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Review

Principles of Monetary & Financial Sustainability and Wellbeing in a post-COVID-19 World: the crisis and its management review

Jesús Huerta de Soto [1] and Antonio Sánchez-Bayón [2,*]

[1] Universidad Rey Juan Carlos (Spain); huertadesoto@dimasoft.es
[2] Universidad Rey Juan Carlos (Spain); antonio.sbayon@urjc.es
* Correspondence: antonio.sbayon@urjc.es (A.S.B.).

Abstract: This paper analyses the COVID-19 crisis and its management, under the Austrian Economics. The attention is focused in the States' coercive intervention, to evaluate the positive or negative effects of pandemic, according to the Principles of Political Economy and the theory of capital and economic cycles. The paper examines the specific case of massive intervention by governments and, especially, central banks in monetary and financial markets to deal with the pandemic by seeking to lessen its effects. Also, it is offered a critical analysis on simultaneous government policies involving taxes and an increase in public spending which are presented as the panacea and universal remedy for the evils that afflict the society, instead of promoting the transit to Wellbeing Economics. To conclude the review, there is a proposal of paradigm review, in the way to offer a sustainable model.

Keywords: pandemic; monetary theory; financial sustainability; Wellbeing Economics; Political Economy.

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1. Introduction

The economies affected by an external shock, like a pandemic crisis, they require a preliminary review of conditions and functions according to the Political Economy Principles [1, 2]. These economic principles suggest to let the economy in an adaptation process to the new circumstances with less cost (real and opportunity cost) [3]. Once the pandemic has been overcome, it is necessary to promote a healthy and sustainable recovery, also in terms of wellbeing economics [4, 5]. The result of this review, under the Austrian Economics theory of capital and economic cycles, it helps to understand that the pandemic crisis and its management, it has been a pretext for an increasing lack of fiscal and monetary control by Governments and Central Banks. Let´s see the exposition and explanation of the key-points to understand the agenda and its process.

2. Theoretical framework and methodology

This review uses the Austrian Economics theory of capital and economic cycles, and some other main principles of Political Economy (from traditional monetary and currency schools). In this way, there is a powerful economic theory to understand and to interpret the social reality and its development. Therefore, the most appropriate economic-policy approach or road map for dealing with a pandemic and, especially, recovering from that is quite clear. Some of its essential principles are widely known, and others are an "open secret," especially to all of those who fall into the trap of fueling populist demagogy by creating false and unattainable expectations among a population as frightened and diso-

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riented as one would expect during a pandemic. For more considerations, about the fundamentals and methodology applied here, it suggests the consultation of Mises´ contribution [6, 7], and as complement, the authors´ bibliography about the issue [8, 9].

3. Review key-points, results and discussion

3.1. Dynamic efficiency as a necessary and sufficient condition for the Economy to recover from a pandemic

Some previous considerations are required to study the pandemic crisis and its management, and its monetary and financial sustainability. For this review, there is an emergence to consider the possible structural effects that could result from a pandemic in the short, medium, and, eventually, long term and the role the natural increase in uncertainty (caused by the pandemic) initially plays in the increase in the demand for money and in its purchasing power: In the context of (sectoral or general) confinement in which productive activity is temporarily halted, it is particularly important that there be an accompanying decrease in demand, to free up consumer goods and services so that all of the people who are forced to suspend their productive or work activity can continue consuming the minimal amount they need. In other words, the rise in cash balances and the fall in nominal prices make it easier for consumers and economic agents to adapt to difficult circumstances, and at the same time, they enable them all to respond quickly once they can see the light at the end of the tunnel and confidence begins to return. In any case, the economy must be "dynamically efficient"[10], if it is to uncover the opportunities that begin to emerge and make it possible for them to be seized and for the recovery to get off the ground. The conditions for dynamic efficiency are provided by everything that permits and facilitates the free exercise of (both creative and coordinating) entrepreneurship by all economic agents such that they are able to channel available economic resources into new, profitable, and sustainable investment projects focused on the production of goods and services which satisfy the needs of citizens and are independently demanded by them in the short, medium, and long term. In an environment like our present one, of strongly controlled economies, the process by which prices characteristic of the free-enterprise system are formed and set must run smoothly and with agility. For this to occur, we must liberalize markets as much as possible, particularly the market for labor and other productive factors, by eliminating all of the regulations which make the economy rigid. In addition, it is essential that the public sector not squander the resources companies and economic agents need first, to cope with the ravages of the pandemic and survive and, later, when things improve, to make use of all their savings and idle resources available to bring about the recovery. Therefore, it is imperative that we proceed with a general reduction in taxes which leaves as many resources as possible in the pockets of citizens and, above all, lowers as far as possible any tax on entrepreneurial profits and capital accumulation. We must remember that profits are the fundamental signal that guides entrepreneurs in their indispensable, creative, and coordinating work. Profits direct them in detecting, undertaking, and completing profitable, sustainable investment projects that generate steady employment. And it is necessary to promote, rather than fiscally punish, the accumulation of capital if we wish to benefit the working classes and, particularly, the most vulnerable. This is because the wages they earn are ultimately determined by their productivity, which will be higher, the higher the per capita volume of capital in the form of equipment goods entrepreneurs make available to them in ever-increasing quantity and sophistication. Regarding the labour market, we must avoid any sort of regulation which decreases the supply, mobility, and full availability of labour to quickly and smoothly return to work on new investment projects. Hence, the following are especially harmful: the setting of minimum wages; the rigidness and unionization of labour relations within companies; the obstruction and, particularly, legal prohibition of dismissal; and the crea-

