

## SOME SCIENCE OF MONEY UPDATES

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### Abstract:

*Money is all ‘everyday’ money, Biblical issue and a pure concept to study. This is so that in its depth money is suspected in the literature to be a double controversial essence, i.e. (1) representative and (2) fiat, both of these rather philosophically and morally vulnerable. Thirdly, then historically sometimes one of these two dominated the other (e.g. representative money under primitive monetary systems and gold standard) ; other times it even seems that one of them (e.g.. representative money, after the last World War) has disappeared and leaved the scene. Besides, there were international monetary systems (IMS) that came up and went off; the last one that was European (i.e. the EMS, 1979-1999) was followed by the unique ‘common currency’ of a multi-country region. Briefly, our proposal here is for revealing new issues and aspects that equally lie around, although less seen or even unseen, whereas they actually reflect both that we know more today than in the past and that money are likely to reiterate stories from the same past that keep familiar. Our findings might be: a third money concept zone, besides representative and fiat, i.e. money neutrality, the old story of barter, as pre-money, renewed, the famous gold standard, reviewed as the ‘top advanced’ barter episode, theories of international monetary system(IMS) and optimum currency area (OCA) face to face, and ultimately some more defies for the European common currency.*

**Key concepts:** money representative, fiat, neutral, international, barter, international monetary system, common currency, optimum currency area, price system, market, monetary policy.

**JEL Classification:** E4, E5

### Introduction

Money is all: ‘everyday’ money, Biblical issue and a pure concept to study. Even since before the 80ies (that we are personally studying it) the money conceptualizing still meets hesitations and awkwardness in expression, like money would ‘be(come) true money only when/through giving up metal cover-up’ etc. Actually, it is not only us, studying the issue, but equally literature itself changing its own picture meanwhile.

Irrespective of all that can be asserted about, money is going to be an issue of three lines of paradoxes (Andrei, 2011a). First, in time terms it is old enough<sup>1</sup>, but succeeding, together with the Scriptures, maybe, to be all man made, not a vestige yet and not expecting its ending for the human society. Second, from its very beginning, money is part of the State’s metric system as a *measuring tool*,

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<sup>1</sup> The oldest money archaeological vestiges indicate the 6<sup>th</sup> or 7<sup>th</sup> centuries BCE and were found in Lydia (today, eastern half of Turkey).

but what exactly does it measure (i.e. the social *value*) hasn't yet become clear – neither in the 19<sup>th</sup> century end, when the *Marxism-Marginalism* polemics, nor so far.

Third, when talking about *experiment*, as money-related, this is equally interesting for several reasons that fill another series of specific paradoxes: (a) since money is supposed to be *economy*, experiment isn't quite appropriate to this; (b) but given the long age of money and the relatively 'short' one of all economics things truly turn into strange; (c) the money experiment continues on strange zones since it is the first ever example of an experiment both repeated and continuous since its existence and as 'experiment for itself' (*ibidem*).

### 1. Money, as representative, versus fiat

In reality, in its depth *money* is suspected in the today literature to be a double controversial essence, i.e. (1) **representative** and (2) **fiat**, both of these with supporters and adversaries, whereas both philosophically and morally vulnerable. **Representative money** means money actually representing a *pre-existent* value, i.e. material, and working on spreading *representation* of the same type along a whole implementing chain of money functions – i.e. between monetary *reserves* and *effective money*, as well as between effective money and monetary and financial *titles* money denominated, as naturally. Representative money so cares for each *money unit* from its very *value* creation and for its *certifying*; it deals with money *reserves*, as decisive, as such, and certainly the whole money supply is made by all these money units, as individually strengthened and gathered together. Shortly, in such a practice *representation* would be able to virtuously extend money supply, whereas the pre-existent value, *as represented*, would whenever be able to contract money supply and lead back to the system's safety at any time.

The strength of *representative money* might be expressed by the 'Turgot's axiom / rule': *exchange might be between valuable items, as exclusively* (Jinga, 1981). On the contrary, the weakness here accused for representative money relates to another series of facts and ideas. Which 'pre-existent value', as individual good, backed by an individual industry? How strong might be the idea of here using a good with its natural utility for a supplementary and artificial(ly) added utility that is the exchanges intermediation? Or, especially around the Keynes' name human specie's vanity could wonder about preserving such fetishes for economic value, whereas scientific progress helped sophisticated technical measurements of many other kinds<sup>2</sup>. It is so often that social value everyday proves more important than many other technical measurements.

**Fiat money** comes to retort the representative money philosophy together with specific weakness, fetish, and 'artificial utility added' or even 'naturism' of the last. No any 'representation' since, in such a respect, actually no needed. The money unit does not need any specific or individual 'back-up' due to it makes no difference from all the other units alike; the money unit is just *one piece* of an ensemble that here is *money supply* – it is just this way that each money piece is enabled to carry some value (i.e. without individual and material 'back-up'). Money is *value* by its whole mass and so it is a *social convention*; the value implementing mechanism is the one of perceiving the other goods' values, i.e. prices. And it is through the same social convention that *total value* does express for each of its *individual units* in part. There are rather the *law* and *institutional* terms that here come to 'back-up' the money social convention all over, and strengthen the community's involvement in context.

Nevertheless, problems of this second approach aren't missing either. Money not basing on any third material-objective value actually requires alternative 'warranty' or 'back-up' from some *subjective warrantor*, be it genuine enough. Or, this is the *monetary authority* of all time(s) and this specific function is called *seigniorage* – that is supported by the 'seignior'<sup>3</sup>. Then, even modern times do not help communities against such a servitude face to non-democratic authorities' maneuvers in context:

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<sup>2</sup> Actually, there were many other problems to be accounted in this order and diversity stretches as between technical management difficulties of huge quantities of such goods and increasing incapacity of representation to ensure larger parts of money supply, as needed – the last circumstance was even able to make liberal economists throw out their ideological support for the Gold Standard in a certain time.

<sup>3</sup> Horne (1915) and Andrei (2011a, pp. 121-123)

e.g. money is managed by *central bank*, not by governments democratically elected with political responsibilities against citizens. It technically belongs to such authority all money's *devaluation* – it is true, at least partly, that the converse *revaluation* is equally available to the same authority – and all affecting individuals' money possession. Or, is that latest the moral superiority expected against the previous representative money formula?

Contrary to skipping the 'absurd fetish'<sup>4</sup> once, in early 30ties, the road made ever-since did lead, instead of 'further on' just backwards after 2000s, namely to repeating a question like: *could fiat money be really superior to metal base money?*

## 2. Conceptual implications

Back to concrete terms, just look at the primary approaching corollaries. As a significant concept, money keeps a list of other concepts related to. But whereas referring to money, they rather share between the above two irreconcilable *essences* attributed to money in Table 1.

