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The Search for Inflation on a Constant Basis at 2%

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Abstract: The major Central Banks consider as more stable the economy horizon, when the base value of inflation close to 2% has been reached. It is assumed that a low inflation is affecting the economy efficiency, while a greater balance between the two variables is an advantage. It must be added that basic inflation close to 2% is an abstract value, undefined, because it defines the healthy global economy evolving within the natural system compatibility. In the current global economy, achieving this level of balance is out of reach. This does not mean that an approach to the inflation basic values shouldn't be pursued, given that a balanced relationship between price inflation and GDP may indicate a tendency to the economic system rebalance. On the other hand, a correlation between Inflation and GDP is a sign of economic instability. A signal of instability due to the debt excess affecting the world economy. Unfortunately, ten years after the serious post-speculation financial crisis, the debt burden has worsened due to the pervasive use of ultra-Keynesian policies to alleviate the side effects of the severe 2008-2012 recession. In fact the post-speculation recessionary crisis did not mitigate the problem of debt excess, but did worsen it instead due to the consequences produced by the cycle support policies. The "sword of Damocles" of excessive debt, therefore, remains hanging over the global economy. In these circumstances, trying to accelerate the economic cycle could lead to a rerun of the speculative boom already experienced. While a global economy proceeding with the aim of a contained but prolonged growth, could certainly avoid to follow the "sirens" of a growing global indebtedness. Provided that monetary and fiscal policy would not derail from the right path of economy compatible growth.

Keywords: Central Banks, Inflation Constant Basis, Global Indebtedness, Financial Crisis, Monetary Policy

1. Introduction

The major Central Banks are looking for the difficult balance between avoiding the economy overheating and pushing the inflation trend to the 2% target. This is what particularly was stated by the FED's new president, Mr. Jerome Powell, in the semi-annual hearing at the US Congress in February 2018. On the same topic, the ECB president, Mr. Mario Draghi, during a hearing at the European Parliament's Economic Affairs Committee argued that: "Eurozone growth is robust but at the same time inflation has yet to show more convincing signs of an upward adjustment". The position of the Bank of Japan is not different. In a recent interview, the governor of Boj argued that: "there is still some distance from inflation at 2% and therefore we are not yet in a position to discuss the timing of exit from an ultra-accommodative monetary policy".

In short, "the sleeping beauty" is the inflation, which doesn't seem willing to wake up in the USA and Europe, as well in Japan, even though the major Central Banks have started an ultra-accommodative monetary policy to mitigate the social and economic damage of the 2008-2009 financial crisis. The price variation remains in fact blatantly blocked in a narrow space between 0 and 1.5%, putting definitely in the remembrance book the money quantitative theory.

Now it seems undoubted that an inflation rate going around 1% is giving a signal of a price deflationary tendency and of an unstable economy. The apparent paradox is that the difference to get the target of constant-based inflation close to 2%, seems minimal. Yet, to overcome this small gap between current inflation and constant inflation the abnormal currency increase through the QE (Quantitative Easing) programs experienced by the main Central Banks were not enough. (Hausken, Ncube - 2013).

The reason for the difficulty in achieving a constant basic inflation is not surprising at all. The difficulty is that to drive the economy from the creeping deflation state to the constant basic inflation, the instability of the economic system must be overcome. In other words, the economy should find its stability on the path of development compatible with the environment where all resources are taken. On the other hand, the achievement of the inflation constant stage close to 2% can be confirmed by the economy development profile remaining compatible over time and following a growing path, with an inclination depending on the potential.

Otherwise, in the case of inflation tending to deflation, the economy is highly unstable, due to excessive debt incompatible with the real economy, as in the case of a financial crisis not yet overcome, which impacts on the performance of the system. In a context of instability, growth remains weak and the level of prices, which are also weak, is linked to the irregular development trend, affected by short cyclical waves rising and falling every six months (see: *Cossiga, 2017*).

The numerical difference between deflationary inflation and constant inflation rate close to 2% may seem insignificant. Notwithstanding, the real distance between the unstable scenario and the compatible economy development is great. It's generally doubtful whether the monetary policy could play a decisive role in restoring the stability within an economic system. Confidence in this perspective seems only foreshadowed by the ECB president, in his hearing at the European Parliament: "Although the strong momentum of the economy has clearly strengthened our confidence in the prospects for inflation, we still need patience and perseverance regarding monetary policy".

Well, there is no doubt, however, that the robust QE program, and therefore the purchase of large amounts of public debt and private bonds, has somehow mitigated the debt excess affecting the economy. The allocation through public and private debt in the market and in the central bank's ATMs gave liquidity to the economic system smothered by the financial crisis. Not only. It has the merit also to temporarily lock the over-indebtedness, so easing the economic situation and then boosting the economy.

It can be deduced that monetary policy played a significant but certainly not decisive role in the post-financial crisis 2009-2013. Because monetary intervention is unable to resolve the contradictions of the financial crisis but has actually stabilized though not removed the problem of increasing indebtedness, through the sterilization of part of the excess. The part temporarily removed from the market remains suspended like a sword of Damocles over the economy prospects. In fact, the markets seem to be watching with great concern not only the operation of upward rates, already started by the FED and still stable in Europe. However, they are also questioning about the reduction times of the impressive assets accumulated by the Central Banks in the USA, Europe and Japan with the extraordinary interventions of QE.

The progressive return to the market of public and private debts sterilized inside the Central Banks, in fact, would introduce these assets back into the circuit, with a parallel reduction in the market liquidity. At that point, the instability consequences on the economy could increase; consequences that have been mitigated during these post-crisis years by the QE operations. A possible consequence could be found in a reduced momentum of the economy, previously allowed by the allocation of assets in the Central Banks. Finally, in short, the QE operation could not have the desired decisive effects, which would be announced by the rising inflation rate.

However, the question is quite clear. The accelerated inflation rising, exceeding 3% and above, seems in any case to be excluded. It would have in fact the improbable meaning that the economy of the main countries and continents could move from the current creeping deflation to the progressive inflation in the near future. A hypothesis expected by the markets and by those who link a potential rise in inflation to the liquidity increase due to the prodigality of extraordinary monetary policy measures. This hypothesis is unlikely. It didn't occur during the progressive increase in the liquidity mass and with the withdrawal from the market of increasing shares of public and private debt. It isn't reasonable that could be able to regain its strength during the phase of depletion of this strategy.

On the other hand, a widespread over-indebted condition brings also a weak economy and a creeping inflation trend. The aggressive monetary policy has benefited and restored the economy in the Western area, thus mitigating the downward pressure of the cycle exerted by the debt excess on the economy and on prices. The progressive return to the conditions preceding the QE manoeuvres, seems therefore destined to repeat the downward tension on growth and prices and not the contrary.

A diagnosis affected by some distinction, depending on the capacity of reaction demonstrated by the economy in the various countries during the post-financial crisis years. It's reasonable to think that countries that have reached or exceeded the income level they had before the 2008-2009 crisis, can at least partially escape the renewed downward pressure on the economy and prices, due to the blocking or reduction of QE. The greater size of the economy after a decade from the financial crisis, can mitigate the debt and the downward pressure of prices, in relation to the weight of the economy.

An economy, when unstable for over-indebtedness, enters a sort of narrow passage. The liquidity released by the Central Banks after the financial crisis has boosted the economy to mitigate the collateral damage caused by the recession. However, the restoration of credit conditions allowed by the QE operations has a dark side. It allows the economic system to reduce the traumas of the cycle backslash, but at the cost of delaying over time the solution of the excessive debt problem. (see Geithner, 2014).

As if to say that we refer to the future the difficult question of the excess absorption, being confident about a sustained recovery of the economy for an adequate time to allow the restoration of stable and compatible growth conditions. This is a challenge becoming even more difficult to achieve if the planned economy growth is not realized to the useful extent. This means that in a varied situation, such as that of the

Euro-zone, becomes somehow prophetic the hypothesis to maintain long-term interest rates close to zero and a long transition of the QE until a definitive extinction.

This complex picture for Europe can be reproduced with a few adjustments for the major countries and continents, all struggling with the after-effects of the speculative hangover and the huge debt to mitigate the bites of the 2008-2009 financial crisis. The major troubles may therefore come from an underestimation of the dangers of the economic cycle decline, due to an inopportune increase in interest rates and to an anticipation of the QE operation end.

In fact, the Quantitative Easing is also a psychological support for the market and the accelerated return of assets to the market could start some unexpected worries and anxiety. On the other hand, the road for the monetary policy in the near future is very narrow. In fact, a confident laxness can be contraindicated for an opposite reason. That is the possible tolerance about speculative market tensions that rely also on leverage to increase their propellant.

2. The Stability of Economic Systems and the Constant of Prices

2.1. The Constant Rate of Price Close to 2% as a Definition of Global Compatibility of the Economy

The *hope* that the major economies would tend towards stability over the medium term seems to be a mere fantasy. For some good reasons, indeed. The extraordinary monetary policy measures have basically delayed in time rather than solving the issue of economic instability. On the other hand, the problem of over-indebtedness that was the determining cause of the 2008-2013 financial crisis has not been resolved by the ultra-speculative affair occurred in the first decade of the millennium.

Countries, like Italy, that have reached the world appointment of the speculative crisis with a burden of excessive indebtedness, have suffered with greater violence the sharp reversal of the economic cycle. The strong public exposure didn't allow the use of deficit spending to mitigate the recession damage, thus suffering a deep GDP reduction. The deep recession not only didn't help but has worsened the debt problem in the public sector, because of the sharp fall in GDP. With hindsight, it must be said that the choice to not rely on new debt might not have paid, because the increase in debt to partially correct the economic cycle sharp decline could have been balanced by a lower decline in GDP, with lower side and social charges.

