A. Fazio, *L'inflazione in Germania nel 1918-1928 e la crisi mondiale del 1929*, Treves, Milano, 2022, pp. 176.

Antonio Fazio has recently published a study on inflation in Germany in 1918-1923 and the world crisis of 1929, which not only has a high scientific value, but also serves as a warning for the events, not only monetary ones, that followed those facts and are still occurring, thus denying the assumption according to which history is the teacher of life, at least, as long as history is not examined by looking "*at the interactions between economics, politics and society*", as Luigi Einaudi, the authoritative Governor of the Bank of Italy, suggested and Fazio followed.

Before delving into the examination of the events, Fazio's book starts with a *Preface an*d a *Justification*, which he defines an Autobiography even though it goes far beyond his brilliant professional career, providing an example of the interactions between economics, politics, and society in a small-size Italian town, Alvito. A small centre near Frosinone, with a rich political and economic history, it was the hometown of Fazio's family where Antonio grew up and developed his moral strength that led to the position he occupies today. With the "slide rule" – a predecessor of today's computer, – in his hands, Fazio climbed all the steps of the banking career, becoming the head of Italy's central bank. And finally, he was the one who took lira into the Euro system, a subject on which I hope he will one day tell us more.

Fazio's autobiography is intertwined with the historical events of the Italian economy; the apex of his career was his appointment as Governor of the Bank of Italy by his predecessor Carlo Azeglio Ciampi, who was to become the Italian Prime Minister.

Fazio provides an analysis of what Keynes defined "The economic consequences of peace" following the German defeat in World War I, due to the choices made by the global powers of that time, that led to severe inflation, crisis, and the Nazi dictatorship.

In my opinion, the interplay of economics, political and social forces generated by World War I, brought to the fore two specific problems, that are still influencing contemporary world history, i.e., the relationship between money creation, public debt, inflation, foreign exchange devaluation and deflation. Fazio starts by examining the problem of Germany war damages, which according to his estimates accounted for 23% of GDP of the time; Fazio meticulously recalculates it claiming that without some assessment these could have amounted to just 10% of GDP, drawing the same conclusions of our great master: very serious errors of economic assessment were made that had dramatic social and political consequences culminating in World War II, the defeat of

Germany and its division between the Western and the Communist spheres of influence.
On one often underestimated specific point Fazio agrees with Keynes when he says that if Germany had had an inflation rate equal to the devaluation of the foreign exchange rate of the German Mark "it would have been a social catastrophe". To maintain the negative gap between exchange rate and inflation, it was necessary to create money, which in the end fuelled the chasing of the two prices, raising the question of which was the worst social catastrophe. At this point, memory forces me to think about what happened in Italy in the 1970s after the end of the Bretton Woods Agreement in 1971 and the outbreak of the oil crisis that immediately followed.
The story Fazio recounts can be described as follows. Towards the end of the summer of 1918, the defeat of the mighty Prussian army became apparent and shortly after Ludwig III relinquished power that fell into the hands of a sharply divided Revolutionary Council, causing the massacre of leaders and lieutenants. The emperor was replaced by a president, and a chancellor was placed at the head of the government, an arrangement that has survived to present day within a very different constitutional framework. "Violence becomes an 'ordinary' component of the political dialectic", Fazio states. The burdens imposed by the winners fell on the public budget triggering a spiral of deflation/inflation, fuelled by excessive money creation. The Italian statistical economist Costantino Bresciani Turroni, in his capacity of member of the Reparations Commission, described this phenomenon in an essay that is still considered as one of the best on the subject, which Fazio knows well and quotes.
The work is a very detailed historical document on Germany's social, political, and economic catastrophe and identifies the French invasion of the Ruhr, the heartland of raw materials destined to German industry, as the event that significantly contributed to the crisis of Germany. France justified the decision as a reaction to Germany's failure to pay war damages, but from time immemorial the Ruhr had been an object of appetite and conflict between the two countries. It is almost impossible to summarise this large section of the book, and it is better to skip directly to the chapter on *The "destruction" of the mark*. In five months, the mark-dollar exchange rate rose from 353,412 to 2,193.6 billion, and then doubled in December alone. In the same period, daily inflation rose from 9% to 27%. Legend has it that a person in a tram left his briefcase full of marks unattended and the briefcase was stolen while the marks were left on the ground. Actual goods were worth much more than any amount of money. As a result of the price upheaval – this is Fazio again speaking – the crisis deepened and, therefore, social

and political instability increased. The German ruling groups tried to deal with the crisis by calling to power the most illustrious men, but they went along with stabilisation policies, creating even greater difficulties, paving the way for the advent of Nazism.

Other countries were not immune to the same problems, which Fazio briefly analyses, dwelling, not by chance, on the controversy between Churchill and Keynes following the decision to return to the gold standard, which according to the great economist was a gross, almost incomprehensible mistake; the eminent economist argued that such a step could be implemented only by a dictator, precisely the step taken by the Germans, as Fazio recalls, with democratic means. In 1926, Mussolini's famous "speech from the doorstep" (of a car) in Pesaro set the exchange rate with the British pound at "quota 90". He made his decision following the suggestion of the Fed Governor Benjamin Strong, accepting it for reasons of prestige, but perhaps in exchange for a loan that had been refused by France.

The whole affair was not just the result of ignorance, as is shown by the fact that, after signing the Treaty of Versailles in 1919, the United States realised that there was an objective inability by Germany to repay its war debts; in 1924, a Commission was set up, chaired by an American (Charles Dawes) which, however, failed to find a solution. In 1929, supported by big countries, the Young Plan was launched to reduce debt and delay the reimbursements, but it failed to offset the severity of the German crisis. At that point in history the relationships between debt, money supply, exchange, inflation, crisis had reached a peak and Hitler took advantage of the situation.

If Athens cries, Sparta does not laugh, and the rest of the world entered the Great Depression. Economists are divided on the interpretation of this crisis: some think it was caused by the monetary policy and finance, others by the real economy. In the meantime, Keynes was maturing his new ideas for governing the economy, which he put into his General Theory of 1936, which Fazio knows well and considers as the pivot of his "reasoning with judgement", as he usually does. Indeed, these ideas were already being considered by the profession, both because Keynes was discussing them with his Circus and because Michal Kalecki had already put them forward and tried unsuccessfully to discuss them with him.

Fazio also recalls that, around the same time, the American economy experienced a deflation of the agricultural prices, also due to an excess of supply, which facilitated the policy of foreign aid which would become effective after the end of the World War II, when the geopolitically rising United States applied it to the solution of the most urgent problems of Europe, especially of defeated countries, without repeating the mistakes of the past. It is the policy that led to ERP (the Marshall Plan), which, together with the Bretton Woods Agreement and GATT, enabled Europe to consolidate democracy and a level of prosperity which became widespread among large sections of the population, but it is not always the object of remembrance.

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