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Research paper

The central bank and its role in shaping and managing the monetary policy of the state

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Abstract

The article presents the role of the central bank in shaping and managing the monetary policy of the country. The central bank plays a special role in the state. It is an institution that is important for the country's economy. It is responsible for conducting monetary and exchange rate policy in the state. The central bank has a fundamental influence on the level of stability of the banking system of a given country and has a monopoly in the scope of central money emission, which is necessary for proper functioning of commercial banks.

Keywords: *Capital; Labor; Money; Central Bank; Labor Productivity; Equation of Exchange; Budget Deficit.*

1. Introduction

A stable financial system, for which the central bank is co-responsible, significantly supports the execution of its main tasks - maintaining the price stability on the market and thus the foundations necessary for achieving a long-term growth in the economy are created. The aim of this paper is to show the role of the central bank in economics, shaping and managing the state policy, and to indicate the areas of activity in which this institution can be reformed on the principles of labor economics.
The first chapter presents the role of the central bank in economics. The main goal is to emphasize the importance of this institution in the country both nowadays and in the history of Poland. Another element of this chapter is a description of the activities and bodies managing the central institution and its independent character.
The second chapter deals with the central bank's activities in the light of labor economics. It presents a model of the creation and growth of capital in the economy. Next, a new economic system is presented, which is based on work processes. A description of the central bank's role in labor economics is also included.
The purpose of the third chapter is a case study on the transformation of the central bank according to the principles of labor economics. The essence of commodity and money economy is presented, a wage equation for exchanging money for products. An important element of this chapter is the vision of the central bank reform and its impact on the economy and wage taxation.

2. The role of the central bank in economics

Nowadays, it is difficult to imagine the operation of the economic system and the conduct of monetary policy without the participation of the central bank, although this has not always been the case. Taking into account the history of central banking in Poland, one can say that it is relatively young if we compare it to the history of money or the history of banking in the world.

2.1. Scope of activities of the national bank of Poland

The National Bank of Poland (NBP) functions as the central bank of the Republic of Poland, i.e. it is the central institution in the monetary system. It performs the activities provided for in the Constitution of the Republic of Poland and in the Acts on the National Bank of Poland and the Banking Law. The aforementioned acts are a guarantee of independence of the NBP from other state bodies. In a market economy, the institution performs three main functions: the central bank of the state, the issuing bank and the bank.

2.1.1. Central state bank or government cashier

The NBP maintains state budget accounts, handles bank accounts of the government, state units and institutions. As a state bank, it has the right to organize trade in treasury securities and may handle state loans, but it should not credit the budget deficit. The Bank is the central institution managing the state's foreign exchange reserves, which are intended to ensure the country's payment liquidity in foreign operations and to secure solvency in financial relations with other countries. The institution can therefore act as a financial agent for the government in servicing foreign debt and executing state credit agreements [1].

2.1.2. Issuing bank

As an issuing bank, it has the exclusive right to issue cash, which is legal tender in the territory of the Republic of Poland. It also determines the moment of introducing them into the monetary circulation and the size of the emission, thus it is responsible for the liquidity of the money circulation. Moreover, NBP is the organizer of the money circulation and influences the amount of money in it. The purpose of the issue is to provide the economy and the population with an appropriate amount of money, which is legal and compulsory means of payment. The central bank deals with the creation of two types of money:

- central cash money - it is characterized by absolute liquidity
- input/output money - acts as central reserve money

Cash money provides a service to the consumer and income sphere, and has the privilege of being released from its obligations as a means of payment by law. In turn, giro money is created as an initial contribution through the payment of banknotes, as a derivative contribution to loans to the state and trading banks, and through the purchase of gold, domestic monetary assets (fixed-rate securities) and foreign assets (foreign exchange).

