The Theory of Economic Sustainability in a Scenario Influenced by Inflation or Deflation

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Abstract

This work aims to examine the issue of troubles and anomalies that affect the development path when it has abandoned the regular path of a constant and contained growth with minimal impact on nature. Because any alternative is indeed fruitless; the alternative, in fact, is the fall into the so-called sub-world, in which the constant line of development is caught in the conjuncture cycle and appears taken by inflation or deflation. Nevertheless, ‘every cloud has a silver lining’... Indeed, these anomalies of the sub-world are by no means offensive instruments but rather a kind of cure, if we do not awkwardly oppose their manifestation. Thus, any resistance to these anomalies, starting from inflation and deflation, may then be responsible for the growing malaise produced by their permanence within the economic scenario. Therefore, not accepting the penalties to be paid in order to leave the sub-world was the cause of the twenty-year inflation that afflicted the world during the 60s and 70s of the last century. But worse than that, the hyperinflation has occupied the economic scenario and then attempts were made to fight inflation with an abnormal increase of money circulation. Inflation and deflation are care treatments requiring a sacrifice (convalescence) to be released from monetary malaise. Even deflation, which we must consider a dangerous disease, if neglected cannot be solved through the usual melting pot based on hyper-Keynesian actions and increased liquidity. Not only this isn’t the right way to face the problem, but we seriously risk the syndrome that affected Japan, which has been fighting deflation for twenty years without success. The cure that can put us back on the path of constant growth with minimal damage to nature, is instead to simply follow the natural settings that ask for a recessionary turn, even hard, to really start the solution. Because both deflation and inflation are natural messages that warn the community that things in the economy are going badly and a direction change is needed soon, even going through a severe recession. The community is the referent of natural world on the issue of life survival on the planet and a good government should listen to its community, without looking for alternative and wrong escape routes. The community may accept the recession, because the natural message of conjuncture is perceived in advance as necessary and therefore the only possible decision is to bear the costs required by recovery.

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

1. Introduction

Economic systems struggling with inflation or deflation are unfortunately the current situation in the Western and Eastern world. The unexpected diffusion of monetary alterations generate much confusion and concern in the public. A pricing system on the carousel is certainly nothing new. The novelty, however, is that global monetary anomalies are sliding inexorably into the vortex of deflation. The negative charge that hides behind the phenomenon of falling prices does not seem to escape the attention of our communities. Unfortunately, however, similar, and parallel attention has no place in political circles and institutions, which are very vigilant in the event of inflation, but less attentive to the fall in prices.

Yet, the two ‘handmaids’ of unbalanced economy (i.e., inflation and deflation) are prompt precursors of imbalances on the development road and as such they should be the object of quick interventions to prevent the extended monetary phenomenon. But first, why call those anomalies ‘handmaids’? Because a good servant follows his master and performs her role accurately. Well, inflation and then deflation are entities controlled by the “universal constants” of natural world.

Yet, the two ‘maids’ of the unbalanced economy (i.e., inflation and deflation) are punctual precursors of imbalances on the way to development and as such should be the object of rapid interventions to prevent the widespread monetary phenomenon. But first, why call those anomalies ‘handmaiden’s? Because a good servant follows his master and plays his role precisely. Well, inflation and then deflation are entities controlled by the “universal constants” of the natural world. A problematic statement but certainly, but not improbable. The price change triggered by inflation and deflation is the result of errors in the management of the economy. So much so that the community, worried about the negative consequences on household income, is increasing its critical sense towards the leadership in power. A reaction that does not vary in a democratic regime or in the case of authoritarian governments. Because governments are the technical and administrative
component in charge of managing the economy based on the voting indications (in democracies) of the same majorities of the communities. A power that declines in non-democratic regimes, but certainly does not extinguish. As if to say that management errors in the economic program therefore fall under the (indirect) responsibility of the community. Which has the task not only of disagreeing with the status quo but also of supporting a new program line.

We can therefore say that the government is the technological hand for the management of power on the path of development, but the community or rather its majority remains the undisputed center on the path of constant classical development and with less damage to the environment. It is therefore unequivocal that the economic cycle and monetary anomalies have the value of symptoms for the communities that it is necessary to change the direction of the economy.

Now let us be clear. The business cycle is a curve in the progress line of economic development, which contradicts the constant and controlled development of natural growth. That is, we must admit that humankind, according to the anthropic principle applied to the economy, has a common purpose with the natural world that sustains our survival. That is, the survival of humanity is made possible by being a partner in the development of the natural system within this mutual symbiotic relationship: the economic development and the search for knowledge therefore become the reason and rule followed by human beings for their survival on the planet.

But then what do I mean with this? Economically, this can mean that we assume and have assumed positions in contrast with the natural trends. An egocentric and unnatural position that can lead entire communities to face the potential tragedies that may emerge, when we derail from the development line that we call classical. The alternative that we call subworld is, therefore, the area we enter if or when we derail from the natural development path. With a clarification: inflation and deflation, that we have identified as the handmaids of the economic cycle, are not anyway part of a perverse mechanism that leads us to the hell of sub-world. They are instead safeguard instruments as well as important messages addressed to the community. Safeguard, because if we follow the natural indications that lead to the acception of a "purifying" recession, we will help the economy system to get out of the dangerous maelstrom of monetary anomalies. On the other hand, inflation and deflation are messages that come to the community to inform or confirm that things in the economy are not going well and therefore a correction is needed in the economic management.

Now, the community majority should be considered the referent of natural world, that is, the part of humanity that is the recipient of natural messages and then can interpret their meanings about the state of the economy. But not only that. Information on the direction of the economy that is deviating from the natural path can be explicit (such as the economic situation and the monetary anomalies) or implicit. In this second category we can include the sensations that we all have collectively, and which are also warning us in advance about the future course of the economy. We should therefore reflect that it is always the community that, ahead of explicit messages, decides whether it believes that the economy will improve or worsen in the future. After that we will have the possible alterations of the conjuncture that are the obvious consequence.

