WORLD TRADE AND WORLD MONEY.
A NEORICARDIAN OUTLOOK ON GLOBAL ECONOMY

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ABSTRACT: This paper examines some international aspects of Ricardo's economic theory. The theory of comparative costs is considered a special case of a more general theory of economic integration, showing that the final stage of economic integration, when capital and workers freely circulate in the global market, is a world economic union. Ricardo worked out also a theory of the international gold standard. He came to the conclusion that, when banknotes circulate alongside gold, the central bank should be entrusted to a public agency, independent of national power and with a precise target for the issue of banknotes. These "cosmopolitan" positions suggest that in the present international economy, a world governance capable of guaranteeing monetary stability and free trade should be entrusted to supranational institutions, similar to those existing in the European Union.

Introduction

The subject-matter of this paper[*] was prompted by a recent paper by professor Parrinello (2009) concerning the interpretation of the Ricardian theory of comparative costs and its usefulness for the comprehension of the present global economy. I discussed this problem with professor Parrinello ten years ago, and I showed (Montani, 2001: Part. II, ch. 2) – on the basis of Sraffa's (1960) theory of value and distribution – that in a global economy absolute costs are more important than comparative costs, as professor Parrinello argues in his paper. Here, I make an attempt to broaden and better specify the Ricardian point of view by inserting it into a global framework. In classical economic thought the existence of a cosmopolitan economic order was taken for granted. Awareness of this unspoken assumption can help us understand our present world better and to find appropriate means to govern the global economy.

1. Classical Political Economy, Cospolitanism and the National Outlook

Classical economists – especially D. Hume, A. Smith, J. B. Say, R. Torrens, R. Malthus and D. Ricardo – are well known for their defence of free trade, but they did not have a doctrine of international economic order, as modern economists implicitly assume when they talk about alternative international monetary systems or how the WTO regulates international trade. Indeed, classical political economy was built as an impressive corpus of theories and policies concerning the best way to organize the economic order of the nation state. At the beginning of Book IV, of the *Wealth of Nations*, Adam Smith says clearly: "Political economy, considered as a branch of the science of a statesman or legislator … proposes to enrich both the people and the sovereign."

The focus of classical economists on the home market can be explained. Adam Smith devoted Book IV to the critique of the mercantile system exploiting and explaining Hume's doctrine of the mechanism regulating the balance of trade with appropriate historical cases. It was clear that the abolition of the feudal system of home customs, tariffs and guilds was a crucial step towards an integrated national market, in which freedom of trade and production could thrive. But, if a free home trade brought forth prosperity and wealth, why not abolish all barriers to international trade? The movement for free trade could not be stopped at national borders. Alfred Marshal stressed the internal and external aspects of the free trade movement that marked the 19th Century

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very well: “The *Zollverein*, following an earlier Swiss, and a still earlier French, precedent, was the most important movement towards free trade that the world has ever seen, except the contemporary reform of the British fiscal system. It abolished in every direction artificial hindrances to the ‘simple’ and ‘natural’ tendency of each man to deal with those persons who are best able to meet his wants in return for his meeting theirs.” (Marshall, 1926: 399). Roughly, we can summarize the classical doctrine of free trade by saying that the real problem of classical economists was to abolish national barriers to international trade, convinced that the other countries would follow. No international or supranational institutions to rule the international market were discussed nor proposed. This approach was fully shared by the other economists of the 19th Century. The pioneers of the neo-classical school – Jevons, Walras, Menger and Marshall – gave no consideration to the international economy in their founding treaties. But after the drama of the First World War and the Great Depression it was not possible to maintain the naïve cosmopolitan approach of classical thought: the world economy was not a spontaneous and harmonious order. The first economist to clearly understand this fundamental contradiction was Lionel Robbins, who in 1937 wrote that classical economists thought that “if each national state were limited to the performance of the functions proper to a liberal government there would be no occasion for international conflict. There would be no need for a super-national authority. But this was a grave error. The harmony of interests which they perceived to be established by the institutions of property and the market necessitated, as they had demonstrated, an apparatus for maintaining law and order. But whereas within national areas such apparatus, however imperfect, existed, between national areas there was no apparatus at all. Within the national areas they relied upon the coercive power of the state to provide the restraints, which harmonized the interests of the different individuals. Between the areas they relied only upon demonstration of common interest and the futility of violence: their outlook here, that is to say, was implicitly not liberal but anarchist.” (Robbins, 1937: 240-41).

