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Banking Without Banks

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In Monterey there are a number of English and Americans (English or “Ingles” all are called who speak the English language) who have married Californians, become united to the Catholic church, and acquired considerable property....They usually keep shops, in which they retail the goods purchased in larger quantities from our vessels, and also send a good deal into the interior, taking hides in pay, which they again barter with our vessels.

— Richard Henry Dana, Jr.
Two Years Before the Mast, 1840

Historical Lessons on Finance.

In 1834, Richard Henry Dana, Jr. was a young Harvard student suffering from ill health. He withdrew from the college, hoping to restore his health by shipping out as a common sailor on a merchant clipper sailing from Boston to California. The voyage’s objective was to sell goods there and return with a cargo of cattle hides, mostly from the vicinity of Santa Barbara. The ship’s owner expected to sell the hides in Boston at a large enough profit to justify both the direct expenses of the voyage and the cost of financing all that inventory for the two years it required. Dana’s 1840 classic, *Two Years Before the Mast*, is his autobiographical account of the voyage.¹

Dana observed and wrote about many of the details that he witnessed in the primitive California economy of the mid-1830s. The economy of this fascinating period thrived despite a chronic shortage of cash and an absence of banks. How it worked has lessons for us today, as we study our own economy and the roles of bankers, banking, currency and credit. Let’s follow young Mr. Dana and take a closer look at economic life in early California.



employed to populate, and therefore control, the territory was a system of land grants. The grantees were the *rancheros*, and among them were some of the earliest European settlers of Alta California. The Spanish and Mexican grants, the *ranchos*, were quite large — typically “eight leagues of land,” around fifty-five square miles. The Mexican governors continued making such grants until Mexico ceded Alta California to the United States in 1848.

The *ranchero* system had a homesteading aspect to it. To receive a grant, a candidate had to improve the land, generally by building a house and raising livestock. Cattle were perhaps the most important agricultural product in California before 1850, but unlike today, they were not primarily valued as sources of meat and milk. The *rancheros* raised cattle to produce tallow — rendered fat used for candles and soap — and hides.

In the first half of the nineteenth century, cash was extremely scarce in Alta California. Cattle hides, however, were both an important local resource, useful in manufacturing a variety of useful items like shoes, vests, jackets and saddles, and the main commodity that Yankee traders like Dana’s ship owner, who

sailed around Cape Horn, sought to bring back to New England from California.

Because of their ubiquitous value in trade, cattle hides themselves became an important form of currency in Mexican Alta California. Other goods, especially manufactured goods, which were usually scarce and expensive, could be priced in either pesos or hides. Hides were in such common use as ersatz

The Economy of Alta California.

Prior to 1848, Alta California (often rendered Upper California in English-language documents) was a sparsely-populated, remote province of Mexico. The main mechanism the Mexican — and before 1828 the Spanish — government

1. Common sailors bunked in the forecabin, “before the mast.”



currency that they were facetiously referred to as “California bank notes.” At one point, Dana observed with some bemusement that a Californian might pay three or four hides to buy a pair of Boston-made shoes — shoes likely made from hides that had traveled from California to Boston on a previous voyage.

Dana was a careful and thoughtful observer of California commerce from the point of view of a Yankee trader. What he was unable to observe was exactly how the Californian *rancheros* and the *Ingles* shop-keepers and merchants dealt with having no banks and little by way of cash. These merchants needed to be able to purchase the goods coming to California on the clippers in bulk for their stores. But they also wanted to sell hides back to the ships to take back east with them. To conduct these transactions, they needed lending, trade finance, and even rudimentary deposits and checking. To study these banking activities, we now leave Dana and meet another historical figure from the pre-Gold Rush period, a merchant whose business illustrates how banking emerged organically to facilitate the growth of the economy of Mexican Alta California prior to the Gold Rush.

The Leidesdorff Accounts.

One of California’s important merchants in the pre-Gold Rush period was William A. Leidesdorff. Fortunately, the California Historical Society holds in its manuscript collection an archive of his papers, which illuminate from the Californian point of view the commerce of that period, and the embryonic banking that supported it.