**Table 1 - Some money-related concepts\***

	<b>representative money</b>	<b>fiat money</b>	
1	bank-notes**	banking system, with central bank, vs. commercial banks	1
2	(money and) barter, as history of money	exchange rate' correlation with the EBP sold	2
3	(money) devaluation & revaluation	(money) depreciation & appreciation	3
4	exchange rate	exchange rate, as flexible and part of the price system	4
5	fixed exchange rate	interest rate (as price of money)	5
6	Gold (metal) Standard, including bimetallism	International Monetary Fund (IMF)	6
7	international monetary systems (IMS), including European Monetary System (EMS) and theory of	law(s) on money	7
8	(international) nominal anchor (see also the OCA theory)	monetary policy	8
9	(money) parity	price of money	9
10	representation (monetary and financial)	quantity theory (of money)	10
11	(metal value) standard	seigniorage	11

\* No horizontal correspondence between concepts in this table, but the alphabetical order of titles on both columns. The list of concepts isn't exhaustive on none of the two columns.

\*\* See especially 'gold-backed' banknotes (Davies, 1994, pp. 146-151).

That is why such a Table shape might seem quite strange at the first sight. In Table 2, as complementary information table, the same duality deepens. Keeping a distinct analysis for historical issues in the following paragraph, let us have here the same starting point, the money *parity*, for representative money – that of course means a quantity of metal corresponding to a money unit, as declared by State and undoubtedly respected as such in acting. When money parity, different State

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<sup>4</sup> This being one of the Keynes' public expressions.

money units naturally compare to one another just as quantities of the same kind the way that *exchange rates* result as *fixed* by definition and nature<sup>5</sup>.

In the *parity* order, *exchange rate* is supposed to move through *devaluation/revaluation*, meaning parity (metal quantity represented) modified – this is made by State authority under official auspices but is not characteristic (and frequent) for the system, that's why also very rare. On the contrary, out of parity – i.e. under *fiat money* – devaluation /revaluation are replaced by *depreciation/(re-) appreciation*; they are made by both *money market* evolving<sup>6</sup> and *monetary authority*, i.e. through its *monetary policy*, and such a movement is an everyday one.

**Table 2 - Some behavioural differences for money concepts, as representative, versus fiat**

	Related concept	Money, as:	
		Representative	Fiat
1	Money unit	Legalized as a monetary metal quantity established, called <i>basic parity</i>	Part and subordinated to the whole of <i>money supply</i> , that is <i>social convention</i> for money value and market prices measuring
2	Money reserves	Done by <i>metal represented</i> , money supply here resulting through the parity rate. No excess reserves conceivable	Done by <i>legal reserves</i> held by organizations at the <i>central bank</i> and/or treasury. Excess reserves are possible
3	Money floating	Just <i>devaluation</i> and <i>revaluation</i> , not characteristic, rare and authority legally engaging in.	<i>Depreciating</i> and <i>re-appreciating</i> that are <i>market</i> stuff and off all authority engaging, except for <i>market intervention</i> .
4	Exchange rate*	Basing on metal <i>parity</i> and so fixed by definition, here including not dependent on prices' behaviour	Making the <i>price of money</i> , as associated to <i>interest rate</i> , so part of the general <i>price system</i> and flexible by definition
5	Interest rate	<i>Banking</i> stuff with less macroeconomic function	Banking stuff, but equally <i>price of money</i> expressing together with <i>exchange rate</i>
6	Fixed exchange rates	Naturally resulting since <i>metal parity ratio</i> among different national <i>currencies</i>	Requiring permanent and costly <i>market intervention of the authority</i> on the home market
7	Price of money	This isn't a valid concept. Actually, this is just <i>money parity</i> , as exogenous for exchange rate and price system	Expressed by <i>interest</i> and <i>exchange rates</i> and so part of the price system

\* See also *fixed exchange rate* and money floating.

<sup>5</sup> Actually, the full story of this wasn't so simple. First, parity, as an exact quantity of *precious metal* substituted by the *currency unit* was supposed to be both declared and respected by the State, as *by law* and as a very State's debt against whoever money detainer. Plus, the State *Mint* institution was assigned to apply it for each case in its activity. Second, the *exchange rate* as simple such quantities' ratio was previously requiring that different States have money represented by the same precious matter, which might be the most complex issue of all here related. Third, only the gold metal, unlike other monetary metals of the ancient times, succeeded to have its Gold Standard in modern times, meaning that modern *monetary and financial systems* were here born, including the *financial market*, a true 'censor' for the currency's market (i.e. true) value. Finally, whenever the *money market* value was too much floating, the currency's detainers were guessed to go back to the State Mint to be rewarded as high as the currency had previously been declared value.

<sup>6</sup> *Fiat money* concept includes even an internal contradiction that is the one between authority's *seigniorage* involved and its high susceptibility to market value's mobility – i.e. a much higher market value mobility than the other case, of *representative money*.

In the *parity* order, again, *exchange rate* equally keeps far from the *price(s)* category<sup>7</sup>, unlike the *fiat money* alternative environment. It is in the same order that the *Gold metal Standard* – a top and very symbol of *representative money* – was attributed fixed *exchange rates*, but its ‘de facto’ *price stability* was different issue and actually not directly linked or related to. *Inflation* was actually compatible with the same Gold Standard, even while fixed exchange rates. Only *monetary* inflation was here ejected by representative money, as of principle.

On the contrary, when and where *fiat money* the *exchange rate* -- basically, a representative and/or rather a neutral money feature, as included in the above Tables – leaves the parity environment for the one of the *price of money* one, in which’s defining context exchange rate does associate with *interest rate* – i.e. just another *rate*. In practice, both representative and fiat moneys accept price variation on all time terms; the difference here is that fiat money sees *exchange rate* as price category belonging the way that its variation gets nearly compulsory, together with the *general price level*.

Concomitantly, since *exchange* and *interest* rates are *price of money*’s measuring stuff they are assumed to move pretty similarly within the same period. Whereas interest rate seems to account as less significant for Gold Standard and representative money, under fiat money the *monetary policy* comes up to act on *money depreciation* either for the two *rates*, or for concomitantly rising investments and exports, as endogenous<sup>8</sup> of. It seems that the last maneuver has got very characteristic for the late 30ies post-crisis and for the new born national *development policies* at that time – they were also including *trade policy* in a consistent context.

And contrary to *interest rate* and especially to *monetary policy*, *international monetary systems (IMS)* – i.e. under the concrete structures of the same *Gold Standard*, *Bretton Woods Agreement (1944-1971)* and *European Monetary System (EMS)* – ever and all over proven unable to reconcile with any exchange rate flexibility; and here see especially the EMS example, as recent and late in time as rejecting any idea of money parity whereas and despite fixed exchange rates working (McKinnon, 1993). Recall the Bretton-Woods’ IMS example of ‘*US\$ 35 for the gold ounce in 1944*’ claiming the same by its basic rule in the later 1971 international prices-changed environment – i.e. the imminent IMS’ crisis plus collapse at the time.

