Wealth and Money[1]

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It could be argued that money plays a different role at present than in the past: the economy pervades every aspect of our lives. However, unlike in the distant past,[3] nowadays the economy, especially that of the advanced economies, is largely 'immaterial'. We accept payments in money today that has not been convertible into gold for over fifty years,[4] and we are making increasing use of electronic and immaterial instruments to fulfil our commitments.

Nobody ever thinks about this, but few moments in history have witnessed such a global act of faith in human society as there is in the

[1] This article takes stock of the chapter "the great illusion" published by ANGELO FEDERICO ARCELLI in "Dialogue. Open Reflections in a Phase of Transition", 2023, Angelo Federico Arcelli, Agostino Marchetto, Editore Rubbettino, ISBN 9788875744687.

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[3] For some historical references, and with no claim to importance or exhaustiveness, here are some interesting texts on the concepts proposed, see for example CHARLES P. KINDLEBERGER, *A Financial History of Western Europe*, Oxford University Press, Oxford (UK), 1993; and M. Flandreau 'Was the Latin Monetary Union a Franc Zone?' in Reis J. (ed.), *International Monetary Systems in Historical Perspective*, Palgrave Macmillan, London (UK), 1995; and also KENNETH MOURE, *The Gold Standard Illusion: France, the Bank of France, and the International Gold Standard, 1914-1939*, Oxford University Press, Oxford (UK), 2002; or LUIGI EINAUDI (2000), 'From the Franc to the 'Europe': Great Britain, Germany and the attempted transformation of the Latin Monetary Union into a European Monetary Union', *Economic History Review*, 53 (2), 284–308, 2000.

[4] For background information, see for example BEN SHLOMO BERNANKE, 'The World on a Cross of Gold: A Review of "Golden Fetters": The Gold Standard and the Great Depression, 1919-1939', in *Journal of Monetary Economics*, I, 1993; and CRAIG K. ELWELL, 'Brief History of the Gold Standard in the United States', Congressional Research Service, Washington, DC (USA), 2011; and also RICHARD N. COOPER 'The Gold Standard: Historical Facts and Future Prospects' in *Brookings Papers on Economic Activity*, Washington, DC (USA), 1982.

modern financial system. Except that we are not talking about faith (in a secular, modern world inspired by the ideas of progress this would really seem out of place) but about 'trust'.

Yet there is very little difference in practice. We just have to imagine that the real god who creeps into our everyday lives has the image we are used to seeing on the banknotes we all accept for every payment, because he is now part of our lives. It might seem like a statement worthy of a film, but there are certain aspects of the model of society and the financial and economic system in which we find ourselves that have surprisingly practical effects.

For example, we all know how banks work, and how they have always worked, i.e. even the soundest bank of course does not keep all the money deposited in a safe deposit box but rather exploits it to generate income, which is then used, among other things, to pay the interest on deposits. To simplify things, this means that the banking system is based on a statistical assumption, namely on the fact that only a fraction of the money held as sight deposits by account holders (a large part of the adult population, at least in Western countries) can be withdrawn. On the contrary, the most obvious (historical) observation is that most deposits remain, on average, at the disposal of banks, making their 'funding' a relatively stable source of capital (excluding exceptional cases). This all allows banks to operate and prosper as we see them do, to the great benefit not only of their shareholders, but of the economy as a whole.

Nonetheless, a crisis of 'trust', with a consequent run on the bank, could cause even the most solid institution to fail.

It is, however, far less intuitive to consider that, probably, the same statistical model for aggregate behaviour that makes possible the prosperous life of the banking system in each country is probably also the model, on a larger scale and with some differences, that regulates the relationships between the rich and poor areas of the world. It also allows the rich countries, which are then also those with the 'strongest', or 'reserve' currencies (for example the dollar and the euro), to possess a great deal of 'immaterial' wealth that attracts tangible goods towards them from the less rich countries as well.