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tion of subsidies and grants (in the form of temporary labour force adjustment plans, unemployment benefits, and guaranteed minimum income programs). The combination of these can discourage people from looking for work and from wanting to find a job if it becomes obvious that for many, the more advantageous choice is to live on subsidies, participate in the underground economy, and avoid working officially[11]. All of these measures and structural reforms must be accompanied by the necessary reform of the welfare state. We must give the responsibility for pensions, health care, and education back to civil society by permitting those who so desire to outsource their benefits to the private sector via the corresponding tax deduction.

Therefore, the most appropriate economic-policy approach or road map for dealing with a pandemic and, especially, recovering from one is quite clear. Some of its essential principles are widely known, and others are an "open secret," especially to all of those who fall into the trap of fueling populist demagogy by creating false and unattainable expectations among a population as frightened and disoriented as one would expect during a pandemic[1].

3.2. Depletion of the Extremely Lax Monetary Policy in the Years Prior to the Pandemic

Let us now focus on the current COVID-19 pandemic, which we have been analyzing and using as our main example in this paper. We could highlight a very significant peculiarity which conditions and impacts the future economic evolution of the pandemic more negatively than would be necessary. In fact, this pandemic emerged and spread throughout the world beginning in 2020 in a context in which central banks worldwide had already initiated an extremely lax monetary policy of zero or even negative interest rates and monetary injections the likes of which, due to their degree of intensity, their widespread nature, and the international coordination involved, had never been seen before in the economic history of mankind. This ultra-lax policy had been adopted many months or even years before the pandemic hit, and central banks had employed it under the guise, first, of aiding the emerging recovery following the Great Recession of 2008 and, later, of dealing with the supposed or real uncertainties which invariably arise from time to time (the populist protectionism of Trump, Brexit, etc.).

In the article on "The Japanization of the European Union"[12], there is an explaination about how the extremely lax monetary policies implemented by central banks (before the emergence of the pandemic), they have had a counterproductive effect. On the one hand, they have obviously failed to boost prices by close to 2%. Indeed, the massive injection of money has largely been neutralized, in an environment of great institutional rigidity and uncertainty, by an accompanying widespread increase in the demand for money by economic agents, since the opportunity cost of holding cash balances has been reduced to zero. Furthermore, clear opportunities for sustainable investment are not opening up in an environment of constant regulation and economic interventionism that weighs down expectations of profit and prevents a full recovery of the confidence lost beginning in the Great Recession of 2008. As a result, it has also not been possible to complete the necessary rectification of all the investment errors committed during the bubble and credit expansion years prior to 2008. On the other hand, the moment central banks launched their policies of massive monetary injections, quantitative easing, and zero interest rates, they eliminated ipso facto any incentive the different governments (of Spain,