It follows that deflation and inflation are to be read as warnings to rulers to follow the opinion of the community, which is definitely hostile to monetary alterations and calls for the necessary defenses to be put in place. On the other hand, when inflation or deflation appear on the economic scenario, the direction that the economy takes should be unequivocal towards recession. The recession should be understood as an absolute and relative remedy to counter inflation or deflation and then to avoid their devastating permanence. Therefore, the economic cycle and the monetary alterations are nothing but potential remedies. The first one indicates the direction to follow in order not to fall into the sub-world trap; the monetary messages, for their part, are directed to the community to incite citizens to protest and put pressure on the government authorities to intervene on the increase or decline in prices affecting the cost of living.

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1 Carter presented his ideas on the anthropic principle in 1974 in a publication of the International Astronomical Union. Later, in 1983, he argued that in its original form that principle was intended only to warn astrophysicists and cosmologists to avoid possible errors in the interpretation of astronomical and cosmological data if/when the biological constraints of the observer were considered. He stressed that any scientific theorem, to be considered valid in cosmology, should not include as a validity condition the impossibility of the existence of life forms in the cosmos.

The anthropic principle therefore underlines that we live in a universe that allows the existence of life as we know it. For example, if at the birth of the universe, one or more fundamental physical constants had a different value, then stars, galaxies, planets would not have formed and life as we know it would not have been possible. Consequently, when scientific theories are formulated, attention must be paid to their compatibility with our existence. The principle, simple but not trivial, has been variously interpreted, to the point of being used to justify visions of opposite meaning. Several reference texts argue that the anthropic principle could explain physical constants such as the fine-structure constant, the number of dimensions in the universe, and the cosmological constant. Basically, the principle, in its weak formulation, does not explain but restricts the field of possible theories and at the same time justifies some of them.
As saying that in the world of economics, humanity and its institutions are not alone but they have in front of them a clear indication to follow to avoid the worst. Furthermore, the emerging dissent within the community due to the unexpected pressure of inflated or deflated prices always moves in the same direction, that is, it follows the cycle curve that turns towards recession. And what is the reason for this? Recession is the main and only road, certainly onerous and costly from a social point of view, which can lead out of the sub-world maelstrom with all its unexpected ghosts. Bear a cost today to then have the strength for a new balanced recovery of the economy.

Of course, we are not locked up in a cage and our autonomy is always safeguarded. So, a bad government and a community divided into many groups expressing alternative proposals, always have the possibility of going against the tide and of breaking the wall that delimits and signals the right path. How else could we explain the events that marked both the first and second half of the last century? There were widespread phenomena of inflation and very disturbing hyperinflation, starting with hyperinflation in Germany after World War I and then in Argentina, Bolivia, Brazil, Zimbabwe, and so on. Not to mention the global inflation of the 1970s and 1980s.

To give a hint, I’d like to recall the hyperinflation in Germany during the 1920s. Already with the war still going on, inflation began to rise as the country had to bear the considerable war costs and to do so huge quantities of money were printed in the hope and certainty of winning the war and then let the defeated countries pay all the accumulated debts. They were certain of victory but wasn’t so: Germany lost the war and was forced to sign a peace treaty which included the payment of huge war damages to the winning countries; furthermore, the treaty provided for the transfer of entire industrial plants to France and England and for the cession of some of German territories in which there were interesting deposits of coal and iron. To meet the growing debts, the country continued to issue new money and the loss of the purchasing power of currency became unstoppable. As an example, let us recall that 400 billion marks were needed to buy one kilo of bread! The most recent case of hyperinflation in Venezuela was quite similar.2

Well, how was it possible, and why did all this happen? In the event of hyperinflation, this happens when it is stubbornly repeated the attempt to support the declining economic cycle with the issuance of new money, nonstop. The process of constant issue of new money not only does not help the real economy but it also floods the markets with waste-paper money. Inflation arises as an acceleration in the nominal inflation rate, which depends on the state of economic unbalance of the country. The acceleration is a characteristic of inflation. Like a bubble in a pond, the enlarging waves of prices expand according to the rhythm imposed by the degree of initial acceleration. Thus, the price rhythm remains quasi-independent of the economic dynamics along the phenomenon evolution.

1.1 It Is Impossible to Manipulate the Two Handmaids of the Sub-World That Are Any Case Messages That Must Act to Warn the Community

Well, how was this possible and why did all this happen? In the event of hyperinflation, this often happens because of a repeated dogged attempt to keep the business cycle going downwards. The process of constantly issuing new money not only fails to help the real economy, but it also floods the markets with devalued money. Consider that inflation arises as an acceleration of the nominal inflation rate, which depends on the country’s state of economic imbalance. In the case of 1920s Germany, the fuse of hyperinflation down to paper money was the dire economic condition after the defeat in World War I, already afflicted with a very high degree of negative acceleration. Acceleration push is a typical attribute of inflation, and at the onset of the phenomenon is activated and measured in relation to the precarious state of economy. Then, like a bubble in a pond, the upswings in prices expand at the pace dictated by the degree of initial acceleration. However, the rhythm of prices remains independent of the economic dynamics along the evolution of the phenomenon. Therefore, if ever new issues of paper money are resorted to, the pace of prices may continue to accelerate.

