

Funding the War of 1812

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This year marks the bicentennial of the outbreak of the War of 1812. The causes of the war extend back to the Napoleonic Wars in Europe, when Great Britain imposed sanctions on neutral vessels, including American ships, crossing the Atlantic and attempting to land in European ports. American frustration climaxed on 18 June 1812, when President James Madison signed a declaration of war against Great Britain.

As a British colony, Canada was swept up in the conflict and became the main target of the American military. The Maritime provinces were largely unaffected, as peaceful arrangements were reached with the New Englanders, who largely opposed the war. In Lower Canada, where military forces were focused on the defence of Québec City and Montréal, only a handful of major battles and skirmishes were fought, the most notable being the Battle of Chateaugay (26 October 1813). Upper Canada bore the brunt of the conflict. Major General Henry Dearborn, who had command of the northeast sector of the U.S. Army from the Niagara River to the New England coast, told President Madison that remote Upper Canada, with its sparse population and largely undefended border, was “easy pickings” and that taking it was simply a matter of marching to claim the area. Yet although American forces significantly outnumbered the British and Canadians, the British were far better prepared than the Americans had realized. For three years, the two sides exchanged fire in historic battles fought on both sides of the border.

Much has been written about the causes and events that led to the war, and about the epic battles in which forts were destroyed, cities burned and military leaders killed. This article does not recount those events. Instead, it examines an important element behind the success of the British and Canadian forces—the financing of the war, including the challenges that the Commissariat Department of the British forces in British North America faced to source, procure and pay for the supplies, provisions and equipment required for the troops.

At a time when British North America had no banks and was starved of financial resources, and with the prospect of war making it difficult to obtain large amounts of specie (gold and silver coins), the Government of Lower Canada made the decision to issue legal tender notes called army bills to pay for troops and supplies.¹ Although army bills represented a convenient medium of exchange that filled much of the void left by the shortage of specie, it is debatable whether they were the “success” that many contemporaries reported. The economic conditions of the colony following the war, especially in Upper Canada, do not support the claim that army bills pulled the Canadas out of financial hardship. The war may have had ended in a stalemate, but economically, the Americans fared much better than the Canadians in the post-war years. This will be revealed with an examination of Canada’s economy in the aftermath of the war.

¹ Although army bills were primarily used to finance the war, they were not the only medium of exchange available at that time. Some merchants issued their own paper scrip and imported copper tokens for small change. Even American bank notes were found in circulation in Upper Canada during the war.

1. The Economy in Lower and Upper Canada Prior to the War

War can impose heavy burdens on a country's economy. Resources are required to supply troops, funds are needed to cover military expenses, and the concentration of personnel on the war effort diminishes their contribution to economic growth. Prosperity is further strained when the theatre of battle is on home soil. That was the situation in the Canadas during and after the War of 1812. In fact, the effects of the war were more pronounced, especially in Upper Canada, given the small population, the lack of arable land and the challenges of travel in such a large area. With the influx of a regular army to defend the colony's borders and the recruitment of local inhabitants for the militia, demand for supplies, food, uniforms, equipment, weapons and ammunition increased. Since Canada had extremely limited manufacturing capabilities, most of these items had to be imported. And, although Canada's economy was developing well, in the early nineteenth century it was still largely a subsistence economy, and its production capacity was moderate. Agriculture and land clearing were the principal economic activities, with fishing and the fur trade occupying a lesser role, mainly in Lower Canada. The normal rate of land development and agriculture in the Canadas was barely enough to meet demand during peace. Surely, it would not be sufficient in wartime.

Until the early nineteenth century, farming practices in Lower Canada had progressed slowly. Since the fall of New France in the 1760s, the habitants had been content with farming and producing goods to meet the needs of their own families. The idea of producing and selling surplus goods and crops was of little interest to them until the demand for goods in Europe rose, along with their prices. When crop failures, poor output and hostilities in Europe drove up the prices of flour, timber and other staples, habitant farmers were happy to sell whatever surpluses they had for a profit. Yet, overall, farming in Lower Canada was largely for sustenance, and by the turn of the nineteenth century, land development and agriculture in the province had stagnated to the point where it relied on wheat and other grains imported from Upper Canada to meet local demand.

Before the arrival of the United Empire Loyalists, who fled the United States after the American Revolution, Upper Canada was very much a wilderness, consisting of a few towns hugging the banks of the St. Lawrence River and the shores of Lake Ontario and Lake Erie. Those displaced Americans who chose to settle in Upper Canada received land grants and compensation from the government to assist them in settling and developing the land. Thus, in the short 20 years between the passage of the Constitutional Act (1791) marking the foundation of the province and the outbreak of the War of 1812, Upper Canada was well on its way to expanding its economic growth and capital creation. Land development was robust, and proceeds from the timber trade as a result of land clearing contributed further to the province's growth (McCalla 1993, 28–29).