This “grave error” of the liberal thinkers – and we should add of the socialist thinkers too – was only partially amended after the Second World War, thanks to the building of the UN system, the Bretton Woods monetary order and the GATT, to promote a world free trade area. This international system, based mainly on the USA hegemony, sometimes worked fairly well, sometimes badly, in a world divided into two parts, dominated by the two superpowers, and with the Third World left to its plight. Only in Europe, a supranational experiment was put to the test. Today a multipolar political system is taking shape, since new great continental powers, like China, India and Brazil, are placing themselves alongside the USA, Russia, the European Union and Japan. The challenge of the 21st Century can be summed up briefly: is it possible to build a multipolar order assuring a peaceful government of the global market?

In order to answer this crucial problem, it may be useful to reconsider same aspects of Ricardo’s economy, keeping in mind that today, if economists, like other social scientists, want to build a new world economic order, they should make an effort to free themselves from “methodological nationalism”, as Ulrick Beck (2002) calls it.

2. World trade

Before discussing how the Ricardian theory of comparative costs can be utilized to understand globalization, it is worth considering the crucial role of free trade in Ricardo’s thought. In *The Principles of Political Economy*, Ricardo recalling Adam Smith’s observations on colonial trade says that Smith “has shewn that by permitting every country freely to exchange the produce of its industry when and where it pleases, the best distribution of labour of the world will be effected, and the greatest abundance of the necessaries and enjoyments of human life will be secured. … [Moreover] this freedom of commerce, which undoubtedly promotes also the interest of the whole, promotes that of each particular country” (Ricardo, 1951, I: 338). This statement not only concerns international trade but also home trade, because every hindrance to commerce is detrimental to people’s wellbeing. Indeed Smith and Ricardo strongly opposed every mother country’s restrictions to colonial trade as the “malignant expedients of the mercantile system.”

Nonetheless, this cosmopolitan point of view only outlines an ideal world, in which all national peoples can compete at the same level in the playing field. In 19th Century international reality was very different. The first, to show the flaws of the classical doctrine of free trade clearly was Friedrich List, who in 1841 published *Das nationale System der politischen Ökonomie*, where he takes into consideration a world economy with nations undergoing different stages of development. An “industrial nation” can export manufactured goods to an “agricultural nation”, which pays with raw materials. This division of labour can be convenient for both nations, but perpetuates a world economy in which the “agricultural nation” is condemned to stay at a lower stage of development. List’s critique to free trade was resumed by underdeveloped countries during the Sixties and the Seventies of the last Century, in protest against the “Old international order” carried out by the GATT system. During these years, Joan Robinson clearly showed the ideological aspect of the classical stance. “The very nature of economics – says Joan Robinson – is rooted in nationalism … The hard-headed Classicals made no bones about it. They were arguing against the narrow nationalism of mercantilists in favour of a more far-sighted policy, but they were in favour of free trade because it was good for Great Britain, not because it was good for the world” (Robinson, 1964: 117).

Now, let us consider the Ricardian theory of comparative costs with the aim of showing that international trade can be considered only a stage of a more general process of international economic integration. From the beginning, Ricardo observes that: “the same rule which regulates the relative value of commodities in one country, does not regulate the relative value of the commodities exchanged between two or more countries.” Indeed, the home value is regulated by the labour embodied in every commodity, provided that competition pushes the rate of profit and the rate of wage towards a uniform level in the whole economy. But consider the following example. In England, the production of a certain quantity of wine requires 120 men for one year; the production of a certain quantity of cloth requires 100 men for the same amount of time. In Portugal, 80 men for one year produce the same quantity of wine and 90 men the same quantity of cloth utilized in England. Therefore, in Portugal the costs are much lower than in England for both commodities. International trade appears to be impossible. Nevertheless, in the international market, Ricardo observes, only commodities are exchanged, capital and labour do not circulate among different countries. In such a case – if for instance the international term of trade is a quantity of cloth for a quantity of wine (note that the international term of trade is different from the internal term of trade, or price, adopted in the two countries) – it is convenient for Portugal to produce only wine and import cloth from England; and for England to produce only cloth and import wine from Portugal. If each country produces only the commodity for which it has the higher comparative productivity, it can get the other commodity by trading the surplus produced internally. After trade, each country can consume more wine and more cloth. Now, the total labour employed in the world economy is 360 men, compared with the 390 men necessary to produce the same quantity of commodities in the two closed economies. International trade increases world welfare.

