The Politics of money and finance in colonial Prince Edward Island

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Preface to the 2006 Printing

This book is coming to the reader with a thick coat of metaphorical dust. After repeated attempts to secure publication in the early 1980s, it ended up lying around in an old filing cabinet for nearly 25 years. That was not because I had ceased to believe in its value, despite its many flaws (particularly in interpretations and details of social history) which the passage of time have made ever more evident. It was just that, with so many other pressing issues on the agenda at home and abroad, at the time it seemed not worth further effort to try to get it into circulation. Today things are different.

On the surface this book treated a mundane and narrowly "academic" topic, the history of money and finance in one of the most obscure colonies of the British empire in the 19th Century. But below the surface its objectives were much broader. It sought to convey the message which, in various ways, ever-wider segments of society today are beginning to understand, that money in its conventional forms, and the economic institutions through which it is moved and manipulated, are perhaps not the root of all evil, but certainly of some of its most egregious forms.

When it was originally written, the subject matter of this book, the rise and fall of monetary systems, how they are manipulated, the agendas they are moulded to promote, and the social costs of the particular forms they might take, flew in the face of both historical and economic orthodoxy. If someone were naïve enough to take what orthodox economists say at face value, they would believe that money is just another commodity, like apples and bananas, xylophones and yoyos, from which people derive "utility." Not only does that serve to obviate any notion of collective responsibility, but it seems to rationalize neatly the fact that, in a modern exchange economy, money can buy goods, goods can buy money, but money over time can also buy yet more money, precisely the origins of so many of our current economic, social and, certainly not least, environmental woes. The curse of compound interest in which the automatic growth of abstract "value" on a balance sheet, and the consequent need to translate that growth into real terms to avoid massive deflation of asset values, is, together with the existence of universal money ("freely" exchanged across commodities, communities, and countries) the primary factor today leading the world to exhaust simultaneously its natural resource endowment and its biosphere's capacity to neutralize and recycle the resulting waste. It is also the principal mechanism for ripping apart the social fabric in favor of a crass, omnipresent materialism and producing the current appalling spectacle of groteseque and publicly flaunted wealth coexisting with ever-growing misery and squalor. Not least of its inexorable results is the effective political and economic disenfranchisement of the overwhelming share of the world's population.

Yet a glance back in history tells a radically different story about how people viewed money. Far more commonly it has been regarded, not as just another commodity which private actors produce and sell for private profit at whatever rate the "market" (which is largely of their own creation and under their own control) will bear, but as part of the social infrastructure, best provided by some collectivity of citizens at terms set by society as a whole with a view to tempering, not encouraging, socio-economic excess and to restraining the excessive accumulation of power and wealth. The problem today is precisely the extent to which that perspective has been lost. Now money functions overwhelmingly as an instrument not of social integration but of economic bondage. It has ceased to be a tool which can be used to insulate local economies from exogenous shocks and become a means to guarantee the "integration" of the smaller and weaker on terms set by the larger and stronger. It is no longer a way to combine commercial efficacy with some degree of social equity, but a device to redistribute wealth in increasingly regressive ways. It was precisely that perspective, albeit in a primitive way, that underlay the message of this book – which was apparently why some criticis took such strong objection.

This book was conceived as the first volume in a monetary history of Canada, a subject neglected since the days of Adam Shortt, Canada's pioneer constitutional, political and economic historian. It seemed logical to begin with the smallest and most isolated colony of British North America, for the issues with which the rest of the series would deal could be most easily highlighted in that limited context. It was not an attempt to reconstruct or even advance social history. Rather it sought to interpret the Island's financial (and hence political) history simultaneously from three perspectives: the evolution of monetary theory and practice; the triumph of the "free market" over early self-sufficiency; and the seemingly inexorable trend for small political-and-economic units to be subsumed, formally or informally, under larger ones.

More specifically the objective was to test several theories which the initial evidence suggested might be true: (1) that communities left to themselves evolve satisfactory and efficient monetary instruments and standards which reflect their own social priorities, or at least those of local elites; (2) that such elites are not homogeneous, and that there may well be a faction inclined to alter the monetary system to advance its own position vis-à-vis, not only the population at large, but other economic interest groups; (3) that, as 19th Century monetary historians claimed, and as their 20th Century equivalents scrupulously ignored, the main "class struggle" for centuries, perhaps millennia, has not been between peasants and landlords or workers and capitalists, though they are also sometimes present, but between debtors and creditors, usually to the long-term detriment of the former; (4) that outside powers advance their interests both by (crude and costly) military means and by (much more effective and profitable) financial ones, namely by taking control of and remodeling the local financial system to ensure the "integration" of the smaller (in this case colonial) unit into the larger (imperial) economy; and (5) that the lessons from the monetary history of 19th Century colonies, including those of British North America, are directly germane to the situation of many countries today subject to financial and/or military occupation.

That, at least, was the intent of the project. But it got no further than the manuscript of this book, the intended first volume, plus some very preliminary bits and pieces of the next one in line, dealing with New Brunswick. It is interesting to recall what happened.

Since such a book would be of little interest to a commercial publisher, and since the great majority of academic books published in Canada are viable only with a publication grant from the Social Sciences Federation of Canada, officers of the Federation sent the manuscript for the usual process of so-called peer review by experts drawn from a list supplied by the Federation's academic advisors - in this case made up of mainstream historians and orthodox economists. That review process involved a bizarre form of one-sided anonymity: the author has no idea (barring leaks) of who the reviewers are, while the reviewers are fully informed of who the author is. Obviously not only does such a process maximize the possibility of assessors bringing all their personal, professional and political biases to bear without fear of challenge, but it also puts the power to determine what is or is not published in a particular field squarely in the hands of those with a vested interest in the maintenance of the intellectual status quo. Therefore it maximizes the degree to which decisions are based not on merit but on efforts to head off ideological threats or to defend intellectual fiefdoms. Such is what passes for "objectivity" in what I like to call Canadian acadanemia.

Over the course of five years of tumult and vituperation, the manuscript passed through the hands of eight different readers/assessors. And while there were enormous disagreements among them – in some cases their opinions on various points were diametrically opposed – there were some things in common. If the reviewers were economists, they (mainly but not uniformly) denounced the manuscript for violating the canons of theoretical orthodoxy and for failing to assemble long strings of worthless numbers on which to apply the usual mish-mash of useless statistical tests. They took particular objection to any implication that policies designed to force an economy into the free market/free trade model could do anything but lead the population into a state of utility-maximized bliss, even if it destroyed the foundations of their social, cultural and political existence in the process.

This reaction was no surprise. Anglo-American economics, as a system of analysis and of practical policy advice, started to go seriously astray about the time of Adam Smith with the edification to the status of a universal behavioral principle of the foolish notion that mankind (or, to suit these politically correct times, people-kind), regardless of social context, possesses an inherent propensity to haggle and barter with a view to material self-enhancement. However the deterioration did not pass the point of no-return until well into the Cold War era. Starting in the 1970s, perhaps somewhat earlier, came a series of intellectual purges of dissidents, especially those who advocated what would seem to be the ultimate test of truth in social science, relevance. Instead the view triumphed that if theory did not fit the facts, the facts had to be wrong. The growing distance from reality of the ideologies being peddled reflected not only a more repressive academic environment but also the operation of the seemingly immutable mathematical law that the quality and relevance of economic research varies inversely with the number of faculty members ostensibly doing it.

Alas, the situation in most other social sciences was (is) little better, as disciplinary borders became pretexts for purges of heretical and eclectic opinion. This was due in no small measure to the fact that other social sciences had allowed their inferiority complexes to misguide them methologically into following economics on its long march towards intellectual irrelevance. Thus, political science moved from a concern with the functioning of political institutions towards exercises in vote-counting on the assumption that, as with the use of dollars to establish consumption choices between Xylophones and YoYos, what was at issue was the expression of rational choice by consumers of political goods among competing options. For a time it seemed that even anthropology might be captured by those who insisted that ultimately the collapse in the relative price of beef would resolve the problems for the food-supply mechanism created by the growing numbers of cattle wandering blithely through Indian towns and villages.

However, there had been one (partial) exception. Historians (with the exception of advocates, largely wannabe economists, of the contrafactual fad) ultimately have to deal with reality. I would have expected from them a better reception. But particularly disturbing to those involved in the controversy over this book was the reinterpretation of the land question that this study of Island monetary history produced. Between the first and second drafts of the book it became clear that an issue - the acrimonious relations of tenants to absentee landlords - so far interpreted by historians as one concerning security of tenure was at heart a quarrel over exchange rates and monetary standards, something which in retrospect seems rather obvious. That, in turn, had to do with efforts by the British government, with the support of absentee landlords, to impose on the Island imperial monetary standards, and to rewrite all landlord-tenant contracts to force payments in hard currency. The result would be that, not only would rents rise in real terms, but the tenantry would be required to turn to the international market-place to earn the required foreign exchange. Thus, local self-sufficiency would give way to the magic of "comparative advantage" and any increases in productivity would be siphoned off by British rentiers. Along with this initiative came a systematic effort to do on the Island something similar to what had been done in the New England colonies 75 years before, to the point of helping to precipitate the American Revolution; namely the elimination of a financial system based on locally-issued government fiat paper, and the substitution of a gold-based privately-issued paper-money system under the control of the merchant class involved in imperial-colonial trade. Suddenly the PEI experience began to look like a replay on a picayune scale of the sort of struggles over the form, shape and functioning of the monetary system extant in the West since ancient Sumerian times.

