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From Hard Money to Branch Banking

California Banking in the Gold-Rush Economy

Larry Schweikart and Lynne Pierson Doti

If Americans associate any event with the early history of California, it is the Gold Rush. While the impressions of most people are that the Gold Rush “came and went,” more or less, with little lasting legacy other than to alert outsiders to the vast wealth to be found in California, the economic development of the state actually took on much of its early form based on the experiences of the Forty-niners. Banking and the financial sector, in particular, evolved in often distinctive ways because of the gold-rush economy. More important, the abundance of gold on the West Coast provided an interesting test case for some of the critical economic arguments of the day, especially for those deriving from the descending—but still powerful—positions of the “hard money” Jacksonians.¹

By the time banks appeared in California, commercial banking was well established east of the Mississippi, and had made inroads in Missouri.² The process by which banks came into existence was common, but not uniform: usually a merchant or freight agent would accept deposits from local entrepreneurs who wanted a safe storage for their money or gold, exchange drafts written from out-of-town companies and pay out gold, and often extend credit to valued customers. The combination of accepting deposits, exchanging drafts, and making loans endowed those merchants with the essential functions of banks. When their business reached such a level that it equaled or surpassed their mercantile or freight activities, they often sought a banking charter from the state legislature, although not all “bankers” had charters. The charter usually empowered the banker to issue paper money, called “banknotes” or simply “notes.” Money thus circulated, and competed, against other privately issued money by relying on gold as a standard of measurement, since all notes had to be convertible into gold at some point. More often than not, however, the real determinant of a note’s value rested on its reputation—or, more precisely,

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