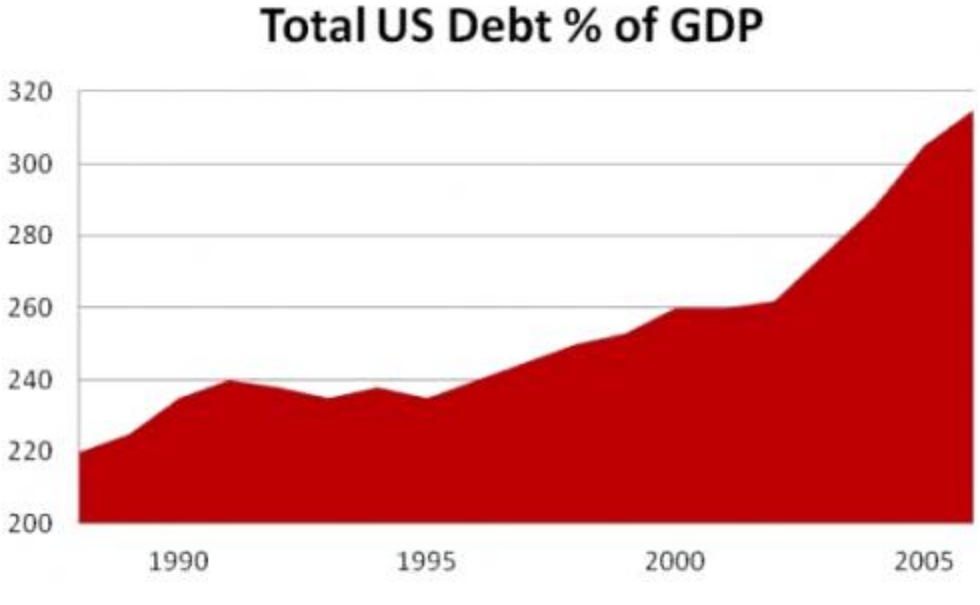
# Alan Greenspan: Ron Paul Was Right About The Gold Standard

**By Tyler Durden - Zero Hedge**

**As John Rubino eloquently puts it, "when the history of these times is written, former Fed Chair Alan Greenspan will be one of the major villains, but also one of the greatest mysteries. This is so because he has, in effect, been three different people." Greenspan started his public life brilliantly, as a libertarian thinker who said some compelling and accurate things about gold and its role in the world. An example from 1966: "*This is the shabby secret of the welfare statists' 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 statists' antagonism toward the gold standard*."**

**Yet everything changed a few decades later when Greenspan was put in charge of the Federal Reserve in the late 1980s, instead of applying the above wisdom, for example by limiting the bank's interference in the private sector and letting market forces determine winners and losers, he did a full 180, intervening in every crisis, creating new currency with abandon, and generally behaving like his old ideological enemies, the Keynesians. Predictably, debt soared during his long tenure.**



Along the way he was also instrumental in preventing regulation of credit default swaps and other derivatives that nearly blew up the system in 2008. His view of those instruments:

The reason that growth has continued despite adversity, or perhaps because of it, is that these new financial instruments are an increasingly important vehicle for unbundling risks. These instruments enhance the ability to differentiate risk and allocate it to those investors most able and willing to take it. This unbundling improves the ability of the market to engender a set of product and asset prices far more calibrated to the value preferences of consumers than was possible before derivative markets were developed. The product and asset price signals enable entrepreneurs to finely allocate real capital facilities to produce those goods and services most valued by consumers, a process that has undoubtedly improved national productivity growth and standards of living.

In the aftermath of the dot com crisis Greenspan cut interest rates to near-zero in the early 2000s, igniting the housing bubble, which neither he nor anyone else at the Fed was able to detect along the way. He even made it into the dictionary, as the "Greenspan put" became the term for government bailing out its Wall Street benefactors. From this the leveraged speculating community learned that no risk was too egregious and no profit too large, because government - that is, the Fed - had eliminated all the worst-case scenarios. Put another way, under Greenspan profit was privatized but loss was socialized.
Then, another metamorphosis took place: after Greenspan retired from the Fed in 2006 he began morphing back into his old libertarian self. A cynic might detect a desire to avoid the consequences of his past actions, while a neurologist might suspect senility. But either way the transformation has been breath taking.

