trend in countries subject to speculative excitement. Despite the fast running of speculative sectors, GDP moves fairly and fluctuates around 0.5% and zero (quarterly data) in the major countries observed (Charts no. 5). Specifically, in USA and R.U., during the speculative bubble development period, the economy is growing at an average rate of 2% per annum. Shortly, prices are moving slowly down, while the economy is growing at an average of 2% per annum.



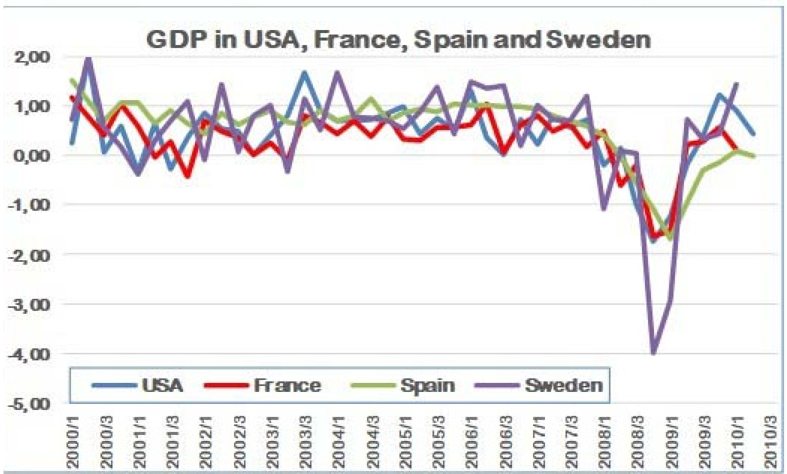
Charts no. 4/a. Inflation in many countries

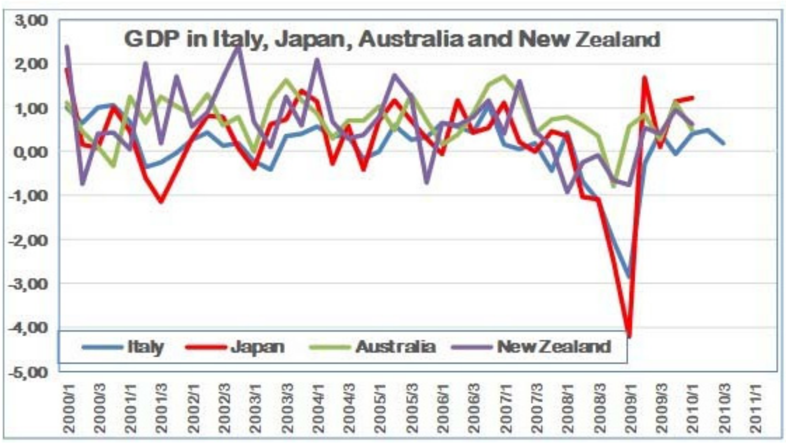


• Elaborations on IMF data

Charts no. 4/b. Inflation in many countries

At the end, these are values that may seem compatible with an economy that moves according to a normal development trend, though the inflation too low should be a clear warning. Thus, there are clues that may push institutions to a *wait and see* behavior, because finally this price information is appeasing any alert feeling (soporific). Many economists, during the recent financial crisis, made the mistake to believe to the apparent regularity of a highly unstable world, which was on the threshold of a financial crisis, second only to the historic 1929 crisis (Bernanke, 2000).





• Elaborations on IMF data

Charts no. 5. GDP performance in many countries

Quite singular, in the reviewed period, is the inflation obsessive rhythm in Spain (quarterly data) that fluctuates from one quarter to the next, from +1.5% average to similar but negative values. The same assessment concerns the GDP trend, which equally fluctuates from a maximum average of +1%, to negative values in the following quarter. It is also noteworthy that the two variables move in sync during the speculation acceleration, then almost overlap during the final phase of speculative degeneration.

