Abstract:
The 2007-08 financial crisis caused not only a dramatic fall in global output and employment, but also a serious deterioration of public indebtedness for many governments, forced to rescue the banking system from failure. The crisis showed that national governments are not able to regulate the global market by means of the traditional instruments of political economy. The aim of this paper is to identify new supranational instruments of economic policy.

As a first step, in order to avoid a new financial crisis, it is necessary to understand the intimate connection between the international monetary system, founded on the dollar as key currency, and the international financial system. Only some economist (R. Triffin, 1992) was able to see the causes of the recent crisis as a by-product of an asymmetric monetary system.

In this article, after having discussed of the monetary roots of the financial crisis, the discussion is focused on: monetary sovereignty, financial sovereignty and fiscal sovereignty as the main economic responsibilities of a national government, in order to show that, today, a supranational economic government should have similar powers.

An Appendix on “Global imbalances: a false objective of economic policy” shows how the balance of payments imposes wrong goals to national economic policies. The discussion is focused on: a) the Neo-Ricardian theory of economic integration; b) Financial capital flows; c) The Keynesian equations of an open economy.