

RISKY BUSINESS

*Banking During the
Alaska Gold Rush*

BY ELMER RASMUSON
AND TERENCE COLE

In the Alaskan interior, where the sole industry was mining, gold dust banking, devoid of any federal regulation, was hazardous at best.

Special Collections, Washington State Historical Society

EDITOR'S NOTE

The following remarks were given by Elmer Rasmuson at the Washington State History Museum on March 12, 1998, in conjunction with the exhibition, "Golden Dreams: The Quest for the Klondike."

Alaska's first bankers were seldom expert in methods of high finance, but they all knew the weight of a sack of flour and a bag of beans. In the 1870s and 1880s there were no established banks within 2,000 miles of the Yukon River, so the traders themselves had to become their own bankers to stay in business. As was true in bankless societies elsewhere around the world, the early traders and merchants of Alaska found it necessary to provide banking services, such as granting credit, holding gold on deposit for customers, giving small loans, investing in grubstakes for prospectors, and even producing their own money in the form of trade tokens, in order to sustain local commerce. Traders such as Leroy Napoleon "Jack" McQuesten never kept banker's hours, but they financed every major aspect of the frontier economy.

McQuesten was legendary among the old-time miners for his generosity and easy credit, which helped many men survive from one winter to the next. The pioneers of the

Yukon lived one step ahead of starvation, and without McQuesten's faith that many of his slow accounts would one day pay off, few miners in the 1880s and early 1890s would have ever had enough to eat.

McQuesten financed the building of Circle City in 1894 and 1895, making it the leading mining camp in the Yukon Valley before the Klondike strike. According to an official history of the Alaska Commercial Company, everyone in the entire Circle City region owed money to McQuesten at one time or another. "Failure to find a record of indebtedness on the Company ledger," the history states, "indicated that any person for whom inquiry was made was not and had not been in that section of Alaska."

An often-told story typified how McQuesten operated. One day a miner just in from the creeks came into McQuesten's store at Circle City, proudly carrying a poke of gold dust he had taken out of his claim. He intended to pay off his debts in full, and as he opened the bag he asked Jack how much he owed. McQuesten said, "Seven hundred dollars."

"Seven hundred! Hell, Jack, I've only got five hundred. How'm I goin' to pay seven hundred with five?"

"Oh, that's all right," McQuesten said, "give us your five

KLONDIKE
Gold Rush
CENTENNIAL

hundred and we'll credit you and let the rest stand till next cleanup."

"But, Jack, I want some more stuff. How'm I goin' to get that?"

"Why, we'll let you have it as we did before."

"But, damn it, Jack, I haven't had a spree yet."

"Well, go and have your little spree, come back with what is left, and we'll credit you with it and go on as before."

Of course, when the miner finished making the rounds at the hot spots of Circle City, his gold was entirely gone. Nevertheless, when he left town, he had a new outfit on credit from McQuesten's store. One can imagine that he swore to himself as he headed back toward the creeks that come next year he would pay big-hearted Jack all \$1,200 he now owed him, even if he had to give up his spree.

The mining industry started to expand as hundreds of placer miners crossed Chilkoot Pass to the Yukon mining camps of Fortymile and Circle City in 1894 and 1895, and the need for banking facilities in Alaska was greater than ever. The major outfitting port in southeastern Alaska for Yukon-bound miners was Juneau, and already two brothers—one a dentist and the other a photographer—had realized the need for a bank there. On March 1, 1894, Henry and Joseph Harrison opened the Bank of Juneau, the first bank in Alaska.

The Bank of Juneau could boast of having one of the first telephones in Juneau—the bank's phone number was a single digit—"2." But Alaska's first bank was not destined to have a long or glorious existence. Within two years the Bank of Juneau had failed and both of the Harrison brothers were in jail. An investigation revealed the Harrisons' "peculiar methods" in handling their depositors' money. The brothers were arrested on charges of embezzlement.

