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7 January 2017

Online at https://mpra.ub.uni-muenchen.de/76184/
MPRA Paper No. 76184, posted 13 Jan 2017 17:46 UTC

How effective quantitative easing is in relation to the Gold Standard? A historical approach based on the US experience

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Abstract: The current paper contributes to the recent discussion in the US which has to do with the level of efficiency of the QE practices being implemented since 2008 and afterwards until today. It also analyses the basic argumentation of the academics and social and political groups who are in favour of the restoration of the Gold Standard. Thus, the analysis offers a critical approach concerning the US monetary practices linked to the implementation of the gold standard regimes as against to the quantitative easing policies. We conclude that although there are both arguments in favour of or against the abandonment of the QE policies in the US, the implementation (through restoration) of the Gold standard doctrines is very difficult to materialize, especially when an economy faces or has already faced the negative and detrimental side-effects of recession.

1. Introduction

Few people could deny that one of the basic issues of modern economic policy matters in international politics is the implementation of non-conventional monetary policy measures in a great number of developed countries.

The 2008 financial crisis in the US entailed sweeping consequences which were diffused as a domino effect to the global economy. This started with the denial of the US government to save from bankruptcy the Lehman Brothers. Since then, using interest rates as a mechanism of implementing monetary policy has become less effective than expected. The steep denial of the vicious cycle of absorbing the liabilities of a series of banks and insurance companies (with huge turnovers) by the US Treasury in order to save them from bankruptcy strengthened the necessity of the US central bank being the basic regulator of economic affairs. The global effect of such a decision in the US should also be recognized.

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Many (mostly liberal) economists strongly criticize the intervention of state authorities in the manipulation of the central banks policies (Buchanan 2010, pp. 255-257; Bitros 2015).[1] The economic rationality that exceeds the variable limits of the *Taylor's Rule*[2], which was the basic tool of implementing interest rate policies for many years, seems to be as the only rescue measure of economies with events that are strongly related with moral hazard, such as the case of rescuing Freddie Mac and Fannie Mae by the US government (which transferred the burden of their rescuing to the American tax-payers).

It appears that the current crisis offers a promising opportunity of finding a common point between economic policy and psychology due to the primary importance that people's expectations play in the interpretation of monetary policy which is accompanied by income and social implications.

A series of older liberal economists such as Simons (1936), Eucken (1952) and Friedman (1959) had strongly criticized the intervention of the central banking authority to the functioning of the free market, as being unproductive. Modern scholars such as Kydland και Prescott (1977), Calvo (1978) and Barro και Gordon (1983), Minsky ([1986] 2008), Buchanan (2010) and Bitros (2015) argued that when the state's monetary policy is performed under fair rules, this leads to the credible implementation of the monetary policy itself, which then leads to the best long term results. In contrast, they also argue that under a state intervention regime, the monetary policymakers could be carried away to the satisfaction of short-term goals,

[1] The current British legislation takes away the privilege of the central bank to implement policies without having any institutional commitment of ccounting by the British parliament concerning the actions and the policies being implemented by its policymakers. See https://www.gov.uk/government/news/bank-of-england-proposals-to-bolster-transparency-and-accountability-welcomed-by-chancellor

[2] The *Taylor Rule* is based on the empirical evaluation of the monetary policy being implemented by the Fed during 1987 – 1992. According to it, the short-term interest rate is depended on the current level of market prices, the real interest rate, and furthermore, from the divergences of inflation and the level of production from the inflation-target and the potential rate of productivity. It has been proved that the Taylor Rule is capable enough to efficiently describe the implementing monetary policy, during the last decades. See Taylor (1999).

that is, to be tempted to implement discretional policy against rules, something which would increase economic uncertainty in the long-run.[3]

Minsky ([1986] 2008) argues that the central bank should play a more regulatory and stabilizing role, in which it fails. Minsky and Kaufman (2008), and Mehrling (2010) argue that the only trustworthy mechanism of creating leverage in the financial credit system is the central bank itself. Thus the central bank must be the only institutional mechanism which should determine money supply and credit mechanisms.

On the other hand, according to Werner (2012) any discretional monetary policy must be related to economic development policies which increase social welfare and on the meantime, avoid any kind of inflationary side effect. If this side effect takes place this leads to excessive rise on market prices (which reduces the purchasing power of the consumers) and excessive rise on the price of equities, thus leading to a transfer of wealth from the inadequately informed people concerning these changes, to the most wealthy and affluent social strata which have better information concerning market changes, thus they are being benefitted in terms of asymmetrical information.

