


## SIGNALS FROM THE WORLD OF ECONOMICS. THE PRICE CONSTANT AND THE DEMOCRATIC ISSUE



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### ABSTRACT

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Economic systems are tending naturally to stability. This trend is crucial to give meaning to those signals coming from the economy. First, the basic inflation that when is close to 2% becomes constant and independent from the economic movement. This value is certifying that the economic system is stable over time. Because of its independence from the economy movement, the basic constant price close to 2% is rather a messenger of the good relationship between social development and the environment. Otherwise, in an unstable system, price dynamics are highly influenced by the economic movement. For this subordination, therefore, on the price scale are placed the values - lower or higher than the constant value close to 2% - which are expressing the system instability. Inflation or deflation are explicit messages that the unstable system transmits to institutions, companies and families to report the deviation from the stability path. To report the health state and the environment compatibility, the natural system sends explicit but also implicit messages, which are generally perceivable by the community within a territory or area. According to this approach, we should admit that the community has a correct general information on the economy state and its deviation. On the other hand, thanks to a collective intuition that is oriented by the stability tendency of economic systems and by the general information perceived about the economy state, the community seems able to select the general program for a good governance. It follows that the democratic model is playing a role when confirming the good governance with its program, in the case of economics moving in almost stable conditions.

**Contribution/ Originality:** The paper's primary contribution is finding that the inflation as a test that provide a quick assessment on the economy state. Then, the constant price close to 2% may be defined as an equilibrium point of economic system in stable condition. The constant inflation is completely independent from the linear growth of the economy.

## 1. INTRODUCTION

In a stable economic system, the inflation is neutral about the economic performance. This means that the stable economy growth cannot show a typical cycle, Schumpeter model, with the cycle recovery followed by a downward cycle tending to deepen (Schumpeter, 1939). In a stable system, the economy is growing according to the conditions of the environment where it operates following a linear trend with an inclination depending on its potentials.

In such outlined environment, the inflation neutrality with respect to the economic and social system evolution implies the obvious consequence that the price profile does not follow the economy trend. Yet, in a stable economy, the basic value of prices is assuming the singular meaning of representing the social and economic system welfare. This special property is certainly characteristic, because the price movement, in a stability situation, doesn't seem to be linked to the economic development trend, nevertheless it stands as an essential and synthetic parameter to report about the good condition of the economic system.

How to explain this apparent dystonia? In general, in a system stable for a long time, the price system moves like a diapason, with a sound recording the economy growth compatibly with the environment. Only when the recording of the economy movement is regular, the price diapason stabilizes on the constant basis, close to 2%. Therefore, despite the moving context, the inflation - close to 2% and constant over time - remains neutral and fixed on its basic parameter, not influenced but defined by the economy motion compatible growth.

For this feature and then for a good reason, it's an excellent parameter to identify and to define the state of the economy growing according to a compatible line. Thus, the economic development stability becomes by analogy the price stability. Though the price variation, within a stable horizon, cannot be near to zero, because otherwise the price parameter would report a malaise, which is represented by the deflation.

This must mean something. It should be able to mean that the price system is showing always the economy condition, both in instability and stability case, in a synthetic and pervasive way. Although we must admit that the synthesis expressed by basic inflation, in the case of stability, does not derive from the relationship between the two variables, because there is a neutrality situation between GDP and Inflation.

On the other hand, the basic value of inflation inside a stable economy does not change over time or on a geographical scale. Therefore, the invariance close to 2% of basic inflation, should be considered as a constant factor not only on the temporal level but also with respect to the geographical location. Thus, the stable value of basic inflation remains a constant, regardless to the potentials that development can take in the different geographical areas.

## **2. INFLATION AS A TEST FOR THE ECONOMY**

### **2.1. The Test for the Economy Good Performance and the Environmental Compatibility**

The inflation, namely the price change during a time period, is providing a quick and immediate assessment on the economy state. The character of immediacy and easy understandability of the inflation explicit message, makes the economy state perceptible to everybody: institutions, companies and families.

Inflation variability is the rule inside unstable economies and markets. The alternating rhythm of prices is a sort of shortness in the market breath, a scenic convulsion of the disease affecting the economic and social system, which missed the stability course and the natural environment compatibility. When this trouble is tempered, and the market normal breath is back, the economic and social disorder symptoms are reduced.

Then, the inflation constant trend and the price neutrality about the economic movement are updating us on the market good conditions. Not only. The inflation constant trend over time, within a stable environment, offers a good support to the expectation for an acceptable situation, destined to remain unchanged for the next few months. An ideal condition, therefore, for the economic development progression in line with the potential of the system.

Now, the constant character of the inflation value, whatever the temporal and geographical context would be, is finally an index reflecting the development of a healthy economy, well balanced with the natural system. In other words, basic inflation remains constant if the system development is stable in terms of economic and social relations, but also if it's balanced with the natural environment.

It follows that every large economic area, looking for stability and balanced development, should have the best interest so that the economies within the continental area and outside would move according to an environment friendly order. Therefore, the issue of a stable growth, respectful of the environment, crosses the territorial borders

of national and continental areas so tending to involve the whole human community. In fact, it's impossible a somehow localized safeguard, because of the universal character of the problem and the pervasiveness of behavior affecting the planet health.

There is therefore a solid link between the different economies at a national and continental level. The bond represented by the common interest in the planet health, due to the influence exercised by the environment condition on the potential stability of continental economies or areas. So, the condition of economic stability, at the level of individual states and areas, depends on the correct governance of the economy, in harmony with the environment. It's not enough. In fact, it also depends on a trans-continental factor linking the compatibility of the world economy global growth with the environment natural evolution.

It follows that a constant trend of basic inflation (converging to around 2%) can be essentially a certain indicator of the general economy compatibility with the environment, from the territory until the planetary level. An indicator therefore measuring the correct direction in the economy development, in relation to the ecosystem evolution. In addition, it's also, of course, an equally impartial indicator of the optimal condition of the economy and social relations within a country or continental area.

From these implications and links, is arising the importance of examining the inflation movement not only at national and continental level, but also at a planetary global level. Thus, we can notice the distortion suffered by the economy at a global level, because of the whole humanity economic and social behavior. According to this approach, the economy stability cannot be achieved by each nation or continental area, regardless of the behavior of the others, because there is a common goal in the global economy growth: the compatibility with the environment state at a planetary level.

In other words, the basic inflation close to 2% is properly an indicator on the good performance of the economy and social relations. Although, due to its constant mark over time, the inflation cannot have any direct or immediate link with the economy growth. In fact, by virtue of this constancy over time, the basic inflation close to 2% is rather an acceptable index of the equilibrium degree of the economic system inside its environmental context. It must be admitted therefore, that the neutrality between inflation and economic development in a stable economy may be preferentially a corollary of a coexistent good relationship between economy and the environment. Only indirectly and derivatively, therefore, the equilibrium index between economic development and the environment state becomes also an indicator of the good economic and social condition of a country or an economic area.

Differently from the *structurally variable* inflation, the constant close to 2% is a sort of unique constant remaining immutable, and in no way connected to the evolution of the system compatible with the environment. It's therefore a universal value, symbolic for the achieved compatibility of the economic system with the environment in which it's working. If, in fact, the basic inflation remains constant at the stage of global compatibility, then it means that it has become an instrument of mere information about the correct relationship between society and environment. Therefore, it no longer has any linkage with the structurally variable inflation, which instead is moving according to the economy rhythm, with an emphasis that increases with the instability degree of the economic system (Cossiga, 2017).

These synthetic considerations on the nature and significance of inflation close to 2% lead to a conclusion about the universal character of a constant basic inflation. It would be therefore a constant of the physical world not different from the main universal constants, starting from Planck's constant, the light speed, the electric charge of the electron, etc. The universal and constant character of the price constant in a compatible system leads us to admit that the human relations with the environment should move within the limits of an equilibrium trend, though still unstable. *A tendential balance that gravitates, with some margin, around the objective of an overall compatibility of the planet life relationships with the ecosystem.*

## 2.2. The Price Fixed Constant Close To 2%

The natural commitment of economic systems towards a compatible growth trend must be considered as the physical rule regulating the whole economic and social evolution. Surely, it cannot be surprising that beside the stable economy constant, also a system convergence rule towards compatible stability can coexist. On the other hand, this admission is confirmed by the continuous impulse towards democracy of human societies over time, despite human errors, natural plagues, greed and wars. Finally, not to forget the technological acceleration, to be interpreted as the living creature look over his mother nature, just to understand it and to support it.