The failure of any business can cause untold personal suffering, but the failure of a bank can destroy an entire community. Like a church or a democracy, a bank can only survive when people have faith in the institution. It is no coincidence that many banks constructed in the 19th and early 20th centuries were built in the classical style of Greek and Roman temples, the oldest structures in the western world. Permanence, stability and customer confidence are the bank's most valuable assets. When depositors have confidence in a financial institution, it can weather almost any difficult circumstance. But when people lose faith in the future, the survival of the bank and the community itself can be at stake.

Many early Alaskan banks would disappear, along with the entire communities in which they were founded, but the short-lived Bank of Juneau had an enduring legacy. Shortly after the bank suspended operation in February 1896, Juneau merchant B. M. Behrens purchased the "large hall safe" of the closed bank. Behrens was the owner of one of the biggest wholesale and retail general goods stores in Juneau. He knew how valuable a bank

could be to the community and to his own business, and a few months later, without fanfare, he added a line to his newspaper advertisements: "For the accommodation of our many customers we are doing a banking business."

In the merchant banking era in Alaska, which lasted until the territorial government began regulating the banking industry in 1914, there was no clear distinction between what was and was not a bank. Because of banking's vital importance to the entire economy, the banking industry has traditionally been more closely regulated by government authorities than any other industry. But this was not the case on the Alaskan frontier, where banks operated beyond the reach of any government supervision. No bank examiners ever looked at the books of the Bank of Juneau or at the records of any of the other banks in the territory (except for two national banks) that operated in Alaska before 1914.

In Alaska at the turn of the century, a businessman could theoretically open a bank as easily as a barber shop. A

Having purchased the hall safe from the recently defunct Bank of Juneau, B. M. Behrens introduced banking services as a sideline to his mercantile business.

B. M. BEHRENS
Merchant and Banker
JUNEAU, ALASKA

OUTFITTERS should inspect
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WE CARRY A FULL STOCK

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AND EVERYTHING NECESSARY
FOR THE MINER

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On Application

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BANKER
Drafts on all Parts of the World Bought and Sold
GOLD DUST PURCHASED
Do a General Banking Business

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banker needed only a pencil, a ledger book, and a sign that said, "Bank." He didn't need a license or a charter or even any capital as long as he could find enough trusting depositors to get started.

B. M. Behrens was the first and most successful independent Alaskan merchant to start a bank as a sideline to his mercantile business. The two functions worked admirably together under one roof. A customer could borrow money in one corner of the Behrens establishment, and spend it all on tools, hardware, clothing, wallpaper, paint and groceries before leaving the premises. Behrens's method was far more profitable than opening a bank as a separate firm. Following his method, many of the first and most successful banks founded in various Alaskan communities would be operated out of the back of mercantile stores.

B. M. Behrens was just beginning his banking career in the summer of 1896 when gold was discovered far to the north of Juneau on the tributaries of the Klondike River. The Klondike gold rush of 1897-98 would revolutionize nearly every aspect of life in Alaska, including the banking business. The millions of dollars in gold discovered in the Klondike district brought tens of thousands of prospectors into the Yukon River basin in 1897 and 1898, starting a decade of unprecedented development.

By the time Alaskan placer gold production peaked in 1906, ten years after the Klondike strike, Alaska and the Yukon Territory had produced more than \$200 million in gold—worth in current terms about \$5 billion—almost all of it by pick and shovel. The massive output of gold from the Yukon Valley and the increase in the population of Alaska

