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# The 1849 Gold Rush and the Roots of California's Economic Development

Working Paper No. 72

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**Abstract:** The Californian Gold Rush, commonly referred to as the "1849 Gold Rush" proved to be a major event which brought significant change to California. This inquiry seeks to establish that this 1849 Gold Rush provided a foundation for a broadly shared prosperity through contributing to the advancement of California's industry. The first part in this inquiry goes into some detail regarding how the gold rush got initiated, would become a major event for the world. The second part explores what changes the gold rush had brought for California's industry, economic development, and broadly shared prosperity. The third part explains more details regarding where migrants had originated and how those migrants had traveled far in order to take advantage of the opportunities brought on by the 1849 Gold Rush.

**Journal of Economic Literature Classification Codes:** N11, N51, N91

**Key Words:** California History, Economic Development,

Economic Immigration, Gold Rush, Industrialization,

This inquiry seeks to establish that the 1849 Gold Rush would provide a foundation for a broadly shared prosperity and while also proving vital for the developing of California's industry. The Californian Gold Rush, commonly referred to as the "1849 Gold Rush" proved to be a major event which brought significant change to California, affecting how California later developed. Many of the cultural effects that the 1849 Gold Rush had brought are readily observable still today. Just two easily observed, notable examples is that the football team the "San Francisco 49ers" reflect the mid-19<sup>th</sup> century event. Even today's State of California can also be noted as the "The Golden State."

What proves especially curious is that what proved to be a major and pivotal historical event was initiated with a miner's lone discovery, which would then lead towards one of the largest crazes of the 19<sup>th</sup> century. Industry would also develop as migrants would come and increase the overall demand for goods. New opportunities would come not just from the gold directly, but also supplying the needs for a burgeoning population. It comes as no surprise that the massive influx of immigrants looking for economic opportunities to the state would also play a large role in how the industries of the state would be developed. Migrants from all around the world set out to reach California in hopes they could take part and share in the economic prosperity that would arise from the 1849 Gold Rush. These effects are not only seen in the types of immigrates, but the effects proved larger,

generating effects on world markets. People all over the world would feel the shockwaves that resounded from the boom brought on with the discovery of gold.

### **The 1849 Gold Rush**

The origins of the 1849 Gold Rush can be viewed as generating hopes for wealth and riches. Authored by Hubert Bancroft, Henry Oak, Nemos William, and Frances Victor (1884, 38-47) their book, *History of California*, offers details regarding the origins of the 1849 Gold Rush. Although the event is referred to as the “1849” Gold Rush, the actuality is that the gold had first been discovered on January 24<sup>th</sup>, 1848, and by one James Marshall. Marshall had been building a lumber mill which would eventually be named Sutter’s Mill, as what he constructed was intended for a man named John Sutter. It was during the mill’s construction out in the bed of the American River that Marshall discovered the glitter of gold. Testing the glittery metal confirmed that indeed the material was gold. Trying to hold on to their secret, the two men avoided revealing their discovery. However, the dynamic changed when Sutter sent a man, one Charles Bennett, to secure mineral rights for the land. Bennett was responsible for the leak. He had revealed unintentionally to the public of a discovery of coal near Monte del Diablo. How it would become widespread was with Samuel Brannan, who in

hopes for the business that gold would bring, announced that gold had been discovered. This is often considered the root of how the 1849 Gold Rush started, which would cause set California on a transformative course.

In *Migrating to Riches? Evidence from the California Gold Rush*, Karen Clay and Randall Jones (2008, 999) explains details regarding how the gold rush had started. It took the better part of the Year 1848 for news to pass along to the rest of the United States. Thus, in Year 1848 the gold craze did not emerge. However, towards the end of Year 1848 news of the discovery of gold had become widespread not only across America, but also across a number of foreign nations as well. In June of 1848 there had been 4,000 to 5,000 miners in the gold district; however, by December of 1849, the number had dramatically increased to around 40,000 miners. News had come from a variety of sources, such as: newspapers like the *California Star* and the *New York Herald*. Even the U.S. President Polk noted in an address to Congress confirmation of the discovery. This spreading of the good news stimulated the spirit of adventure in members of the population, who in seeking their potential fortune, headed out to California for a chance at striking it big.

