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Money and Banking

1/29/16

Gold: Rushing and Coining

 When people today think of the Wild West, a few overly-romanticized images and themes come to mind: dust towns, a practically non-existent rule of law, saloon fights, street duels with spectating citizens, and bands of men marauding the countryside until Clint Eastwood, Sam Elliot, or John Wayne saddles up and saves the day. These stereotypes and more are extended to the California Gold Rush. Mentally unstable, toothless prospectors, stagecoach bandits, cheating businessmen and bank robberies round out the popular conception of California in the late 1840s and 1850s. Perhaps more surprising than the fact that most of these Hollywood stereotypes are untrue (Schweikart and Doti) is the fact that before 1854, there was no United States government minting facility west of New Orleans and that, as a result, for many years private citizens erected private coining businesses to meet the demand for trustworthy, tradable currency. Moreover, despite assumption to the contrary, the private minting of coins in California between the years 1849 and 1853, though largely unregulated, did not hinder California’s growth, but satisfied a popular demand more efficiently and effectively than the government could have done.

 General consensus places the start of the California Gold Rush in 1849 with the discovery of gold at Sutter’s Mill (Coinsite, 1997). Though gold had been discovered in small quantities before this point, the discovery of large, easily accessible gold deposits at Sutter’s Mill enticed droves of people to pack up their homes and move to California. Population more than tripled in California in the space of just one year. Existing records show that the population of California in 1849 was roughly 26,000 people. By the end of 1850, however, this number had grown to around 115,000 people (St. Clair). As a matter of necessity, this tremendous increase spurred a sharp increase in the demand for consumer and producer goods as well as the demand for money.

 Since the nearest mint to California at the time was in New Orleans, official U.S. gold coins were in short supply. Those that were not spent on the journey West were usually either saved due to their nearly universal trading potential and not spent at all, or else were used solely when dealing with U.S. customs in port cities like San Francisco. The customs offices were legally authorized to only accept official U.S. coins, meaning that the small silver coins from Mexico, Spain and even China that were prevalent in the area were predominantly useless when dealing with the United States government (Barnard). Unfortunately for those living and trading in California these small, silver coins also had the significant drawback of being useful only for making change or purchasing very small items. Most of the time, the value of these coins was less than one-tenth of one U.S. dollar (Barnard). These circumstances helped produce a significant gap between the supply of money and the demand to hold tradable gold coins. Consumers were not alone in their monetary deficiencies; however, those mining the gold also faced significant problems.

 The lack of a United State mint west of New Orleans left prospectors with a small number of largely unappealing prospects regarding how to use their gold once it had been mined. One solution resembled a barter economy wherein miners would carry a small pouch of fine gold dust at their hip and prices would often be listed in terms of “pinches” of gold dust. For instance, a shot of whisky at the local saloon would commonly cost one pinch of gold dust. Since it was the bartender who was to extract the pinch of gold, bartenders with large thumbs would be hired so that more gold dust would be pinched and revenues increased. Other times, bartenders would be quick to wet their finger and thumb before reaching into a bag so that some extra gold dust was sure to stick to their fingers (Kagin). To counter these dishonest practices, miners began taking preemptive countermeasures to save their gold dust. The most common of these measures was to add brass shavings or very low grade ore to their pouches of gold so any given pinch would hold relatively less actual gold (Kagin).

 This escalation between miners and merchants could have continued ad infinitum. The inability to calculate profit and loss, an unavoidable failing of a barter system, in addition to the lack of a trustworthy commodity to use as money induced miners to seek other uses for the gold they had mined (Ritenour). Another option for miners was to send their gold East via stagecoach to be melted and minted in one of the U.S. government mints and then sent back to California via stagecoach. Many problems arose with this method, however. Primarily, sending anything by stagecoach across the continent was a time-consuming venture. Secondly, robberies were much more likely to occur while the gold was in transit between San Francisco and New Orleans or Philadelphia, making this process not only lengthy, but risky as well (Bunker Hill). In the end, this method proved quite costly for the average miner. After paying for transport, insurance, and minting, a miner would net on average six to eight dollars per ounce of gold even though the dust was purchased for sixteen or eighteen dollars at the mints (Kagin). Such an arrangement was certainly not an optimal for the miners of California.