On the basis of this tendential compatible development of human societies, it is reasonable to assume that all deviations from the compatible equilibrium condition may find an autonomous correction mechanism. A natural mechanism, working with a planned sequence, which is renewed with an intensity regulated by the degree of social and economic instability. In order to put over time the economy again on the main road of compatibility, the natural correction leads to a slowing down, block or regression of the development.

By blocking the economic growth, the natural correction seems to send a clear and understandable message to institutions, companies and families about the inappropriate governance of the economy. If the message of the natural system is correctly understood by the community and then actions are taken that are consistent with the compatibility obligation, the adverse troubles are weakened. If instead the correction is not supported by actions consistent with the adjustment process, there is the risk of an extension of the adverse phenomena with a prolonged stagnation.

Because of the reciprocal relationship between development and environment, it's clear that a bad government is producing damages also under an economic point of view. And consequently, it's also causing alterations to the relationship between human activity and environment. Therefore, penalties to development can materialize in a surplus, also because the relationship of a good coexistence with the environment has been broken.

Following the link between human activity and environment, it becomes acceptable to think that the life evolutionary process, and namely the human evolution, moves along an equilibrium natural path, somehow to support the human progress. In fact, a healthy and stable economy growth is the best guarantee, not only and not so much for the improvement of living conditions, but also to promote the general progress of science and technology. And this tension towards science and technology could identify the guiding line of the human evolutionary development, perhaps because the science development postulates a coherent relationship with nature and environment.

If all this is acceptable, it cannot be surprising that even on the economy plan appears a *price universal constant*, a symptom of stability and economic governance, which indicates a sort of highway where the development must run. Not only. Once placed on the stable development highway, or at least on an acceptable development path, it may be supposed that institutions, companies and families could realize a sort of social peace and a convergent acceptance of the *status quo*. This involves a clarification on the collective objectives, a relative simplification about the government directions accepted by those political forces self-proposing to the country leadership.

Alternatively, a confused context of competing political forces is a symptom that the economy and its government are moving out of the natural path. So, it becomes more difficult for the citizens, called to choose their own leaders, to understand which political force would be able to restore the economy good governance. It should be emphasized, however, that the difficulty of choice cannot be attributed to the electoral body shortcomings.

The community in its broadest sense - institutions, companies and households - is always urged by implicit and explicit messages about the economy state and the social system balance. The system inflation or deflation rates are explicit messages of easier and faster understanding to assess the economy condition and the social malaise. But there are also some implicit messages that are somehow "condensed" when the economy machine is overstressed. It's a pervasive feeling within the social body, saying the machine is blocked and therefore a new economy government is needed and also new programs to face and resolve the society and economy difficulties.

Since the community seems to have the knowledge to make the right choice, the electoral consultation is the right occasion to promote to the economy governance a program of interventions suitable to solve or mitigate the damages caused by the system instability. The continuity of a good governance or a physiological alternation is the natural goal of electoral consultations, when there is a widespread feeling that the economy direction is correct and therefore it's worth continuing.

If this doesn't happen, if that is, the electoral body fails the selection of a good governance, this could simply mean that all the programs presented by the political forces for the country government weren't adequate to solve the economic and social situation. Or rather, they are not in line with the majority intentions about the basic lines of a good governance program. Therefore, the consequent deadlock will involve a postponement to a future election cycle, the most appropriate solution for the economy state. With the consequence of collateral damage that, unfortunately, could exacerbate the degraded condition, within a disappointed social context.

In general, the fragmentation and diversity of directions among the political forces alternating in the country government should tend to be minimal, within a stable and environmentally compatible framework. For the simple reason that the electoral body is sufficiently satisfied by the status quo with stable growth and attenuated social problems. With a good governance of the economy at the end of its term, this has a good chance of being confirmed again by the voters, in order to continue on the path taken that offers good current and prospective results.

This potential synchrony between rulers and governed is also realized because in parallel the collectivity receives messages essentially reassuring, transmitted by the economic system in an implicit and explicit form. And, in particular, this would mean that voters look with acquiescence to stable inflation as a recognized reliable parameter of good social and economic performance. As if to say that we can find an innate empathy within the communities towards stable inflation over time, a sort of implicit recognition of the universal character of the constant inflation signal, which gives assurances about the good relationship between human societies and the ecosystem.

It can therefore be recognized that there is a real highway on which can run the optimal system course. Not only. Moving on this optimal path can be confirmed: - by the constant of prices close to 2%, which therefore has no borders in time and space; - by the sense of tranquillity in the perspectives of families and companies, which also comes from the reassuring message implicitly conveyed by the system; - by the bilateral relationship with nature, which is at the same time, a consideration for life that is the planet main purpose and an attention to the ecosystem which is the convergent purpose of the whole humanity.

### **2.3. The Constant of the Basic Prices as an Index of the Motion Characterizing the Economy Matter**

The price constant close to 2% is completely independent from the value that the linear growth of the economy can take. Otherwise, inflation or deflation are moving in close company with the agitation of an unstable economic system. When the economy movement is approached to a linear growth compatible with the environment, the inflation value becomes constant and unchanged near 2%. In fact, in a stable system the cyclical movement of the economy with recoveries and following recessions doesn't make sense and the price constant basic level doesn't even mark the equally regular movement of the economy.

Nor could it be otherwise, because the stable value of the price constant cannot in any way depend on a variable, such as the economy motion even though it has become stable. As if to say that the constant is only a unilateral message of the stable system which, as such, is expressed by a system stability index through a value fixed and constant over time.

We should consider that, in numerical terms, the price constant does not take the space between the inflation values of around 0-1.5% or even negative which are typical of the deflation condition. Not even the space above 2.5% and beyond that is synonymous of inflation, at different stages. Inflation or deflation are both synthetic

indicators of a system instability state and of the subsequent need to reconvert the activity to return to the stable growth compatibility.

The price constant is therefore placed in a small piece of neutrality close to 2%. A base index which remains constant, also because otherwise it would invade the thresholds of the neighbouring areas related to instability. We might ask why the price constant basic level is placed in this narrow perimeter close to 2% and not, instead, at zero value, as an equilibrium point between the downward deflation drift and the rising inflation trouble.

It is not a trivial matter, indeed. The price constant must represent a basic equilibrium point, but that doesn't mean a state of immobility and inertia. On the contrary, it must indicate that the economy world, just like the environment around us, is never immobile but is pervaded instead by a continuous movement organized by some general rules. As the universal constant or the Planck's constant are extremely small but never equal to zero, the price basic constant moves within a small space close to 2% in order to point out the economic system dynamics, which in turn is also part of the general dynamics moving the planet and also the life that on the planet is renewed. In other words, *the basic price constant generically indicates the motion that characterizes the economy matter*, when it comes in sync with the motion permeating the whole of creation.

The presence of a price basic constant, recognized and accepted by institutions, companies and families, provides a certain support to argue that the economic system is not at the mercy of chaos, but follows a path outlined by the pervasive obligation to stability and compatibility. In fact, the frequent deviations do not cause any irreversible fall of economic systems, which instead continue to operate even in conditions of maximum instability. If only because just when the system still continues to work, then it's possible a virtuous amendment or a return to normality through a corrective natural manoeuvre, though anyway at the cost of serious penalties.

At this point, it may be useful to recall the meaning of Planck's constant, indicating the limit beyond which the matter cannot be divided. Analogically, we can suppose that the economy subject can decompose and deviate from the compatibility path until a limit point, beyond which the correction mechanism of the deviated economic system is started irreversibly and autonomously. The significance of this natural system flexibility is that errors in the economy and environment management are essentially tolerated within fairly wide limits.

### **3. THE NATURAL REBALANCING OF ECONOMIC SYSTEMS, IN THE CASE OF INSTABILITY**

#### **3.1. The Double Key for Starting the Correction inside the Unstable System**

The elasticity of the system is remarkable regarding the deviations from the compatibility course, as can be deduced from the degree of instability affecting all the economic systems. The acceptance of deviations - which should not exceed a certain limit, anyway - could be linked partially to the community freely playing in the economic and social management. Consequently, the system elasticity seems to be based on the implicit presumption that rulers and ruled do make mistakes, even serious, nonetheless they are always able to amend them.

The intervention of natural correction must be considered as a last resort intervention, which starts when the deviation threatens to inflict serious hurts to the difficult balance between life development and ecosystem health. Not only. In fact, the intimate connection existing between the two parties, between environment and life and particularly between environment and humanity, should be able to balance or at least to attenuate the discontinuities in their reciprocal relationship. The intimate relationship between planet and life should therefore limit the natural correction intervention as a last resort. The issue allows further considerations.