2.1.3. Commercial banks bank

The term "commercial banks bank" means influencing the activity of other banks by implementing the monetary policy assumptions with the use of appropriate financial instruments, such as: open market policy, setting the mandatory reserve rate and its interest rate, rediscounting bills of exchange, refinanced credit, maintaining current accounts of commercial banks and interbank settlements. The NBP also collects deposits from other banks; in the event of difficulties in the financial stability of banks, it provides them with assistance in the form of loans as a lender of last resort. It also supervises the activities of commercial banks and is responsible for the supervision, security and stability of the banking system and payment systems in Poland.
The primary duty of the NBP is to strive to maintain a stable price level. The central bank's objective is to keep inflation stable at 2.5% with a fluctuation range of +-1% percentage point in the medium term.
In addition, the other tasks of the NBP in Poland include: shaping monetary policy (through instruments such as: open market operations, credit and deposit operations, mandatory reserves), actions leading to the stabilisation of the national financial system, issuance, measures to develop the payment system, management of Polish foreign exchange reserves, handling of the State Treasury budget, compilation of the payment reporting balance sheet and the international investment position, information and education activities, the compilation of banking and monetary statistics, the implementation of the other tasks set out in the Acts.
Fulfilling the constitutional obligation of responsibility for the stability of the national currency, the NBP fulfils the assumptions of monetary policy and develops and implements its strategy. By managing foreign exchange reserves, the bank ensures a stable level of financial security for Poland. Issue activity secures liquidity in cash trading. As part of its regulatory and supervisory roles, the NBP cares for the safety, efficiency and liquidity of the payment system and has an impact on the development of safe infrastructure in the financial market.

2.2. Monetary policy

The NBP follows the monetary policy assumptions set by the MPC. The basic task of the monetary policy is to maintain a stable price level in the economy, which is necessary to create lasting foundations for long-term economic growth.
Currently, the NBP uses the strategy of a direct inflation target. Under this strategy, the MPC sets an inflation target. Another action of this body is to adjust the level of basic interest rates of the National Bank of Poland in such a way as to maximise the probability of achieving this objective. Since 2004, the central bank of the Republic of Poland has been pursuing a continuous inflation target of 2.5 per cent with a permissible deviation of +- 1 percentage point, which means that the annual consumer price index (inflation measure) should be as close as possible to 2.5 per cent. The central bank takes steps to maintain the level of interest rates consistent with the inflation target pursued by this institution by shaping the level of short-term interest rates on the money market, which are an indicator of the profitability of the monetary policy instruments pursued. On the other hand, interest rates on the money market influence the interest rates of deposits and loans of commercial banks, which affects the demand in the economy, the size of the loan and the inflation rate. The set of instruments used by the NBP includes: open market operations, obligatory reserve and deposit and credit operations, interest rates, issue of own securities, rediscount limits and exchange rate development.

3. The functioning of the central bank in the light of labor economics

3.1. Model of capital formation and growth in the economy

Economics deals with the subject of measures which are defined as 'resources', in fact, they should be formulated as 'economic measures'. Some of them (e.g. raw materials) are economically transformed into goods and useful goods using other means (e.g. production machines). Defining economic theory requires a much deeper understanding of these "economic means". These are basic concepts. For this reason, they are used without precise definitions. It is necessary to start by clarifying three main concepts: resources, assets and capital. The key concept here is capital. Understanding the notion of capital as an abstract work ability requires the assumption that work is a process of transferring capital embodied in assets and workers to work facilities. Capital and work are therefore a tandem of complementary concepts. Recognition of the essence of work and capital allows a better understanding of money and its nature.
Capital can be described as homogenous and abstract. Human capital is also measurable, which means that a measure of value can be assigned to it. Recognition and formulation of the true nature of capital has been studied for decades because of its measurability and abstract nature. Instead of simple quantification, capital has encountered many barriers in research. The modern state of knowledge assumes that capital is the ability to do work. Capital is therefore an abstract category. It consists of assets. The value of assets is equal to the value of capital. In order to better understand the nature of capital, thermodynamics must be considered. The first principle of thermodynamics significantly defines the nature of capital, indicating that it cannot come from nothing. Therefore, this principle is the theoretical basis for double-entry accounting, where the result of this principle is the double entry rule. The application of the double rule makes it possible to measure profit, which means the level of periodic capital increase. Without taking into account the first rule of thermodynamics, it is impossible to measure capital growth, and the economics of capitalism would lose the most basic theoretical tool2 .
So how does capital grow? The general formula for measuring capital growth is the compounding percentage formula. This formula is written in a form that includes continuous capitalisation:

$$C_t = C_0 e^{rt}$$

Source: M. Dobija, Fundamentalne zasady leżące u podstaw nauki rachunkowości, Zeszyty Teoretyczne Rachunkowości, tom 70, Warszawa 2013, s. 49