In *A Veritable Revolution: The Global Economic Significance of the California Gold Rush*, Gerald D. Nash (1998, 276) goes into greater detail regarding how the gold rush turned into such a grand event. The timing of the

discovery of gold by James Marshall was conveniently near the time of America's industrialization. From this, the 1849 Gold Rush would show how crucial a role it played in accelerating the industrialization and in promoting America's economic growth. Throughout the nation, there was the creation of numerous new banks, financial institutions, and businesses related to the sudden increases in gold. These expansions were accompanied with increases in trade and commerce, agricultural output, as well as demand for increased forms of transportation, providing many avenues for economic growth. The timing proved favorable for the discovery of gold to act and serve as a stimulus promoting California's population growth, industrialization, and economic development.

### **Industrializing California**

Related to the major event of the 1849 Gold Rush, there would be a large increase in the population that would stimulate an increase the demand for goods. In *The Gold Rush and the Beginnings of California Industry*, David J. St Clair (1998, 185) shows how much California had changed from the discovery of the gold. In 1845, St Clair had described California simply as a colonial outpost that remained remote and sparsely populated. At the start of the decade of the 1840s the population registered as but 17,900 inhabitants, without counting the 100 or so thousand

unassimilated Native Americans in the state. People were located mainly on the coast and in the distances between San Diego and Sonoma, and in the area of San Francisco, which would later be the center of the gold rush, but at the start of the 1840s had but a few hundred people in the hamlet. California's economy tended to stagnate as active residents tend to focus on large cattle ranches, with the hides and tallow as the merchantable products. Ranching remained the main activity of this state, along with soap production from the beef tallow. Cow beef itself was not appreciated as the large quantity of beef vastly exceeded the stagnant demand.

In a metaphorical way the 1848 Gold Rush served as a spark which ignited a fire that heated up and promoted industry and economic development. St Clair (1998, 186) points at how the discovery of gold would change the lives of the people that had originally been in California. Workers that were previously shopkeepers and ranch workers would drop their current businesses and look for gold in the hopes of acquiring riches. St Clair provides an excerpt from the last edition of a local newspaper that offers an example regarding how lives had been changed from the gold rush. Quoting from that one San Francisco newspaper:

“The majority of our subscribers and many of our advertising patrons have closed their doors and left town... We have also received information that very many of our subscribers in various parts of the country have left their usual places of abode, and gone to the gold region....”

What this quote suggests is that the gold craze had convinced people to uproot their own settled lives and head for the gold fields in pursuit of their potential fortunes.

There were many new forms of opportunities for entrepreneurs that headed for California. As Nash (1998, 276-277) points out, people felt the wide potential for new business ventures in California. This would range from, hardware and mining supplies to food and clothing. This is only a small sample of the new markets open—ing up. Over the duration of the 1849 Gold Rush, new industries would arise from the continuous needs and demand from the miners and the people living there. Demand for mining machinery outstripped supply, which brought opportunity for the establishment of an iron industry, that would be founded and expanded in less than one decade. From this came the manufacturing of stamp mills, nozzles needed for hydraulic operations, and steam engines. The gold rush could be associated with the founding of thirty machine shops and thirteen iron foundries — all set within the City of San Francisco by 1861.

In addition, we could note a large number of economic opportunities available from the demand drawn from the large numbers of immigrants. Nash (1998, 278) offered an example of the lumber industry as its products experienced rising demand. This was due to lumber being needed in the mines, and also for housing the flood of immigrants. Food would also prove necessary for the people of



California. New flour mills had to be made in a place that had no commercial flour mills up to 1848. By Year 1860 as many as two hundred flour mills had been set set up. The flour was not only intended for the local market, but for other, more distant markets as well, stretching as far as the Rocky Mountain region and even to foreign nations like Japan, China, and countries in Europe as well.