As a result one of the historians went into a rage, claiming that, not only was the manuscript unworthy of publication, but it would be damaging to the advancement of knowledge if it were. Curiously enough, a short time after publication of this manuscript had been blocked, a paper dealing with some of the same subject matter appeared in a certain academic journal, although with radically different political conclusions and with most of the financial mechanics wrong.

Another of the historians initially lauded the monetary and financial history which the economists had denounced, while criticizing the book on the grounds that it made mistakes and misinterpretations of the social history. Then, when a revised version of the manuscript arrived in his hands, his position went from moderately positive to vituperatively negative, focusing particularly on my reinterpretation of the land question. I was baffled. Only much later did I find out that this particular historian had built his reputation on the old view which the manuscript questioned.

After another round of pointless viturperation, I decided to stop wasting time and move on to other things. First was the political economy of international finance (*Hot Money and the Politics of Debt* 1985, 1994, 2004), economic warfare (*Patriots & Profiteers* 1999), economic criminology (*Wages of Crime* 2002, 2004), and so-called terrorist finance (*Satanic Purses* 2006). In retrospect, appraisers of the manuscript inadvertently did me a favor. Granted those other fields of inquiry were (are) hardly immune to intellectual feather-bedding or petty backstabbing. But at least the stakes in them seemed important enough to justify tolerating the fragility of academic egos and occasional efforts by some to stake out cognitive monopolies on the curious principal that the smaller and more tightly delimited the territory, the less the likelihood anyone else will be inclined to challenge or intrude.

Those events transpired a long time ago. Today the climate is different. Although no one could tell by looking inside the curriculum of an economics program in a North American university, among the intelligent public there is a growing skepticism, even hostility, towards free-market fundamentalism. This is expressed no longer in terms of a crude Marxist class-struggle paradigm, but in terms of the desire to safeguard community, restore economic independence, and devolve economic (and political) governance back down to the grass roots. Along with it comes interest in the idea of making economic activity compatible with bioregionalism, of encouraging local and cooperative exchanges, and even of resurrecting communal moneys (of the sort that pop up in this book). The result is the proliferation all over the world of community barter networks complete with various forms of “green money” which are valid only among voluntary participants - some are based on labor time, some on other forms of community participation; some are linked and some not to the more conventional monetary standard. But all premised on the notion of promoting communal self-sufficiency, fostering use of local resources and labor, democratizing the creation and distribution of money, and sustaining patterns of production and trade that are consistent with both the integrity of the biosphere and respect for other people.[1]

Suddenly the concepts and concerns of this book seemed relevant once again. Therefore, after over two decades of it being hidden away in a filing cabinet, it is being resurrected in the hope it will make a contribution, however modest, to this wave of debate and dissent over the future of money and the role of monetary alternatives in freeing humanity from the treble scourges of rampant consumerism, ecological brigandage, and political disenfranchisement to the benefit of foreign bureaucracies and global corporations.

Beyond checking to determine if there had been any real advances in Canadian monetary history (the answer is basically negative), I have shunned the temptation to update. This is not a field I have any further interest in pursuing. In fact I have avoided fiddling at all with the original text beyond the odd editorial change. The integrity of the original is confirmed by the stilted, academic tone of much of the prose. Even I have trouble today understanding fully the monetary and financial intricacies in Chapter II, for example, although at the time of writing it was a breeze!

Of course, as some of its early critics claimed, the book could have used a much more thorough grounding in social history. Some of its interpretations of the general background will be out-of-date; some details will be dubious, even flat wrong. If it were to be judged as a work of social history, it would merit a grade of lousy. It certainly oversimplifies issues like tenant-landlord relations and the currents of opinion in, as well as the early composition of, the Island Assemblies. It presents pioneer self-sufficiency and full-scale monetization as distinct stages of historical development instead of seeing socio-economic relations as a continuum between the two hypothetical extremes.

But rewriting social history was never the book's objective. That is something of which I had neither the time nor the training to do. Rather it set out to fit monetary factors into social history as given. If Island historians found so much objectionable in the standard interpretations of Island social history from which this account was largely drawn, the job of rectifying the problems was primarily theirs, not mine. Nor do any such errors or oversimplifications really detract from the core message. Hence I present the book now as it was then, with all its flaws but, hopefully, with any virtues it had still intact. I do so with confidence that, to paraphrase one of the great (though now rather shopworn) dissidents of our time, monetary history has absolved me.

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[1] For comprehensive views, see Thomas Greco, Money: Understanding and Creating Alternatives to Legal Tender, Chelsea Green Publishing: White River Junction, VT, 2001; and Bernard Lietaer, *The Future of Money: a new way to create wealth, work, and a wiser world*, Century: London, 2004

Preface to the Original (1983) Manuscript

In the last few decades Canadian social scientists have been noticeably reluctant to plough the once fertile field of monetary and financial history.[1] There are a number of possible reasons.

One is the insidious effect of disciplinary borders combined with intense specialization both between and among disciplines. The result leaves economists usually incapable of appreciating the historical-institutional facets of a subject matter, and historians unable to come to terms with economic-financial intricacies, except in the most superficial way. That situation is especially ironic given the former close collaboration between the two. Economic history was for decades, perhaps for more than a century, the core of Canadian political economy.

Another problem is posed by the nature of the raw material which can be tedious, dull and bewildering. The monetary historian must come to grips with the intricacies of different types of bills and notes, juggle legal-tender lists, translate between disparate accounting systems, correlate values of an array of coins of widely varied origin in light of constantly shifting market versus legal-tender rates, and sift through woefully inadequate and frequently inaccurate official statistics.

Yet a third reason may be the uncertainties associated with modern monetary theory – the clash of antediluvian monetarists, rigor-mortis Keynesians, post-Keynesians, neo-Marxists, structuralists, and neoclassicists along with mny subdivisions. This contrasts sharply to the conviction with which views were held in the late 19th and early 20th centuries when the bulk of the research for the existing monetary and financial history of Canada was done. A diversity of theoretical approaches might, in a rational world in which the ideal of diversity of opinion was respected in practice instead of just in rhetoric, have inspired a diversity of research approaches as well. That this has not happened reflects the fact that monetary history timorously follows the lead of monetary theory, more specifically whatever theoretical fad captures the limelight at any point in time. Thus, rather than theory being grounded in historical experience and altered in light of changing monetary knowledge, history is interpreted through the prisms of abstract, deductively constructed monetary models and is moulded to meet the demands of the prevailing ideological fad.

Yet a fourth reason might be the simple failure of social scientists in recent decades to appreciate the relevance of monetary and financial history to the broader economic, social and political issues they study. The shadowy manipulations of those in control of the monetary system, while ample gist for the mill of conspiracy theorists, do not generate the illusory air of reassuring certainty typical of time-series of export, import and production data. Nor does the dissection of monetary trends allow a historian to escape his/her own banal professional existence by living vicariously the life and times of the "great men" he/she is busy depicting on the basis of objective sources like their own personal papers. Nor indeed does the study of the monetary and financial system produce the same degree of instant gratification of a middle-class social conscience that platitudes about the class struggle will allow. In the great works of labor history of the last several decades, it is rare to find one to show any but the most superficial awareness that the monetary and financial system is not just one of many means by which capitalist ogres dispossess the working class but the principle tool to redistribute both power and wealth upwards through the social spectrum. Those with the least lose, relatively speaking, the most, while those in the middle try desperately to compensate their losses upward by grabbing more downward.

But for whatever reason or combination of reasons, the neglect of monetary and financial history in Canada is particularly striking given that the true indigenous founder of economics in Canada, Adam Shortt, put the greatest part of his research efforts into precisely this field. When he did so, it was obviously not from the perspective of the arid and empty econometric history so much in vogue. Nor was his work ideologically welded to anything like the Cold War liberalism or American "behaviorism" which have reduced so much recent historical writing to the level of a common-room version of Trivial Pursuit. Shortt's approach was a (highly conservative) variant of historical political economy: and he moved freely between financial history, economic policy debate, political biography and constitutional history, largely oblivious to the artificial borders between them.

Adam Shortt's published research on monetary and financial matters were confined to New France, the Province of Canada and some provisional material on the early Dominion.[2] His intent was to go on to reconstruct the monetary and financial history of the Maritime Provinces. He had begun collecting the relevant documents for this later work but never completed it before his death. In the fact the current study arose out of the author's discovery (during the course of writing *The History of Canadian Business*) of the documents Shortt had collected on the history of currency, finance and exchange in Nova Scotia, New Brunswick and PEI. These were deposited in the Public Archives in Ottawa and had lain largely (though not entirely) ignored for decades. The material was far from complete. In the present study it was supplemented by work by social historians about the socio-economic context in which monetary and financial history unfolded, by published documents of the government of Prince Edward Island, and by newspaper accounts of events upon which Shortt's collection did not touch. The recent availability of the British Parliamentary Papers, too, opened up a new, important source of information. Furthermore, the analytical framework that underlies the present study is very different from that of Adam Shortt who wrote from the combined vantage points of an Upper Canadian patrician of the late 19th and early 20th centuries and of a firm believer in the automatic gold-standard mechanism which was the financial cornerstone of the political and economic order prior to World War I.[3]

This tendency to read a late Victorian perspective backwards into history with its implicit (often explicit) conferral of approval on one of several opposing points of view, namely that of the protagonists of "sound money," was not unique to Adam Shortt or to others working to understand the Canadian monetary and financial system at roughly the same time.[4] It also moulded the early interpretations of American monetary experience whose pioneer analysts were protagonists of the same viewpoint and who had the same objective of using history to influence contemporary government policy.[5] Only fairly recently have there been significant challenges to the orthodox "sound money" interpretation in the U.S. In Canada there is a double gap. Not only have the orthodox views of monetary history not been challenged, in most instances they have not even been written. It was with a view to both reconstructing some long-neglected facets of Canada's monetary and financial history, and presenting the results with a perspective that departs from 19th Century orthodoxy (and its modern reincarnation by neo-monetarists) that this study of the financial development of colonial Prince Edward Island was undertaken.