Where: Ct - means capital after time t; a characteristic feature of the above formula is the element of initial capital C0, which means the principle of thermodynamics, which says that capital does not arise from nothing. The nature of capital allows to determine r - the interest rate. The formula determining the percentage compounded with periodical capitalisation naturally appears in the accounting as a transformed ROA or ROE, assuming that the profit rate is fixed.
A significant feature of the model is the economic constant of potential growth and its thermodynamic basis. The potential growth constant is p = 0.08 [1/year] and represents the rate of possible capital inflow due to natural forces. Fundamental rights research on the nature of capital directs the overall capital growth at time t:

$$C_t = C_0\, e^{(p - s + m)\,t}, \; p = E(s) = 0{,}08 \text{ [1/year]}$$

Source: J. Renkas, Ekonomia pracy. Teoria godziwych wynagrodzeń, Prace naukowe Uniwersytetu Ekonomicznego we Wrocławiu, nr 439, 2016, s. 289

Where: C_0 - means initial capital; p - is the economic constant of potential growth; s - indicates the rate of natural, spontaneous dispersion of capital; m - is the rate of growth of capital as a result of work done. The interpretation of forces acting in the law of exponential growth is as follows: e^{pt} - factor that determines the natural potential for capital growth, i.e. the essence of nature; economic constant p = 0.08 [1/year]; e^{-st} - factor that determines the spontaneous dispersion of capital, i.e. the action of the thermodynamic time arrow, which is determined by the second principle of thermodynamics, t - calendar time; e^{mt} - determines the inflow of capital by work, this weakens the effect of the thermodynamic time arrow. In the above formula, initial capital appears as an element of the fundamental principle of thermodynamics that capital does not come from nothing. Previously held capital can increase with the help of work processes or change due to dispersion. People and their human capital will serve as a suitable example here. A newborn baby has its own initial capital (C_0), without any care, the baby would soon die as a result of natural dispersion of capital (e^{-st}). The actions of the parents and the environment, i.e. compensating for the process of capital dissipation through a factor (e^{mt}), guarantee its existence and the growth rate is determined by a constant p[3].
As you already know, work is related to the concept of capital. Capital incorporated into objects, such as human resources, has its potential to perform work. During the performance of work, human capital is transferred to the object of work. Childcare or teaching, production are simple examples of the work process that can be attributed as transfers of human capital. Such a transfer concerns capital incarnated in people as well as in all assets, i.e. buildings, equipment, tools and raw materials. These assets are the result of human labor[4]. It is worth mentioning here the methods of measuring work. In mathematics, the relationships between the quantities that include work (i.e. L) are defined by two equivalent formulas:

$$L = F \times s \times \cos\alpha = P \times t \times \cos\alpha$$

Source: M. Dobija, Ekonomiczne konsekwencje konfrontacji kapitału i pracy, Nierówności Społeczne a Wzrost Gospodarczy, nr 54, Kraków 2018, s. 66

Where: F is the force that causes the shift, s - indicates the size of the shift, α - is the angle between the direction of displacement and the direction of action of force F, P - means the power attributed to an employee or object of work with the capacity to do the work, t - determines the duration of work. The measurement of work according to the second formula is used in economics mainly in wage tariffs. To sum up, the economic continuity of potential growth (and workforce) is a source of profit, as it positively influences the share capital invested in economic activity. Accounting as an economic discipline measures periodical changes in invested capital[5] .
The changes in question are expected profits. Profits correspond to the level of constant economic potential growth and the level of capital invested in business activity. Studies show that the average annual profit/total capital ratio is significantly stable and close to eight percent. On a broader interpretation, it can be concluded that nature allows for capital growth of around eight per cent per year. A significant number of studies also suggest that the average return on human capital, i.e. a fair minimum wage, is close to eight per cent per year. It is worth noting that an employer hiring employees does not buy people from a physical point of view, but their ability to do the intended work. Employees are paid as compensation for the human capital transferred to the company. Thus, by human assets is meant the overall value of the human capital of the company's employees who offer their ability to work for the company to the employer and in return expect an equivalent salary[6].