According to Syriopoulos and Papadamou (2014) there is a serious dilemma between the central bank overall strategy: either implementing rules, or "discretional" monetary policy, that is *quantitative easing*.[4] Thus, the basic question on which this article focuses is the causality (or not) between QE and economic performance. More specifically, by focusing on the US case, the article offers a critical view as far as the QE policies that were introduced by the US policies since 2008 and afterwards are concerned. Were they beneficial to the recovery of the American economy or not and

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[3] Bitros (2015) offers a very detailed recent analysis on these issues. He argues, (pp. 84-85) among others, in favour of the "upgrade" of the Fed as a "forth checks and balances" authority to the already three current US political institutions (Congress, Senate and Supreme Court) with the view to securitize its independence and on parallel, to secure fiscal transparency and harmony in economic affairs and decision making.

[4] The term quantitative easing (QE) denotes the decision of the central bank to increase the money supply in the market by buying securities such as state bonds in order to increase liquidity, and thus, boosting further the purchasing power of people. In other words, QE can increase aggregate demand in the market and thus the overall consumption and possibly, the GDP. A consequence of a QE policy is a controlled rise of the level of inflation, when the interest rates cannot be further reduced (when they tend to reach the zero point or they have been already possessing a negative return.

how this discussion is related to those who are in favour of the restoration of some kind of a Gold Standard regime?

In the following sections we expand our argumentation. In section 2 we offer a brief history of the Gold Standard implementation in the US. The analysis takes into account the basic arguments in favour or against the Gold Standard as they are attested by modern literature. Then is section 3 we offer arguments in favour or against the implementation of a kind of Gold Standard in the US while simultaneously abandoning the QE policy since 2008 and afterwards. Section 4 offers a series of conclusions that are based on the previous sessions argumentation.

2. The Gold standard regime in the US and the Fed in brief[5]

After the 2008 financial crisis in the US and the slow and low growth rates of 2% of GDP in contrast to the Obama administration predictions for a higher GDP growth during the 2009-14 period[6], there is an intense and ongoing discussion which is related to how and to what degree the successive QE measures that were being introduced in 2008, 2010 και 2012 had an undeniably beneficial outcome in favour of the American economy, or the opposite.

Gradually, since 2008 those who were against the QE policies found strong support through the argumentation of cycles and political groups who were advocates of the returning to the Gold Standard, such as the influential Republican politician Ron Paul, who used the Gold Standard argumentation in 2012 political campaign.[7] Additionally, one has to bear in mind the very serious fact, that during his campaign for the American Presidential election of November 2016, Donald Trump argued many times in favour of the Gold Standard practices.[8] Now, being already the new US President,

[5] Selgin (2013) offers a detailed analysis as to the rise and the fall of the Gold Standard Rule.

[6] https://www.frbatlanta.org/cenfis/publications/notesfromthevault/1110.aspx,
http://www.hamptoninstitution.org/great-recession.html#.VouldvmLTcs

[7] For the arguments of the advocates in favour of returning to the Gold Standard one can see https://americanprinciplesproject.org/gold-blog/ralph-benko-argues-for-gold-on-procon/ and http://gold-standard.procon.org/#pro_con. For an interesting discussion and contradictory argumentation between Ron Paul and Paul Krugman on this issue, see https://www.youtube.com/watch?v=WEoGKpnutyA. For Ron Paul's views see Paul and Lehrman (1982).

[8] http://www.huffingtonpost.com/marvin-meadors/ted-cruz-really-wants-to-_b_8426016.html
http://www.theatlantic.com/business/archive/2015/11/gop-debate-gold-standard/415386/

it remains to be seen if he is up to adopt in practice Gold Standard doctrines and practices.

Since this issue still finds many and influential supporters in the economy and the American politics, this gives us the stimulus for a short description of the Gold Standard in the US since 1781 to the abolishment of the Bretton Woods agreement in 1971.

First of all, the main principle of the gold standard regime is that the amount of money which circulates in the economy is based on a stable quantity of gold. Gold and silver were preferable since the antiquity due to its rarity, durability, divisibility, interchangeability and ease of identification. For 5,000 years, gold's combination of luster, malleability, density and scarcity has captivated humankind like no other metal (Bernstein 2004).