This might perhaps seem a trivial example, but intuitively we all understand that individual economic actions taken as a whole, driven by

self-interest (the security of people's savings or investments), do not always provide for solutions for the general good too.[5]

For example, it is clear that a citizen from an emerging country prefers to be paid in and hold 'hard' currency (dollars, euros and so on[6]) in exchange for their goods and services, given their 'distrust' of the national currency and their belief that that 'hard' currency provides them with a better guarantee If only one person does this, it is not a problem, but if everyone does the same, then the currency (and the economic system) of that emerging country is automatically penalised, because the wealth (not only the intangible wealth) produced in there will mainly be transferred abroad, in practice into the hands of countries with stronger currencies.[7]

This will also cause a general mistrust of 'weak' countries to continue, which will in fact make it practically impossible to maintain any accumulation of wealth with weak currencies (which are often also 'non-convertible' and therefore cannot be exchanged with hard cur-

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[5] In this case we talk about the 'market failures'. Of course, stating this completely contradicts the well-known positions of ADAM SMITH in *The wealth of the nations* (*An inquiry into the nature and causes of the wealth of the nations,* March 1776) and the conviction that the 'invisible hand' given by the smooth functioning of the free market always produces optimal results. Nevertheless, this is a thesis that has probably been widely discussed by economists, including in the past, to the point that as early as the 19th century, Vilfredo Pareto (1848-1923) had advanced the idea of 'relative' economic optimalities (which would later be defined as 'Pareto optimalities') to show that (forgive the extreme simplification), under certain conditions, the market does not always find the best solution. Since this is a well-known debate and somewhat removed from the subjects dealt with here, I shall allow the reader to form their own ideas.

[6] See for example the publications of BENOIT COEURE', a member of the Executive Board of the ECB, 'Should the ECB Care About the Euro's Global Role?', Voxeu, CEPR, 2019; the European Central Bank, 'The International Role of the Euro', Frankfurt (D), 2019; and BARRY EICHENGREEN, 'The Breakup of the Euro Area', NBER Working Paper No. 13393, 2007.

[7] See also JOHN MAYNARD KEYNES, *The Collected Writings,* Vol. 26, Activities, '1941-46: Shaping the Post-War World: Bretton Woods and Reparations', London, (UK), Macmillan, reprinted 1980. An analysis of the impacts of the reparations imposed at the end of the First World War and of the potential implications of creating an unbalanced monetary system at the end of the Second World War shows how the smooth functioning of the monetary system and of the trade system is interdependent. Any asymmetry could have serious consequences (as history has since demonstrated).

rencies, because the central banks that issue them do not have sufficient hard currency reserves to guarantee this freedom to the people in their countries).[8]

Perhaps there is more to it than that: many years ago now, at the height of the Cold War, strict laws were introduced in some countries against the 'export of capital', a very similar phenomenon (which has always existed) to what has just been described: faced with the economic risks of a weak system, those who could, transferred part of their means to areas considered to be 'stronger', but in doing so, they made the situation in their country even worse.

If we think about it, this is exactly what happens with the current account holders of a bank about which negative news stories are circulating: they go to the counter to withdraw/transfer their deposits, which speeds up a disaster that, if they hadn't gone to the bank (and, above all, without the combined impact of their various individual choices that alone would probably not be enough to cause effects and consequences), might not have occurred.

We could talk about a 'market failure, or to all intents and purposes, about an inefficiency caused by information asymmetries or by misguided conclusions drawn by several economically relevant actors. However, we can only conclude that the market works just fine: it reflects the effect of the set of individual behaviour of asset and currency holders acting rationally to protect their interests and capital, and in

[8] It is interesting to note that this was a topic for discussion as long ago as the Second Vatican Council. In fact, in chapter 70 (Investments and money) of *Gaudium et Spes* it says: "Investments, for their part, must be directed toward procuring employment and sufficient income for the people both now and in the future. Whoever makes decisions concerning these investments and the planning of the economy—whether they be individuals or groups of public authorities—are bound to keep these objectives in mind and to recognize their serious obligation of watching, on the one hand, that provision be made for the necessities required for a decent life both of individuals and of the whole community and, on the other, of looking out for the future and of establishing a right balance between the needs of present-day consumption, both individual and collective, and the demands of investing for the generation to come. They should also always bear in mind the urgent needs of underdeveloped countries or regions. In monetary matters they should beware of hurting the welfare of their own country or of other countries. Care should also be taken lest the economically weak countries unjustly suffer any loss from a change in the value of money".

this particular case, the bank's account holders. It is not easy to understand whether the bank really deserved to go bankrupt or if it was a 'healthy' institution unfortunately overwhelmed by adverse events.[9] We just know one thing: the 'trust' was no longer in place, and that is enough.

Admittedly, the aggregate behaviour of that bank's customers - far from proving the principles of the 'invisible hand' of classical memory - causes a spillover effect that is detrimental to the system where those same individuals reside and to their fellow citizens.