3.2. A new economy based on work processes

A new concept for the perception of capital in the context of the basic principle of dualism in accounting was developed by Professor M. Dobija. In his scientific works one can find a statement that in economic sciences capital is the previously mentioned abstract ability to do work. The author has interpreted and presented the principle of dualism in an original way, leading to the above mentioned assumption. This statement shows the category of work as an inseparable part related to capital. Capital is the ability to do work. The ability to perform work is a potential category, and by performing work, an abstract ability, i.e. capital is transferred to the products produced by it, so work is a form of transfer of human capital to the objects of work and it is a dynamic category. Capital is an abstract category, contrary to mainly material assets.
From one of the fundamental principles of accounting, the double principle of dualism, many basic economic concepts can be formulated. According to this idea, the economic resources of an economic entity are depicted in two ways - the value of assets and the ability to perform work accumulated in those assets. The use of the double rule of dualism for a particular economic entity leads to a list known as the balance sheet. To reflect the potential of this principle, an example of an initial balance sheet is presented below. Assuming that the courier decided to set up his own, one-man business, and his funds, i.e. equity, have the value of PLN 30,000 of his own saved funds and a loan of PLN 10,000 can be illustrated in the following way:

Table 1: Example of the Double Rule - the Principle of Dualism

Assets	[in PLN]	Liabilities	[in PLN]
Fixed assets - company car/vans Current assets - cash	35000 5000	Equity capital	40000
Total	40000	Total	40000

Source: own elaboration.

The balance sheet includes a fundamental accounting equation: Assets = Capital. This is a different template for the principle of dualism. The balance sheet list raises the question: what is capital? The fundamental equation illustrates the essence of capital. Assets cannot be capital, because the value of assets in the form of a company car/supply car and cash in the cash register is shown on the left side of the above balance sheet. Capital, which is on the right-hand side of the balance sheet, is the potential, abstract but measurable capacity for cash and delivery vehicles. For a company vehicle, this is the potential of the vehicle's ability to perform work - driving and transport services, while for cash, capital is the ability to take action and acquire the necessary assets. The transported products will be placed on the shop shelves using the work of people and a car; the participants of the work process have partly put their ability to do the work to the object. It is common knowledge that the category of work is measurable. The nature of measurable work therefore ensures the measurability of assets and capital.

In order to understand the capital and work of M. Dobija and B. Kurek showed the concept of economy, which they define as labor economics, is presented in the following diagram, illustrating how money is created in the process of performing work:

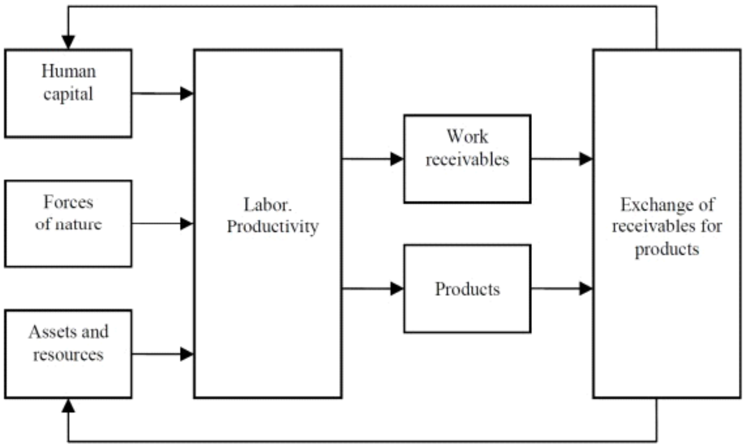

Fig. 1: Labor Process and Work Receivables as Money.

source: M. Dobija, B. Kurek, Towards Scientific Economics, Cracow University of Economics, Cracow 2013, no. 4, p. 300

In labor economics, money is created as a result of work as a receivable for work done. In economic thought this is a fundamental change. Money, like work and capital, is seen in an abstract way, and its growth is driven by work processes.

The only and proper process of money creation is work. Money is a testimony of work done, therefore work always self-finances itself.

The self-financing of work shows that there is no need for and should not be imposed taxes to finance wages in the budgetary sphere. It is a logical mistake to impose taxes on minimum wages, which are sometimes too low, by means of which taxes are still lowered, leading to a decline in human capital.