During the 1780's the Founding Fathers, Thomas Jefferson, Robert Morris and Alexander Hamilton recommended to Congress to adopt a kind of standard, either gold, silver or both. The United States adopted a silver standard based on the Spanish milled dollar in 1785. Then, a major change took place due to the American Civil War (1861-1865). Due to necessity to subsidize the war effort, in July 1861 the United States Congress authorized $50.000.000 in demand notes. They bore no interest, but could be redeemed for specie "on demand". This paper money was called the "greenbacks" due to that they were printed in green on the back. However, after the Civil War, which ended with the victory of the United States against the Confederates, the Congress reestablished the gold standard at pre-war rates. The market price of gold in greenbacks was above the pre-War fixed price ($20.67 per ounce of gold) requiring deflation to achieve the pre-war price.

Then in 1907, the so-called *Panic of 1907*, also known as the 1907 *Bankers' Panic or Knickerbocker Crisis*, took place, where the New York Stock Exchange fell almost 50% from its peak the previous year being accompanied by an extensive bank run. Thus, to alleviate the crisis and in order to avoid a new crisis, the American policymakers decided to establish the *Federal Reserve System* (Fed) as the new central banking system of the United States. Fed is a self-funding institution created on December 23, 1913, with the enactment of the Federal Reserve Act. The Fed is an

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http://www.cnbc.com/2015/10/29/is-it-really-time-for-a-return-of-the-gold-standard.html

http://www.wealthdaily.com/articles/do-republicans-want-a-return-to-the-gold-standard/6346

autonomous institution which exercises a series of major duties which include: 1) implementing monetary policy 2) issuing money 3) supervising and regulating banking and financial institutions 3) providing payments services to financial institutions.

The US preserved the Gold Standard rule during the World War I, in contrast to many European countries which were forced to abandon it such as Great Britain due to the need to finance extensively the war effort.[9] The US managed to stay strict to the Gold Standard principle. Fed intervened in currency markets and sold bonds to alleviate the effect of the gold imports which would have otherwise increased the stock of money. This proved an effective policy. By 1927 many countries had returned to the gold standard.

Friedman and Schwartz (1963, p. 543) and Eichengreen and Mitchener (2003) argued that the Gold Standard limited the flexibility of the central banks' monetary policy by limiting their ability to expand the money supply. Robert Mundell (1968, pp. 101-102) also argued that "*the Great Depression affected the government institutions of the major countries and brought to the forefront the responsibility of the government for preserving the stability of the economy. Today every government regards itself as responsible for the prevention of severe depressions and the control of inflation……The problem of government policy, therefore, is to manage aggregate demand and supply so as to eliminate excess supply during a depression and excess demand during inflation*".

He also argued that "*the gold standard had been destroyed in World War I. The world political authorities replaced it with a grotesque caricature, the gold-exchange standard. This tragically spiraled into the great depression, devolving to the rise of Hitler and world war. Had the price of gold been raised in the late 1920's, or, alternatively, had the major central banks pursued policies of price stability instead of adhering to the gold standard, there would have been no Great Depression, no Nazi revolution and no World War II*" (Mundell 2000).

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[9] Alain Greenspan, ex-Fed Chairman (1978-2006) blamed the UK's strategy during WWI, actually, as a betrayal of the Golden Standard. He argued that "*Great Britain fared even worse, and rather than absorb the full consequences of her previous folly, she abandoned the gold standard completely in 1931, tearing asunder what remained of the fabric of confidence and inducing a world-wide series of bank failures*" (Branden & Greenspan 1986).

Thus Mundell accepts Keynes's argumentation to blame the *Entente* allies in 1919 who were demanding huge war compensations by Germany, which led to the rapid deterioration of the German economy, the fall of the short-lived Weimar Republic and the rise of the Third Reich in 1933. The collapse of the Weimar Republic proves that democracy, in order to flourish needs a strong economic base as many scholars such as Barro (1997), Acemoglu and Johnson (2005) and Acemoglu and Robinson (2013) argue, adding that economic growth is correlated with the rule of law and the protection of property argue.