In general, in the case of a speculative crisis, the two variables (Inflation and GDP) move in relative sync with a lag of about two quarters, i.e. the GDP trend precedes by some quarters the related inflation profile. The temporal synchronization of the two variables is the unequivocal signal that the economy state is marked by an extreme instability and that the *"cupio dissolvi" (I want to dissolve)* of the financial crisis is very near.

For the long persistence of the system in an unstable condition and in the absence of any recovering action, the automatic correction mechanism finally takes action without leaving any potential back way to institutions and operators. As saying that the long wait without correction action doesn't leave any hope or time margin to a redemption. With a paradigm apparent change, the system takes the way of the scenario without return, which is becoming then the "opiate" slope towards the deep financial crisis. The crisis thus becomes a sort of imperative and very punitive purification, because investing the whole society isn't able to distinguish the different responsibilities for the process that through an unlimited speculation has finally caused the financial crisis.

This very serious epilogue, which is the result of indifference and postponed though not deferrable decisions, is a strong signal to the institutions and company leaders about the very negative sequences caused by their agnosticism. The economic and social repercussions of the corrections, made relying on the natural pathway, are enormously greater than those, even serious, of corrective actions carried out instead with the social consent. The natural system in fact is blindly demolishing, because it's assuming that beyond a given limit, it becomes imperative and undelayable for an economic system to return to the stability natural state. At all costs!

This is to assure that the fall into the instability is anything but unavoidable. However, it should be imperative for institutions not to allow the system to reach the *non-return point*, from which the fall becomes unavoidable. At this regard, it should be noted that the time available to the institutions for the corrective action on the mistakes - responsible for the economy unstable state - is long or even very long. Before the system reaches the *non-return point,* the natural mechanism has activated a constant series of feedbacks to advise institutions, companies and families about the troubles within the economic and social context, such as the cyclical situation, the monetary alterations, the decline or regression in economic development, the rising unemployment and so on.

Long time, then, to make whatever action and so to avoid the natural correction punishment. These long times, anyway, will suffer a drastic contraction if the government heads, by mistake or inconsistency, would choose the wrong way to counteract the automatic correction process. In this case, even the time available to right the economy boat without direction is abruptly contracted, with unpredictable results. Unexpected events caused by an intervention blocking the natural correction, can occur when: - It's decided to push on the growth by injecting strong public spending, in a high inflation environment, with the economy cycle compressed on the decreasing wave and with accelerating inflation; - Or, in the case of speculative acceleration, it's decided to maintain an accommodating monetary policy, allowing to provide other monetary fuel to the distorted development.

However, when are avoided the actions of hard contrast to natural correction, the times in which - for the governments' inaction - the instability may be prolonged, are lasting even for years. Meanwhile, the system is continuing to send explicit messages about difficulties through the price gauge (inflation or deflation). These messages, in terms of the economy, are translated into growth anemia, income decline, increased unemployment. Continuing in this way without serious intervention is a suicidal choice for the country, because the economy problems can only worsen, while the social approval to the rulers will decrease.

On the other hand, beside these explicit and generally understandable messages, the system continues to send also implicit messages that individuals may perceive, even before the economic numbers make clear any policy flaw. Individual sensitivity about the economy state is another trick that governments and companies must keep in mind, because the acceptance degree *o*f government action could be a result of these feelings.

Given this implicit capacity of individuals and communities over the economy course, we must reflect on the most useful strategies to straighten the economy route and at the same time to maintain good government policies. At this regard, it's to be noted that the long times when an instability condition is evolving in a country, can be an unsuitable reason to choose inertia while dealing with the correction of errors quite often affecting the interests of important groups. Therefore, that's why the possible and improvident choice, in view of coming elections, to procrastinate the most difficult decisions after the elections.

