

“Bagehot and the Open Money Supply Approach”

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Foreword

This work originates from a study on the Federal Reserve policy 1924-1931, which we present in Ch. 1, and which began with a series of discussions on the 1920's history of policy and theory with Prof. Holtfrerich, at the J. F. Kennedy Institute for North American Studies, Freie Universitaet Berlin.

After completing this study, I presented the evidence I had obtained to Prof. Riese, director of the Institute for Economic Policy Theory at the FU Berlin, and head of the "Berlin School of Monetary-Keynesianism", entering thus the Institute and the School. The Institute had been devoting its energies to the theory of money, outside of the usual constrictions of mainstream economic thought.

My study on the Fed caught the attention of the Institute, where, by intuition, the element of innovation contained in Bagehot's thinking was understood, and as a result, the theory-input by this author from a new perspective started to be incorporated into the analysis of that School.

Keynes represents a main reference to the Berlin School, so the link and the opposition between Bagehot's and Keynes' work appeared interesting from the beginning. It was stressed through the coincidence, that I applied - in my work on the Fed - the bagehotian thought to the 29's crisis and the subsequent recession in the US and abroad. This was the historical event originating also Keynes' "General Theory". I had gone a different path than Keynes, by analysing specifically the Fed's monetary policy, and the way it had been impeded by its own statute to emit money, in a period when (open) money supply was urgently needed. I focussed on the way the Fed seemed to have damaged the whole economy, destroying a great part of its credit system, by somehow innocently keeping following the rules which had taken the country to "beat" the British Pound Sterling, and to become the leader and key-currency of the world.

This study brought us to consider Bagehot's thought under a completely different lens, because of the alternative interpretation of the 1920's events and of their possible causes. This study revealed thus at once an anomaly in the history of economic thought, and at

the same time also the lack of attention given to Bagehot, offering a rich potential for innovation in economic thought.

After years of application, and numerous studies on Bagehot already issued by the Institute for the Theory of Economic Policy, I attempt here to present my conclusions, a work which I hope can be further deepened by other scholars and practical economists.

The difficulty lies in the task of translating Bagehot's thought into a theoretical approach so that it can be compared to other authors without losing his specificity and difference. It takes to "decode" and acknowledge the content of a – in the precise will of its author - practical work on policy, whose concrete expression is moreover often linked to the history of the time it was conceived and written.

I thank Prof. Riese for his genius and unlimited support, and the whole Institut fuer die Theorie der Wirtschaftspolitik of the FU for their teachings. I also thank very much Prof. C. J. Holtfrerich, J. F. Kennedy Institute, FU Berlin, for his stimulating guidance, which helped me so much in my orientation at the beginning of this research. Thanks to Prof. M. Nitsch, my second "Doctorvater", from Lateinamerika Institut (LAI), FU Berlin, not only for his help and friendship, but also for his trust towards my work. Some colleagues sustained me in expressing in a better english my original ideas, they are Prof. Riccardo Lucchetti from the University of Ancona with his wife Leslie, dear colleagues and great friends, thanks from heart, Peter Bild in Berlin, Will Brown in London, and also Prof. M. Nitsch, who carefully revised the final manuscript; many thanks to you, all the remaining errors and inaccuracies are my fault. Also thanks to Frau M. Kasper, from Promotionsbuero WiWiss FU-Berlin, for her guide into the burocracy of the german phd-protocol, to my colleagues and friends Rita Wahlen and Flavia Cymbalista, for their presence; and, last but not least, to the very kind Frau Agel, from Dipro gmbh Berlin, for her patient and strong support in the digital publishing of this work.

I dedicate the work to my parents and family.