



Book The Power of Gold

The History of an Obsession

Peter L. Bernstein
Wiley, 2000

Recommendation

Peter L. Bernstein’s history of gold is about much more than just the lure of precious metal - it’s about man’s relationship with wealth, his desire for prosperity and his lust for power. The story he tells presents an unflattering portrait of the human character. The book demonstrates how thirst for gold’s twin uses - adornment and currency - has driven humankind to countless atrocities. This volume is so elegantly written that it deserves its own gold-leaf pages. Bernstein traces the transformation of gold into money, beginning at the dawn of historic time and ending by asking if gold will ever again recover its status as the standard for establishing the value of money. *BooksInShort* highly recommends this fine book for anyone fascinated by all that glitters, and for students of economic history as well.

Take-Aways

- Gold has obsessed and fascinated people since the dawn of humanity.
- Because of its durability and beauty, gold is associated with the quest for immortality.
- Kings, temples and churches adorned themselves with gold to establish their authority.
- In this obsessive pursuit, the question became whether people owned gold, or it owned them.
- The need for slaves to mine gold incited constant warfare among ancient peoples.
- Thirst for gold was a major reason that royalty supported expeditions to the New World.
- The original touchstone was a means of calculating the purity of gold.
- Man’s attempts to fix the value of currency to the value of gold usually proved foolhardy.
- Johann Sutter considered the California gold rush his undoing.
- The U. S. accumulated 60% of the world’s gold currency in the turbulent years leading up to World War II.

Summary

AU The chemical symbol for gold derives from the word *aurora*, which means, "shining dawn." Gold's light has illuminated the human race's most ambitious and foolish endeavors. The adage of the wealthy man who responded to the call to abandon ship by strapping a large bag of gold to his waist and jumping overboard (thus, promptly sinking to the ocean's depths) illustrates the open question of whether men possess gold or gold possesses men.

"Nations have scoured the earth for gold in order to control others, only to find that gold has controlled their own fate."

King Ptolemy II of Egypt ordered sculptors to create a 180-foot high golden phallus that preceded processions in his court. Perseus searched for the Golden Fleece. The Biblical Jews danced around the golden calf after they fled Egypt. Pizarro was surrounded by the gold of the New World when his henchmen murdered him. Sutter touched off the California gold rush in search of it, and modern leaders - such as Charles deGaulle - deluded themselves that gold-based economies would work better. Nations have razed the earth and attacked friendly neighbors to control the element AU.

"The gold at the end of the rainbow is ultimate happiness, but the gold at the bottom of the mine emerges from hell."

"Oh, most excellent gold!" said Columbus during his first trip to America. "Who has gold has a treasure that even helps souls to paradise." As with Columbus, over time, gold's dangerous light has illuminated man's greed more than his wisdom.

As Good As...

Gold is a metal of mysteries. Almost as soft as putty and extremely dense, gold can be shaped as cleverly as the hands and mind that work it can manage. The gold in Venetian glasses was hammered to just five-millionths of an inch thick. An ounce of gold can be pulled into a wire 50 miles long, or pounded into a sheet that would cover a hundred square feet. If you packed all the gold ever mined into one solid cube, it could fit aboard any of today's great supertankers and it would weigh about 125,000 tons. By comparison, that much steel is produced in the United States every few hours (although it should be pointed out that the steel sells for only about two cents an ounce). Chemically inert, gold resists oxidization - thus its undying radiance. The thought may not make you smile, but there is a 4,500 year-old dental bridge in Cairo that is ready for you to use in your mouth today. Because of its longevity, gold has come to represent security, humankind's quest for eternal life and man's ever-thwarted desire to escape worldly vicissitudes. Since the beginning of history, as man shaped gold, his obsession for its illusory riches shaped him. This is the story of what the two did to each other down through the ages.

A Heart Of...

Historically, gold's special qualities have inspired reverence, among other emotions. In ancient Egypt, gold was a royal prerogative - only the pharaohs could adorn themselves with it. No one used it better than Hatshepsut, the daughter of Thutmose I, the first pharaoh to be buried in the Valley of the Tombs of the Kings at Thebes. Around 1470 B.C., she seized power from her nephew-stepson and ruled Egypt for 12 years. Among her works were two gold-topped pillars that rose a hundred feet high. Egyptologist James Henry Breasted described her as the first great lady of the world. When she died, she carried 80 titles, including Son of the Sun and Golden Horus (the Egyptian god of light). During her reign, Egyptian expeditions ceaselessly searched for gold, venturing as far south as Zimbabwe.