Why then, in the case we are examining, there was an acceleration in the expansion of the inflation rate up to absurd levels? Lacking any intervention, this basic factor (i.e., the inflation acceleration rates) does not change. So why did German inflation speed up so sharply? The reason lies in two characteristic phenomena typical of inflation. The initial acceleration can modify up to a fierce increase in the case of unlimited issuance of money. Why? The increase derives from the fact that in these conditions the ‘Fisher's model,’ or quantitative theory of money, applies. According to this theory \( P = \frac{M*V}{T} \), i.e., the prices \( P \) are given by the ratio between \( M \) (quantity of money in circulation) multiplied by \( V \) (velocity of circulation) divided by \( T \) (quantity of traded products). In other words, an indefinite increase of the money in circulation appears capable of accelerating the inflation rate without end.

Nevertheless, the Fisher's model is based on unacceptable assumptions. However, apart from the result validity of the

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2 After 2013, following the collapse in oil prices, the public deficit of the Venezuelan state soared dramatically. Faced with the serious deficit situation of the public budget, the Venezuelan government should have taken measures to increase revenues and cover expenditures. In those circumstances, to deal with the serious situation of public finances, the Venezuelan government decided to resort instead to the monetization of the deficit.
formula, the fact remains that the excess money during a hyperinflation becomes fuel to promote an endless run that will end only with the final abandonment of paper money.

It is known, however, that it is impossible to create inflation in a system by increasing money, just as it is impossible to balance deflation by creating inflation by increasing money in market. Inflation and deflation, the two handmaids of the business cycle, are essentially messages from the natural system of universal constants in economics - but they are also calamities - which cannot be triggered at the discretion of any economic or monetary policy. The singular tendency of inflation to accelerate as a function of the excessive quantity of money in circulation seems to be explained by the simultaneous and parallel nature of the massive quantity of money present in the market. In short, these are competing factors which, beyond a certain limit, intervene to modify the initial characteristic constant of acceleration. This rule, known as the quantity theory of money, would instead be a contrasting actor if it could apply in the case of deflation. It would then have the effect of nullifying the message of deflation. Hypothesis denied by the nature of the two anomalies (inflation and deflation), not at all conflicting but only bearers of messages. In case of deflation the theory has denied by the fact that the issuance of new money has no or low effect on the real economy. It is impossible to manipulate the two handmaids of the sub-world that are any case messages that must act to warn the community about the wrong direction taken in the economic path. This different behavior of two handmaids leads us to believe that we are dealing by economic laws that do not allow alternatives, because their first purpose is to alarm the collectivity on economic issue, as to say human survival. And, in this specific case, the aim is to avoid the collapse of the economic mechanism by attracting the attention of the communities, who are responsible for the life of present and future generations.

2. Method

2.1 Monetary Anomalies Are Therefore a Cure, Made Available to the Economic Management to Avoid Irreparable Damage

In other words, both inflation and deflation are tools to revive the congested economies. It is therefore pointless to try to pit them against each other (inflation vs. deflation). As both in fact are instruments for treating unbalanced systems, it is not admissible – simply according to logic - that they can cancel each other out. On the other hand, we do not own the process of their birth and formation; therefore, we should refrain from any attempt to use them as we like.

They are therefore a cure, made available to economic management to avoid irreparable damage. And this is obviously good. But we need to understand why there are two hypotheses of intervention between the 'specter' coming from the subworld, i.e., inflation and deflation. Due to the principle of sobriety that characterizes natural intervention, it must be assumed that there are different treatments to be applied according to the state of disequilibrium of an economic system. In any case, they are different treatments that cannot cancel each other out. But why and how are they applied? Meanwhile, we can observe that, after World War II, inflation clearly prevailed globally from the 1970s until the 1990s, when inflation finally succumbed to the battle waged by most of the major countries. After this difficult period, a period of global development followed in the 1990s: the global context had changed. The alarm bell was given by the serious financial crisis of 2008-2009, following the widespread speculative wave in the residential sector (the subprime crisis and the real estate market). This crisis and the speculative bubble have brought about deflation in the global economy.

Why did the global economy succumb to inflation after World War II, which then continued to rage for over twenty years? Somewhat explanatory is the fact that after the eruption of the first and second oil shocks in the 1970s, pressure on prices increased to double digits in major countries. The reason for the rapid acceleration in prices seems to be the same for both the episodes of hyperinflation and the global inflation of the 1970s. In summary, the decision to resort to public deficit spending to partially absorb the exceptional increase in the price of black gold could be the reason for the acceleration of inflation during the 1970s. We consider that, in the event of inflation, any attempt to act to support the cycle and correct the inflation rate through public deficit spending is severely punished. The reason is always the reaction of the economic system when it is decided to go against the current with respect to the natural tendency of the cycle. In fact, in the event of inflation, monetary policy to correct the instability of the inflated system resorts to an increase in interest rates to follow the loss of value of the inflated currency. A maneuver that induces the economic system to recession, which is the only tool available to correct (cure) the economic drift and try to resume the path of constant growth with minimal damage to the natural world.

Inflation is a trap that blocks economic development and can accentuate its grip in the event of inertia or behavior contrary to the natural direction (recession). Well, now we need to understand why and for what good reason the world has plunged into deflationary territory since the turn of the century. And, because it has not suffered, as in the last century, the accelerated race in prices, but the apparently opposite phenomenon of a progressive self-decrease in prices. Both phenomena are handmaids of the economic cycle, but objectively quite different with accelerating or decelerating prices. Since the objective pursued by the natural system, which activates inflation and deflation, is to cure by gradually re-establishing the classic and constant natural state, it can be excluded that the two different "cures" act indifferently,
almost at random. On the contrary, we must admit that they appear on the economic stage according to the difficulties it faces. We must discard the hypothesis of an indifferent action, while it is a carefully calibrated choice. Decided and regulated by whom?

We can assume that these selections are "decided" by some universal economic constants in the group of universal constants acting in the world of physics and matter. To ensure the survival of humankind, none of the options offered by the natural system is left to chance. On the contrary, there is the direction of a sort of "invisible hand", which oversees the human survival and is therefore moving to avoid irreversible falls of the economic scenario. On this assumption, for what reasons a near future of inflation or deflation could be forecasted?