William A. Leidesdorff was born in the Dutch West Indies, probably St. Croix, in about 1810. He came to California as a merchant sea captain, spending much of the early 1840s trading between Yerba Buena (the village that later became San Francisco) and the Sandwich Islands (Hawaii). He became a naturalized Mexican citizen in 1844, which enabled him to become a *ranchero*, receiving a grant of land that he called the *Rancho de los Americanos*, situated along the American River, east of Sacramento.² The principal modern town on the tract is Folsom, about midway between Sacramento and Placerville. Leidesdorff did not live to see it, but this was to become prime Gold country.

Toward the mid-1840s, Leidesdorff settled in Yerba Buena, where he became a merchant. He was also US Vice-Consul to Mexico under Consul Thomas Larkin. How he was able to serve as a US envoy to Mexico when he held Mexican citizenship is a bit murky, but it certainly indicates that he had substantial stature in the community.

One major challenge Leidesdorff faced as a merchant was how to conduct his business in an economy in which cash



Captain William A. Leidesdorff was believed to be born in St. Croix, Danish West Indies in 1810 to a Jewish Danish sugar planter and a black plantation worker. He is considered by some to be the first Black millionaire. Gold was also found on his property shortly before he died in 1848.

was very scarce (what cash there was comprised a mix of Spanish, Mexican, and foreign coins) and banks were non-existent. The lack of cash meant that he dealt with nearly everyone either on a barter basis or “on account,” sometimes extending credit and sometimes receiving it. His barter transactions included a substantial amount of trading in hides — presumably largely the hides from his own *ranchito* — a source of his wealth. But barter and trading in hides were only viable when a direct, simultaneous exchange of physical goods was possible.

As Leidesdorff’s mercantile business expanded, he needed working capital to finance inventory and accounts receivable — in part because his *ranchito* was quite a distance away. His solution was to become his own banker. His account books, some of which are available for review in the manuscripts collection at the California Historical Society in San Francisco,³ reveal the complexity of the arrangements he had to make. He maintained barter accounts, cash accounts (some in Mexican reales and pesos, and some in dollars and cents), and yes, accounts in which he tracked his inventory and trading of hides.

Leidesdorff’s papers include an 1843 journal of hides received and delivered,⁴ apparently as he traded goods by ship up and down the California coast. The journal of hides delivered begins with an entry saying he had one hide “on board when the ship left.” The journal of hides received includes entries showing that he called at Santa Clara, Monterey, Santa Cruz, “St. Pedro,” (most likely San Pedro) and “Pueblo,” which may refer to Los Angeles. Entries included items like these:

from Ygnacio Martinez 15
Barter, (knives)..... 1
killed July 5th..... 1
Padre Muro 38

The “Hides delivered” side of the ledger includes these items:

2. This *ranchito* was adjacent to John Sutter’s property, *Nuevo Helvetia*, site of the famous gold discovery—apparently at Leidesdorff’s request.
 3. William A. Leidesdorff Collection, 1834-1857, 1928, MS1277, California Historical Society, Manuscript Collection.
 4. “Quantity of Hides Received and Delivered, 1843,” Leidesdorff Collection, *loc. cit.*



Ship Barnstable for 1 lamp & weak yarn.....1
paid Celis acct.....65
Schooner J. A. for sheet blocks &c.....1
paid Mellis for shoes & tobacco mill..... 4
Mr. [illegible], note.....200
paid H. Mellis for 1 tea kettle.....2
for vinegar.....1

Ygnacio Martinez and Padre Muro were likely customers. “Mellis” was probably Henry Mellus, another merchant in Yerba Buena. The entry reading “killed July 5th” suggests that Leidesdorff added to his inventory of hides from the livestock on his *rancho*. “Schooner J. A.” may have been the *Julia Ann*, the ship on which he originally rounded Cape Horn to come to the Pacific.