In 1929 the Great Depression took place in the US, which drifted many other economies in economic depression as well. In the US, the central bank was required by the Federal Reserve Act (1913) to have gold backing 40% of its demand notes. Some economic historians, such as Eichengreen (1992) blame the gold standard of the 1920's for preventing the economy to revive after the 1929 Crash. This policy of compliance, he argued, lasted for about a decade, and prevented the Fed from expanding the money supply to stimulate the economy, fund insolvent banks and government deficits.

The chaos during the 1930's was highly criticized by Milton Friedman and the Chicago School who were strongly arguing in favour of freely-fluctuating fiat currencies and cutting all ties to gold, leave the absolute control of each national currency in the hands of its central government, issuing fiat money as legal tender and then advise each government to allow its currency to fluctuate freely with respect to all other fiat currencies (Friedman and Schwartz 1963). Barry Eichengreen (1992, p. 4), in accordance to Freedman and Schwartz, argued: "*Far from being synonymous with stability, the gold standard itself was the principal threat to financial stability and economic prosperity between the wars*".[10]

Gregory Mankiw[11] claimed that "*probably the most important source of recovery after 1933 was monetary expansion, eased by President Franklin D. Roosevelt's decision to abandon the gold standard and devalue the dollar. From 1933 to 1937, the money supply rose, stopping the deflation. Production in the economy grew about 10 percent a year, three times its normal rate*". All these views support the idea that

[10] One has to bear in mind that Eichengreen's approaches are strongly determined by his Keynesian economic thinking. See also Eichengreen (1985).

[11] http://www.nytimes.com/2008/10/26/business/worldbusiness/26iht-26view.17244116.html?pagewanted=all

the abandonment of gold standard doctrine was beneficial for economic recovery and growth. Mankiw (2012) also argued that the Great Depression was caused not only due to the monetary restrictive policy as the Chicago School and Friedman argued, but also due to the simultaneous fiscal restrictive policy, as the government was insisting in achieving balanced budgets instead of increasing public expenditures and investment.

The outbreak of World War II ended the Depression and allowed countries to go back to a modified gold standard. During World War II, Fed used some free gold to purchase bonds and drive interest rates down to help the treasury finance the war. A critical point for the future of the post-war international economies was the Bretton Woods Agreement[12] signed in 22 July 1945 and then ratified by the Congress. The new system was essentially the gold-exchange standard of the 1920s but with the dollar rudely displacing the British pound as the key currency globally.

Under this system, many countries fixed their exchange rates relative to the US dollar and central banks could exchange dollar holdings into gold at the official exchange rate of $35 per ounce. All currencies pegged to the dollar thereby had a fixed value in terms of gold. In other words, although one couldn't buy gold in the United States, other governments were entitled to take US dollars and insist on delivery of gold. With the new agreement, the dollar was no longer redeemable in gold to American citizens.

The rules of Bretton Woods were accompanied by the establishment of the *International Monetary Fund* (IMF) and the *International Bank for Reconstruction and Developmen*t (IBRD), provided for a system of fixed exchange rates. Since 1971, the market price of gold had never been below the old fixed price of $35 an ounce. Then, due to the fact that the US wanted to implement new social programs (developed by President Lindon B. Johnson), the Vietnam War (which led to a major increase in the US defence expenditures and the rise oil prices the US policymakers wanted to spend more money than they could spend under the Bretton Woods constraints.

Other reasons for the abandonment of the Bretton Woods were: the continuing American inflation, which began to turn the tide of international trade and the administration of President Charles de Gaulle during 1959-1969, who wanted France

[12] For the Bretton Woods agreements see among others, Bordo and Eichengreen (1993).

to return in the Gold Standard (and for that purpose France reduced its dollar reserves). All these led President Richard Nixon to announce the end of the international convertibility of the US dollar to gold on August 15, 1971 (the so called Nixon Shock).[13] The dollar subsequently floated. In December 1971, the Smithsonian Agreement was reached. In this agreement, the dollar was devalued from $35 per ounce of gold to $38. Other countries' currencies appreciated.

3. QE or returning to the Gold Standard: The theoretical discussion

Richard Werner (2012) argues that the *Fisher's Equation*[14] can be divided in two parts: the real value of money and the inflationary part of it, which is based on credit creation eg. offering loans to possible investors through banking. Credit is a tool and an institutional mechanism of the monetary authorities and banks which dates back to as old times as the antiquity[15] which boosts commercial activity and replaces barter transactions, thus reducing cost in commercial and economic transactions.