Reasoning in terms of connection between environment and humanity, and consequently between economy and ecosystem, it seems possible to exclude a natural "censorial" intervention. That is, automatically acting when a certain threshold would be reached. Rather, it can be assumed that the trigger which activates the natural correction of an economic system of course, is in the hands of the collectivity itself. Essentially, the natural correction mechanism could be activated by a sort of feedback reaction to explicit (inflation) and implicit messages

sent by the economy in crisis. The reception by institutions, companies and families of these explicit and implicit messages of the system in crisis, is able to cause growing concern and alarm inside the community about the present and future state of the economy.

The spread of these implicit and explicit messages among institutions, companies and families generates a state of widespread dissatisfaction towards the economy management and the public leaders (feedback). An uncomfortable state that, in turn, is reflected over the economic activities, depressing them. On the other hand, on the society plan the growing dissatisfaction situation “narcotizes” the activity of the economy management rulers, blocked and looking for a way to break the deadlock.

So, on the one hand, the system in some way coagulates the non-reassuring messages on the economy destiny. On the other hand, also because of these messages, the community discontent and disaffection towards the policies of the economy management, are growing. The combination of system messages and consequent feedback from companies and families, seems to be able to activate the natural reaction and the system correction.

In other words, to activate the natural correction of the unstable system, a double key is needed. The natural one, reacting to the system heeling and to its escape from the compatibility path. The key in the hands of the economic operators, which is activated only when the disaffection towards the rulers is widespread. Those rulers who are finally unable to regain credibility. At this point, when there is a full awareness about the economy management heeling, it's reasonable to think that a sort of trigger is activated which starts the correction.

So, in the case of a correction after a speculative crisis not linked to the real economy, the turning point after the continuous speculative troubles arises when the doubt is spread that the phenomenon is exhausted and there are no more margins. It's always the widespread belief among the operators about a serious malaise that becomes the messenger of a change. In any case, the correctional mechanism is always aimed to narrow the surplus created inside the economy by all the speculative excesses. At the end of the operation, the economic system could suffer a greater damage, also because of the collateral damage appearing during the stability return phase.

This bilateral mechanism of stability trend control of the economic systems allows us to think about the elasticity offered by the economic systems to the frequent exceptions made to the stable economy model. On the other hand, it offers the opportunity to understand the difficulty of the economic systems to settle on a basic inflation close to 2%, i.e. on a stable condition. Difficulty that motivates the stay of the majority of economic systems, inside a sort of “limbo” of proximity (major or minor) to the stability values. It should be noted that this proximity can also be a negative and above all ambiguous signal about the stability or instability state of economic and social systems. Recent experience, in fact, is telling us that the basic values of the main variables are moderate or low during an advanced stage of the irrational exuberance, so that prices are indicating a deflation trend.

Therefore, the bilateral mechanism can be blocked, even only temporarily. As happens, by the way, in the case of irrational exuberance because the community is tricked by the illusory mirage of a potential unlimited economy growth. Therefore, an apathetic serenity feeling spreads and involves a large part of operators and families. With the result that the correction of the system in crisis is activated with a chronic delay, finally when the fog created by the unlimited growth mirage is already fading out. The extension of the irrational speculation phase multiplies the errors and the deviations from the rational course. All this becomes the cause of a long and heavy correction, with additional collateral costs, especially for the lower and poorer classes.

### **3.2. The Trend towards Stability of the Economic Systems and the Corrective Effect**

The elasticity of the natural correction within an unstable economy is a safety system that is activated only if it's indispensable to avoid a very serious or even irreversible damage to the economic condition and to the relationship with the environment. However, it can become a factor for the instability and damage extension. It's therefore strongly recommended that irrational exuberance be carefully monitored to reduce any risk of a progressive financial crisis.

The experience of the speculative tensions that crossed the world economy shows that it's extremely difficult for the speculative process to be stopped and brought back under control. The speculative course is an anomalous modality of the natural correction mechanism feeding a risky excess in indebtedness, not consistent with the economy state. The mirage of healthy economics during the irrational exuberance phase can be interpreted as a sort of drowsiness, somehow allowing the phenomenon progress until the heavy correction imposed by a merciless financial crisis. A sudden hard care to bring the system back to stability after a long period of convalescence (Reinhart and Rogoff, 2009).

Therefore, the chronic delay of the community awareness about the severity of the speculative crisis, could explain the delay in the activation of the natural and market conditions to break the speculative bubble and to start the needed financial crisis. It should be noted that also the corrective phase has a gradual beginning, then dragging soon the whole economy. So, in the case of Japan, the enormous speculation parable is already in view at the end of the eighties, but it's gaining strength only in the nineties. The awareness that the speculative trend and the double-digit growth have ended, however, is hard to be accepted. So, the correction system has been extended for over twenty years with a tendential deflation and the economy blocked.

On the other hand, it's evident that only the growing awareness about the actual economy state, now on the edge of the financial crisis abyss, can activate and then accelerate the correction phase of the economic system. With this correction, there would be finally the prospect of a return to the development compatibility. The early awareness of the economy state can therefore be useful to limit the damage of the financial crisis, which will conclude the speculative run. Thus, limiting the ambiguous feeling of relative tranquillity, which is the condition needed by the speculative mechanism to propagate.

This vague and misleading equilibrium feeling, within a speculative environment is partly justified by the gradual decline in prices that fall until zero, except for a brief recovery at the top of speculative excitation, as well as by the calm profile of GDP, which has an average annual increase of 2%. These are parameters clearly discordant from the economy under the stress of an exuberant speculation. Yet, they act as a sort of tranquilizer for most of operators and families. It could be argued that this improper risk appetite is somehow orchestrated and derives from the economic system need to return to its compatible condition, even though the disruptive process of speculation and financial crisis. Given the character somehow "prefab" of this complex maneuver, it must be assumed that it's now compulsory and that, once activated the speculative drift, the process must continue until the abrupt economy recession.

Notwithstanding this urgent need for the recovery of a compatible condition, it's clear that the delay in assessing the risk involves an increase of collateral damage due to the speculative excess, which is added to the recessive action for the restoration of the economic system natural condition. Because of this requirement, it seems appropriate trying to contain the collateral damage deriving from the speculative movement extension.

In other words, the economic system has the unstoppable need to restore the stability conditions, which are the safeguard for the life protection on the planet and for the human joint development on the scientific and technological fields (anthropological principle). It can therefore be argued that the correction becomes violent and recurrent because of the guilty inertia of institutions, companies and families in their duty of a gradual correction of the development process.

Is it possible to limit the speculative process and thus to mitigate the collateral damage resulting from the irrational exuberance? Now, we should note that this exuberance seems to have the substantial purpose to lead the system to correction, while the supine appeasement to exuberance is only producing a damage widening and a probable further imbalance in the income ladder. Therefore, a preventive action preserving the stability by keeping an eye to 2% proximity of basic inflation is an essential treatment, also to avoid the recurrence of recessive cycles and further collateral damage.



### **3.3. Is It Possible to Deactivate the Speculative Spiral Before the Final Epilogue?**

To deactivate the speculative spiral before its final epilogue, first it's necessary to keep in mind that the system is very unstable and should go anyway through a "creative recession" of Schumpeterian memory, to find the way towards the economy compatibility. So the goal is not a soft return, but the mitigation as far as possible of the wind that could be even more recessive once the economy has been under a speculative degeneration.

A preventive treatment should consider that the problem of exuberance and reduced risk attention during the speculative crisis is hidden in the false belief spreading unexpectedly within the market. The system seems to have entered in a new paradigm of unlimited growth, then even the value anomalous growth appears as justified. Therefore, the elimination of the illusion spread within the market must firstly undergo through an action to tighten the monetary policy on money availability, credit and interest rates. Furthermore, the fiscal policy must play a role in public spending containment; public spending in deficit that subsequently could have the role of anti-recession antagonist, during the post-speculative bubble intervention to support the economy.

Monetary and fiscal policy can contribute to reduce the spending potentials feeding the speculative bubble growth, so removing energy from the phenomenon spread. It's possible that these measures wouldn't be enough to eliminate the speculative bubble growth because the private liquidity resources available wouldn't be affected anyway. Therefore, an intervention is needed that could be able to break the improper positive feeling prevailing within the community about the economy state. In other words, a good governance should take the responsibility to warn companies and families to pay more attention to the risk and to the irrational and speculative nature of the excessive rise in the quotation of stock exchange, securities and assets. An immediate action to cool down the irrational enthusiasm but keeping a look to the near future for the intervention planning to mitigate the crisis that in the meantime can grow up.