Any attempts to measure output for military consumption during the war are speculative. In 1811, the population in the Canadas was about 350,000, although only approximately 70,000 lived in Upper Canada. It is estimated that about 1.5 million acres of land were under cultivation, with a variety of grains and produce being grown. While records indicate the nature of the crops harvested (wheat, oats, barley, maize, peas), there are no reliable statistics to show the relative volumes of each crop, nor of the total output from

cultivated lands.² Nevertheless, it is clear that wheat was the staple of the Canadian economy and, along with timber, was a principal export of the colony. However, with the rise in military presence and the added demands for food and supplies imposed by the war, exports of surplus goods were curtailed to meet domestic needs. Furthermore, since farmers were called on for militia duty, there were fewer workers available for harvesting. Hence output declined during the early days of the war.

At the outbreak of the war, it is estimated that there were approximately 9,000 British troops in Canada, with about 1,600 posted in Upper Canada. By 1814, that number had increased to 48,000, most of whom had been deployed to Canada from Wellington's army after the Peninsular War in Europe. The remainder of the military support consisted of about 10,000 militia and 10,000 Native allies, for a total of 68,000. According to the records of the Commissary-General in charge of supplies and provisions for the military, 3.6 million pounds of flour were required for the forces in Lower Canada between April 1812 and June 1813. About 2.6 million pounds were already on hand, with another million still to be sourced.³ The Commissary-General notes that there would be no problem locating enough flour in the colony. In subsequent years, however, as the number of troops increased, Commissariat records indicate that flour had to be imported from Great Britain to meet the demand. From April to August 1813, 3.38 million pounds of flour were shipped from Britain. Of the 10.6 million pounds required between April 1814 and September 1815, 6.7 million pounds were sourced in British North America, and the remaining 3.9 million pounds were imported from Britain (Steppler 1974, 276, 278). Thus, although wheat was the staple of Canada's economy, as the war effort expanded, there was not enough supply to meet the growing demand. Considering that military rations included grains, meats, produce and non-perishable foods, the Canadas were clearly not able to provide enough food for the troops. As will be seen, finding food was just one of the trials that the Commissariat had to contend with to supply and equip the troops for combat.

2. Money in Canada

Money is the fuel of an economy. No matter what its form or nature, money has three basic qualities: as a medium of exchange, it allows transactions to be conducted; as a store of wealth, capital to be created, and as a unit of account, the price of goods and services to be established. The flow of money is vital to economic stability and prosperity: money is used to pay the labour that manufactures the goods a company sells to consumers, who pay for those goods using money. Earnings from the sale of goods are used to grow the company, including its labour force and its productivity. A delicate balance must be achieved between interest rates and inflation to ensure consistent economic growth. If there is too much money, its value is reduced (inflation). If there is not enough money, the economy falters (recession). In the early

² Many historians acknowledge that statistics on land development and agriculture in the Canadas are spotty.

³ One barrel of flour consisted of about five bushels of wheat, and, by law, a standard barrel of flour weighed 196 pounds. To meet the needs of the Commissariat, 5,100 barrels of flour (25,510 bushels of wheat) would be required. Wheat output in Upper Canada in 1803, which is the latest date prior to the war that Douglas McCalla uses in his studies, was 511,000 bushels, almost half of which was used for domestic consumption (McCalla 1993, 252). Based on these numbers, there would have been sufficient supplied of flour on hand, at least in the early months of the war.

days of Canada's economy, money, or the lack of it, was a major impediment to the country's prosperity. Because Canada's economy was largely agrarian, with almost no manufacturing industry, merchants were the main drivers of the economy. They had to provide goods for locals to purchase and they had to purchase local goods to pay their suppliers. Merchants assumed much of the risk when it came to commerce. They acted as bankers, provided loans and credit, and issued currency whenever it was convenient. It is no surprise, therefore, that merchants would play a central role in the war effort.

There were four sources of capital flows in the Canadas: profit on exports, import duties, funds brought in by immigrants and British government spending. At the outset of the war, all of these sources of capital more or less dried up. A general ban on exports stifled that revenue stream. The payment of import duties, especially from Lower Canada to Upper Canada, was sporadic and unreliable. Authorities had closed the borders to American immigrants and ordered the extradition of American citizens in British North America. Because of increased spending in Britain during the Napoleonic Wars, specie payment was suspended and the issue of Bank of England notes increased. The national debt in Britain forced a reduction in military spending (Sheppard 1994, 138). If sources of revenue were depressed and inconsistent before the war, they were almost non-existent during the war.