Thus, the intermediator between the lending and borrowing groups in an economy, that is, the banks, must be capable to supervise the credibility of financial transactions. Historically the role of monetary authorities was performed through central banks either in a critical or a less critical degree and efficiency.

When the monetary authorities introduce efficient supervising mechanisms of issuing money and simultaneously protecting it from forgery, this leads to healthy economic environment where commercial transactions are effective and prodigal and in the meantime, deception is avoided. Thus the consequences of *moral hazard* are prevented by trustworthy transactions which are supervised by the central and private banks. This means that when a trustworthy mechanism of issuing money and

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[13] According to Hazlitt and Koether (2012) the Bretton Woods attempt to fix exchange rates and peg world currencies to the dollar, which in turn was fixed to gold, would not last because it was not a viable system. For the Bretton Woods agreement, its problems and its final abandonment see also (Garber 1993).

[14] The *Fisher's Quantity Theory of Money* main principle is that the money demand is created by the need to hold an efficient amount of cash flows so as to perform economic transactions for a specific period of time. The basic typology is: $M \cdot V = P \cdot Q$, where: M is money supply, ποσότητα χρήματος, V is velocity of circulation of money, that is, the number of times a unit of money changes its hand, P is average or general price level or index of prices and Q denotes the quantities of individual goods.

[15] For example, in the Athenian democracy (508-322 BCE) there was in existence a fully developed financial credit system (Cohen 1997).

protecting commercial transactions is established, the money multiplier procedure can work efficiently and prove to be beneficial, limiting its inflationary and unfair growth distribution character.

On the other hand, money devaluation in combination with non-conventional QE measures leads to further devaluation of national currencies. Due to this, people need to work and try harder so that they produce more and increase their personal income and wealth with a final goal, to counterbalance the loss of purchasing power they face because of the devaluation of the national currency. This has a positive and a negative effects concerning entrepreneurship: it increases the overall profits and wealth of the "too big to fail" (TBTF) private companies and thus it reduces any danger that they might face, whereas it reduces the profits and increases danger of possible failures to lower income socioeconomic classes and groups. This means, in other words, that the inflationary policies that may be caused by QE policies may lead to income losses, loss of wealth and thus, increase of poverty for the majority of people (since the wealthy consist a small part of society).

Seeing it from another perspective, such a situation could also have happened even under the Gold Standard regime in case that the state authorities had adverse motives, The latter means they could seek to devaluate money without informing people in order to finance e.g. war expenses. *Seigniorage* allows authorities to benefit from new coins without informing the state's citizens who are susceptible to receiving lower intrinsic but same nominal value devaluated money. By reducing coins intrinsic value, the same amount of metal would correspond to the same currency value as before. Therefore, real value would inevitably be diminished, so would common consumers purchasing power. This way, relative income changes between economic agents (government and citizens) would alter disproportionally, and income inequalities between them would arise.

On the other hand, if seen by a different angle, lower purchasing power could result for the government via taxation. Differently said, money devaluation under the gold standard would help taxpayers work less than before to attain same level of income, but force them to consume less. At the same time, a higher proportion of real income would be attributed to the government via indirect taxes and incentives to work harder would attenuate. This way, less income would gradually be given to public authorities, especially if the marginal propensity to consume was high (this

happens mainly in low income societies such as ones being in crises). As a result, fiscal authorities' attempt to reduce public debt would prove to be a failure.

It would be really difficult to claim that credit can be expanded as fast as total debt. While financial intermediaries can generate nominal value out of a really small amount of money, debt is growing even faster and taxpayers have to bear this extra burden. This means that the beneficial effects of credit creation cannot be able to counterbalance the harmful effects of big debts increase due to bailing out decisions.

Credit instruments give rise to investment but because high leverage values at risk increase too fast for big enterprises. This latter phenomenon is greatly helped by moral hazard incentives helped by inadequate regulation. This leads to the conclusion that from a total social utility perspectives, losses for taxpayers are higher than benefits from economic growth.

This discussion is also related with the democratic background and transparency in decision making. For example, someone could pose the following questions: to what degree the American tax-payers approved the successive QE decisions of the US government during 2008, 2010 and 2011? And how inclined they did were to approve to undertake through increasing taxation (which entailed losses in their personal incomes and purchasing power) the bailout of some financial giant banks and insurance companies such as the AIG (the bailout cost 85 billion dollars), Fannie Mae και Freddie Mac (the bailout for both cost more than 125 billion dollars)? And who and under which mechanism (not known to the median American tax-payer) the US government decided to save AIG, Fannie Mae και Freddie Mac instead of bailing out, say, Lehman Brothers?