Throughout the study an effort has been made to place the history of the Island monetary, fiscal and monetary system within the broader contours of its socio-economic evolution, rather than abstracting the "pure" monetary and financial aspects. This procedure has involved some review of material which will already be familiar to students of the Island history. It also forced the author, who is not a social historian, to make judgements in fields that are really none of his business. Take, for example, the notorious "land question." Nothing in the Island's history is immune from the land question, not even the very state of the coinage and certainly not the structure of the public finances. If the land question affected finance, finance affected the land question: and the juxtaposition of the two may shed new light on old conundrums.

No doubt there will be some historians, far more familiar and better capable of judging than the author, who will object, correctly, to some of the generalizations. There is no pretense here to state-of-the-art social history. The archival work was purely financial in nature: the focus is overwhelmingly on money and finance, debt and credit, private and public finance. Someone who makes no claims to be a social historian can only be guided by others who are, with the additional danger that social historians rarely agree. However, not only is such a context essential to the story, even if more knowledgable historians find its specifics flawed, it will provide a model by which others in the future might insist on taking monetary history out of the hands of those who would reduce it to arid columns of statistics void of social meaning and return it to a form more amenable to an understanding of the comedies and tragedies of human endeavour.

Montreal
May 15, 1983

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[1] E. P. Neufeld's *The Financial System of Canada: its Growth and Development* (Toronto, 1972) traces the early history of many financial institutions and patterns of intermediation. It is the major work on the subject in the post-war period. However it has certain weaknesses stemming from its methodology – it abstracts the intermediation process per se from the broader socio-economic context. Balance sheets must be explained by historically specific circumstances, not vice versa. Another major recent work is Merrill Denison's two volume history of the Bank of Montreal - *Canada's First Bank* (Toronto, 1966). It contains a wealth of detail but its analytical framework is weak and its tone often rather sycophantic, especially in volume two. Apart from these two, there is little to recommend in recent works on the financial history of Canada. In particular R.M. McIvor's *Canadian Monetary, Banking and Fiscal Development* (Toronto, 1961) is very superficial in its treatment of earlier developments. (Ed. note. There was a brief fluffy of interest in the 1980s, including Ron Rudin's work on "French banks" in Quebec. But it dissipated quickly. The last two decades have been largely void.)

[2] His principal works in this field were contained in a large group of articles published between 1906 and 1923 in the *Journal of the Canadian Bankers' Association*. They were distilled down into summary pieces which appeared in, for example, A. Shortt and A. G. Doughty (eds.) *Canada and Its Provinces* (Toronto, 1914) Vols. 2,4,5. Needless to say, his writing went well beyond the above examples. But those cited are the ones most directly relevant to the current research.

[3] As explained so well in Karl Polanyi, *The Great Transformation* (New York, 1944)

[4] See, for example, the work of R. M. Breckenridge, *The Canadian Banking System: 1817-1890* (Toronto, 1894) and his *History of Banking in Canada* (Washington, 1910).

[5] On this see E. J. Ferguson, "Currency Finance: an Interpretation of Colonial Monetary Practices" in G. D, Nash (ed.) *Issues in American Economic History* (New York, 1964)

I. MONETARISM: OLD AND NEW

At few points in world history have financial affairs, domestic and international, assumed such a prominent place on the agenda of political debate. National monetary authorities have found their domestic credit mechanisms effectively out of control; stateless money in the hundreds of billions forms a great ball of liquidity that circumnavigates the globe, throwing exchange rates out of alignment and depleting foreign exchange reserves; developing-country debt loads pointing towards the trillion-dollar mark appear too heavy for developing countries to service, yet too important to the balance-sheet positions of creditor countries and institutions to write off. The distribution of financial wealth across the world grows increasingly skewed, leading to huge sums of private speculative capital puffing stock and real estate markets on the one side, while essential public infrastructure is run down beyond the point of collapse.[1]

Given these momentous events and disturbing portents, a study of the monetary and financial history of one of the least significant colonies of a long defunct empire needs some justification, lest its contents be dismissed as merely "academic."

This book is a study of imperial-colonial financial relations. As such it is also a study of the link between politics and finance, and of the consequent contradictions between popular will on the one side and the demands of "sound money" on the other. It examines the process by which conflicts between political sovereignty and foreign financial control are resolved, usually in favour of the second. It explores the avenues through which overseas financial control shapes domestic economic and political development. It examines the way in which foreign debt, and its prerequisites for repayment in hard currency, generates an array of social and economic problems, the putative solutions for which are often worse than the disorder which prompted them.

The story just happens to unfold in the most obscure colony of British North America at a time when Britain was moving from a managed bimetallic standard to an automatic gold standard, and simultaneously trying to coax or coerce its trading partners and economic satellites into adhering to that new international financial order. But many elements of the story could have been told - indeed sometimes have been told - of other peripheral areas of the British empire. Many elements of the story, too, have a remarkable similarity to events of more recent vintage. For there is a continuum from Britain's efforts, directed first against Barbados in 1706, to curb the financial independence of its American colonies in the 18th Century, to the disasters imposed on places as varied as Poland and Argentina, South Africa and Indonesia in more recent years. That continuum includes 19th Century Prince Edward Island in its ambit.

A number of themes emerge from the study that are relevant to much broader monetary and financial debates today. There has been an increasing consensus over the late 1970s and 1980s among big business, government and establishment economists in favour of fiscal orthodoxy and the "free market;" and therefore an increasing consensus against the interventionist ethic typical of most of the postwar period. Along with that fiscal conservatism has come a shift in the relations of political power, with unelected central bankers, aided and abetted by their private club, the Basle-based Bank for International Settlements, gaining in influence vis-à-vis finance ministers with domestic constituencies to which to answer. Along with it, too, came an enhanced influence of the International Monetary Fund (IMF), with its firm commitment to the canons of “sound money” vis-à-vis countries in need of financial aid. Whatever their varied manifestations, advocates of fiscal conservatism display one overwhelming obsession in their public rhetoric and policy action - the defense of the purchasing power of money, the preservation of the real value of contracts denominated in money terms, whatever the social cost. With this obsession has come as well the commitment to structure economic policy in such a way as to attempt to stabilize the level of prices (however much reality deviates from intent) through appropriately stringent monetary and fiscal policies. With it, too, has come a commitment to assure the ready convertibility of national assets into an internationally acceptable medium of exchange.

In a modern context the most important institutional vehicle for assuring that such policy priorities are set is the IMF which in turn functions as an international arm of the U.S. Treasury. Its influence derives ultimately from its control over a flow of financial assistance to countries in balance of payments difficulties. Countries seeking such financial aid are required to dismantle devices designed to insulate the domestic economy from the vagaries of international financial flows and commodity price movements: they are forced to free capital movements from exchange controls and to pledge non-interference in the repatriation by foreign investors of interest and dividend payments. And they are usually required to impose drastic deflationary measures - curbing credit, raising taxes, slashing government expenditure - in order to divert resources from the domestic sector to the export sector. There they can produce exportable products which will generate the foreign exchange necessary to service international debts.

In reality the results have, all too often, actually worsened the state of “under-development” that caused the balance of payments problem to begin with. This hard-money orthodoxy frequently serves to lock countries into a cycle of foreign debt - primary production for export - more foreign debt, all the while generating social unrest sometimes on sufficient of a scale as to require the replacement of (somewhat and sometimes) responsible civilian administrations by military regimes willing and able to enforce the austerity program.

As the IMF hard-money technocracy does today, so the British imperial treasury officials did yesterday. For the hard-money orthodoxy peddled by the IMF internationally is a direct descendant of the doctrines of “sound money” articulated by Britain's leading political economists in the early 19th Century, then coaxed or coerced into general acceptance abroad by the British government in its efforts to sell the operating principles of the classical gold standard around the world.

The classical gold standard which took shape in the wake of the Napoleonic Wars had three fundamental principles. The first was stability of exchange rates - to protect the hard-currency value of contracts and to facilitate international payments. The second was a gold basis of financial flows, domestic and international - bank notes for domestic exchange and bills of exchange for international transfers both had to be convertible on demand into gold (or, to a lesser degree, silver). The third was the freeing of both commodity and financial flows from the legislative restrictions that formed the legacy of mercantilism. All three principles were derivative from the basic underlying philosophy which combined tight control over the monetary standard with giving private enterprise and the market a free hand to reorganize economic life in their own image.

Thus along with the rise of the gold standard in its classical form came demands for a reduction in the role of the state in economic activity. Public sector activities not only were alleged to preempt opportunities for the private sector; but they also entailed taxation - and Britain in the early 19th Century was in the throes of a middle-class tax revolt. Heavy taxation to carry the war-inflated national debt was accused of dampening entrepreneurial activity. Government activities were often financed by printing paper money - and the resulting "excess" supply of money was felt to inflate the price level, depreciate the exchange rate and transfer income from creditors to debtors. Hence 19th Century hard-money advocates postulated a strong link between reduction in government expenditures and strict control (preferably through an "automatic" mechanism) of the growth of the money supply, a link on which their late 20th counterparts continue to insist.