This is not the end of the story. Ricardo observes with great accuracy that if the international mobility of capital and labour becomes a reality, the commodities will be exchanged according to the customary law of home values, i.e. the two commodities are produced where the absolute cost is lower. “It would undoubtedly be advantageous to the capitalists of England, and to the consumers in both countries, that under such circumstances, the wine and the cloth should both be made in Portugal, and therefore that the capital and labour of England employed in making cloth, should be removed to Portugal for that purpose. In that case, the relative value of these commodities would be regulated by the same principle, as if one were the produce of Yorkshire, and the other of London.” (I: 136). Exploiting modern terminology, we can say that if Portugal and England decide to form an Economic Union, it is possible to produce the two commodities at an even lower cost than in the case of international trade. Now, the total number of men employed is only 340. In an Economic Union world welfare is greater than in the case of free trade.

If the latter observation made by Ricardo is taken seriously, it should be admitted that the case of free international trade is only an intermediate stage between the stage of two closed national economies and the stage of complete integration, or a World Economic Union. If we reconsider the Ricardian case in the framework of Sraffa's (1960) modern theory of value and distribution, it is possible to show that the Ricardian example concerning international trade remains true only when the commodities are exchanged on the basis of the labour embodied in each commodity, but not in the general case when relative prices depend on the distribution of income between wages and profits. In this general case, only when the distribution of income in the two countries is determined, is it possible to know if international trade is convenient and in what direction trade flows. A change in the distribution of income in one country can change the international flow of trade (Montani, 2001: 145-9; and 2010 a). But, it remains true that, if capital and labour can move freely in the market, only the technique, which warrants the lower cost, is adopted.

Notwithstanding these complications, the original and simple Ricardian model is useful to show that: "if capital freely flowed towards those countries where it could be most profitably employed, there could be no difference in the rate of profit, and no other difference in the … labour price of commodities" (I: 136). This is a fairly accurate description of global economy today. International economy is no longer restricted to the free movement of commodities: the novelty of the second half of the 20th Century is the free movement of capital and labour too. Therefore, it seems legitimate to exploit the Ricardian example in order to describe the features of the main stages of integration of the world economy: the first, is the stage of mercantilism, when every nation state is closed to external trade, because the main concern of "the sovereign" is to build a free home market; the second stage can be defined as the stage of international free trade, more or less corresponding to the 19th Century, when, starting from Europe, all the nations of the "civilized" world found it convenient to enter a free world market, but with a limited movement of capital and labour among countries; and, finally, there is the stage of global economy, in which not only commodities, but also capital and labour can freely circulate in the world market.

This model of international economic integration can be considered rather abstract and rough. Nevertheless it can be useful to understand some aspects of the process of European integration, if Europe is considered as a kind of international economy. Just after the Second World War the European countries were incapable of trading with each other (and with the external world) because their money was not convertible and they had very few goods to barter with other goods of other countries. This stage can be compared with the mercantilist age: the reconstruction of the home market in each European state was a priority but it was impossible to solve this problem without some kind of international integration. The second stage was indeed the establishment of a Common Market, with external European custom duties and the free circulation of goods in the European market. The third stage is the project of the Single Market, with the so-called four liberties (free circulation of goods, services, capital and citizens) and the creation of the Economic and Monetary Union. The third stage can be considered a supranational stage as well, because only thanks to supranational institutions, like the European Central Bank, was it possible to establish an integrated market (indeed, the slogan of this project was: one market, one money).

Now, let us consider some aspects of the global market on the basis of our abstract and rough Ricardian model. Of course, we are not yet living in a global integrated market. Even Europe is experimenting the difficulties of creating a smooth and efficient Economic and Monetary Union. The world economy is very far from having similar supranational institutions. Nevertheless, we can say that we are living the transition from stage II (international economy) to stage III (the global market or world economic union). During the transition, many countries, either entirely or partially, abolish hindrances to the free movement of capital and labour, but the rate of profit and the rate of wage can be different in the different countries for historical reasons. Three aspects can be outlined.

First of all, during stage II, when commodities only circulate in the international market, the creation of multinational firms is impossible. A multinational firm requires the international expatriation of some capitals and some workers (maybe some managers). Multinational firms can exploit differences in the rate of wages in different countries and different tax systems. Therefore, the appearance on the international scene of the multinational firm can be understood as a symptom of the transformation of the international economy into the global economy.