Italy, France, etc.) might have had to introduce or carry through the pending economic, regulatory, and institutional reforms essential to fostering an environment of confidence in which entrepreneurs are free of unnecessary restrictions and obstacles and can devote themselves to putting their creativity into practice and making long-term investments that provide sustainable jobs. Indeed, what government is going to bear the high political cost of, say, putting its accounts on a sound footing and liberalizing the labor market if, de facto, regardless of the deficit incurred, the central bank will finance it directly or indirectly and at zero cost – that is, by completely monetizing it? For instance, the European Central Bank already owns nearly one third of the sovereign debt issued by Eurozone member states, and the moment it launched its policy of indiscriminate purchasing of this debt, it halted the entire process of economic and institutional reform the member states desperately needed. The conclusion that emerges from economic theory could not be plainer: In a context of great institutional rigidity and economic interventionism, ultra-lax monetary policies serve only to indefinitely maintain the rigidity and lethargy of the economies affected and to increase the indebtedness of the respective public sectors to an extent very difficult to sustain.

3.3. The Reaction of Central Banks to the Unexpected Outbreak of the Pandemic

It was in these very worrisome economic circumstances, in which central bankers had already practically depleted their entire arsenal of unconventional, ultra-lax monetary-policy tools, that the COVID-19 pandemic unexpectedly broke out in January of 2020. The reaction of monetary authorities has been simply more of the same: They have redoubled monetary injections even further. To do so, they have expanded their financial-asset purchase programs (and the price, much to the delight of large investors, such as mutual funds, hedge funds, etc., has continuously risen, and in this way, central banks have made the fortunes of a few people even greater, while the economy of most citizens is contracting and entering a recession). In addition, the new money is, de facto, increasingly being distributed through direct grants and subsidies financed via monetized public deficit, such that a large portion of the newly created money is already starting to reach the pockets of households directly. However, since at least as far back as 1752, when Hume[13][1] pointed it out, we have known that the mere equal distribution of monetary units among the citizenry has no real effect[2]. For this reason, monetary authorities ultimately do not wish to even hear about Friedman's famous "helicopter money" as a tool of their monetary

[1] Hume expressly states that if, by some miracle, every man in Great Britain woke up one morning to find five more pounds in his pocket, the only real effect would be a decrease in the purchasing power of money (that is, an increase in nominal prices), since the productive capacity of the United Kingdom would remain the same [13: p. 299]. With his famous "helicopter drop," Friedman simply copied and modernized this Hume´s example.

[2] Mervyn King, former Governor of the Bank of England, has had no choice in the end but to acknowledge the following: "The prevailing narrative tells us that the combination of fiscal and monetary stimuli has been a success against the pandemic, but at this point, I cannot quite see the benefit of the activism of central banks. I have been arguing with my wife for days about whether or not it is time for us to have dinner at our favorite restaurant: The tenor of that argument is not going to change because interest rates keep falling"[14].

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policy, since the latter produces apparent expansionary effects only when just a few sectors, companies, and economic agents initially receive the new money, which is accompanied by all of the collateral effects of an increase in inequality in the distribution of income in favor of a small group (as it was mentioned before, this group in connection with the effects of quantitative-easing policies as a determining factor in the enrichment of actors in financial markets). In any case, it is certain that, sooner or later, and to the extent that it is not sterilized by private banks[3] and unmotivated entrepreneurial sectors, the new money will end up reaching the pockets of consumers and generating inflationary pressures, as the Hume effect of an inexorable loss in the purchasing power of the monetary unit appears. And this effect will become increasingly obvious as the initial uncertainty of households is gradually overcome and their members no longer feel the need to maintain such high cash balances or they are simply obliged to spend the money they receive in the form of subsidies to subsist while they are unemployed and unable to produce. At any rate, everything points in the same direction: A growing monetary demand on a production which has declined due to the pandemic leads inevitably to an increasing upward pressure on prices[15]. For instance, the price of agricultural products has continued to rise and has reached its highest point in three years. Freight charges and the prices of many other raw materials (minerals, oil, natural gas, etc.) have also soared, even to record highs.

3.4. Central Banks Have Gone Down a Blind Alley

The first thoughts could not be more obvious. Central banks have truly gone down a blind alley. If they make a forward escape and even further advance their policy of monetary expansion and monetization of an ever-increasing public deficit, they run the risk of provoking a grave crisis of public debt and inflation. But if, in fear of moving from a scenario of "Japanization"[12] prior to the pandemic to one of near "Venezuelization" after it, they halt their ultra-lax monetary policy, then the overvaluation of public-debt markets will immediately become clear, and a serious financial crisis and economic recession will follow and will be as painful as it is healthy in the medium and long term. In fact, as the "theorem of the impossibility of socialism" shows, central banks (true financial central-planning agencies) cannot possibly correctly determine the most suitable monetary policy at all times.