Therefore, the collective sensibility should be able to understand in advance the state of serious alteration of the economy development. A right direction of the collective sensibility can be restored if the main public institutions, from central and regional governments to scientific centers, universities and research and study offices, until the major banks, would promote a widespread information on the non-fictional and real state of the economic condition. And then a tax policy could also be used as a cooling factor for those areas most exposed to the risk of an unjustified exuberance progression.

On the other hand, we could reasonably assume that the damage caused by the natural system to rebalance the economy, is adequate to the instability degree and then never excessive or superfluous. In other words, the penalty must be tailored on the distortion suffered by the economic system and appropriate to the rebalancing action. Not a chaotic disorder then, but an adequate and rational reaction. That's like saying any excess in the unstable economic system would be due to the indifference of the collectivity reaction during the economy precarious situation. And the penalties are also the bitter consequence of the ambiguous role that companies and families can play, when they remain inert or uncertain despite noting the dilatory behavior in the economy conduction. Once the bubble has started anyway, any delay in the mitigation of irrational alteration will be paid with an intensification of recessionary phenomena and of price deflation.

That said, it seems reasonable to state that the objective of making the speculative bubble implode prematurely, through reasonable fiscal and monetary policy tools, is a priority for a good policy to minimize the penalties suffered by the system.

## **4. THE ECONOMIC SYSTEM DEVIATIONS AND THE TREND TOWARDS STABILITY**

### **4.1. The Unstable System and the Democratic Issue**

The instability of economic systems can start irrational speculative reactions that are just the final stage of a prolonged strong economic and social imbalance. A final stage from which the correction process finally can start, with the related serious damage at the social level. Once the speculative excitement has begun, the natural objective

of the unjustified and anomalous rise is just rational; that is, to start a process of return to the economic and environmental compatibility as soon as possible. Despite the expectations for a rapid conclusion of the corrective process, the uncertainty taking the community when faced with this kind of phenomenon - which cannot be interpreted correctly - could instead revive and not release the speculative situation. Such delays accumulated in the correction process, will be paid by the community as a collateral cost, anyway adequately measured on the way back to the natural condition.

The ideal relief therefore remains an intervention avoiding the formation of speculative irrationalities, by removing the imbalance causes. We should also consider that the imbalance is the result of an attempt to accelerate the economy growth beyond its potential limits and, consequently, the result of threats to the environment equilibrium. The goal for a greater economy growth, apparently positive, can find very temporary consensus in the community and therefore only in the short term the political teams supporting that goal would be endorsed. However, the results of these strategies could be uncertain, and even opposed. A forcing action often leads the system on the instability course. The economy good governance and the environment compatibility therefore remain the paradigm for a social and economic stability.

To “redeem” an economic system from instability, the democratic alternation in the society conduction is to be considered the elective tool for the periodic selection of the political teams with programs better suited to stay or to return within the compatibility course. However, over time this model hasn’t resulted flawless. Because the normal people capability to support political forces for the country good governance and for the development compatibility, sometimes can be undermined.

The community acts as a sort of integrated body formed by institutions, companies and families. In a democracy, the whole of the community is to be always considered responsible for deviant policies because no democratic government can take directions in the public affair management in evident contrast with the collective consensus. Then the country inadequate management in the medium term can result also and above all from whole society shortcomings, when expressing choices that should be consistent with the natural compatibility.

We should also presume that the community - represented by institutions, companies and families - has a sufficiently correct perception of the economy state and, consequently, an equally correct perception of the general program to be carried out to maintain the compatible development course. We are not talking about the choice between *Guelphs and Ghibellines* that in the ancient Florence was a choice by factions and groups. Instead, we are referring to an essential assessment that the community is able to define about the program suitable for a good governance and, consequently, about the political team that more than others seems to be able to realize this somehow *ideal* project.

This assumption about the community capability to evaluate the economy state is credible, because otherwise we couldn’t understand the humanity path towards the social, economic and political complexity over time. Nevertheless, it’s true that this presumed capacity can sometimes fail, then appearing unreliable. It’s equally true, however, that the human society progression towards social models inspired by democracy should be interpreted as a progressive increase of the social context harmony with the development stability and compatibility.

The exceptions to the democratic model, therefore, are also a sudden but temporary interlude in the process of economic and social compatibility. Now, there is no doubt that the stability of the systems inside the natural context has always been an optimal status quo for the civil coexistence and mutual solidarity between individuals, communities, nations and continents. Regarding economic system stability, in fact, the relationship between democracy and good governance is to be considered as an essential link because the periodic alternation in the economy conduction essentially produces the best conditions for the social balance and the environment compatibility. Ergo, the absence or even only the suspension of the people’s free democratic expression is against the development linearity in the natural environment and opens also disturbing scenarios as already happened in the past historical experience.

Even if this could appear pleonastic, then, the first condition for the environment respect and the market order is that the democratic alternation of the rulers and the forces called to the society government should be respected. If the repetition of the electorate consultations to test the intentions of the people will not be respected, then will be lacking the progressive adaptation model of social and economic programs to guarantee a good governance, compatible with the economic and social development. That said, it should be emphasized also that the electoral body agreement with the political forces claiming for the government conduction, requires a simplified and rapidly understandable program, without fragmentations for specific needs, that could guarantee the majority of votes and, consequently, the shared governance of the country.

#### **4.2. The Lack of Harmony between Electorate and Political Forces**

"That's the rub", quoting Shakespeare. The harmony between the community and the programs of political forces can be considered good when the development process moves in a compatible way. Otherwise, in the case of economy instability, this harmony can break just starting from the government. This means that uncertainty about the society future may probably cause the multiplication of ideas and programs about the next government. Multiplication that rarely means clear goals about things to do, to achieve the stability and compatibility recovery. Thus, in the case of Italy burdened by a large public debt, the simplified idea of reducing the public debt and consequently increasing employment is undoubtedly the way forward to bring the country to a development in line with its potentials. Yet the electoral competition seems to overwhelm this priority program line during the period before the electoral consultations.

The lack of harmony between the electorate and the political forces can cause delays in the selection of programs and government to handle the situation. Now there is no doubt that the collectivity, intended as a combination of institutions, companies and families, has an autonomous capacity to indicate the general program and the government able to find the solutions for the social and economic instability. Otherwise, couldn't be explained the long human path towards the understanding of the environment in which humanity lives and the knowledge endless desire to be able to reach a better integration. By the way, a situation of uncertainty between the electorate and the political forces doesn't occur when the economy relative stability simplifies their relationship, because the right direction choice is quite easier.

Therefore, the climate of uncertainty coagulated just before the electoral competitions should be charged to the progressive inability of the political groups to pick up in the best way the message coming from the community about the program for a good governance. The proliferation of pre-election political messages can therefore be a symptom accompanying the deviation of an economic system from its natural compatibility. The uncertainty and the fragmentation in the choices – and this should be emphasized - should be attributed essentially to a weakness of the political programs offered to the voters. In those programs, in fact, the average voter cannot find a match, if not just partial and shielded, with his guidelines collectively shared.

Therefore, there is a lack of synchrony between the concise ideal program that the community adopted and the multiple offers coming from the competing political forces. We can also imagine that, in a context of unstable or very unstable economics, can spread within the community an undefined feeling about which should be the objectives of a good governance. This not well-defined feeling of the community about the right objectives to be achieved during the next parliamentary term, complicates voters' choices due to the multiplication of programs and competitors proposing themselves to lead the country.

The lack of correspondence between the collective guidelines for good governance and the program proposals from various political groups can become the cause of the electorate fragmentation. The fragmentation of the electoral body therefore is to be classified as a collateral consequence of social and economic instability, which compromises the capability to select a good governance to solve the crisis in the country. The key to the problem is

complicated, because to face the difficult situation of the economy could be called a weak government, due to lack of consensus and poor efficiency of the programmatic guidelines.

This dissonance between politics and society is another negative element standing in the way of the restoration of the social and economic balance condition. A dissonant aspect that may perhaps explain the extension of the time necessary for the return to a natural stability. Extension of recovery times depending on the instability degree of the economic system, but also on the therapies adopted unsuitable to promote the rebalancing of the social and economic system.