The second observation concerns the creation of huge global imbalances among countries. Indeed, the transition from stage II to stage III, according to Ricardo, involves the transfer of all capital and labour from England to Portugal. In the real world we can observe a less clear cut process, since England's workers can learn how to utilize Portuguese technologies. But, if the differences in wage costs are substantial, in the meantime some redeployment of capital and labour from England to Portugal can create serious problems in England, where people will find it cheaper to buy commodities from Portugal. Therefore, England's balance of trade can show a persistent current account deficit and Portugal's balance of trade a persistent surplus. Global imbalances can last for several years and can disappear only when the costs of production of the commodities are more or less the same in the two countries.

The third observation concerns the problem of distribution of income, which in classical political economy is considered to be a typical national problem. In a global economy this is no longer true. Consider a world with two countries: the West with high "natural" wage rates and a certain profit rate; the East with low "natural" wage rates and a higher profit rate. Insofar as they exchange commodities only, each country can specialize in producing the commodity for which it has a comparative advantage. International trade does not have serious impacts on the internal distribution of GDP among wages and profits (although there is a transfer of national workers towards the more efficient industry). The situation changes radically when the free circulation of capital and labour is agreed between the two countries. Capital flows from West to East, and labour emigrates from East to West. As a consequence of immigration, the wages are lowered in the West and the rate of profit rises; in the East the emigration of workers favours an increase in wages and the flow of foreign capital lowers the rate of profit. The very notion of "natural" or "historical" wage rate is questioned in both countries. This rough Ricardian model does not allow us to say something more precise about this problem. But if Ricardo is correct in affirming that: "to determine the laws which regulate distribution is the principal problem in Political Economy", today economists have a tough job before them. During the transition from stage II to stage III, income distribution is no longer a national problem only, because it is increasingly becoming a global issue.

Before ending this paragraph, we want to say something about the economists' inability to see what we have called stage III. The reason is already clear in Ricardo's way of thinking. Indeed, Ricardo discarded international mobility of capital on the basis that "the fancied or real insecurity of capital, when not under the immediate control of its owner, together with the natural disinclination which every man has to quit the country … check the emigration of capital." And, he promptly adds: "These feelings, which I should be sorry to see weakened, induce most men of property to be satisfied with a low rate of profits in their own country, rather than seek a more advantageous employment for their wealth in foreign nations" (I: 136-7). Today owners of capital do not seem to have the same scruples as Ricardo. In our age, economic interests are stronger than patriotism. It is therefore wise to abandon the national blinkers worn by Ricardo and to embrace a true global point of view: modern economics should be able to combine patriotism with cosmopolitanism.

3. World Money

Ricardo's theory of money was worked out during the so-called bank restriction period, i.e. from 1797, when, with the *Restriction Act*, the Bank of England was authorized to suspend the convertibility of banknotes into gold, until 1819 – when convertibility was restored – and the few years before Ricardo's death in 1823. Our aim in this paragraph is not to review Ricardo's theory of money, but only to point out a crucial aspect of Ricardo' research: the transition from the notion of money as a private commodity, managed by the market, and the notion of money as a public good, provided by the state or by a states' agency, a central bank. Of course, other economists, mainly Adam Smith and Henry Thornton, have already discussed this problem, but Ricardo was the first to recognize, in his *Plan for a National Bank* published six months after his death, the modern features of the new institution. To reconsider Ricardo' research is worth the effort, because it can help us to clarify not only the functioning of the gold standard, but also the way for a reform of the present international monetary system.

It may be useful, before discussing Ricardo's economic theory, to recollect a non-economic assumption adopted more or less explicitly by Ricardo, who quotes John Locke's teachings several times with approval. In his *Further Considerations concerning Raising the Value of Money* (1695), Locke says that the standard of money must be settled by the public authority and should not be altered "because the public authority is guarantee for the performance of all legal contracts. But men are absolved from the performance of their legal contracts, if the quantity of silver under settled and legal denominations be altered … Raising of coin is but a specious word to deceive the unwary" (quoted in Hollander, 1979: 415). And, on the same issue, Sayers confirms that Ricardo's "main case against inflation was that it caused injustice between debtor and creditor, and between one section of the people and other sections" (Sayers, 1953: 48).