Prior to the War of 1812, the money circulating in the Canadas consisted of an array of foreign gold and silver coins of varying values, a mix of copper tokens for low-value transactions, and scattered issues of merchant scrip (known as *bon pour*), which were received with mixed feelings, owing to the public's distrust of paper money. There were no banking facilities in the Canadas yet, so recourse to bank notes was non-existent. Merchants relied on commercial paper, bills of exchange and promissory notes to settle accounts with their suppliers in Great Britain or the United States, and, in the absence of money, business with the local citizens was conducted using credit. Because specie was so important in trade, currency legislation tended to overrate coins to encourage their circulation and to prevent their being removed from the colony. The Currency Acts of 1796 in Upper and Lower Canada, for example, rated the Spanish dollar, perhaps the most abundant silver coin available at the time, at 5 shillings, which was 11 per cent above its sterling value of 4 shillings, 6 pence. A British shilling in Canada had an added value of a penny, which was two days' pay for a British soldier in Canada (McCullough 1984, 80). In the early nineteenth century, specie currency came mainly from Boston and New York. Great Britain, whose funds were tied up in the Napoleonic Wars, could supply little coinage to the colony. When it suspended specie payment, the Bank of England issued low-denomination notes to substitute for the lack of specie in circulation (Hewitt and Keyworth 1987, 38-42).

Not only the quantity, but also the quality, of specie was an issue. Old, worn and damaged coins tended to circulate, whereas good pieces were hoarded. Coins whose weight was below standard were discounted. This added to the complexity of conducting business, since worn coins had to be weighed and discounted each time they were passed (Reddish 1984, 713-28). However, the quality of the specie in circulation in the Canadas was only a small factor in the colony's money woes, as the British military authorities would soon find out.

To summarize, Canada's economy was slowly developing, thanks to the export of a small surplus of staples—consisting mainly of wheat and timber—to foreign markets. But, given the sparse population and the work involved in land clearing, progress was slow. In Lower Canada,

farmers did not engage in surplus farming to a great extent, and in Upper Canada, output was still too low. Hence, before the war, Canada's resources were not sufficiently robust to lift the economy above the subsistence level. After the early days of the war, there was not enough food to provision the troops, and even if supplies of food and other goods had been available, the shortage of a circulating medium of exchange posed a problem. To fight the war against the Americans, the commissaries in charge of supplying the troops had two major obstacles to overcome: sourcing and procuring supplies and raising the funds to pay for them.

3. Supplying and Funding Military Expenditures During the War

Napoleon said that an army marches on its stomach: in other words, a soldier needs to be fed to fight. This is where the Commissariat played a vital role in the war. The Commissariat Department, which was subordinate to the treasury, was responsible for supplying and provisioning troops and arranging payment for those supplies. The Commissariat was a civil administration distinct from the command of the military, which allowed the department to conduct its business at an arm's-length distance from the government, while at the same time maintaining accountability for military spending using public funds.

The Commissariat was divided into two branches: an accounts department, which sourced, procured and paid for supplies, and a stores department, which oversaw the storage, safeguarding and distribution of those supplies. As long as there was a military presence in Canada, there was a commissary in charge of supplies. When war was declared in 1812, the Commissary-General in Canada was William Henry Robinson. His predecessor was James Green, who later became Director of the Army Bill Office. It was Robinson who was responsible for finding and distributing supplies to the troops being mobilized along the Canadian–American border from Vermont to Detroit. Depots were set up at several spots in close proximity to military garrisons. However, more depots meant that more staff were needed to manage and run them, and finding reliable transportation to reach these depots was difficult. While shipment by boat was the quickest and most convenient way to move supplies, during the war it was too risky. Because of the challenges posed in supplying troops over such a large area, the Commissariat had to be expanded to make administrators and clerks available in various areas to procure and provide supplies.

The Commissariat serviced three military districts, Québec City, Montréal and Upper Canada, each run by a Deputy Commissary-General. Within each district, major towns with a garrison had an Assistant Commissary-General. Storage depots spread throughout the colony were supervised by Deputy-Assistant Commissary-Generals and were run by clerks who were responsible for accounting as well as shipping and receiving goods, and by storekeepers who physically managed the goods. Before the war, the Commissariat employed about 35 staff to cover all of British North America. That number increased to over 150 at the height of the war. Still, it was not enough to oversee operations. Many of the lower positions in the Commissariat were held by men who had no experience and little training. Furthermore, the war slowed accounting and recordkeeping to a halt, since the efforts of men were required elsewhere.

