Case Study #22 **April 2021**

Discounting gold: Money and banking in Gold Rush California

Introduction

Two momentous events early in 1848 completely and abruptly transformed California. On 24 January, James Marshall found gold in a millrace he was building for John Sutter at Coloma, on the South Fork of the American River. Nine days later, on 2 February, the United States and Mexico concluded the Treaty of Guadalupe Hidalgo, ending nearly two years of hostilities. Under the Treaty, Mexico ceded much of the present south-western United States to the US for monetary consideration. An American occupation government had ruled most of California since mid-1846, but neither the American military governor nor the earlier Mexican governors had held firm political control over the remote, sparsely populated territory.[1] Now, the problem was fully in the hands of the Americans.

Figure 1. San Francisco in July 1849 from present site of S.F. Stock Exchange. [No Date Recorded on Shelflist Card] Photograph. https://www.loc.gov/item/2003674847/.

The discovery of gold and the change in sovereignty presented both opportunity and risk. Many in California abandoned other occupations to try their luck in the new 'diggings'[2] in the foothills of Sierra Nevada. The risk was that California might fall prey to the 'resource curse' – that the discovery of mineral riches might divert labour and attract outside exploitation and corruption, thus impoverishing the region.

Much recent scholarship on the resource curse draws on a 1995 paper by Jeffrey Sachs and Andrew Warner.[3] Although they did not use the term 'resource curse', they described, and they and their successors have sought to explain, an empirical pattern which suggests that countries rich in natural resources seem prone to sub-par economic growth.

In 1848, US President James K Polk focused on the opportunity. On 5 December 1848, he devoted much of his final Annual Message to Congress to the subject of California, emphasising its 'abundance of gold and the all-engrossing pursuit of it', high wages, and 'an unprecedented rise in the price of all the necessaries of life'.[4]

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Polk's message did not start the Gold Rush; that was already underway. But his remarks may have encouraged more Americans to seek opportunity in California. Gold attracted tens and then hundreds of thousands of emigrants to the state, most of them young American men from the Atlantic states. High prices stimulated an explosion of trade, particularly in San Francisco, matching the growth in population there, and in the state in general. In less than two years, California was transformed from a sleepy, agrarian country that exported beef tallow and cattle hides, into a place teeming with newcomers whose lives revolved around gold. Gold Rush California exhibited the worst symptoms of the resource curse: a speculative, land-grab atmosphere, poorly-developed agricultural and manufacturing sectors, and an almost total reliance on imports paid for by exports of the valuable natural resource – gold. Corruption in this Wild West place was rife, too – some of the most colourful rogues in American history were Californian Gold Rush figures.

Map 1. Travel routes to Gold Rush California. Map by Jake Chila.

Despite the threat of outside exploitation and the reality of corruption, the Gold Rush also enabled the creation of social, political, and economic bonds between California and the rest of the United States, with robust trading relationships around the globe. These ties fostered the development of an astonishingly productive economy once the Gold Rush had passed. In addition, once the early miners had exhausted the readily accessible gold deposits, many of them turned to more productive occupations. Gold was not really a direct source of wealth for California, but it proved to be a powerful economic catalyst. Overall, gold was to California a resource blessing, not a curse.

Gold Dust

In the early years following its discovery at Sutter's mill, mining gold was California's main economic activity. Californians relied on imports for everything else. Merchants from around the world, anticipating payment in gold, eagerly met the state's need for what it was too busy at the diggings to produce for itself. An entire service economy sprang up almost overnight to meet the needs of the miners, from food, clothing, and shelter to entertainment and all the other necessities and luxuries of life.

But the miners did not produce gold coins. They occasionally unearthed sizeable nuggets but most of what they extracted was flakes of metallic gold mixed with sand and earth, a combination referred to as 'gold dust' or simply 'dust'. Dust represented value that the miners could exchange for supplies and luxuries; save towards the fortunes they imagined themselves amassing; or send home to their families back east. But it was not money. The defining economic problem of Gold Rush California was to find the financial alchemy for transmuting gold dust into money.

One expedient was to trade the gold dust itself. Merchants kept scales for weighing the dust that the miners brought them, often in retail quantities, to pay for goods. For some small purchases the agreed price was a 'pinch'. The buyer would place a small quantity of dust on the counter and the seller would take as payment as much as he could pick up between his thumb and forefinger.

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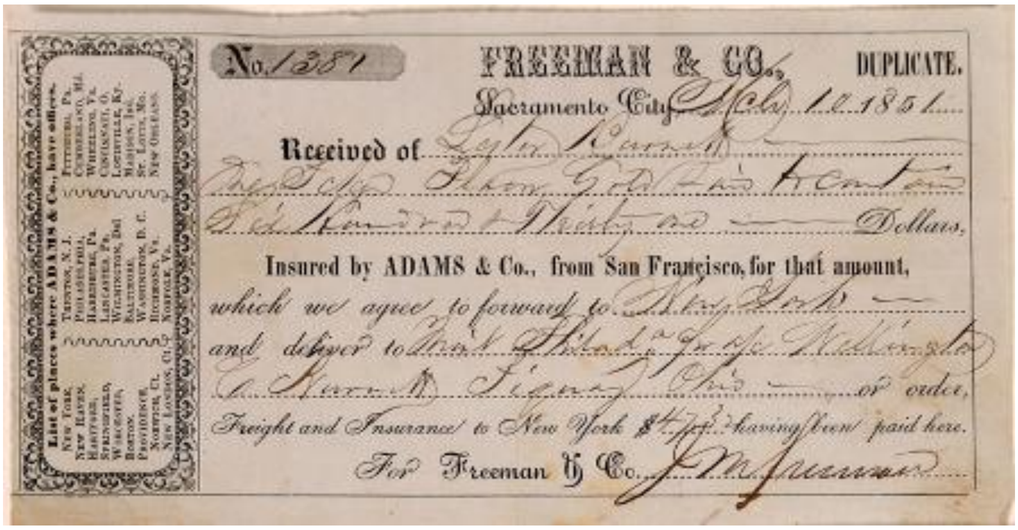
The direct way to transmute gold dust into money was to forward it to the US Mint to be coined at the statutory rate of approximately US$20.67 per ounce of fine gold. But until 1854, when the US Treasury Department established a branch Mint in San Francisco, the principal Mint was on the other side of the continent, in Philadelphia, Pennsylvania, about 100 miles from New York. Another of Polk's initiatives provided the infrastructure necessary to send the gold dust there.