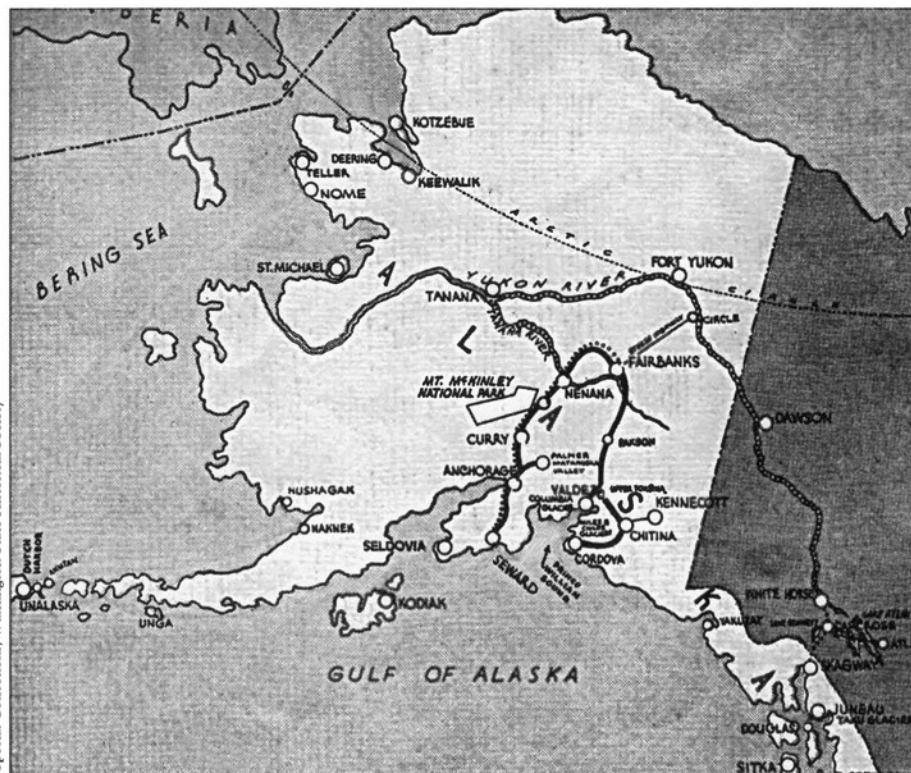
made banking services essential. Along with the other trappings of modern civilization—such as post offices, newspapers, saloons and schools, banks spread across the north. Many of these pioneer banks were as fleeting as the gold rush itself. The Bank of Teller incorporated in 1901, but apparently it managed to stay open for little more than two months before going out of business. The Northern Trading and Banking Company in Dyea claimed to have a capital stock of \$100,000 in 1898. It was called "one of the substantial firms of Dyea," despite the fact that its only office was a big wall tent filled with merchandise. Charles Fechheimer, president of the bank, advertised his place of business as the "Big Tent." President Fechheimer quietly folded up his "Big Tent" about the same time as the entire city of Dyea folded in 1899.

Another short-lived bank was the First Bank of Skaguay, whose original office later became "Soapy" Smith's Saloon. The bank opened in the "howling wilderness" on the site of the city of Skagway on December 21, 1897. "From that date to the present," the *Skaguay News* reported in 1899, "the First Bank of Skaguay has been a pillar of financial strength and aid in building up the city." But the pillars began to crumble as the gold rush boom ended, and two-and-a-half months later the First Bank of Skaguay closed with outstanding debts of \$15,000-\$16,000.