"When gold is regarded as life everlasting, it drives people to death."

What price was paid for this priceless treasure? Most of the gold from biblical times and ancient Egypt came from mines in Nubia, an African country. At the beginning of the practice of mining, men carved shallow ditches into the ground. The ditches later were augmented with complex underground shafts cut into the hillsides. The deeper the mines penetrated into the land, the greater was the scope of human misery experienced within their depths. Slaves worked in the mines. A slave would lie in the dark on his back or side and scratch the rock, day after endless day, until he either died from exhaustion or was crushed to death by the rock when the overturned earth gave way. The air in the shafts was barely breathable. The heat was unbearable, and pockets of underground water added to the misery.

"Out of steel, we can build office towers, ships, automobiles, containers and machinery of all types; out of gold, we can build nothing."

To get the gold, a slave first had to light underground fires to crack the quartz that surrounded it. When the quartz cracked, it often released arsenic fumes, bringing contorted deaths to those who inhaled the deadly vapors. The demand for new slaves created pressure for constant warfare.

All That Glitters Is Not...

Gold played an important role in the rise and fall of Croesus, who gained the throne of Lydia at age 35. One day Croesus got a visit from Solon, the Greek lawmaker. Croesus proudly displayed his treasury of gold and asked whether in all his travels Solon had ever seen anyone else so fortunate. Solon named an Athenian war hero, and a couple of prizewinning athletes and their devoted mother. Croesus was dumbfounded. Solon explained, "When you ask me about human affairs, you ask someone who knows how jealous and provocative god is...." He added that while wealthy men were in a better position to absorb misfortune, people were "creatures of pure chance." The lucky man, he pointed out, does not have to concern himself with misfortune in the first place.

“Finding and producing gold demands immense effort relative to the amount of glittering yellow metal that makes its appearance at the end of the process.”

Under Croesus, the Lydians developed a method for testing gold’s purity. They used a black stone similar to jasper, called the "touchstone" because merchants would rub lumps of gold against it and compare the mark against a set of 24 needles containing varying proportions of gold and silver, gold and copper, or all three. Just as today 24 karats measures pure gold, the twenty-fourth needle was pure gold. A century later, the Greek philosopher Chillon observed that, "Gold is tried with a touchstone, and men by gold." In today’s parlance, the word "touchstone" indicates any test of truth or purity.

“Most ironic, the deluge of gold from the New World did not even bring Spain the wealth and power that the conquerors had originally promised and that the king had anticipated.”

Croesus believed that sufficient wealth guaranteed happiness. So he endeavored to create new forms of money and succeeded. He was able to devise a method of separating the silver from gold in electrum, and he minted gold coins as well as lower denomination silver coins. In doing so, he established bi-metallic coinage that would come to be used the world over, with less valuable metals being used to mint less valuable coins. Moreover, his currency replaced all the others then in use, establishing the first imperial currency in world history.

“Gold as an end in itself is meaningless. Hoarding does not create wealth. Gold and its surrogates make sense only as a means to an end: to beautify, to adorn, to exchange for what we need and really want.”

When Croesus became concerned about the growing military power of his Persian rivals to the east, he consulted the Oracle at Delphi. He bribed the oracle with 117 ingots of pure gold, each weighing 150 pounds, a pure golden lion that weighed 600 pounds and a golden, 522-pound vat that was used for mixing wine and water. In return, the oracle advised Croesus that if he made war on Cyrus, he would destroy a great empire. At that, Croesus engaged the Persians in battle. The great empire Croesus destroyed was his own. As he was about to be burned at the stake, Croesus cried out that he would pay a great fortune to have Solon speak to all the tyrants of the earth.