However, in general, the industrialized countries partially contained the sudden fall of the cycle at the end of the first decade with the massive use of public debt, especially to recapitalize the banking system severely affected by the financial crisis and to support the production system. A strategy with the Janus double face. In fact, it allowed to curb the vertical fall of the economy and employment, with some undoubted social relief. Nonetheless, it has also weighted the economy with the legacy of a high public and private indebtedness. Moreover, for all countries the sudden change in the economic cycle has brought also a further gap in the wealth and income distribution, causing an increasing in poverty. (see Cardoso, E. 1992)

Given the growing debt exposure, the possibility that in the medium term the economy in much of countries and continental areas could move towards stability seems somehow problematic. This positive eventuality is closely linked to a favorable and long economy growth. And this, unfortunately, is in turn conditioned by debt excess, which induces the economy's tendency to a weak growth and a creeping deflation. The link between high indebtedness and economic weakness brings consequently long times for the return to the stability of the global economy, conditioned by the eventuality of an extended period of weak but steady economy growth.

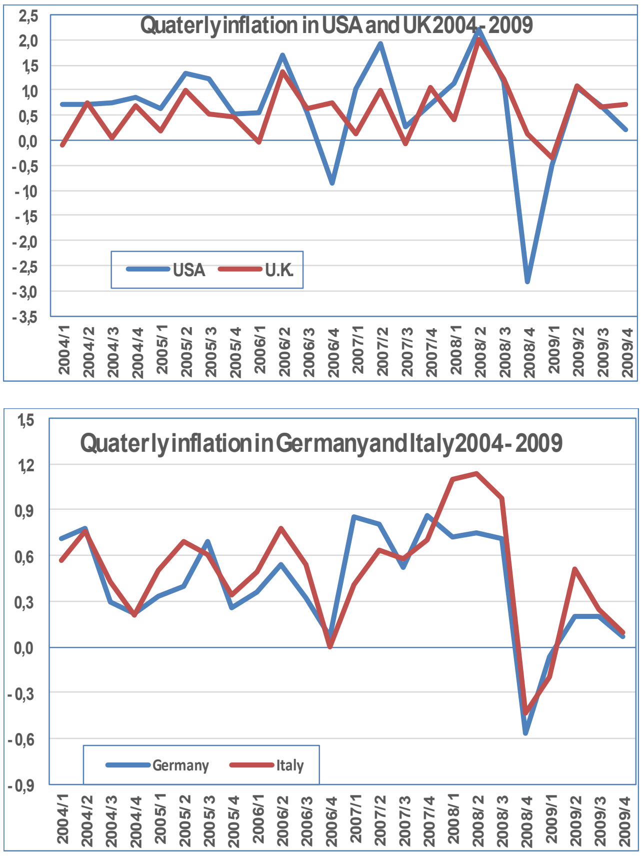
It follows that the possible hypothesis that the economy could accelerate and the inflation could rise to the optimal point close to 2%, appears somewhat questionable. Now there is no doubt that inside an economy struggling with instability there is an improper link between growth and inflation or between recession and deflation. In conditions of instability, therefore, it's possible that the moderate growth of the economy may partly stimulate inflation, which can thus reach the desired goal of around 2%. This goal, when achieved, does not mean that the optimal base inflation rate has been achieved.

Indeed, the link between the economy growth and inflation, which is believed to be the driving force behind rising nominal prices, is a peculiar symptom of unstable economies. The inflation rate, in an unstable condition, is also mobile because it's influenced by the cyclical rhythm of the economy. In a context affected by instability, the inflation is conditioned by the silent cyclical movement of the economy, thus becoming an explicit warning immediately perceivable that economic affairs are not going well. An inflation rate close to 2% may therefore be a misleading signal if the growth rate is driving the price movement.

The constant price rate close to 2%, instead, is an abstract value, because it's the obvious symptom that the stability of the system is reached. Therefore, it's a stage in which every link between economic growth and prices is ceased. Due to the absence of this link, the constant price rate close to 2% becomes a symbolic value of the motion of the economy, which becomes by definition compatible. By extension, the constant price rate assumes the meaning of the consistent coherence between the economy evolution and the endless movement of Earth matter for the part concerning the life survival. A symbolic value no longer connected to the growth process and constant over time, at least as long as the economy remains on the field of a compatible development. (see: *Cossiga, 2018*)

At this point it is important to remember the anomalous behavior of the inflation rate in the period before the speculative bubble spread in 2007-2008. Well, especially in the year before the start of the financial crisis, the inflation rate tightened, remaining just slightly above 2%. In the figures 1, it can be observed that the inflation rate remains weak for a long time during the formation phase of the speculative bubble and then accelerates by about one point, on average around 2.5 - 3% in the peak phase of the speculative crisis preceding the deep recession. A behavior that is common in all the countries of the Western area and that can also be observed in the case of abnormal speculation in Japan during the early nineties.

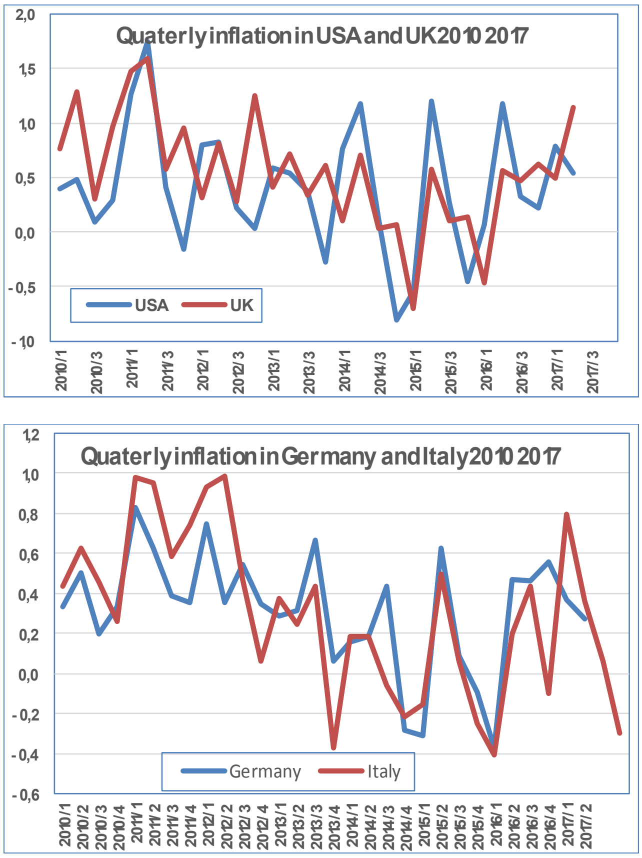
This record lead to some caution when assessing the inflation trend, after a decade from the serious financial crisis of 2009-2013. A sustained increase in inflation rates in the USA and Europe, unfortunately, can be a sign quite far from positive, because they can witness a resumption of speculation, as an unexpected "tail" of the previous one. Because of this unresolved instability, an acceleration of price movement could also be a signal of a new speculative impulse hidden inside the economy. (*see* Reinhart, Rogoff - 2009).



Elaborations on OCSE data.

Figures 1*. Inflation rate trend in the USA and some European countries in the years 2005-2009.*

For a comparison purpose, in the figures 2 are shown inflation trends in the USA and some European countries. As we can see, in the years following the great recession, the inflation rate slowed down, except for a slight recovery starting in mid-2016 and beginning from USA and Germany. As you can see, a behavior that seems to repeat the inflation profile during the years 2004-2007. Essentially, an acceleration of inflation could be an ambiguous signal that doesn't rule out the speculative relaunch, in imitation of what already experienced in the 2000s. So much more than the messianic expectation for a re-composition of the relationship between growth and inflation, as a sign of a return to the economy stability within the main Western countries.



Elaborations on OECD data.

Figures 2*. Inflation rate trend in the USA and some European countries in the years 2010-2017.*

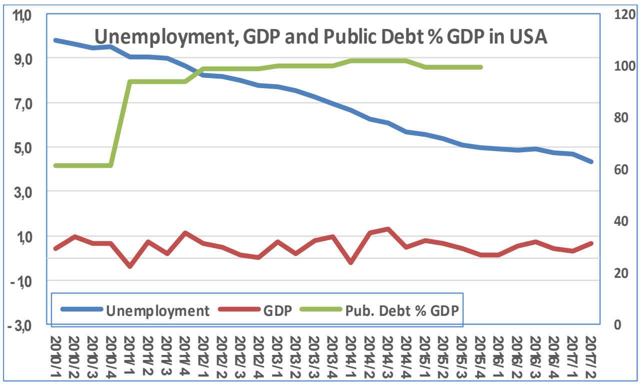
2.2. Ultra-Keynesian Therapy to Mitigate the Bites of the Financial Crisis

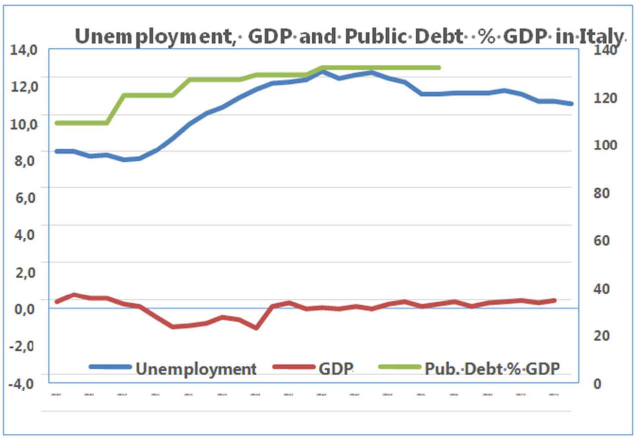
This assumption does not seem unfounded, even without considering the comparison between the sequences of inflation rates in the two periods under observation. A potential fallout of the major economic systems in the vortex of a new speculative cycle, may indeed be the unexpected outcome of the strategies implemented during the years of the heavy recession, to mitigate the bites of the cycle fall. Most Western countries have implemented large injections of public spending in deficit, to support demand, to recapitalize the banks in default, to support credit and to alleviate the social tensions due to increased poverty.

