

## DAVID McCULLOUGH, GOLD AND THE DOLLAR

Recently I received a very special note from my good friend and Yale roommate, David McCullough, who was awarded The Medal of Freedom by President Bush in a White House dinner ceremony last fall. The award is the highest honor the United States can bestow on a civilian, and in David's case it was richly deserved.

David enclosed with his note a copy of "The Love of Learning," his remarks at Yale on September 30, 2006; and, I would like to share with you two sentences appearing near the conclusion of his speech.

*"Among the important lessons one learns from a study of history is that those who lived long ago didn't think they lived long ago. Nor did they know in their time how things were going to turn out, any more than we do."*

Those words strike home every day in just about every way, and I believe they are particularly relevant to what is happening in the financial world that affects each of us.

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It is not possible to have a serious interest in investing without being a student of currencies. And gold is a currency. Gold is the only thing man spends his life digging up, melting and then burying. It pays no interest, nor can it be eaten. Gold is a store of value that fluctuates in the currency in which it is quoted; it has never been quoted at zero.

The fact that gold has value in the minds of man has been unquestioned, as far as we know, since the discovery of fire. There is no one who doesn't know the meaning of the term "Good as Gold."

A look at King Tutankhamun's gold mask, his innermost of three coffins' being

made of 110 kilograms of solid gold and the Treasury adjacent to his Burial Chamber provides a hint as to the reverence in which the Pharaohs held the precious metal. The Egyptians thought gold was the key to the afterlife. We have no doubt that a number of our friends share the same idea today.

The tomb of King Tut, the boy king who died in his late teens over 3,300 years ago, was discovered in 1922 by Howard Carter, a British Egyptologist, exploring on behalf of his patron, Lord Carnarvon.

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Perhaps gold's primary virtue is that, unlike paper money or "fiat" currency which a government decrees legal tender by law and contains no promise of redemption, gold cannot be printed ad infinitum. Paper money is created in unlimited quantity for the miniscule cost of paper and ink.

One of the most interesting books we have read on the subject of gold is "Fiat Money - Inflation in France" authored by Andrew Dickson White. It was first publicly read in 1876. In 1912 Dr. White, at the age of 80, revised and enlarged his original essay for private circulation only.

Andrew Dickson White (1832 – 1918) was graduated from Yale in 1853, studied at the Sorbonne in Paris in 1854, attended the University of Berlin in 1855 and 1856, and became Professor of History at the University of Michigan in 1857 at age 25. In 1867 he founded Cornell University and became its first president, an office he held until 1885.

The book portrays, at the time of the French Revolution, the effects of hyperinflation (when paper money becomes worthless), and how people in eighteenth-

century France during the reign of Louis XVI and Marie Antoinette were executed by guillotine if found possessing gold. At that time the only currency permitted was the bankrupt French government's new "Fiat Money," known as assignats.

#### PARTIAL CHRONOLOGICAL TABLE

July 14, 1789 – Fall of the Bastille

April 1790 – 1st issue of 400 million assignats  
September 1790 – 2nd issue of 800 million

June 1791 – 3rd issue of 600 million  
December 1791 – 4<sup>th</sup> issue of 300 million

April 1792 – 5<sup>th</sup> issue of 300 million assignats  
September 1792 - French Monarchy abolished  
December 1792 – Total assignats issued 3,400 million

January 21, 1793 - Louis XVI beheaded  
September 1793 – Law of the Maximum – price control extended to all food  
October 16, 1793 – Marie Antoinette beheaded.

June 4, 1794 – Robespierre elected president of National Convention; thousands executed by Revolutionary Tribunal  
July 27, 1794 – Robespierre beheaded; end of Reign of Terror  
December 1794 – Law of Maximum repealed

February 1796 – 40,000 million assignats in circulation. Equipment for printing assignats destroyed. First issue of new paper notes – mandats – to displace assignats at 30:1

February 1797 - Legal tender qualities withdrawn from both assignats and mandats, which became worthless after May

November 10, 1799 – Napoleon comes into power – “to save the Republic.” Bonaparte said “I will pay cash or pay nothing.”

This brief chronology vividly illustrates why the French people did not trust their “Fiat” money.