However, we could also comment that it is not the economic behaviour of some people that generates a crisis, but rather the premise of that behaviour, i.e. the lack of trust in that economic system, that country, and so on. In the end, everything comes back to a concept of trust.

It is precisely this trust, however, that is becoming something very different in the contemporary world than it was in the past, including the distant past, in which the apparently multiplying effect created by the behaviour of market operators had always been linked to forms of material goods or securities. Starting with the well-known historical case of the operations of the financier John Law,[10] which, not by chance, are considered forerunners to the spread of banknotes, and going on to the various crises over time, we cannot fail to see that the historical trend has always denoted a gradual relinquishing of 'store of value' money (that in gold or silver or with an intrinsic value) in favour of new forms of payment that are less tied to an underlying security.

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[9] Hardly any of the bank crises of the last few years have been caused by queues of account holders at the counters; they happened because the regulators (above all central banks and governments) established the ceasing of activity and the resolution (or aggregation, or another hypothesis) of the bank in crisis before it collapsed. This is often justified by the need to preserve the stability of the system, but it is also the clearest confirmation of the importance of market confidence, in both the regulator and the system and in every single regulated banking and financial institution.

[10] For background information, see JAMES BUCHANAN, *John Law: A Scottish Adventurer of the Eighteenth Century*, MacLehose Press, 2018.

Indeed, if money was a 'commodity' (i.e. more or less convertible into gold[11] or equivalent values), trust in the banking and financial system needed (and this was largely enough to protect specific and collective interests) the guarantee of the state and the law. This kind of support granted states a privilege, namely of being the guarantors of last resort for the economy. However, this also meant that politics had 'primacy', and this primacy, which was originally based on the authority of the sovereign, itself of divine emanation, as was the rule in the Ancien Régime, was also based on economic models, ideologies and ideas in the period following the French Revolution which were then realised in concrete proposals for society.

Nevertheless, precisely because money today is no longer tied to any 'commodity' (gold, for example), it is only accepted and appreciated on the basis of market confidence, and because it is the currency needed to trade with the monetary area that issues it. In a way today, more than a claim on the central bank of the state that issues it (thus a 'store of value'), it seems to be above all a payment instrument and unit of account for trade with that area (or with areas that accept a given currency, which in the case of the US dollar and to a lesser extent the euro, is of course a wider concept).

This evolution in the role of money, which today seems to us not only normal and obvious, but also a trend towards a further, increasingly immaterial transformation of money, also leads to an important consequence: at the current juncture, for the first time in history, we are realising that the guarantee of the state and the law is not enough to make a currency an efficient payment instrument (and we see this clearly with 'digital cryptocurrencies', which are also not actually currencies from a legal point of view), or at least the support of 'one' state is not enough, as the principle of market confidence also applies to states.

So, money has now essentially lost much of its role as a 'store of value'? This is not entirely true: currencies such as the US dollar - which

[11] See also BARRY EICHENGREEN, *The Gold Standard and the Great Depression, 1919-1939*, Oxford University Press, Oxford, 1992 and MICHAEL D. BORDO with BARRY EICHENGREEN, *The Rise and Fall of a Barbarous Relic: The Role of Gold in the International Monetary System*, University of Chicago Press, Chicago (IL), USA, 1998.

keeps its 'exorbitant privilege'[12] as the world's reserve currency - and a few others (including the euro) that spread far beyond the borders of the state (or states) that issue them, offer greater 'degrees of freedom' to the holder than other currencies do.

This is why these currencies are still held as a store of value, albeit much less so than in the past and in an asymmetric way (more in those areas of the world that we would call 'emerging economies', less in the rich countries where they are issued).

However, and without claiming to deal exhaustively with complex economic issues, we could also say for these currencies that the monetary policy of the countries that issue them (the United States of America in the first place) implicitly benefits from an effect similar to that of the relationship between a Bank and its customers.

Why is this the case? One simple example is to link the referable spending capacity to a currency and its market. If we imagine a currency of an emerging country, it is similar in form to the currencies of advanced countries. However, it is often not easy to convert it into other currencies, or it can be converted but under very penalising conditions, and this sometimes happens regardless of the will of that country's government or its central bank.

If a central bank cannot acquire adequate reserves in other currencies because its home country is unable to generate a trade surplus leading to a currency surplus or, otherwise, to access international credit for various reasons (including credit restrictions, legal risks, political risks and so on), it will be pushed by the market (by the sum of the behaviour of the operators, including the citizens of that country) to make the currency non-convertible.

