

# Greenspan's Gold Rush

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By Adrian Douglas

## Has the former US Fed Chairman set the world economy on the path to disaster by massively increasing dollar supply? Adrian Douglas reports

Alan Greenspan, as Chairman of the Federal Reserve from 1987 to 2006, achieved a fame that no other Central Banker has ever achieved; he acquired a status of a demi-God; he was referred to as the "Maestro". In his semi-annual testimonies before Congress, lawmakers, journalists and the general public alike drank in every word of his mumbo-jumbo utterances in full expectation that these were a distillation of an elixir of eternal wealth.

Had Alan Greenspan lived in Ancient Egyptian times he would have been exalted to the stature of Pharaoh. As "Pharaoh Greenspan" he would have undoubtedly have constructed a pyramid as a way to take him into immortality in his after-life. But Alan Greenspan did not live in Ancient Egypt but he did in fact build a pyramid; he built a monstrous monetary pyramid.

### M3 MONEY STOCK

Source: Board of Governors Federal Reserve System

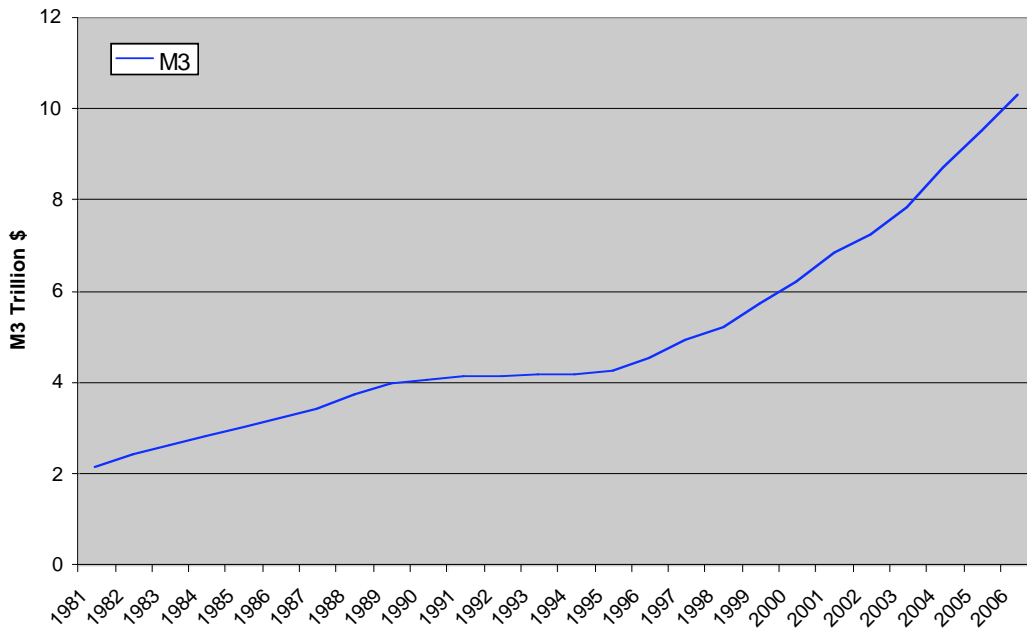


Figure 1

But this is no ordinary pyramid. This is an inverted pyramid standing on its point. When Greenspan came to the throne of the Federal Reserve, the United States had taken 200 years to issue 3 trillion dollars in M3 money supply. In just 18 years Greenspan boosted the money supply to a staggering ten trillion dollars. From a relatively small base he built this towering edifice of fiat money that balances precariously on its point and has recently started to teeter.

How was such a massive increase in dollar supply possible without a corresponding reduction in buying power being manifested? It certainly wasn't through high interest rates, which have been in a twenty four year declining trend until three months ago. For the market to absorb such a huge amount of dollars "something" must have happened to reassure holders of dollars that the purchasing power of the currency would be stable or even rise. That "something" was the "strong dollar policy" of Robert Rubin which was originally verbalized in 1995. The details of this policy were never explained to the general public. What it entailed was a suppression of the gold price to give the impression that inflation was contained. If investors have an "expectation" of inflation then it is a self-fulfilling prophecy because they will dump their dollars, causing the dollar to lose purchasing power very quickly, and thereby manifesting the inflationary effects of a promiscuous money supply as a general rise in the price level of goods and services. It should be noted from figure 1 that the rapid increase in M3 started in 1995, an action which is totally at odds with maintaining a strong currency.