It is very enlightening, in the extremely difficult situation we now obviously find ourselves in, to pay attention to the reactions and recommendations which are ever more anxiously and restlessly (even it would say "hysterically"[1]) coming from investors, "experts", pundits, and even the most renowned economic and monetary authorities.

For instance, new articles and commentaries appearing continually (particularly in salmon-colored newspapers, starting with the *Financial Times*) invariably tend to reassure markets and send the message that zero (and even negative) interest rates are here to stay for many years to come, because central banks will not deviate from their ultra-lax

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[3] The relationship between monetary authorities and private banks is "schizophrenic": Monetary authorities flood private banks with liquidity to lend out but constantly threaten to increase their capital requirements and to very closely monitor their choice of borrowers.

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monetary policies, and thus, investors can relax and continue to get rich by trading in the bond markets. Central bankers, in turn, overcautiously announce a revision of their inflation targets to make them more flexible (obviously in an upward direction) on the pretext of compensating for the years they have been unable to achieve them and to justify not taking monetary-control measures even if inflation skyrockets.[4] Other advisors of the monetary authorities even propose abandoning the inflation target and directly setting the target of adherence to a certain curve of – especially low – interest rates (that is, zero or even negative rates for many years of the rate curve, for which all open-market operations necessary would be carried out). And all of this is applauded by representatives of so-called "Modern Monetary Theory," which, despite its name, is neither modern nor monetary theory, but simply a potpourri of old Keynesian and mercantilist recipes more characteristic of the utopian dreamers of centuries past (since they hold that the deficit is irrelevant because it can be financed without limit by issuing debt and monetizing it [16]) than of true economic theorists; this theory is wreaking havoc among our economic and monetary authorities [17, 18]. Now we come to the last of the "bright ideas", one that is becoming increasingly popular: the cancellation of the public debt purchased by central banks (which, as we have seen, already amounts to nearly one third of the total).

First of all, the growing number joining the chorus in favor of this cancellation clearly give themselves away, for if, as they affirm, central banks will always repurchase at a zero interest rate the debt issued to meet maturities as they come due, no cancellation will be necessary. The mere fact that people are requesting it precisely now reveals their anxiety at the increasing signs of a rise in inflation and their accompanying fear that fixed-income markets will collapse and interest rates will go back up. Under such circumstances, they consider it crucial that the pressure on wasteful governments be reduced by a cancellation which would amount to a remission of nearly one third of the total debt issued by those governments. Such a cancellation, it is felt, would be detrimental only to an institution as abstract and removed from most of the public as is the central bank. But things are not as straightforward as they seem. If a cancellation like the one now being requested were carried out, the following would become obvious: First, central bankers have limited themselves to creating money and injecting it into the system through financial markets, thus making a few people exorbitantly rich without achieving any significant, real, long-term effects (besides the artificial reduction in interest rates and the simultaneous destruction of the efficient allocation of productive resources).[5] Second, the popular outcry against this policy would be so great were this cancellation to occur that central banks would lose not only all credibility,[6] but also the possibility of pursuing in the future

[4] The adoption of this policy would put such a strain on the governance of the euro that it could very well lead to its disappearance.

[5] It is a real tragedy that experts, politicians, and citizens have forgotten that the interest rate, or price of present goods in terms of future goods, the most important of all prices (and hence, of all prices, it is most vital that this one be set by the free market), cannot be manipulated with impunity by governments and central banks without blocking economic calculation and the correct intertemporal allocation of productive resources.

[6] Among other reasons, because, without assets to sell (due to the cancellation), central banks could not drain reserves from the system if a rise in inflation made it necessary in the future. Only in the context of an irrevocable transition to a 100% reserve banking system like the one, proposed in chapter 9 [11: pp. 791 ss]) would it make sense to cancel the public debt in the hands of the central

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their open-market-purchase policies (quantitative easing). Under these circumstances, central bankers would be obliged to confine themselves to giving money injections directly to citizens (Friedman's "helicopter money"[13]). These would be the only "equitable" injections from the standpoint of their effects on income distribution, but since they would lack any real expansionary effects observable in the short term, they would mean the definitive end of central banks' capacity to influence economies noticeably in the future via monetary policy.