Moreover, since that central bank is in a country structurally incapable of generating surpluses, and thus cannot hold reserve ('strong') currencies, it will have little room for manoeuvre to remedy the situation. Economic theory allows the central bank to operate on rates (e.g. by lowering them, thus devaluing its currency and favouring ex-

[12] See HENRY M. PAULSON Jr., 'The Future of the Dollar' in *Foreign Affairs (USA)*, 19 May 2020. According to Paulson, who was the US Secretary of the Treasury at that time, the USA did not seek out the exorbitant privilege; it was a consequence of the scheme resulting from the Bretton Woods negotiations and from the events of the following decades.

ports) or on the quantity of money in circulation (by increasing it, with a similar effect to the previous tactic), but in so doing it also generates inflation, and probably creates an environment of 'mistrust' in its own currency, with few ways back. Mistrust in the markets will further fuel a crisis because traders will tend to avoid holding that country's (weak) currency or to immediately take it to the central bank to convert it into strong currency, thereby constantly depleting the reserves of that issuing institution.

Eventually, that central bank will likely be unable to preserve the value of its currency, which will easily become 'non-convertible', i.e. not traded or exchangeable for other currencies on the markets. This is because on the markets themselves, all private operators (and then the other central banks), knowing that that country's central bank is no longer able to exchange its currency into other currencies, having no reserves or access to credit, will quickly refuse to hold it or to use it to carry out their trades and business.

This does not imply that, in its 'fundamentals', that country's situation is so compromised, but the fact that the market (the aggregate behaviour of the various operators, from the smallest to the largest, who act rationally based on their expectations[13] of events they consider to be most probable – here it is the possible default in convertibility – in order to preserve their capital) 'believes' it, is largely responsible for the events and their consequences.[14] Paradoxically, and similarly to the

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[13] In this regard, see GRAHAM K. SHAW's *Aspettative razionali. Una esposizione elementare*, ISDN 9788813168780, translated by M.G. LEGRENZI and published by CEDAM, Padua, 1990.

[14] These ideas had already been set out in 1987 by GEORGE SOROS, the famous financier, in his book *The Alchemy of Finance – reading the mind of the markets* – published by John Wiley and Sons, London (UK), 1987. As we all remember, his name was not known to the general public until the events of September 1992, when the positions taken by his 'hedge funds' led to a crisis in the European monetary system and the rapid exit of the Italian lira and the British pound from the system. Soros had gambled on the market believing that the authorities of those two countries could not 'defend' the official parities of their currencies, which were unsustainable in their economic fundamentals. Despite the efforts of the two central banks and the statements of governors with historic stature, such as the Italian Carlo A. Ciampi, the markets caused the defeat of the authorities in the space of a few days. It was perhaps the first case in history, or at least the first one of such significance, in which a series of

case of a bank crisis, the market's expectation of a negative event with respect to a state creates a situation of uncertainty that gradually accelerates towards the realisation of that event, which becomes almost self-fulfilling as a negative *fumus* progresses and has tangible effects.

As for banks, in states where there is a crisis, it translates into the need to restore a situation of credibility, with problem-solving initiatives that, in the current global monetary system, often take the form of an International Monetary Fund 'programme', with at least partial and temporary limits on a country's sovereignty. Here too then, it is a question of trust, and of course not only that; it is not far from the trust that account holders have (or do not have) in their bank, with the difference that here we are talking about central banks and states.

In fact, a 'crisis of confidence' has significant and immediate consequences (which may explain why the 'programme' is necessary): if the behaviour overall of the actors in the markets denotes a total lack of confidence, that country (and perhaps its people too) will probably not have access to international credit and without it, will not have the currencies needed to buy goods produced in other countries available to them. Any creditor will see that a country with a structural trade deficit and without a convertible currency will probably not be able to repay it (it will have no way of obtaining a currency to do so, and under those conditions it will not have easy access to credit). All of this will further feed a vicious circle, less and less will be exported to that country (there would be no means of payment) and its economic system and its people will eventually be poorer and poorer.

It might seem trivial, but it matches the description of a bank failure. Here, too, most consequences come about because the growing perceptions of distrust escalate, just like a queue at the counter before a bank fails. Paradoxically, if everyone thought the situation was sustainable, even a country with weak 'fundamentals' would remain integrated in the markets and its currency would remain convertible, because people would continue to give it credit: this is exactly what happens in the relationship between customers and banking institutions.

