Greenspan: Gold is a Currency, Euro "Breaking Down"

Former Federal Reserve boss Alan Greenspan (left) made headlines this week when he said gold is indeed a currency and noted that the euro was falling apart, contradicting top officials on both sides of the Atlantic.

"Gold, unlike all other commodities, is a currency," he told attendees at a conference in Washington D.C. on August 23, saying he did not think the precious metal was in a bubble despite recently reaching a new record above $1900. And a flight to safety amid inflation fears is what's causing soaring gold prices.

"The major thrust in the demand for gold is not for jewelry," Greenspan explained. "It's not for anything other than an escape from what is perceived to be a fiat money system, paper money, that seems to be deteriorating."

While it is well known that the fiat U.S. dollar is under increasing pressure following years of extreme "quantitative easing," the former central banker said the European single currency was also in big trouble. And the effects will be felt far beyond Europe.

"The euro is breaking down and the process of its breaking down is creating very considerable difficulties in the European banking system," said Greenspan, speaking at the Innovation Nation Forum hosted by an outfit described on its website as "one big Government IT community."

He also said a breakup of the euro was "obviously" a possibility. And the monetary and banking woes are actually raising fundamental questions about the nature of Europe's currency experiment itself.

"The problem is that there is a growing cleavage in the economic and analytical and banking circles as to whether the euro, which is the crucial issue here, should be 17 countries," he said, citing widely varying beliefs among the different nations in terms of the role of government, inflation, and other cultural issues.

As *The New American* recently reported, the European Central Bank is now printing even more money to buy government debt. Floundering regimes from Spain and Italy to Ireland and Portugal are struggling to stay afloat as the ECB and the EU frantically seek to prop them up.

A default by the socialist government ruling Greece is almost inevitable at this point, with European governments rushing to unload onto taxpayers the bad debt held by banks. And according to Greenspan, the problems swamping Europe are hurting the U.S. economy — and they could even lead to another American recession.

"The reason we are so sluggish is the level of uncertainty," he explained. "The general feeling out there is of a lull before the storm."

Countless experts not on the EU behemoth's payroll agree with Greenspan's assessment of the euro.

Many analysts are even more pessimistic as the supranational regime scrambles to implement more "economic integration" to keep the single currency afloat.

But Greenspan's comments on gold — widely accepted among economists — fly in the face of recent statements made by current Fed chief Ben Bernanke. In mid-July, Congressman Ron Paul (R-Texas), the chairman of the House Subcommittee on Monetary Policy, asked Bernanke whether he thought gold is money.

"No," Bernanke promptly responded, claiming that central banks held gold because of "tradition." Greenspan, on the other hand, has a long and complicated history of positions on gold.

Before assuming control of the Fed, he was a vehement advocate of gold as currency. In a 1966 essay entitled "Gold and Economic Freedom," he even argued that fiat money was incompatible with liberty — something of a scam to secretly loot the public.

"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," he wrote. "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."

But sometime before becoming chairman of the privately owned central bank, Greenspan drastically changed his tune. More than once, he claimed that because monetary authorities were already behaving as if there were a gold standard in place, a true gold standard to rein in central banks was unnecessary.

Greenspan also made a startling admission in 1998 before the House Banking Committee, essentially explaining that the Fed was deliberately suppressing gold prices through market manipulation. "Central banks stand ready to lease gold in increasing quantities, should the price of gold rise," he testified.

Since Greenspan's days at the helm of U.S. monetary policy, the value of American dollars has continued to plunge even against other fiat currencies. Meanwhile, the price of gold has almost tripled.

As the value of nearly all fiat currencies around the world keeps dropping in real terms, many prominent and well-established economists are forecasting unprecedented economic turmoil in the not-too-distant future. Greenspan's comments earlier this week may have been only scratching the surface.