The role of the Commissariat was very challenging, given the level of responsibility and public scrutiny. Commissaries were not very well treated by officers, and whenever problems were discovered, either in the bookkeeping or the process of procurement and distribution, the

commissaries were held liable and their reputation defamed (Steppler 1974, 10, 43, 216). The reputation of the Commissariat in Canada was severely tested during the war.

Typically, tenders for provisions consisted of public notices placed in local newspapers, and anyone interested in selling their surplus could sell directly to the Commissariat. Tenders were awarded in February or March for delivery in August. Officials were dismayed to learn of the unwillingness of locals to assist in supplying the troops, leading to suspicions that many habitants supported the American side and thus refused to aid the British army. Evidence suggests, however, that such reluctance was related to money, not politics, and had more to do with greed than with an affinity for republicanism. People's feelings about the war were influenced only by how it could affect them financially. Problems with payment, as well as questionable and dubious practices by some opportunistic swindlers, kept suppliers away. For example, innocent and unsuspecting farmers would sell their surplus at cost to intermediaries, who would in turn sell it to the military for substantial profits (Steppler 1974, 41–42; Sheppard 1994, 116). Soldiers were also expected to buy food to supplement their rations, except there was not much food available for sale in Upper Canada (Steppler 1974, 52). In light of these circumstances, martial law was declared throughout Upper Canada on 12 April 1814 to force citizens to supply the military. All surplus goods in the province were confiscated. This did little to instil confidence in the military.

The inadequacy of Canadian resources led to a steady demand for American provisions. In peacetime, the Commissariat could purchase supplies from American farmers, but during the war that access was officially closed. There are many accounts, however, of active trading between Americans and Canadians during the war. In the Maritime provinces, which were experiencing none of the effects of the war, commerce with the New England states continued uninterrupted. Ports in Halifax, Saint John and St. Andrews were open to trade with the United States, and Nova Scotia and New Brunswick aided the other provinces with money, supplies and men. New Englanders, who did not support the war, openly contravened trade embargoes and continued supplying the British military with goods, livestock and other provisions. In October 1813, the Vermont Legislature repealed a law imposing penalties on those trading with Canada. Farther west, as soon as the St. Lawrence froze over, U.S. farmers drove their sleighs across the ice to take advantage of the high prices offered by the Commissariat. Whatever could not be acquired from American suppliers came from England: produce, meat, equipment, camp gear, uniforms, weapons and ammunition. Yet even supplies from England were insufficient (Steppler 1974, 77, 90; Hitsman 1962–63, 171).

Given the rising demand for supplies, it is no surprise that prices increased immediately. Profiteering, government demand and the relative scarcity of goods caused prices to spike. The price of a barrel of flour rose from \$6 in 1811 to as high as \$14 in 1813. Inflation and increased demand for supplies caused military spending to increase exponentially. In January 1812, annual expenses for military support in the Canadas were £400,000 (\$1.6 million). In 1814, the Commissariat Department accounted for transactions worth more than £2.3 million (\$9.2 million) on “extraordinaries” for the army, which included supplies, provisions, pay, losses, and interest on army bills. That was six times the normal yearly expenses for Lower and Upper Canada combined. Shipbuilding on the Great Lakes cost £1.3 million (\$5.2 million). One ship, the *St. Lawrence*, built in Kingston, cost £300,000 (\$1.2 million). The York (Toronto) Garrison paid £54,000 (\$216,000) to merchants, suppliers and workmen in January 1815. In Kingston,

where there were about 5,000 soldiers and sailors stationed at the height of the war, military expenditures were £1,000 (\$4,000) a day (Steppler 1974, 98–99; Sheppard 1994, 184). Without enough coin in the military chest, how was the Commissariat supposed to cover all these expenses?

4. Army Bills and Other Methods of Payment

From the outset, it was recognized that there was not enough money in the Canadas to pay for the war. The normal means of financing military expenditures through the sale of bills of exchange drawn on the British Treasury was not successful because, owing to the lack of specie, commercial paper was heavily discounted. The alternative was to issue legal tender notes that could be used as payment for any government debt.