### 3. Ancient history of money

We’ll see here below how *history of money* itself does bias inside the money issue, as above viewed. Before the money’s existence, *people were bartering* – this is already common place and theorists agree such an idea<sup>9</sup>, whereas currently another aspect here stays enough significant: the old *barter*, as ‘*mother of today market economy*’, does benefit from a real smoothness, as historical view on money later produced. Of course, besides and despite all these, this isn’t a postulate, like in exact sciences.

When *barter*, before money admitted, analysis can start, as in the above paragraph, from the money *parity* this time for a long and very long term backward moving in time. Once more, the international money parity means a single material money substance and then there are to figure out previous circumstances of several moneys basing on different individual *parity rates* for different State money issuers, as in the ancient history with primitive monetary systems. Those metal moneys were following the previous market *commodity moneys*, that several metals<sup>10</sup> had been when no official authority was backing them. And *commodity moneys* actually were the *advanced stage* of the old *barter* system (Andrei, 2011a, pp. 87-95) – looking backwards once more; this stage was coming to replace the primary and *primitive* barter, i.e. the one met by a classic *Marginalist* like the British William Stanley

<sup>7</sup> Unless the metal *parity* actually being price of the metal itself.

<sup>8</sup> These are for related strategies against recession and for external economic expansion, as concomitantly

<sup>9</sup> Jevons (1873), Davies (1994), Graeber (2001), as well as Andrei (2011a, pp.35-36).

<sup>10</sup> Since the expression that ‘... all goods played this (i.e. market value equivalent) role’ (Guitton & Bramoulé, 1982), metals were coming to fill a very distinct stage of market value equivalents and commodity moneys. Moreover, this might be viewed as related to the ancient metals era.

Jevons with the expression like '*no double coincidence of wants*'<sup>11</sup>. Completing the smoothness of such a scenario, it is here to imagine market working previously than State here acting and so this State's option for the official money metal as according to the market's previous revealing.

The problem with this fluent scenario is that this way *barter leads to money*, but certainly to just *representative money* – never to *fiat money*; actually, not to money as it mostly appears today (and not only, but for a long and significantly long existence, as well). Then, historically, representative money, together with its barter-related history, fails to explain all about what happened with money in the Gold Standard's aftermath.

The literature reveals that there are historians denying any material proof in favour of the barter's pre-existence<sup>12</sup>. On the other hand, the antique history – the one of metal money and primitive monetary systems – did not miss fiat money issues, e.g. *seigniorage*, that always includes *money minting* – i.e. the primary step of *monetary policy*<sup>13</sup> – and sometimes even weakening the intrinsic money value through thinning the coins' metal content by the authority itself – i.e. not by counterfeits in the area --; the harsh laws on money and coins' regime<sup>14</sup> etc.

In a word, there are obvious historical signs for fiat money in the ancient history (i.e. with primitive monetary systems), but a historically consistent view about fiat money's historical development is rather missing, as compared to representative money above story told in the concreteness of the old barter concept. In other words, *history of money* itself seems to be not impartial, inside the (money) concept, either.

#### 4. Our view on the old barter

Recall from above that W.S. Jevons (1893) had the first description of *barter* economic system, be it in an ideological order of justifying its replacing by money. The very long term echo of such a contribution is that barter is rather not to be historically denied. Andrei (2011a) used another basic Marginalist contribution, the one of Leon Walras on general economic equilibrium and price (system) formation – i.e. irrespective of money involvement. Shortly, the double Walrasian assertion that, for prices of goods A, B and C respectively that are  $P_A$ ,  $P_B$  and  $P_C$ :

(a) when  $P_A \geq P_B$  and  $P_B \geq P_C$ , it automatically results that  $P_A \geq P_C$

(b) and when  $P_{A/C} \geq P_{B/C}$  -- in which  $P_{A/C}$  and  $P_{B/C}$  are respectively prices of goods A and B expressed in quantity units of good C -- it automatically results that  $P_A \geq P_B$

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<sup>11</sup> Actually, the supreme contribution of this classic here fills the exhaustive list of barter's market handicaps: no common value for either market exchanges, or deferred payments, indivisibility of some goods, no value storage possibilities (Jevons, 1875/1893).

<sup>12</sup> The most genuine retort that comes up instead, in the literature, might be the example of the so called *gift economy*. The last was primary attributed to the Paleolithic clans, but seems evolving as interestingly as never in decline up to modern times and present. On the contrary, the barter's idea is equally supported by anthropologists, instead of economists – they say that barter was coming together with inter-human relations' (i.e. trust's) degradation. See at least: Mauss (1925), Sahlins (1972), Hyde (1982), Cheal (1988), Kranton (1996), Suranovic (2001), as well as Andrei (2011a, pp. 35-40).

<sup>13</sup> And just let us have here the example of money minting through metal stamping as coinage, versus the same metal quantity amorphous exchanging and so really competing on market. On the one hand, monetary metal becoming effective money seems just a historical formality, as seen from today, but on the other, at that time, in the market exchanges environment vicinity the appropriate option didn't look the same neither to traders (i.e. choosing between coin and a metal amorphous quantity), nor to monetary authority (e.g. how much metal to be stamped as money coinage, versus letting the same metal freely exchanging on market, as it was). Actually, such a dilemma doesn't do, in our view, but verify the *representative-fiat money* substance for a very concrete circumstance. A circumstance in which, besides given dilemma one thing stays quite sure: the given metal quantity, be it natural and amorphous or money minted through stamping, reach the same market value (i.e. equal values).

<sup>14</sup> It is mentioned that Carracalla, an ephemeral Roman emperor in the 3<sup>rd</sup> Century AD, once put out of law all the Tracia's inhabitants for not having accepted his issued currency on their territory.—this was a CNN television report of the writer Paul Sussman in August 2001.

And then prices were preferred to be replaced by quantities of goods A, B, C, ..., M, N, that are respectively a, b, c, ..., m and n -- since price is more difficult as operational concept when no money to express in -- and two corresponding models here came out:

$$(I) \quad Aa \Leftrightarrow Bb \Leftrightarrow Cc \Leftrightarrow \dots \Leftrightarrow Mm \Leftrightarrow Nn$$

$$(II) \quad \begin{array}{l} Aa \Leftrightarrow Nn \\ Bb \Leftrightarrow Nn \\ Cc \Leftrightarrow Nn \\ \dots\dots\dots \\ Mm \Leftrightarrow Nn \end{array}$$

in which all over small letters indicate quantities, as opposite to capital letters that remain to indicate specific goods and the  $\Leftrightarrow$  sign means something *more than equal* -- i.e. the fact that the specific goods in quantity indicated were actually met at least once in the market exchange process.