“In April of 1790 came the first issue of 400,000,000 livres in paper money, followed by successive new issues.” After the massacres in the Royal Palace, the slaughter of the Swiss guards and the execution of Louis XVI “on September 29, 1793, came

price-fixing – the Law of the Maximum, with its punishment of the guillotine for violators.”

“The inflation in revolutionary France was begun to pay off a debt and finance a budgetary deficit. (The immediate cause of the French Revolution, in fact, was the bankrupt state of the public treasury...)” “Merely add to the money supply, through the printing press, and all your difficulties dissolve. What the country needs is more ‘purchasing power.’”

Dr. White wrote of Fiat Money Inflation in France: It brought the “law of accelerating issue and depreciation.” “It brought, as we have seen, commerce and manufactures, the mercantile interest, the agricultural interest, to ruin. It brought on these the same destruction which would come to a Hollander opening the dikes of the sea to irrigate his garden in a dry summer.

“It ended in the complete financial, moral and political prostration of France – a prostration from which only a Napoleon could raise it.”

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#### Germany in 1922 and Hyperinflation

We have German friends who experienced this catastrophe with paper money that brought Hitler to power and ultimately resulted in World War II.

In the 1920s Germany also suffered results that we might refer to as “Fiat Money – Inflation in Germany.” The comments and tables below are from “Nightmare German Inflation” a News & Views Special Report published in October 1994.

“As this report points out, the correlation between deficits and inflation is sacrosanct ---deficits lead to inflation and

uncontrolled deficits lead to uncontrolled inflation.”

“...inflation resumed after the peace until by February 1920 the price level was five times as high as it had been at the armistice. Yet during this same time the amount of currency in circulation had only doubled. Prices were in fact rising much faster than the rate at which money was being printed. Therefore, reasoned the officials, the price inflation could hardly be blamed on the government. ...Confidence in the mark had weakened. At the same time, and as a consequence, billions of hoarded marks came out of hiding and entered the marketplace.”

“After July 1922 the phase of hyperinflation began. All confidence in money vanished and the price index rose faster and faster for fifteen months, outpacing the printing presses which could not run out money as fast as it was depreciating.

German Wholesale Price Index

July 1914	1.0
Jan 1919	2.6
July 1919	3.4
Jan 1920	12.6
Jan 1921	14.4
July 1921	14.3
Jan 1922	36.7
July 1922	100.6
Jan 1923	2,785.0
July 1923	194,000.0
Nov 1923	726,000,000,000.0

“From Mid-1922 to November 1923 hyperinflation raged. The table above tells the story. Seemingly Reichsbank officials believed that the basic trouble was the

depreciation of the mark in terms of foreign currencies. In late 1922 they tried to support the mark by purchasing it in the foreign exchange markets. However, since they continued printing new currency at a feverish rate, the attempt failed. They merely succeeded in buying worthless marks in return for valuable gold and foreign exchange.”

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**The United States Dollar**

We note that more and more people are concerned about the value of the U.S. dollar, particularly in view of U.S. deficits and the ambitions of foreign countries that hold massive amounts of our currency.

On February 15, 2007 the U.S. Treasury reported that monthly capital flows reversed to the first outflow in a year and a half as December’s outflow was \$11 billion versus an inflow of \$70.5 billion in November.

What are concerned dollar holders’ alternatives? They may consider purchasing gold, silver, other valuable metals and commodities or other currencies such as the Euro, the Swiss Franc, or the Yen et cetera.

These are very complex choices. Currency decisions can be nightmares where disagreements among the “experts” can be counted on with the same probability as the sun’s rising daily in the east.

For example: “The International Monetary Fund should sell gold worth \$6.6 billion and invest the proceeds in higher yielding assets as part of a strategy to put its finances on a sound, long-term footing, an expert panel recommended yesterday.” The above is from a February 2, 2007 *Financial Times* article titled “Cash-strapped IMF advised to sell gold.”

The panel included Alan Greenspan, former chairman of the US Federal Reserve, Jean-Claude Trichet, president of the European Central Bank, and Andrew Crockett, president of JPMorgan Chase. The IMF owns a total of 3,217 tons of gold.

Is this good advice? If the dollar appears to be devalued, the question is against what? Is gold increasing its value against the dollar or is the dollar being devalued against gold? Or both?