 Even if a miner’s gold was not in dust form which was unwieldly in trade, but in nuggets, he still faced problems. Gold nuggets are neither created nor mined equally which presented a problem in terms of pricing. Merchants and miners had great difficulty in agreeing on the value of any given nugget. A nugget’s purity was not easily measured, and trust in another man’s scales was not prevalent during those years. The brilliant solution of the government in California was to establish an assay office to verify the weight and purity of gold within a nugget and stamp those values onto the nugget itself (Naftzger). Of course, this only solved half of the problem. Now two parties could agree on the purity and weight of a nugget, but those factors alone are not sufficient to make nuggets a viable form of money.

 Money, besides being portable and durable, must also be divisible (Ritenour). Now that miner’s nuggets could be officially stamped by the government, the first two requirements were met in full. A universally accepted quantity could now be carried and saved with relative ease compared to the gold dust pouches and pinching system. However, the lack of divisibility of gold nuggets that had been stamped by the assay office often meant having to make change for small purchases made with relatively large nuggets. The general lack of currency in small denominations led to merchants accepting these assayed nuggets only at a discount rate of up to three percent (Kagin). Into this situation of high demand and low supply of money, with no satisfactory resolution, stepped a group of entrepreneurs with a solution.

 In the late months of 1849, private minting facilities began to be established in California. The reason for the more than nine month delay between the need for money arising and the response of the entrepreneurs was that the machinery required for melting, refining, and minting gold was extremely heavy and was usually transported by ship around Cape Horn, a journey that could take five to seven months (On the Water: To California by Sea). Eventually, however, at least fourteen unique private minting firms were established in California (Coinsite). Though technically illegal at the time of their inception, these firms were allowed to operate, which proved to be an excellent decision of inaction on the part of the government. In order to gain an understanding of the economic effects of these mints, four particular mints will be examined: Norris, Gregg, and Norris; J.S. Ormsby and Company; Baldwin and Company; and Moffat and Company. These minting firms provide a sampling of both the best and the worst that private minting had to offer in the early 1850s.

 Norris, Gregg, and Norris was both the first and one of the best privately operated mints of the latter months of 1849. The only denomination of gold coin produced by this firm was its five dollar piece. According to the Stockton *Times*, this five dollar piece was generally received well, the main opponent of the piece being those heavily invested in the trade of gold dust. Perhaps this acceptance was due to the gold piece resembling its official U.S. counterpart, though this particular claim is heavily contested among historians. Rather, it is more likely that these coins succeeded because, as confirmed by historians Eckfeldt and DuBois, the coins of Norris, Gregg, and Norris were made of pure gold and weighed on average one percent more than the U.S. Half Eagle, a coin of identical face value. The very first private mint in California was able to make a profit while producing a generally accepted coin of superior quality than the United States government. By 1851, Norris, Gregg, and Norris had ceased operation, due either to increased competition, retirement, or a combination of the two (Kagin).

 J.S. Ormsby and Company was not so reputable as Norris, Gregg, and Norris. Being the first mint located in Sacramento, closest to the gold mines, provided J.S. Ormsby and Co. with a teeming market for their services. Beginning operations in October of 1849, the firm quickly produced coins in five and ten dollar denominations that were badly debased (Kagin). The partners of the firm used their quick profits to escape to other portions of the territory or even to other states. By the early months of 1850, the coins of J.S. Ormsby and Co. ceased to be circulated and were turned in to the assay offices to be melted and recast.

 The example of J.S. Ormsby and Co, along with many other firms who, in the early years of private minting, debased their coins, at first seems to be a mark on the record of the free market for money. Surely miners were cheated out of their gold by these debasing firms and could have benefited from government regulation or socialization of the money supply. On the contrary, these examples show the efficacy of the private market. J.S. Ormsby and Co. was out of business in as little as four months, a feat that only the free market could accomplish as the likelihood of a dishonest government agency being corrected in so short a time is practically negligible. Moreover, as shall be shown in greater detail later, the government was completely incapable at the time of reliably producing any form of viable, practical currency (Kagin).