On 16 July 1812, the House of Assembly of Lower Canada convened to read a message from the Governor of Lower Canada, Sir George Prevost, declaring the inadequacy of the province's finances and recommending the issue of army bills to address the deficiency. It also requested that the House of Assembly introduce a bill "to facilitate the circulation of Army Bills in Lower Canada." The Army Bill Act (LC, Geo III, 52) was drafted on 22 July, passed through the Legislative Council on 31 July and received Royal Assent on 1 August 1812. The Army Bill Office was to be opened in Québec City, and £250,000 (\$1 million) worth of notes in denominations of \$4, \$25, \$50, \$100 and \$400 were to be issued. John Neilson of Quebec City was given the contract to print the new notes.⁴ The notes were legal tender and receivable in payment of public debt. To ensure their circulation and public confidence, the larger notes would bear interest at 4 pence per £100 (\$400) per day, or 6 per cent per annum, and would be made redeemable at the discretion of the Governor in bills of exchange drawn on London and/or in specie. While no specific amount was decided to be non-interest-bearing, it was later fixed at £50,000, and by 1814, up to £500,000 could be issued in interest-bearing notes (Stevenson 1892).

Some discrepancies in the sources of information cloud the actual issue date of the first army bills. Early articles claim that army bills appeared in circulation as early as July 1812.⁵ This is plausible, although it predates the Army Bill Act and does not account for the time required to have the notes printed. Notices in period newspapers indicate that army bills were in circulation in August 1812 (*Kingston Gazette*, 31 October 1812). Unfortunately, there are no known examples of the notes to confirm this. Surviving \$25 notes are dated 1813, and the known \$4 notes have an engraved date of May 1813.⁶ This information tends to support the

⁴ Based in Québec City, Neilson was a printer, publisher and bookseller of Scottish descent who dominated publishing in Quebec in the early part of the nineteenth century. He frequently received government contracts to print proclamations, statutes, assembly journals and other documents. Neilson was also the publisher of the largest newspaper in the Canadas, the *Quebec Gazette*, and operated the principal bookshop in the provinces until the 1820s. (Chassé, Girard-Wallot and Wallot 1988).

⁵ Adam Shortt was the first to report the issue date, and subsequent articles likely repeated the information (Shortt/CBA 1987, 66; Howard 1951, 115; McQuade 1985, 49).

⁶ The larger notes had an open-date format where only the first three digits of the year were printed (181_). This was likely in anticipation of the notes being issued over a long period. Smaller denominations have the month and year pre-printed on the notes.

claim made in the *Charlton Standard Catalogue of Canadian Government Paper Money* that the first issue of army bills was dated 1813 (Graham 2012, 4). The lag of several months between enactment and note issue would be unusual, however, given that the law was fast-tracked through the Legislature and the need for funds to pay for supplies was immediate. Ruth McQuade further indicates that notes were signed at first by the Governor himself and that later on they were signed by the Director of the Army Bill Office, James Green, and the cashier, Louis Montizambert.⁷ This could perhaps be another clue that there had been an earlier issue of army bills since, among all the known army bills, none bear Governor Prevost's signature. Finally, and most telling, changes to the original act would further solidify the argument that notes were issued in 1812. Amendments to the Army Bill Act (LC, Geo III, 53, ch.3) dated 15 February 1813 state that army bills issued in excess of the £250,000 allotted in the first act would be honoured under the terms of the act, suggesting that the £250,000 maximum specified in the original act was exceeded before the amendments were made. While the 1813 act made no mention of expanding the issue of the larger interest-bearing notes, it did authorize an increase in the maximum amount of army bills in circulation, up to £500,000. New notes were to be printed in smaller denominations of \$1, \$2, \$8, \$10, \$12, \$16 and \$20, made payable on demand in specie, but not bearing interest. Further amendments to the Army Bill Act in 1814 increased the total issue to £1.5 million, with the majority of the notes printed in small denominations of \$1, \$2, \$3, \$5 and \$10 to meet the demands of daily life. Further evidence that the provinces were short on specie was underlined by the fact that the new issue of army bills were all redeemable in bills of exchange drawn on London only. A further increase to £2 million was rejected by the Legislative Council as unnecessary. It is debatable whether such action was justified.

In Upper Canada, which bore the brunt of the war, local currency problems were still widely felt due to the absence of specie and the scarcity of army bills. Attempts to introduce legislation similar to the Army Bill Act failed. Isaac Brock, Governor of Upper Canada and Commander of the Forces in that province, proposed that the government put into circulation its own paper money to fund the war, but the suggestion was ignored.⁸ Instead, the Upper Canada Legislature opted to pass a law that recognized Lower Canada's Army Bill Act and authorized the circulation of army bills in Upper Canada. The act was ratified on 14 March 1814 and renewed on 1 April 1816. The law did little to address the liquidity problems in Upper Canada. Even army bills were not in sufficient supply to meet the needs of the Commissariat. The Deputy-General Commissary of Upper Canada, Edward Couche, tried to arrange for the establishment of a paper currency that would be backed by "some of the most respectable gentlemen in the province" (Steppler 1974, 101). Once again, the Legislature refused to take such an innovative step. However, the Commissariat was authorized to issue its own notes to supplement the province's war chest. These notes likely took the form of bills of exchange drawn on London.