When George Bush was elected President in 2001, gold was selling for US \$285 an ounce. Now it is selling at US \$670 an ounce, an increase of \$385 or 135%. Our politically incorrect conclusion is that the dollar has been and is being devalued. Perhaps the IMF panel believes gold has reached its high.

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On December 3, 2004 we wrote in our Commentary: "Dress British, Think Yiddish! or Time for Americans to Get Smart about their Dollar:"

"On November 18, 2004, the first gold bullion-backed exchange-traded fund opened on the New York Stock Exchange. At the end of three business days \$1.3 billion had been invested in the shares that trade like any other NYSE shares. The name is StreetTRACKS Gold Shares; the symbol is GLD; the sole assets are gold bullion and cash; estimated expenses are 0.40%; and, the price of a share is approximately 1/10th of an ounce of gold.

"The Trust's mandate is to buy and sell gold bullion. The physical gold bullion is held by the Custodian, HSBC Bank USA, in its London vault or in the vaults of sub-custodians. The Trustee is the Bank of New York. GLD's telephone for information and a prospectus is 866 320 4053. The Web site is: [www.streettracksgoldshares.com](http://www.streettracksgoldshares.com)."

Since its inception on November 18, 2004 the Trust now holds approximately \$9 billion in physical gold. SLV, holding 3,720 tons of silver, is to silver what GLD is to gold.

(These comments are neither a recommendation to purchase or sell these shares; they are purely for information. Offerings are made by prospectus only)

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David McCullough's words keep coming back: "*Among the important lessons one learns from a study of history is that those who lived long ago didn't think they lived long ago. Nor did they know in their time how things were going to turn out, any more than we do.*"

John W. Hamilton

February 16, 2007

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THE ENCLOSED PHOTOGRAPH WAS TAKEN WHEN DEBBIE AND I RECENTLY REVISITED PARADISE – ALSO KNOWN AS COCO POINT LODGE, BARBUDA, WEST INDIES. LOCATED APPROXIMATELY 30 MILES FROM ANTIGUA, COCO POINT WAS FOUNDED IN 1961 BY OUR FRIEND, PAT KELLY'S, FATHER. WE WILL BE PLEASED TO ANSWER ANY OF YOUR QUESTIONS ABOUT PARADISE. THE WEB SITE IS [www.CocoPoint.com](http://www.CocoPoint.com).



# About the Speaker



Michael Marsland

David McCullough was graduated from Yale in 1955 with honors in English literature and began his career as writer and editor for Time, Inc., in New York City. He is the author of a remarkable body of widely acclaimed books, including two Pulitzer Prize winners – *Truman* (1992) and *John Adams* (2002), which earned accolades from his fellow historians and popular acclaim atop the *New York Times* best-sellers list. He also wrote *The Johnstown Flood*; *The Great Bridge*, about the building of the Brooklyn Bridge; *The Path Between the Seas*, chronicling the creation of the Panama Canal; *Mornings on Horseback*, about the young Theodore Roosevelt; and *Brave Companions*, essays on heroic figures past and present. His latest book, *1776* (2005), was also number one on the *New York Times* best-sellers list. He has been characterized as a rare historian who can “convey the results of deep scholarship to a wide audience in clear and compelling prose.”

A gifted speaker, McCullough has lectured around the world, addressing distinguished audiences that include the White House and a joint session of Congress. He has also lent his distinctive voice to film and television, narrating the documentaries *The Civil War* and *Napoleon* and an acclaimed theatrical release, *Seabiscuit*. For public television, he hosted the series *Smithsonian World* and *The American Experience*.

McCullough has received more than forty honorary degrees, including a 1998 doctor of letters from Yale University, and he has been elected to the American Academy of Arts and Sciences, the American Philosophical Society, and the American Academy of Arts and Letters. His honors include two Francis Parkman prizes and two National Book Awards. He holds the National Book Foundation Distinguished Contribution to American Letters Award, the National Humanities Medal, the St. Louis Literary Award, the Carl Sandburg Award, and the New York Public Library’s Literary Lion Award.

A traveler and painter of landscapes, McCullough lives in Massachusetts with his wife, Rosalee Barnes McCullough. They have five children and eighteen grandchildren.