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initiatives by private speculative operators succeeded in forcing the public authorities and governments of Western countries to abandon an economic policy line that had been officially declared and was backed by concrete actions. For the first time it was clear that the 'credibility' of even the most significant institutions had its limits.

In the case of a state, however, there will also be one final and serious consequence: the assets in that country, denominated in a weak, non-convertible currency, will lose their 'relative value'. In practice (and regardless of the legal situation - let us assume that all the legal safeguards for property are in place), the market value (in 'hard' currency, for example) of an asset in such a country will be proportionately much lower than the same or similar asset if it is valued in a rich country.

This may sound strange, but it is not: it is intuitive that a coffee in a café in London or Zurich, for example, costs far more than the same coffee in a city in an emerging country (unless there are exceptional circumstances), as is clearly the case in the famous example of the price of hamburgers at a well-known American chain.

Now, let us imagine that this refers to large properties or tracts of land: this would mean that the entire wealth of a country is valued less, proportionally, if its system and its currency are weak. In fact, a foreign investor who buys an important asset is aware that it is easy to do so if they use US dollars for the deal (i.e. for buying a building) in a country with a weak currency. However, the day that they want to sell that asset, they will find it difficult to predict what the price of the dollar will be, and it might be quite a penalising one, or whether a buyer will be able to get dollars there, or whether it will be possible to convert the currency, and so the price of the good will fall because of this uncertainty. This applies to all transactions in general in this kind of situation, with a clear consequence not only for prices, but also for the real values of all goods in a country with a 'weak' currency.

There may be various reasons for this (including legal, geopolitical and other aspects), but in the end, it is a question of general distrust in the national currency, the central bank and the country system. Conversely, if you are in a 'rich' country, a parallel and growing virtuous circle is created, and that country will attract wealth.

In practice, to give an example of the two cases, let us imagine a person from a 'weak' country holding dollars, for example: they would rather continue to hold them (even abroad) than convert them into local currency. Why do they make this choice? Simply put, the operator is convinced that dollars will make it easy for them to access all kinds of goods on the market or to convert them into other currencies, whereas

they think that it will be hard to have either of them using their country's currency. In fact, only in the rich countries, those with strong and convertible currencies, is there a real financial market, which also includes foreign capital that they believe – rightly or wrongly – can be quickly and readily liquidated from positions and investments in those countries and their currencies if need be.

The gap between countries able to have a capital market and those excluded from this circuit will eventually widen hugely, with the former able to polarise wealth and the latter impoverished. It is not so much, and not only, because of the responsibility of those governments, but also because their own citizens will try to save their own capital by investing or holding it abroad. Their currency, which is the unit of account for assigning a value to real national assets, no longer being convertible or accepted, will penalise the valuation of those countries' assets, making it negligible compared with that of rich countries.

All this might help to explain why a flat in an advanced country may be worth more than an entire building in an emerging country (if of course the legal safeguards there make its purchase possible and are equivalent in the two countries. However, if we assume this, the comparison renders the purely economic reasons very well). In reality, this behaviour is self-perpetuating (if everyone in that country thinks this way, no one will want the national currency and it will be worth less and less). Yet it is also a symptom of a market peculiarity that 'reads the future' in the substance of expectations.[15]

Going back to the present time, it seems obvious to us that money is transforming, i.e. its predominant function is increasingly that of a 'unit of account' and a 'means of payment' to the detriment of its function as a 'store of value'. However, this is all happening without any controls and not by choice of regulators or governments.

Paradoxically, while even the strongest currencies are no longer held for the sole purpose of preserving savings – because of inflationary risks – in the years 2019-2022, we saw the emergence and rapid growth of a global market for certain 'cryptocurrencies',[16] which have

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[15] Here, too, see GRAHAM K. SHAW's book *Aspettative razionali. ...*, cit.

[16] 'Cryptocurrencies', such as BitCoin, Ethereum and the like, are not 'money', legally speaking, given that they are not issued by a central bank and have no legal value.

been purchased with a view to investment and with speculative profit expectations.

The 'digital bubble' has, however, also shown that holding legal tender is no longer sufficient to carry out in full certain functions that were previously inherent to money.

If, up to now, it might have seemed that the latter was just evolving towards a shift in its role (namely its main role as a unit of account and a means of payment), what has been happening in recent years in the markets, and the potential response of central banks, i.e. official digital currencies ('CBDCs'[17]) is proving that the very concept of money has changed.