In the meantime, it is good to confirm that, whichever purgatory we choose, the only certainty left is that we have deviated from the linear and constant path with the least damage to nature. The presence of inflation and deflation informs us that we have fallen to the subworld, although to what degree of danger remains to be seen. In the sense that we can consider a first stage of social malaise, i.e., when one exits the stage of constant growth with a contained propensity (rhythm of development), to then enter the vortex of the economic cycle. That is, a signal that can lead us to "laissez-faire" and to follow the path indicated by the natural tendency with patience and commitment, which in no case should be hindered.

If, therefore, from the downturn phase of the economic cycle we unfortunately witness the appearance of inflation or deflation, then we must accept that the current cycle has worsened and that it is more urgent than ever to adopt measures to prevent the phenomenon from worsening. The alarm therefore becomes serious due to the joint presence of the economic cycle and monetary anomalies. At this point perhaps it should be noted that the post-war generation had to deal with the problem of inflation and only got out of trouble after more than twenty years. The reason that opened the door to the rise in nominal prices was the end of the long development experienced by many Western countries. An inevitable slowdown in the accelerated development cycle that lasted about twenty years. Unfortunately, our rulers of the time thought it possible to force the hand of the slowing economy, without consequences. But the consequence has been 20-year global inflation.

We can now say that the attempt to force the now exhausted economic cycle was the cause of the fall in the average level of the subworld, which is certainly not a difficult condition to get out of trouble. However, the difficulties have been made even more complex by the repeated government interventions in many European countries, to try to support the economy with public spending, thus accelerating the initial momentum of the inflationary process.

Thus, inflation could be placed at an early stage of the fall into the subworld. But before going any further we must say that the subworld is a purgatory in which economic development is at least hampered, if not completely blocked. However, it must be seen as a sort of platform from which to jump back to normal conditions, characterized by the resumption of development along the lines of steady growth with minimal damage to the environment. The thesis we intend to support is that even in the negative phase of the subworld there can exist greater or lesser degrees of imbalance, which therefore require various natural operational tools to avoid a dramatic irreversible fall.

It should also be noted that in recent experience we have not had episodes of unsolvable collapse of the economic systems, while we certainly have episodes of recovery of the economies, which have been able to successfully overcome the very serious difficulties. And this must certainly mean that, after the storm of financial anomalies, there is no abyss of an absolute nemesis but rather a chance to emerge from the negative economic maelstrom, so that the economy can resume its development in the context of the potential of development.

2.2 Deflation May Bring the Anomalous Gap Between the Weak Real Economy Awaiting Recovery and the Increase in Stock Exchanges and Value of Assets

We can assume that deflation may be the deepest stage of fall into the sub-world. That is, a point of fall from which it is more difficult to recover, and which may therefore require a greater sacrifice to get out of trouble. So how can we say that the fall of an economic system into deflation can be considered as the extreme point of fall of an economic system? First, let us compare the therapies that are usually used by monetary policy to remedy the damage caused by inflation and deflation, respectively. We have said that the global inflation of the 1970s and 1980s lasted more than two decades before a right treatment was found. The winning action against inflation was performed by the American monetary policy at the time of the governor Paul Volcker, in office since 1979. Volcker's decision was particularly courageous at the time. Backed in fact by President Ronald Reagan, the head of FED decided to increase by a few points the US inflation rate, which at the time exceeded 15%. Consequently, a recession followed in the USA for a couple of years, amid strong protests coming from the industrial categories. But finally, in 1983 inflation leveled off to 3.5% and then fell to 2% and remained there for the next decade.

Ergo, there is a way out of the inflation trap and the way out is always the same, that is, using the recession - even provoked ad hoc - to defeat inflation, provided that the measure is strong as necessary and lasting enough to absorb the
excesses of rising prices. Note that Volcker’s formula was sufficient not only to absorb the price excesses in the USA, but also to guarantee a good period without the nightmare of rising prices. Well, the same idea, but somehow reversed, has been tried to fight deflation though without results. Well, to face the deflation danger, which expanded globally, the main Central Banks decided gradually to reduce interest rates to zero and even below, i.e., following the fall in the price system or even anticipating it, by bringing rates below zero. In other words, interest rates were lowered in advance and beyond the price fall imposed by deflation. The low or zero cost of money then did not help the market, which remained weak and flat. Nevertheless, a neglected and undervalued danger was in the meantime brought up: the speculation.

The battle against deflation is still on the high seas and we are far from having found a remedy. As we can see, therefore, the deflation danger is not only still in place, but we also risk having this uncomfortable travel companion for a long time. A first reason that can explain why the calamity of deflation is one of the worst conditions in the subworld.

But let us go ahead and try to find the cause that brings an unbalanced economic system to fall into the subworld. Well, it is worth recalling the trouble that led the global economy to the serious financial crisis of 2008-2010, which involved most of the developed countries. Well, after the inflation pause in the 1990s, the general condition clearly worsened since the first decade of 2000s because a widespread trend towards deflation emerged globally. A condition that is somewhat difficult to interpret because appearances looked good. Moreover, all was shielded by the rise in asset values and stock exchanges, while the economy remained weak. In the middle of all were striding forward a huge speculative boom in the real estate was spreading globally together with a singular narcosis caused by easy money.

In short, real estate and stock market prices were skyrocketing but at the same time speculation inflated oil prices, which reached and exceeded $80 a barrel in the first decade. However, the prices of daily purchases remained low, being only partially affected by the increase in the cost of energy. A true general narcosis, whereby inflation due to the sharp rise in oil prices was instead "hidden" by price deflation. A scenario, which was apparently almost good, so that even the Central Banks at the time remained somewhat lukewarm towards the growing speculation. In 2007, at the height of the speculative process, consumer prices in the USA barely touched 3%, thus giving the illusion that all was well.