Undoubtedly, this is a wrong decision regarding the country's interests, because the delay would imply a social malaise worsening. But even for the current government credibility, the choice to escape from its obligations for mere political calculation is wrong. Therefore, this is a doubly wrong choice for the economy deterioration, but also for the feeling spreading all over the country - through the economic system implicit messages - about the persistent incapacity of the government in charge to face problems with the necessary determination.

From the above, it follows that a close correlation can be found between the confidence index for consumers and companies and the possible election results. In fact, the confidence test on the economy short-term prospects is based on feelings, perceived in implicit form by most of individuals, companies and institutions, on the future economic and social conditions. It follows that a confidence test can also be a good test on the results expected from the next electoral contest.

We can deduce that positive confidence tests and improvements in the economy state can be a source of good support for the government structure, when there are programs in line with the good prospects of the economy. Similar but opposite considerations can be made assuming that confidence tests on the economy state are downward-oriented, especially in perspective. In this case, the upcoming consultations will maybe see the prevalence of a new subject, with a government program renewed and disposed to intervene on the economy issues in the appropriate form.

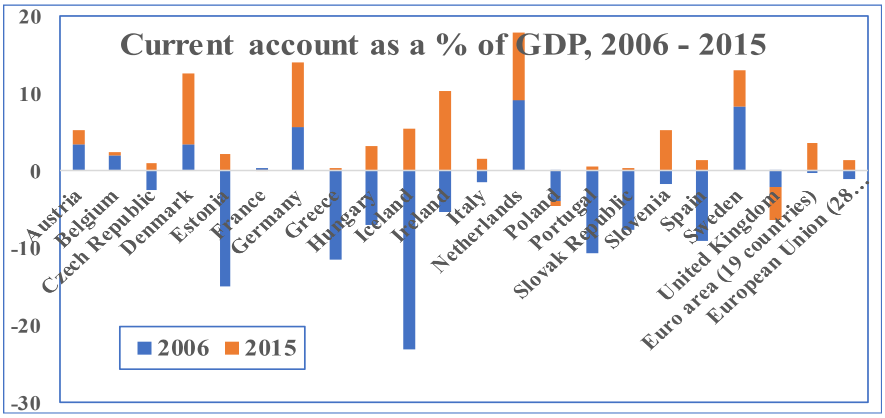
6. The EURO Problem

James Mirrless, 1996 Nobel Prize for Economics, in a conference at Cà Foscari University in Venice, said among other things: "As long as Italy remains in the euro it will not be able to expand the mass of currency in circulation or devaluation: that is why it is necessary to decide whether or not to remain in the single currency, an issue that is not easy to deal with, because people will take the money out of the bank account before this happens."(Sole 24 ore.-sept.2015)

Moreover, Nobel Prize Laureate Krugman said: "Europe was not suited to the single currency, as the United States. Spain and Florida have had the same housing bubble, but the Florida population has been looking for work in other states less affected by the crisis. Spaniards did not have the same opportunity. Social welfare, health insurance, federal spending and national bank guarantees are only governed by the Washington government throughout the country, while in Europe it is not. This is one of the main reasons for the fragility of the system Europe, at least until the creation of a continental bank guarantee. However, Europe is not in decline, it is an active and dynamic continent, but it has failed to choose its own governance and its institutions for controlling economic policy. But is still in time to remedy." (Sole 24 ore - sept.2015).

