

Greenspan, Rubin balked at Eddie George gold sale

by Jeffrey Steinberg

The shocking Sept. 26 announcement by 15 European central banks, that they are placing a cap on gold sales and gold leases over the next five years, reversing the Blair government and Bank of England drive to demonetize gold, was de facto backed by America's two leading financial and monetary policymakers, Federal Reserve Board Chairman Alan Greenspan and former Treasury Secretary Robert Rubin.

On May 20, 1999, Greenspan and then-Treasury Secretary Rubin testified at the House Banking Committee. Toward the end of their questioning, Rep. Ron Paul (R-Tex.) asked them about the recent announcements by the International Monetary Fund (IMF) and the Bank of England, headed by Eddie George, that they planned to sell off portions of their gold reserves. Both officials responded sharply that the United States would not support such a policy, and would not take any steps to reduce America's gold reserves.

While the international press has all but ignored the Sept. 26 central bankers' policy announcement (which was endorsed the next day by the Bank of Japan), American physical economist Lyndon LaRouche characterized the move as a "breath of sanity" by the world's leading central bankers, and a potential move toward his own proposal for a New Bretton Woods System.

For the record, *EIR* provides excerpts from the Greenspan and Rubin remarks at the May 20 hearings:

'Gold is the ultimate means of payment'

Paul: Let me address my question on gold to what the central bankers are doing with gold, as well as the IMF. The IMF is planning to sell gold, and they've announced that. And they seem to do this in a way that it does affect the market. The gold prices usually go down.

Now the purpose of the IMF selling gold is to—is called to help the Third World nations' debt problems. Yet, at the same time, the money that they are getting from these sales of gold really isn't directly helping them, but is going to be put into account, and the interest, which I would think would be a very small amount, would be helpful. So, it seems like the announcement might have been the most important thing.

Central bankers around the world systematically have either announced loans, or sales from, for more—about six years. And if they sell the gold, they make the announcement,

and then usually several months later they sell the gold for a lot less than the market was when they decided to do it.

We saw the best example of this just recently with the British making an announcement—yes, indeed, they will sell 400 tons of gold, and the gold price promptly dropped. . . .

I have a couple specific questions. Once the sales are announced, and then they sell this after it falls, you just wonder why would they do it that way. And there may be some beneficiaries to this, because those individuals who have been borrowing gold from central bankers to a large degree over the past six years would be in big trouble if the price of gold goes in the other direction. They'll be hit with a short squeeze, and there will be major trouble. . . .

Greenspan: Congressman, it's fairly evident that central banks are acutely aware of the fact that if they announce they're going to sell gold, the price will go down, and if they then sell it, they're getting a lower price. And it's true no self-respecting private trader would ever think of doing such a thing.

The reason they do it, is they believe it's appropriate that they not take advantage of the market. . . . I can assure you it's not because they're dumb. They know fully well what they are doing.

Paul: Gold essentially has been demonetized and it's proceeding—even the Swiss now are talking about selling half of their gold. And if this is the case, would you advise that we should seriously think now about getting rid of our gold, getting rid of it out of the IMF, get rid of it out of our Treasury? Why hold it if we demonetized it? Milton Friedman would agree with this, and he's pretty good at monetary policy.

Greenspan: I agree with virtually everything Milton Friedman usually says. This is one of the few times I don't.

Paul: Why do we need it?

Greenspan: Well, it's a very interesting issue. This issue, incidentally, was debated in the United States in 1976, and the conclusion was that we should hold our gold. And the reason is that gold still represents the ultimate form of payment in the world. It's interesting that Germany in 1944 could buy materials during the war only with gold. Fiat money paper in extremis is accepted by nobody, and gold is always accepted and is the ultimate means of payment and is perceived to be an element of stability in the currency and in the ultimate value of the currency.

And that historically has always been the reason why governments hold gold. But I can wax eloquently on this issue. It's the Secretary of the Treasury and the Treasury which owns it, so I am—I am just really a side commentator. He has the real answers.

Rubin: It is always good to hear from a citizen, though.

I don't think, Dr. Paul—I do think it is correct, I do think that the IMF's selling of gold is sound and sensible for their purposes. I do not think the United States should sell its gold for a whole host of reasons. It is a complicated subject, but I agree with the conclusion of the chairman.