After the Napoleonic Wars, as Britain grew into the world's industrial metropolis, it also became its financial centre. Its commercial and financial diplomacy, effected through the negotiation of trade treaties or international loans, had as a major objective the adherence of other countries to the principles of "free" international exchange, including the automatic gold standard. The degree to which Britain could make its will felt depended on the political status and economic power of other parties to the negotiations and on the general financial atmosphere of the time. Most effective, of course, were British pressures on its own colonies whose legislative processes were still subject to imperial review.

It is difficult to overestimate the influence of the precepts of "sound money" that underlie such efforts, and which were built into the operational structure of financial institutions over the next century. This body of doctrine was not only read forward to the present day, where it has played an important role in shaping the economic philosophy of the "new monetarism;" but it has also been read backwards into history in such a way that the monetary and financial experiences of the "developing" countries of centuries past have been reinterpreted to bolster the case for hard-money orthodoxy. The price tag has been high, robbing a current generation of poorer countries of a useful counter-lesson to that suggested by neoclassical orthodoxy in shaping their own policy programs. This has occurred in part because, hard on the heels of the victory of the advocates of hard-money orthodoxy in policy debates in the early 19th Century, came a misreading by the historians they had inspired of the record of soft-currency experiments in the American colonies in the 18th Century. Eighteenth century experiments with deficit finance and inconvertible paper money were denounced as violations of economic "laws." They were imputed to a failure of legislators to understand the principles of political economy, and to a conspiracy by debtors to defraud creditors by inflating the price level and thereby eroding the real value of their debts.[2]

In reality the monetary problems facing the American colonies, including Prince Edward Island, were quite different from those facing, or presumed to be facing, the countries where monetary theorists of the 19th Century worked out their doctrines. In those countries the central concern was to prevent the "over issue" of paper money because of its presumed propensity to inflate the price level and depreciate the exchange rate, to the detriment of the creditor class. Such concerns presupposed the generalization of market exchange based on a more-or-less freely functioning price system, as well as assuming the ability of an autonomously operating price system to mobilize the great bulk of society's productive resources.

When colonial businessmen and political leaders, in the Thirteen Colonies of the 18th Century or Prince Edward Island of the 19th, complained of a "shortage of money," they were not simply and erroneously equating "money" with "capital," as their 19th Century critics assumed. Nor were they engaged in a conspiracy to defraud their creditors. A physical shortage of circulating medium was actually a structural constraint on the "development" process. The effects of increasing the supply of money could not be analyzed in terms of its effect on the level of absolute prices, the level of physical transactions assumed more or less given by the operation of relative price-setting markets. Nor could it be analyzed in terms of the effects of a resulting increase in aggregate demand in stimulating further production, absolute prices assumed more or less given by a high degree of elasticity of the supply of productive resources. Rather its effects were much more complex and turned as much on their influence on the structure of production and distribution per se, as on the actual level of economic transactions.

An increase in the supply of some suitable money form could (though not necessarily would) be associated with an expansion of the proportion of economic activity geared to market exchange. Mercantilist theorists in Europe, and the state apparatus they influenced, were well aware of the importance of money in this regard. To them increasing the supply of money was essential to increasing the volume of commerce. They realized that the monetization of transactions per se, not merely the increase in their volume, fostered the accumulation of wealth in the hands of a class who might invest it in productive activity. It also facilitated the collection of taxes, thus enabling the state to spend on infrastructure necessary to promote economic development.

More technically, the mercantilist position might be rephrased as follows. Monetization of an existing level of economic transactions, by fostering the accumulation of wealth in a few hands, sets off a dynamic growth process through the reinvestment of that wealth. As aggregate output increases, the changing structure of production, namely its reorientation towards the market, drags in more and more individuals, first as producers, then, as their former economic self-sufficiency is eroded, as consumers of the products of the monetized sector. In short, as Jean Baptiste Say correctly observed, to the subsequent bafflement of less observant minds, in the dynamic development process that accompanies the actual spread of the market at the expense of local self sufficiency, supply creates its own demand.

Thus, colonial spokesmen of the late 18th and early 19th Centuries merely transplanted to their milieu, theories that had been appropriate to Europe a century earlier and which had some serious applicability to their new milieu. But they ran up against the incomprehension and scorn of European financiers and politicians of the 19th Century who, committed to the allegedly more "scientific" doctrines which had emerged after the Bullionist debates in England, were conveniently and profitably blind to the fact that the American colonial socio-economic context had more in common with Europe of centuries past that Britain when the Industrial Revolution was in full flood and the contours of a "modern" financial system were taking shape.

In the American colonies, "currency finance," as it came to be called, emerged in response to two main influences. One was the demands of public finance; the second was the effect of adverse movements in the balance of trade. A seemingly chronic balance of trade deficit, imputably at least partially to mercantilist regulations that hampered colonial trade, drained specie out of the colonial circulatory system, drove the exchange rate to what the colonists regarded as oppressively high levels, reduced much domestic trade to a barter basis, and hampered the collection of taxes. Paper money issued by governments filled the void. It not only helped to cover the government budget deficit and permitted the remonetization of commerce, but it made possible the collection of taxes in cash and gave the colonies a money supply that lacked the inherent propensity of silver to migrate elsewhere in response to adverse shifts in the balance of trade.

The British 19th Century view, worked out to propagandize the automatic gold standard against contemporary criticisms rather than to understand the process of exchange in more primitive colonial economies, contended that the issue of paper money itself drove specie out of the country or colony concerned. It further claimed that governments of the colonies were prone to issue paper money in the form of bills of credit partly out of reluctance to impose taxation and partly out of a debtor-inspired desire to cheat the creditor class through inflation.

In point of historical fact, the problem of a shortage of specie long predated the recourse to government paper; and many creditors and businessmen concurred in the need for locally-issued paper money. Furthermore the notion that emitting public bills of credit substituted for taxation (so that "unsound money" and "unsound finance" i.e. budget deficits went hand in hand) was again based on 19th Century premises: namely that the market was everywhere ascendant, exchange relations fully monetized, and prices flexible. In reality much economic activity was self-sufficiency oriented, barter relations were common, non-market elements heavily influenced costs, and prices were often inflexible in the face of weak market stimuli. One of the government's central objectives was precisely to monetize the economy and encourage the spread of exchange relations on which taxation could be based.

Thus, far from the issue of paper money by colonial governments being a substitute for taxation, it was often a prerequisite to taxation. It was necessary in order that taxes could be paid in cash instead of in kind. Mercantilist theorists in Europe and the governments they influenced in the 17th Century were well aware of the vital influence which the supply of money had on the capacity of an economy to bear taxation. An increased supply of money was held desirable not because of its effects on aggregate economic activity alone, but more because of its effects on the ratio of market to non-market production. Thus, an increase in the supply of money also increased the volume of commercial as opposed to self-sufficiency based activity, expanded the tax base and provided the fiscal basis for a strong state, the ultimate criterion by which mercantilist policies were judged. The American colonies were simply attempting to do with paper money what European mercantilists had done with silver a century before, with the additional irony that it was precisely the European mercantilist practice of centralizing imperial specie holdings in the metropole which forced the colonies to use paper (or other materials) as a substitute.

This study shows how an economically isolated and technically backward community, cut off from an adequate supply of circulating medium, could evolve its own unique and efficient monetary and credit mechanism. This system, really the ultimate development of the "currency finance" apparatus of the old American colonies, fulfilled its function well, until the Colonial Office and Imperial Treasury, inspired by doctrines of "sound money" and the expansion of world trade, decided to bring the Island into the mainstream of economic life.

The result was an effort, remarkably analogous to those undertaken by the IMF today, to impose gold standard orthodoxy and to oversee a diversion of economic activity into the production of primary products whose export would finance debt service payments due abroad. Then, with the rise of “finance capital,” came new and worse structural problems for the Island balance of payments, in common with its sister colonies of British North America. For the gold standard mechanism, however effective in the transfer of money associated with commodity trade, imposed heavy social costs when major capital transfers associated with debt service payments were involved. This development, as so often in financial history, forced sweeping political changes. In the case of Prince Edward Island it meant the loss of political autonomy, not to military authorities (though they were certainly present and active) but to another political jurisdiction in which the Island was submerged. It meant the fiscal necessity of economic and political integration with Canada. The integration of the Island financial system into that of the much larger political unity, and the loss of community control over economic (and political) life followed directly and inevitably.

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[1] See especially R. T. Naylor, *Hot Money and the Politics of Debt* 3rd Ed. Montreal: McGill Queens University Press, 2004.

[2] A good example of hard money orthodoxy as misapplied to American colonial experience is that of C.J.Bullock, *Essays in the Monetary History of the United States* (New York, 1900). The hard-money perspective even slipped into sections of John Kenneth Galbraith's *Money: Whence It Came, Where It Went* (New York: 1975). On the reinterpretation of American currency experience, see especially E.J. Ferguson's "Currency Finance: An Interpretation of Colonial Monetary Practices" in G.D. Nash ed. *Issues In American Economic History* (New York, 1964) In Canada virtually the only primary monetary research was done from a very strict hard-money perspective by Adam Shortt, the indigenous founder of the economics profession in Canada. His principal writings in monetary history were contained in a long series of articles published between 1906 and 1923 in the *Journal of the Canadian Bankers' Association*. The hard-money orthodoxy Shortt read into that history powerfully influenced future interpretations of the history of the Canadian financial system and heavily coloured public policy debate, just as in the US. The works of R. M. Breckenridge, *The Canadian Banking System 1817-1890* (Toronto, 1894) and *The History Of Banking In Canada* (Washington, 1910), while analytically much inferior to Shortt's writings, nonetheless were equally uncritical of hard-money orthodoxy.