The Bullion controversy burst out in the decade following the *Restriction Act*, because of the increase in the money prices of all commodities. It can be said, maybe with an over simplified formulation, that the Bullionists upheld that the Bank of England was responsible for the high price of gold bullion, provoked by an over issue of banknotes, while the Antibullionists supported the view that the Bank did not issue an excessive quantity of bank notes and that the price increase was caused by other instances, such as a bad harvest. Ricardo, in 1809-10, intervened in the debate to defend the bullionist position resolutely.

In his first systematic pamphlet, the *High price of Bullion*, 1810, Ricardo specifies with great clarity the general framework for a theory of money. His starting point of view is not the nation state but the world. "The precious metals – says Ricardo – employed for circulating the commodities of the world, previously to the establishment of banks, have been supposed by the most approved writers on political economy to have been divided into certain proportions among the different civilized nations of the earth, according to the state of their commerce and wealth, and therefore according to the number and frequency of the payments which they had to perform" (III: 52). The quantitative theory of money is clearly stated and utilized by Ricardo to explain how gold and silver, before the creation of banks, were distributed in every country. There should be a given proportion between the quantity of commodities produced and exchanged and the quantity of money. "If in the progress towards wealth – affirms Ricardo – one nation advanced more rapidly than the others, that nation would require and obtain a greater proportion of the money of the world" (III: 53). Of, course, there are other circumstances changing the distribution of the precious metals among nations. If a mine of gold is discovered in one of the countries, "the currency of that country would be lowered in value in consequence of the increased quantity of the precious metals brought into circulation … gold and silver, whether in coin or in bullion, obeying the law which regulates all other commodities, would immediately become articles of exportation" (III: 54). Therefore, gold and silver are commodities, which flow from a country to another according to the chances of their owner of getting a better reward. The legal standard matters only to certify the quantity of metal per unit of currency. Some merchants deal in corn and cloth, other merchants deal in gold and silver (specie). The same competition laws regulate home trade and international trade.

Let's now consider the new situation in which the banking system is discovered and established. In such a case "the bank substitutes a currency of no value for one most costly" (III: 55); as a matter of fact, paper money is easier to produce, to handle and to transport than specie. We must consider two kinds of monetary regimes. One where convertibility of bank notes into gold (for brevity, from now on, we will not consider silver, because for Ricardo, after some doubt, only gold was taken as the standard) is legally allowed and one in which convertibility is not allowed, as was the case after the *Restriction Act* of 1797. "If instead of mine being discovered in any country – says Ricardo – a bank were established, such as the Bank of England, with the power of issuing its notes for a circulating medium; after a large amount had been issued either by way of loan to merchants, or by advances to government, thereby adding considerably to the sum of the currency, the same effect would follow as in the case of mine. The circulating medium would be lowered in value, and goods would experience a proportionate rise. The equilibrium between that and other nations would only be restored by the exportation of part of the coin" (III: 54-55). Note that Ricardo clearly singles out the two channels that bring the new paper money into the market: through loans to merchants and through government loans and expenses. Moreover, note that today convertibility means the chance to exchange a certain national paper money with another national paper money. In the gold standard age convertibility meant only the possibility to exchange national banknotes with gold, which was afterwards exported (and imported, when the internal prices of goods were lower than external prices).

Ricardo had a peculiar notion of depreciation of the value of money. Ricardo "meant by depreciation a fall in value in terms of the standard metal. … The high price of bullion was the sign and measure of depreciation" (Sayers: 31). This notion of depreciation allowed Ricardo to dispose of the antibullionist thesis, in particular of the idea that the quantity of banknotes issued by the Bank of England was appropriate to the increased trade. Indeed, Ricardo was able to show "two unerring tests" of depreciation: "the rate of exchange and the price of bullion" (III: 75). The high price of bullion was proof of the relative increase in the price of money of all other commodities: more commodities were now necessary to buy the same quantity of specie. This observation is understandable if we consider two countries, England and France, with the same quantity of paper currency and the same quantity of gold in relation to the same home quantity of product. If, at a certain time, prices in England are higher than in France, in England gold will be demanded to buy French goods and its price should rise. The other test was the rate of exchange. Let us suppose that a certain quantity of banknotes in proportion to a certain quantity of gold circulate in England, France, Holland, etc. If in every country the paper currency increases in the same proportion "the prices of commodities would every where rise, on account of the increase of currency, but there would be no exportation of money from either. But if these proportions be destroyed by England alone doubling her currency, while that of France, Holland, etc. continued as before, we should then be conscious of an excess in our currency." As a consequence, money prices in England will rise more than in France and the same quantity of specie can now buy more commodities in France than in England. "Gold would immediately quit England for such purpose." (III: 56-57). Therefore, it is not true that a negative balance of trade can be the cause of high prices. Now English merchants are willing to buy commodities abroad because they are cheaper: in the last resort, "the exportation of the coin is caused by its cheapness, and is not the effect, but the cause of an unfavourable balance. … It is a salutary remedy for a redundant currency" (III: 61).