The agriculture and economy of the state would also face a large boon from the gold rush. St Clair (1998, 187) provides some comparisons to before and after the start of the 1849 Gold Rush to help us understand the effects. While before the gold rush price per head of a cattle had been \$5, the increase in inhabitants had raised that price to \$300 and even \$500 per cattle head. The wheat output of the state increased as well. By 1860 the State of California was producing five times the volume of wheat of the other western states combined.

When considering the industrialization of California, St. Clair (1998, 187-188) considers a range of opinions coming from historians. In general, St. Clair notes that historians tended to agree that industrial development had not quite progressed as it should have be the end of the 19<sup>th</sup> century. In particular, historian John Hittell is mentioned for holding a low opinion regarding California's slow industrial development. Based upon his survey of California in the year 1862, Hittell pointed at reasons for California's industry to fall behind European and eastern producers. He associated California's industrial stagnation with high interest rates, high

wages, and the lack of iron, coal, and cotton supplies. In his 1879 survey, Hittell offers additional details, stating issues related to high transportation costs, the lack of water power located near cities, expensive land prices for land near the deep-water ports, high costs of water for large towns, and insecure land titles. This, in Hittell's opinion, would limit California's industry to producing crude industrial materials, with the state only exporting unfinished and semi-finished materials. Sentiments like this were shared amongst many different historians throughout the years up until the present. Some more positive opinions had existed though, as there are those like historian John Caughey suggesting that California's manufacturing capacity had developed alongside its commerce, mining, and agriculture. There are those like journalist Carey McWilliams that suggest that California had become a manufacturing center that arose with its statehood, as the unique condition of a gold rush had changed its development compared to other places.

### **Opportunities for Migrants and Immigrants**

Starting with the advent of the 1849 Gold Rush, we can identify significant population increases in California. Indeed, population increases were rapid in the early stages of the 1849 Gold Rush, faster than natural reproduction rates for the

short time that this had occurred in. A large proportion of this increase was simply due to the large number of people coming from across the country to seeking their fortunes in the gold fields.

Clay and Jones (2008, 999) offer details regarding migration and the arrival of immigrants in California. The authors suggests estimates that as many as 5,000 to 6,000 wagons had left Missouri the spring of 1849, with others taking different paths further south or even starting from or passing through Mexico. With the large number of surviving diaries from that time, the overland journey was generally made by young men with friends and relatives from their hometowns. The estimates for overland migration had pointed to at least 101,000 people migrating over to California.

There were sea routes to California that people took as well. This trip was generally all the way around Cape Horn at the tip of South America and then north California. Another route noted was through the Isthmus of Panama in Central America, where migrants could walk the narrow land area and find another boat headed north to California. Clay and Jones offer a conservative estimated that about 75,462 came to California via sea routes.

To move overland across the country, there would generally be a need to pay for the trip. According to Clay and Jones (2008, 1000), for a trip within America,

the pay needed was about \$100 to \$300. This was about three to nine months of wages for an unskilled worker in 1850. There were variances to the cost though, as overland trips were thought to be cheaper but longer and more rigorous. Sea routes were known for other issues, like whether migrants could gain passage on the ships rounding Cape Horn, or ferrying migrants to and from Panama.

The state's population grew significantly of the years of the gold rush. St Clair (1998, 187) lists out some changes in the population that led to the increase in demand in California. In the beginning of 1849, California had a population of about 26,000, and this would increase over the Summer of 1949 to around 50,000. Unofficial estimates had estimated California's population to be about 115,000 in 1850. This population would increase significantly over subsequent decades. Looking at the estimates: in 1860 the population was around 380,000, in 1870 the population was estimated at 560,000, in 1890 the population had expanded further to saround 865,000. These numbers suggest that in California's first century as a state, the population tended to double about every twenty-five years.