A choice that seemed successful, because it allowed to reduce the crisis serious effects, especially resulting from the potential bankruptcy of banks and large industries. Moreover, the very accommodating monetary policy played an important role in preventing the side effects, due to the growing illiquidity of the system when the effects of the financial crisis were going up.

Now there is no doubt that the strategy of containing the progressive deflagration of the financial crisis has given some significant results, especially in mitigating the social damage that the deep recession implies for the less favored classes, particularly in terms of unemployment. Social damage, on the other hand, that has been very high in countries that have not been able or even didn't want to leverage public spending to control the recession.

On this last point, it's important to underline the consequences from an overloaded economic and social point of view within countries such as Italy, which at the financial crisis outbreak had a fragile economy due to high public debt. A financial fragility that didn't allow the defense of the economy in recession, through an economic policy to support those sectors most exposed to the crisis bad winds.





Figures 3. *Unemployment, GDP and public debt % GDP in the USA and Italy *.*

* The trend of the public debt is shown on the right axis, Elaborations on OECD data.

In the figures 3, we can see the different response that in the USA and Italy, in the period 2008-2017, was given in terms of development capacity and unemployment decline, also with reference to the trend of public debt profile. It is interesting to observe the surge in public debt in the USA during the years following the severe recession and the trade off with a persistently declining unemployment. In contrast, in Italy, the employment decline continues in the five-year period following the heavy recession since 2009, while the public debt, expressed in terms of GDP, still increases in response to the fall in GDP. So, the limited use of debt to mitigate the bite of the crisis does not seem to be rewarded by the results, because the serious economic downturn in Italy raises the ratio of public debt-GDP to 138% in 2015, while unemployment exceeds 12.5% and the descent begins only from 2015.

In the light of the foregoing, assessing the massive use of government spending in deficit to mitigate the violence of post-speculation recession, effectively raises a double question level. The first is the general indebtedness increase in most of the industrialized countries which, even with the due distinctions, seems to spread worldwide the syndrome experienced by Italy for an excessive public and private debt. A syndrome that is characterized by weak or missing economic growth and creeping deflation.

The other issue concerns the possible unforeseen effects of the control strategy use through public spending in deficit to contain the side effects of the severe recession. This strategy, certainly favorable to calm the social consequences of a serious cycle reversal, nonetheless due to the debt burden it isn't without consequences for the subsequent evolution of the economic systems. It's a further issue of concern that the process to resolve the instability, unfortunately entrusted to the rigid recession action of the economy in the years 2008-2010, could only partially perform its role as a supposed healer of the unstable system.

In other words, the speculative crisis that affected the major continental economies is the result of a profound instability of the systems, which sooner or later takes a toll in its attempt to bring the altered system back to stability. We can therefore assume that the process of recessionary crisis following the speculative wave is part of a *natural* strategy (that is, without any particular direction) for the reconversion of the unstable economy to a compatible growth. In other words, the over-excitement of the economic cycle and the inexorable bubble breaking with the subsequent recessionary crisis are to be all considered as a natural mechanism to block the excesses and to re-adapt the economy to the compatibility logic.

It follows that the phase of the economy sharp recession would be a calamity, above all at the social level, but necessary anyway. A sort of period of difficult transition to eliminate from the unstable system the errors in the economy governance, but missing the adoption by the community, understood as institutions, companies and families, of the course corrections in order to return to a stable condition. (see Schumpeter -1939)

Well, the two sides of the problem - high indebtedness and unsolved post-crisis instability - remain as a sort of sword of Damocles over the global economy destiny. It should be added that this two-faced issue could admit a potential exception, namely a strong recovery of the economy to partially reabsorb the instability of the economic systems. Exception that seems to stimulate the confidence of the highest monetary authorities when they entrust the recovery of the world economy, to ward off the specter of a new fall into the modulating recession.

We can therefore show a reasonable optimism about the hypothesis of a soft evolution of the economic systems in the near future, but with some distinctions.

2.3. Prospects for Economic Growth and the Messenger Inflation

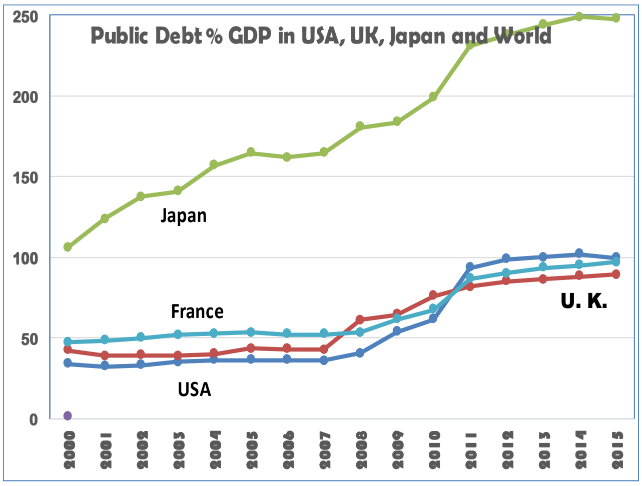
Now, if it's reasonable to accept the thesis according to the main monetary authorities that in the next two or three years there will be an evolution in progress of the global growth, it cannot be overlooked that this positive perspective is not the same for all world areas.[1] According to the IMF projections, the common growth prospect for the next two or three years, although synchronized, does not have the same pace in the various continents.[2] This means that the hope of a reabsorption of excesses through the growth dimension is reconciled with those countries and areas with strong development, but less with the disadvantaged ones.

In particular, during 2008-2019 an average growth of 2.5% in USA, 2% in Germany and 1.5% for Italy is expected. A favorable prospect certainly, but insufficient to impose a sensible decline in the ratio between indebtedness and GDP; and provided that the push to borrowing could be curbed. In any case, the hope of a debt boost control is based on a medium-long period of progress for the Western area, according to a fiscal policy that should assist this debt control. The hypothesis of a cautious fiscal policy in the coming years cannot be confirmed in the Trump's America, in the main European countries and in the Chinese-Japanese area, exception made only for the cautious Germany, the Scandinavian countries and Australia.

In this scenario, the possibility for the global system growth to accelerate seems limited. The debt mountain accumulated at global level in fact leads us to think that the projection of the World Economic Outlook for 2018-2019 is sufficiently realistic, even if at a longer range it would be reasonable to underestimate the prospects for global growth. In other words, it seems that we have entered a sort of vicious circle. The growth of the global economy in the medium term appears to be the *panacea* for a progressive debt absorption. But the economy development, in particular in the Western area, appears conditioned by the heavy load of public and private debt which is slowing down its progress. In the absence of global policies for the gradual but constant reabsorption of excesses, it seems that we are going towards a less bright future. (Roubini, Mihm - 2011)

Moreover, the economic outlook seems positive in the medium-long term according to the forecasts of the main world monetary authorities. In the Fed statement of March 21, 2018, we read about the prospects for the economy in the USA: "Consistent with its statutory mandates, the Committee seeks to promote maximum employment and price stability. The economic outlook has strengthened in recent months. The Committee expects that, with further gradual adjustments in the stance of monetary policy, economic activity will expand at a moderate pace in the medium term and labor market conditions will remain strong. Inflation on a 12-month basis is expected to move up in the coming months to stabilize the Committee's 2 percent objective over the medium term. Near-term risks to the economic outlook appear roughly balanced, but the Committee is monitoring inflation developments closely." Similar considerations can be read in all recent reports issued by the main monetary authorities.[3]

From the recent Statement issued by the FED and its sister monetary authorities, it seems quite possible to deduce that the link between the economy relative strength and the inflation trend, still below target, could be somehow attenuated. By the way, the reasons for this presumed anomaly are not clearly identified. The emphasis, with some hesitation, is on the possible removal of the phenomenon and therefore on the restoration of the almost intimate connection between the economy growth and the inflation profile. (Längin, Cedric - 2011)



Elaborations on OECD data.

Figure 4. *Public debt in some important countries and World.*

1 The Committee expects that, with further gradual adjustments in the stance of monetary policy, economic activity will expand at a moderate pace in the medium term and labor market conditions will remain strong. Inflation on a 12-month basis is expected to move up in coming months and to stabilize around the Committee's 2 percent objective over the medium term. Near-term risks to the economic outlook appear roughly balanced, but the Committee is monitoring inflation developments closely. (from: Federal Reserve issues FOMC statement. March 21, 2018)

2 According to the World Economic Outlook update January 2018, a growth of 3.9% for the global economy is expected for the two-year period 2018-2019, which drops to 2.3 in 2018 and to 2.2 in 2019 for advanced economies, while it is ascending 4.9% in 2018 and 5% for emerging markets and developing economies.