These models of the same kind (pair models) claim to reflect two large steps of a presumable *barter economic system* that of course starts by (I) the **primitive barter**. This is as horizontal as it really reflects the *economic horizontal* -- quantitative market exchange relationships among final goods, when no money. Here it is assumed that the owner of good A looks for good N and in the 'no double coincidence of wants' environment the chain of market exchanges work as such above. In reality, the owner of A's problem gets solved together -- in the same process-timing -- with all similar problems of the other owners (traders or market operators) in the area. The model reveals facts as: (i) the 'mother' of all *price systems*, that comes together with (ii) the antique *macro-system* so shaped as in today terms, (iii) the serious space limits of such a macro-system, as of principle, (iv) *price stability* required and finally (v) *closeness of market*, (as such) as a rule, which is the very difference between primitive and modern markets -- i.e. the last is found of openness, as by definition.

The (I) model is missing market *competition* (i.e. among *market operators*) and economic *vertical*. The most highly revealing results of this model are (a) reviewing the 'no double coincidence of wants' circumstance as the one of boosting market activity, (b) long-term dynamic found as '*cell-market-areas*' to enlarge ever-since the primitive barter time and (c) *price stability* found in its primary ever hypostasis. Otherwise, the model equally reveals the double cell-market vulnerability: (a) against market area extending on the short term; (b) against all price variations.

The (II) model tries to reflect the other here claimed *barter* step, the **advanced barter** of *market equivalents*<sup>15</sup> or *commodity money* -- as pre-money. This alternative model works on the same principles<sup>16</sup> -- i.e. the same goods and corresponding quantities and the same  $\Leftrightarrow$  equivalence sign -- except for certifying that it comes later in time, given that the N good has already been selected as market exchange equivalent for the others. As resulting from, the previous 'no double coincidence of wants' context vanishes. Goods stop exchanging among in the above chain, now encountering the market value equivalent, as individually. It is this new aspect as several times virtuous, i.e. market breaks its previous closeness while preserving the old price stability and this last keeps its price stability safer from individual good price variation, as well as from the newly reached *market openness*.

The most highly revealing results of this second model do consist in the historical perspective of what was coming to be the *Gold Standard*, in its primitive form, but especially in its modern form stretched between 19<sup>th</sup> and 20<sup>th</sup> centuries on international market area<sup>17</sup>, plus that both it was the sense

<sup>15</sup> i.e. *partial* and *total* equivalents. A market good equivalent is supposed to be *partial* when working on and controlling as such any limited market area, be it a region or a country area of all sizes. Such a market good equivalent is supposed to become *general* when so referring to all existent market areas concomitantly, i.e. the general market equivalent is just one or *universal money*, and it was the gold metal during the 1880-1933 interval that has been called international 'Gold Standard'.

<sup>16</sup> Basic similarities between the two models were deliberate, once more, to shape a unitary story of barter for either a so long time that such a system is admitted to have reigned, or the two apparently so different developments that primitive and advanced barter displayed.

<sup>17</sup> Actually, on Europe and America of its time. Other authors rather argue that the rest of the world (e.g. Asia and extreme East) was *silver standard* (Guitton & Bramoulé, 1982).

of all barter evolving and time in which barter definitively leaved the place to money, as exactly as in the Jevons' above view. Apparently, barter coexisted with money in its final stage, but up to the modern Gold Standard money either delayed proving its expected 'superiority to barter', or so came up to run both domestic and international market areas transactions.

And market physiognomy changed forever – i.e. not only the *Ricardian* and *post-Ricardian* views on modern market, as national-international, but equally such barter to money evolving on longer terms.

Besides the above description, in our view barter did exist before money and it really made its specific *economic system*. The last's specific included that, unlike other economic systems, it more easily coexisted – i.e. when did not correlate, as usually -- with other systems, e.g. *gift economy*, in the ancient times, *individual primitive household* with its specific '*natural economy*', feudal environment or even primitive and undeveloped monetary systems, but here included the Gold Standard special case (Andrei, 2011a).

### 5. The quantity theory of money, in context

It won't be quite appropriate to this paragraph reviewing the old quantitative theory in its details<sup>18</sup>. Our issue here consists first in confirming the popular view about money thinking as sharing between the *quantitative theory* and the rest of theories, sometimes called 'non-quantitative' or even 'qualitative' theories (i.e. about money). Such a view is basing on a truth of the significant development that this theory performed in time, on what makes it one of the greatest economic theories of all time – e.g. together with its criticism developed in parallel.

Our specific problem in this text is that the same *quantitative theory* keeps all qualities, except for that *it biases the fiat money concept* – the same as barter and parity above were biasing the opposite representative money in the money history developing context. Despite Andrei (2011a, pp. 167-171) that tries to approach a specific Gold Standard's adapting to the quantitative theory, it cannot be wiped out the primary-basic truth that the same theory refers to *money supply (M)* – i.e. that is certainly *fiat money*, as against its representative money counterpart (e.g. monetary *reserves*) that is fully missing in both basic *formulae*<sup>19</sup> and developing so far.

Curiously, this exclusive money reference that money supply (M) is was the source of criticism equally coming from J.M. Keynes, where the '*Master*' was pointing on the bias for 'supply', against the 'demand for money' acting on the money market that seemed 'invisible' to the opposite classic polemist scholars.

### 6. Money neutrality

Let us here clarify that 'our money neutrality' comes up in context -- i.e. it strictly refers to not belonging to any of *representative* or *fiat* moneys. Andrei & Andrei (2014, pp. 9-11) started outlining this third money zone and Andrei (2016) points to what we believe it is the most relevant example of belonging to, i.e. money *velocity* and *multiplier* as out of both *representative* and *fiat* moneys.

The interest and even challenge of this last approach is that, despite their functional link between, *velocity* -- the money's supporting capacity for a number of transactions of its individual value and total amount of the same transactions within a given time period – and *multiplier* – the money's capacity of enlarging its direct acting on market, an empowering provided by banking and by the *effective-bank account* shifting status capability of money – are as significantly separated in time terms (that they were born) and corresponding historical pictures as almost bordering on science-fiction when suspected of *acting together* at present. Concretely and basically, the two numbers appear to make a

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<sup>18</sup> That would be, on the contrary, for a separate and enough substantial debate-analysis.

<sup>19</sup> i.e. (1)  $MV = PT$ , called *implicit* expression, and (2)  $P(M) = M \times (V/T)$ , called *explicit* expression due to its function type reporting between the M exogenous for the P endogenous. In which: M is money supply, V is money velocity, P is the general price level and T the volume of transactions. In time developing of the theory, T was sometimes replaced by Q, production, and Y, national income.



pretty *constant* arithmetical product or a trend in this way meaningful for an *up limit of money empowering* that suggests the monetary health -- i.e. opposite to possible variation or losing limits of money empowering that accuse potential disasters, e.g. the 2008 crisis.