⁷ (McQuade 1985, 49). Subsequent issues would bear the signature of Montizambert, as well as those of G. W. (George Waters) Allsopp, who was a second cashier working in the Army Bill Office, and of Claude Denechau, who was appointed deputy paymaster of the Army Bill Office on 17 March 1814 (Beauregard 1988 ; Roberts 1988).

⁸ (Steppler 1974, 101–102). An illustration of a \$4 army bill issued at York, Upper Canada and signed by Isaac Brock, that appeared in a 1958 issue of the *Financial Post* was likely a proposed design and not an actual note (Jackes 1958, 36).

Although they served as a circulating medium of exchange during the war, army bills posed some inconveniences for both issuers and bearers. There never appeared to be enough funds to pay for goods. People tended to accumulate army bills to exchange for goods because merchandise was preferable to paper. The issue of army bills led to inflation, and goods paid for with notes tended to be more expensive than goods paid in specie. Quetton St. George, for example, a French merchant based in York, offered discounts on goods paid in specie, which undermined the value of army bills. The large-denomination notes were available, yet inconvenient to settle small transactions, leading some merchants to issue their own notes to make change. In 1812, merchants and shopkeepers from the Niagara District formed the Niagara and Queenston Association, which issued several thousand pounds worth of notes guaranteed by themselves and by the government. The Association depended on the pooled financial resources of various mercantile firms for its existence. Brock used these notes to supply and outfit the flank companies in the Niagara and Home districts. In late 1812, the *Kingston Gazette* ran ads noting that Kingston merchants were accepting Niagara Association bills for smaller transactions (Sheppard 1994, 137).

In the spring of 1813, Kingston merchants petitioned the Upper Canada Legislature to form its own financial group, the Kingston Association, whose mission was to stop the circulation of dubious private notes. This was a direct attack on the reputations of two prominent Kingston merchants, Thomas Markland and Benjamin Whitney, who had thousands of dollars of their own notes in circulation. Markland and Whitney were invited to join the Kingston Association on condition that they redeem their notes, but the two merchants refused, fearing that they could not redeem the notes all at once without becoming insolvent. The Association was to issue notes against a reserve of specie and army bills deposited with a treasurer, and profits from the note issue were to go to the Loyal and Patriotic Society of Upper Canada, a charitable organization intended to assist those who had suffered losses during the war. The fate of the Kingston Association is unknown, but it had ordered the printing of £1,000 worth of \$1 notes. Later, another £1,000 in notes in denominations of \$3, \$2, \$1 and \$1/2 were ordered. By July 1814, with a sufficient supply of army bills in circulation, the Kingston Association began calling in and redeeming its notes. A similar association was formed in York on the same premise as the Kingston Association. It issued £300 in \$1 notes (Bergeron 2007, 72–74; Sheppard 1994, 142). To date, no notes of the Niagara and Queenston, the Kingston or the York Associations have ever been discovered.

That some merchant notes have survived over the years is a testament to the importance of private scrip during the war. Two notes, 5- and 10-dollar denominations, which are part of the National Currency Collection of the Bank of Canada, are the only known examples from the issuer Clark and Street of Bridgewater, Upper Canada. The firm was owned by Thomas Clark, a Scottish entrepreneur in Niagara Falls, and Samuel Street, an American who settled in nearby Chippawa. Together, they operated an immense and profitable flour-milling business. Clark and Street notes were redeemable in army bills or in bills of exchange drawn on Montréal. Ezekiel Benson, a York merchant, also issued scrip, of which only a partial sheet of remainders has survived. The sheet of nine notes (one note has been cut from the sheet) contained denominations of 1, 2, 3, 4, 5 and 6 shillings. Benson's notes were also payable in army bills. Another example of merchant scrip originates from Prescott and is believed to have been issued by William Gilkison, a prominent businessman involved in the forwarding business,

since Prescott was an important transfer point for merchandise. It would appear that at the time the note was issued, Prescott was a military depot and the note was likely used in lieu of army bills (Fitzpatrick 1987; Graham 2007, 67, 74, 80). A number of merchants must have issued notes during the war, but none have survived to indicate the extent of their use as an alternative to army bills.