 The era of private minting in California is generally divided up into three periods. Both Norris, Gregg, and Norris and J.S. Ormsby and Co. belong to the first of these periods. This first period was the shortest of the three, lasting from late 1849 to early 1850 and, with two exceptions, was marked entirely by the quick rise and even more sudden fall of many dishonest firms that debased their coins. This debasement was partly due to a technological deficiency that prevented minters from being able to adequately separate the gold from its surrounding silver and other deposits (Kagin). This would change, however, in the next period.

The second period, from early 1850 into 1851, was also marked by severe debasement on the part of many firms. Unlike in the first period, however, the debasing in the second period was entirely deliberate as the technology to solve the first era’s problems had made its way across the continent. Many firms grew accustomed to debasing their coins at a rate of approximately three percent. As this practice grew and was found out, even the more reputable firms were affected negatively by public opinion, causing a pushback against all firms indiscriminately without consideration as to a firm’s actual reliability. This mindset was also partially fueled by the coining practices of many Mormon firms in Utah.

East of California, in what would become the state of Utah, some Mormon entrepreneurs had also begun to establish private minting firms. Their coins circulated as far north as the Oregon Territory and were well known in California. Very quickly, these coins were discovered to, on average, contain a mere eighty-five percent of their face value. Private citizens in California and the surrounding area quickly ceased dealing with Mormons in general for a time and certainly refused their coins at face value. Consequently, this abominable debasement cast a shadow on the reputations of even some of the best and more reputable private mints in California. In conjunction with the intentional debasing by California firms, the revelation of these Utah firms turned public opinion against private minting and caused some honest firms to lose their business (Kagin). An example of this unfortunate scenario in found in the unhappy story of Baldwin and Company.

Baldwin and Co. enjoyed the good graces of the general population for many years, minting over $600,000 dollars’ worth of gold coins in five, ten, and twenty dollar denominations between January and March of 1851 which was at least $10,000 more than the official U.S. assay office produced in the same period of time. However, Baldwin and Co. quickly fell from their lofty position through little or no fault of their own. A man known as James King of William published a report stating that he had taken a sampling of multiple minting firms’ products to the U.S. assay office to test their weight and purity. The results that he found damned the private coining business in general and specifically attacked Baldwin and Co, claiming that all private minting firms were debasing their coins at high rates and cheating the public (Kagin).

 With popular opinion already turning against the private coining industry, the coins produced by Baldwin and Co. soon fell out of circulation and were taken to the assay office to be melted and recast. Baldwin attempted to restart his business after some time and sway popular opinion back in his favor once more. He was unsuccessful in his attempts, however, and the assay office was left as the only producer of gold money for the rest of the year. Incidentally, Baldwin and Company’s coins were in later years found to have actually been less than three percent debased proving that the report by John King of William was phenomenally exaggerated. Without Baldwin and Co. to help supply currency, the general inability of the assay office to keep up the supply of gold coins to match demand sent the surrounding area into a severe depression that lasted over a year (Kagin). In a rare moment of legislative wisdom, the government turned to the private sector for recovery.

 Moffat and Co. was the only private minting firm, besides Norris, Gregg, and Norris, to continue operations past the end of the first period of private coining during the Gold Rush. The reason behind these firms’ success was simply their honesty, efficiency, and dependability. After Norris, Gregg, and Norris ceased operations, Moffat and Co. was the only firm to maintain their reputation after John King of William’s report destroyed the reputation of the vast majority of private minting firms. It was to Moffat and Co. that the government turned during the recession of 1851.

 During the first period of private minting, Moffat and Co. produced coins in both five dollar and ten dollar denominations. When the purity and weight of gold in the ten dollar coins was tested, they proved to contain on average, nine dollars and ninety-eight cents’ worth of gold before even taking into account the silver that was added to the gold to enhance the coins’ durability (Kagin). Moreover, Moffat and Co. was willing at any time to redeem their coins for their full value in silver should any holder of one of their coins so choose. This, in conjunction with their staunch purity rates, drew the confidence of private and public sectors alike. Besides Moffat and Co, at least five other firms had been able to make a profit by producing gold coins without practicing debasement and both consumers and merchants were willing to trade using their coins.