3 SPF respondents' expectations for real growth in euro area GDP averaged 2.4%, 2.0% and 1.6% for 2018, 2019 and 2020, respectively. This represents upward revisions of 0.1 percentage points for 2018 and 2019, and a downward revision of 0.1 percentage points for 2020. Average longer-term expectations for real GDP growth remained unchanged at 1.6%. (results of the Q2 2018 ECB Survey of Professional Forecasters)

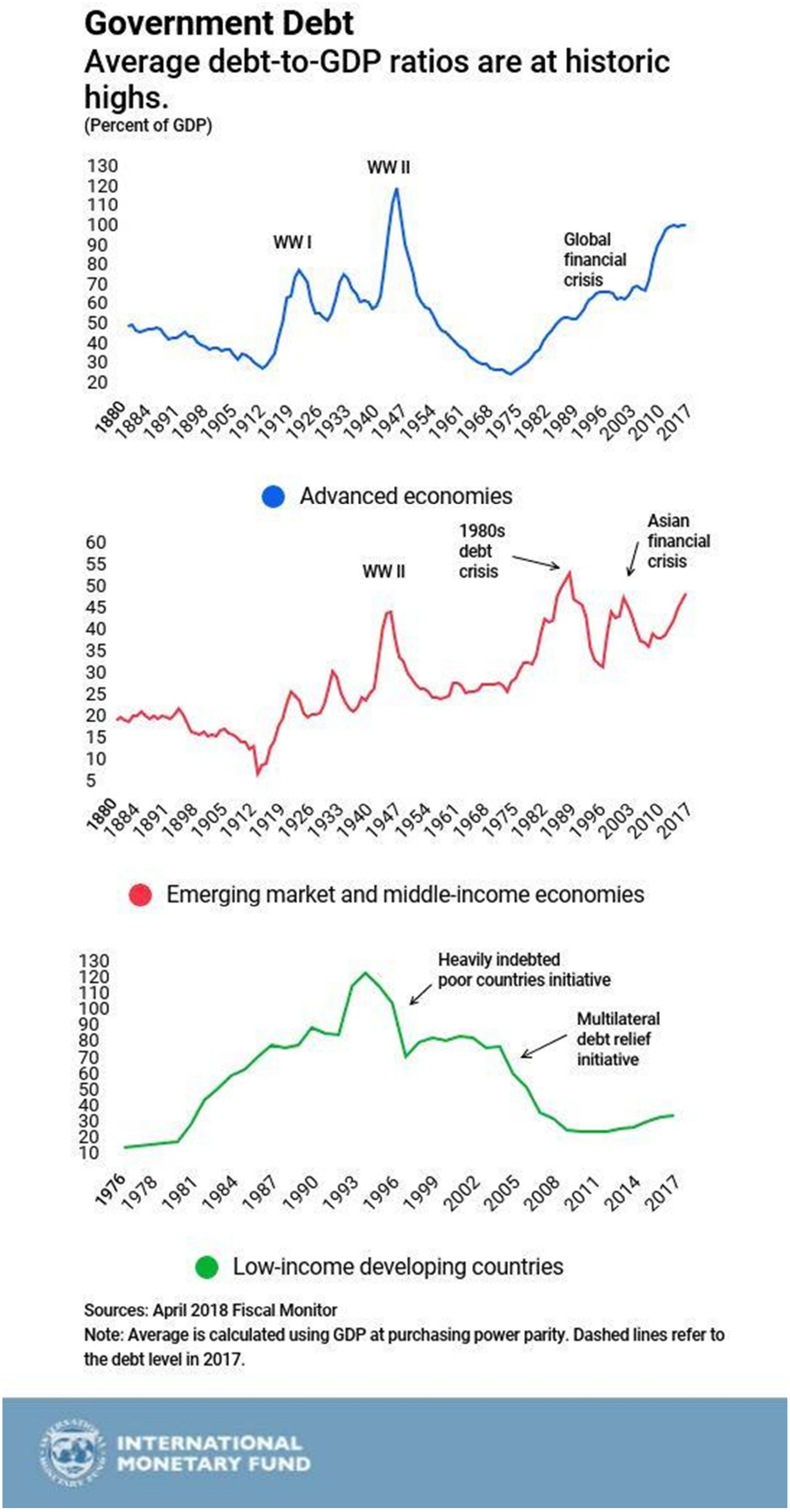


Figure 5. *Government Debt as average Debt-to-GDP ratio to global economy relating to period 1880-2017. For Advanced economies, average Debt-to-GDP ratios are about at historic highs.*

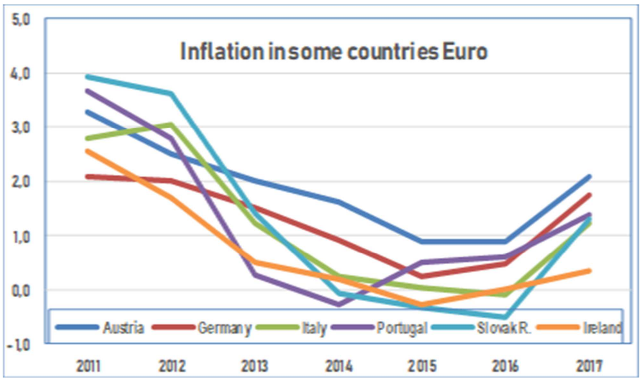
Now, it's clear that the monetary authorities look at the closer link between growth and inflation as a sign of overcoming the creeping deflation affecting part of the world economy. Well, there is no doubt that, in an unstable economy in the post-financial crisis, there is a real traction force between the economy trend and the inflation profile, so that the GDP growth is marked by an almost synchronous movement of the inflation rate. The problem therefore does not seem to be the relationship and the almost synchrony of the economy growth traction and the price index. Instead, it seems rather questionable the extent of the relationship between growth and prices, which remains below expectations regarding the price trend.

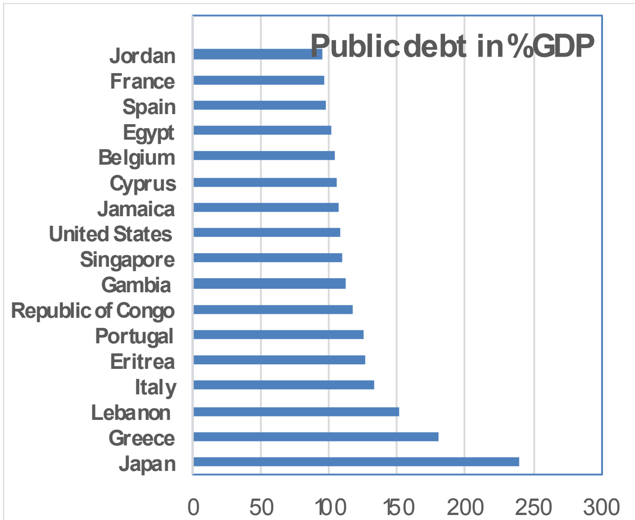
In this regard, we should understand the right meaning of the forecast - implied in the Fed statement – saying that an US average growth of 2.4% in the two-year period 2018-2019 may correspond to a trend almost in line with the price index. In such a case then, the price pace consistent with the economic movement should be a proof of a marked improvement in the economic outlook. But this eventuality remains questionable, because the behavior symmetry of the two variables is an index of economic instability instead of equilibrium. Nonetheless, the different speed of the two variables seems to show a greater degree of instability, while the instability is attenuated when the two variables are running in parallel. Not an instability overcoming, however.

Remaining in the USA, inflation during the two-year period 2016-2017 stood at 1.5%, while the economy pace was almost the double. It is difficult to prove if this relationship is altered by the slow inflation pace, which acts as a brake on economic growth. Evidently, the Fed assumes the hypothesis that the US economy has reached a position near to stability, as evidenced by the economic recovery and above all by the unemployment low level. Ergo, the economy is tending to a greater symmetry between the two variables.

In the Euro area, ECB valuations are roughly similar.[4] We can therefore make similar considerations for the two sides of the Atlantic sea. In the Euro countries, the growth rate slight improvement, in the two-year period 2016-2017, reached an average of 2.1%. It should be noted that the growth rate of the economy was matched by an inflation rate which was a few tenths of a percentage point lower than the USA, reaching around 1% in the biennium.

Given the declarations of the monetary authorities on the economy prospects within the Western area, the relationship between inflation and growth, which is a sign of an unstable condition of the economy, in any case deserves some attention. A signal of instability that seems confirmed also by the weak fluctuation of the inflation value. In fact, the inflation greater weakness seems to be the mark of a deep-rooted economy instability. The signal provided by the weak inflation is more evident among the Euro countries, as can be seen in the Figures 6. Germany and Austria with the inflation higher than the average in 2017, Italy and France equal to the average, while Portugal, Slovakia and Ireland stand below the area average.





Elaborations on OECD data.

Figures 6. *Inflation in some Euro countries - Public debt in 2017 in relation to GDP in some world countries.*

In other words, the weak inflation, in the case of countries or areas affected by over-indebtedness, becomes a sign of the greater degree of instability afflicting the economic system. The creeping tendency to price deflation is therefore an explicit message of the natural system that the economy is straying from the compatible growth road. An alert message on the economy state that sounds when the creeping inflation stands in the range between -0.5 and 1.5, always giving for sure a relative price stability of raw materials and foodstuffs.

4 This assessment is broadly reflected in the March 2018 ECB staff macroeconomic projections for the euro area. These projections foresee annual real GDP increasing by 2.4% in 2018, 1.9% in 2019 and 1.7% in 2020. Compared with the December 2017 Eurosystem staff macroeconomic projections, the outlook for real GDP growth has been revised up for 2018 and remains unchanged for 2019 and 2020…. According to Eurostat's flash estimate, euro area annual HICP inflation decreased to 1.2% in February 2018, from 1.3% in January…. This assessment is also broadly reflected in the March 2018 ECB staff macroeconomic projections for the euro area, which foresee annual HICP inflation at 1.4% in 2018, 1.4% in 2019 and 1.7% in 2020. (PRESS CONFERENCE by Mario Draghi, 8 March 2018)

3. Social Imbalances and Acceleration of the Global Development

3.1. A Value of Inflation Close to 2% as the Arrival Point of an Economic Stable System Can Be Arbitrary

Appropriately, moving away from the ideal value of the price constant can report a greater instability of the system, while values approaching 2% seem to confirm the instability gradual attenuation. However, caution is essential. Therefore, it is appropriate to assess whether the approximation to the inflation constant value close to 2% may be something other and, consequently, not the expression of a system adjustment towards the economy stability.