In this context, the only sensible recommendation that can be given to investors is that they sell all their fixed-income positions as soon as possible, since we do not know how much longer central banks will go on artificially keeping the prices of these securities more exorbitant than they have ever been in history. In fact, there is more than sufficient evidence that the most alert investors, like hedge funds and others, by the use of derivatives and other sophisticated techniques, are already betting on the collapse of fixed-income markets, while, officially, they continue to leak reassuring messages and recommendations to the press through the most prestigious commentators.[7] This should come as no surprise, since they wish to get out of the debt markets without being noticed and at the highest price possible.

3.5. The "Pièce de Résistance" of Public Spending

The last recipe offered, in this review, as essential for overcoming the crisis caused by the pandemic and returning to normalcy: Forget about putting the public accounts on a sound footing or trimming unproductive public spending from them. Forget about reducing tax pressure or lightening the burden of bureaucracy and regulation for entrepreneurs so they recover confidence and embark on new investments. Forget about all of that; the exact opposite is called for: We must rely on fiscal policy as much as possible and increase public spending even further – disproportionately – although, we are told, priority should be given to investments in the environment, digitalization, and infrastructure. But this new death throe of fiscal policy is procyclical and disturbingly counterproductive. For instance, by this summer (2021), when the "manna" of 140 billion euros provided to Spain by the European Union on a non-reimbursable basis begins to arrive (of a total program of 750 billion organized by EU authorities and expandable to 1.85 trillion in loans), it is more than probable that the economies of both Spain and the other EU countries will already be recovering on their own [19, 20]. Hence, these funds will absorb and divert scarce resources essential to the ability of the private sector to initiate and complete the necessary investment projects which, because they are truly profitable, can, by themselves and without public aid, generate a high volume of sustainable employment in the short, medium, and long term. Such jobs differ strikingly from the

bank, to keep it from becoming the owner of a significant portion of the real economy when, as it was suggest, the debt is exchanged for the banking assets which now offset demand deposits.

[7] See, for instance, the litany of comments and recommendations on monetary and fiscal policy from the prestigious Martin Wolf in the Financial Times or from Paul Krugman in the financial supplement of *El País*. Hardly a week goes by without their recommending further monetary injections and public spending.

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invariably precarious work which depends on political decisions that lead to consumptive public spending, even if on grandiose environmental and digital "transition" projects. And we need not even mention the inherent inefficiency of the public sector when it comes to directing resources received and the inevitable politicization of their distribution, which is always highly vulnerable to those seeking the benefits and maintenance of the political spoils system. We all remember, for instance, the abysmal failure of "Plan E," which involved the injection of public spending and was promoted by Zapatero's socialist administration to cope with the Great Recession of 2008 [21, 22]. We also remember the unfortunate failure of Japan's fiscal policy of large increases in public spending, which has had no other noticeable effect than to make Japan the most indebted country in the World. In short, history repeats itself again and again.

5. Proposal of paradigm review for a sustainable model

As Sánchez-Bayón (and the other co-editors) suggested in the call of this journal issue, the situation of the World´s monetary and financial system is exceptional (also before the COVID-19 crisis). Central banks engage in negative interest rate policies and quantitative easing. Government debts are at record highs (especially in Eurozone countries, against to the Maastricht convergence criteria and Stability & Growth Pact). At the same time the World suffers the consequences of unprecedented pandemic and its lockdown management, which requires more financial engineering that puts the sustainability of the financial system at extreme risk (who will rescue the rescuer). The sustainability of the monetary and financial system is in question, and it requires the elaboration of alternatives. Here, we have applied the approach of the Austrian School to review the crisis and its management (as other colleagues have done [23]). At the same time, we want to offer a sustainable proposal (for present and future crisis) based in financial and monetary principles of Political Economy. In this way, Prof. Huerta de Soto always has defended the necessity to come back to a gold standard for a healthy financial and monetary system, and also a full version of Peel Act (Bank Charter Act of 1844), extending for banking deposits and other financial and monetary instruments (with 100% fractional reserve banking) [11]. In this review, we want to pay attention to other point more, which helps to promote a sustainable system: independent deposit insurance.