Over the last ten years the demand for gold has been running at about 4,000 tonnes per year. Mine supply and scrap recycling has been around 2,500 tonnes. The difference was more than filled by central bank selling and leasing of gold. In 1995 the Central Banks of the world claimed to own 32,000 tonnes of gold. After ten years of supplying at least 1,500 tonnes per year of gold surreptitiously to the market, they today claim to still have 30,720 tonnes! The Gold Anti-Trust Action Committee (G.A.T.A.) is an organization that was established to expose the manipulation of the gold market. The organization has compiled extensive evidence that the market has been manipulated ([www.gata.org](http://www.gata.org)). GATA, for example, discovered that the IMF instructed its member banks to report gold that had been leased out to be sold in the market to be treated the same as gold in the banks' vaults. A recent paper issued by an IMF staff member has brought to light this double counting of gold reserves that has been alleged by GATA for over five years. (<http://www.gata.org/IMFGoldSwapsPaperApril2006.pdf>)

The dollar and all the dollar-denominated markets represent trillions of dollars of capital. The Central Banks see the disharding of gold as a sacrificial lamb to protect their ability to create paper money out of thin air that people will accept and be willing to hold. Alan Greenspan admitted there is a gold price suppression scheme in testimony to Congress on July 24, 1998. Greenspan said:

"Central Banks stand ready to lease gold in increasing quantities should the price rise."

<http://www.federalreserve.gov/boarddocs/testimony/1998/19980724.htm>)

The Bank for International Settlements, the central bank of the central banks, admitted there is a gold price suppression scheme last June in a speech by the head of the bank's monetary and economic department, William R. White, to central bankers and academics gathered at the BIS' fourth annual conference. White's speech was titled, "Past and Future of Central Bank Cooperation." He said that a major purpose of central bank cooperation is "the provision of international credits and joint efforts to influence asset prices (especially gold and foreign exchange) in circumstances where this might be thought useful."

<http://www.gata.org/CentralBankCooperation.htm>).

Even one of the most conservative banks in Europe, Cheuvreux, a division of France's Credit Agricole, said GATA is correct regarding its gold manipulation claims in their Metals and Mining Report released in January.

<http://www.gata.org/CheuvreuxGoldReport.pdf>).

The deputy chairman of the Russian central bank Oleg Mozhaiskov, addressed the London Bullion Market Association and agreed with GATA that there is a gold price suppression scheme. He said there was a "dualism" in the determination of the gold price that "distinguishes it from other commodities and makes the movements in the price sometimes so enigmatic that market analysts need to invent fantastic intrigues to explain price dynamics. Many have heard of the group of economists who came together in the society known as the Gold Anti-Trust Action Committee and started a number of lawsuits against the U.S. government, accusing it of organizing an anti-gold conspiracy. They believe that with the assistance of a number of major financial institutions (they mention in particular the Bank for International Settlements, J.P. Morgan Chase, Citigroup, Deutsche Bank, and others), some senior officials have been manipulating the market since 1994. As a result, the price dropped below US\$300 an ounce at a time when it should, if it had kept pace with inflation, reached US\$740-760."

<http://www.gata.org/RCBTakesNote.html>

The Pharaonic Power vested in Greenspan as the Head of the Federal Reserve seemed to have gone to his head. In his exalted position as the "Maestro" he seemed to believe that he had the power to suspend the Laws of Economics. At one point in his life, when he was thinking clearly, we know that he had the wisdom to recognize that such feats were impossible. In 1966 he wrote an article entitled "Gold and Economic Freedom". Here is an excerpt.

"The welfare state is nothing more than a mechanism by which governments confiscate the wealth of the productive members of a society to support a wide variety of welfare

schemes. A substantial part of the confiscation is effected by taxation. But the welfare statisticians were quick to recognize that if they wished to retain political power, the amount of taxation had to be limited and they had to resort to programs of massive deficit spending, i.e., they had to borrow money, by issuing government bonds, to finance welfare expenditures on a large scale.

Under a gold standard, the amount of credit that an economy can support is determined by the economy's tangible assets, since every credit instrument is ultimately a claim on some tangible asset. But government bonds are not backed by tangible wealth, only by the government's promise to pay out of future tax revenues, and cannot easily be absorbed by the financial markets. A large volume of new government bonds can be sold to the public only at progressively higher interest rates. Thus, government deficit spending under a gold standard is severely limited. The abandonment of the gold standard made it possible for the welfare statisticians to use the banking system as a means to an unlimited expansion of credit. They have created paper reserves in the form of government bonds which – through a complex series of steps – the banks accept in place of tangible assets and treat as if they were an actual deposit, i.e., as the equivalent of what was formerly a deposit of gold. The holder of a government bond or of a bank deposit created by paper reserves believes that he has a valid claim on a real asset. But the fact is that there are now more claims outstanding than real assets. The law of supply and demand is not to be conned. As the supply of money (of claims) increases relative to the supply of tangible assets in the economy, prices must eventually rise. Thus the earnings saved by the productive members of the society lose value in terms of goods. When the economy's books are finally balanced, one finds that this loss in value represents the goods purchased by the government for welfare or other purposes with the money proceeds of the government bonds financed by bank credit expansion.