Consider Greenspan's latest public address. In an extended interview published in the World Gold Council's Gold Investor February issue, Greenspan repeated his now standard warning about the risk of coming stagflation, which would send the price of gold higher: "The risk of inflation is beginning to rise...Significant increases in inflation will ultimately increase the price of gold." As such, "investment in gold now is

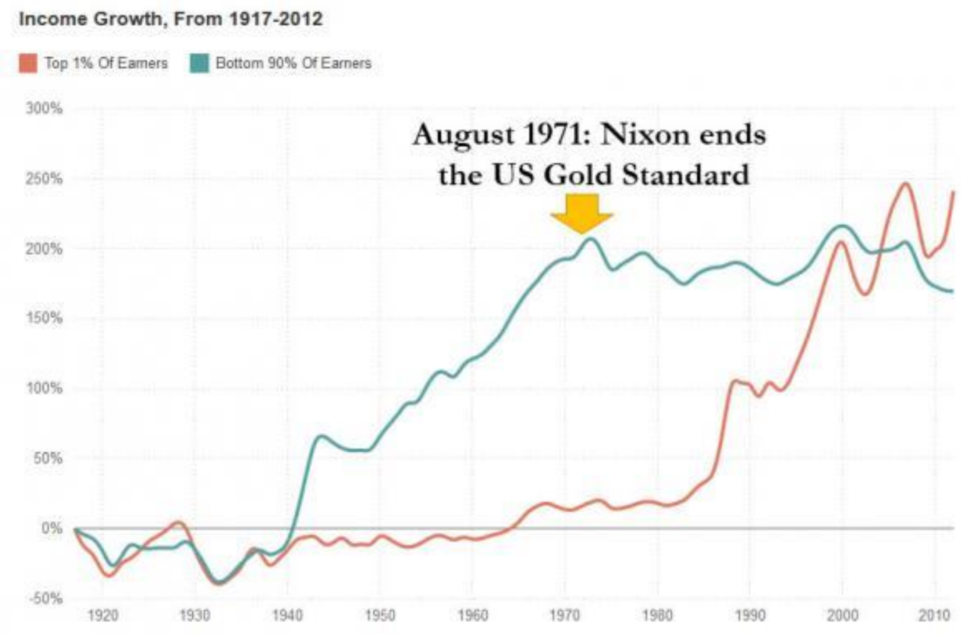
**insurance. It’s not for short-term gain, but for long-term protection.”**

**Going back to his libertarian roots, it was the idea of returning to a gold standard that Greenspan focused on: a gold standard that he said would help mitigate risks of an “unstable fiscal system” like the one we have today.**

**“Today, going back on to the gold standard would be perceived as an act of desperation. But if the gold standard were in place today, we would not have reached the situation in which we now find ourselves,” he said.“[T]here is a widespread view that the 19th Century gold standard didn’t work. I think that’s like wearing the wrong size shoes and saying the shoes are uncomfortable! It wasn’t the gold standard that failed; it was politics.”**

**And the punch line: “We would never have reached this position of extreme indebtedness were we on the gold standard, because the gold standard is a way of ensuring that fiscal policy never gets out of line.”**

**To be sure, this is something we discussed exactly two years ago, when we showed a chart showing the sudden end of prosperity for the "bottom 90%" of US earners at the time Nixon ended the US Gold Standard in August 1971, unleashing what ultimately would be the "Great Moderation", an unprecedented increase in US debt, and the stagnation of real incomes and net worth for all but the "top 1% of earners."**




**As we said then, in retrospect it is no wonder "<u>why the 1% hates the gold standard</u>" and added that the chart above, "*should also clarify just why to the "1%", including their protectors in the "developed market" central banking system, their tenured economist lackeys, their purchased politicians and their captured media outlets, the topic of a return to a gold standard is the biggest threat conceivable.*"**

**As for Greenspan's repeated attempts to undo the past by admitting his mistakes, the jury is out. As Rubino concludes, "one of the nice things about the information age is that public figures leave long paper trails and can't therefore easily escape their pasts. Greenspan's past, being perhaps the best documented of any central banker in history, will haunt him forever."**

**That said, at least Greenspan is going out a gold bug.**

***Below are the key excerpts <u>from his Gold Investor interview</u>:***

***Q. In recent months, concerns about stagflation have been rising. Do you believe that these concerns are legitimate?***

***Greenspan:* We have been through a protracted period of stagnant productivity growth, particularly in the developed world, driven largely by the aging of the 'baby boom'**

generation. Social benefits (entitlements in the US) are crowding out gross domestic savings, the primary source for funding investment, dollar for dollar. The decline in gross domestic savings as a share of GDP has suppressed gross non-residential capital investment. It is the lessened investment that has suppressed the growth in output per hour globally.