These are difficult questions to be answered in a simplistic way since they have various more and less well-known extra implications which appears to have shaped the final decision making in the minds of the US policymakers, mainly, the Obama administration. But in general, when such decisions are taking place without being introduced under a wider democratic spectrum of transparency, it seems that the social losses are higher than the prospective long term gains.

If instead of implementing the QE doctrines a Gold Standard approach might have been adopted, it could possibly impede such a huge expansion of credit, while on the same time not harming the volume of the overall transactions and money exchanges within the economy. This could be feasible if the Fed could effectively supervise the money market in order to ensure stability.

Furthermore, the US imports could increase the amount of dollars abroad (in the global economy, such as China). Theoretically, this could be to the benefit of achieving low inflations rates. And trade deficits could be paid by issuing new amounts of gold, providing that new discoveries of gold could be made in the US (or elsewhere but being exploited by the US authorities).

However, according to our view, since the current US trade balance is negative, 43.4 billion dollars for the fiscal year 2015[16], a huge sum in absolute terms, utilizing Gold Standard practices could mean that the US government and the Fed could not issue more money, in order to cover the huge trade balance. This would entail to deflation (negative inflation). But deflation could be harmful and dangerous to the economy since it reduces the real value of money over time, which practically means that the short term consumption could be postponed by the *homo oeconomicus* US consumers which could behave rationally, that is to benefit by purchasing more goods with the same money in the future.

Thus, taking into account Eichengreen's point of view (section 2) this might lead to a new Great Recession such as in the 1930s due to the restrictive monetary policies being imposed by the Gold Standard. As it is well-known the USA returned in the Gold Standard with an underrated exchange rate in 1934 (after an intermediate period of a floating exchange rate in 1933) under the presidency of Franklin Delano Roosevelt. Thus as the *Great Depression* showed, the Gold Standard proved unsuccessful to offer tangible and practical solutions so as to exit the crisis.

However, if we are based on historical facts, we could support an opposite view, that since the establishment of the federal reserve of the USA in 1913, a stronger tie to the gold standard should have been maintained. Abiding by this view, percentages as regards required minimum reserves are to blame for the Great Depression since these led to hyperinflation and a necessity to abandon the gold standard in order for the exchange rates to be adjusted. Especially from 1870 to 1914, is a period thought as one with great economic development without inflation.

In accordance with the bank reform plan of the Chicago School, a banking system with full reserves would attract all deposits and make it easier to separate financial intermediaries into investment banks and savings banks. This would help to augment liabilities and interest paying to public by issuing internal debt, preventing inflation

[16] http://www.tradingeconomics.com/united-states/balance-of-trade

this way. Commercial banks would be able to create credit but not debt, in this manner. As Irving Fisher argues, the School of Chicago suggested reforms would delineate business cycles, prevent bank runs and shrink public as well as private debt.

After the 2008 crisis the increasing trend against the QE practices as a means of raising an overall economy's income is mainly due to the financial crises which are often being caused by an excessive QE strategy. Thus, in that case, people tend to withhold their deposits out of the banking system since they feel insecure about the safety of their wealth. This leads inevitably into investment "shrinking" which harms long term economic growth.

Some scholars and ordinary people tend to believe that without inflation economic stability can be achieved and safeguarded. They also think that this stability can be related by resetting the Gold Standard as a main monetary mechanism. However, this belief could be compatible to those who are just risk averters and avoid any investment in banking or entrepreneurial activity. In such a case, any kind of reduction of deposits in private banks could potentially cause private banks incapable to offer a sufficient amount of cash money to their customers, thus it may lead to the emergency situation of causing the central bank to intervene in the financial market by "infusing" money as a lender of last resort in order to increase the liquidity of private banks.

However, if this happens, as the current Greek economic crisis example proves, (with the harmed banking sector and the capital controls that were imposed on it in order to save private banks from a possible "disorderly bankruptcy") it will be accompanied by increased taxation which it will mostly harm those with lower personal incomes and wealth, that is, the majority of the people.