Shortly, recalling the above references the *multiplier-velocity coefficient* was here doubly verified, i.e. primary in the Gold Standard environment, for which this coefficient is found to vary according to the equation:

$$\Delta \mathcal{K} V = (1 + \Delta \text{GDP}_r) / (1 + \Delta \text{GdStck}) - 1$$

in which, naturally,  $\Delta \mathcal{K} V$  is the *multiplier-velocity coefficient variation*,  $\Delta \text{GDP}_r$  is variation of real GDP in non-percentage number and  $\Delta \text{GdStck}$  variation of the gold stock (as monetary) equally in non-percentage number expression. This equation means a simple linear equation of the type of:

$$y(x) = x - 1$$

where  $y(x)$ , as the same velocity-multiplier variation when this time it is viewed as function of  $x$ , which is ratio between *real GDP and gold stock indices*. It is the way of finding the searched variation null wherever real GDP's and monetary gold stock's variations (and indexes) get close to each-other; which stays of course invariably valid out of Gold Standard environment for the regime of *monetary reserves* able to preserve money neutrality<sup>20</sup>.

The other *money neutrality verified* through the same *money multiplier-velocity coefficient* comes out of some *econometrics* (empirical approaches) on Fed's monetary data on the 1963-2013 interval so with 51 observations. A basic convex hyperbola equation like  $\mathcal{K} V = k$  was primary replaced by the one as:

$$\text{MZMV} = k * \text{Mmult}^{(-1)}$$

in which, of course, MZM is what Fed calls '*money of zero maturity*',  $V$  is money velocity,  $\text{Mmult}^{(-1)}$  is the inverse of money multiplier and  $k$  is constant.

And when leaving velocity and multiplier as exemplary for *money neutrality* -- i.e. since they aren't either representation or event occurring on track authority, but both these other concepts keep obviously able to enlarge money supply, as much as multiplier and velocity do -- more concepts here join<sup>21</sup>. *Lending* that turns into *crediting*, when systematic activity and all preceded the money existence -- i.e. as much as and similar way with barter. Unlike barter, lending and then crediting stay neutral against (and when) the usage of money<sup>22</sup>. When these two turn into *banking*, the same picture might become more complicate than that. *Commercial banks* actually deal with all: multiplier (money neutrality), *banking principle* -- i.e. fiat money, the same as the opposite *currency principle* -- and a diversity of *titles of value* -- i.e. representative money, as money denominated.

### Box 1 Multiplier-Velocity coefficient on the Fed's data

Our approach started with Dickey-Fuller test used for reaching stationarity; and this came at the first order of differentiation. Then, unique root, logarithms and homoscedasticity required and then possibilities of *co-integration* of our variables and so re-considering the good (impressive) length of given Fed's time series on its monetary base. This is by definition the possibility of variables inter-acting with each-other, as: (i) both exogenous and endogenous; (ii) on both short and long terms; (iii) on several time-lags. Then VECM applies. The econometric inventory used was: unique root, *stationarity* (Dickey-Fuller test), *homoscedasticity*, *co-integration* (Johansen methodology, with Trace /Unrestricted Co-integration Rank Test & Eigen /value tests), *Vector Errors Correction Model (VECM)* for *co-integration* confirmed), versus *Vector Auto-Regression (VAR)* for no-co-integration confirmed), *Ordinary Least*

<sup>20</sup> Andrei (2011a, p. 170)'s calculations for the world gold reserves on the 1982-2002 interval find the gold standard multiplier-velocity variation in two variants, as  $\Delta \mathcal{K} V_1 = 0.998 \Delta \text{GDP} - 0.002$  and  $\Delta \mathcal{K} V_2 = 0.966 \Delta \text{GDP} - 0.036$ .

<sup>21</sup> We equally here admit the debate on in the area, in which context Andrei & Andrei (2014, p. 10 / i.e. the table) might be partly wrong.

<sup>22</sup> i.e. not favouring any of representative of fiat money either.

*Square (OLS) test and null probability for coefficients, t-Statistics, R-squared correlation, Durbin-Watson for self correction errors, Jarque-Bera test checking on errors' distribution, Granger (1988) causality & Wald tests, MacKinnon-Haug-Michelis (1999)<sup>23</sup> p-values (Andrei & Andrei, 2014).*

Our post 2011 studies conclude that, contrary to some of previous assertions in the literature, money of all time shares *between representative and fiat*, be it in various weights -- none of these two has ever died; neither have they done today -- and the same for money neutrality. Moreover, whereas *fiat* and *representative* sometimes point to some money's weakness -- e.g. 'money has no choice, but this contradictory way being' --, *neutrality*, on the contrary, comes up to strengthen the same money for what it really is and what it currently does.

## 7. The contemporary theories of OCA and/versus IMS

There are *international monetary system (IMS)* and *optimum currency area (OCA)* to debate about in this paragraph below. Both are postwar theories of money and these are not so simply dealing with its above representative-fiat definition duality either. These theories appear as pretty the same age and interestingly encounter each-other since regarding the *international money* topic. Also the differences between are rather significant and the first one sees their sizes.

**7.1 International monetary system (IMS)** is a concept regarding inter-States monetary mechanisms which were assumed to be, one after another, *Gold Standard (1870<sup>24</sup>-1933<sup>25</sup>)*, the *Bretton Woods international agreement (1944-1971<sup>26</sup>)* and later on the *European Monetary System (1979-1999)*. As in theory, IMS<sup>27</sup> shapes as in Box 2 (Triffin, 1973). The *unique reference value* expression tends to be larger than here assuming just an individual national currency freely used internationally, as in the restricted views of fiat money and OCA theories. In facts, it is the *metal (i.e. gold) money* reference to talk about and this is found as 'neutral' among all member States forming the System (IMS). Reciprocally, national currencies are admitted to compete for such a privileged position inside the IMS.

### Box 2 - The international monetary system (IMS)

De iure	a <b>unique reference value</b> for all money and their State issuers, as member States of the System
	a remaking <b>balances of payments (BP)' equilibrium</b> mechanism for all the IMS' member States

<sup>23</sup> Critical values, at <http://lists.wfu.edu/pipermail/gretl-users/2011-February/005860.html>

<sup>24</sup> Davies (1994) here finds the 1850-1931 interval for Gold Standard.

<sup>25</sup> In 1931 Bank of England gave up the gold convertibility of its pound sterling. First, some people might think that such a measure wasn't unprecedented, but all Napoleon's wars and World War One had brought similar events. But not only this was forever, but two years later the monetary authorities of France and US came to do the same with their national currencies. All agree now that the big economic crisis of 1929-1933 was the Gold Standard's terminator. But even this did not end the crisis auspices, but another crisis was immediately following -- that was the post-IMS *international monetary disorder* that lasted up to the next World War.