The work performed creates two economic categories: products (where the capital provided by the work is concentrated) and receivables for the work performed, which are the book entry of the value of the work performed. When an employee transfers his or her ability to work, i.e. human capital, to a product in the work process, a transfer related to remuneration for work is also distinguished (it should be fair). Money is then a category of pay that can be redistributed, which, in accordance with the duality principle, is the wage. According to this principle, the employer has the appropriate responsibility (payable). It is worth noting that the receivable category requires a valuation with an abstract unit of account. This is possible because the categories of work, capital, work receivables and liabilities are valued using the same abstract unit of measurement. This is a monetary unit as well as a unit of labor. Money is the last part of the triad: capitallabor-money.

Money is a confirmation of the work done properly measured to transfer the capital that was engaged. By multiplying the amount of capital and time, an action is determined, so money is a confirmation of the intended action performed[7]. So the work, it finances itself and leads to money and products. Lack of work is the reason why there are no records of liabilities and receivables, so there is no money.

3.3. The role of the central bank in the light of labor economics

The concept of money as payment for work differs from other systems of economic thought. The rejection of the material perspective of perceiving and creating money results in a correct exchange equation, i.e. a mathematical description of the economic process of exchanging money or receivables for products. It is through work that money is generated. Money is as abstract as elements of the triad: capital - work - value. The driving force behind the growth of money are the processes of work. Therefore, neither bullion nor money created by the central bank is a good solution in theory for economics. This opinion is confirmed by the above described economic history of Poland and current experience. The creation of cash money by the central bank, which is today's standard, violates the fundamental principle concerning the preservation of capital and leads to the situation in the economy, which operates like machines that drive the deficit, which is sometimes affected by the phenomenon of inflation and sometimes by the phenomenon of deflation [8].

The importance of the money trade equation is very well known in the theory of commodity and money management. The problem is, however, that the material perspective on the perception of money results in a flawed exchange equation leading in turn to the wrong category of money quantity. One of the most valuable features of the commodity and money economy is also lost - the understanding of work as a self-financing phenomenon and the conclusion that no tax funds are needed to pay for it. The lack of understanding of this problem is the reason for creating excessive taxes and budget deficits.

The essence of the commodity and money economy is the assumption that the work of employed people is the beginning of the two streams - products and money, i.e., labor charges. These streams are confronted on the markets, which results in the resulting profits and prices. This market mechanism helps to equalize the value of the stream of final products, i.e. GDP and money, ultimately shaping their purchasing power. The employed people working, both in the industrial and budgetary spheres, generate labor costs that make up the value of products, thus obtaining an identical nominal value in the form of a record of the amount due for work done. The wise organization of work and its productivity guarantees the stability of the value of money and an increase in the state's wealth. The higher the level of money in banks, thanks to work processes, the richer the country is.

An important condition for a thriving economy is equality of real and nominal labor productivity. Deflation is a dangerous and wellknown phenomenon in the past. This phenomenon is currently experienced by highly developed countries with high labor productivity levels and properly functioning wage systems. Deflation is often caused by the tax financing of budget sector wages. By charging decent wages with taxes, they are pushed to an underestimated level, which systematically reduces demand. Therefore, deflation may occur.

This is because full labor costs are included in the product value stream. To prevent deflation, central banks create huge amounts of money. Such actions do not bring clearly positive consequences, because companies do not always find enough effective investment projects to absorb the increased level of central bank emissions.

Therefore, money cannot be generated from nothing; in a correct perception, it serves as a carrier of the value of the work done. Lack of work is a consequence of the lack of entries in the accounts of receivables and liabilities, i.e. there is no money. For this reason, an important role of the central bank is the position of the payer for the budget sector and control over the labor productivity index in the economy.

The country's economy can become sustainable, it can function without a deficit in the budget, without the need to increase the amount and level of taxes. It can also reduce public debt if fundamental changes are made to the perception of money, understanding that it is work that creates money is equivalent to self-financing. This requires a reform of the central bank. There is no place for paper money, material money in the economy. There is only work, capital payment for the work done, resources and assets created as a result of work. The economy is a set of capital flows and the measurement, control, registration and analysis of capital flows is a necessary sphere of intellectual activity.

If the money is created by the central bank in the form of cash money, such an activity violates the fundamental principles according to which the economic reality is perceived. It may lead to the crisis, because the rate of capital growth is limited by the economic constant (8%). In the economy of work the function of money emission by the central bank disappears completely.

