


Review

Principles of Monetary & Financial Sustainability and Wellbeing in a Post-COVID-19 World: The Crisis and Its Management

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Abstract: This paper analyses the COVID-19 crisis and its management from the perspective of Austrian Economics. The attention focuses on the State's coercive intervention according to the principles of political economy, capital theory and Austrian business 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 trying to mitigate its negative effects. The paper offers a critical analysis of government tax policies and the increase in public spending, considered as the panacea and universal remedy for the social troubles. This review concludes with a proposal to change the mainstream paradigm, thereby proposing a more sustainable and wellbeing economics.

Keywords: pandemic; monetary theory; financial sustainability; wellbeing economics; political economy



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1. Introduction

The World economy suffered a severe shock in 2020, which continues in 2021. In order to analyze these shocks and mitigate its consequences we must review how economies affected by an external shock, like a pandemic crisis, can recover and which conditions have to be met for this end according to the principles of political economy [1,2]. These economic principles suggest allowing for an adaptation process to the new circumstances with the lowest costs possible [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, using Austrian capital theory [6–8] and Austrian business cycle theory [9–13], helps to understand the pandemic crisis and its management. The crisis has been a pretext for an increasing fiscal and monetary control and interventionism by governments and central banks. We will portray and explain the key-points of the crisis management to understand the agenda and its process.

2. Theoretical Framework and Methodology

This review uses the Austrian theory of capital [12,14] and business cycles [15–18], and some other main principles of political economy. In this way, we employ a powerful economic theory to understand and to interpret social reality and its development. As a result, the most appropriate approach for economic policy approach and the road map for dealing with a pandemic and, especially, recovering from it 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 demagoguery by creating false and unattainable expectations among a population as frightened and disoriented as one would expect during a pandemic. For more considerations, about the fundamentals and methodology applied here, we refer to the work of Ludwig von Mises [19,20], Friedrich A. von Hayek [21,22], Murray N. Rothbard [23,24] and as well as the works of more recent authors [25–28].

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 review and study the pandemic crisis and its management, as well as its monetary and financial sustainability. There must be considered the possible structural effects, that could result from a pandemic in the short, medium, and, eventually, long term. In addition, it has to pay attention to the natural increase in uncertainty (caused by the pandemic). Initially, it 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 is 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” [29,30], if it is to uncover the opportunities [31,32] 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, they are provided by everything that let improve 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 the set must run smoothly and with agility. For this to occur, markets must be liberalized as much as possible, particularly the market for labor and other productive factors, by eliminating all of the regulations which make the economy rigid [19,23,33]. In addition, it is essential that the public sector does 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 [34]. 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 [35,36].

It is important to remember that profits are the fundamental signal that guides entrepreneurs in their indispensable, creative, and coordinating work [37]. Profits direct them in detecting, undertaking, and completing profitable, sustainable investment projects that generate steady employment. 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 earn wages 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 [19].

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 creation 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 [12] (pp. 453–455). 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.

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 [38] 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 [39–41] and, later, of dealing with the supposed or real uncertainties which invariably arise from time to time (the populist protectionism of Trump, Brexit, etc.).

Jesús Huerta de Soto in “The Japanization of the European Union” [42] explains how the extremely lax monetary policies implemented by central banks (before the emergence of the pandemic), 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 labour 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 political nature of the Euro has led the European Central Bank to save the Eurozone from collapsing breaking existing treaties [43] by directly and indirectly monetizing Eurozone governments’ debts [44]. As 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 [45] pointed it out. 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 (p. 299). With his famous “helicopter drop,” Friedman simply copied and modernized this Hume’s example). We have known that the mere equal distribution of monetary units among the citizenry has no real effect. In that sense, Mervyn King, former Governor of the Bank of England, he has recognized about it: “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 favourite restaurant: The tenor of that argument is not going to change because interest rates keep falling” [46]. For this reason, monetary authorities ultimately do not wish to even hear about Friedman’s famous “helicopter money” as a tool of their monetary 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: 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. Also, it is 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 [12,47]. 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 [48]. For instance, notwithstanding the prudence that is required when interpreting price statistics [49,50] the tendency of price evolution is clear. 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. There is a movement from a scenario of “Japanization” [42] 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” [12,51–54] 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 (one might even 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-coloured 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 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 [55] for the years they have been unable to achieve them and to justify not taking monetary-control measures even if inflation skyrockets. 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 [56]) than of true economic theorists; this theory is wreaking havoc among our economic and monetary authorities [57,58]. 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 favour 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 essential 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. With a cancellation like this, the effects will be the next:

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. 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). This is the most important of all prices (and hence, of all prices, it is most vital that this one be set by the free market). They can not be manipulated with impunity by governments and central banks without blocking economic calculation and the correct intertemporal allocation of productive resources.