II. MAINLAND ANTECEDENTS

The monetary and financial system which took root in Prince Edward Island in the late 18th and early 19th centuries, flourished at mid-19th Century, and was destroyed just prior to Confederation with Canada, arose from a unique confluence of historical circumstances. Factors common to the economic history of the British-American colonies adapted themselves to the peculiar features of the Island's geographic, social and commercial setting to result in the eventual emergence of a novel and efficient means of dealing with the Island's fiscal, exchange and currency requirements. In effect, the system of "currency finance" that developed in the old Thirteen Colonies in the early to mid 18th Century,[1] migrated to Nova Scotia in the mid to late 18th,[2] and from there was transplanted to PEI where it continued to flourish long after it had vanished in its places of origin. Hence to understand fully the logic and functioning of the Island financial system, one must first examine its antecedents in New England history. That in turn requires an understanding of the theory and practice of the British mercantilism which shaped the particular institutional forms of American colonial monetary experiments.

Treasure And Foreign Trade

According to the theory, and to some degree the practice of late 17th and early 18th Century mercantilism, England was to be the manufacturing centre of the empire, its financial metropolis, and its main trading entrepôt. Economic and political power was exercised to shape the various colonies and satellite economies in ways that would complement the economic development of England and reinforce its hegemony.[3]

Fundamental to mercantilist theory and therefore the single most important principle underlying its policy action was concern with the international distribution of silver. Spain, from its control of the great silver mines of the Americas, dominated the supply; while European countries demanded increasing amounts both for internal fiscal and monetary purposes and to finance their endemic trade deficits with the Far East. England's mercantilist empire was structured with these basic facts about the distribution of precious metals in mind.

The most important colonies were those of the West Indies, producing from their great slave-worked estates, the sugar and other tropical staples that could be sold, via England, in Europe for a share of the flow of silver out of the Spanish empire. The West Indies also acted as subsidiary trade entrepôts to tap directly the commerce of Spanish America, selling English manufactured goods and slaves from West Africa for silver. To the flow of West Indian sugar was added the tobacco of the southern mainland American colonies and the furs of New York, all commodities saleable for silver on European markets.

The other parts of the empire had their functions largely defined in relation to the West Indies. From the slave-trade posts on the West African coasts came the labour force for the plantations, purchased with West Indian rum, English iron, and East Indian cotton. From the Newfoundland fisheries came the cod which was then transmuted into silver either directly by sale to Spain or Portugal, or indirectly through feeding slaves who produced saleable tropical staples. From New England came temperate raw materials - grain, timber, horses for motor power - that were essential inputs into the West Indian plantations, permitting them to concentrate so heavily on production of exportable staples.

New England was different from the other American colonies. Barbados and Jamaica had their sugar; Virginia and Maryland their tobacco; Newfoundland its fish; and New York its furs. New England however lacked the magic key to short-run prosperity and long-run dependence that a dominant export staple provided. Furthermore, as a colony of white settlement based largely on the family farm, not only did its population grow fairly quickly; but, since that population was largely British in origin, it had British consumption patterns. Without staple exports to provide the foreign exchange to finance imports, New England had to develop a commercial strategy quite different from the other colonies. New England farms and forests produced a diversified range of products to feed the production process in the West Indies; New England fishermen competed with those of England's West Country ports for the markets of both southern Europe and the West Indies; and New England merchants, bolstered by an energetic shipbuilding industry, were active in a far-flung international commerce from the slave-trade posts of West Africa to the smuggling entrepôts of the French and Spanish West Indies to the out ports of Newfoundland and Nova Scotia.

The key to this commercial vigor lay in an inherent contradiction in English mercantilist strategy. England was to be the manufacturing centre - the colonies were forbidden to manufacture a range of goods in considerable demand. To cover the resulting structural payments deficit with England, the colonies had to run trade balance surpluses elsewhere, by the export of goods or through the earnings on freight services, either by competing with the metropole in West Africa, Newfoundland or the British West Indies, or by contraband dealings with the French and Spanish Caribbean. This triangulation of payment flows - a surplus with the American colonies and a deficit with England - was the fundamental determinant of the pattern of development of the New England financial system.[4]

Foreign exchange flowed into the colonies in two forms. One was specie - silver coin derived largely from trade with the Caribbean which was then largely drained out again to cover the trade deficit with England whence it might join the flow of silver to the Orient to buy silk, tea, cotton cloth and spices. While the colonies, faced with difficulties retaining their silver, remained firmly attached to the silver standard, Britain itself could increasingly acquiesce in the loss of its own silver. Over the course of the 18th Century, its alliance with Portugal, and consequent commercial relations with Brazil, then the world's leading gold producer, allowed Britain to move gradually onto a de facto gold standard for domestic exchanges while silver financed its oriental trade.[5]

More important than silver as a source of precious foreign exchange for the North American colonies was the inflow of sterling bills of exchange, sometimes derived from trade and sometimes from payments made by the British authorities to their officials and military officers in the colonies. The normal process by which such payments were made involved the payment of a sum in cash to the London agent of a particular department of government. The agent in turn would draw bills and send them to the colonies. Colonial officials receiving bills could trade them directly for goods, or sell them for silver, or, where it existed, for local paper currency. The merchant in the colony who provided the official with goods or money in exchange for the bill would send the bill back to England to settle accounts with his suppliers and creditors. They then would present it to the agent of the department initiating the process, for payment in cash. In addition, in the colonies, given the distances and the slowness of communication, local officials had the right to draw bills against the general credit of their department.

There were many advantages to this silver-exchange standard. Using sterling bills for remittances eliminated the danger of loss of silver from shipwreck or piracy. For Britain they held the additional advantage of reinforcing the centralization of specie supplies inside Britain. Furthermore they provided some control over the direction of trade since, unlike silver, sterling bills remitted to England to pay for imports could only be derived from legitimate intra-imperial trade or from the payments made by the British government itself.

However there were sources of instability, particularly with respect to bills initiated abroad. In the first instance those bills were the responsibility of the initiating official - sometimes officials would draw bills after they had been dismissed from office, and the merchants would be left with dishonoured bills. During times of war, whether because of overzealousness of officials abroad or a shortage of departmental revenues at home, occasionally a department would be unable to meet all of the bills drawn up by their overseas officials. But even in “normal” times the system could be problematic. A commercial crisis anywhere in the empire could cause a general calling of colonial debt, drying up the local money markets and cause a flight of specie. Shifts in the terms of trade over which colonial merchants had no control could do likewise. Even an absconding or defaulting official could shift the exchanges against the colony and threaten both its general credit and its local specie supply.[6]

The actual impact of that loss of specie varied across the colonies. In rural areas where monetization of economic activity was limited until well into the 18th Century, production and distribution could occur without much reference to cash. Some economic transactions were based on reciprocity and cooperation rather than exchange. And exchange relations could be conducted by barter, by tendering labour services in payment for goods, or by using bookkeeping transfers at a country stores as a credit mechanism. In urban areas businesses could conduct their transactions through private promissory notes or by the circulation of endorsed bills of exchange. However for the retail market an adequate supply of a general-purpose money was essential. Furthermore, over the 18th Century, the demand for money was enhanced by the intensification of commercial relations between urban and rural areas, and by the fiscal requirements of the state. Faced with rising demand for money on the one hand, and the old constraints on specie supply on the other, the colonies experimented with several alternatives.

One approach was to attempt to counteract the periodic flight of specie by measures to increase its inflow and/or discourage its outflow by altering the local exchange value of specie. Prices in the colonies were reckoned in pounds, shillings and pence: but the most important coin actually in use was the Spanish silver dollar. While the intrinsic value of a full-weight Spanish dollar was four shillings sixpence sterling, the American colonies competitively legislated legal tender values to the dollar ranging all the way up to eight shillings local currency in the hope of attracting the business of pirates, privateers and contraband traders.[7]

In a fully monetized, price-sensitive economy (of the sort that only exists in the imaginations of academic economists), such a policy would have been quickly self-defeating. Prices in terms of local currency would be adjusted upward to offset the depreciation. However in the actual institutional conditions prevailing in the late 17th Century, the policy made some sense in the short run. Prices, frequently based on custom and interpersonal relations, were often slow to adjust upward. Hence an influx of specie had at least some limited impact in raising local real purchasing power even though in the longer term offsetting price changes would occur. In any event, early in the 18th Century Britain put an end to competitive devaluations, decreeing a uniform exchange rate of six shillings to the dollar in all of the colonies.

Shortages of coin also prompted colonists, from an early period, to turn to money substitutes, including various forms of commodity money. Among the first was "wampum," polished clam-shells produced by the Indians of Long Island and used widely throughout the Iroquoian dominated areas. To the Indians wampum was not money; it was a ceremonial token used in diplomacy, including the treaty-making process that necessarily preceded trade with other bands. Since the Iroquois were the principal suppliers of furs, the main source of foreign exchange for white traders in the early years, and of corn that was essential to the early white settlers' physical survival, wampum soon became a factor in white-Indian diplomacy as well. From there it entered actual commercial exchanges between white settlers. In New England wampum actually became legal tender in the third decade of the 17th Century, with contracts payable at will in wampum, beaver pelts or silver.