There is continuity in one thing, however: even today, the trust of its holders lies more than ever in currency.[18] Surprisingly, nowadays states are no longer the final guarantors of the system (or, at least, they are not the only ones, and they are not sufficient to guarantee its credibility).[19]

It is not certain that things will really change in the currency markets in the future, or, for example, that the role of the dollar may be downgraded (this is one of the scenarios in the currency leadership race between the US and China, but, at the moment, it would seem to be a remote possibility). Since they are long-term scenarios, it is difficult to make considerations and forecasts about them.

That said, what we are seeing is also the sign of a trend that is clear to everyone, which will lead to an evolution in the role of money and cash over time. Money will become increasingly immaterial and will therefore loosen its ties with what was in the past the final public guar-

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[17] The acronym CBDCs stands for Central Bank Digital Currencies. They are nothing more than different 'forms' of existing currencies (a dollar or a euro remain the same, it is just that – and it is not yet entirely clear in what sphere – they would acquire new functions and become purely digital currencies).

[18] G. GOPINATH, Chief Economist at the International Monetary Fund, makes some interesting considerations in his article entitled 'Digital currencies will not displace the dominant dollar', published in the *Financial Times* on 7 January 2020.

[19] This has been proven not only by the digital currency bubble in recent years, but also by the search for new, non-banking ways to regulate their financial commitments, in a trend that seems to have been exacerbated rather than reduced by geopolitical tension, such as that which exploded in 2022-23.

antor (the state that issues it).[20]

This is because there is now much less 'trust' in states, and in institutions, and even in the European Union itself or the United Nations (very different entities of course). The situation is such that the International Monetary Fund has been forced to launch programmes such as the UniCoin (2023), not so much because of a belief that the instrument will succeed, but because it wants to maintain control of its 'space' and role.[21] This is because one of the side effects of the creeping revolution caused by the crisis of trust in money and in the economic system is the possible emergence of alternatives[22] and also the resulting need to redesign the financial architecture that came into being at Bretton Woods in 1944.[23]

Yet if trust in the monetary instrument is so important, what conclusions should we draw from this? In the meantime, we should realise that the wealth of today's advanced countries is closely linked to the fact that their currencies (the euro and the US dollar above all) continue to remain at the heart of the system.

It is also therefore apparent that the 'unfought' war that has been taking place for some years now in the world economic system sees the clear preference of the emerging powers (led by China), and of the more backward/less developed countries, for a new multipolar system that the West cannot easily accept: a new post-Bretton Woods system, disengaged from the currencies that are currently the strongest, would downsize their role and value. Over time, this would create a system of

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[20] See Oliver Wyman Forum, AWS, 'Retail Central Bank, Digital Currency: From Vision to Design - A framework to align policy objectives and technology design choices', March 2022, page 9.

[21] It is always interesting to recall Keynes on the role of IMF ('Proposals for an International Clearing Union', in Keith Horsefield et al, *The International Monetary Fund 1945-1965: Twenty Years of International Monetary Cooperation*, Volume 1, Chronicle, International Monetary Fund, Washington DC., 1965.

[22] Today, we really do not yet see any that can bring about a revolution in the system, but we cannot rule it out for tomorrow.

[23] See JOHN MAYNARD KEYNES, *The Collected Writings,* Vol. 26, Activities, 1941-46: 'Shaping the Post-War World: Bretton Woods and Reparations', London (UK), Macmillan ed., reprinted 1980.

trade that is no longer regulated predominantly in dollars and lead to the end of the primacy of Western countries' currencies, with the practical result that the wealth gap between the various countries of the world would gradually narrow, to the detriment of Western countries and to the benefit of emerging countries.

It sounds like a paradox, but the thing that most represents wealth today is an intangible set of expectations and rights (the idea that with a certain currency you will always be able to buy goods or to convert it into other convertible currencies) linked to our trust in the economic system in which we find ourselves.

In a future that now seems increasingly close, the more transactional and 'privatised' this system becomes, the more difficult it will be to locate wealth geographically, clearly detrimental to the role of states and politics, but it will also 'rebalance' the values expressed by the most reliable units of account, specifically by giving a higher value to intangible and easily transferable assets than to real, tangible assets (e.g. real estate).

Above all, since currency remains the instrument (unit of account) for determining values, if it is no longer linked to state systems, and specifically to the market economies of Western democratic countries, the implicit effect of a decentralised monetary system or, at any rate, of a new 'Bretton Woods' that places a new kind of 'Bancor' at its centre, would result not only in a substantial difference in how international trade is run (the settlement currency), but also in a probable narrowing of the range of values of real assets held in various parts of the world.