<sup>26</sup> 1971 was an interesting year case. The Bretton Woods IMS' working collapsed resulting into exchange rates' entering high floating -- actually, it was the US\$ strongly depreciating against all the other national currencies and the last appeared to differently floating against each-other. In reality, the US\$ had been the IMS' reference value up to that event, so what the gold metal had been for its former IMS. Or, the dollar did depreciate when its IMS collapsing, unlike gold that never did, but something else came up very similarly between 1931 and 1971 (at forty year distance). In 1931 Bank of England was giving up its gold convertibility of the pound sterling that then started floating; in 1971 it was the turn of the other Bretton Woods IMS to do the same with dollar floating consequence. London and Washington had both been centers for Gold Standard and Bretton Woods IMS, as respectively, in 1931 and 1971. Collapsing from its very heavy center so seemed to be another IMS's working rule that was rather skipping to its proponents.

<sup>27</sup> i.e. unlike national and federal State's monetary systems.

	member States' equal legal commitment for the System
De facto	<b>fixed exchange rates</b> , as compulsory
	biasing <b>money parity</b>

*Remaking mechanism for the individual States' BP* is basically supposed to be a job done by might-be different contextual *instruments*. And the last might develop between presumably *automatic mechanisms* that was the case of Gold Standard and *international financial institutions* assigned by the System to manage the inter-States flows equilibrium, primary through watching on all such imbalances. *Financial institutions* as such were claimed for the Bretton Woods IMS, i.e. the *International Monetary Fund (IMF)*, and for the EMS, i.e. the *European Monetary Institute (EMI)* (McKinnon, 1993). As in detail, these institutions were supposed to work with their own *account money*<sup>28</sup> against their flows equilibrium aimed.

As for the member States' *commitments against the IMS* in place, they filled a dimension also provoking some misunderstandings in the topic area the way that some supporters here restrict to inter-States agreements form to be admitted – i.e. and so the famous Gold Standard finds itself as nearly excluded from the IMS concept. On the contrary, Andrei (2011a, pp. 151-154) explains that Gold Standard was all over benefiting from States' *monetary laws that were naturally harmonized amongst* – no need for international agreements in this case<sup>29</sup> since equally those agreements rather couldn't prove able to shape stronger IMSs than the other cases (i.e. this is about the same Gold Standard, as unique case of an IMS missing corresponding international financial institutions of management<sup>30</sup>).

On its *de facto* zone of the IMS, *fixed exchange rates* look not being an aim in itself<sup>31</sup>, but properly resulting from either Gold Standard's and Bretton Woods IMS' environments – i.e. the latter IMS was as such since its fixed parity settled for the US\$ in 1944, the date of the international agreement done<sup>32</sup>. *Money parity* looks biased by IMS up to the date of the other EMS that is the case of *fixed exchange rates without parity*<sup>33</sup>, but reclaimed by particular price systems' development throughout *economic integration* process. And this is the aspect arguing that *fixed exchange rates* truly overpass the *parity* environment<sup>34</sup>.

Criticism on the IMS might notice that, limiting to some rules explained, here including the rule of IMS's birth under legal States' commitment, the theory sees neither the IMS in its usual declining perspective all over, nor how much of international monetary order would ever be covered by IMS<sup>35</sup>.

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<sup>28</sup> i.e. *special drawing right (SDR)* for the Bretton Woods IMS and further on money of the IMF; *European Currency Unit (ECU)* for the EMS as respectively, see McKinnon (1993).

<sup>29</sup> The author here has a longer explanation about, related to the metal's monetary place in the ancient history of money and in the pre-money barter system; a history that equally included non-modern monetary systems based on gold, e.g. the Roman Empire's and Middle Ages' moneys. Shortly, Gold Standard, besides its fixed exchange rates and price stability, was equally exemplary for its law expression that was highly convenient for all State, organizations and citizens.

<sup>30</sup> Though not to be omitted that the *Latin Monetary Union (1865-1927)* did expressly mention Gold Standard, as its basic working monetary system. That remains the lonely ever official mention of Gold Standard.

<sup>31</sup> Here also see the OCA theory in detail that is the case of fixed exchange rates aiming.

<sup>32</sup> Also see paragraph 2., above for money parity circumstances.

<sup>33</sup> That in practical terms means foreign exchange market *interventions* of the monetary authority (i.e. central bank), as part of its *monetary policy*. Recall from above that *monetary policy* and *money parity* rather exclude each-other, but the very problem of this fiat money aspect lays in the number, amplitude and so costs of these market interventions that actually are selling-purchasing different moneys in short and very short periods (i.e. everyday). On the contrary, when money parity, fixed exchange rates stay natural issue and properly work as such.

<sup>34</sup> Note that Triffin (1973), the IMS basic theory's supporter, did not express about the EMS case.

<sup>35</sup> i.e. how could the IMS theory explain and qualify the global exchange rates' relative stability after 1985, the year after the 'La Plaza-Louvre' event, as international conference, when no any more IMS, in such a view, asks once more McKinnon (1993, p.32) ?

Fact also is that beyond all the above three IMSs examples, Gold Standard seems to have been reversed by a fiat money subversive motion in the international market area and then the Bretton Woods IMS met a deeper story of the same kind when being founded as a *representative-fiat money mixture* shape. As for Gold Standard, it had required rather international monetary and economic homogeneity, similar to nowadays economic integration, whereas authors claim at least a '*center-periphery*' difference as a reality (Officer, 2010, pp. 96-107). Then, apparently this system proven once more stronger when the British Empire took it under its power support (Andrei, 2011a), but this initiative equally did establish the *central bank versus commercial banks* system, specific to fiat money. Finally, Gold Standard did collapse when *Bank of England* was equally the same as the IMF for the next following Bretton Woods IMS<sup>36</sup>.

As for the last, it was contradictory design since 1944, i.e. whereas its *unique reference value* at the time was the US\$ and it was claiming its 35 dollars per troy ounce price and fixed exchange rates against the other member States' currencies. The System also was typically established by *inter-States agreement*, in which actually IMF was founded as *financial management institution* support.

The EMS (1979-1992) case looks apparently different than the IMS' general rules, as seen from its European founders. The System has been designed as transitory, i.e. aiming to find and test the real exchange rates of its European member States' currencies at the delayed time of its turning into the *unique common currency*. On the contrary, as seen from outside McKinnon (1993) confirms a structure that is the same as for the other precedent IMSs<sup>37</sup>.

## 7.2 Optimum currency area (OCA)

As in all our previous contributions to this issue – i.e. in which concomitantly talking about IMS and OCA –, our top reference remains McKinnon (1993). The last actually argues about two IMSs – i.e. the Bretton Woods IMS (1944-1971) and the EMS (1979-1999) – similarly working since structurally similar due to claiming OCA as priority to IMS. And actually McKinnon here has just a completion made to the large *OCA theory*<sup>38</sup>, the one called *Nominal Anchor theory*. Box 3 keeps a brief description on the last.