In 1848, with Polk's backing, the US Congress enacted the legislation necessary to extend the US Mail service to California. To that end, the Secretary of Navy was authorised to commission a fleet of ocean-going steamships whilst, at the same time, requiring that these steamers be converted to warships if necessary. Private concerns operated the steamers under contracts with the US Postmaster General. An eastern fleet shuttled between New York or New Orleans, Louisiana, and Chagres, at the mouth of the Chagres River, now the Caribbean entrance to the Panama Canal. A second, Pacific fleet, shuttled between San Francisco and Panama, where the Pacific entrance to the Canal is today. A transit of the Isthmus (a trek that initially involved at least one day on muleback and two in canoes)[5] connected the ocean legs of the journey. Initially, travel between San Francisco and New York took about five weeks, compared to the five months or more it took to sail around Cape Horn.[6] (See Map 1.)

The first of the Pacific steamers, the *California*, built in Maine, arrived in San Francisco on 28 February 1849.[7] Its companion, the *Oregon*, arrived on 1 April. These steamers linked the gold fields of the Sierra foothills to the broader American economy. Initially sailing from San Francisco for Panama twice each month, they provided regular, reliable, and comparatively rapid transport for mail, passengers, express matter (high-value, low-volume, or idiosyncratic items, rather than bulk freight), and gold – 'treasure' – between California and the Atlantic coast. During the 1850s, Californians forwarded at least US$500 million dollars' worth of gold to eastern ports by way of these steamers.[8] The actual quantity was undoubtedly greater, as the reported figures included only the remittances on the steamers' manifests. Many passengers undoubtedly carried unmanifested gold in their luggage, or on their person.


No. 1381 FREEMAN & CO. DUPLICATE.

Sacramento City ... 10 1851

Received of ...

... Dollars,

Insured by ADAMS & Co., from San Francisco, for that amount,

which we agree to forward to ...

and deliver to ... or order,

Freight and Insurance to New York $ ... having been paid here.

For Freeman & Co. ...

List of places where ADAMS & Co., have offices.

Figure 2. Receipt for shipment of gold dust from Lester Burnett to the Mint at Philadelphia, 10 March 1851. (Author's personal collection.)

Until the completion of the trans-continental telegraph in 1861, the steamers were the most important means of delivering news and correspondence between the Pacific and Atlantic coasts. And until the completion of the trans-continental railroad in 1869, they remained the most important means of transport for passengers, mail, and treasure between California and the Atlantic states. Even Wells Fargo sent far more treasure east by steamer than via its famous stagecoaches.[9]

Individuals sending gold dust east generally shipped it via express forwarders. In the early 1850s, that usually meant using Adams & Co., the Californian offshoot of the Boston firm of the same name. Adams maintained standing arrangements with the steamship operators, providing insurance, and sending messengers on each steamer to look after the treasure. For individuals, the service was not cheap.

On 10 March 1851 (see Figure 1), a Lester Burnett consigned a package of 'Placer Gold [gold dust recovered from alluvial surface deposits, or placers, using water], said to contain' US$631 to Freeman & Co., Adams's principal feeder carrier in Sacramento, California, for shipment to the Mint in Philadelphia by way of San Francisco and New York. Burnett paid $47.32, or 7.5% of the shipment's stated value,

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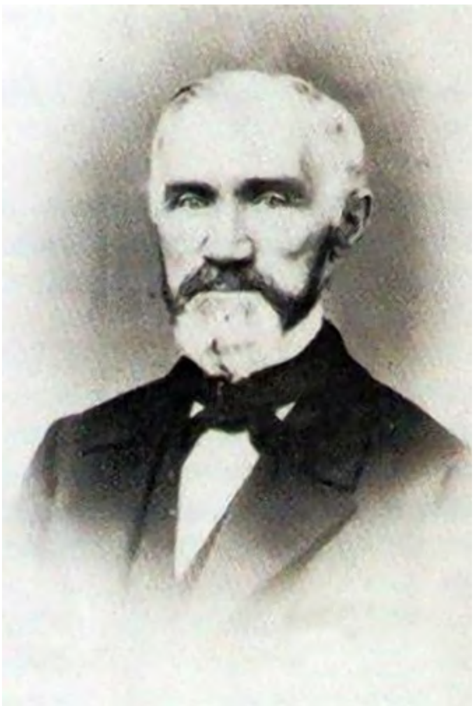

Figure 3. Peder Sather. (Source: sathercenter.berkeley.edu.)

for 'Freight and Insurance to New York'. Burnett declared the shipment's value at $631 for insurance purchases; its true value is unknown. Burnett probably paid an extra 0.5% to ship from Sacramento, rather than San Francisco.[10]

Valuing gold dust was problematic. Dust inevitably – often intentionally – contained earth or sand. The gold flakes themselves also sometimes contained natural alloys of other metals. Some, like silver, were easy to remove, and had value. But gold from some of the more northerly mining districts sometimes contained iridium, a metal more difficult to separate from the gold. A merchant or banker with an experienced eye could spot dust egregiously debased but as a practical matter, any tolerably clean dust passed at the prevailing price.

A couple of examples illustrate the variability of gold dust. In 1849, Peder Sather, a New York banker, sent a young associate, Anthony L Tasheira, to scout conditions in California. Largely on the strength of Tasheira's reports, Sather later moved to San Francisco to lead the firm of Drexel, Sather & Church. Tasheira struggled so bitterly in the mines at Murphys (see Map 2) that he did not even reply to the regular letters his wife Eliza sent from New York.[11]

After a year, he was ready to atone for his silence. He had accumulated 75 ounces of gold dust, which he sent to Sather with a letter asking him to show it to Eliza before forwarding it to the Mint for coinage. Unfortunately, the gold arrived separately and Sather sent it directly to the Mint. Eliza received its value but never saw the gold. In a letter dated 10 September 1850, Sather apologised for the misunderstanding, but also reported, 'The 75oz yielded according to the Mint certificate $1,377.40.'[12] Tasheira must have cleaned his dust carefully before sending it east as his Mint return came to $18.365 per ounce.

Agents of the Russian-American Company fared very differently. This company, founded in 1799, traded for furs, mostly in what is now Alaska. It had long sent ships from its main trading post at New Arkhangel (Ново-Архангельск, now Sitka, Alaska) to San Francisco for supplies – its first such voyage took place in 1806.[13] From 1849, buying supplies in California became harder for these Russians but selling goods there became highly profitable. The company's annual report for 1850 reflects a sale, for a combination of cash and gold dust, which the Russian-American Company shipped to the mint in St Petersburg for coinage. The yield of gold and silver was just over 75% of the gross weight of the dust, a Mint return equivalent to only about $15.60 per ounce.[14]

Map 2. Gold Rush California. Map by Jake Chila.