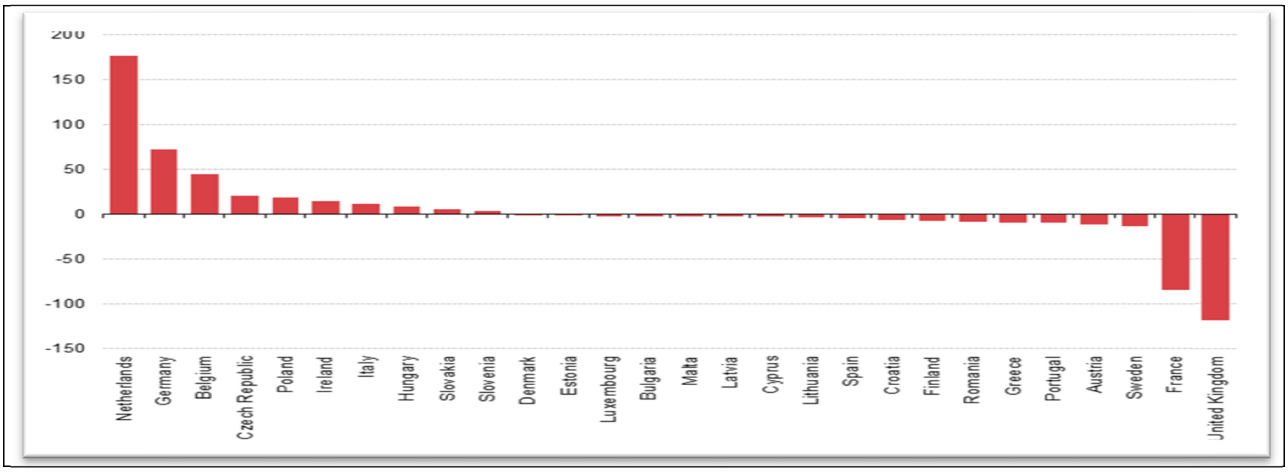
"The push for the Euro was motivated by politics, not by the economy”. It’s this the somehow controversial position of Friedman, the 1976 Nobel Prize for Economics. Joseph E. Stiglitz, the 2001 Nobel Prize for Economics, with his essay "The EURO. How does the communal money threaten the future of Europe" (2016) focuses on the rigidities deriving from the Euro membership, particularly from the point of view of the currency devaluation maneuver which is no longer available for those countries associated to the European common currency.

Well, there is no doubt that joining the Euro club has been an additional problem, especially when compared with the European countries outside the common currency. Notwithstanding, some predictions about the consequences of the policy rigidities in the countries inside the Euro do not seem to be confirmed. On the specific issue of foreign accounts in Euro countries, as we can see from the Chart no. 6, the membership in the common currency did not worsen the respective balances. From 2015 external balances relating to GDP, were in fact positive for almost all the Euro countries. Not only, but data are showing also a positive evolution from the speculative bubble burst in 2007-2008. Largely negative in 2006, they have become largely positive in 2015.



- Elaborations on IMF data

Chart no. 6/a. Current account as % GDP*



- Elaborations from Eurostat

Chart no. 6/b. Intra-EU trade in goods, balance by Member State -2015*_

Some well-known economists argue that the constraint imposed on the Euro countries would not have allowed the weaker economies to adapt to the changing market conditions. In particular, the Greek crisis was the subject of many reflections. At this regard, M. Friedman said that "A common currency is an excellent monetary arrangement under some circumstances, a poor monetary arrangement under others. Whether it is good or bad depends primarily on the adjustment mechanisms that are available to absorb the economic shocks and dislocations that affect the various entities that are considering a common currency." These are widely shared considerations, referring to the general theory of international trade. However, the question of instability, in some economies of the area greater than in others, deserves some further reflection.

Then, the Euro-Europe countries have a relative uniformity degree regarding civilization, education and sociality levels, while in terms of income and wealth the differences are generally contained. In this area not yet uniform but anyway similar, doesn't seem acceptable the thesis giving the responsibility of crises that have affected many southern Europe countries, including Italy, to the common currency and to the Union severity.

Therefore, doesn't appear to be consistent to support the thesis that among the EU countries can emerge some irreversible imbalances in the exchange mutual relations, which can only be treated through drastic measures such as the exit from the monetary union. Not only and not so much, because this assumption is basically denied by the recent trend evidence in current trade between the Euro countries and those outside (see Chart. no. 6). But also, because other and more significant anomalies can be found in those countries inside the area that are financially more exposed, including Italy. Anomalies that are not reportable sharply to the common currency membership, while instead should draw the attention to the real reasons for the difficulties, which in some countries are present more than in others.