In Lower Canada, recourse to private scrip seems to have been less frequent. The only recorded example of scrip issued in that province during the war came from l'Île-aux-Noix, a small island located in the Richelieu River just north of the Canada-U.S. border. A 1-dollar note was issued by Valentine Griffith, Lieutenant and Quartermaster, 1st Battalion, Royal Marines, "for the Convenience of Change," as stated on the note, and was redeemable in army bills. During the war, a naval shipyard operated on the island, and this note was likely used there (Graham 2007, 137). The note is currently in a private collection.

In addition to the circulation of army bills and private merchant scrip, another important source of funds for the Canadas during the war was the United States. It is ironic that while the borders were officially closed to trade, it has been demonstrated that Americans continued to supply goods to Canadians from the Maritimes and along the St. Lawrence as far west as Kingston. American bank notes became more abundant and were in common use in the colony during the war. Since there was no law regulating the circulation of American currency in the Canadas, British North America became a safe haven for American counterfeiters (Shortt/CBA 1987, 56). Certain Americans played an important role in financing the defence of Canada, while at the same time refusing to help their own government. In July 1814, Commissary-General William Henry Robinson raised £140,000 in specie from the United States to pay for goods (Steppler 1974, 106–107). Thus, money from one American was used to pay another American to keep the British in the war.

The Americans also faced similar problems in financing the war. With a shortage of adequate specie and funds to support the war effort, the United States authorized the issue of Treasury notes, which had the same characteristics as army bills. The architect of the U.S. Treasury notes was Secretary Treasurer Albert Gallatin, whose mission for many years prior to the war had been to reduce the national debt. He refused to issue any debt, favouring instead tax and tariff hikes to increase revenues. Faced with the rising cost of waging war and embargoes curtailing the import of goods and merchandise against which tariffs could be collected, Gallatin proposed the issue of Treasury notes (Kagin 1984, 70–72).

The first law to issue Treasury notes was passed on 17 June 1812. It authorized the President to issue up to \$5 million in denominations of \$100 or more (only \$100 and \$1,000 notes were printed), which were redeemable one year after issue at 5.4 per cent. The notes were accepted as payment for taxes, duties and government debts, and were redeemable either in specie or in government bills. The Treasury notes were successful because they were fully subscribed and accepted by the banks and merchants. Only by the fourth issue, in December 1814, were low-denominations of \$3, \$5 and \$10 put into circulation. Between 1812 and 1815, five different issues of Treasury notes, amounting to \$36 million, were put into circulation. In New England, where sympathy for the war was non-existent, there was no desire to lend money to the government, and Treasury notes were accepted at a discount, given that the eastern states, unlike the rest of the country, had not suspended specie payments. Brokers in Boston and New York tried to discredit Treasury notes and were actually pleased to learn

that Canadians were accepting U.S. Treasury notes at par, since they could sell their discounted Treasury notes to Canada for a profit (Kagin 1984, 83).

The final issue of Treasury notes took place after the peace treaty with England was signed. It was authorized not as a war measure, but as a means to pay off the country's war debts and to maintain economic momentum. A law to redeem all Treasury notes issued during the War of 1812 was passed on 3 March 1817 and remained in effect for 20 years. The Treasury notes had increased the country's money supply, supported economic progress and propped up the note issue of the banks. Their status as legal tender prevented their depreciation, and the notes were redeemed at face value plus interest.

Like any other form of money that is created for circulation, army bills were counterfeited. Some counterfeits were local fabrications, and notices in newspapers warned of their circulation. It was purported that U.S. Major General Wilkinson's army introduced forged army bills into circulation in Canada (Steppler 1974, 104). The printer of the genuine notes, John Neilson, was called on by James Green, the Director of the Army Bill Office, to produce a report on the methods of detecting counterfeits. With the number of counterfeit notes increasing, Green reported that as of 1 December 1814, low-denomination notes of \$10 and under, whose value amounted to £475,131, would not be reissued on account of the number of forgeries discovered (Public Archives of Canada 1897, xxviii-xxix).