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The Bankers

The frictions of transmuting gold into money were severe, partly because at the time the US had no national currency, no national banks, and no national banking law.[15] The only official money was coin struck at the US Mint, under the US Congress's Constitutional authority to mint money. The individual states regulated banks, not the Federal government. Californian law prohibited bankers from issuing notes that could circulate as currency, and California only allowed individuals or private partnerships – with unlimited liability – rather than corporations, to be bankers. In this monetary vacuum merchants accepted gold dust for payments, and some began to deal in gold dust directly. Adams & Co. handled gold for its express customers, and soon began accepting deposits and performing other banking functions. This part of its business grew over time and by 1854, it was one of California's leading bankers.

Some entrepreneurs came to California specifically to establish banking houses. Among them was a young man with an unusual name, James King of William. He was born simply James King in 1822 in Georgetown, District of Columbia, three or four miles from the US Capitol in Washington City.[16] When he was a lad, he served a term as a sort of apprentice with Corcoran & Riggs (C & R), one of Washington's eminent banking houses. At some point, either as an embellishment or to distinguish himself from another person of the same name, he adopted the cognomen 'of William'. San Franciscans knew him as James King of William, and he signed that name to letters, legal documents, and, later, to newspaper editorials.

King probably came to California early in 1849. How and when he first arrived are not clear, but it appears that his initial stay lasted only a few months. Having decided that with the right backing, a banking business could be lucrative, he returned to Washington to persuade Corcoran & Riggs to provide him with capital, lines of credit with bankers in several cities, and the right to advertise their correspondent relationship.

Figure 4. 'James King of William', Charles Fenderich, 1856. (Lithograph, Fine Arts Museums of San Francisco, https://art.famsf.org/charles-fenderich/james-king-william-41894.)

King appears to have departed San Francisco on 1 August 1849, sailing for Panama on the *California*. The name 'James King' appears on that departure's list of passengers, which was published in the San Francisco weekly, the *Alta California* newspaper (the *Alta*).[17] He was back in California by 10 December 1849, when he placed his first advertisement in the *Alta*, by then a tri-weekly (Figure 5). He offered to buy gold dust, take gold dust and coin on deposit, and provide bills of exchange on Corcoran & Riggs, payable in five Atlantic cities, plus the Mississippi River cities of St. Louis, Missouri and New Orleans.

King's correspondence with Corcoran & Riggs, timed to the twice-monthly departures of the Panama steamers, was central to his business. The package he prepared on 14 September 1850, for the next afternoon's sailing of the steamer *Tennessee*, is representative. Writing in an angular hand as singular as his name, King addressed four documents to Corcoran & Riggs: 1) a 'Business letter', summarising their direct dealings; 2) a list of draughts that King had written on behalf of his customers, for payment by C & R in Washington and by other correspondents in cities up and down the Eastern Seaboard, including New York, Philadelphia, Boston, and Charleston, South Carolina; 3) a set of accounts covering the bilateral balances between his firm and C & R; and 4) a 'News Letter', discussing business conditions in San Francisco.[18]

On this occasion, King prepared two additional packages for the steamer. The first was a remittance of physical gold: 750 ounces troy (about 23.3 kg) of gold dust, which he valued at $16.25 per ounce, or $12,187.50, plus small quantities of gold coin and gold bullion, worth $143.59. The second package was a bundle of draughts, 30 in all, for varying amounts totalling $7,671.56. These he addressed for delivery to individual payees in various eastern cities. C & R's backing allowed King to assure his San Francisco

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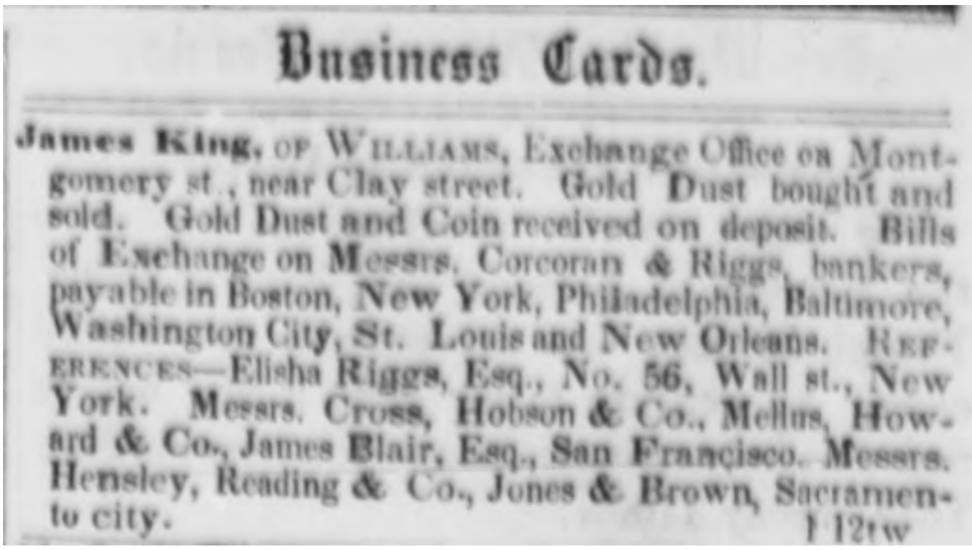
customers that the paying banks would honour the draughts. Once the banks accepted the draughts, they became bills of exchange. King most likely also forwarded 'Seconds of Exchange' via the *Tennessee*; these were duplicates of the draughts he had sent east on the previous steamer, backups in case delivery of the originals had failed.

King's draughts totalled around $7,700 but he remitted gold worth about $12,300. The additional $4,600 or so was part of a separate operation. King bought gold dust directly on C & R's behalf, using its funds. C & R sent the dust to the Mint for coinage and divided the profit – the excess of the Mint returns over what King had paid for the dust, plus freight and insurance – with King, 50–50.

One correspondent with whom Corcoran & Riggs established a line of credit for King was another of the bank's protégés, London banker George Peabody. C & R guaranteed King's draughts on Peabody for up to £2,000 by any one steamer departure. King wrote to Peabody on 28 February 1850, for the steamer departure of 1 March, introducing himself and noting his first draught, for £7, in favour of Mrs Margaret Mooney of Liverpool. He added a page, corresponding to his 'News Letters' to Corcoran & Riggs, describing monetary conditions. He sketched the dynamics of the gold dust market:

> Gold Dust 15.75 to 16$ pr ounce for about 8 days after the sailing of a Steamer. It then generally rises to 16 or 16.25. During the past week I have refused to sell at the latter rate. Money 10 to 12½ pr ct per month on good paper, say the best at 10.[19]


Business Cards.