In the meantime, it isn't without criticism also the thesis that international trade imbalances can be treated by the currency devaluation, to make exports more competitive. By the way, the competitive devaluation can be a zero game if, in a sort of currency war, the weak countries would rely on currency devaluations. On the other hand, any benefit of this strategy would last a short time, thus triggering repeating write-downs. In any case, these are short-sighted strategies not treating the sick economy, but just relying on temporary adaptations to postpone the return of the economic system to its balance. Therefore, in the case of an economy subject to inflation, the currency devaluation is just a consequence, the price paid for the economy instability. The devaluation thus becomes a temporary mean to take time instead of acting on the instability primary cause: the inflation.

For the Euro countries the gradual integration of their respective economies should lead to a convergence trend of differentials of inflation or deflation in each country, around the area average. This convergence tension on prices is the precondition for the normalization of trade relations within the community. In natural stability conditions, a general balance in the reciprocal exchange relations in fact should be carried out among the Euro countries. Therefore, if there are serious imbalances in the reciprocal exchange relations, the tensions may arise from inflation or deflation differentials emerging between the various countries in the area.

So, going further in our line of reasoning, a discontinuity in the intra-community trade relations couldn't be resolved by directly targeting surpluses or imbalances within the intra-Euro trade relations. Imbalances are, in fact, the system fever (i.e. the malaise manifestation) and not the instability cause. The alteration cause in the intra-Euro exchange rates should be sought instead in the instability reasons affecting all or part of the Euro countries. And this just because, as already stated, in a natural stability state, the price trends and the reciprocal relations between the partners in the area must move towards a well-balanced situation.

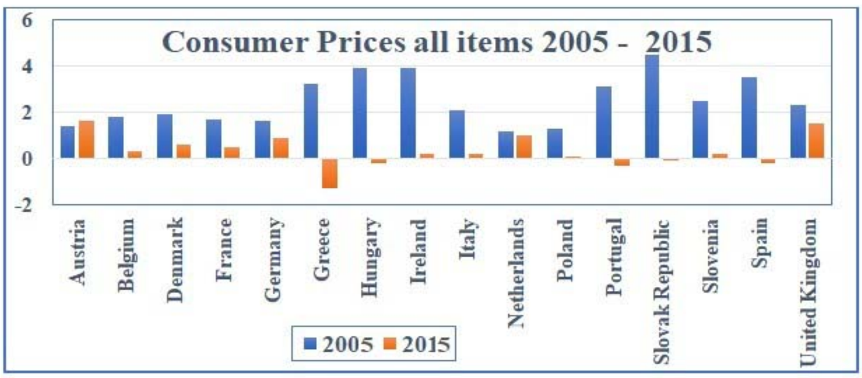
In fact, the natural tendency of economic systems to stability, experimented along the whole humankind history, must involve *"in se ipse"* the non-transient tendency of the different economies to have balanced relations between them. Therefore, any profound and prolonged alteration in trading relationships is excluded. Otherwise, we should consider ineffective or unstable the systems' natural and irreversible tendency to stability. Hypothesis to be rejected. Therefore, wide and repeated oscillations of the general equilibrium condition in the intra-EU relations must be considered just as the "treatable" consequence of all unresolved anomalies at the level of single member nations in the area. These anomalies are occurring asymmetrically at the Union level and therefore are perceived as imperfections in the community general running.

To accuse these asymmetric behaviors, which are to be attributed to the instability of the various member countries, doesn't make any sense. By doing so, in fact, the intention would be to fight the reflection, at Union level, of the anomalies within the single states, with the misplaced hope to solve everything impulsively, like a hammer blow on an electronic device! However, these are reflections resulting from anomalies in the economies of the single members, so (continuing with the metaphor) the hammer stroke may have unexpected results.