#### 4.3. The Gap between Political Trends and Community Aspirations May be Only a Passing Cloud

Given the system trend towards stability and the underlying guarantee of the natural correction of unstable systems, we can assume that also the eventual dissociation between political trends and the community aspirations should be considered as a passing cloud. However, this seems to have a predetermined purpose. That is, to allow the natural correction process *to be completely and fully evolved*, during the periods of relative institutional calm allowed by weak governments, rather tending to the *"non facere"* in absence of a large consensus. In other words, the uncertainty periods on the social and economic level could be useful to improve the medium-term prospects, thus allowing a gradual recovery of the system in crisis. In this regard, it's worth to consider that the *laissez faire* strategy trusting in the natural correction may be the best one, or at least the one allowing a gradual realignment to the normal values of the social and economic development.

Obviously, we're talking generally of short periods. But these periods can be extended, if are persisting choices not consistent with the social and economic compatibility. Complications can always be around the corner. The degradation of democratic systems, with the reduction or the block of periodic electoral consultations for the governance of public affairs, are to be included among the adverse consequences of long-term unstable conditions. The last century experience is clearly showing us that the democratic system blackout is just the final point of a serious dissonance between collectivity and political leadership, which remained unresolved (Huntington, 1993).

In the Czar Nicholas' Russia, the unbearable disparities between the social classes and the defeat in the Great War have made it possible to the Bolsheviks the takeover of power with the following proletariat progressive dictatorship. In the Germany of 1930s, the power takeover by the Nazis was the result of serious errors in the peace of Versailles, as reported by Keynes (1920) but also of the strong latent nationalism after the defeat in the First World War. After World War I, in Italy the disappointment for the peace results, a strong nationalism and the severe social differences have conspired to create an improbable dictatorship. Therefore, in these events an insoluble dissonance is always arising between the community, aspiring to a greater social equity, and the inadequate political leadership.

Now, remaining on the issue of the natural trend towards the compatible development of economic systems, how can be explained, or at least be given a meaning to the violent deviations from the correct course of social and economic development? In the case of irrational exuberance, the excitement of the unstable economy is an improper motor going off course, though until a limit beyond which the natural correction is activated to bring the economic system back on the correct path. In this case, it's also acceptable to think that this shock to the economic and social balance could be somehow connected to a discontinuity between the community aspirations and the leadership weakness.

In other words, the economic system is running on a wrong track for an anomaly in the synchronization between the community aspirations about the near future and the leadership governing the country. According to this point of view, the speculative run may seem an opportunity for enrichment to many people within a context of apathy or passivity of institutions, and then both collectivity and political-intellectual leadership, remain "enchanted" by the deceitful sirens of the rising market. Now there is no doubt that the spread of passive acceptance behavior of the irrational increases has been somehow a result of the growing social gap and of the foolish hope that

the storm of those increases could be an opportunity for many. An occasion, certainly distorted, because far from remedying the social problems posed by the upward concentration of great incomes and wealth, the final outcome of speculation will be just the opposite.

In these cases, the sudden cold shower of the economic crisis and its effects in terms of unemployment and poverty increase can mark a sort of electorate amendment. Because the voters, in a revival moment, can finally be able to choose the right person for the country government, during and after the serious crisis. This is the case of the recent post-speculative bubble crisis of the years 2008-2009, when the American people voting for the presidency of the United States appointed a democratic Afro-American senator, pragmatic and determined, which led America to overcome the most serious recession after the '29 and then to restart a new recovery.

Unexpectedly, after the Obama presidency, America called to the presidency a tycoon from the real estate sector, a republican without any government experience. This choice certainly is following the power alternation between the two major parties, nevertheless is also a symptom of a dissociation between the collectivity and the political leadership. The undoubted improvement in the economic situation and the unemployment decline seem to have revealed in the country a latent and unresolved social conflict.

The gap between the community aspirations and the leadership unfortunately can get until the enigmatic eclipse of democracy. In this way is set aside the process of the democratic selection of political leadership, which is the main tool for the reduction of social and economic instability. In other words, the anti-democratic choice, by blocking the process of leadership selection carried out by the community, is against the model supporting the natural trend towards social and economic stability. Essentially, the natural engine for the instability correction, based on the natural intuition of the majority within a community to select programs consistent with a social and natural compatibility, is blocked.

## **5. THE SOCIAL IMBALANCES AND THE REBALANCING FUNCTION OF DEMOCRACY**

### **5.1. The Social Gap in the Wealth Distribution and the Instability of Economic Systems**

At this point, it's legitimate to argue that the long odyssey that has driven the humanity from the past and present empires finally to democracy (though not fully worldwide) has been parallel to the equally long odyssey of economic and social development. The meaning is that the tension driving economic systems to a compatible development, at the same time is promoting also those human relations inspired by solidarity and participation in social life. It's a global cultural evolution of human relationships that from the rational egoism, as outlined by Adam Smith, moves towards more supportive collaborative forms, somehow promoted by the same method used in scientific research.

The natural approach aimed at the social development compatibility, leads to blame the eternal problem of the inequality in wealth and income that in the past as in the present time has always represented a serious ground for social and economic instability<sup>1</sup>. The concentration of wealth had reached alarming levels in the 30s and 40s. After the World War II, there was a drastic downsizing of the gaps in wealth, which allowed us to believe in a sort of cyclical trend of the phenomenon over time. This cyclical movement of wealth, however, has been quite accentuated over the last fifty years, also thanks to the generous prize that the technological innovation, above all, can offer to the generation of creative talents.

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<sup>1</sup> "I seek only to point out that the principle of accumulation based on inequality was a vital part of the pre-war order of Society and of progress as we then understood it, and to emphasize that this principle depended on unstable psychological conditions, which it may be impossible to recreate. It was not natural for a population, of whom so few enjoyed the comforts of life, to accumulate so hugely. The war has disclosed the possibility of consumption to all and the vanity of abstinence to many. Thus, the bluff is discovered; the laboring classes may be no longer willing to forego so largely, and the capitalist classes, no longer confident of the future, may seek to enjoy more fully their liberties of consumption so long as they last, and thus precipitate the hour of their confiscation" Keynes (1920).

The accentuation of the inequality in wealth and income among the social classes is a factor of social disruption, with negative effects on the economic sphere. The retention of an unsupportive status quo is also the inevitable consequence of an income concentrations to the detriment of the marginalized social classes, then an unsupportive attitude can also be defined in proportion to income and wealth inequality. Thus, a negative relationship is set up between the increasing wealth (and income) concentration and the economy declining potentials. Therefore, not only the unstable economy leads to a poverty increase, but the social imbalance due to a widespread poverty is also reflected on the economic process, thus depressing it.

The poverty increases and, consequently, the concentration increase of wealth and income are therefore causing social instability and, at the same time, economic instability. The recessionary tensions troubling the unstable economy with cyclical movements are the cause of a poverty increase, due to the economic process contraction. In turn, the poverty increase can have a return effect (feedback), so affecting the economy performance, due to the actual marginalization of an increasing number of people from the market. The fight against poverty therefore shouldn't be a mere secondary and derivative effect of the economic recovery, but rather as an energizing factor of that recovery, which would take the right incentives from those measures aimed at mitigating poverty.

From the point of view of the trend towards the natural compatibility of economic and social systems, the social instability should be considered as another aspect of the economic instability. It follows that, in an unstable economy, the wealth concentration index can be used as a measure for the economy malaise. In theory, it's realistic to say that the wealth concentration tends to decrease in the case of long time almost stable systems, while it's increasing in systems afflicted by a persistent instability.

Having said that, it could be argued that the relationship between system instability and wealth concentration is not random but is part of the complex orchestration of measures that even forcefully should lead the system to the compatibility and the relative stability. From the point of view of the democracy mechanisms, a poverty increase can provoke a social pressure in favor of government programs promoting an improvement of disadvantaged classes. Basically, in unstable contexts with a wealth anomalous concentration, the periodic recourse to electoral consultation is the key tool to change the country government in the direction of a greater equity and solidarity among the social classes.

However, we should consider that the economy instability is more or less the bitter fruit of some country government decisions, seeking to accelerate and to undermine the compatible development approach; attempts that may also have the consequence of distorting the income *normal* distribution. Crime increase at all levels <sup>2</sup>, asymmetric taxation, freely expatriate capitals, chronic delays in the management of public affairs, misleading distribution policies, are all corollaries of a poor governance. Manifestations of social malaise involving further heavy corollaries, such as increasing poverty and increasing inequality of income and wealth.

These market distortions, from the criminal underworld until the ambiguous redistribution policies, are also obstacles to the democratic life, due to the conditioning power suffered by the poorest part of society. In other words, bad governance is the origin of a continuous series of social life alterations that can have an indirect effect even on the profile of the democratic expression and, therefore, on the popular capability to choose an adequate leadership and appropriate government programs.