Migrants had come from all different parts of the U.S. and the globe, driven by dreams of riches. Clay and Jones (2008, 1003-1004) include a sample of population estimates for some of the mining counties in California. Indeed, this sample differ from the national averages, as with California's unique circumstances, there are a number of differences shown in the population. For

example, the average age in California at the time of the Gold Rush was shown to be higher than the national average, which was largely due to a lack of children in the state. In addition, California's population was also overwhelmingly male. The average percentage of males in the U.S. was at 52%, while in California it was 94%. Relatedly, levels of literacy ran higher on average, suggesting that the literate were those migrating to California.

In addition, we could consider numerous effects on a global scale as places such as Europe, South America, and even Asia would be affected by the 1849 Gold Rush. Nash (1998, 285) offers some details regarding economies beyond the borders of the United States that had benefits from the gold rush. Chile as an example, had an agricultural sector that lacked consumers outside of their nation. With California's emergence as a major market, there was then a grand incentive for marketing Chilean fruits, flour, and meats. Though Mexico had suffered the loss of a war against the United States, the 1849 Gold Rush would bring thousands of Americans needing supplies as they passed through Mexico on their way to the gold fields of California.

In addition, effects were felt in Europe, with varying effects on the different countries. For a country such as Norway—which was known for being focused on trade, commerce, and shipping—opportunities associated with the increase in economic activity associated with the 1849 Gold Rush portended potential

increases in demand for opportunities along the Pacific Coast, and even the possibility that a canal would be needed for crossing the isthmus in Panama. Iron manufacturers in Norway would also look towards California's market to supply for railroad equipment and rails in anticipation for widescale expansion and development.

Countries located in Western Europe benefited from the 1849 Gold Rush. When considering some of the effects of the gold rush on France, there would need to be an acknowledgement towards the Revolutions of 1848. Young Frenchman would see the 1849 Gold Rush as a potential new source of investment and job opportunities, and take significant steps towards seizing those opportunities. In 1850 at least eighty-three companies were created by the French, not only for investments in gold mining, but also farming, real estate, and service industries. Considering another west European country, Germany was clearly affected by the 1849 Gold Rush. With an estimated one million Germans immigrating to the United States, over thirty-thousand settled in California. By 1860, Germans became a significant portion of California's population, with at least 14% of the population being German. This immigration had even brought labor shortages to Germany in the 1850s, suggesting that large portions of their young men were now abroad and looking for economic opportunities. Nash(1998, 285-286) would further point towards Great Britain as a beneficiary of the gold rush. Great Britain

would be the source of a large number of immigrants, as the 500,000 immigrants in the 1850s would consist of a large numbers of Welsh, Irish, and Cornish miners. Benefits to Great Britain would go beyond that, however, as it had a lack of coins and currency to purchase food imports from countries that were unable to afford manufactured products. With the influx of gold from the gold rush, shortages of gold which had hampered trade were now solved. Gold markets all around the world were awash with increased amounts of gold. The annual production of gold reached \$131 million annually for the early to mid-1850s. Prices were being raised across the globe, and Great Britain benefited tremendously with their vast supplies of manufactured exports. By 1856, British exports to California surpassed \$2 million annually.

## **Conclusion**

This inquiry has sought to establish that the 1849 Gold Rush provided ample opportunities for a broadly shared prosperity, while proving vital for developing California's economy. Through records and tales from the 1850s, it can be understood that many individuals and countries would benefit from the gold rush. One way to note this is that markets all around the world would change with the new increases in production and demand. It can be seen that numerous icons in

California would involve the terms “gold,” or “49’ers” which all originate from the gold rush. The cultural effects from the 1849 Gold rush are ubiquitously seen in present day California, showcasing how widespread and prevalent were the effects. In summary, California’s economy faced many benefits that helped spur things forward beyond what its previous rate of progress would have led to. In short, the 1849 Gold Rush proved a boon for California, setting this state and its inhabitants on a more prosperous course that remains readily observable up to the present.



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