It wouldn't be just the approximation of the price variation to the base value close to 2% to be kept under observation, but the price trend instead, which should maintain for a medium-long time the base position, whenever reached. In other words, it's important not only to approximate the objective of the constant price level, but rather to preserve this position over time.

We must remember that the basic inflation close to 2% is an abstract value, a sort of universal constant, like the Einstein's cosmological constant, the gravitational constant, the Planck's constant, the fine-structure constant, and so on. Therefore, like all the universal constants, it's unchanged over time, it's an universal value and, as such, it becomes independent from the economy growth factor, even if it represents a balance achieved on the road to compatibility with the natural system. Therefore, it's an abstract value, a messenger of the ideal course of a compatible economy, unreachable however by the current economy or rather quite difficult to be maintained for a long time. So, in practice, the base value *cannot even be identified with the motion of nominal prices* because, within an economy stable and sufficiently compatible with the natural environment evolution, that base value finally is waving around the immutable basic value.

In other words, the constancy and abstraction of the constant base price inside a stable economy means that the possibility that this point of equilibrium and compatibility of the economy could be reached in the global context is just an ambition, unlikely to be realized in practice. The balance of economic events with the natural context can only be achieved if the global economy development is compatible with our planet life. This hypothesis unfortunately is still beyond the possible things. For this reason, it can be argued that inside an economy from a long time almost stable, the inflation, namely the messenger of economy health and equilibrium, could fluctuate around and near the abstract value of the price constant.

From this point of view, the own definition of a value close to 2% as the arrival point of an economic system to the desired position of social balance and natural compatibility can be arbitrary. Firstly, because the space close to 2% occupied by the price constant is still sufficiently undefined. That is, the constant price value is shown only approximately close to 2%. Secondly, because the main systems within the global economy remain unstable, though with different magnitudes.

The correlation between the economy growth and the inflation values, recalled by the Central Banks, dissolves all doubts about the state of the global economy and the main economic actors after ten years of the 2008-2009 serious financial crisis. Then it sounds as a confirmation that the altered state of the global economy has not been overcome.

Therefore, the relative optimism on the medium-term prospect of the Central Banks seems to be supporting the hypothesis of a progressive adjustment of the economic trends in the USA and Europe, also thanks to the still expansionary monetary policies on the two sides of the Atlantic sea. Essentially, there is the confident belief that the return to the stability road can be realized through cautious monetary policies, following the guidelines implemented in the post-crisis years.

But this belief seems to be acceptable only partially. Monetary policy can be able to solve or to mitigate collateral problems caused by the financial crisis, starting from the liquidity dissolution, the credit restriction and the reduction of players in the financial markets, etc. The debt exuberance, namely the disruptive factor of the speculative crisis, does not seem, however, to find a definitive benefit through monetary policy. The strong action of the main Central Banks, through the planned purchase of assets on the public and private financial market, has certainly sterilized large amounts of public and private securities, restoring some vitality in the exhausted financial market. However, with the gradual return to the market of those sterilized titles, the instability problems related to debt excesses will arise again, although in an attenuated way.

Inside an unstable world, the intimate relationship between economic growth and inflation is driven by the economic activity. While inflation is a messenger, warning about the economy abnormal state. Monetary policy acts on the money which, by nature, is neutral and remains so even inside an unstable system. It has above all the task of controlling inflation, but this inflation is just reflecting the economy development. So, acting on inflation can only have a mediated effect on the economy. Thus, the role of the interest rate maneuver, inside an unstable economy, can only act in a mediated way on the development motion, so dragging also the price trend.

In a context of post-speculative crisis and with a legacy of high indebtedness, the slowdown in the development process can be contradictory on the ground of financial equilibrium. In the same way, contradictory results can be given by the return to the market of assets that the Central Banks have sterilized, in order to contain the rates and to support the new issues.

This is to say that the role of Central Banks, worried by an ultra-Keynesian fiscal policy and by the residual post-speculation instability, is very complex. And in any case, it's to be excluded that they could play a substitute role, or even a containment role, regarding the fiscal policy. As the economic growth issue remains a major concern, are the good policies that must play an active role in the balanced and compatible support of economic growth.

In such a context of unresolved instability post global speculation, there is no doubt about the role of good policies to mitigate the inherent risks that the global economy could fall again in a synchronous recession. The most striking problem is that facing the objective limitations of monetary policy, governments can rely on the abused remedy of Keynesian maneuvers, in the improper assumption that reopening the strings of public spending in deficit could be the *cornucopia* of a new development acceleration. (*see* Krugman, 2012)

Now, there is no doubt that a new acceleration of the overall development of the economic systems appears to be essential to mitigate the income gap, to boost productivity and to give breath to the labor market. The issue on the table, however, is the difficulty to give a new impetus to the economy machine tired by an indebtedness excess and a growing social imbalance in the distribution of income and wealth.

3.2. Ultra-Keynesian Policies for the Development of the Economy

Well, given the outlined influence of monetary policy on the economy growth, raises some concerns the opinion of the markets about the incisiveness of Central Banks on the development problems. Nevertheless, I would say that above all we should be concerned about the willingness of governments at global level to incentivize the potential development of economic systems through a renewed use of Keynesian support policies. Now there is no doubt that the heavy post-speculation recession has been somewhat mitigated thanks to the use of huge public resources in deficit, however with the legacy of a heavy indebtedness. (Whyman - 2018).

The good success achieved in cushioning the heavy cycle decline in 2010-2015 was also achieved thanks to the almost simultaneous intervention of the Central Banks that locked away an important portion of the assets on the financial market. In other words, the powerful contribution of deficit spending has been unable to do anything to control and reduce the massive debt, which instead has been promoted and continues to grow even if somehow attenuated if compared to the recession years.

Now, since an enormous indebtedness weighs on the major world economies with few exceptions, it should be noted that Keynesian policies, additional to those already experienced in the recent past, don't have any influence on the essential issue of the economy debt control and containment. As if to say that not only the basic problem after the financial crisis is unsolved, but there is the serious risk of a further overload for the unreasonable propensity to debt of public and private institutions.

Here is an example: the US president's decision to introduce a flat tax, with extended benefits for the high-income sector, which risks to exacerbate the social conflict on the distribution disparity of income and wealth. That disparity was worsened by a speculative climate, then followed by the economy recession crisis. In any case, the application in the American territory of the new fiscal policy is expected to have a deep impact on the public debt. According to the IMF, the US deficit could exceed 5% of GDP and the public debt in 2013 would run at the level of 117% of GDP.

Looking closer to us, concerns about high public debt caused some controversies in Italy. During the recent political consultations, proposals spread among voters on very costly pension adjustments, on the so-called citizen basic income, on the flat tax, not to talk about other proposals. Programs that, if accepted even only partially, would be a sort of "detonator" for public spending with a further burden of the already huge public debt.

In short, the hope that debt can be accumulated to improve the weak growth seems out of control. It's based and relies on the relative success that the ultra-Keynesian policies during the 2000s post-speculation have achieved in mitigating the bites of the recessionary crisis. On the other hand, the relative success of this additional spending strategy seems to be confirmed also by the serious collateral damage suffered by those countries that, by choice or debt overhang, have renounced the compulsive use of government spending in deficit.

Yet a careful examination of the gap in the fight against recession between countries that have or have not resorted to a massive debt increase, seems to show that the benefit from Keynesian active policies derived, at least to a large extent, from mitigation or removal of the collateral damage connected to a sudden and serious reversal of the economic cycle. It should be also emphasized that, in circumstances created by a financial crisis, the economy seems to benefit from the substitution effect of public spending - of adequate size – only under one but significant condition.

This condition is quite understandable. The economic system shouldn't be already burdened by a massive debt, because in this case the financial weakness of the country is a mechanism that could accentuate the financial crisis post speculation, and then the additional public expenditure couldn't give any comfort to the excessive debt problem. In fact, it is not reasonable to think that the fire power could be contained by adding some fire tongues!

Consider in this regard that, under favorable conditions, Keynesian measures to a large extent move in support of companies, banks and families with injection of contributions, capital and subsidies. Illiquidity as well as the transient imbalance in companies and family budgets are also among the most significant side effects of a financial crisis. These would be the possible responsible for an acute accentuation of post-speculation recession.

A large Keynesian maneuver can therefore have the power to reduce the effects of a heavy recession in a direct form, with a targeted support of new capital and contributions. The impact on the economy cycle, in any case, has a delayed outcome, but is reinforced by the lasting and significant effects that the Keynesian maneuver gets in an indirect form. Because it’s not about adding but avoiding a heavy removal of assets from the market already in recession. And this is what is produced through the injections of public spending in deficit, which basically supports companies and families weakened by the financial crisis and controls a possible cascade effect of insolvency.

We must agree that in the recent past ultra-Keynesian interventions in a financial crisis have given positive results in a state of severe economic depression and financial crunch after the speculative crisis. The question now arising is whether could be reasonable to use a massive public spending intervention in a situation of high indebtedness. And, above all, if we can expect the same results, not for the control of the rapidly falling cycle, but in a situation of weak but steady recovery of the world economy.