4. Case study: transformation of the central bank on the principles of labor economics

4.1. The wage equation for exchanging money for products

The exchange equation, which takes into account the amount of money and the speed of its circulation, is one of the key elements of monetarism. In the exchange equation there is a lack of understanding that economic categories are abstract, not material. For this reason, in labor economics, the category of amount of money cannot exist. Additionally, the term "money" has an imprecise meaning and is a conceptual conglomerate. In labor economics, the category of money, which is a receivable for work, and an important indicator of labor productivity, the symbol of which is the letter Q, are emphasized. Organised and productive work creates money, so taxes are limited only to the need to finance assets that are necessary in the budgetary and possibly social welfare sphere. They finance assets that are necessary, for example, for the police and the army, but this does not mean financing salaries for police officers or soldiers.

According to the operation of the market mechanism, the level of value of the money stream and final products is equalised, thus shaping the purchasing power of money, which is the essence of the market. The processes taking place can be described in the form of an equation, i.e. a wage equation for exchanging money for a product:

$$GDP= GDPR * (1 + i) = a * W + [1 – a] * W * k + \Delta S$$

Source: M. Dobija, Ekonomiczne konsekwencje konfrontacji kapitału i pracy, Nierówności Społeczne a Wzrost Gospodarczy, nr 54, Kraków 2018, s. 69

Where: GDPR - means real GDP, W- those are labor costs, a - it's a percentage of wealth, i- it indicates the inflation rate, k - it is a factor determining the creation of money in the banking system, ΔS - shows the change of savings balances, it has a form: If the condition $i = 0$, which means no inflation and no deflation, is taken into account, the equation is obtained:

$$GDP = GDPR = a * W + [1 - a] * W * k + \Delta S$$

Source: M. Dobija, Ekonomiczne konsekwencje konfrontacji kapitału i pracy, Nierówności Społeczne a Wzrost Gospodarczy, nr 54, Kraków 2018, s. 69

By dividing the received formula by W, i.e. by labor costs, an equation is obtained:

$$Q = Qr = a + [1 - a] * k + d, \text{ where } d = \Delta S / W$$

Source: M. Dobija, Ekonomiczne konsekwencje konfrontacji kapitału i pracy, Nierówności Społeczne a Wzrost Gospodarczy, nr 54, Kraków 2018, s. 69

The interpretation of the resulting formula is simple. An important condition for a thriving economy is the equality of real and nominal labor productivity. On the basis of the above formula, the directions of activities that affect the stabilisation of the economy and the purchasing value of money become clear and understandable. The nominal productivity level must have a value equal to the real productivity. Such a state of the economy can be achieved with the compatibility of wages and salaries with the value of work, which manifests itself as a guarantee of economic and social order.

4.2. The vision of the reformed central bank and the impact on the economy

A proper understanding of commodity and money management leads to the conclusion that inflation will disappear spontaneously if its sources disappear. The basic cause of inflation is the creation of money in isolation from the work process. Inflation also occurs when there is an increase in the number of people who earn well but do not create an equivalent; or an arms race is launched; or, worse still, wars are the result of wars themselves, so there is the destruction of assets and the capital contained in them. In order to prevent inflation, the central bank must be reformed and wages must be compatible with the value of the work done.

As a result of the self-financing of work and the creation of a new perspective on the commodity and money economy, several principles have been formulated on the basis of which the central bank would undergo reform. It is obvious that the creation of money for the needs of commercial banks is the wrong solution. There are at least two reasons that prove that this tactic is harmful to the economy. The first reason is stated by representatives of the American Monetary Institute. This institution has formulated many theses concerning the theory of money and, above all, has indicated that the way of powering the private banking system through the national social good, which is the right to create money and trade in money at a certain interest rate, is an unacceptable activity in a civil, sovereign state. Members of this American formation have submitted a draft law to Congress to change this situation.

The second reason is more theoretical and general, namely the issue of money in the modern money system and the functions of the central bank interfere with the right to preserve energy, generating a situation in which energy could arise from nothing. As it is commonly known, commercial banks have a possibility to use the money generated by an accounting record, they pay an appropriate interest rate for this activity. The next action is their marketing campaigns to win customers (borrowers and borrowers). The result of such actions is an increase in the level of inflation. The Monetary Policy Council increases the NBP rate, which is harmful to the economy. If such a situation takes place in a normal country and in peaceful conditions, playing with the interest rate is not harmful because it does not exceed the risk premium (8%), and loans with medium risk must reach the value of this premium. On the other hand, if this is the case when inflation is high, it is an act that destroys the economy and the standard of living of the country's citizens. The cause of inflation is the incompatibility of wages with the value of work done.