The two large entries are perhaps the most interesting. Celis and the Mr. [illegible], whose name I was unable to read, must have been people to whom Leidesdorff was in debt. Celis likely was Don Eulogio de Celis, whose name appeared in the news in 1849 in a dispute with the American military establishment over an 1847 sale — on credit, of course — of 600 head of cattle to the American “California Battalion” at Los Angeles.⁵

While Leidesdorff bought and sold in hides, he also bartered. One ledger, headed “Barter Account — Santa Barbara” records quite a few trades of goods for goods:⁶

2 fanegas⁷ of Beans for one Bullock from
Dn. Bernada Carlos Castor July 24th to 1
tin pot for 4 vials of eggs
Dn. Tibunca Vargues, 1 westcoat \$4 for



The Santa Barbara Barter Ledger also records a number of transactions in hides. The knife barter transaction, from the hides ledger, is one of these. Dana’s ship in *Two Years Before the Mast* spent most of its time in California off Santa Barbara, and he describes exactly the same type of activity that Leidesdorff’s barter ledger documents. The trade at Santa Barbara occurred in much the same way in 1843 as Dana observed it in 1835.

Leidesdorff also kept ledgers that seem to indicate that he paid some of the people in his employ in merchandise rather than in cash. His system appears to have been to allow them an advance at a set rate (two of the 1844 ledgers indicate that the rate was 9 pesos per month), and Leidesdorff would then track the items — shirts, caps, blankets, perhaps a knife — he provided them against that allowance.

Leidesdorff’s accounts also indicate heavy trading relationships with two of the leading San Francisco merchants of the day, Nathan Spear and William Davis—conducted in U.S. dollars. The

accounts detail numerous transactions over time; they also indicate the merchants only occasionally made cash settlements with one another. Leidesdorff also traded actively with the owners of ships that called at Yerba Buena.

The Bank of Leidesdorff.

One of Leidesdorff’s most important commercial relationships, eventually, was with Stephen Smith, a supplier of lumber based in Bodega, on the Pacific perhaps fifty miles north of San Francisco. In May 1847, this advertisement appeared in the *San Francisco Californian*:⁸

Leidesdorff’s papers include substantial correspondence with Smith.

L U M B E R .
WILLIAM A. LEIDESDORFF has made arrangements for supplying the Town with LUMBER, persons wishing any kind of lumber can have their orders executed by leaving them at his Store.
 San Francisco, May 29, 1847. 2-y

In an environment with no banks and little cash, managing the working capital involved in buying, shipping and selling lumber must have been a constant headache. To solve this problem, Leidesdorff opted to act as Smith’s banker in San Francisco. He paid for Smith’s shipments at least partially by making book entries to an account he maintained in Smith’s favor, and extended to Smith the privilege of writing checks on that account.

Smith’s checks look much like bank checks today. One example, written on a plain strip of lined paper about the size of a modern check, reads:⁹

for \$20 - Bodega August 17th 1847
Please pay to Mr. H. Clay
Twenty Dollars and Charge the Same
to my account
Stephen Smith
To Cash Wm. A. Leidesdorff
Yerba Buena

The check’s reverse side bears the endorsement, “Please pay to Mr. Thorpe, /s/H. Clay,” along with a second signature, that of “T. Thorpe.” Finally, the reverse also bears a notation, most likely for Leidesdorff’s own records, saying, “Order of S. Smith to pay \$20.00. August 17th/47.”

5. “Col. Mason and Col. Benton,” *Weekly Alta California*, May 10, 1849. These and other newspaper citations are from digitized images of California newspapers at the [California Digital Newspaper Collection](#) of UC Riverside.

6. “Barter Account — Santa Barbara,” *Leidesdorff Collection*, *loc. cit.*

7. A *fanega* was a unit of dry measure, analogous to a bushel.

8. Advertisement in the *San Francisco Californian*, May 29, 1847. [California Digital Newspaper Collection](#).

9. From *Business miscellany*, *Leidesdorff Collection*, *loc. cit.* (Images courtesy of California Historical Society).

William Leidesdorff was also a leading citizen of Yerba Buena. He sat on the Town Council, and became Town Treasurer. He appears to have been instrumental in applying political pressure to Gov. Mason to remove George Hyde as 1st Alcalde (a Spanish title that was often translated as "Chief Magistrate"). Hyde resigned in April 1858. Leidesdorff's opposition to Hyde put him at odds with Benjamin R. Buckelew, editor of the Californian newspaper. Leidesdorff might well have become one of California's wealthiest citizens, but in May 1848 he contracted what the newspapers called "fever," and died on May 18, in his late thirties. His obituary in the *California Star*¹⁰ reads, "It is not our intention to comment upon the history or merits of the deceased; a few brief remarks for the information of strangers will suffice," and then remarks that the community regarded Leidesdorff highly.