In a context of limited growth but with a potential increase, the objective may be to push the development engine to dilute over-indebtedness over time. This therapy, which produces the formation of new debt, seems unlikely. Unlikely because the context has now radically changed. Although the eternal hope of using public spending as a renewed propellant for all seasons, does not seem to have changed.

In this regard, we should consider that a debt excess brings also the tendency of prices to the creeping deflation and the weak growth of the economy. Believing that this condition compelled by debt excess could be mitigated by a new ultra-Keynesian maneuver, seems objectively an error. As already mentioned, the use of public spending in deficit does not affect the volume of previous public or private debt. On the ground of the cumbersome debt, therefore, we cannot expect any benefit from new urges of public spending beyond the limits, but a possible aggravation of the problem.

* McKinsey Global Institute: Debt and (not much) deleveraging.

Figure 7. *Global debt stock.*

It could be argued that the expected benefits after ultra-Keynesian policies, are concerning the economy potential that can be pushed to the maximum level by the recurrent use of this strategy. But this is a hypothesis that doesn’t convince. Consider, in the meantime, that the good result obtained in the management of the 2009-2012 recession is to be connected to the drastic control of collateral damage deriving from the sudden and partly unexpected reversal of the post-speculation cycle. In short, the reduction of collateral damage certainly produced a significant effect to slow down the economy collapse.

It’s quite clear that if we accept this assumption, in the different current context, not only we wouldn’t have any benefit on the debt front, which would instead rise, but not even in the economy. For the obvious reason that we should consider that in a condition of slow but constant growth, the margin of collateral damage of the financial crisis of over ten years ago has now been reduced and almost absorbed.

3.3. A Narrow Corridor to Maintain the Economy Growth Measured But Constant over Time

The global economy has now the goal to accelerate the pace of growth to gradually absorb, in the medium term, the debt excess afflicting the economic system. In other words, to push forward the development potential that appears to be globally slowed down. To achieve this goal of accelerating the restrained system, the main road should be to control the debt level in order to put it on a path of slow but gradual decrease. A road to be taken resolutely; a course moving on a ground opposite with respect to the attempts to achieve the same result through new ultra-Keynesian maneuvers.

The choice favorable to a new trend of public spending in deficit seems to be just a prelude to the guilty carelessness towards the risk that the world economy has already experienced with the serious speculation during the 2000s first decade. It may seem a re-edition of the feeling, experienced at the time, of a potential unlimited economy growth. And therefore, the concern becomes acute that the instability of the untreated economic system could start a new speculative crisis, with unexpected consequences. (*see* Cossiga – March 2018).

The symptoms of this new speculative wave may be underestimated and even welcomed, because ambiguous and uncertain to be evaluated, so appearing as hopeful signs. The ambiguity about the economy growth prospects in the medium term can be sustained by a widespread optimism about the potential acceleration of development, global or interesting large continents. According to the OECD, growth in the main industrial countries will be about half a point lower in the two years 2019-2020, compared to 2018. Therefore, there is no expectation of a growth acceleration in the two-year period, in line with the slowing trend in economies with high indebtedness.

There shouldn't be recession in the next two years, but a cautious continuation of global development. This forecast remains reliable in the OECD opinion, even if the way to reduce taxation would be taken through the introduction of a flat tax and then with a consequent public debt increase. For the USA, where it was decided to implement development, the OECD foresees a modest rebound in 2018 and a decline in the following two years. In a context of high and growing indebtedness, downward pressure on growth potential tends to increase and there is no hope that the fiscal maneuver can oppose the underlying trend of the system.[5]

On a general scale, the arising problem is therefore the reaction of the unstable heavily indebted economy, in response to attempts to push the economic growth with a deficit increase and generally with a debt increase. It's not a question now to mitigate the collateral damage caused by the recession with the introduction of new public support expenditure, but to ease the tax burden on companies and households to encourage investment and private spending. This is the endless fairy tale of the Keynesian maneuver, good for all seasons. A potential fairy tale anyway, all the more so for an economy after a speculative crisis that has mitigated the blows of the heavy recession trough the recurrent use of public expenditure to support the recessionary cycle.

Today's global economic scene seems to exclude the hypothesis of an expected acceleration of the great economies development pace, at least in the next two years. However, alternatively, the pressure on the spending side and the still very accommodative monetary policy could create the basis for an improvement in expectations and therefore a lower attention to the risk of companies and households. A *toxic mélange* that may be the prodrome to recharge the speculative process.

Therefore, it may seem quite strange that the highest monetary authorities do not seem to fear the risks of a new speculative run that could invest the global economy. Indeed, they seem to look to the near future to pick up the signals of the economic situation acceleration, at least for large areas. The Fed has predicted that in 2018 the US rates could be subject to three rising maneuvers, each one of a quarter of a percentage point, and the rising rate sequence could continue in 2019.

The eventuality moving the maneuver announced by the Federal Reserve is an American economy growing in a contained but progressive way. The ECB is more cautious and for the Europe of Euro-zone the maneuver for a gradual increase in key interest rates could be postponed, partly because of the slight slowdown in the Euro-area economy during the first quarter of 2018.

The gradual maneuver on rates is aimed to bring the monetary policy back to normality after a long and very accommodating period in the years following the 2008-2009 financial crisis. The prospect of a period ahead with a calm economy, though at a moderate pace, seems to justify a less accommodative monetary policy in view for the next two years. On the other hand, the fiscal policy supporting the economy in US territory makes it appear appropriate to curb the monetary policy even if gradually, as this can play a balancing role for the accelerating economy.

So, the problem concerns the economy motion. The question arising now concerns the possibility that a still unstable post-speculation economy could be able to accelerate its performance. Fears are not lacking on this issue, both in the case of the cycle slowdown or acceleration in the coming years. The slowdown case has already been partly considered. In fact, an early exhaustion of the cycle brings also the reappearing of excessive and even more acute debt and therefore fewer opportunities for the problem solution with the simple passing of time.

Problematic is also the perspective in the case of the economy revival in a global context of the cycle synchronization between the different countries and continents. This is the perspective pursued by the Fed's policy, which should also exert an upward pressure on inflation, until reaching or at least approaching a constant value close to 2%. Well, this positive hypothesis of strengthening the cycle, dragging the inflation rate, can be affected by the stigmata of a renewed speculative pressure.

The very low or deflationary inflation is a sign of

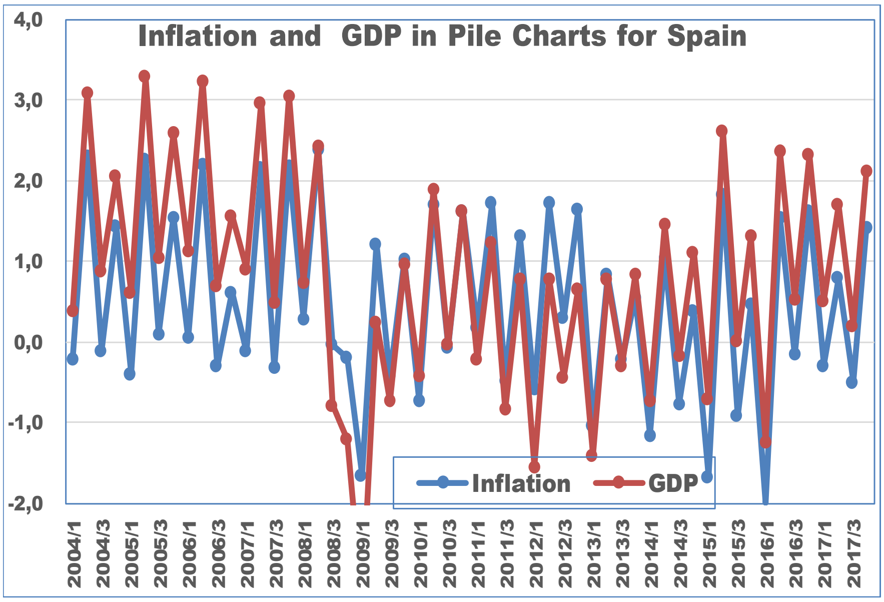
5 IMF - World Economic Outlook Update, January 2018 - "Brighter Prospects, Optimistic Markets, Challenges Ahead"

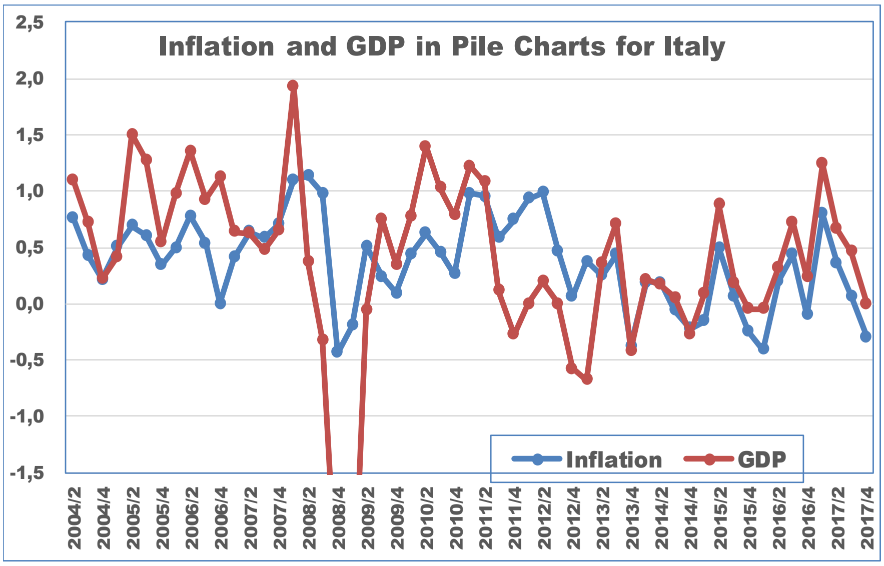
persistent instability in the economic system due to over-indebtedness, untreated by the post-speculation recession of 2008-2012. The long season of low prices and moderate growth experienced in the Western area during the last five years seems to overlap with that of the five-year period 2003-2007. Thus, leaving to assume that we have entered a new speculative cycle or, at least, that the global economy could engage a cyclical speculation series.