At the end, there is one cause, and only one cause, for the high price of bullion and the negative balance of trade: the excess of currency issues by the Bank of England. "Parliament – observes Ricardo – by restricting the Bank from paying in specie, have enabled the conductors of that concern to increase or decrease at pleasure the quantity and amount of their notes; and the previously existing checks against an over-issue having been thereby removed, those conductors have acquired the power of increasing or decreasing the value of paper currency" (III: 75). Ricardo's final recommendation is to repeal the *Restriction Act* and to diminish "the amount of bank-notes in circulation till the nominal price of gold be lowered to the mint price" (III: 99).

This general framework of the Ricardian monetary theory did not change significantly in the following years. Ricardo wrote the pamphlet on the *High price of Bull*ion in view of the appointment, in 1810, of the Bullion Committee, which should have proposed to the House of

Commons a change in monetary policy. But the *Bullion Report* did not recommend the repeal of the *Restriction Act*. Only at the end of the Napoleonic wars the problem of a different regulation of monetary policy became the topic of a public debate anew. Ricardo restated his positions in a new pamphlet, *Proposals for an Economical and Secure Currency*, 1816, and in the *Principle*s. From our point of view, we need to point out only two aspects. The first concerns the advantage of circulating paper money with gold. Even if the aim of Ricardo was a return to the full convertibility of currency into gold and free exportation and importation of specie, he never denied the utility of the banking system. "A currency – he writes – may be considered as perfect, of which the standard is invariable, which always conforms to the standard, and in the use of which the utmost economy is practised. Amongst the advantage of a paper over metallic circulation, may be reckoned, as not the least, the facility with which it may be altered in quantity, as the wants of commerce and temporary circumstances may require" (IV: 55). But, in the following pages, he adds: "The issuers of paper money should regulate their issues solely by the price of bullion, and never by the quantity of their paper in circulation" (IV: 64). This statement can be considered, in modern terms, as the fundamental rule Ricardo recommends for monetary policy to a central bank. The second aspect concerns the ambiguous status of the Bank of England, a private "company of merchants" entrusted with the power to provide a "public service." Ricardo affirms: "In the present state of the law, [the Bank directors] have the power, without any control whatever, of increasing or reducing the circulation in any degree they may think proper: a power which should neither be intrusted to the state itself … I cannot but deprecate the facility with which the state has armed the Bank with so formidable prerogative" (IV: 69). Moreover, among the prerogatives there is the gain the Bank can get from seignorage (originally, the clipping of metal currencies). "Paper money – says Ricardo – may be considered as affording a seignorage equals to its whole exchangeable value, but seignorage in all countries belongs to the state." In spite of these observations, Ricardo is doubtful about the solution. In *The Principles* he writes: "Experience … shews, that neither a state nor a bank ever have had the unrestricted power of issuing paper money, without abusing that power" (I: 356).

At last, in 1819, the House of Commons approved Peel's Bill for the *Resumption of Cash Payments*, in which the return within three years to convertibility into gold was commended. On this occasion, the intellectual influence of Ricardo was openly recognized. But in a short time, the monetary policy of the Bank of England, which reduced the quantity of bank notes too much and too fast, created great discontent. Merchants protested against the reduction of Bank loans. The government was obliged to reduce its public debt and people feared increased taxation. The Antibullionists raised their voice again.