 The outstanding, and well-deserved reputation of Moffat and Co., then, was the governments answer to the recession of 1851. Being one of two private minting firms still in operation at the time, Moffat and Co. played a substantial role in producing coins that traded at par with whatever small amount the assay office was able to produce. This revival of a medium of exchange served to reinvigorate trade with a trustworthy money until the United States government finally made its way to California.

 In 1852, a branch mint of the United States was officially chartered and opened in San Francisco. This immediately and effectively shut down the state assay office that had proven a miserable failure, being incapable of meeting the demand for money. However, like so many government operations, the intentions of the San Francisco mint were good, but the execution was bureaucratic at best and had the exact opposite results and consequences as desired.

 The California branch mint of the United States government faced multiple problems both of which either inhibited its functionality or else rendered it completely ineffectual. Under the leadership of Augustus Humbert, the San Francisco mint produced gold coins in exactly one denomination. Since all the private minters were producing coins ranging from one-quarter dollar to twenty dollars in face value, a reasonable assumption would be that the one denomination coined by the San Francisco mint would fall somewhere in that range. But no, instead the only universally accepted, official U.S. gold coin produced in California between 1851 and 1852 had a face value of fifty dollars. The reason for this unusually large denomination was that fifty dollars was a convenient sum to be able to pay at the customs office. However, these coins proved to be cumbersome in most every-day trade. Small change was in much shorter supply, so the majority of merchants were loath to have a customer pay with a fifty dollar coin. As a result, these fifty dollar coins began trading at a three per-cent discount which, incidentally, was the same amount by which the debasing private minters debased their coins. However, the inconvenience of the fifty dollar coin was not the mint’s only problem.

 Another serious issue faced by the branch mint in California was the inability to remain in operation for a decent length of time. The San Francisco mint had the unique and uncanny ability to run short of the necessary goods used in the production of gold coins. Items like the alloys used to strengthen the gold or parting acids to remove impurities were for some reason difficult for the mint to obtain. Consequently, the operation of the mint was sporadic at best for many years (Kagin). A fascinating note is that the San Francisco mint on government charter was the only mint recorded to have suffered these shortages without ever being shut down indefinitely. If a private mint could not produce coins because of such insufficiencies, it would be quickly put out of business. However, because of the official government charter for the San Francisco mint, it was allowed to fail time and time again without any lasting consequences.

 Because the San Francisco mint was closed so often, and when it was open, produced fairly impractical coins, the citizens of California turned once again to the private sector. John Moffat, of Moffat and Co. offered his services and was contracted by the mint to produce U.S. government coins while the mint was down. In this way, Moffat and Co. minted over six million dollars’ worth of twenty dollar gold coins. These coins, unlike the ones made by other private minters or even past Moffat and Co. coins, had the official mark and seal of the United States (Kagin). However, in 1855, before Moffat and Co. started assisting the San Francisco mint, another private firm, Kellogg and Co. competed with the mint, producing fifty percent more coins than the government did. In 1856 the San Francisco mint resumed and maintained full operation. With “trustworthy”, official U.S. coins, the coins of the private minters slowly faded into disuse, though the coins of the most reputable firms continued to be used in trade for many years (Kagin). Though the basic facts as presented above indicate that the private minting of gold coins was, indeed, beneficial to the California economy at the time, an analysis of these facts from an Austrian perspective will be useful in identifying the veracity of this supposed utility.

One way to show that the private minting was economically and socially positive would be to show that the absence of such minting would have resulted in the opposite of economic progress - namely, economic stagnation or depression. Certainly, Kagin would argue that the depression that arose after John King of William’s assay report obliterated the reputation, and consequently, the operation of nearly all private mints in California for a time proves that the private mints were, indeed, crucial to California’s economic prosperity. This example is difficult, however, because Austrian champions such as Rothbard and Mises wrote that any given quantity of money would be optimum quantity as prices would simply adjust in response to any given quantity of money (Rothbard; Barnett II and Block). If this be the case as Mises and Rothbard state, then the presence of private minters in California would have been extraneous at best, and a wasteful market failure at worst (Barnett II and Block). But if private minters were unnecessary, their presence in a free market such as the unregulated production of currency in California is puzzling.