Output per hour has been growing at approximately ½% annually in the US and other developed countries over the past five years, compared with an earlier growth rate closer to 2%. That is a huge difference, which is reflected proportionately in the gross domestic product and in people's standard of living.

As productivity growth slows down, the whole economic system slows down. That has provoked despair and a consequent rise in economic populism from Brexit to Trump. Populism is not a philosophy or a concept, like socialism or capitalism, for example. Rather it is a cry of pain, where people are saying: Do something. Help!

At the same time, the risk of inflation is beginning to rise. In the United States, the unemployment rate is below 5%, which has put upward pressure on wages and unit costs generally. Demand is picking up, as manifested by the recent marked, broad increase in the money supply, which is stoking inflationary pressures. To date, wage increases have largely been absorbed by employers, but, if costs are moving up, prices ultimately have to follow suit. If you impose inflation on stagnation, you get stagflation.

*Q. As inflation pressures grow, do you anticipate a renewed interest in gold?*

*Greenspan:* Significant increases in inflation will ultimately increase the price of gold. Investment in gold now is insurance. It's not for short-term gain, but for long-term protection.

I view gold as the primary global currency. It is the only currency, along with silver, that does not require a counterparty signature. Gold, however, has always been far more valuable per ounce than silver. No one refuses gold as payment to discharge an obligation. Credit instruments and fiat currency depend on the credit worthiness of a counterparty. Gold, along

**with silver, is one of the only currencies that has an intrinsic value. It has always been that way. No one questions its value, and it has always been a valuable commodity, first coined in Asia Minor in 600 BC.**

***Q. Although gold is not an official currency, it plays an important role in the monetary system. What role do you think gold should play in the new geopolitical environment?***

***Greenspan:*** **The gold standard was operating at its peak in the late 19th and early 20th centuries, a period of extraordinary global prosperity, characterised by firming productivity growth and very little inflation.**

**But today, there is a widespread view that the 19th century gold standard didn't work. I think that's like wearing the wrong size shoes and saying the shoes are uncomfortable! It wasn't the gold standard that failed; it was politics. World War I disabled the fixed exchange rate parities and no country wanted to be exposed to the humiliation of having a lesser exchange rate against the US dollar than it enjoyed in 1913.**

**Britain, for example, chose to return to the gold standard in 1925 at the same exchange rate it had in 1913 relative to the US dollar (US$4.86 per pound sterling). That was a monumental error by Winston Churchill, then Chancellor of the Exchequer. It induced a severe deflation for Britain in the late 1920s, and the Bank of England had to default in 1931. It wasn't the gold standard that wasn't functioning; it was these pre-war parities that didn't work. All wanted to return to pre-war exchange rate parities, which, given the different degree of war and economic destruction from country to country, rendered this desire, in general, wholly unrealistic.**

**Today, going back on to the gold standard would be perceived as an act of desperation. But if the gold standard were in place today we would not have reached the situation in which we now find ourselves. We cannot afford to spend on infrastructure in the way that we should. The US sorely needs it, and it would pay for itself eventually in the form of a better economic environment (infrastructure). But few of such benefits would be reflected in private cash flow to repay debt. Much such infrastructure would have to be funded with government debt.**

**We are already in danger of seeing the ratio of federal debt to GDP edging toward triple digits. <u>We would never have reached this position of extreme indebtedness were we on the gold standard, because the gold standard is a way of ensuring that fiscal policy never gets out of line.</u>**

**Finally, buried at the very end of the interview was perhaps the most interesting statement by Greenspan: the former Fed Chair's implicit admission that Ron Paul was right all along.**

***Q. Against a background of ultra-low and negative interest rates, many reserve managers have been large buyers of gold. In your view, what role does gold play as a reserve asset?***

***Greenspan:*** **When I was Chair of the Federal Reserve I used to testify before US Congressman Ron Paul, who was a very strong advocate of gold. We had some interesting discussions. I told him that US monetary policy tried to follow signals that a gold standard would have created. That is sound monetary policy even with a fiat currency. In that regard, I told him that even if we had gone back to the gold standard, policy would not have changed all that much.**