From this point of view, the idea of doing the "homework" by caring our garden has a clear meaning. However, this reorganization work, thought to remove errors in the member economies, could be unsuccessful if it's promoted as a warning launched by some countries (like Germany) to others. On the contrary, there must be a mutual collaboration aimed to find and correct the old erroneous distortions within the countries of the region. Distortions, by the way, often well protected by powerful lobbies for their vested interests. The result of these corrections can be measured through the normalization degree of mutual relationships within the area, as a tool useful to assess the status and effectiveness of interventions.

Keeping our eyes on the interval between the speculative bubble burst eve and the latest date, we can see that some important parameters of the Euro-linked economies have been deteriorated. Below there is the **Chart no. 7** on the inflation rate performance in 2005 and 2015.

As you can see, in the generality of the concerned countries the inflation is declining, assuming a negative value in countries such as Greece, Portugal, Spain and Hungary. The general decline in the inflation rate has been for long time the subject of observations and interventions by the ECB, which followed the Fed's example with some unconventional maneuvers such as the QE (Quantitative Easing).

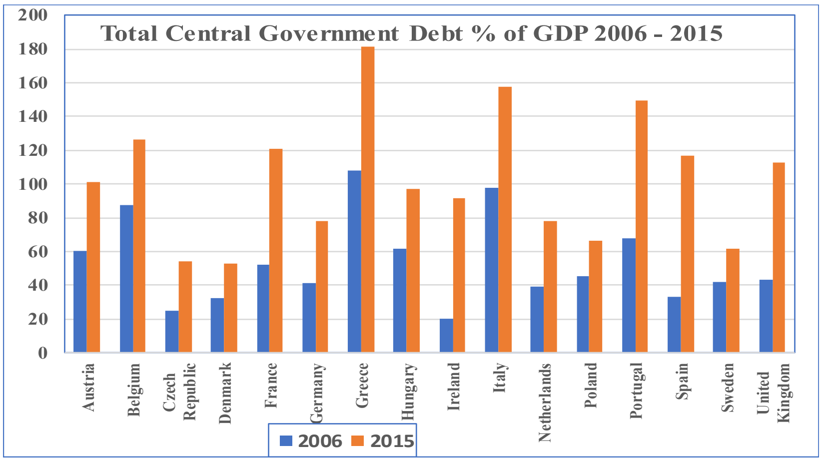


- Elaborations on IMF data

Chart no. 7. Consumer Prices in Euro countries*

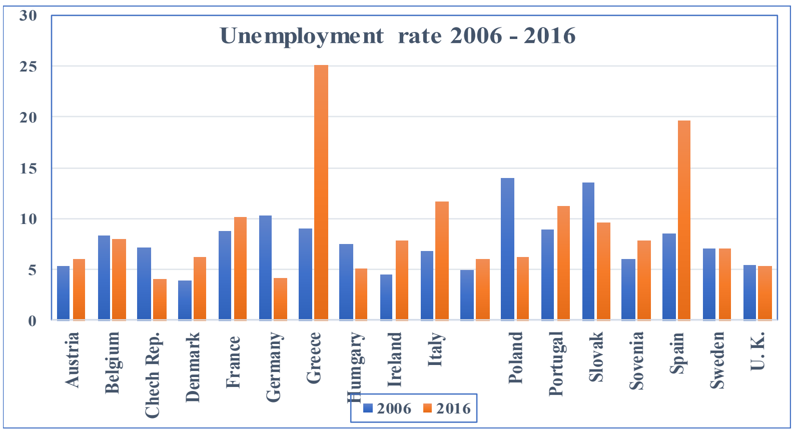
The results achieved in this Atlantic side were less significant than those obtained in American soil. The difference seems due to the wealth effect produced by the liquidity injection (through QE), which was higher in America for the acceleration of US stocks. In addition, in many countries the unresolved crisis in the banking sector did not allow ECB new liquidity to become more credit to companies and households.