An effect of narcosis, therefore, to be attributed to the atmosphere of deflation, which contributes to altering the prospects and prompting speculators to dream in the hope of an endless development. At the same time, the apparent calm of the market not involved in the long flow of growing speculation helps to reassure a mass of operators, families, and workers about the dubious economic status quo. Until the serious financial crisis of 2008 awoke. Unfortunately, the depths of the subworld are full of unexpected phenomena, illusions, and uncertainties. All this to say that deflation is very dangerous and certainly much more than inflation, which does not create illusions or absurd hopes.

But the dangerous legend of deflation does not end there, because it can in any case be the protagonist of a continuous repetition of the phenomenon of "narcotic speculation" and of a calm but false atmosphere in all economic sectors not involved. In other words, if we leave it free to act, the 'speculative narcosis' can repeat itself in sequence, with deleterious effects on the economy, which remains inert during the speculative formation process but is fully invested by the negative effects of the ever-severe crisis financial. Indeed, just a few years after the severe recession of 2008-2010, the acceleration of stock prices and financial assets started again. History repeats itself.

In Figure 1 is shown the performance of the main New York Stock Exchange in the period 2020-2022. Therefore, in the period of global COVID-19 infection development, the Dow Jones showed a strong tendency to increasing share values, even though the entire world was struggling with the epidemic and the lockdown was globally widespread, blocking the production and the economy. The anomaly was fortunately blocked in the 2020 late spring, when the generalization of the lockdowns advised speculators to wait, as can be seen from the deep drop recorded in the spring of the same year by the values of main New York Stock Exchange. Despite this setback, the Dow Jones then resumed its rise and reached new highs, but only to fall back again at the outbreak of war in Europe.
The role of monetary policy in the event of long-lasting deflation also remains problematic. As was said, having the fall in interest rates precede a fall in the price system did not have the desired effect on the real economy, which remains uncertain in any case. While the path of speculation is facilitated by the availability of cheap credit at a cost close to zero.

The response of the community and of good governance to the degradation of deflation is always the same. Let the natural economic trend run its course with a tolerated contraction of GDP, until an effective easing of the deflationary grip can be asserted.

In this regard, we can put an end to the usual clichés. During the epidemic, the generalized lockdown imposed by health problems in 2020 caused a sharp reduction in global development. Therefore, the epidemic has imposed a behavior in line with the recession rather than that required by the natural trend. The spread of anti-virus vaccines has relaunched the economy, which already showed signs of a strong recovery in the second half of 2021. In the face of increased and strong demand, a late supply for many intermediate industrial products has fueled price tensions, and above all an excitement in energy prices. However, the result was almost unexpected, because the recovery of the global economy had an important side effect: the easing of deflation. No wonder however, because a sharp downturn in the business cycle can be followed by a decline in the price system (deflation). Conversely, a sharp improvement in the economy eases the grip of deflation. In the Western world, therefore, the prices of daily products, boosted by higher production costs, have not met the resistance offered by deflation. On retreat.

A disadvantage for the cost of living and above all for the poorest families, but a good sign for the global economy in view of regaining normal serenity. Of course, the central banks' traditional anti-inflation maneuver has raised the cost of credit, countering the pitfall of speculation. Let me note that the inflation we are currently experiencing is not a mere repeat of that experienced in the 1960s and 1970s. It is the effects of rising international energy prices that are now gradually affecting production and trade; in this case, inflation paradoxically plays a key role in controlling speculation. On the contrary, we consider that the inflation suffered over the last century in America and Europe was the natural response to attempts to force economic growth, then exhausted after the post-World War II development rush.

2.3 Unfortunately, That Is a Big Mistake, Because That Incomes Shift to the Advantage of the More Privileged Categories. The Continental Areas Is Destined to Tend Towards A Certain Degree of Uniformity

Well, this brief overview of the latest events on the subject in question offers us the starting point for some important clarifications. First, it draws our attention to the most important danger to an economy long in the throes of deflation. I am speaking of the ever-imminent danger that there is a possible gap between the real economy, which is static and without energy, and, conversely, the potential rise of stock exchanges and share assets, which distances real values from the artificial ones created by speculative pressure. On the other hand. In this scenario, it is customary for monetary policy to
aim to lower interest rates to zero or even below. A political action that can feed the fire of speculation with the availability of cheap money. While it does not meet the same success in the real economy, stressed and therefore unable to profit from the availability of credit. We can add that in this scenario the shared idea prevails that the stability and liveliness of the Stock Exchanges is a safe way to give a boost to the recovery of the economy. Unfortunately, that is a big mistake.

Therefore, we must regard deflation and inflation as urgent messages to the community which should show its deep dissent towards the government without delay, to change behavior and return to the steady line of development with the least harm to nature. To the briefly outlined negative scenario, we add that deflation (as well as inflation) plays against a correct distribution of wealth and income within the community. In fact, both - if and when left free to act - reduce the values of wages and pensions of the less favored sections of the population, so that incomes shift to the advantage of the more privileged categories. The role of deflation seems to be this: by expanding the values of wealth and reducing manufacturing jobs, the result will eventually be an unfair transfer of income from the poorest part of society to the owners of large estates.

Another episode is worth analyzing. Well, the long and unexpected epidemic since 2020 has blocked development globally. So, for at least a year and more, the development potentials have been paralyzed by the effort to avoid the infection spreading. As we have seen, after the recovery thanks to the mass vaccination, there was also a strong recovery of the general economy. Why?