In practice, without us being fully aware of it, the use of currencies such as the dollar or the euro in Western countries actually also means that the rest of the world wants to hold these currencies, and this translates into a general appreciation of the value of goods in the stronger economies.

It is not just a question of legal aspects and property titles. We cannot ignore, as already given as an example that, hypothetically, an average flat in the centre of a large European city is worth more than a beautiful building in a large city in an emerging country. Yet it is not only a matter of relative prices (the 'PPPs' of the International Monetary Fund's valuations should be able to give a more accurate indica-

tion of the real 'purchasing power' at local prices), but also a demonstration that a set of intangible considerations associated with the use of a 'strong' and convertible currency makes what is denominated in that currency preferable to assets denominated in weak currencies (for various reasons).[24]

If we imagine that the international system no longer distinguishes between weak and strong currencies,[25] because international payments are mainly settled with some sort of new 'Bancor', perhaps a digital one, the (unintended?) effect will be to wipe out the implicit advantage[26] that the economic area with the 'strong' currency had before the new system was introduced.[27]

In recent years, we have been witnessing a series of developments that seem to be casting doubt on the old 'Bretton Woods' system, as it had been redefined after August 1971,[28] and specifically on the centrality of the US dollar and of the currencies of Western countries, above all the euro.

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[24] To go back to the example already cited, it is very likely that someone who lives in an emerging country will prefer to hold or buy an asset in a country that they perceive as more stable (with a 'stronger' currency) in order to safeguard their capital. As a form of aggregate behaviour, this will produce an ever-widening gap between the two countries, and it will worsen the situation of the 'weaker' currency to the advantage of the 'stronger' one.

[25] See RAINER STEFANO MASERA., 'Old and New Risks: Challenges Ahead', Enel Risk Academy, Rome, November 9th, 2021.

[26] In practice, this will mean that the citizen of the 'weak' country will not necessarily want to hold assets in the 'strong' country anymore because they will be able to safeguard their capital by holding 'new bancors'. In the end, the gap in the value of assets in the two areas will probably narrow (subject to the other causes of difference, of course) and this will reduce the wealth of the 'strong' countries and perhaps increase that of the 'weak' countries.

[27] See ANGELO FEDERICO ARCELLI, RAINER STEFANO MASERA, GIOVANNI TRIA., 'Da Versailles a Bretton Woods: errori storici e modelli ancora attuali per un sistema monetario internazionale sostenibile', in *Moneta e Credito*, Rome, December 2021.

[28] See MICHAEL D. BORDO, 'The Bretton Woods International Monetary System: A Historical Overview', in *A retrospective on the Bretton Woods System: Lessons for International Monetary Reform* by Michael D. Bordo and Barry Eichengreen, University of Chicago Press, Chicago (IL), USA, 1993.

Today, the primacy of the dollar as the currency for conducting international trade is not in question, and transactions not settled in dollars are mainly settled in euros.[29] However, if a new system for settling payments were to be found tomorrow, the scenario would change substantially.[30]

Nevertheless, given how much the West has at stake in this scenario, the fact that the dollar is actually 'weaponised'[31] by the Americans may seem like a risky approach. But, since it is in the interests of the West as a whole that it remains central, any alternative that would reduce its role could be very problematic for the advanced countries, and this forces all these countries to follow the US in its policy, with little room for alternatives.

What might a future scenario be? It seems difficult to imagine alternatives in the short term, but if a new system parallel to the dollar were to emerge, it would certainly have a major impact on the redistribution of wealth in the world. Today it seems unlikely to imagine an alternative system credibly promoted by some states, and what is most interesting is precisely the need to use the term 'credibly'. It sounds like a paradox, but 'cryptocurrencies' have proven (at least for a while, although they have also shown the limitations in not having a central regulator to support them) that they can attract far more trust than any state-backed currency alternative today.

This established fact shows us that in an increasingly immaterial and trust-based system, it is no longer the legal and political system that determines the acceptability of a currency, because whether or not we accept payment with a certain type of currency or good (cryptocurrencies are in fact goods/commodities and not money in the strict sense of the word) is a personal choice and not a legal imposition.

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[29] As a reference, see the theories of PATRICIA S. POLLARD in 'The Creation of the Euro and the role of the Dollar in International Markets', The Federal Reserve Bank of St. Louis Working Papers, USA, 2001.