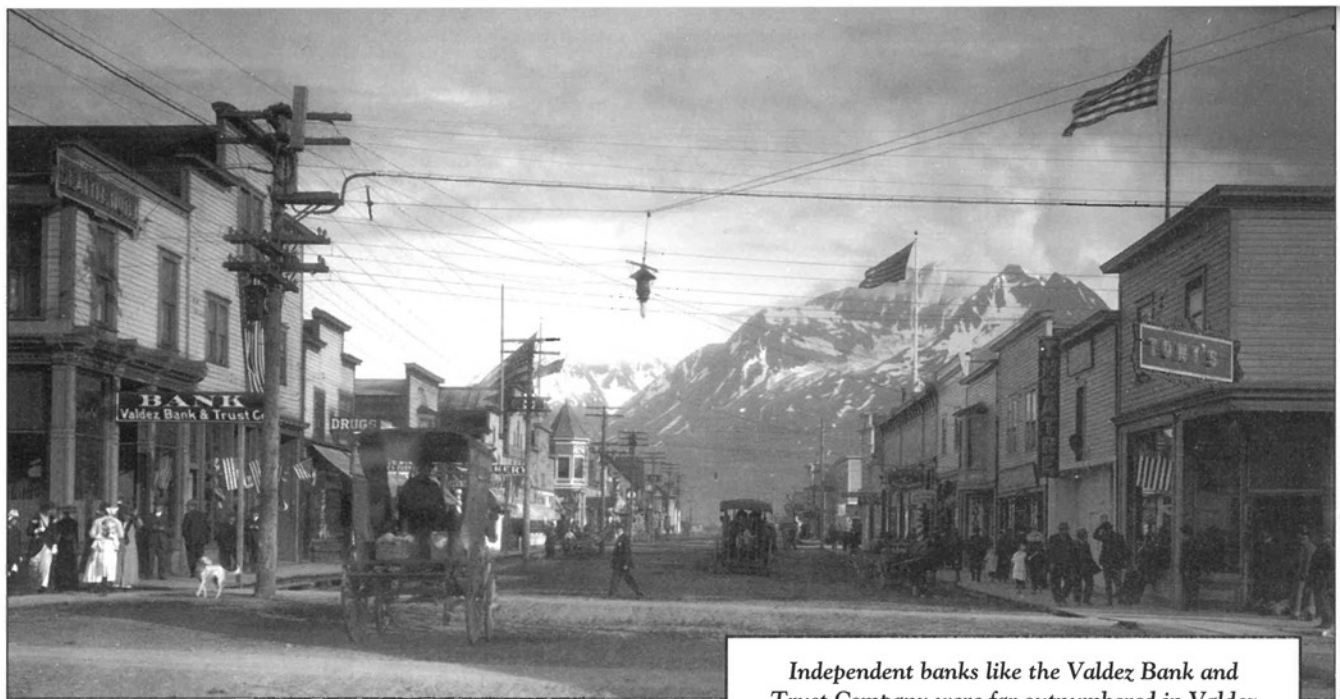
The first banks in most Alaskan communities were generally one of either two basic types, depending on the local economy. The banks in coastal cities such as Juneau, Dyea, Skagway, Valdez, Cordova and Seward—the outfitting centers

for miners bound for the interior—were most commonly "merchant banks" like B. M. Behrens' bank in Juneau, while the banks in the placer mining camps such as Dawson City, Nome, Fairbanks and Iditarod were independent banks that specialized in buying gold dust.

The merchant banks were typically operated by the leading merchants in each town as an adjunct to their mercantile stores. Sam Blum explained that merchant banks such as his in Valdez and Cordova were important because "in most Coast towns of Alaska the conduct of a Bank alone is not profitable. . . ." Deposits in Alaskan banks were small, and the unsettled conditions on the Alaskan frontier meant that good customers for bank loans were hard to find. "It is my judgement that with very few exceptions money cannot be loaned safely in proportion to deposits by Banks in Alaska," Blum



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Independent banks like the Valdez Bank and Trust Company were far outnumbered in Valdez during the gold rush years by merchant banks that operated out of mercantile stores.

said in 1912; "hence it follows that Institutions conducting simply a Banking Business, cannot earn sufficient returns on the Capital invested to justify their existence."

Finding good loans was a constant challenge for Alaskan bankers. Prospectors were gamblers by nature. Placer mining was a risky investment unless the banker knew the claims on the creeks as well as the caliber of the men with whom he was dealing. Bankers could not afford to be caught up in the speculative fever that seemed to affect everyone who ventured near a mining camp. "The problem," as one early banker in Dawson City said, "was to draw a sane dividing line between courage tempered by wisdom and common sense, and courage without either."

Banks make money by lending money and taking calculated risks. But when the risks were too great, a cautious banker had to say no and look for income elsewhere. The answer to the dilemma, as Behrens, Blum and other Alaskan merchants saw it, was to combine merchandising and banking under one roof and adopt the slogan of one Skagway trader-banker: "Everything bought and Sold," or the Valdez Bank and Mercantile Company, which claimed to be "Universal Providers," and "Dealers in Everything." With no clear dividing line between banks and other businesses, any business could in fact be called a bank. A general store that sold everything wouldn't be complete without its own banking department.

Unlike the merchant banking houses in Alaska's coastal cities, the "gold banks" in the mining camps made most of their profits from assaying and purchasing gold dust, not from selling groceries and dry goods. Banks were especially important in gold mining towns because they dealt in the raw product that was the lifeblood of the entire community: gold dust.