Unlike the IMS theory, the *nominal anchor* explains not only about its internal mechanism and rules – i.e. there are entirely different rules to talk about for the IMS' and OCA's cases --, but equally about how the same anchor is born and then dies, here emphasizing that all *OCA is limited life*. Then, nominal anchor and OCA dislike all about *formal* and *law* terms, unlike the IMS theory, once more. No any mention about external balance of payments' controlling mechanisms from the nominal anchor view either.

There is something that finally appears similar between the two theories, and this is about two issues, be they inter-related. The one is *nominal anchor* itself that directly corresponds to the 'unique basic value' for all prices in the area of IMS. The other is the *fixed exchange rates* aspect. The difference is that what was very 'natural' and so an assumption for the other theory, for the nominal anchor and for OCA as a whole stays a wish to be fulfilled in the multi-country region, a target, a stake or a bet – i.e. besides, the two theories stay found of fixed exchange rates as both yet prove unable to accept the money floating of any kind.

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<sup>36</sup> Let us just make the distinction that the latter authors here cited argue that it was the British Empire who admitted Gold Standard as an international monetary order to be supported and internationally managed during its whole life existence. That is why a good number of scholars prefer to see the same IMS as actually the one of the British pound. Unlike them, Andrei (2011a) argues that the Gold Standard's roots are historically much deeper than thought so far. In other words, the same as primitive money had been coins stamped by authorities on metals previously winner of a special market competition as market equivalents, in the 19<sup>th</sup> century the British Empire, under its glorious Victorian era, might have taken over Gold Standard as something previously market confirmed. In other words, once more, the British Empire didn't ever invent or design the Gold Standard IMS, as possibly understood by this System's opponents of such a group.

<sup>37</sup> See details in the next following paragraph.

<sup>38</sup> Mundel (1961) is the unanimously recognized parent of the OCA theory. Mongelli (2002) has, in our view, the most appropriate, i.e. exhaustive contribution on the OCA theory's description, as a whole, unlike our lines that won't have any of this, except for the McKinnon's nominal anchor theory.

It is equally interesting that nominal anchor sees *fixed exchange rates* without parity corresponding – i.e. this theory repudiates all parity and ‘*unique basic value*’, except for a *national currency that gets internationally free usable*. This really is *fiat money* that the nominal anchor theory stays captured by, similarly as the IMS one for the other *parity* (i.e. metal standard) related stuff.

### Box 3 The nominal anchor theory

- The *nominal anchor* is assumed to be the national currency issued by the *anchor country*.
- The *currency area* is a multi-country region to which the *anchor country* and its *nominal anchor* national currency belong
- The anchor country ensures the *free movement of its own currency issued* (i.e. the nominal anchor) within the region, i.e. this currency freely lives its own issuing country.
- This last above idea actually means *unrestricted imports and payments abroad from the anchor country* and of course directly in the nominal anchor currency.
- Whether these last above imports and payments abroad are not entirely free, the same country is still admitted as anchor country whether keeping *the less restricted national (individual) currency movement* within the whole multi-country region.
- The whole picture of the above ideas is the one of the anchor country’s *non-intervention* - i.e. no any kind of intervention, be it monetary, trade or other policies -- on its own balance of payments' problems.
- And consequences of this are of two kinds are:
  - (a) creating *imports market* on the anchor country’s territory (virtuous evolving);
  - (b) creating premises for the nominal anchor's international *depreciation* against the other national currencies in the region (vicious evolving);
  - (c) especially since these other currencies do remain backed by their State issuers’ monetary policies .
- The result of all these above facts is the *nominal anchor's bankruptcy* within a horizon while.
- Then, the symptom of *searching for a new nominal anchor* in the region area.
- Except for the anchor country and its nominal anchor, there are *no other special regimes for the rest of countries and their national currencies* in the region area (McKinnon, 1993).

In another development, equally to be noticed for the nominal anchor’s theory its being captured by what can be called ‘*hegemonic motor*’ – i.e. no international monetary order in the absence of a strong anchor country; plus, this is supposed to be just one in the area.

## 8. The European common currency: a story of two successive issues

Interestingly, it is through the same McKinnon (1993) that entering this new paragraph relates to the above precedent one. – i.e. the author was just criticizing the EMS structure and doubting on its *de facto* perspectives since, on the contrary, trusting his *nominal anchor theory* instead.

### 8.1 Issue one: the euro’s birth

Then, the immediate reality was different than the here expected collapse of the EMS<sup>39</sup> -- i.e. this system rather had been scheduled to be replaced by the *unique-common European currency* in the 20<sup>th</sup> century end, instead of being surprised by any presumable catastrophe. So, it is debate about that

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<sup>39</sup> There never was any EMS’ collapse of the previous IMSs ‘ type. Such an event was just imagined by the author , but he did not openly express about that either.

McKinnon (1993) would have been entirely wrong about facts<sup>40</sup>. Or, the real truth rather is that, replacing a freely used national currency as international (regional) nominal anchor – i.e. an IMS of the same structure with its precedents that all had collapsed, in another translation – be it by a new *common currency* – especially the one that all member States get commonly responsible for – really means *backward regarding, previously than forward*. Europeans – i.e. the EU decision maker -- did prefer to proceed to the perspective *common currency* – together with the last's expectable problems of the next future decades<sup>41</sup> – to a System that was in place, but with no future, as for certain. In other words, the same decision maker did understand that the integration itself was supposed to work on all member States' responsibility, instead of the one of Germany alone<sup>42</sup>. A single example to be here taken for all understanding: how would have been in context the so called euro crisis not so long ago, when several voices were already announcing the 'death of the European currency'? In our view, tensions among member States would more hardly injure that EMS and the integration process together with causing a serious and unprecedented political step back for the whole area<sup>43</sup>. And curiously, what happened then stays equally related to the next further paragraph description.

### 8.2 Issue two: the euro's current condition

And now let us have the other aspect under focus, the one then coming just next. Basically, euro is the first ever case of a currency common to several States – i.e. of course, an organized Community of States previously and currently acting for their perspective economic integration amongst and both unique currency for these member States and unique case as such so far.

Or, whilst as simple as that such a fact looks just strange from another rational view-point. First, previously to euro and even since back to the antiquity times currencies were born as issued and/or supported by correspondingly strong *political authorities* (e.g. States<sup>44</sup>), as individually. Then, in modern and contemporary times the *central bank, versus commercial banks* formula works partly since even the Gold Standard<sup>45</sup> – i.e. in its latter *gold bullion* period, when, *Bank of England* was obviously acting as *central bank*<sup>46</sup> --, then spread in the world after World War Two at State level and adapted here and there to federal States' specific circumstances – e.g. the US.

Or, the *central bank, versus commercial banks* formula took over the same old *strong political entity compulsory for (newly) issued currency, and then the last aimed to strengthen the same political entity, in its turn*<sup>47</sup>. As in detail, the central bank doesn't subordinate to Government, but cooperate with – basically, central bank is assumed to perform a relatively *stable currency*<sup>48</sup> management while expecting from its Government a budget deficit of no more than 3% GDP<sup>49</sup> – and does enjoy *freedom of acting*<sup>50</sup> in its currency management job done.