After the reform of the central bank in the new system, its functions change significantly. The central bank would be responsible for the following tasks: exercising supervision over the banking sector, control over labor productivity in the economy, joint determination with the Ministry of Finance of the amount that would be allocated to public sector wages in the budget for the year indicated, responsibility for the transfer of amounts of payments for work to bank accounts with commercial banks for public sector employees, issues concerning the country's foreign exchange resources and their beneficial management must be subject to a separate central institution, for example the Ministry of Treasury.

The issue of labor productivity is a fundamental and most important macroeconomic variable. The level of economic growth, prosperity, stability and monetary strength and the acceptable size of the public sector depend on it. In the new system, organisations must be established that would control productivity retrospectively and prospectively. Prospective control would be equivalent to action against it. Such an institution should be the central bank, which would continue to be responsible for the stability of the money.

In addition to analyses, recommendations and assessments of all economic developments in terms of labor productivity, for example through the planning of reforms by various authorities, the central bank's remit also includes the determination of wage levels in the public sector in conjunction with the Ministry of Finance, the State budget maker. These central institutions, in turn, exercise day-to-day supervision over the state of productivity and have the potential to influence changes in adverse trends. These organisations can block unjustified and unjustified wage increases in the public and private sectors.

A central government institution carries out wage transfers to employees' bank accounts in the budgetary sphere, which are held either by commercial banks or directly by the central bank. This is a new task after the reform in place of the previous one, incorrectly called the issuing function. Such a transfer is in line with the principle of capital conservation (i.e. energy) and makes a payment record for the work done.

The last of the above-mentioned central bank functions is to control the system of commercial banks together with other financial supervisors. The procedures in place in this respect are effective and long-established. Maintaining proper market competition, the level of capital adequacy, adequate reserves and financial liquidity maintains a high level of reliability throughout the banking system.

So, neither central bank money nor bullion is a theoretical good solution for economics. This thesis is confirmed by economic history and current experience. The creation of cash money by a central institution violates one of the fundamental principles - the preservation of capital and leads to a situation where economies operate as deficit-driven machines, where sometimes there is deflation and sometimes inflation[9].

4.3. Outline of the wage tax reform

In the new theoretical environment, the primary function of the central bank is to pay employees for their work in the public sector, i.e. to implement the payroll, so that the employee's remuneration is recorded in a commercial bank account. It is a proper process of creating money, the work is naturally self-financing. There is no place for paper money, material money in the economy. It replaces work, capital, remuneration for performed work, resources and assets, which are created as a result of the work process. Thus, the economy is a collection of capital flows, while the registration, measurement, control and analysis of these flows is a sphere of necessary intellectual activity.

In this arrangement of things two opposing factors become apparent to some extent: possible and necessary reduction of taxes on wages, at the same time it is possible to reduce the budget deficit.

The reformed economy must operate according to the principle of matching wages with the value of work, known as fair pay. This means that these wages are sufficient to preserve human capital. For example, this means two workers receiving a decent wage that will allow them to support themselves and raise two children, and to provide them with human capital at the level of carers. Charging such remuneration with tax makes it less decent. In the case of workers who earn less, wages make them wicked. The result is a depreciation of the human capital of the worker and an increase in the poverty margin. Therefore, in the case of low but decent wages, the tax on wages should be abolished. Assuming that setting wages in proportion to the value of the work done would enable human capital theory to make significant use of the discovery of an economic constant of 8 percent. This theory sets out a formula for fair pay for workers working in average conditions:

$$W = pH(p, T) - \Delta D(T)$$

Source: M. Dobija, Teoria kapitału jako podstawa reformy systemu finansów publicznych, Katedra Rachunkowości, Uniwersytet Ekonomiczny w Krakowie, s. 332

Where: W - means fair pay; H (T, p) - is the employee's human capital; p = 0.08 - value of risk premium; T - indicates the number of years of work; D (T) - is the capital from experience.

In the private sector, additional bonuses are available, which are at an average level of 2% of the human capital, raising the average level of paying for work to 10%. Sources of bonus pay start with funds of surplus character, which the company has chances to achieve on the market. Such funds have no place in the public sector. In the new system, capital, work and decent wages form an inseparable triad, in which work is presented as a transfer of capital to labor products.