Usually the bank was one of the few places where a miner could get a fair price for his gold dust. Before the establishment of banks, mining camps normally used gold dust as money because not enough coins or currency, known as "cheechako money," was available. Every miner carried a

poke of gold dust, and every store had a gold scales, but these scales were seldom accurate. Trade dust used in normal transactions was often adulterated, and the losses due to honest accidents could be sizable. But fraud was an even bigger problem. The saloons and gambling houses were especially notorious for their unique system of weights and measures when it came to a patron's gold dust.

The custom was to hand over your poke and turn the other way, as it was impolite to watch the transaction too closely or to suspect that the bartender might have his thumb on the scale. It was a sobering sight to prospector William B. Haskell when he saw his fellow Klondikers "liquidate" their debts at the bars of Dawson City. Haskell said that the barkeepers were never guilty of taking too little dust, "particularly when the patrons are somewhat under the influence of copious libations." The saloon owners called the over-weighing of dust their "rake-off," which amounted to 10 to 20 percent on every transaction.

There were innumerable ways that have become legendary of making sure that the "rake-off" was a worthwhile sum. By the end of the day the sawdust on the floor would be a rich claim if the weigher casually spilled a pinch or two of gold dust during each sale. Long fingernails could rake up a fortune, and if the man at the scale kept his fingers wet with beer, he had the Midas touch. Jack "Doc" Kearns, who later was the manager of Jack Dempsey, claimed that when he was learning the trade of weighing gold in Nome, Wilson Mizner taught him a valuable grooming trick; he allegedly used syrup as a hair tonic, and if he ran his fingers through his hair often enough he would have a nice pile of gold dust by the time he took his next shampoo. "Mizner was a wonder at the business," Kearns said. "He could make a pair of scales do anything."

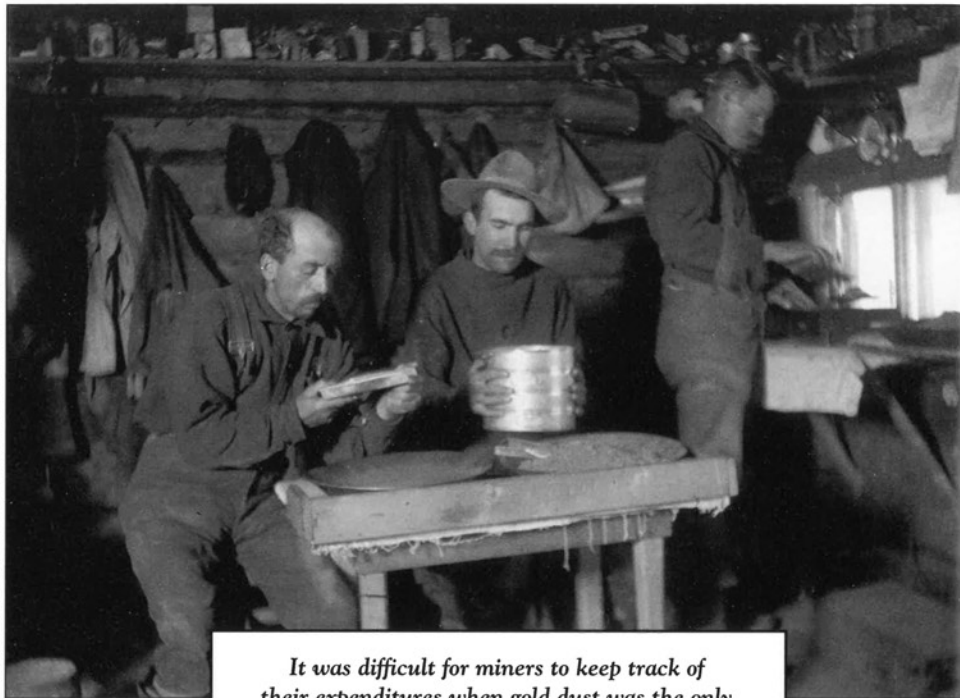
Even if a magician was not working the scales, it was not easy for some men to keep track of how much they were spending when dust was the only money in circulation. In the

early days of the Klondike the claims were so rich and bags of gold dust so common that the gold seemed to have little value. "Gold dust is not quite so cheap there as sawdust," one man said of Dawson City, "but in the sense of being trifling and unimportant, it is the cheapest thing in town." An English journalist visiting the Klondike in 1898 believed that most miners had a total disregard for money because they used gold dust as their medium of exchange. "When the currency of the country becomes notes or gold coinage," he predicted, "it will be very different, for then they will be able to note, if they care to, what they spend."