Leidesdorff died just around the time of the famous discovery of gold at Sutter's mill, not far from his *rancho*. But despite his large property and business interests, he died unmarried, childless, and intestate.¹¹

Money and Banking.

William A. Leidesdorff was a resourceful, hard-working man with a solid business reputation, who kept meticulous records and had a good eye for value. While he sometimes clashed with other prominent members of the San Francisco community, he evidently understood the need to preserve the trust and confidence of his customers, employees and business partners. Without that confidence, he would not have been able to expand his business beyond what he could conduct on a barter or hides basis. In the absence of currency, banks, or bank credit, he was able to support his business by performing basic banking functions himself. He used his own resourcefulness and figured out how to manage credit to self-finance the complex business transactions — such as importing lumber from up the coast — that built his business and helped stimulate the economy in pre-Gold Rush California.

Today, we make use of "money" in a wide variety of forms: cash, checks, credit cards, debit cards, direct online payments such as Paypal and other electronic wallet services — pretty much everything except hides. We have grown so accustomed to all of these modes of payment that we move seamlessly among them without much thought. But these many forms of money all share a crucial feature. Everything we use as money operates within a trusted system of accurate accounts, just as Leidesdorff used. Today, nearly all of these "trusted accounts" are functions provided by banks and operate in a closed trust system in tandem with the governmental functions of printing of currency and striking

of coins. In our current system, credit creation is money creation. The essential activity of providing credit — introducing new money into the economy — is what banks do. This duality connects our holdings in an institutional chain, whose links include commercial banks, the Federal Reserve, and ultimately the US Treasury.

In our current, credit-based monetary system, money and banking are inseparable, but they are not inherently so. The economic and monetary history of one of the most economically singular periods in American history, the pre-California Gold Rush period, remind us that what serves as "money" may vary widely according to the circumstances of the time. But as soon as cash and barter become inadequate to support economic activity, banking functions will arise organically, even without banks. These functions need to have consistent characteristics — especially accounting that reinforces trust over time — to be successful.

The Inevitability of Banking.

Finance will arise in any kind of economy complex enough to include activity that unfolds over time. As those activities arise, some parties will naturally begin to undertake banking functions. The institutional structures may vary, but the essential banking functions of lending, trade finance — even deposits and checking — will appear in some form. This financial activity facilitates more commerce than would be possible on a strictly cash basis.

Even in an economy that uses little cash, or uses ersatz cash like the "California bank notes," some form of banking will arise. In fact, because banking can also compensate for a lack of cash, and effectively increase the supply of money, the basic banking functions are especially important in such an economy. We could even argue that our current credit-based monetary system is actually an extreme example of an economy that functions entirely without "real" cash, and in which the banking system supplies the deficiency.

One of the arguments that proponents of commodity-based money, such as gold coinage (and even of crypto-currencies such as Bitcoin), make is that they prefer a system, unlike ours, where money can have its own existence outside the banking system. The most extreme of these hard-money and crypto-currency proponents seem to prefer a system without banks at all. Whatever the merits of an anti-banking preference, it faces an insuperable reality: so long as economic life involves activities that unfold over time, commerce requires finance. And so long as commerce requires finance, banking activities will arise unbidden.

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10. "Obituary," *California Star*, May 20, 1848.

11. The disposition of his *rancho* is its own chapter in California history. Capt. Joseph L. Folsom, a Mexican-American war veteran, traveled to St. Croix to buy the land from Leidesdorff's mother, his next-of-kin. The transaction was controversial, and Folsom endured several years of litigation before the Land Commission and the courts finally confirmed his title — shortly before his own death, also in his late thirties. The principal town within the boundaries of the *Rancho de los Americanos* bears Folsom's name.