It must be admitted that, according to natural trends, the level of economic development of the continents tends to become uniform over time. The differences in conditions of well-being, level of knowledge and civilization that can be observed are due to climatic and social conditions. But the evolutionary trend of the continental areas is destined to tend towards a certain degree of uniformity, simply for a natural reason. How else to explain the incredible leap made by China in the last forty years, according to an unprecedented progression. The possible contribution given by the level of civilization and wealth achieved in the imperial past and above all by the attention to the culture and studies of past generations should certainly be considered. All elements that may have favored, but certainly not in a decisive way, the impressive acceleration of development throughout the second half of the last century. So how to explain it? There is no doubt that we are now moving towards a perspective of progressive gradual rapprochement between the general conditions of the various areas and continents. We should now expect the possibility of an imminent acceleration of development in Africa, which is the new line for accelerated development in the world. The assumptions seem to exist now, with the easing of past globalization which until now has mainly been directed towards the two great countries of the Asian continent, China, and India.

Apart from this basic trend which, in my opinion, remains anyway active, it should be noted that the elevated level of China's accelerated development can find its deep motivation in the past. After the fall of the Chinese empire in 1811, the Chinese economy remained in a sort of suspension state of economic and social development from the Opium War to the Second World War. Well, China's "suspended" development lasted over a century. The Chinese opening to the market, and the reforms launched by Deng Xiaoping 3 with the efforts to make them compatible with a communist regime, mark a gradual awakening and a return to the development path. In the last fifty years, the run on the path of economic, cultural, scientific development has accelerated so much that it has no comparison in recent history. We can therefore believe that, in addition to the phenomenon of the natural tendency of continents towards convergent levels of progress, we should also add the development acceleration after a period of suspension of the economic development.

3 Once Mao died, Deng became the heart of the second generation of Chinese Communist Party leaders at the end of 1978. Although he had inherited a country characterized by extreme poverty and deep social conflicts, under his control China soon became one of the fastest growing economies in the world, and this without the Party losing control of the country. In 1977 Deng proposed for the first time the idea of "Boluan Fanzheng" to correct the Cultural Revolution errors. In 1978 Deng and his allies launched the program "Reform and Opening up" and a new era began for China. In 1979 China established regular diplomatic relations with the United States and Deng was the first Chinese Supreme Leader to visit the United States. In 1980 he launched the political reforms in China called “limits and terms” for high officials that were finally implemented within the new Chinese Constitution of 1982. He played a controversial role in the repression of Tiananmen square protest in 1989, but he was praised for his tour in the South in 1992 which somehow took over again the “Reform and Opening up”. His proposal “One Country, Two Systems” became the framework for the “Return of Hong Kong” in 1997 and the “Return of Macao” in 1999.
In other words, after a period of inactivity of an economic system, the unused economic potential would not be lost, but on the contrary, it is conserved and could therefore activate the acceleration of development as soon as the conditions allow for it. Furthermore, the ability to activate this potential (i.e., the acceleration of development) does not appear to be in the hands of democratic or non-democratic rulers, but rather under favorable historical and environmental conditions. As if to say that these strong impulses on the path of accelerated development do not seem to depend on the political and economic stature of the rulers but rather on the natural conditions that manifest themselves precisely by initiating the acceleration. In other words, even this eventuality, which lies in a past that has long been crystallized with growth blocked, seems to be activated with the consent of natural tendencies, which depend on the state of the environment and the global economic scenario.

That said, it seems reasonable to state that the recovery underway in the Western world in recent months seems linked to the long lockdown imposed by the epidemic and should not slow down for almost next two or three years, even if conditions in Europe are complicated by the war of aggression against Ukraine. Furthermore, the thesis of some analysts who believe in a forthcoming recession in 2023 for the USA and Europe does not seem acceptable. A hypothesis based on the thesis of predictable alternation in economic cycles. First, the economic pace is predictable only in the classic case of constant development and minimal damage to nature. Otherwise, it is far from predictable. The reason for the substantial uncertainty of economic cycles is based on the hypothesis that the arrhythmia of the cycles depends on the natural cure applied to an unbalanced system. The economic cycle, in fact, appears in the scenario of an economic system as a tool for returning to constant growth with minimal damage to the environment. Therefore, it is influenced both by the state of imbalance of the system and by the interventions applied by economic and monetary policies. Basically, when the accelerated recovery phase appears after a period of suspension of development, the hypothesis that the adverse economic cycle could overlap with the recovery at the same time appears unlikely. (See Figure 2 - Comparison of economic development trends in selected countries 2000-2020)

The recovery of the development pace, underway in the USA and Europe, seems to be linked to the lockdown of activities, which lasted for about a year, although discontinuously. During that time there was a clear improvement in the atmospheric conditions and the rapid reduced production resulted in a decline of waste produced by human activities and difficult to metabolize by nature. Therefore, we had a particularly positive double effect for the environment, which usually responds by rewarding with an unexpected economic revival for a period that varies probably according to the advantage offered to the natural environment. Also in this case, there are no fundamental changes compared to what has already been said. That is, the rule is always the same: the recession as the only acceptable solution for the difficult relationship between humankind and nature. We can perfectly compare the epidemic lockdown of productive activities to the recession brought by the natural economic cycle. So that also in this case, the long block of economic activity imposed
by the epidemic is a damage for families and businesses but an advantage for the continuous effort made by nature to neutralize the damage caused by our presence on the planet.

3. Result

3.1 The Vicissitude and Acceleration of Japanese Economy in Last o Recent Time

The anomalies of conjunctural cycle, as we said completely inconstant and anyway dependent on the economic conditions, may create a strong suggestion with the examination of the acceleration processes. These processes in Asia have had various facets over the centuries. Apart from the most recent case of the run on the accelerated development path for about half a century made by post-Mao China, there are other cases, always in Asia, as Japan in 1592 and 1868. 4 Japan's new military, civil and economic power then manifested itself in two major occasions in the last century: the war between the Rising Sun and the Kremlin, which required the intervention of the American president Roosevelt to avoid a catastrophic fall of the Tsarist Empire, and finally the attack on Pearl Harbor. The Chinese process, after the Second World War and the death of Mao Zedong, was less dramatic as the country was able to accelerate the terms of development with an impressive pace that lasted at least 4 decades, which led China to debut as the first power in Asia and second only to the United States in the world.