The answer to this conundrum is provided by two contemporary Austrian economists, William Barnett II and Walter Block. These two write that both Mises and Rothbard erred in their analysis of the optimum quantity of money. Rather than saying that any given quantity of money is the optimum at any given time, Barnett and Block argue that the optimum quantity is that quantity which is produced by the free market. In their analysis, Barnett and Block state that if the miners, minters, and consumers of gold coins find value in an increased stock of gold coins, then the addition of said gold coins is satisfying a subjective demand for a good, rather than wasting scarce resources. In a scenario in which the purchasing power of gold coins rises to a level that makes the minting of gold coins more profitable than using gold for industrial purposes such as gold fillings or jewelry, entrepreneurs will naturally seek to divert gold resources or even gold held in other forms away from those industrial ends and towards the minting of additional gold coins. Barnett and Block’s analysis shows that the production of private gold coins was the action of entrepreneurs to satisfy a demand for a good just as entrepreneurs would do for any other good (Barnett II and Block).

Regardless of whether Mises and Rothbard or Barnett and Block are correct, all of these economists would agree that if the demand for money were greater than its supply, prices would tend to fall and the purchasing power of money would increase (Rothbard; Barnett II and Block). With the population of California rising swiftly, new businesses opening rapidly, and the general expansion of most California cities, certainly the demand for money was increasing. Moreover, when the private mints were not in operation, the supply of money no longer kept pace with the increasing demand to hold gold coins. As a result, and excess demand for money arose driving the prices of goods down and the purchasing power of money up. Historians assert that, as a result of the unforeseen drop in prices, a depression occurred and sent many merchants and shopkeepers out of business.

Another indicator to show that the contribution made to the California economy by the private mints was beneficial is to analyze the alternatives to the private mints. If these alternatives prove to have superior efficiency and effectivity than the private mints, then the private mints should have been shut down in favor of the more efficient options. However, the very fact of the private mints existence and the continued operation of the most reputable firms in the free and unregulated market shows that these firms were the most effective and efficient option available. Had they been otherwise, the free market would have seen them shut down as it does with any inefficient business (Mises).

Regardless, there were a few attempts made to provide for the production of money that were separate and wholly other from the private firms. One of these was the assay office that actually predated the private mints. This assay office proved to be inefficient as it could not produce standard gold coins. Instead, the assay office merely stamped gold nuggets with their weight and purity, which failed to rectify the problems of the nuggets’ inconsistent values tradability. The other, and best alternative to the private mints was the official U.S. mint established in San Francisco. However, the U.S. mint had its own inefficiencies. The San Francisco mint’s separation from reality, as evidenced by its sole production of the cumbersome fifty dollar coin, is no surprise as such removal from reality is common to government bureaucracies. Moreover, the ability to remain in operation without going out of business is the unique privilege of government operations (Mises). Clearly the San Francisco mint was neither as effective nor efficient as the private producers of gold coins.

In conclusion, the period of free, private minting during the California Gold Rush proves to be a brilliant example of the possibilities and power of the free market. As expected, those private minters who cheated their customers or were inefficient in their production were quickly put out of business while those honest and reputable minters enjoyed more long-lasting success. While the demand for money increased year after year due largely to a rapidly increasing population, these private mints were able to produce money to keep up with demand. Due to their immersion in their local markets, these firms were able to know precisely what denominations of coins were demanded and in what quantity. Moreover, the profit motive required that these private mints be efficient and timely in their production, unlike the bureaucratic San Francisco mint. After all, only after the government passed stricter laws forbidding the private minting of coins, were these private mints closed indefinitely. The unregulated production of money during the Gold Rush proves to have been both stable and necessary. When there was absolutely no increase in the supply of money, the California economy languished, but when private entrepreneurs were allowed to meet the rising demand for money, California flourished.

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