Three factors cut short the use of wampum. One was the development of wheat farming which obviated the need for Indian-supplied corn. The second was the growth of the importance of the West Indian trade at the expense of the fur trade (except in New York where the fur trade long remained the most important single commercial activity). The third was ease of counterfeiting. In 1643 the legal tender limit of wampum was set at 40 shillings; in 1649 it was banned completely from being tendered in payment of taxes; and in 1661 its legal tender status for private transactions was abolished.[8]

Other commodities were also used as money substitutes. In 1631 corn became legal tender in Massachusetts for all purposes unless contracts specifically stipulated payment in beaver pelts or coin. Over the course of the century throughout New England oats, wheat, flax, sugar, whisky, even musket balls were in occasional use. The obvious difficulty in using farm produce was summed up in 1654 when Massachusetts banned the use of "leane cattle" in payment of taxes. Nonetheless not until 1694, after paper money had been introduced, was "country paye" completely eliminated from public sector transactions; and a 1735 fiscal crisis forced its temporary rehabilitation.[9]

The Emergence of Paper Money

Paper substitutes for coin circulated in New England well before the public authorities turned to the printing press. Endorsed bills of exchange were in use, albeit rather awkwardly since they were drawn for specific, usually large sums. Similarly private promissory notes, while more flexible as to denomination, had the disadvantage of being drawn against the general credit of the issuer, and therefore likely could command even less public trust. A de facto bank opened in Boston in 1681 to which businessmen could pledge their property in return for a book credit against which promissory notes (almost like checks) could be drawn. While useful for specific payments, such checks could not achieve a widespread currency in general retail transactions. That was a role that public bills of credit could perform.

In 1690 the government of Massachusetts issued the first public bills of credit seen in the English-American colonies.[10] While in the past colonial treasurers short on cash had issued promissory notes in anticipation of tax receipts, they did so on their own cognizance. The 1690 issue was sanctioned by the colonial legislature. The notes were not officially "money;" for the right to emit "money" was in theory reserved to the sovereign power.[11] Instead they were bills of credit secured on future tax revenues. Simultaneously with the issue of the bills came the legislating of sufficient new taxes to redeem them over a fixed period of time. On one level the bills were much like the interest-bearing Exchequer bills that Britain itself would introduce in 1696.[12] However, on another, they were much more ambitious. For the colonial legislature not only sought to finance a budget deficit but also to alleviate a currency famine. Hence the bills were issued in denominations that made them suitable for hand-to-hand circulation, while taxes were made payable in either specie or bills at the will of the payor. In 1691 bills were made receivable for taxes at a five percent premium over cash. (If taxes were paid in bills, they would be automatically withdrawn from circulation.) And in 1692 they were made legal tender for private as well as public sector transactions. The result of these measures was that bills were firmly established in the colonial monetary system and they maintained their parity with silver, even in the face of increases in the amount of bills outstanding, until 1712.

Problems with the bills began during the last years of the War of the Spanish Succession.[13] War drove up colonial expenditures, and with them the amount and value of bills of credit the legislature issued, while redemption was delayed. By 1710 Massachusetts had pledged all of its expected revenues from property taxes for the next five years to redeem maturing bills; yet the volume issued continued to rise. Depreciation of the bills against silver began in 1712. However, contrary to a later generation of hard-money fanatics, the result was not "inflation." Prices rose during the war mainly because demand from the military, which was financed seperately by an infusion of funds from Britain, shot up faster than local production could adjust. When, late in the hostilities, the value of bills fell against silver and therefore against commodities, it was because of the perceived threat to the colonial credit, and the expected delays in cashing the bills, not because they were "over issued" relative to the economy as a whole.

The end of hostilities in 1713 reduced the immediate fiscal urgency and permitted the beginnings of the redemption of overdue bills. It also coincided with a commercial crisis - imputable in part to the end of wartime spending. Out of it came agitation by local businessmen and farmers for a revival of the practice of issuing paper money-substitutes; on the other side stood a British government increasingly inclined to enforce royal prerogatives against the colonies, New England in particular, and to tighten enforcement of the mercantilist system.

Over the next half century Britain attempted to curb the volume of smuggling to the French and Spanish islands, threatening one of the most important supplies of specie that New England used to buy British manufactured goods. It also passed important new prohibitions against the colonies manufacturing certain goods for themselves. Furthermore it was a period not of peace, but of cold war with France, punctuated by intermittent hostilities, which forced the maintenance of large armies and navies and prompted Britain to attempt to pass onto the colonies a larger share of the burden of their defence. Yet the capacity of the colonies to tax themselves could was hampered by the periodic shortages of specie coupled with British restrictions on the issue of public bills of credit.

British policy was far from consistent, reflecting the unsettled state of monetary debate at the time. Britain itself had been moving slowly towards a gold standard and the Bank of England had been issuing paper money redeemable in specie on demand of the bearer. Some in Britain were prepared to acquiesce in the further issue by the colonial legislatures of bills of credit if they were also redeemable into specie on demand. Within the colonies the post-war depression produced a general consensus in favour of paper money. The real debate became not paper per se, but how it was to be issued and redeemed. Since military expenditures had fallen off, it was no longer convenient to issue the paper to finance troops and their supplies. Hence recourse was had partly to use paper to pay bounties for certain types of agricultural and industrial improvements, and partly to use it to make loans to farmers and businessmen through a publicly owned loan bank.

This bank came into existence in 1716 with the concurrence of the British Board of Trade. That body recognized the problem of the shortage of specie in the colonies. Its objectives were not to block use of colonial paper, but to influence its form. In 1717 it recommended to Parliament that all colonial paper issues be accompanied by a vote of adequate taxes to assure its withdrawal on a fixed timetable, and that no such paper be given legal-tender status for private sector transactions. After the South Sea and Mississippi Bubbles in 1720, the Board of Trade's view began to harden: it swung increasingly to the opinion that, in addition to the vote of sufficient taxes to withdraw the paper, that paper also be redeemable on demand in specie. In effect monetization of exchange relations in the colonies through the spreading use of paper money was to occur in such a way as to assure the integration of the colonial domestic monetary standard with the international silver-exchange standard by which intra-imperial economic relations were conducted.

In 1730 the Governor of Massachusetts, on imperial instructions, moved to curb the amount of bills of credit outstanding. Over the objections of the Assembly, new taxes were imposed. In 1741 the imperial authorities applied the Bubble Act (prohibiting the formation of incorporated companies without an explicit vote of Parliament) to the colonies, killing off private banks issuing paper money. When the War of the Austrian Succession broke out, straining the fiscal resources of the colony, the Governor acquiesced in the issue of new bills of credit to finance an expedition against the French fortress of Louisbourg. But he also coaxed the colonial legislature into passing the Equity Act which protected holders of public bills of credit against depreciation of the exchange rate and inflation of the price level. The new public bills were to be as good as silver. Then in 1749 the British government intervened once more to push Massachusetts onto a genuine silver standard, where it remained until the Revolution.

The year 1749 saw Britain return Louisbourg to France in exchange for concessions in India - to the great ire of New England which had invested lives and treasury in the conquest of a fortress which had long threatened its trading and fishing fleets. To placate the outraged colonies, Britain did two things. First, it undertook the construction of the naval and military base of Halifax, to offset the power of Louisbourg - the benefit of the money spent on construction and the subsequent profits of trade rebounding to the advantage of Boston. Second, Britain compensated Massachusetts in silver for the money it had invested in the capture of Louisbourg. That silver was intended to permit Massachusetts to redeem the bills it had issued to finance the military expedition. And to assure that Massachusetts remained on a silver standard, in 1751 Britain passed the Currency Act. Under its terms the New England colonies were to be permitted to issue bills of credit only in the event of military or similar emergencies; bills so issued were to be legal tender only for public sector transactions; the bills were strictly limited as to term; and they were to be accompanied by sufficient new taxes to assure their withdrawal.

The combination of postwar deflation, the Equity Act and the Currency Act meant that the imperial hard line met with resistance. It was a time when Britain was increasingly concerned to ensure the fiscal subordination of the colonies; while in the colonial assemblies business interests demanded freedom to use the power of the purse to subsidize industrial and agricultural development that would challenge the intra-imperial division of labour on which mercantilism was premised. Nor did recourse to paper debt instruments cease. From 1750 to 1764 over 50 acts passed the Massachusetts legislature permitting the colonial treasurer to issue fixed-term, interest-bearing certificates of debt. Although these "treasury notes" were nominally redeemable in specie, they were not legal tender. And they were issued in large denominations making them inconvenient for hand-to-hand circulation. In effect Britain had achieved one major objective – it had forced a distinction between the issue of "money" intended for general circulation, which was a sovereign right, and the issue of public-sector interest-bearing securities to finance budget deficits for which the colonial Assembly was responsible.

Nor did the policy of tightening control over the monetary and fiscal system end there. After the Seven Years War the ban on legal-tender paper in New England was generalized to the other colonies, even though in at least some of them their paper had been well managed and its depreciation very slight. In 1768 it was further decreed that all imperial taxes and duties had to be paid in specie. This, in conjunction with other measures to increase imperial taxation, curb colonial manufacturing and inhibit colonial contraband trade fueled the fire of insurrection. A partial, eleventh-hour retreat on trade and currency matters failed to prevent the outbreak of hostilities. In 1776 thirteen of the fifteen seaboard colonies wrenched themselves free of the British mercantilist system and thereafter charted their own monetary destiny. The fiscal and financial battles continued to be waged in the remaining two.