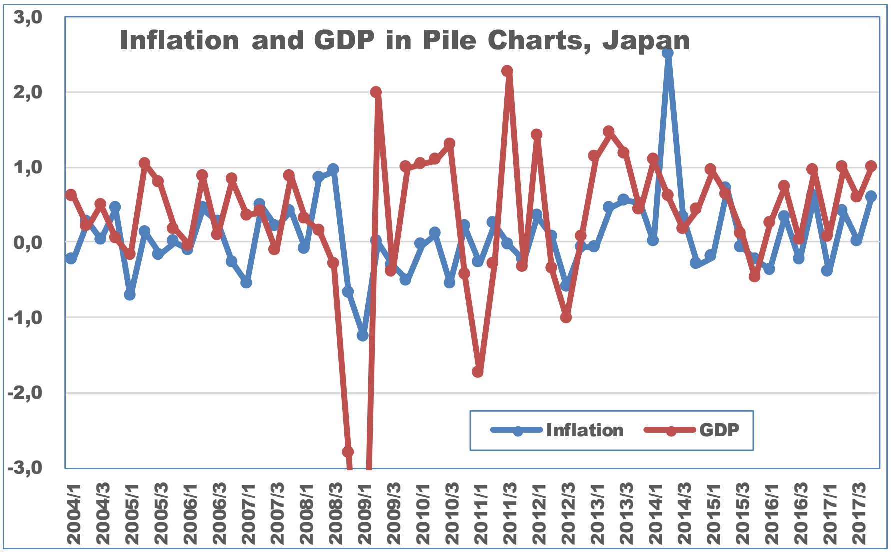
This unfortunate expectation could be confirmed precisely by the rise in inflation rates and by a brief growth jolt in the coming years, according to the cliché already experimented in the years 2007-2008. Rising inflation and growth in the near future are certainly ambiguous messages, which can on the other hand provide the image of a recovering economy after the rather weak post-recession performance series. An ambiguity that we have already experienced in the first decade. That unfortunately has estranged in the previous decade institutions, companies and families from assessing the real risk, despite the serious excitement that had invested the real estate sector, the oil and the raw materials and the Stock Exchanges as well.

A series of highly irrational waves in an otherwise quiet sea, so the irrational speculative scenario may appear in the 2000s first decade. The calm sea is represented by the weak prices, scarcely shaken by the irrational waves of sectorial speculation, as well as by the calm growth remaining around 2 - 2.5% in the period of the big boom.

As can be seen from the examination of the figures 8, the inflation rate profile follows a trend almost sussultatory, particularly in Spain, and moves according to a frequency connected to the GDP destiny. In fact. Inside an unstable system, the economic growth is linked to an annual mini-cycle of nominal prices, which move upwards in one semester while they are slowing down in the next. At this point, it is interesting to note the link between the two variables, Inflation and GDP, which is intimate in the years following the severe recession. It's important to check if this link is loosening in recent years and especially since 2017.






Inflation and GDP in Pile Charts, Japan
3,0
2,0
1,0
0,0
-1,0
-2,0
-3,0
Inflation
GDP
2004/1
2004/3
2005/1
2005/3
2006/1
2006/3
2007/1
2007/3
2008/1
2008/3
2009/1
2009/3
2010/1
2010/3
2011/1
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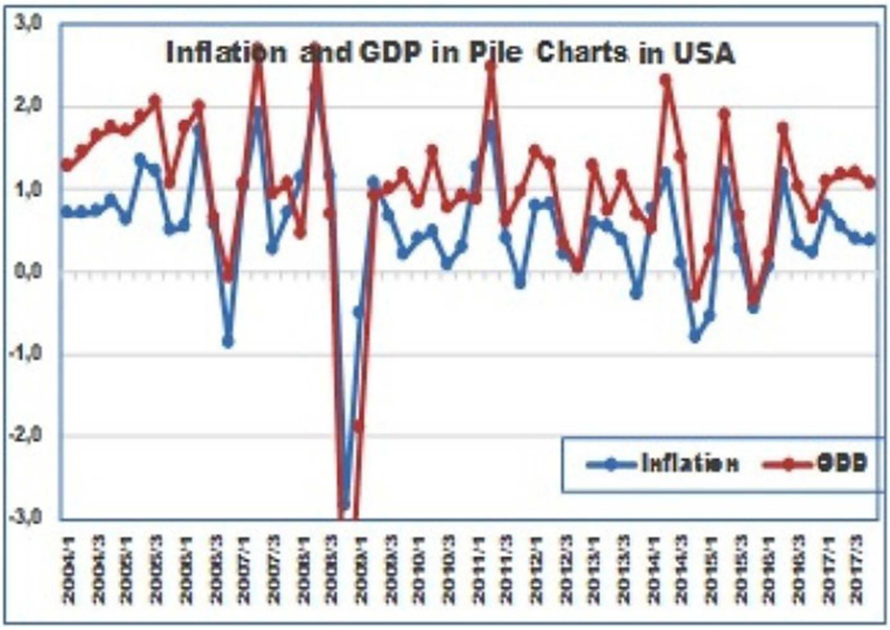
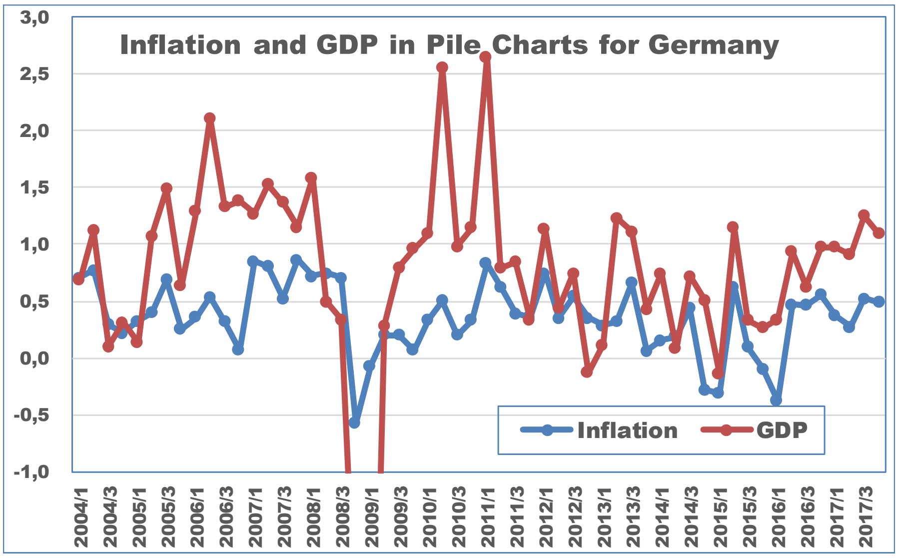
2016/3
2017/1
2017/3


Inflation and GDP in Pile Charts in USA
3,0
2,0
1,0
0,0
-1,0
-2,0
-3,0
Inflation
GDP


Inflation and GDP in Pile Charts for Germany
3,0
2,5
2,0
1,5
1,0
0,5
0,0
-0,5
-1,0
Inflation
GDP
2004/1
2004/3
2005/1
2005/3
2006/1
2006/3
2007/1
2007/3
2008/1
2008/3
2009/1
2009/3
2010/1
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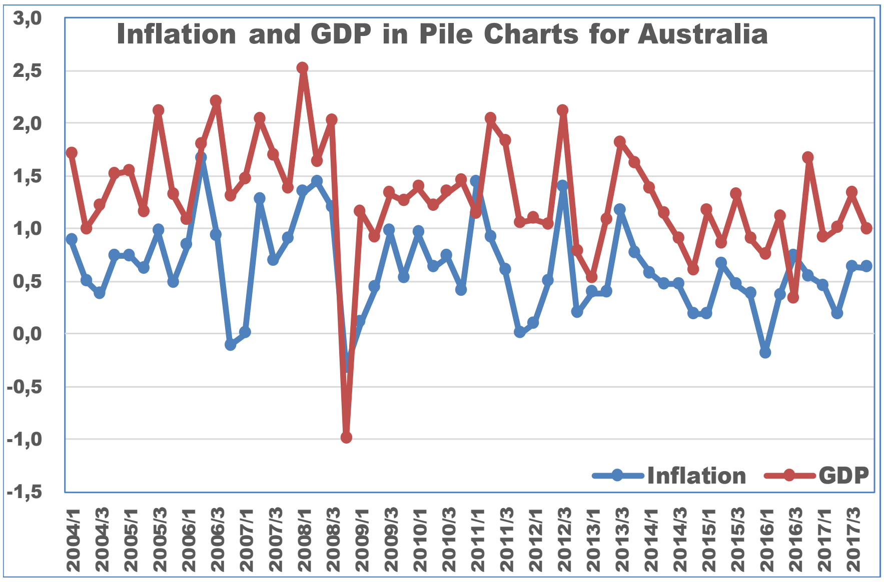

Elaborations on OECD data.

