

mately established the banks found the exchange business to be more profitable than any other, and through their action the exchanges were brought to a more stable equilibrium, although the banks were severely criticized for their influence by those who required cheap bills.

While, then, the apparent and growing difficulty of the country before the war, was a scarcity of the circulating medium, the real difficulties were uncertainty in the markets for exports with no prompt knowledge of their changes, cost and delay in transportation and severe loss in effecting exchanges owing to the lack of any special organs for properly understanding and effecting them.

Having thus summarized the situation, we are perhaps better able to understand the nature and effects of the army bills, which began to be issued in 1812. It is not necessary to our present purpose to give any special account of the mechanism and working of the army bill system. However interesting in itself, it had no special connection with the development of Canadian currency and banking. The system was in essence, if not in name, simply a mechanism enabling the British government to carry on the war without sending money to the country, by issuing orders which were chiefly to be paid in British goods, any surplus to be paid in specie to be sent when convenient, or as occasion required. Had there been sufficient available specie in the country, the usual method of selling bills of exchange on London would have been adopted; but there being so little available money the bills were certain to be sacrificed. It was therefore proposed to issue a form of government paper money bearing interest on all bills of twenty-five dollars and upwards; the principal to be paid by the home government and the interest by the Canadian government. They were made convertible on demand into bills of exchange on England, the smaller bills bearing no interest, being payable on demand in specie.

While the mechanism of the army bill office was a temporary and isolated fact, the circulation of the bills produced a permanent effect upon Canadian currency and exchange, especially through their influence on the ideas of the people as to the capacities of paper money.