Currency Finance In Nova Scotia

Until the building of Halifax in 1749, Nova Scotia, conquered from France in 1710, was a minor military outpost of the empire and an insignificant commercial appendage of Massachusetts. Boston merchants sold provisions to the garrison and took payment in imperial bills of exchange or in furs which officers obtained from the MicMac Indians. While the Acadian farm population conducted much of its internal dealings on a reciprocity-and-barter basis, supplemented by small hordes of French silver, such money as the English garrison required for local purposes was largely in the form of "Boston bills."

After 1749 the economic importance of the area to New England - as a market, as a field of enterprise for contractors, and as a source of sterling exchange to cover the deficit with Britain - greatly increased. That same year came the withdrawal from circulation of "Boston bills." Furthermore the influx of British subsidies came largely in the form of sterling bills of exchange, of little use for general circulation; and Nova Scotia at the time had little direct trade with specie-rich areas like the Caribbean. Hence an incipient currency famine had to be met partly through the mechanics of public finance.[14]

Public finance in Nova Scotia reflected the military nature of the colony, and the fact that saloons with their accompanying brothels to cater to soldiers and sailors were the most important business sector. Tax revenues were raised overwhelmingly from import duties on rum and molasses and from excise taxes and license fees on retailing liquor. In time of war, Halifax business boomed, and with it the public purse. In times of protracted peace Halifax business went into depression and the public revenues flagged.

From an early period efforts were made to diversify the economy; and the proceeds of liquor duties were employed in the development of productive infrastructure. In 1751 Nova Scotia began offering bounties to farmers and businessmen. When someone qualified for a bounty, he was given a certificate which attested to the fact that a bounty payment was due. However, given the boom-and-bust nature of the public finances, there might be considerable delays in actually paying the bounties. And given the shortage of circulating medium, endorsed bounty certificates could, with difficulty, circulate from hand to hand, at a suitable discount.

The introduction of the bounty certificates coincided with the passage of the Currency Act. But the certificates escaped proscription - they were not legal tender and their circulation was purely fortuitous. However they did provide a valuable lesson on which to draw when the Nova Scotian authorities introduced the first formal issue of public bills of credit.

In 1761 a lull in hostilities in the Atlantic Theatre ravaged the Nova Scotian public finances, and the colony responded by issuing one-year, interest-bearing treasury certificates - on the model used by Massachusetts to conform to the demands of the Currency Act. Their purpose was both to finance general government expenditure and to convert a pile-up of unredeemed bounty certificates. And further issues followed, specifically secured on the revenues from liquor duties and excise taxes. Then in 1764, to facilitate their circulation as currency, the existing bills were withdrawn and new small denomination ones issued in their stead. But although designed to take advantage of the currency famine, the notes still bore six percent interest and were not legal tender for private transactions. Several issues on this model followed until 1774. Then regular issue of bills ceased. But in 1782 a new, more indirect mechanism for the issue of public securities came into being.

It had long been the custom for legislatures to approve votes of funds: and for the executive branch of government to issue “warrants” for the payment of the approved sum to the designated individuals. If the treasurer of the colony could not meet the warrants in cash, then a separate vote of the legislature might be needed to approve the issue of treasury notes or public bills of credit. These bills could then be used in lieu of specie to meet the warranted accounts due. But after 1782, if the treasurer could not meet a warrant in cash, he simply endorsed it - and it thereafter bore six percent interest, the same rate as had treasury bills, until redeemed. Thus expenditure decisions and financing decisions were no longer separate acts of the legislature, with an implicit check on the volume of paper emitted. Rather any excess of authorized expenditure above current receipts plus cash reserves automatically entailed an increase in the floating debt of the colony albeit in a form not suitable for circulation as money - warrants were issue for specific sums to specific persons.

Over the next two decades there seems to have been little pressure for the issue of government paper in a form suitable for circulation as money. To the extent this was true it may well reflect the fact that after the American Revolution Nova Scotia partly replaced New England in the imperial trade with the British Caribbean. Nova Scotian traders and privateers would have been able to return with specie, to which would be added, after the French Revolutionary Wars began, the prize money spent by British sailors in the Halifax grogshops and brothels. Nor given the introduction of the automatic warrant-endorsement system would there have been the same pressure from the public finances for the issue of bills of credit in a form suitable for currency.

The outbreak of the War of 1812 caused another change in the mechanics of public finance - in the form of an issue of 6% notes in denominations suitable for circulation. The next year the issue was recalled and another replaced it. The new issue was a watershed point in the history of Nova Scotian finance; for not only were the notes in suitable denomination for circulation as money, but for the first time they bore no interest. Ostensibly these new notes, unambiguously intended as currency, were redeemable in specie on demand but, if the treasury was empty, the treasurer had the right to convert them into 6% certificates. In theory any “over issue” of paper currency would thereby be self-rectifying.

Despite the fact that Nova Scotia was treading dangerously close to practices banned in the New England colonies over sixty years before, it was difficult for Britain not to acquiesce in the new notes. During the Napoleonic Wars Britain itself had suspended specie payments, a suspension that persisted until 1817. Furthermore to finance operations of its army in Upper Canada during the War of 1812, it, too, had issued treasury paper (so-called army bills) which were not redeemed in specie until 1815. And to some degree, at least in theory, Nova Scotia had made a clear distinction for the first time in the monetary history of the British North American colonies between paper which was issued to serve a purely monetary function and interest-bearing paper suitable as a savings vehicle which was issued to finance a public-sector deficit. This distinction remained in place in the subsequent financial history of Nova Scotia as well as in that of its sister colony of Prince Edward Island.

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[1] The literature on paper currencies in colonial America is considerable. C.J. Bullock's *Essays* ... op. cit. captures the essence of the traditional critique from the "sound money" perspective. Apart from Ferguson op. cit., the revisionist view is developed in L.V. Brock, *The Currency Of The American Colonies 1700-1764* (New York, 1975) and J.A. Ernst *Money and Politics in America 1755-1775* (Chapel Hill, 1973)

[2] Some insights, however brief, on the operation of "currency finance" in Nova Scotia are in J.B. Brebner's *Neutral Yankees Of Nova Scotia* (New York, 1937) and *New England's Outpost* (New York, 1927). See also J.S. Martell (ed.) *Documentary Study Of Provincial Finance And Currency 1812-1836* (Halifax, 1941). A summary of Nova Scotian experience is given in R.T. Naylor "The Rise and Decline of the Trustee Savings Bank in British North America", *Canadian Historical Review* Winter, 1984

[3] The literature on English mercantilism is vast. But see K.E. Knorr, *British Colonial Theor*ies (Toronto, 1940) on the theory of mercantilism; Eli Heckscher's *Mercantilism: A Study* (London, 1962) observes the nitty-gritty of policy; Jacob Viner's *Studies In The Theory Of International Trade* (New York, 1930) is an excellent example of what happens when hard-money orthodoxy is applied to periods of history for which it is completely inappropriate. Much more useful are the observations on mercantilist theory in Joseph Schumpeter's *History Of Economic Analysis* (London, 1960)

[4] See especially C.P. Nettels, *The Money Supply Of The American Colonies Before 1720* (Madison, 1934) for an excellent survey of the problem of generating foreign exchange to cover the deficit with England.

[5] On the transition from silver to gold in England see A. Feaveryear, *The Pound Sterling* (2nd ed. Oxford,1963). On English-Brazilian trade relations see J.H. Parry, *Trade And Dominion* (London, 1971)

[6] On these points see Nettels 226 et passim, and Ernst 15 et passim

[7] Over the period 1600 to 1800, the pound sterling represented 1718.7 grains of fine silver, giving the shilling a metal content of 85.93 grains. The Spanish silver dollar contained between 385 and 388.5 grains, making it approximately equal to four shillings, six pence sterling. It was stabilized at that rate by Sir Issac Newton's reforms

in 1704. But Massachusetts had, as early as 1642, appreciated the dollar to five shillings local currency, and it followed a decade later by minting its own light shilling whose intrinsic specie content was about one sixth of that of a dollar. From 1671 to 1697 nine American colonies followed suit in advancing the local value of the dollar, and producing great diversity, until the imperial authorities standardized the rate at six in 1704 and 1707.

[8] See in particular W.B. Weeden, "Indian Money as a Factor in New England Civilisation" *Johns Hopkins University Studies in Historical and Political Science,* II Baltimore: 1894

[9] Hepburn 1-6; Bullock 30

[10] There is some confusion over the reasons for the 1690 issue. Some commentators, past and current, assert that the issue of bills followed the failure of the 1690 military expedition against Canada, one which had been expected to finance itself through loot. This view was professed not only by Nettels and Hepburn, but, more recently, by Galbraith and Brock. However nearly a century ago, Alex Del Mar in his classic *History Of Money In America* (New York, 1899) refuted this view through the simple procedure of checking the dates. Not only did the legislation authorizing the bills predate the return of the unsuccessful expedition but it even preceded the legislation authorizing the expedition. It is of course possible that the 1691 (i.e. the second) issue may have been prompted by the need for money to pay the troops, but not the initial issue. It is also possible that the experiment with public bills was in some way influenced by other events in Canada where the colonial government had been using publicly issued paper money since 1685.

[11] In 1654 the imperial government had forced Massachusetts to withdraw the "pine tree" shilling it had minted precisely because it represented an infringement on sovereign powers.