In the absence of the gold standard, there is no way to protect savings from confiscation through inflation. There is no safe store of value. If there were, the government would have to make its holding illegal, as was done in the case of gold. If everyone decided, for example, to convert all his bank deposits to silver or copper or any other good, and thereafter declined to accept checks as payment for goods, bank deposits would lose their purchasing power and government-created bank credit would be worthless as a claim on goods. The financial policy of the welfare state requires that there be no way for the owners of wealth to protect themselves.

This is the shabby secret of the welfare statisticians' tirades against gold. Deficit spending is simply a scheme for the confiscation of wealth. Gold stands in the way of this insidious process. It stands as a protector of property rights. If one grasps this, one has no difficulty in understanding the statisticians' antagonism toward the gold standard.”

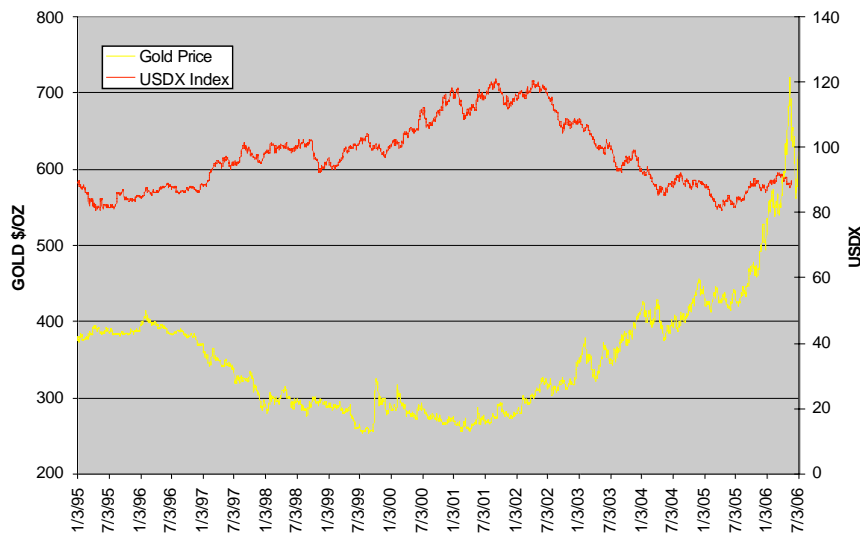
<http://www.lewrockwell.com/north/north204.html>

Twenty one years after writing this article Greenspan found himself in charge of the “insidious process” of fiat money creation and deficit spending. As he had himself recognized in 1966 “gold stood in the way”. And so the Maestro, in cahoots with Goldman Sachs, JPMorganChase, Deutsche Bank, the BIS and

others, embarked on a crusade against gold in an attempt to make the paper dollar the incontestable global currency.

The flaw in the plan to support the dollar by suppressing the price of gold is that the Central Banks who are involved in this scheme are running out of gold. In Greenspan's own words, "the law of supply and demand is not to be conned". But they tried any way! Some Central Banks such as those of China, Russia, Argentina, and more recently the United Arab Emirates, have seen the writing on the wall and have expressed publicly their intention to divest their huge dollar reserves and buy gold instead. And so the great Pyramid of Greenspan is rocking on its tip. The graph in figure 2 shows how from 1995 to 2001 the USDX (an index that compares the exchange rate value of the US Dollar with a basket of other currencies) increased while the gold price decreased despite the M3 money supply having been expanded at unprecedented rates. The falling USDX and the rising gold price since 2001 is an indication that the Central Banks are running out of gold to continue this scheme, that the law of supply and demand truly can not be conned even by the great Maestro. The consequences of the inverted Greenspan Pyramid falling over and manifesting a full-blown dollar collapse will simply be devastating. The only insurance against such a calamity is to buy gold. Thanks to a Cartel of western Central Banks and bullion bankers the price has been suppressed to levels that make it extremely under-valued and a once in a lifetime opportunity to not only protect against a dollar collapse but to profit from it also.

**Gold & US Dollar Index 1995-2006**



**Figure 2**

The Pyramids of the Pharaohs were built to carry them into immortality. In a bizarre way the Greenspan Pyramid will carry him into immortality too; when the manipulation of the gold price finally fails, when the dollar collapses, when global economic recession ensues, and when the root causes are subsequently analyzed, the name "Greenspan" will be immortalized in history as the man who

wreaked the most devastating financial turmoil on the global monetary and financial system.

For more information on the suppression of the gold price go to [www.gata.org](http://www.gata.org). For daily commentary on precious metals market action, mining shares, financial markets and more go to [www.lemetropolecafe.com](http://www.lemetropolecafe.com)

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