The early Khoi-Khoi people discovered the springs long before Europeans came to the Cape. Only after Europeans settled in the Cape, the Caledon springs became increasingly famous. Actual development started in 1710 when Ferdinand Appel secured a grant of 10 ha in the area on condition that he erects a building for the use of visitors to the curative waters. However, the Bot River, a days journey by wagon from the springs, is indicated on a map dated 1662 and it is thus likely that the mineral waters were visited well before the 18th century.

The hot springs at Caledon became popular and was developed as the years passed. Seven springs of chalybeate (iron rich) water originally bubbled to the surface, one of which was cold and the other six thermal. The water, in contact with rocks heated by pressure deep under the ground, is warmed to a steady temperature of approximately 50°C, with just less than 1,000,000 liters reaching the surface each day. Just like other natural springs in South Africa, the thermal springs of Caledon are not related to volcanic activity. The principal feature of the water, besides its warmth, is that it's free of any organic matter and contains a large amount of iron. Samples of Caledon's mineral spring water were submitted in 1893 to the greatest exhibition of the time, the Chicago World Fair. The water was awarded first prize as one of the world's top quality mineral waters.

A full century elapsed before the farming community increased sufficiently to warrant the establishment of a drostdy and a church in the area. The government's decision to create a sub-drostdy at Caledon was taken in March 1810 and five months later, four local farmers, Wessel Wessels, Philipus de Bruyn, Johannes Marais and Hans Swart requested permission to build a church with the aid of government. In April 1811 Caledon received its first deputy landdrost (magistrate, subordinate to Swellendam) and in 1813 the first Dutch Reformed church was consecrated. Besides provision for the officials and the minister, seventeen plots were surveyed, fifteen along the Ou Wagen Weg (Mill Street) and two in Church Street.

Caledon developed slowly in the early years as it served a poor farming community, and water in the village was scarce. The only sources were the hot springs and the Drinkwaterskloof in the Swartberg and both were limited. By the 1840's the conversion to the wool producing Merino sheep was causing a silent revolution in the district. From having been a very poor grain producing area, the Overberg became one of the most prosperous farming districts in the Colony and the growing wool exports were reflected in the remarkable growth in the village of Caledon. Between 1840 and 1860 Caledon doubled in size, with the numbers of households increasing from 39 to 81. In 1870 a correspondent claimed that Caledon had 5 schools, 3 doctors, 1 bank, a brass band, 6 hotels, 13 shopkeepers, 5 bakers, 5 butchers, 6 tailors, 3 saddle makers, 3 hairdressers, 12 photographers, 4 canteens, 2 bottle stores, 6 carriers and 2 undertakers.

Caledon is situated in the prime spot for barley production. Barley is one of the world's leading grain crops and is grown since biblical times. Barley's popularity is due in part to its ability to flourish in diverse climates ranging from the Arctic Circle to the tropics. A large percentage of the barley grown in the Overberg region is used for brewing malt beverages such as beer. Southern Associated Maltsters is situated in Caledon and is the largest malt-producing plant in the Southern Hemisphere creating job opportunity for the locals.