James King, of William, Exchange Office on Montgomery st., near Clay street. Gold Dust bought and sold. Gold Dust and Coin received on deposit. Bills of Exchange on Messrs. Corcoran & Riggs, bankers, payable in Boston, New York, Philadelphia, Baltimore, Washington City, St. Louis and New Orleans. References—Elisha Riggs, Esq., No. 56, Wall st., New York. Messrs. Cross, Hobson & Co., Mellus, Howard & Co., James Blair, Esq., San Francisco. Messrs. Hensley, Reading & Co., Jones & Brown, Sacramento city. 1 12tw

Figure 5. Advertisement in the tri-weekly *Alta California*, Vol. 1, No. 1, 10 December 1849.

San Francisco bankers typically realised Mint returns of between $17.50 and $17.70 per ounce on gold dust they sent east for coinage. As bankers negotiated better rates for freight and insurance on gold dust, competition quickly drove up the prices they paid for the dust. In March 1851, a consortium of San Francisco bankers announced that they would all pay $17 per ounce for clean dust. Before long, they had raised that fixed price to $17.40. This increase drove the San Francisco bankers to try buying dust closer to the mines. By the summer of 1852, James King of William was sending $5,000 per week for that purpose to William Hammond, a former employee, and now a banker in Sonora, California, near the diggings in the southern part of the gold mining region.[20]

James King of William and Adams & Co. were among the early bankers in San Francisco, but they were far from alone. Among the most aggressive bankers to move into the San Francisco market were Daniel D Page and his son-in-law Henry D Bacon, partners in the banking house of Page & Bacon of St. Louis. In May 1850, the two men sent Page's son, Francis W 'Frank' Page, and two other young associates, Henry Haight and David 'Judge' Chambers, to start a San Francisco affiliate, Page, Bacon & Co. (PB & Co.).[21] PB & Co. quickly became a leading buyer of gold dust and from late 1851 to early 1855, it and Adams & Co. regularly headed the league table of shippers of treasure on each steamer.[22]

In 1852, one of Page's principal St. Louis business rivals, James Lucas, also opened a San Francisco bank, tapping Major Henry Smith Turner, a veteran of the Mexican–American War, to run it. Urgent family matters soon recalled Turner to St. Louis, and he nominated his friend and army comrade William Tecumseh Sherman to replace him. Captain Sherman, as his acquaintances called him by courtesy, had been a commissary officer at US Army headquarters in Monterey at the time of the discovery of gold. He was among the officers sent to visit Sutter to verify the find. After the war he returned east, disappointed that as a

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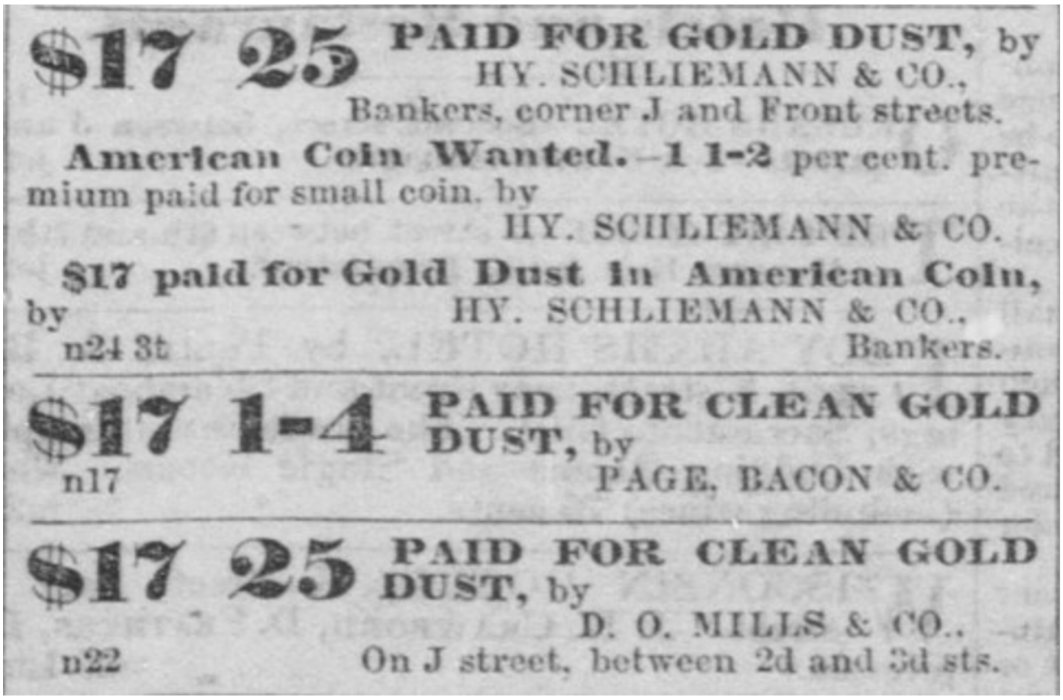
staff officer he had had no opportunity to distinguish himself in the field. Sherman returned to California to take charge of Lucas, Turner & Co. in 1853.[23]

NM Rothschild & Sons placed an agent, Benjamin Davidson, in San Francisco as early as August 1849. For a time, Davidson, in turn, had a Sacramento agent, Heinrich 'Henry' Schliemann. Schliemann arrived in Sacramento in 1851 following his brother's death there from typhus the previous year. In April 1851, Schliemann advertised, offering to lend on his own account.[24] By September, the 'Banking House of Henry Schliemann' styled itself 'Agent of B. DAVIDSON, House of Rothschild, at San Francisco'.[25] Schliemann left California as suddenly and mysteriously as he had arrived. Davidson unexpectedly published a notice on 7 April 1852, assuming responsibility for Schliemann's banking business.[26] The Sacramento *Daily Union* reported the next day that Schliemann 'has been called to Europe to attend to some family matters of importance to him.'[27] Schliemann later came to fame for his accounts of discovering and excavating ancient Troy.


$17 25 PAID FOR GOLD DUST, by HY. SCHLIEMANN & CO., Bankers, corner J and Front streets.

American Coin Wanted.—1 1-2 per cent. premium paid for small coin, by HY. SCHLIEMANN & CO.

$17 paid for Gold Dust in American Coin, by HY. SCHLIEMANN & CO., Bankers.
n24 3t

$17 1-4 PAID FOR CLEAN GOLD DUST, by PAGE, BACON & CO.
n17

$17 25 PAID FOR CLEAN GOLD DUST, by D. O. MILLS & CO., On J street, between 2d and 3d sts.
n22

Figure 6. Advertisements appearing together in the Sacramento Daily Union, 24 November 1851, page 2, column 1.