For the above, we can say that an instability crisis trap may be followed by serious social side effects that, essentially, would play against the search for a way out towards the economic and social normality. The exit from the crisis tunnel becomes somehow more devious. It's playing negatively the disaffection towards the management of public affairs, created among the lower classes affected by the economic and social crisis. A denial attitude that

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<sup>2</sup> More broadly, research is suggesting that crime trends are closely tied to economic conditions. Interest rates, inflation and unemployment are among the macro-level factors influencing crime, according to James Austin, the president of the JFA Institute, a criminal justice policy nonprofit (<http://www.jfa-associates.com/>).

unfortunately is contradictory regarding the search for a solution to the social crisis because it weakens the community inclination towards rational choices in the selection of government leadership during the elections.

The result will be the worsening of the forms of social malaise accompanying the crises, and the delay of the exit from the instability tunnel.

## **5.2. The Recourse to the Electorate as a Correction Tool on the Path of Balanced Development**

Essentially, the trend of economic systems towards stability and respect for the ecosystem may occur because the market provides explicit and implicit indicators on the economy correct direction. Among the implicit indicators we can include a sort of surface widespread message about the economy condition and good policies for the near future. A latent intolerance about the current situation and a widespread feeling about the good choices to be made in the future, are spread within the society also through the implicit and explicit messages of the economic-social context. A combination of echoes and signals that somehow guarantee the reasonable electoral choices.

However, the “electorate clock” can have a delay when the system travelling under conditions not so stable suffers a serious deviation due to an internal or external shock. At this point, a serious and unexpected crisis can take over, which can worsen due to the lack of preparation of the institutions for the unexpected event. It's this the probable outcome in the case of a severe recession, with increasing poverty and greater gap in wealth and income.

Redistributive policies can mitigate the resulting social tensions. The redistributive policies are feasible if there is still a possibility for further public debt, as public spending is already under pressure to mitigate the pangs of recession. On the other hand, a correct redistributive policy requires a decisive increase in fiscal pressure to hit the greater wealth and the higher incomes. Redistributive policies on the double plan of taxation and spending, do require an authoritative government enjoying a wide support.

The problem of correcting income differences is therefore forcefully present during the electoral phase, with the negative trail of the market distortions and the collateral effects caused by the severe recession. At this point, the increasing social difficulties can deteriorate in a peculiar way the community normal capacity in the choice of the government program, suitable for the current difficult circumstances. Once lost the guide for the best choice for the country future, the most certain result is at least a delay in the gradual return of the altered system to the development natural balance.

The rebus derived from an adverse shock, lies in the double knot hindering the tendency to rebalance the systems. The anomalies occurring in the case of a serious adverse shock are in fact added to the blurred usual capacity of the communities to select the leadership for the territory management. This double knot seems to repeat what already happened in the case of a speculative bubble. Also, in the recent experience of the last decade speculative boom, the growing instability - source of unequal income distribution - has been somehow favoured and misled by a widespread expectation of unlimited growth. Almost a collective mirage, distracting from the imminent dangers of an upcoming serious social and economic crisis.

The reason for this strange blurring of the ability to select a good government program, certainly doesn't depend on the confusion of voices and programs arising as usual in a crisis context. Because the selection, even in the midst of distractions, is part of the normal collective intuition able to select a program suitable to the difficult circumstances. Otherwise we should argue that, on the contrary, this surface widespread capacity of the masses to select a good governance does not exist. But this denial is not only essentially an anti-democratic postulate, but also is frontally opposed to the natural tendency of systems towards the sustainability of economic systems, which is the foundation of the humanity evolution in the ecosystem.

Therefore, it's quite interesting the question on the singular behavior taken by a system after a serious shock. In the case of a serious speculative crisis, the singular acquiescence of the economic system, called to run the irrational climbing until a serious financial crisis, can find an actual motivation when considering the irrevocable stability trend of natural systems. The post-bubble correction can eliminate errors and put the economy back on the

right path of compatibility. Although the path of natural correction appears to be contorted and often misinterpreted by the leadership.

Following the perspective of natural correction, essentially, the model of recourse to the electorate can be seen as a tool to correct the direction on the path of balanced development. Therefore, it's also subjected to the imperative of a responsible development, always interacting inside the economic systems. A temporary degradation of the collective feeling could therefore be interpreted, in turn, as another tool. As in the case of a speculative run, the temporary shadow over the collective choice capacity could depend on the depth of the social and economic crisis, which requires a long correction time. Lacking a qualified direction due to the collective uncertainty, the country is facing then a long recessive involution, which will lead over time to the democratic removal of inadequate leadership. Only then will it be possible to resume the responsible growth course, in harmony with the environment.

If we accept as reasonable that the model of natural correction operates in a rational way, we must admit also that it's necessary, even when causing serious social damage. In the sense that the temporary blurring of collective feeling can be the social equivalent to the apathy in the event of an increasing speculative emphasis. So even in the event of an appeal to the polls, the electorate temporary incapability to provide a convincing direction to the country could derive from an indefinite social apathy, which in this way essentially accepts unconsciously a long period of social and economic correction.

## 6. CONCLUSION

A very significant external shock, like the results of the last decade financial crisis, produces important economic and social damage, but also various side effects equally serious. From the uncertainty in the country political direction to the crime increase until the electorate loss of lucidity in selecting a new country's leadership. It goes without saying that the impact of the serious recession on the economic and social context is the primary cause of the deriving collateral consequences.

To mitigate the impact of the severe recession on the economic and social system, is therefore not only acceptable but also a propitious therapy to mitigate the blurring of the usual capacity of the electorate to select the appropriate government program, suitable for the recovery of the economic and social system compatibility.

## 7. DISCUSSION: ITALY ON THE EVE OF 2018 ELECTIONS

Italy on the eve of 2018 elections is suitable for a brief analysis on the risk of misalignment between voters and political proposals of the main political groups. The risk of misalignment between the wishes of voters and the actual program of the political forces tends to accentuate, as a collateral damage usually following periods of severe economic and social crisis. In the case of the "Belpaese" (Wonderful country), since 2008 there has been a long W recession (double-dip), which has deeply affected income, employment and wealth distribution. Moreover, the long recession which involved the country didn't mitigate the country financial fragility, burdened by the huge public debt.

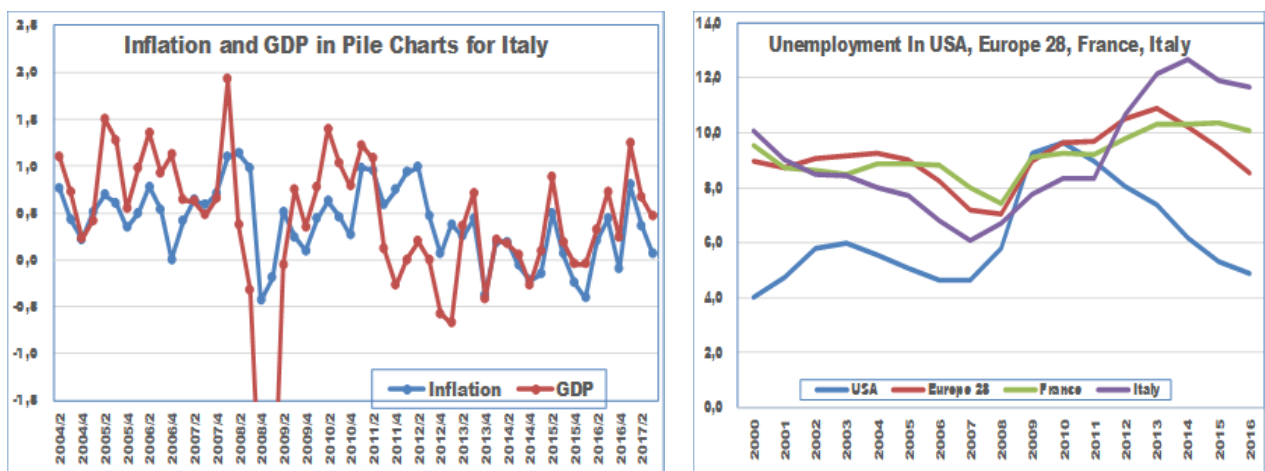
In the **Graph n. 1/a**, the "stacked" profiles of the basic variables (Inflation and GDP trends) are shown for the period 2004/2 to 2017/2. It should be noted that in this structure the GDP is falling when the red line is below the blue one (Inflation), so making easier the chart understanding. In the beside **Graph n. 1/b**, the comparison is based on the unemployment trends in the USA, Europe 28, France and Italy. The comparison shows the phenomenon intensity and the recovery times, slower in Italy than the other countries and areas examined.