Ricardo was convinced that the Bank of England had to be blamed for its incautious monetary policy. In his posthumous *Plan for a National Bank*, he proposed a drastic remedy to the dilemma of the private or public nature of the Bank. At the very beginning of his *Plan* he says that the Bank of England performs two banking operations: "it issues a paper currency as a substitute for a metallic one; and it advances money in the way of loan, to merchants and others" (IV: 276). These two functions should be split. "The commerce of the country – says Ricardo – would not be in the least impeded by depriving the Bank of England of the power of issuing paper money, provided an amount of such a money, equal to the Bank circulation, was issued by government: and that the sole effect of depriving the Bank of this privilege, would be to transfer the profit which accrues from interest of the money issued from the Bank, to the government." Of course, Ricardo is well aware of the danger of giving the power to issue bank notes to the government, because "it would most certainly abuse it." Therefore he proposes that the issuing function be entrusted to commissioners "not removable from their official situation but by a vote of one or both Houses of Parliament." Of course, the commissioners will receive a public salary, and not a profit from the issuing of money. Moreover, "the commissioners should never, on any pretence, lend money to government … If government wanted money, it should be obliged to raise it in the legitimate way; by taxing people, by the issue and sale of exchequer bills, by funded loans, or by borrowing from any of the numerous banks which might exist in the country; but in no case should it be allowed to borrow from those, who have the power of creating money" (IV: 282-83).

The institutional solution put forward by Ricardo is very similar to the modern notion of independence of the central bank: a public agency, independent from political power, responsible for the issue of banknotes and with a precise target of monetary policy. For Ricardo, the main target of monetary policy was the stability of monetary prices in relation to the gold standard (a certain rate of exchange between gold and banknotes). This does not mean that the target of monetary policy was the stability of the level of prices, because this target requires the knowledge of a price index. We agree that: "Ricardo's main idea was that the value of money was best measured by one single commodity, which functioned in fact as a standard for the value of money, rather than by any concept of a general level of prices" (Marcuzzo, Rosselli, 1991: 64). Ricardo's proposal for a National Bank was not in contradiction with his original theory of specie as the natural currency of the world economy. The National Bank had the task of issuing paper money but without affecting the standard fixed by government. In the last resort, Ricardo was confident that only the world gold standard was a stable reference point for monetary stability: "It is impossible that a paper-money issuable by government, or by a chartered company, at pleasure, and which is not exchangeable for specie, at the will of the holder, can retain a permanent value" (III: 138-9).

Unfortunately the development of the international gold standard during the 19th Century showed that the Ricardo's conception of the banking system was inadequate. It was difficult during Ricardo' life to see all the new potentials of the banking system. With the power to issue banknotes, the central banks were also able to obtain the power to control the rate of interest and the rate of exchange. In fact, these new powers were widely utilized at the end of the 19th Century, showing that the link between national paper currencies and gold could be loosened. When World War One was declared, the international gold standard fell to pieces and in each country only banknotes became the standard. National currencies became inconvertible not only into gold but also into every other national money. This dramatic nationalistic change was the prelude to other catastrophes: after the 1929 economic crises, the world market was sentenced to death by national autarkic policies and the central banks lost their independence from national power. The triumph of the sovereign national state marked the end of the gold standard.

4. International economics and supranational economics

Today we live in a very different world from Ricardo's one. The global market, with free movement of capital and workers, is different from the international market imagined by Ricardo. The world monetary system works by taking as a standard a national paper money, the dollar, so that the Federal Reserve is, in fact, the central bank of global economy. The transition from gold as the world currency to a paper world currency was accomplished entrusting the task of functioning as a world bank to a national bank. But, the national interests of the USA economy are different, and often at variance, with the interests of the world economy. Indeed, the governance of global economy is very defective: the 2007-9 financial crisis showed that the USA hegemonic international order is unable to guarantee monetary and financial stability. Moreover, in our age, if compared with Ricardo's times, we have to face new important political issues, such as international justice and the ecological challenge. These new challenges require a new political economy.

The intellectual paradigm necessary to build the new world economic order is the cosmopolitan good: what is good for the world is good for my country. Political economy has to understand how global economy works and shape the supranational institutions required for the governance of the global market. It is an even harder task than that of classical economists. They had the possibility to imagine and propose economic policies within the framework of the nation state. Today political economists must propose supranational policies managed by supranational institutions, which do not exist yet.

Nonetheless, we do not need to start from scratch. In Europe, supranational institutions already exist, even though unfinished and somewhat very defective (Montani, 2010 b). In Europe, a single market (not an international market) was built after World War II and, more recently, also a Monetary Union. More generally we can say that the European Union is capable of providing supranational public goods, such as a single European market and an European money. World (free) trade and world monetary stability are two global public goods. Europe can therefore be considered by political economists as an interesting case study for working out the global public goods needed for the governance of the global economy.

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