Peder Sather, who sent Anthony Tasheira to California, was a Norwegian immigrant who lived in New York for the first few years following his arrival in the United States. Sather and a partner, Edward W Church, started the banking firm of Sather and Church, with Sather in New York and Church in San Francisco. After a capital infusion from the great painter-turned-banker, Francis M Drexel, the three formed the partnership of Drexel, Sather & Church on 1 May 1851. Sather moved to San Francisco in 1853[28] and rescued a grateful Tasheira from the rigours of life in the mines by hiring him as a clerk.

Some scholars suggest that Sather came to New York to escape the responsibility of having fathered a child in his native Norway. He married in New York but when he moved to San Francisco, he never seemed to particularly miss his family, instead leading a quiet bachelor life for several years before finally bringing them out to join him.[29] Whatever his failings in personal matters, however, Sather earned a reputation for honesty in business.

Joseph C Palmer, an early arrival from the eastern states, was a different case. Originally from Nantucket, a fishing and seafaring island in Massachusetts, he was a tailor by trade. In San Francisco he re-invented himself, establishing a bank, Palmer, Cook & Co., with his business partner, Charles Cook. For most of the 1850s, he was San Francisco's most politically connected and arguably most corrupt banker, closely associated with a number of leading political figures in both the city and the state. Palmer dealt primarily not in gold and remittances to the east, but in land speculation. Some of his speculations hinged on re-interpretations or changes in law and Palmer cultivated – and may have bribed – politicians in San Francisco, the Californian state capital of Sacramento, and Washington, DC.

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Assays and Private Coinage

Experienced merchants and bankers could estimate the quality of gold dust by eye but the only way to determine its precise value was by assay. Private assayers soon appeared in San Francisco, including Moffat & Co., which began advertising in the *Alta* in June 1849. California appointed a State Assayer, Frederick Kohler, in 1850, replacing him with Augustus Humbert later that year. Towards the end of 1850, Congress approved Humbert's appointment as US Assayer, and awarded Moffat a contract to produce gold ingots and bars (with a minimum value of US$50) that bore Humbert's stamp, to certify their value.

A number of private coiners also opened for business. Their 'California coin' circulated freely in the state, despite the fact that they, like Moffat's ingots, lacked status as legal tender and, unlike bars bearing Humbert's stamp, carried no guarantee of their precious metal value. James King of William, perhaps as a stunt, sent Humbert several privately minted gold coins from various makers for assay. He published the results in the *Alta* on 28 March 1851, which showed that they were deficient in gold content by between 0.7% and 3% of their putative value.[30]

The only form of gold that was legal tender, and therefore acceptable for the payment of Federal taxes and import duties, was US gold coin, minted in the east. Some of this coin did find its way to California but it was in such chronically short supply that bankers paid a premium for it. By 1854, Sherman complained to his St. Louis partners that the premium had risen to from 0.25% to 0.5%.[31] As a practical matter, Moffat's ingots became acceptable in 'receipt for customs and disbursement on Government account.'[32]

Congress ultimately authorised a branch Mint in San Francisco. It opened in 1854, helping to ease the shortage of coin, but it did not have sufficient capacity to coin the gold coming from the Californian mines, largely because of the difficulty in obtaining enough of the necessary reagents.

Bills of Exchange

Anthony Tasheira went to the trouble and expense of sending 75 ounces of gold dust to his wife in New York because he wanted her to see and touch it. If Tasheira had only wanted to send Eliza the value of his gold, he could have purchased a bill of exchange, the type of instrument that James King of William sent east on behalf of his customers – simpler, cheaper, and more secure than sending gold dust.

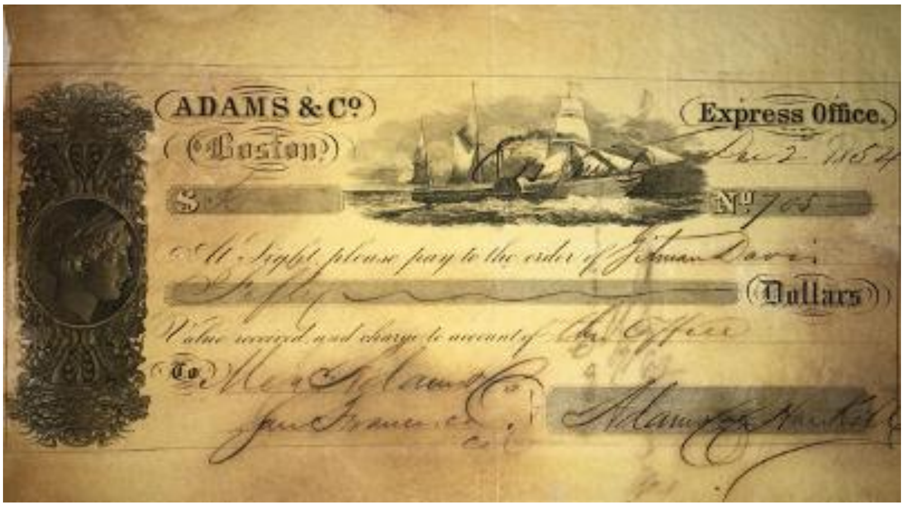

Figure 7. Bill of exchange drawn by Adams & Co., Boston, payable at Adams & Co. office, San Francisco. (Author's private collection. The vignette gives an impression of the appearance of the steamers.)

A bill of exchange functions rather like a money order. To send money to a distant payee, a customer would take cash (or gold dust) to a banker in San Francisco, who in turn would write a draught on a correspondent in a convenient city. For trade finance, these were usually 'time draughts', payable either at a specific future date, or some specified length of time after initial presentation at the paying bank ('at 60 days' sight', for instance). Pure remittances – miners sending money home, for instance – were typically 'sight draughts', payable on presentation, or 'at sight'. Miners mostly bought draughts with gold dust, credited (if it was clean enough) at standard rates per ounce.

The exchange business was never really profitable for Gold Rush bankers. The money flow in California's commerce was almost entirely outbound, supporting remittances home from miners and imports of goods. This meant that California's bankers had to remit gold almost dollar for dollar to support their draughts. Although it was small, the counter-flow of funds that came back to California was of intense interest to San Francisco's bankers.