Similar considerations can be made about the public debt. The Chart no. 8 is showing the public indebtedness values compared with the Euro countries GDP in 2006 and 2015. As you can see from the Chart, in that decade the debt / GDP ratio has increased without exception, so that in the area the public debt increased over 90% of GDP. The debt boom is the legacy of the 2007-2008 financial crisis, with the stimulation of Keynesian policies to support the demand weakened by the crisis. Moreover, in most of the Euro countries, governments made actions to recapitalize the banking system, close to bankruptcy under the blows of the severe financial crisis.



- Elaborations on IMF data

Chart no. 8. Total Central Guovernment % GDP in Euro countries*



- Elaborations on IMF data

Chart no. 9. Unemployment rate in Euro countries*

Deflation trend and public debt potentially increasing are a symbol of instabilities in many Euro-zone economies. If we then add the other imbalance factor, linked to the employment trend in the Euro countries, we would have a general picture still detrimental, due to the economy weak growth and to the social troubles (Chart no. 9). Inspired by these negative factors of the Euro countries' economies, some economists have argued that the return to a compatible growth would make appropriate a well-organized exit from the common currency or at least a deep reflection on the membership convenience. This is perhaps a hasty and even rash judgment, which unfortunately has been adopted in Europe by movements that have made their political action program with the anti-Euro flag.

It is certainly too hasty and mystifying to draw conclusions on the economy state inside the continent from negative signals, such as intra and extra EU trading relationships or the interest rate spread on bonds of some Mediterranean countries and those of northern European countries, particularly Germany. As we have tried to explain, the mystification consists in looking not at the causes but at the consequences of imbalances. Imbalances that in some countries are greater than in others, not caused by the development differential that is instead the consequence, but rather by the accumulation of unresolved errors displayed in prices (deflation), weak growth and high public debt. Going to search for solutions by insisting on the mistake to focalize the consequences instead of the causes, means just fighting windmills, without realizing that it's the wind (the economy instability in each country) the cause of all the troubles.

According to this, it makes no sense to try to solve the problems affecting many of the Euro countries with the theatrical choice of the exit from common currency. Because the result would be precarious on the specific issue of trade relations and on a public debt theoretical relief, but would be dramatic at the economic and financial level. Indeed, to the unresolved problems of the economic systems' instability, would be added the insecurity resulting from the abandonment of the single currency and the return to the previous old currencies.

7. Conclusions

The stable economy parameter is the straight growth. If this linear motion is not realized, the instability consequences will occur: inflation, deflation, altered trade relations, low or negative growth, rising unemployment, and increasing public debt. Trying to deal with the consequences without removing the causes of systems' instability is a mistake with often contradictory results. The economist can be tempted to address the problem indirectly, to avoid the power refusal to attack the evil at root. The result of these obstacle (the evil root) avoidances is often an extension of the economy malaise for a decade and even beyond (Geithner, T. F. (2014). In other words, the corrective system - which in any case must pursue the stability in economic systems - is proceeding anyway on the recovery road, but the recovery times are extended, spreading over the social structure more serious and prolonged damages.

The diagnoses made on the troubles of the economy may have a structural fault, because they usually disregard the problems' core (errors obstructing the system development). Treating deflation with the monetary economy tools is not only difficult but uncertain. The liquidity abnormal increase does not benefit the price system. Only if this new liquidity is a tonic for the economic trend, the improvement of the economic environment is reflected in the prices. If this occurs, then the economy and prices are improving. However, the general instability is not solved at all.

Continuing to act on the economy fever, but disregarding the causes, can only lead to a gradual extension of the instability causes and to the decline in the development potential for the countries and for entire continental areas. By doing so, we ignore or pretend to ignore the presence of physical forces structurally inside the economy, just like in physics and mathematics.

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