After this brief mention of significant episodes of development acceleration, on economic and scientific level but also in military power field, some singular results can be deduced. In general, there is no continuity between the extended period of development suspension and the real start of an extended phase of development acceleration. The acceleration phase usually never follows a period in which a territory has been struggling with inflation or deflation. The possibility that may happen, however, seems to require improvements in the economic situation, which lead to the regression of monetary alteration phenomena. We have just experienced the latter case in recent months when the economic recovery in the Western world was marked by a reduction of deflation grip.

The discontinuity between the suspension of developmental phase and the accelerated recovery phase occurred in Italy in 1980 and subsequent years. The monetary policy of the “Bel Paese” (tr.: Beautiful Country) had moved in analogy with the winning technique introduced by the FED and by its president Paul Adolph Volcker. Basically, the “Volcker rule” was to raise interest rates a few points above the inflation rate. At the time the inflation rate in Italy was over 20% and the Bank of Italy's decision was less drastic, to avoid a serious recession in the system after the long ‘apnea’ inflicted by inflation. But that cautious conduct was a mistake because the result was not the expected collapse of inflation but instead a slow decline in the price run, which remained higher than 5% until the end of the 1980s. Furthermore, a decade of excellent economic results like in the USA did not occur, and the Italian economic performance instead remained weak. Therefore, not only did inflation continue to stay for over a decade above 5%, but it did not occur the expected improvement of business cycle after the long slowdown of the rhythm in inflation. And this is a confirmation that there is not any continuity between the lost potential and the timing of a possible recovery. (See Figure 3 - GDP, Inflation, Unemployment in Italy 1980 – 2016)

But there are several factors that can come into play for an accelerated reactivation of development potential. Let us look at what happened in 1980 in Italy, where the expected economic rebound did not occur because the economy was still struggling with inflation and so stayed for another decade. And this can be seen in Fig. 3 which compares the inflation data with the GDP trend in Italy from 1980 to 2016. On the other hand, as we will see later, the unsatisfactory economic results continued also in the first decade of the 2000s due to an unexpected deflation also in the Peninsula (i.e., Italy), with a further stagnation of potentials.

4 The warrior Toyotomi Hideyoshi, having defeated all his enemies and unified Japan, in 1592 decided to invade Korea with a large army to conquer China. The invasion reached Pyongyang, but a large Chinese army intervened to halt the march of invaders. After five years of negotiations and the death of Hideyoshi, the status quo was re-established in 1598. After the unsuccessful conclusion of the enterprise, Japan changed course by adopting an isolation that lasted until 1868 with the rise to power of a new faction which promised “to honor the emperor and to expel the barbarians”. A new attempt to invade Korea was made after more than two centuries but failed, so Japan decided in 1868 to undertake systematic works for wide railway construction, advanced industry, as well as export-oriented economy, and army formation. Finally, in 1886, after a brawl between Chinese and German sailors born for a Chinese ship but German-built, it was decided that Japan would engage in intense shipbuilding with the related training. After a decade, Japan was the most powerful Asian country. In 1894, in a dispute between China and Japan about economic influence, Japan clearly prevailed, and this ended China's protectorate over Korea and resulted in the cession of Formosa Island.
This difference suffered by Italy at the time of the high inflation should not come as a surprise if we compare it with the economy of the United States. Italy penalized by the high persistence of inflation in the eighties and partly nineties and the latter (US) rewarded in the same period by a clear reduction in the price race. The economic trend is strictly in the hands of the community where it is created in perspective of favorable or unfavorable moods. It is now quite clear that after the heavy American recession of the early 1980s, the drop in inflation was welcomed by the community with great favor and therefore with good prospects for the future.

In Italy, on the other hand, the persistence of inflation throughout the 1980s and beyond froze all prospects for development, also in light of the general disappointment expressed by the country's community. The chimera that governments can change the uncertain expectations expressed by the community through measures to support the economy is just a hopeless fantasy. The main task of governments should not be to soften the pessimism that pervades the community, which derives from errors marked by the conjuncture and its monetary alterations. Instead, good governance should try to mitigate the differences that affect the rights of the population, because solidarity between groups and an improvement of economic prospects depend on the field of equal rights.

Above all, it is a priority not to try to interfere with people's moods through additional programs and projects, because people's expectations can only improve if the community sentiment gets better, starting with a more stable price system.

Why can we expect a period of good prospects for Italy today? Because today we are witnessing a decreasing deflationary grip and a revival of expectations in many sectors of the country, starting with industry and exports. Finally, after a long abstinence, deflation is receding and could recede even further. Meanwhile, inflation is falling and not accelerating and is due to speculation on oil and energy, downing out. This gives hope that the current momentum can continue, given the extended period of stagnation suffered by the country for at least thirty years under the combined blows of long-lasting inflation before and deflation since 2000.

At this point we hope that the government in office, regardless of political color, will not try to interfere with the economic direction but rather will act to mitigate income inequalities, to reduce inequalities in the exercise of rights, to strengthen support for older people, obviously within the bounds of an overstretched public budget. Let us not forget, in fact, that good governance is linked above all to the consent of the citizens. Unfortunately, Italy - which has long struggled with inflation and deflation - has accumulated a growing gap between rich and poor, even poorer. A source of social discord that should instead be reduced especially with the increase in employment.