In the following **Graph n. 1/c**, we examine the GDP and the main components of demand in Italy during the period 2007 (financial crisis starts) to 2017. The component of exports in 2017 exceeded the corresponding level in 2007. On the other hand, the GDP level and the household consumption are remaining weak and lower than 2007. Instead, the gross fixed investments are stagnating, remaining at about 80% of the amounts invested in 2007. Such



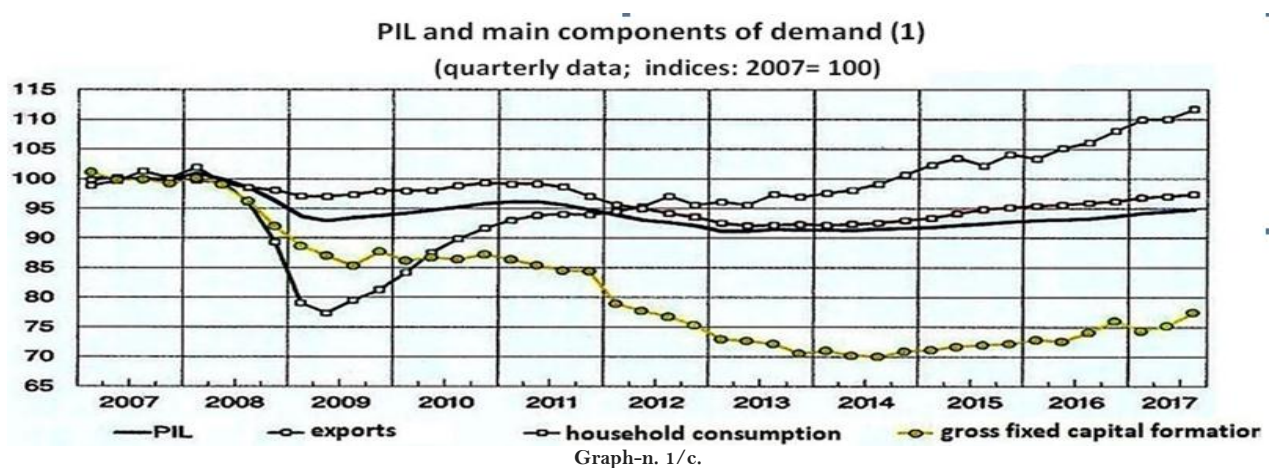
a decline can be partly explained by the drastic reduction suffered by investments in the public sector and, consequently, also in the private sector. A framework with many shadows, in terms of fixed investment and unemployment, which soon are translated into an increased social gap, a greater poverty and social malaise. Furthermore, the tables of **Graph n. 1/d** on income inequality in Italy are providing some comparative data of the income gap deepening in the “Belpaese” (Wonderful country), as an additional side effect of the serious financial crisis 2008-2014.

In short, on the eve of the electoral consultation, the country economic and social framework is improving, but the social structure appears marked by the longest economic crisis in the post-war period. The question we can ask ourselves certainly isn't where the electorate is going. Or whether the polls would succeed in giving a stable government to the country. These issues not only are very uncertain but, above all, they are beyond the scope and limited objectives of this work. More realistically, the issue arising refers to the fragmentation of the political coalitions undergoing the electoral cycle and, consequently, the potential lack of coherence in the programs of the main political forces in competition.



Graph n. 1/a and 1/b

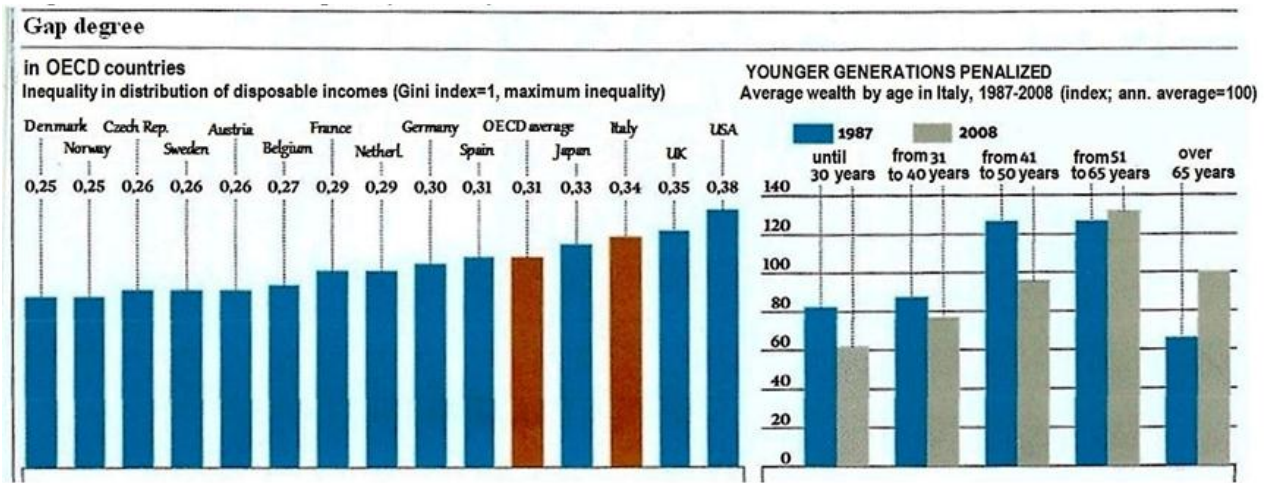
Source: Elaboration on OECD-Stat data



Graph-n. 1/c.

Source: Elaborations on ISTAT data

(1) Chain-linked prices and volumes; data seasonally and working-day adjusted



Graph n.1/d Income inequality in Italy-2011

Source: OECD, 2011 data

Source: "Disuguaglianze diverse" by Daniele Checchi; Ed. Il Mulino

Fragmentation and potential inconsistency of their programs against the ambitions, the purposes and the choices that the voters consider worthy of confirmation with their vote. This misalignment is certainly difficult to be measured. It therefore becomes easier to quantify that divergence between the collective wishes and the programs of competing political forces, by using the political context fragmentation as an indication about the electorate misalignment.

In other words, the electorate certainly has acquired a correct conviction on the general strategy to be followed for the country good government, nevertheless it's hard to find the backbone of its convictions inside the indications of the various political programs. Now, this lack of coincidence cannot in any way fall as blame on the electoral body and on the democratic method. If this hypothesis were held – that is, admit that the "Belpaese" electorate is confused by the pre-election hype after the worst economic and social crisis of the post-war - there would be a question about the democratic way essence in the management of public affairs. This question is not only unacceptable, but also put in the wrong way.

In a condition of relative social and economic tranquility, the continuity line is surely the best choice, confirmed by the electorate. No doubt or any chance of errors, therefore. Well, if under normal conditions the electorate shows an unquestioned wisdom, there is no doubt that this intrinsic talent in selecting the right way for the future government cannot be lost and blurred after a long recession, as in the case of Italy. Quite the contrary, indeed. In fact, that talent must have been reinforced, just because of the penalization suffered. Therefore, the hypothesis of a dazed electorate is wrongly placed.

Well, the uncertainty in the choice of a good governance can therefore appear when the voters find it hard to recognize themselves in the whole project of a future government. In the absence of proposals consistent with the collective aspirations, the electorate can split in streamlets, converging only on some aspects of the programs proposed by the competing forces. This would result in a vote dispersion, in parallel with the dispersion shown by the political forces. The problem of uncertainty in the selection of candidates for a good governance, therefore wouldn't be under the electorate responsibility, but rather a drift only due to the obvious fragmentation of political forces.

The drop in the support to the outgoing government - linked to the uncertain economic and social situation - could therefore be the reason increasing the fragmentation of potential new candidates for succession. Since the decline in consensus for the outgoing government is a clear sign of the gap between the direction of political programs and the ambitions, desires and *general* programs of the community, it follows that this gap is also feeding the uncertainty for the selection of a new leadership.

In the case of Italy 2018 elections, the problem isn't so much the disappointing result of the polls for the ruling party on voting intentions, but rather the singular dystonia of some of the main actors of the various political parties, when they must consider Italy duly as part of the Europe of 19 together with the euro. A deviant path unfortunately beaten also by the secretary of the majority party, who in advance had proposed for the next legislature increases in spending and public debt to support the troubled economy. Then on this precarious support, especially the new political actors forwarded proposals, also focused on a further massive increase in public spending and debt, incompatible with the commitments the country made in Europe.