[30] See also A. GREENSPAN 'Hearing, House Oversight Committee', US Congress, Proceedings, 23 October 2008.

[31] See HENRY FARRELL and ABRAHAM L. NEWMAN, 'Weaponized Interdependence. How Global Economic Networks Shape State Coercion', *International Security*, Vol. 44, No. 1., 2019.

Let us not forget that behaviour determined by economic preferences (the example of people in a country with a 'weak' currency) does not always achieve optimal results for everyone or for the system. Today there is no easy alternative that can cushion any divergences, because the world is divided and competitive and the decisions of states (slanted to their own interests) are not like those of partners sitting round a table looking for the optimal solution for all, and, if anything, are far more like the behaviour of customers at a branch of a bank in crisis.

Thus, the future of the economic system will increasingly be linked to the trust that the payment systems we use can gain in the market. Now, there are no real alternatives to the dollar and the currencies in any case linked to the system of Western countries. This also implies that the world's wealth will implicitly continue to be *de facto* 'attracted' to rich countries, precisely because of the aggregate of the individual behaviour of holders of goods and currencies.

So, what could lead to a crisis for this system? An increasing 'decoupling' of the economy[32] and a rift between the Western system and China and the emerging countries will create major tension and, looking ahead, could also undermine the central role of the dollar. This does not seem very likely today, but now more than ever before in history it is more a question of trust than of concrete elements.

What would happen if, at some point, confidence ebbed away, and the behaviour of the markets was like that of the account holders of a bank in distress? It seems an impossible scenario, but if it were to materialise, everything would change.

How is the Second Vatican Council topical in all of this, and in particular *Gaudium et Spes*, which is where the Magisterium focused more on economic and social issues? Is what was debated and deliberated in 1962-65 still relevant today? It seems like such a long time ago, yet few things can be as decisive in the perhaps very near future as the ability to give an ethical value to economic trends and choices.

Bringing ethical principles back to the centre of the economic and monetary system would probably have at least one important effect,

[32] See ANGELO FEDERICO ARCELLI and GIOVANNI TRIA, 'Time to reset?', in *World Commerce Review*, Q2 2021, available at: https://www.worldcommercereview.com/publications/article_pdf/1966 .

namely redefining the very idea of trust in the financial system.

It is easy for us today to grasp the perverse effects of monetary mechanisms and, depending on where we are in the world - so probably if we all found ourselves in Rawls' famous 'veil of ignorance' example,[33] there is no guarantee that most people would prefer the current monetary system - we can assess whether such a system is convenient for us or not. Nevertheless, it is certainly not based on ethical considerations.

All of us in the West are aware, in theory, of the advantages of living in a wealthy part of the world, a fact that seems obvious to everyone, but we are much less willing to realise that the economic system in which we live needs to evolve to ensure its own survival and sustainability.

This is not what happens, and not only because in such a complex system, but it is also not only the choices of public or democratic institutions that determine the course of economic events. Instead, it is often the market rules that influence people's will and preferences (the well-known economist John Kenneth Galbraith,[34] actually, argued that capitalism is the only system where everyone has something to lose, and is therefore the most stable), sometimes with sub-optimal effects, such as the generalised prioritisation of the short term over forward-looking choices.

Paradoxically, the current system is susceptible to influences (particularly, of course, those of the 'strongest' economic systems) but there is no way to determine its developments with any certainty (not even in fora such as the G7 or the IMF). It is perhaps precisely the end of the primacy of politics and the growing role of the economy that, more than anything else, has decided history the way we are living and have lived through it over the last 50 years.

Returning to strong ethical foundations in the founding values of civil society, especially in countries that call themselves liberal de-

[33] See J. B. RAWLS, *A Theory of Justice (Una teoria della giustizia),* originally published in 1971, Feltrinelli, Milan, 2008.

[34] See J.K. GALBRAITH, *The Affluent Society* (originally published in 1958), translated into Italian by Giorgio Badiali and Sergio Cotta with the title *Economia e benessere*, published by Comunità, Milan, 1959; and then as *La società opulenta*, ivi, 19632; Boringhieri, Turin, 1969.

mocracies, is perhaps the only way out of a growing uncertainty that is gradually turning into an apparently multipolar order but that, in practice, leaves many questions as to what the possible futures are. This cannot be a mere proclamation, however, but requires thinking that goes beyond a simple debate on economics, ethics and geopolitical balances.