Under such a perspective, imposing higher taxation so as to save the banking system from collapse could be an effective measure but it could also be seen as an undemocratic policy since it actually imposes a further tax burden to citizens, which is something that obviously is not the result of transparent procedures between the tax-payers (the people), the authority (the government) and the central bank (in our case the Fed), thus there is no a consent building decision making and this is a lack in democratic legitimization.

Thus the Gold Standard regime presupposes that those that they have money available to deposit, they must choose to offer them to the banks so as to feed the banking system with the necessary amounts of money in order to make it capable to

transform it into investment by offering loans to potential investors and businessmen. As an exchange, depositors receive safety and some additional earning due to interest rates on their wealth.

However, we have to acknowledge that there is always some kind of risk when someone chooses to offer his wealth in the banking system. Under abnormal economic periods, there is always a possibility for a "haircut" in deposits.[17] There is also the possibility that banks don't make a prudent and wise management of their deposits-assets, possibly because they choose to invest some or much of these assets to high risky funds in order to be benefitted by their high returns. Thus, in order to increase their profits they may endanger the safety of the money of their customers-depositors. Thus, there are always moral hazard problems due to the safeguard (or not) of the investors' deposits.

Thus according to our view, there is not an optimal solution to be adopted by these policymakers that they have to implement any national monetary policy. When a QE policy is being adopted it may boost consumption (and thus the commercial activity in the market) and may strengthen investment opportunities being offered by the banking system, thus both outcomes may be beneficial for the economy in the long term, but it may also lead to a side-effect: the rise of inflation which may harm economic performance and disintegrate economic policies.

On the other hand, adopting the Gold Standard vs the QE, may stabilize the economy. It may guarantee a series of issues such as keeping a stable currency that allows for proper savings and investment by "keeping the bankers honest" in their responsibilities to citizens-investors, and avoiding excessive public expenditures (such as hiring civil servants and creating bureaucracies) and in generally, it favors stability over growth.

But one has to bear in mind that, the biggest danger with the gold standard is deflation, which would encourage people to sit on resources rather than invest. The paradigm and the consequences to the global economy of the Great Depression of 1929-33 is one of the most important laboratories of thinking in favour of the opponents of the Gold Standard and to those that are in favour of state intervention in the economy (eg., many *neo-keynsianists*) or the defendants of the QE.

[17] Such a kind of policy was prevented in today's Greece just in the last moment (June 2015) after the imposition of the capital controls in the banking system.

Our analysis, having taking into account a series of different views and approaches, indicates that the Gold Standard is not suitable to be implemented in cases that have to do with a highly problematic economy such as that of Greece after 2010. It could lead to further recession and to deeper crisis.

Thus, we agree with the proposal of Buchanan (2010) and Bitros (2015) as far as the institutional "upgrade" of the Fed is concerned, as a fourth institution of checks and balances in the US political system (the other being the Congress, the Senate and the Supreme Court). This could secure the Fed's independence accompanied by fiscal transparency and harmony by its members concerning decision making in high (top) level issues that are related with the overall implementation of the monetary policy in the USA.

3. Conclusions

This article attempts to look into the level of inflationary monetary policy effect by QE on economy in comparison to a Gold Standard. Our analysis provides a critical theoretical background for the interpretation of intense deteriorating social inequality phenomena.

As it is shown, the issue of decision-making transparency on monetary policy issues seems to be positively related to increasing moral hazard deriving from irrational credit expansion, by central banks unconventional policies. Nevertheless, the crucial matter is whether under credit constraint and non-flexible policies the results would be worse.

Could the "poison", that is bad-managed credit that caused serious economic illness, be converted to favorable means for growth and work as an antidote? The answer is affirmative yet only under some strict conditions that has proven as difficult to be followed. The issue of implementing quantitative easing or alternative measures in the USA could be addressed based on a preference critical point.

This is the point where economic units consider inflation and nominal expenses growth as non-preferable compared to stability, lack of taxation shocks and low liquidity. Transparency concerning income and decision-making must be attained as a Pareto efficient result, that means in a way that no better outcome could be reached for one party without hurting another. In this result, negative externalities about democratic decision making that TBTF companies bail-outs bring about, should be eliminated. Finally, the Fed's constitutional upgrade to a fourth fundamental

institutional tool of ''checks and balances'' could contribute in a favorable and harmonic manner towards this direction.

These views form a number of ways by which optimal, under the prism of transparency in decision-making results follow the same path as driven by credit allocation economically optimal results.

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