Therefore, in order to protect fair wages, decisions should be taken to waive taxes levied on basic wages. This is a natural principle expressing an elementary economic balance. On the other hand, the basic wage can be differentiated for each working person. In order to preserve the constitutional principle of equality before the law, a tax-free threshold should be introduced for each employee, which would be calculated on the basis of a formula: 12 * In maximum, or twelve average wages. This would free the vast majority of pension income from tax. The part of the basic salary up to the level of W max would remain taxed with a low tax - a flat tax of 10%. The remaining part of earnings would consist of progressive charges.

The above solution leads to the conclusion that direct tax on the absolutely minimum fair remuneration makes it unjustly low. The negative result, for example, is the migration of the labor force, or the demographic problems of families who decide to bring up only one child.

Another change in economic reform concerns the budget deficit. The occurrence of this unfavourable phenomenon is a frequent feature in modern economies, even in properly managed countries. Deficits should not occur in a peaceful situation. Instead, it can occur in situations such as major natural disasters or wars. Today, the source of budget deficits are structural flaws in economic theory. When determining the practice with this flawed theory, the self-financing of labor is not taken into account. Since the financing of wages for the public sector does not require taxation, a reduction in the deficit can therefore be expected until it is completely eliminated.

Employers in the private sector must cover labor and other costs through sales revenue. An employer in the public sector, i.e. the State, does not need to have revenue to cover these costs. The current situation is far from the approach outlined above. The government arranges the tax system in such a way that work in the public system is paid for, which is detrimental to the economy through declining demand. This also generates a budget deficit.

The first step should be to apply self-financing in the public sector. This action would open up a source of funding for assets and other purposes. The second step would adjust the existing tax system towards a significant reduction or even cancellation of direct taxes on wages. This is important because an income tax makes workers poorer and reduces the level of purchasing power available in the economy. This in turn has a negative impact on entrepreneurship. In the concept of labor self-financing, the need for tax funds is limited. Then you can expect a more efficient market and less unemployment.

The outlined outline of the central bank reform seeks to free the state budget and citizens from the obligation to finance public sector wages. By these large amounts, tax revenues could be partly reduced and partly the budget deficit.

The introduction of these changes in public finances is a transition to a sustainable and deficit-free economy. In the absence of financial consequences of natural disasters and wars, unjustified excessive bonuses, there is no reason for a deficit in the budget structure. Money would only be created as a bequest for work done.

5. Conclusions

The article describes the main elements forming the theory of labor economics, which is fundamentally different from monetarism. It is well known that the scientific theory is shaped by fundamental principles, original concepts and defined categories that form a logical and coherent arrangement that provides a basis for solving cognitive and decision-making problems in each field of reality. This system of economic categories that form the basis of the theory has been defined in detail and precisely in the system of labor economics. However, monetarism is not of this nature, the Agreement is not clear and the category of capital is interpreted differently. Monetism does not use the coin as a carrier of value (which was not practical), but accepts a state contrary to the fundamental principle of preserving capital, since the ability to do work, i.e. capital is not created from nothing. Monetarism is the reason for chronic budget deficits, increasing debt, high and excessive taxes, high unemployment in the economy. The search for solutions to the permanent indebtedness of economies, profound reflection on the principles of commodity and money economy, the threat of deflation and a significant rate of unemployment, the use of negative or zero interest rates, leads to actions based on an understanding of the nature of work and capital. The essence of the correct solution is to perceive money in accordance with the actual state, i.e. as a receivable for work done. Money, like work, value, capital is an abstract category, but measurable through work. It is subject to fundamental principles just like work, which is the source of its creation. Money cannot come from nothing. In the correct understanding, it is presented as a carrier of value for work done. An important part of the new system is the self-financing of work. It liberates the economy from a large part of excessive taxation and leads to an economy without a budget deficit. For this reason, the central bank's primary role is to act as a payer in the budget sector and to supervise labor productivity, which is the basis of a prosperous economy. This paper identifies the need for a thorough reform of the central bank, the impact of the reformed central bank on the public finance system and a complete change in monetary policy that does not respect fundamental rights of nature. In the reshaped economic system, state budgets are balanced, direct taxes have been reduced, public debt is not increasing and the budget deficit is being significantly reduced.

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