Second, the popular outcry against this policy, it would be so great were this cancellation to occur that central banks would lose not only all credibility. Among other reasons, 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 of Huerta de Soto's book "Money, bank credit, and economic cycles" [12: 791]. It would make sense to cancel the public debt in the hands of the central 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.) but also the possibility of pursuing in the future 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" [45]). 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. Third, and from another perspective, the quality of money [59,60] would be reduced because the central banks' capacity to drain reserves by selling their assets would be hampered. Central bank's balance sheets, whose evolution is important for the quality of money [61–65], would be impaired with equity ratios falling, and equity, possibly, becoming negative.

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 (like Krugman). 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 throes 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 is expected 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 [66,67]. 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 invariably precarious work which depends on political decisions that lead to consumptive public spending, even if on impressive 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. In Spain, most people remember, for instance, the 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 [68,69]. 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.

4. Proposal of Paradigm Change towards a Sustainable Model

As the editors suggest 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. In this article, we have applied the approach of the Austrian School to review the crisis and its management (as other colleagues have done [70]). 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, 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) [12]. Other authors in the Austrian tradition have made similar plans for a reform leading to 100% reserve banking [71–74]. In this review, we want to raise attention to another point related to the deposit insurance system sponsored by governments.

Under the current system, the banks are allowed (also encouraged) to lend or/and invest most of the money deposited with them instead of safekeeping 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). A fractional reserve banking system does not only imply severe ethical and legal problem [75–81], it also exerts economic consequences such as redistribution [82] and recurring cycles of boom and bust. These business cycles portray the inherent instability of a fractional reserve banking system which has been analyzed extensively in the literature [83–88]. Moreover, as banks can fail (due to risky and hazardous practices), governments enforce a deposit insurance model to protect depositors with the support of central banks instead of encouraging a bail-in of bank creditors in case of bank troubles [89,90]. The problem with government bail-outs and public deposit insurance is the subsequent moral hazard [91,92]. When risky-banks as well as well-managed banks are treated equally paying the same fee for deposit insurance and having the same coverage, what incentive is there to do things right?

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 [93], it also entails to rethink the financial system and the banking system seriously in line of the reforms toward 100% reserve banking indicated above. In this way, we would get more financial freedom for the people. In addition, we call for a strict separation of banks from the government. The separation of banks and the state is not credible in today’s world, as banks are considered too big and so-interconnected to fail [74]. A 100% reserve banking system would allow for a credible separation of the banking system and the state in a post-COVID-19 World.

5. Conclusions

Traditionally, Austrian theorists have focused with particular interest on the recurrent cycles of boom and bust 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, Austrian Business Cycle Theory 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 pro-inflationary and anti-deflationary bias [94,95] 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. 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 individual and collective effort in striving a creative to get life projects off the ground in the small areas, which, in spite of everything, remain open to free enterprise and the uncontrolled market.

Definitively, it is time to rethink the sustainability of the financial and monetary system. The solution is not an enormous intervention for further control of the system (making it more rigid) and the socialization of the cost of bailouts and public spending. It is necessary to introduce free market reforms, especially to flexibilize factor markets and reduce public spending and taxes in order to free up resources for the private restructuring of the economy. Moreover, the financial system should adhere to the formulas of wellbeing economics (aimed at improving people’s financial autonomy and satisfaction, instead of protecting banks from their excessive risks they have incurred in due to moral hazard). The solution is a banking system in line with traditional legal principals upholding 100%

reserves for demand deposits [12,96–99] and the end of all implicit and explicit bailout guarantees and privileges for the banking system.

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