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The bankers went to lengths to reduce their costs. In his News Letter of 30 September 1850, James King of William noted a brisk import trade into San Francisco from Sydney and Hobart, in the English colonies of Australia.[33] The Australian merchants preferred payment in bills on London, rather than the eastern states. King suggested to Corcoran & Riggs that he could sell his merchant customers these bills (on Peabody, presumably). They would take ten weeks to travel from San Francisco to Hobart, for example, and at least as much as that again to reach London. Meanwhile, King could remit gold to London via the Isthmus in perhaps seven weeks, giving him use of his customers' funds for several months while interest rates ran 10% per month or higher. Corcoran & Riggs, perhaps feeling that it had already given King a long-enough tether, declined his proposal.[34]

Figure 8. Bill of exchange drawn by Adams & Co., San Francisco, payable at Adams & Co. office, Boston. (Author's private collection.)

Sherman, a cautious and risk-averse banker, was particularly sensitive to the poor margins of the exchange business and made several attempts to improve its profitability. At one point, he tried to persuade the other bankers in San Francisco to increase the standard charge for exchange on eastern cities, from 3% to 3.5%, but Drexel, Sather & Church declined to participate, and the increase did not hold.[35]

The most significant counter-flow from east to west was from the US Government, funding the building of fortifications around the Golden Gate (the entrance to San Francisco Bay) and on Alcatraz Island, in a commanding position inside the Bay. The US Treasury established a sub-Treasury at San Francisco and sent funds there from Washington by means of transfer draughts. Sherman and the other bankers bid to pay these draughts out in San Francisco, at a premium above their face value, and sent them back to their eastern correspondents for reimbursement at face value by the Treasury in Washington.

The Treasury required payment for its draughts in US coin and Sherman felt this gave him an advantage. The Government paid its Californian expenses in cheques drawn on the sub-Treasury. Many military engineers, along with many permanent Federal troops, all of whom received sub-Treasury cheques, were acquaintances of Sherman's from the days of the Mexican–American War. Preferring to bank with a military confrère, they cashed their cheques at Sherman's bank. He paid them in 'California coin' and presented their endorsed cheques at the sub-Treasury in exchange for US coin, which he could re-circulate to buy transfer draughts.[36]

In late 1855, Sherman complained to his St. Louis partner, Henry Smith Turner, 'We are making a steady dead loss on our exchanges.'[37] He urged Turner to secure better rates on freight and insurance on gold, or to obtain a longer-term contract for Treasury draughts. Turner travelled to Washington to bid for these, offering to buy draughts on New York at a 2.25% premium, and all others at 2%. He bid too low. Benjamin Nisbet, a junior partner, wrote to Sherman, 'Aspinwal[l] bid 2¼% all through and of course got the contract.'[38] Nisbet referred to William H Aspinwall, senior partner of the firm that owned the Pacific Mail Steam Ship Company, which operated the San Francisco–Panama route. Having stepped in front of the bankers to buy the most important east-to-west flow of funds, Aspinwall would be unlikely to offer them more favourable rates for the physical shipment of gold.

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Many Players Leave the Stage

James King of William's Sonora correspondent, William Hammond, invested much of King's money in the Tuolumne Hydraulic Association, which built a canal to bring water from the foothills to the gold fields near Sonora. It failed, leaving King financially embarrassed. In mid-1854, King transferred all his assets, including the canal, to Isaiah Churchill Woods – who, by then, had gained control of Adams & Co. and separated it from its Boston parent – in exchange for assumption of his liabilities and a job as Adams's cashier.

Adams & Co. collapsed in a San Francisco banking panic in February 1855. The panic began with the failure of Page & Bacon in St. Louis, which also brought down Page, Bacon & Co. in San Francisco. Page & Bacon had become over extended, primarily because of a railroad project Bacon had promoted in the American Midwest. He had relied on European capital markets to finance the railroad but by 1854, the Crimean War closed that avenue of finance. In a last-ditch effort to shore up their bank in St. Louis, Page went to San Francisco late in the year, to direct the house there to step up its remittances of gold – for which it may well have overpaid – but the attempt crippled the San Francisco bank, while it failed to save the St. Louis house.

Woods, meanwhile, had systematically been plundering Adams & Co. but after the panic, he could no longer paper over its losses. He fled California in August 1855, leaving King out of work.

The latter reinvented himself as a crusading newspaper editor. His paper was successful, but it also earned him enemies. One of those enemies, James Casey, shot King in the chest in Montgomery Street, San Francisco, during the afternoon of 14 May 1856, and he died a few days later.

King's assassination fanned San Francisco's smouldering discontent into flames and led to the formation of a Committee of Vigilance – under the leadership of bi-coastal merchant William Tell Coleman (another son-in-law of Daniel Page) – and a summer of vigilantism in the city. California's Governor, John Neely Johnson, appointed Sherman as Major-General, with orders to raise a militia to suppress the vigilantes. Public opinion, however, ran strongly in favour of the Committee and Sherman could not raise the necessary troops. He resigned.

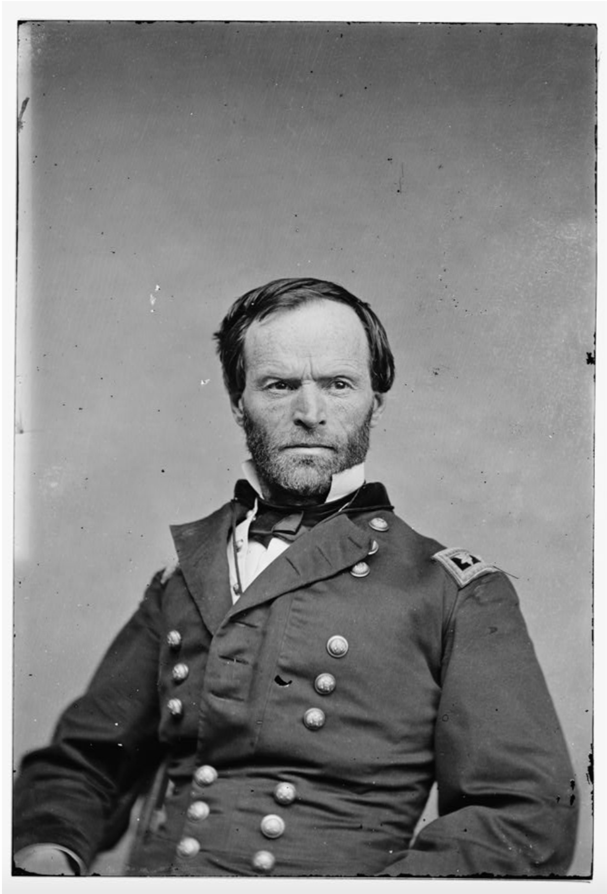

Figure 9. Sherman as a General in the American Civil War. Maj. Gen. William T. Sherman. United States, Undated. [Between 1860 and 1870] Photograph. https://www.loc.gov/item/2018670165/.