Figures 8. *Inflation and GDP in USA, Italy, Spain, Germany, Japan and Australia 2004-2017- Quarterly on previous period.*

Scrolling through the figures 8 starting from the top, we can see that the rhythmicity of the nominal price profile, followed by the GDP trend, remains strong in Spain and Italy, even in recent years. On the other hand, the rate of nominal prices seems to attenuate in the USA, with a tendency of the two variables to diverge in 2017. A signal to be read as a cautious rupture of the relationship between the two variables? In other words, the instability attenuation in the US economy with a progressive improvement? Maybe. But a similar phenomenon of relative independence of the two variables can be found in the USA during the years 2004-2005, which are the years of the big speculative bubble formation.

From the part relating to Japan, in the Figure we can observe a relative link between the GDP line in the two-year period 2004-2005 and that of 2016-2017. Finally, from the inflation and GDP Graphs in Germany and Australia, a relative divergence of the two variables seems quite clear. A signal that sounds as an improvement confirmation of the economy general conditions in the two countries.

The brief picture of the major economies showed some discontinuities, but this doesn’t change deeply the global context, which seems to prove that the state of instability wasn’t bypassed. Or even that the treatment imposed on economies with the severe recession of 2008-2009 and the intermittent performance of the following years, was insufficient to resolve the symptoms of malaise.

4. Discussion

From FOMC statement (March 21, 2018) we can read: “The Committee expects that, with further gradual adjustments in the stance of monetary policy, economic activity will expand at a moderate pace in the medium term and labor market conditions will remain strong. Inflation on a 12-month basis is expected to move up in coming months and to stabilize around the Committee's 2 percent objective over the medium term. Near-term risks to the economic outlook appear roughly balanced, but the Committee is monitoring inflation developments closely.” An annotation for a relatively favorable US scenario, with the economy growing moderately, the labor market robust and the inflation gradually moving towards the base target, close to 2%.

The position expressed by the ECB in the meeting of March 8, 2018 is more cautious: “Regarding non-standard monetary policy measures, we confirm that our net asset purchases, at the current monthly pace of €30 billion, are intended to run until the end of September 2018, or beyond, if necessary, and in any case until the Governing Council sees a sustained adjustment in the path of inflation consistent with its inflation aim. The Eurosystem will continue to reinvest the principal payments from maturing securities purchased under the asset purchase programme for an extended period after the end of its net asset purchases, and in any case for as long as necessary. This will contribute both to favorable liquidity conditions and to an appropriate monetary policy stance.” The QE destiny is linked in large part to the trend in nominal prices and therefore may be extended in view of an inflation adjustment in accordance with the base target close to 2%.

Well, the possibility that the inflation rate would reach and stabilize at the constant value of nominal prices, at that point no longer linked to the economic trend, seems unlikely. In concrete terms, reaching and maintaining the constant rate of inflation means above all that the global economy has finally found a development rhythm that is coherent and compatible with the evolution line of our planet. Even at the level of individual states or continents, a coherence between the economic development line and a healthy and coherent behavior with the natural environment doesn’t appear at hand.

This doesn’t mean that we cannot reach a trend in nominal prices that would be approaching and fluctuating around the parameter chosen by the Central Banks in order to have an inflation optimal for development. However, even if the target is maintained with adjustments over time around 2%, in any case we are not in the position of constant base inflation. As we have already observed, the characteristic of constant basic inflation close to 2% is the stability over time together with an indifference regarding the economy rhythm. At this ideal stage of evolution, there cannot be any relationship between the constant basis of nominal prices and the economy evolution, because the pace of global development has become coherent and compatible with the evolution of the environment wherein mankind progresses. Thus, the constant rate stabilizes on the base value, while the economy growth continues in a line compatible with the environment.

Therefore, the attestation of the proximity to the constant value of prices close to 2% wouldn't be the sufficient condition to state that the economic system has finally reached the stability stage in its development path. All the more so because, having reached this proximity stage, *an ambiguity may emerge when assessing an apparently balanced development*, with prices almost stable or slightly rising above the symbolic value close to 2%.

Moreover, the ambiguity of an economic course only apparently stable is not cryptic but easily readable, essentially from the motion of nominal prices. Inflation, in fact, is a messenger of the real conditions of the economy, which in fact according to real conditions inflates prices through inflation or drags prices to the creeping deflation. The price movement is the signal of the economic system malaise, while the stability and constancy of the base price is the signal of a reasonable development in harmony with the ecosystem evolution.

On the other hand, the global economy instability seems confirmed by the suggested perspective of a global economic recession in the coming years, based on the hypothesis that a cycle reversal is probable after ten years of growing economy in the USA. In fact, the recession is always a phenomenon linked to the instability of economic systems. In a system that is maintaining the stability route, however, the rhythmic economy of the cycle is to be excluded, because its growth line in harmony with nature follows a tendentially straight line and the inclination depends on the development potentials. Furthermore, the recession should be understood as a natural mechanism for correcting the economic system instability, therefore the negative cycle is incompatible with a healthy economy that follows a linear path of compatible development.

With different motivations, a global recession perspective in the coming years seems reasonable. Of course, not as the expected outcome of a period of economic growth, but rather due to the accumulation of errors in the economy management, requiring a new inversion of the economic cycle with the function of correction at the global level. It's a second phase of the speculative cycle, after the serious financial crisis in the first decade that wouldn't have been able to absorb the reasons for the world economy malaise largely linked to a debt excess.

The debt excess is somehow equivalent to an attempt to accelerate the economy pace, which becomes incompatible with the evolutionary line of the natural system. Thus, the excess of productive factors that are created becomes virtual, in the sense that they are transient values destined to be canceled and absorbed by the unexpected impact of a financial crisis. (see Reinhart, Rogoff - 2009)

In a context of prolonged and high indebtedness, the economic system seems to work in vain, because the acceleration in those sectors subject to speculative pressure is little reflected on the overall growth of the economic system, which remains relatively weak despite the excitement affecting certain activities. Moreover, the nominal growth due to speculative factors, and therefore to leverage, will be canceled when the financial crisis occurs.

The expected risk of another part of the procedure - speculative acceleration and then financial crisis - is linked to the reduced ability of the corrective action aimed to demolish the excessive debt structure, which is demolished instead by the debt cancellation due to a total or partial incapacity of the debtor to cope with the due payment. This phenomenon propagates with a cascade effect during a serious financial crisis and it's a side effect that can further exacerbate over time the economy depression.

Therefore, it's important to limit as far as possible the series of failures, with their related debt cancellation, through an ultra-expansive monetary policy, in order to restore liquidity of the exhausted system, and with some extraordinary operations such as the QE, to absorb part of the excessive public and private debt. These are interventions aimed to mitigate the collateral damage of the financial crisis.

On the other hand, to mitigate the serious reversal of the economic cycle, imposed by the 2008-2009 financial crisis, massive doses of public spending in deficit have attenuated the economy collapse, with capital injections into industries, banks and families. Interventions of fiscal policy have also mitigated the perverse effects on the income distribution and on employment. However, the final result of these exceptional operations was also an increase in the general debt of the economic systems.

Still on this subject, it must be added that monetary policy has eased collateral damage but, at the same time, has allowed to partly avoid the cancellation of debt that has been diluted, extended and repurposed, deferring to the future the solution of debt excess. The result, therefore, of these actions to control the income decline has been a relative success, at the cost however of a general debt increase and thus of a referral to the future of a problem that we have to deal with.

We are therefore at a potential crossroads not without risks. On the one hand, pursuing the perspective indicated by the FED and then by the ECB, namely a growth horizon not limited to the next two or three years, but more permanent. In other words, a confirmation for at least the next five years of a moderate but constant development trend, of the order of 2 - 2.5% per year. Such a projection could make it possible to

slow down the debt growth pace relative to GDP and thus to reduce the debt weight.
On the other hand, the second road can lead to a re-edition of the natural procedure to control the global system instability over the next five years. In this adverse hypothesis, an acceleration of the indebtedness of institutions, companies and families can lead to a new ultra-speculative phase. The natural correction mechanism, however, is unable to cut off the debt excess at the root, as unfortunately it isn't controlled by monetary policy. A difficult situation that could lead to a vicious circle repeating the series of speculative rise and financial crisis, being unable to solve the problem of debt excess at the root.

Discarded this second hypothesis that could maintain a perverse circle without exit, taking the road of slow but durable growth is not at hand but requires that the helm of monetary policy should be oriented to oppose the market bad sirens. The problem we are facing is not so much to deal with a potential inflation rise, because a rise in nominal prices could also mean that the emergency of global debt excess is over. Nonetheless, this question now is not at hand.

5. Conclusion

The real problem is to curb the global indebtedness growth that is the drug that can induce an unexpected new speculative phase and a global recession in the near future. The debt excess should be interpreted as an attempt to live above the available means. And this can mean that the road to economic and market growth has deviated from a path compatible with the use of the planet's resources. And therefore, that *the way of economic growth must align with a slower development pace and should fully implement the science and technology programs aimed to save the planet's resources.*

Therefore, any attempt to push the development pace of the global economy or of single continental areas is therefore the worst solution to reduce the fever of the economic system in its relations with the ecosystem. The attempts to put the "turbo" to the growth, implemented by the new American presidency, could mean that we are approaching dangerously to a new era of recurrent speculative phases followed by deep recessions, with a cancellation of the growth potentials at a global level.

According to this point of view, the Central Banks of the main countries should refrain from actions anyway directed to promote a pace acceleration in the global growth. *The difficult course of compatible development is now moving through a contained but long-lasting global growth, which somehow could reduce the temptation of institutions, companies and families to open the shopping bag with the use of new debt doses*.

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