Naturally, the establishment of a mining camp bank threatened the unscrupulous merchants, saloon owners and speculators who made extravagant profits by dealing in gold dust. Both the Canadian Bank of Commerce and the British Bank of North America opened branches at Dawson City in 1898. The Canadian Bank of Commerce purchased \$2.3 million in gold during the summer of 1898 and issued nearly \$2 million in currency in Dawson in 1898-99. The paper currency was so much better than gold dust that most of the money in circulation in Nome in 1899, before the establishment of any local banks, was Canadian money from the banks of Dawson, brought down the Yukon by miners from the Klondike. "Gold dust . . . is a most miserable and unsatisfactory medium of exchange," the *Nome News* explained on November 11, 1899. "With a good bank in the community we would be saved the trouble and annoyance caused by the use of gold dust, and the bank notes in circulation would be those of our own country." By the following summer several banks had opened in Nome, including the Bank of Cape Nome, which had shipped in by steamer "a complete banking outfit, including \$200,000 in coin and currency."

Gold extraction in Alaska peaked in 1906 when more than 50 million ounces were produced. By that time the richest bonanzas had been discovered and in 1907 placer gold production began a gradual decline, which lasted for many years. Naturally, as the volume of gold decreased, so did the number of banks. This inevitable contraction of both the economy and the banking industry following the 1896-1906 gold boom forced government authorities to finally regulate banking institutions in Alaska.

The weakest link of the Alaskan banking industry was in Fairbanks—E. T. Barnette's ill-fated Washington-Alaska Bank, which collapsed in 1911, wiping out \$1 million in deposits. Barnette, an ex-convict from Oregon and the founder of Fairbanks, allegedly embezzled vast sums. The wreck of his bank shocked business and political leaders alike and made them realize that the lack of government supervision in the banking industry threatened the economic future of Alaska.



It was difficult for miners to keep track of their expenditures when gold dust was the only currency in circulation.

In the wake of the Barnette scandal, bank examiner Richard B. Goodhart, from the Office of the Comptroller of the Currency, concluded that the gold dust banks of the interior would always be inherently unstable and desperately needed regulation. As risky as gold mining could be, banking on gold was an even greater gamble. "The country has no agricultural or manufacturing resources, and mining is the only industry," Goodhart said, "Therefore, banking in Alaska, with the exception of some of the Coast towns, will always be more or less hazardous."

When the first Alaska legislature met in Juneau in 1913, Governor Walter A. Clark explained in his opening message that Alaska was lacking many "elementary provisions of law" that were taken for granted in "every other civilized territory in the world. . . . Among the first in importance is a law for the supervision of banks and banking. . . ."

The Territorial Banking Act that the legislature passed in 1913 ended the era of freewheeling merchant banking in Alaska and brought all of the banks in the territory under government regulation for the first time. The act defined what banks in Alaska were and were not. No longer could a bank be just another department in the back of a mercantile store or a gold dust exchange; no longer could a bank be treated just like any other business. Alaska law recognized for the first time the unique role that the banker—whether he was selling gold or selling goods to gold miners—played as the keystone of the entire economy.

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FRONT COVER: As implied by this brochure cover, Alaska's focus is maritime though its land mass is extensive and mostly inland. This is so mainly because it is much more accessible by water than by land. See related story beginning on page 3. (Special Collections, Washington State Historical Society) BACK COVER: Washington School in Centralia was named after the first president, the state and one of the first black pioneers to settle in the Oregon Country. See related story beginning on page 34. (Special Collections, Washington State Historical Society)