4. Army Bill Redemption and the Aftermath of War

The Treaty of Ghent, which ended the war between England and the United States and returned the borders between Canada and the United States to their original configuration, was signed on 24 December 1814 (ratified in February 1815). At the time, there were about £1.32 million worth of army bills in circulation. While a total of £3.44 million in army bills had been issued during the war, the estimated cost of the war, according to expenditures of the Commissariat, amounted to £5.92 million. The last army bills were issued in February 1815 to cover any outstanding balances. General redemption of the notes began the following month, and, by February 1816, the outstanding amount of army bills was just over £330,000. By January 1817, this number was reduced to about £65,000 (Provincial legislature of Lower Canada 1917, Appendix B; PLLC 1818, Appendix D). Most of the £1.25 million was redeemed with bills of exchange on the British Treasury. In April 1816 after the Act authorizing the circulation of army bills in the province expired, the Commissariat in Upper Canada refused to exchange army bills. Because of complaints from holders in Upper Canada, the Treasury required the Commissariat to make every effort to accept the notes. On 1 May 1818, a proclamation ordered the redemption of all army bills by 31 October at which time the Army Bill Office would be closed. Time extensions were required, and the Army Bill Office was finally closed permanently on 24 December 1820. At that time, the value of outstanding army bills was £819 (\$3,276).

The issue of army bills was considered a success. They represented a convenient medium of exchange at a time when access to specie was inconsistent. They were widely accepted without suspicion, and the bills circulated freely. Certainly they had served their purpose. After the war, the notes were quickly withdrawn—perhaps due to fears of counterfeiting or inflation—without any consideration for a replacement circulating medium of

exchange. Their quick redemption once again put a strain on the money situation in the provinces. Because they paid interest and were fully redeemable, it was believed that army bills had restored the public's confidence in the use of paper money. Some, like George Sheppard, in his book *Plunders, Profit and Paroles: A Social History of the War of 1812 in Upper Canada*, argue that army bills did not overcome the stigma of paper money and become the foundation of banking in Canada. Rather, it was the lack of circulating currency, especially exacerbated by the redemption of army bills, and the threat of economic recession as a result of departing troops that thrust banking into the spotlight (Sheppard 1994, 6).

It is debated whether Canada enjoyed economic prosperity during the War of 1812. Men of considerable power and influence in the province, like John Strachan, Alexander Wood, William Allan and Quetton St. George, profited greatly from the war. In effect, economic prosperity was localized to a few merchants in Kingston and York. For the most part, many suffered considerable losses during and after the war. Small merchants in the West suffered financial ruin following the war because reduced military spending deflated prices on goods, which the merchants had overstocked.

As the only instance in Canada's history where the theatre of battle was located within its own borders, it is understandable that citizens would have been directly affected, and would have experienced the devastation of war. Those who suffered losses turned to the government for compensation. By 1815, there were 2,884 claims of war losses in Upper Canada, with an estimated value of £390,152. This is in contrast to the province's average annual revenue between 1808 and 1811, which was £8,000. Damages appear to have been inflicted by both sides. American soldiers burned and pillaged farms and homesteads to break the will of the locals, while British soldiers did the same for sustenance, personal gain and to prevent the properties from falling into the hands of the enemy. In 1817, a commission was formed to investigate war losses. A total of 2,055 claims, amounting to over £400,000 in value, were reviewed. Only 60 per cent of the amount estimated was certified by the commission and claimants did not receive compensation until the middle of the 1820s. The Loyal and Patriotic Society, which was formed to assist those who suffered losses because of the war, failed to pay out claims. By 1815, only 47 individuals, most of them from the Home District, were assisted through a total wartime expenditure of £945. The Niagara District, one of the worst hit, with an estimated total of £182,000 in claims, received £100 of the £945. There were expectations that citizens affected by the war would be compensated for their losses, but the feeling was downplayed by the general attitude that there was economic prosperity ahead, which would alleviate some of the losses.⁹

While the peace treaty re-established the status quo in both countries, from an economic standpoint, the Americans fared much better than the Canadians. In the United States, the economy prospered after the war because of immigration, increased spending on infrastructure, delay in the redemption of Treasury notes and the creation of new mediums of exchange through banking. The United States did everything that the Canadian government did not. Lower and Upper Canada adopted a protectionist policy after the war. They refused

⁹ The policy on restricted American immigration was only rescinded in 1817 (Sheppard 1994, 104, 108, 122). The level of anti-Americanism in the colony had been greatly exaggerated, and the ban on American immigration really came from outside authorities.

American immigration, causing a drop in land speculation. The governments scaled down or cancelled any public works projects involving reconstruction or infrastructure, and the quick redemption of army bills drained the provinces of a viable circulating currency. As well, there was very little in the way of compensation payments for those who had suffered direct losses during the war. As a result, the Canadas fell into a recession, with many merchants financially ruined because of oversupply, falling demand, depreciating prices and no capital. In financial terms Lower and Upper Canada were not prepared to deal with the legacy of war.

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