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<sup>40</sup> Yes, the EMS hasn't collapsed, as its previous Bretton Woods IMS had. Thought, the whole picture of such a description ought actually also to answer the question: 'would a Deutsche-mark based EMS really make it, instead of the common currency proceeding that has been? And how really long could the EMS last ?'

<sup>41</sup> And we might notice that those problems did not remain just potential, e.g. the euro crisis of late first and early second decades of the new century.

<sup>42</sup> Or, keeping the former *Deutsche mark*'s management structure for the current *euro* here stays just a detail.

<sup>43</sup> Here to be noted one more difference between the common currency and the EMS environments: when the EMS in place, no 'Euro-Zone' different than the whole of the EU region.

<sup>44</sup> But not only, e.g. the Middle Ages time.

<sup>45</sup> That actually was found by theorists as the less appropriate for. See also above 7.1.

<sup>46</sup> i.e. a kind of 'international central bank', but certainly not only in this case.

<sup>47</sup> And even the euro's case then came for 'making a political entity stronger' than previously.

<sup>48</sup> A 'stable currency' under the 20<sup>th</sup> and 21<sup>st</sup> centuries predominant fiat money actually includes non-shock money depreciation on longer terms.

<sup>49</sup> It was the IMF rooting and disseminating this idea, by its intellectual – i.e. non legal power or institutional -- authority.

<sup>50</sup> It is equally true that such a freedom of acting might vary in different national legislations, sometimes significantly, e.g. the New Zealand case. Though, under Gold Standard its corresponding *mint* institution worked

Back to the EU, its euro currency and *Euro-land*, it is the case of confirming the old currency related political stuff<sup>51</sup>, above described, but concomitantly: (1) the *European Central Bank (ECB)* is shaping the *federal State* specific institutional structure<sup>52</sup> and (2) no individual political-Government entity as supporter<sup>53</sup> -, but *several national Governments to deal with* instead, this time in no any group or otherwise ordered formula – note that despite the natural size differentiation among EU's and Euro-Zone's member States all hierarchy among stays quite impossible according to current political principles, but central bank dealing with several Government entities concomitantly isn't any easy task either<sup>54</sup> -- e.g. recall the *convergence* or *Maastricht Criteria* in the Treaty of the Union's Annex (1992), which then came to be doubled by *Stability and Growth Pact* among the Euro-zone member States, both for just palliatives replacing the usual *government commitment* for providing not higher than 3% GDP public deficits all over; both these documents and all related about look nearly obsolete at this present time introduced by the 2008 'Lehman episode'.

Such a task might remain the one for further integration strategies' searches, but the real problem is that these strategies actually reduce to *just one* which would include *fiscal union* shaped (Krugman, 1993<sup>55</sup>) and invariably leads to the same *federative State* organizing form of integration (finally) achieved -- i.e. the old expression of the '*United States of Europe*' – but never able to skip some so repudiated *centralizing*. In other words, here there might be no integration strategy alternative available – i.e. to that, be it through the same 'States federation' image, proving the paradox that the long term integration might be able to reach such a well known and already world-wide existent organizational formula. The EU authorities look not too much ready to debate about, anyway.

### 8.3 Concluding for the European integration

In order to have such a proper conclusion just feeling first obliged to do what we did before (Andrei, 2014b), i.e. dragging the five decades ago corresponding picture in a very presently decisive comparison to be made. Or, at that time Balassa (1962) drew the *five stage evolving integration model*, so integration started and then acquired 'strong spirit' – actually it seemed to be the quite retort of the immediately postwar political spirit for a new era; plus, this new way to follow was becoming increasingly clear. Not only politicians and scholars, but equally ordinary people knew what was going on; and, paradoxically (or not), much better than it is the case for our today future exploring.

As compared to the early 60ies looking ahead -- with their claimed above clairvoyance --, our today (2016 update) view gets obviously reticent. Reasons for might be rather diverse and when not necessarily taken in an order of any kind, there might first be considered even that the old-primary and here valuable contribution of Balassa (1962) was pointing to 'integration done' by a scenario in which the *economic and monetary union* was the last stage to be fulfilled – we have economic and monetary union at present, but all agree that integration obviously isn't yet done.

Second, the fact that we currently know much more than there was known in early 60ies in the area, despite good sense stuff and presently obvious, would not necessarily lead to extra efficiency, but on the contrary to a kind of 'Socratic' attitude. In such an order, the previous *free trade area* and *customs union* once to be successively fulfilled rather do not compare to the today working duality of

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as fully State subordinated, i.e. that was the State committing for the previously declared gold parity of the currency done.

<sup>51</sup> i.e. money means and always is for political power.

<sup>52</sup> E.g. the headquarter plus *filials* in each individual State for the US' Federal Reserve (Fed) case, versus the ECB plus national *filials* that are the former central banks in the Euro-Zone and all form the '*Euro-banking System*'.

<sup>53</sup> And even currency issuer – *issuing* and *supporting* national currency are two actions meant together on the State's political authority side – since historically member States have been the real euro issuers in 2002.

<sup>54</sup> Despite mostly successful, such cooperation between Government and central bank is all over supposed to meet detail difficulties, especially in hard economic circumstances, under crises or when democracy weakens.

<sup>55</sup> Actually, the OCA theory as a whole currently includes the *fiscal union*. Andrei (2009) here explains how the *fiscal union* might be another long-term integration strategy comparable to the precedent *monetary union* one that earlier developed on three decades time.

*convergence* and *optimum currency area*. (Andrei, 2014b). Here including that both last are large economic theories for which no unanimity of views, as by definition, either.

Third, another dual concept that is *centralizing-decentralizing* makes an interesting career so far. Whereas basically *centralizing* would figure out ‘the Union strengthening against member States’ – i.e. actually the Union’s government was never enough strong against member States’ political power and such an idea gets even susceptible of turning into a false issue for debate --, the same *centralizing* gets increasingly feared by its parallel and informal political translations increasingly stressed that might sound like ‘*center* member States strengthening against *periphery* member States’ of even ‘*big* nations, against *little* nations’, within the Union. Or so, on the contrary, *decentralizing* comes as expected on the side of smaller and disadvantaged ones, be they member States, but also communities of decreasing numbers and individuals.

Since all of the above considered<sup>56</sup> also recall the above paragraph corollary for properly describing the update very drama of *European integration*. Or, it is not the *federal State* formula to be denied as running into or the *fiscal union* pace to be avoided in context. The problem is that the more we’re running into this perspective, the less we like it, the way that an enough clear strategic design here becomes equally difficult to approach than is all of its alternatives that actually stay not existent. Are the Europeans expecting something else for their integration process, or they just prefer to proceed on the available way in silence?

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<sup>56</sup> And also others for a really full inventory as such.



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