At this point the question is: Why the political competition does convey such a pale picture of the community capability to discern? Why is supported the idea that irrational and incongruous messages could get through the electorate? From every point of view, it seems appropriate to simply listen to the implicit messages sent by the economy to the community, in its widest sense. And, therefore, to draw up the electoral program by strongly taking from the common experience.

Now it cannot be doubted that, for Italy, the main difficulty lies in the unresolved financial crisis, due to the heavy public debt accumulated over decades. It's realistic, therefore, that a good government program provides a credible scenario of a public debt reduction (an average of 20 points in terms of GDP during the legislative period). Equally realistic seems that such a program could be welcome, firstly among young people who cannot miss the equation: **increasing public debt = unemployment**. And vice versa: **declining public debt = employment increase, especially youth employment**.

A first test supporting this statement is given by the Gentiloni government. In just over a year, the weak recovery that was trailing in the prospects at 0.8%, in 2017 has been strengthened to double the performance. This result is not due abruptly to the accommodating monetary policy of the ECB, which has rather avoided an even deeper recession in the period 2009-2015. The recovery of the Italian economy in the last year is largely due to the cautious action of the government on the public debt, which in December 2017 was stable or slightly declining compared to December 2016.

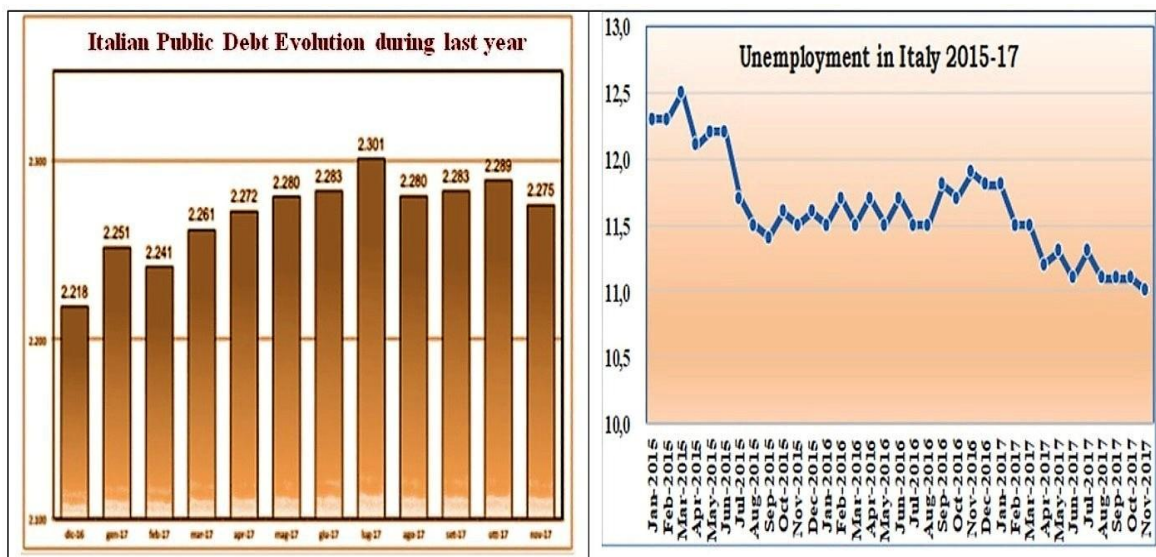
The electorate sensitivity towards the results obtained by the last government is also demonstrated by the selection of the most popular leaders of the current electoral campaign in Italy. Just over a month from the electoral test on the podium there was the president Gentiloni, followed by Emma Bonino <sup>3</sup>. The relationship between declining public debt and declining unemployment is well highlighted in **Graph n. 2/a** and **2/b** showing the symmetry of the two profiles, especially in the second half of 2017. <sup>4</sup>

The improvement of the country's climate during the Gentiloni government is also reported by the OECD, which released for the first time the personal income trend within the area of industrialized countries, believing that this will provide a better picture of the family welfare compared to the evolution of GDP per capita. According to the Organization's data, in the third quarter of last year the real per capita income of households at the level of the whole OECD area showed a growth of 0.2%, slowing if compared to 0.6% of the second quarter. Among the seven largest countries, Italy is the only exception, with a personal income increase of 0.8%, after 0.0 in the second quarter and + 0.2% in the first and therefore with a double speed compared to the increase in GDP per capita (+ 0.4%).

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<sup>3</sup> According to Ipsos survey, commissioned by the *Corriere della Sera*

<sup>4</sup> On the relationship "Government debt and employment - economic growth" see also: Cossiga 2016



Graph n. 2/a – Evolution of Public Debt in Italy  
Source: Elaborations on OECD data

Graph n. 2/b – Unemployment in Italy 2015-2017

Voters therefore seem fully capable of making the most productive choices, especially in the selection of those leaders who more than others seem to personify the desires, hopes and intentions on the good governance in Italy. The popularity of the government current president appears to be closely linked to the performance of the Italian economy in 2017 and to the prospect of a further growth, assuming as possible the continuation of the current government. The close correlation between the decline, though modest, of public debt and the employment and economy growth cannot be missed by the voters, who link the binomial “falling debt – growth” also to the bank restructuring long maneuver, unfortunately always neglected by previous governments. To be noted also a marked improvement in debt management, with declining rates and spreads in the BPT-Bund ratio.

This is the relatively favourable framework on the eve of the elections. A possible drift of the voting results, compared to the voting intentions supposedly correct, however, is not unlikely. A misalignment could therefore be dragged by the misleading siren song “preaching” improbable tax cuts and broad social payments, absolutely not coordinated with the actual public financial state and with the country's commitments in Europe. Since we must presume the electorate widespread choice in favour of actions to promote employment, it could be the disenchantment on the unsatisfactory results of previous governments, regarding growth and employment, to produce a general lack of trust to rerun a new round of previous government teams.

Now if illusory sirens can make it difficult for the country to have an appropriate government after the long Italian recession, the electorate diversion may depend at least partially on the dilution of proposals inside the programs of both main coalitions. More properly, the poor importance attributed to the sound principle "public debt reduction for growth and employment", which is included indeed in the electoral programs of some major players, but among several heterogeneous and even contradictory proposals. A resounding swirl of proposals that certainly doesn't help the electorate convergence.

It shouldn't be forgotten, however, that the electorate generally has an acceptable perception about the economy state and therefore appears able to discern the feasibility degree of the proposals presented by the political forces to the audience of voters. Proposals that move against the public finance problems and in contrast with the country commitments at the European level, therefore colliding with the general perception within the country about the sustainability of new interventions. The majority of voters will therefore tend to rule out these proposals, branding them as incompatible and unworkable. Therefore, during the electoral campaign we should witness a decline of the expected consensus for those political groups with more “adventurous” proposals, causing a relative shift towards the best argued and acceptable political proposals.

In other words, the electoral campaign could refine the expected results according to the adequacy greater degree that political formations can finally put in the formulation and diffusion of their proposals for the voters. Moreover, after an initial effervescence with resounding but improbable proposals, the subtle and slow but continuous consensus decline for the most glib group of political actors should eventually push to a revision and better formulation of the programs submitted to the electorate.

Without excessive illusions about the capability of political actors to listen and learn from the electorate desires, hopes and intuitions, the fact remains that the electoral campaign can have the important function of improving the harmony between political actors and electorate. In other words, the bonus obtainable from the electoral campaign isn't addressed to the average voter who presumably should have a clear idea on the country good governance in the next legislature. However, it could help the voter to select, even within such "cauldron" somehow confused programs, a choice favoring the formation of the best government possible, despite everything. On the other hand, during the electoral campaign a greater empathy comes from the electorate interested in clarifying, simplifying and adapting the programs for the next legislature in a greater harmony with the general orientation coming from the community.

At least during the initial phase, the electoral campaign in Italy seems to be played on the front of the resources to be distributed (flat tax, pensions, basic income for all, etc.), although these promised resources do not exist. We can therefore rationally consider that, in the more advanced phase of the electoral campaign, the promises with poor or no credibility are left out, also due to the increasing disinterest of voters. We could therefore see a convergence of the resounding programs towards indications finally compatible with the country condition, still troubled by the unresolved consequences of a very serious financial crisis.

In this eventuality, significant changes in voting intentions are to be considered unlikely. However, the simplification and clarification of the programs could have an important reflection on the undecided and on all those disillusioned people who declare to abstain from voting. On a substantial part of the undecided and abstainers, an action to clarify the programmatic priorities of the competing political forces can increase the number of voters with a group of well-motivated people with clear and precise intentions.

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