Golden-Throated

Caesar’s supporter Marcus Licinius Crassus made a fortune in Rome by creating his own fire brigade. He would arrive just in time to buy a burning building at a fraction of its real cost, or else his brigade would let it burn to the ground. Crassus wanted to prove that, like his associates Caesar and Pompey, he could successfully command troops in battle. To achieve this, he provoked a war with the Parthians in Mesopotamia and set off with 44,000 troops under his command. Unfortunately for Crassus, his troops were routed, and his enemies displayed their disdain for Rome’s monetary obsession by the horrific manner in which they executed Crassus: the Parthians poured molten gold down his throat.

The Midas Torture

In the Middle Ages, gold was considered so valuable that it rarely changed hands. It is estimated that, by 1500, the total amount of

gold in Europe in all forms could have been fashioned into a cube only two meters square. The value of gold and the search for more was one driver of the era's great sea-going explorations. Columbus told Ferdinand and Isabella that his explorations would convert natives to Christianity and would uncover riches: "For without doubt there is in these lands a very great amount of gold." While it would be an exaggeration to say gold alone motivated the discovery of the New World, it surely helped.

"Since the end of World War II, the Americans had locked themselves into a golden prison that only postponed the day of reckoning."

Pizarro's ransom of the Inca king Atahualpa is the most egregious case of gilded imperialism. In return for his freedom, Atahualpa promised to fill a room 17 feet by 22 feet with a stack of gold that towered nine feet high. Pizarro agreed. The gold arrived from all over Peru as goblets, ewers, vases, plates, salvers and in countless other forms. Pizarro kept his end of the bargain by having Atahualpa tried and executed.

Fool's Gold

The discoveries at Sutter's Mill in California in 1848 and Hargrove's discovery in Australia in 1852 shook the world. Johann Sutter fled his homeland of Switzerland in 1834, hounded by creditors and facing debtors' prison. He settled in Sacramento, California, not far from where the state capitol is located today. By 1846, his community had 60 buildings. "My best days," he recalled later, "were just before the discovery of gold."

"Gold may again serve as the ultimate hedge in chaotic conditions. Its return to its traditional role as universal money is unlikely, however, unless the time should come when the dollar, the euro and the yen have all failed to function as acceptable means of payment across international borders."

The town naturally needed a sawmill, which Sutter decided to erect on the south fork of the American River. On January 24, 1848, Sutter's foreman appeared at office. "I believe this is gold," he reported, opening a cloth that contained golden flakes and grains. Sutter told his men to keep the find a secret, but word leaked out. On May 4, a neighbor who had visited the site ran through the streets of San Francisco with a bottle of gold dust, shouting, "Gold! Gold! Gold from the American River!" Soon, a new school that had opened in San Francisco had to be closed. The teachers and their pupils had all gone prospecting for gold. Sutter's workers left him and squatters tore up his holdings. His gristmill went unfinished and his property was stolen. In 1880, he tried for the sixteenth time to have his property claim confirmed by Congress. Congress adjourned without taking action, and two days later Sutter died at age 77.

The Gold Standard

The United States' historical links to gold continued long after Johann Sutter's property was abandoned. Before World War II, the United States amassed a fortune in gold so gigantic that it would have made an Incan king's hoard pale by comparison. European governments shipped their gold to the U.S. due to political instability on the European continent, and the fact that the U.S. government had a standing policy of buying gold at \$35 an ounce. When World War II broke out, 60% of the world's monetary gold was ensconced in the U.S.

"The most striking feature of this long history is that gold led most of the protagonists of the drama into the ditch."

The United States continued its policy of trading gold for dollars until 1971, when President Richard Nixon shut down the gold window by no longer selling gold at \$35 an ounce to governments who came to the Treasury to trade in their dollars. The relationship between the dollar and gold was severed. The effect was to "float" the dollar among the other currencies, so that its value could drop to more realistic levels, thereby improving the trade position of American goods by assuring that they were no longer overpriced in foreign markets. Perhaps taking a step away from gold was the smartest thing the United States could have done. Man's quest for gold has followed a tortuous path littered with the bones of prior crusaders. Like the rich man dragged to the bottom of the sea by the gold strapped to his body, the worst wounds were always self-inflicted.

About the Author

Peter L. Bernstein of New York City has written seven economics and finance books, including *Against the Gods: The Remarkable Story of Risk and Capital Ideas* and *The Improbable Origins of Modern Wall Street*. He is president of Peter L. Bernstein, Inc., a firm that provides economic consulting to institutional investors.