King's assassination was the *casus belli* for the Committee of Vigilance. But the vigilantes' executive committee, which Coleman also headed, had another agenda: opposing Joseph Palmer's greatest land speculation, a fraudulent claim to a large portion of San Francisco.[39] Palmer's gambit nearly succeeded, but he lost crucial support in the US Congress and having exhausted his resources, he left California in 1858.

Sherman struggled through the 1855 crisis and eventually closed Lucas, Turner & Co. in San Francisco in May 1857. He moved to New York to open a branch there, but the Panic of 1857 thwarted those plans. The American Civil War (1861–5) brought him the military fame – notoriety, some might say – he had craved since his service in the Mexican–American War.

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Woods and Palmer also resurfaced during the Civil War, serving on the senior staff of General John C Frémont, commander of the Western Division of the Union Army at St. Louis. Some of Palmer's earlier speculations had involved Frémont's property at Mariposa, near what is now Yosemite National Park, and he had also supported Frémont's unsuccessful bid for the US Presidency in 1856.

Avoiding the 'Resource Curse'

California's Gold Rush might have ended badly for the emerging economy of the region. Many nations that control valuable resources such as gold or petroleum do poorly, economically. Consider, for example, the economic setbacks that Venezuela has faced since the 1920s, despite controlling vast petroleum reserves. Economists such as Ragnar Torvik refer to this phenomenon as the 'resource curse' and propose potential public policies to rebalance the economy away from commodities.[40] But as Torvik points out, the resource curse is not inevitable. He explores the variation in outcomes among resource-rich countries – some do well, while others do poorly. The history of California during and after the Gold Rush may offer some insight into the reasons. Gold did bring outsiders, many of them spectacularly corrupt, to California. For several years, the pursuit of gold dominated the Californian economy. Yet the Gold Rush also brought to California the key elements that would underpin its future prosperity: an able-bodied workforce; strong legal, political, social, and cultural ties to the rest of the United States; and a robust, global trading network.

Figure 10. US$20 gold piece 'Double Eagle', 1868-S (San Francisco Mint).
Author's personal collection.

On 25 August 1855, Phineas T Barnum, the great impresario, advertised in the *Alta* that he was starting a new bank in San Francisco.[41] But Barnum had missed his moment and his bank never opened. The banking crisis had already driven many exploiters and rogues from California.

The people who remained built durable institutions and a productive economy. In the hands of Peder Sather, Drexel, Sather & Church became one of California's most successful banks. Sather became a leading citizen – one of the wealthiest, too – of San Francisco and later, of Oakland, just across San Francisco Bay. In spite of his own lack of education, he was a founding Trustee of the College of California, precursor to the University of California, Berkeley, and two of its campus's most familiar landmarks – Sather Gate and Sather Tower (the Campanile) – bear his name.

The workforce also shifted. As the placer mines played out and mining became more capital-intensive, gold mining, once a dream of riches for an independent-minded soul, became merely a job. Many left California for gold fields in Australia or silver discoveries in Nevada; others stayed and took up agriculture or manufacturing. California began the 1850s by importing basic commodities such as baking flour. By the latter half of the decade, merchants such as Coleman were exporting Californian grain to Europe.
The state's attachment to the body politic of the United States helped limit the effects of corruption and outside exploitation. The US Supreme Court drew the final line under the excesses of the Gold Rush on 4 May 1860, when it formally and finally invalidated Palmer's San Francisco claim. Fittingly, Coleman, then in New York, reported the Court's decision in a dispatch to the *Alta*.[42] The news crossed the continent in just 11 days, by telegraph and Pony Express, the much-romanticised but short-lived mail service that bridged the route of the trans-continental telegraph during its construction. California was growing up.

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Endnotes

[1] During the occupation, Thomas O Larkin, US Consul to Mexico at Monterey, wrote, ‘Our country never held possession as she now holds California, therefore there is no law nor precedent for us to be governed by. We are now following a mixture of Laws of Mexico and the United States, and in a measure as each alcalde [local magistrate] understands them.’ Larkin to Faxon D Atherton, 14 August 1847, Faxon Dean Atherton Papers, BANC MSS 99/74c, Box 1:13, Bancroft Library, UC Berkeley.

[2] ‘Diggings’ was a Gold Rush-era colloquialism referring to the places where people sought gold.

[3] Sachs, J D, and Warner, A M (1995), ‘Natural Resource Abundance and Economic Growth’, (US) National Bureau of Economic Research Working Paper No. 5398.

[4] ‘December 5, 1848: Fourth Annual Message to Congress’, Presidential Speeches: James K Polk Presidency, University of Virginia Miller Center. https://millercenter.org/the-presidency/presidential-speeches/december-5-1848-fourth-annual-message-congress.

[5] For example, Francis W Page to ‘Dear Sister,’ dated ‘At Sea, May 22d, 1850’, Francis W Page diary and correspondence, 1851–7, MS 1621, California Historical Society, San Francisco.

[6] A flight from San Francisco to New York today occasionally takes less than five hours.

[7] ‘Arrival of the Steamship California, and Her Reception at this Port,’ San Francisco *Weekly Alta California* (the *Alta*), 1 March, 1849. This and all other Californian newspaper citations are from digitised images in the California Digital Newspaper Collection of the University of California, Riverside, cdnc.ucr.edu.

[8] At the statutory price of US$20.67 per ounce, troy, fine gold. At 2021 prices, the value of the same quantity of gold would be on the order of US$50 billion.

[9] Personal conversation between the author and the late Dr Robert Chandler, Wells Fargo historian for many years.

[10] Receipt for shipment of gold dust, Augustin Hale Papers, Box 1, ‘Business Documents: Accounts Books-Augustin W. Hale: Saucelito Water Company Receipts’, Folder 3, ‘Business Documents: Augustin W. Hale: General Receipts and Accounts, 1847-1871’. Huntington Library, San Marino, California. Hale paid $14.77 (7%) for freight and insurance from San Francisco on a shipment to Albany, New York, declared at $211. Also see, for example, ‘San Francisco Prices Current’, *Alta*, April 20, 1850, quoting ‘Gold Dust Shipments insured for 6@7½’.

[11] Eliza [Tasheira] to Husband [Anthony L Tasheira], various dates 1850. Tasheira Collection, Box 317, Folder 17, History Room, California State Library, Sacramento. Eliza usually complained that Anthony never wrote back.

[12] P[eder] Sather to A[nthony] L Tasheira, September 10, 1850. Tasheira Collection.