Save and then start again. This is the lesson given to us by nature. Rescue, i.e., fight against inflation or deflation, with the hope that the penalty of the recession (due to COVID) also brings the possibility of an even accelerated recovery of the
development that was fading. On the other hand, we can observe that when the recovery phase has run out of possibilities, it is always and in any case the community that realizes that economic times have changed.

The theme offers us the opportunity to talk once again about the case of China. The main question concerns always the experience lived by the great Asian country, which has reached an economic and cultural level comparable to that of the USA (to date still the leading nation). After a long run of accelerated development that is unprecedented in the economic history, one may wonder whether it has now reached the peak of its exceptional performance and has therefore entered a deceleration phase. Now it is evident that the anomaly of the development acceleration, especially the unparalleled one experienced by China, does not comply with the rules of a good relationship with nature and environment. As already mentioned, the harmonious relationship between the community and nature is based on a constant but sober development to contain the accumulation of waste produced by our development. Now it is evident that the exceptionality represented by China in terms of development does not suit the principle of harmony between nature and human activity. Thus, it is unavoidable that the run will necessarily have to calm down. But how can we predict whether this economic slowdown is already ongoing, or it is not yet in action?

To answer this question, it is sufficient to reflect on the potential negativities resulting from accelerated growth and anomalous monetary conditions. If inflation or deflation appear in the scenario of a given country, there can be no start of an acceleration process, and if they appear during the acceleration process, then we will have the cycle degrading towards normal values or even below. Well, the current condition of China's economy seems to follow the pattern of the other Asian country (that is, Japan), which experienced the pressure of accelerating economic development about half a century ago. This went on until it met the limit of a speculative wave of enormous strength, which led to the financial crisis and however marked the end of the experience of an anomalous development. In Japan, a long-lasting deflation followed, which for over twenty years the country has been trying to keep under control, to relaunch the blocked development.

![Figure 4. Inflation trend in Japan and USA 1971 – 2015](image)

Source: InflationData.com

**Figure 4** compares the development of Japan's inflation rate (based on deflation) with the US inflation rate for the period 1971 to 2015. As can be seen, both profiles show a low inflation. For Japan since mid-1995 the trail marks deflation, which has now lasted for over twenty years. For the United States, the average inflation rate is around 2%. We recall that the Central Banks identify the rate of the price system close to 2% as what should indicate a condition of relative equilibrium. Well, the state of equilibrium for the development of the economic system is reached only in conditions of complete neutrality of human development with that of the planet which allows our survival. Unfortunately, it is still a distant goal for our planet which is warming due to the excess of greenhouse gases produced by human activities. The
number close to 2% is therefore an ideal value, which it is possible to conquer and maintain only when we have reached the stage of our complete neutrality. So, it is a universal number not calculated but deduced from practice, like the universal constant numbers that govern the laws of physics and matter.

On the other hand, other universal constants regulate economic development, starting with the natural control of the business cycle, the accelerating rate of inflation and the fall into the subworld of deflation, and so on. As can be seen in the graph of Figure 4, the profiles of inflation trend in question are almost parallel and not very distant; however, while the USA fell into deflation after the 2008 financial crisis, Japan remained entangled in the deflationary limbo despite the attempts made by monetary and economic policy interventions to overcome that standstill.

The following Figure 5 examines in detail the inflation trend for the USA in the second decade and the forecast for the next three years. Apart from the goodness of forecast, our interest here is to observe how the deflation suffered in the aftermath of 2008-2010 serious financial crisis was overcome in the following two years. The trend of the core price index therefore tends to be aligned with the symbolic value of approximately 2.5% on the assumption that this value indicates a condition of relative balance for the economy.

As already mentioned, the symbolic value cannot be achieved in the current state of the world economy, because it would represent a condition of stable and constant equilibrium between nature and a man in the stage of full neutrality on the planet. However, we can imagine that the convergence towards the symbolic value of the universal constant (i.e., close to 2.5%) still represents a potential state of grace of the economic system, combined with an economic development that travels on average at the same annual rate. We can therefore affirm that it is the positive correlation between the price system, which therefore stabilizes around the value of 2.5%, and the trend of sustainable development, considered optimal at the same value. We can thus admit that this “double value” could be the signal that the economy is traveling at a level of possible equilibrium, awaiting the full neutrality of our presence on the planet.

A state of equilibrium which seems substantially to promote the coincidence between the position of constant growth, calibrated at 2.5%, with the least damage to nature; an optimal stage for current events, which allows us to look optimistically at the final goal of full neutrality. A full neutrality which is still a distant but achievable goal.

![Figure 5. Inflation, Price Index and Core PCE trends in the USA 2012-2025 (forecast)](image_url)

– Considerations final on the monetary anomalies theme

he maelstrom of long-term deflation is not insurmountable, but it becomes so if we try to tackle this serious monetary distress with the ‘usual soups’ of hyper Keynesian interventions (cost of money close to zero and excess of easy money in circulation). Deflation is always a direct message to the community to intervene, through widespread dissent, to change economic models. Let it be clear, therefore, that the community is the only intermediary for nature. A mutual interest of humanity and the natural system combine in favor of the survival, not only of humanity but of life itself in our galaxy. This means that it is futile and useless to try to bend the community orientation in economic matters through non-converging...
policies, because - contrary to hopes - the will of the community could turn for the worse. In other words, unless the community voluntarily changes its negative mood, attempts to mitigate this underlying mood will be unsuccessful.

Ergo, we can suggest opening a debate with the community, which seems able also to outline the general basic ideas to get out of the risky labyrinth of conjunctural cycles and monetary anomalies. In this sense, we may recall the observations we made regarding the priority need to attenuate any excessive difference in terms of freedom, economy, school, and culture between people (and between peoples). These preconditions are necessary to promote solidarity and human coexistence between the various social classes.

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