Under the current system, the banks are allowed (also encouraged) to lend or/and invest most of the money deposited with them instead of safe-keeping the full amounts (with a low fractional reserve banking, e.g. in Europe the reserve requirement is just 1%, as minimum amount to keep from bank-deposits). Because banks can fail (especially for hazardous expositions), the Governments inforce a deposit insurance model to protect depositors with the support of the Central Banks. The problem with this model is the moral hazard [24] and the equal treatment to risky-banks as well as well-managed banks: paying the same fee and having the same coverage, what incentive is there to do things right? So, maybe it is time to talk seriously about the State-Bank wall of separation.

Maybe it is time to talk about a wellbeing model for the financial and monetary system: it means not just to study the adaptation to digital economy and fin-tech [25], also it

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is necessary to rethink the banking system in favor to the financial freedom of the people, than the safety of the banks (to control the past bank-runs). Also it could be time to talk seriously about the State-Bank wall of separation in a post-COVID-19 World.

6. Conclusions

Traditionally, Austrian Economics theorists have focused with particular interest on the recurrent cycles of boom and recession that affect our economies and on studying the relationship between these cycles and certain characteristic modifications to the structure of capital-goods stages. Without a doubt, the Austrian Economics theory of economic cycles is one of the most significant and sophisticated analytical contributions of the Austrian School. Its members have managed to explain how credit-expansion processes lead to systematic investment errors that result in an unsustainable productive structure. Such processes are advanced and orchestrated by central banks and implemented by the private-banking sector, which operates with a fractional reserve and creates money from nothing in the form of deposits, which it injects into the system via loans to companies and economic agents in the absence of a prior real increase in voluntary saving. The productive structure shifts artificially toward numerous projects which are too capital intensive and could mature only in a more distant future. Unfortunately, economic agents will be unable to complete these projects, because they are not willing to back them by sacrificing enough of their immediate consumption (in other words, by saving). Certain reversion processes inevitably follow and reveal the investment errors committed, along with the need to acknowledge them, abandon unsustainable projects, and restructure the economy by transferring productive factors (capital goods and labour) on a massive scale from where they were used in error to new, less ambitious but truly profitable projects. The recurrence of the cycle can be explained both by the essentially unstable nature of fractional-reserve banking as the main provider of money in the form of credit expansion and by the widespread inflationary bias of theorists, political authorities, economic and social agents, and above all, central bankers, who view economic prosperity as a goal to be pursued in the short term at all costs and see monetary and credit injections as a tool which cannot, under any circumstances, be dispensed with. Therefore, once recovery is well underway, sooner or later the authorities again succumb to old temptations, rationalize policies that have failed again and again, and reinitiate the whole process of expansion, crisis, and recession, and it all begins again.

According to this review, there are not miraculous shortcuts to overcoming a crisis as severe as the one caused by the current pandemic. Even if governments and monetary authorities strive to present themselves to citizens as their indispensable "saviors," due to their frenetic activities and efforts in doing apparently beneficial things. Even if all of these authorities systematically hide their intrinsic inability (as the Austrian School of Economics has shown) to hit the mark and obtain the information they need to infuse a coordinating quality into their commands. And even if their actions are systematically irresponsible and counterproductive, since they squander society's scarce resources and preclude the correct allocation of resources and rational economic calculation in investment processes. In spite

of it all – that is, in spite of governments and central banks, a few years from now the COVID-19 pandemic will merely be a sad historical memory that will soon be forgotten by future generations, just as no one remembered the "Spanish flu" of a century ago and the far greater toll it took on the economy and the health of the population. Now, like then, we will get through thanks to our individual and collective effort in striving to creatively get our life projects off the ground in the small areas which, in spite of everything, remain open for free enterprise and the uncontrolled market.

Definitively, as it was said in this review, it is time to rethink the sustainability of the financial and monetary system: the solution is not a biggest intervention for further control of the system (making it more rigid) and the socialization of the cost; it is necessary to adapt the system to the wellbeing economics formulas (aimed at improving pleople´s financial autonomy and satisfaction, instead of protecting bank from their unjustifed risks and the continous moral hazard).

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