[13] ‘Экстрактъ. Изъ журнала Судна Юноны Плаванія изъ Порта Ново-Архангельска въ Калнфорнію и обьратно въ 1806му году, Лейтенанта Хвостова’, Extract from the log of the voyage of the ship *Juno*, from the port of Novo-Arkhangelsk to California and back in 1806, Lieutenant Khvostov. Library of Congress, The Gennadii V Yudin Collection of Russian–American Company Papers, https://www.loc.gov/item/mss468700036/

[14] ‘Отчетъ Россійско - Американской компаніи Главнаго правленія за 1850 годъ.’, Annual Report of the Board of Directors of the Russian–American Company for 1850, (Saint Petersburg, Russia: publisher not identified, 1851) Pdf. Library of Congress https://www.loc.gov/item/2018689437/, pp. 25–7. The gold dust (песчано золото, literally, and aptly, ‘sandy gold’) from California amounted to 1 pood (пудъ), 23 Russian pounds (фунт), 45 zolotnik (золотник). The pood was 40 Russian pounds, and the zolotnik 1/96 pound. At 409.517 grams to the Russian pound (the standard at the end of the 19th century), this would be just under 26 kg, 835.65 ounces troy. The yield of pure gold (чистаго золота) from this dust was 1 pood, 7 pounds, 44 zolotnik, 12 dolya (доля, a tiny measure of 1/96 zolotnik), or 19.435 kg, just under 625 ounces troy weight, plus 6 pounds, 56 zolotnik, 76 dolya of fine silver. Valuing the silver at 1/16 the value of gold gives a gold-equivalent weight of 630.29 ounces troy, 75.43% of the gross weight. At US$20.67 per ounce, the Mint return was approximately $15.60 per ounce of dust. The monetary yield was 16,787 roubles 59 kopeks, silver standard (серебромъ). This implies an exchange rate of just under 1.3 rubles to the dollar.

[15] This ‘Free Banking Period’ extended from the expiration of the Charter of the Second Bank of the United States in 1836 to the issuance of a national paper currency, nicknamed ‘greenbacks’, during the American Civil War (1861-5).

[16] Washington had not yet grown to occupy the entire district set aside for the national capital. Georgetown, now a posh neighbourhood in Washington, DC, was still a separate community.

[17] ‘PASSENGERS PER STEAMER CALIFORNIA’ in ‘MARINE JOURNAL. Port of San Francisco’, Weekly *Alta California*, 2 August 1849.

[18] James King of William to Corcoran & Riggs, letterpress copy, 14 September 1850. James King of William Letters, Melville Schweitzer Collection of California Miscellany, Vault MS 55, California Historical Society, San Francisco.

[19] James King of William to George Peabody, 28 February 1850. George Peabody Papers, MSS 181, Box 29, Folder 8, ‘BUS[INESS]. CORRESP., AMER[ICA]N. James King, of Williams, 1850–51.’ Phillips Library, Peabody Essex Museum, Rowley, Massachusetts. Per a notation on the back of the letter, Peabody’s office received it on 30 April.

[20] Daily express shipping records, San Francisco to Stockton, 1852, Adams & Co. Records, 1852–4, Vol. 1., Bancroft Library, University of California, Berkeley.

[21] See, for example, document of ‘Articles of Co-Partnership, February 18, 1850’, under ‘Renewal of Copartnership, March 14, 1855’, Page, Bacon & Co. Records 1851-63, BANC MSS C-G 297, Bancroft Library, UC Berkeley.

[22] The *Alta* and the Sacramento *Daily Union* published tables after the departure of each steamer, showing the shippers of gold on the manifest, and the value they shipped.

[23] Sherman’s return to San Francisco is legendary in the annals of inauspicious beginnings. On the day he arrived – 9 April 1853 – he was shipwrecked twice. The bank building that Sherman built at the north-east corner of Jackson Street and Montgomery Street is one of the few Gold Rush-era buildings that still stand in San Francisco today.

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[24] '$20,000 TO LOAN', advertisement, Sacramento *Daily Union*, 15 April 1851, page 3, column 2.
[25] 'BANKING HOUSE of Henry Schliemann', advertisement, Sacramento *Daily Union*, 11 September 1851, page 2, column 2.
[26] 'Notice', Sacramento *Daily Union*, 7 April 1852, page 2, column 2.
[27] 'Banking Firm', Sacramento *Daily Union*, 8 April 1852.
[28] 'Arrival of the John L. Stephens' (steamer from Panama), Sacramento *Daily Union*, 18 August 1853, listing 'Peter Sather' among the passengers.
[29] Karin Sveen, *The Immigrant and the University: Peder Sather and Gold Rush California* (Berkeley: University of California Press) 2014.
[30] 'California Gold Coin' under 'The Course of Trade', *Alta*, 28 March 1851.
[31] William T Sherman to Lucas & Simonds, date uncertain in 1854, quoted in Dwight L Clarke, *William Tecumseh Sherman: Gold Rush Banker* (San Francisco: California Historical Society), 1969, pp. 76–7.
[32] *Memorial to Congress from the Citizens of San Francisco, California, for the Establishment of a Branch Mint at that Place, and in Relation to the United States Assay Office,* (Washington: Gideon & Co., Printers), November 1851, p. 7.
[33] James King of William to Corcoran & Riggs, 'News Letter', 30 September 1850. James King of William Letters, Schweitzer Collection.
[34] James King of William to E Riggs, Esq., 31 October 1850. James King of William Letters, Schweitzer Collection.
[35] William T Sherman to Lucas & Simonds, date uncertain in 1854, quoted in Clarke, pp. 76–7. Ironically, considering this attempt at price-fixing, Sherman's brother, Senator John Sherman, was the principal author of the 1890 Sherman Anti-Trust Act, which largely remains in force in the US today.
[36] *Ibid.*
[37] William T Sherman to Henry S Turner, 5 November 1855, quoted in Clarke.
[38] Benjamin R Nisbet to William T Sherman, 3 December 1855. William T Sherman Papers, General Correspondence, 1837–91; 12 July 1855–2 July 1856, Library of Congress, https://www.loc.gov/resource/mss39800.003_0346_0656/?sp=36. Nisbet's salutation was, 'My dear Captain'.
[39] A careful analysis, based on close reading of the minutes of the executive committee, can be found in Nancy J Tanaguchi, *Dirty Deeds: Land, Violence, and the 1856 San Francisco Vigilance Committee,* (Norman: University of Oklahoma Press), 2016.
[40] Ragnar Torvik, 'Why do some resource-abundant countries succeed while others do not?' *Oxford Review of Economic Policy,* Vol 25, pp. 241–56, 2009.
[41] Page 2, advertisements, column 1, *Alta,* 22 August 1855.
[42] 'The Pony Express at Carson', *Alta,* 15 May 1860.

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