[12] J.E.D. Binney *British Public Finance And Administration 1774-1792* (Oxford, 1958) 127. British Exchequer bills were actually secured on specific revenues and therefore not really a floating debt instrument; the Massachusetts bills seem to have been secured on the general revenues of the colony despite the simultaneous vote of extra taxation that accompanied their emission.

[13] The following survey history of Massachusetts currency and finance is drawn from Brock, Del Mar, Ernst, Ferguson, Galbraith, Hepburn and R.G. Lester's *Monetary Experiments* (Princeton, 1939)

[14] The following survey history of Nova Scotian currency and finance is drawn from V. Ross *History Of The Bank Of Commerce Vol.I* (Toronto,1920); Brebner, *Neutral Yankees*... and *New England's Outpost*; Martell, *Documentary Study* ...; R.W. McLachlan, "Annals of the Nova Scotia Currency" *Transactions of the Royal Society of Canada* X, 1892 Section II; J.S. Martell "Halifax During and After the War of 1812" *Dalhousie Review* 23, 1943-4; H. Paint, "Early Banking in Nova Scotia" *Canadian Banker* 63, No.1, Spring 1958

III. FINANCE AND EXCHANGE IN THE ERA OF SELF-SUFFICIENCY: 1768-1802

Prince Edward Island was added to Britain's domains in the Seven Years War. Shortly after the end of the war, Britain created a class of absentee proprietors for the potentially rich agricultural lands - at a time when the proprietary colony was generally regarded as a thing of the past. This retrograde decision by the imperial authorities set the Island off on several decades of social turbulence, the nature of which was effectively summed up in 1872, with the benefit of over 100 years of hindsight, by the Island's lieutenant-governor:

Thus in a part of the world where the proprietary system has always been unpopular with the people, and where the easy acquisition of freehold property by those who cultivate the soil is general and expected, was established a state of things between landlord and tenant, a class war-fare and discontent, which practically retarded the progress and development of the colony.[1]

Subsequently nothing in the Island's history was immune from the "land question," not the state of the balance of payments, not the condition of the public finances, and certainly not the evolution of its monetary system.[2]

Land Tenure And Fiscal Politics

Behind the British government's decision was a mixture of motives - strategic, political and financial. Given the position of the Island near the Gulf of St. Lawrence and Britain's desire to control the trade routes into the continental interior, Britain was inclined to favour for the Island a pseudo-aristocratic mode of government bolstered by a landed gentry. Much like the seigneurial system Britain was preserving in Québec, this would act as a bulwark against the incipient republicanism of New England, including mainland Nova Scotia. Furthermore inside England were a crowd of office hunters claiming rewards for services allegedly performed for the Crown during the recent hostilities with France. And Britain was struggling to deal with the territorial spoils of its recent wars without further additions to its war-inflated debt.

The proprietary system evolved in two stages. In 1767, when PEI was still technically part of Nova Scotia, the lands were surveyed, divided into 67 lots of 20,000 acres, and distributed on the basis of a lottery to retired military officers and government officials. The grants were subject to the normal reservations of the time - the subsoil mineral rights remained vested in the Crown; lands were reserved for public works; and the shoreline areas necessary for the fisheries were exempted from the grants. The first reservation was largely empty, given the absence of commercially-viable mineral deposits, while the other two provided ample food for future disputes between the Island government and the landlords. In return for their grants the proprietors were to colonize and settle (on pain of forfeiture if they did not), and they were to pay quit rents to the Crown, starting five years after receiving their title.[3]

One year later the proprietors petitioned the Crown to have the Island constituted politically as a separate colony, citing communications difficulties with the mainland as a cause of laggard development. To create the fiscal basis for a separate government without it becoming an additional charge on the imperial purse, they pledged an early start to the payment of quit rents. At the time the British government was in the midst of a dispute over money with the Lieutenant

Governor of Nova Scotia - who, like his colleagues further south, had periodically overdrawn bills on his London agent. That likely made the imperial authorities even better disposed to a plan that seemed to promise development of the new territory without additional cost; and they therefore agreed subject to certain conditions intended to assure that the fiscal burden would not be shifted to the imperial treasury. For the next ten years, quit rents were to go to cover the cost of civil government i.e. mainly salaries; and if they were insufficient to cover them, salaries would be reduced. At the end of ten years the quit rents were to revert to the Crown once more, and the cost of civil governance borne out of general taxation. Development expenditures were, as the terms of the land concessions stipulated, to be handled directly by the proprietors.[4]

These arrangements profoundly affected the future fiscal and financial evolution of the Island. In the first ten years, only ten of the 67 proprietors complied with the terms of their grants; nine did so partially; and 48 neglected them altogether. In the first five years payments of quit rents met only two years of civil salaries. The resulting fiscal problems led in 1773 directly to the calling of the Island's first Assembly.[5] And it defined much of the contours of subsequent fiscal politics - including the Island government’s first formal recourse to paper money as a tool of public finance two decades later.

Fiscal politics were a complex social phenomenon from the start in Island history, with much more involved than a mere struggle between a landed and landless classes. While the Assembly was comprised heavily of persons to whom securing ownership of land became a passion, the early Governors and civil officials were also not enamoured of the fiscal delinquency of the proprietors - for the good reason that, apart from their own ambitions to own land, they wanted their salaries paid. Under the guidance of William Patterson, the first Governor, the Assembly demanded that the proprietors pay up the arrears of quit rents and threatened Escheat proceedings, an old legal process that made land revert to the Crown.[6]

The fiscal crisis led to two laws. One imposed the Island’s first tax - license fees and excise dues on the retailing of liquor. Its yield was expected to be slight, particularly since the Islanders were in effect taxing themselves to offset the fiscal delinquency of the absentee proprietors. The second provided for the seizure and sale of lands for non-payment of quit rents - much to the delight of certain officials who effectively exchanged their unpaid salaries for confiscated land. After much acrimony and lobbying from the proprietors, the imperial government agreed to a £3000 annual grant to defray the cost of civilian government.[7] Subsequently quit-rent receipts were to go to development. In effect the lobbying power of the absentee proprietors triumphed over Britain's desire to shift the burden of administration of its new territories onto the direct beneficiaries.[8]

But the new rules did not eliminate pressure from the Island government on absentee proprietors. In 1780 an Act was passed to facilitate the recovery of debts due from absent or absconding debtors by making property administered on their behalf by agents potentially forfeit; and the next year the statute was made applicable directly to land.[9] The resulting seizures set off a round of squabbling over the spoils among the Island officialdom, as well as new lobbying in London. When the Governor followed up in 1786 by a law that laid the basis for Escheat proceedings, his enemies on PEI and in London secured his recall and eventual ruin.[10]

Even though the new Governor, Edmund Fanning, was more sympathetic in theory to the position of the proprietors, fiscal realities blunted those sympathies in practice. The bulk of the proprietors still reneged on their obligations, while at least some of the quit rents that actually were paid ended up in the pockets of the governor and his officers without entering the official accounts.[11] The imperial government insisted on the principle of proprietors paying in full their quit rents while interfering with all serious efforts to make them do so. Indeed in 1790 the Crown explicitly directed the Receiver General *not* to try to enforce payments.[12] And when in 1795 the Island again passed laws to provide for land seizure, it was a futile gesture.[13] By then it was clear that the imperial government would block all serious efforts to enforce it. By that time the fiscal squeeze had interacted with a chronic currency shortage to force the Island government into deficit financing through paper bills of credit.

Problems of Currency and Exchange

Given the Island's isolation from the main currents of international commerce, the failure of the proprietors to develop their lands, and the lack of incentives for the tenant to do so, the normal state of affairs on a tenant farm in the early decades was family self-sufficiency at a low standard of living.[14] This was assured by primitive technique, poor soil maintenance and consequent rapid declines in fertility from an early period in a farm's productive life.[15] The first crop was usually timber, followed by potatoes (to assure subsistence) and wheat (to pay the rent).[16]

Although the bulk of economic activity appears to have been self-sufficiency oriented, the tenant family entered external exchange relations in two different but related ways. On the one hand it faced the local agent of the (usually absentee) proprietor who arranged and administered leases, collected rents (when they were actually collected in the early years), and arranged remittance of rents back to England. On the other hand it faced the country merchant who controlled local commerce.

From the country storekeeper the tenant family would "buy," to whatever degree its means allowed, the British and imperial imported goods - cloth, hardware, powder and shot, salt, oil, tea, pepper, molasses and, certainly not least, rum - to supplement and complement domestically produced goods. The merchant would extend credit to the farm family, and take as security a lien on future agricultural surpluses. Therefore to him the family farm would tender their farm and forest products, along with perhaps some direct labour services, to discharge the accumulated debt. Sometime, too, the roles of agent and storekeeper might be combined - the agent received rent on land in the form of those types of products that could most easily be sold for hard currency on international markets.[17] There was a striking analogy between early developments on the Island, and those in Ireland whose tenants subsisted on potatoes while exporting wheat to pay the rents their absentee landlords used to support themselves in style in London.

Throughout colonial America, the institution of the country store unique to its region tipped the balance of economic power in favour of the shopkeeper, particularly if, as sometimes happened in PEI, he combined it with the position of landlord's agent. But that economic power might be circumscribed by a communal bond. At least in the earliest days of settlement a shopkeeper would be more likely a *primus inter pares* than a person of higher socio-economic class. He might even be a part-time farmer or a skilled artisan as well, and in those capacities take part in the cooperative and reciprocal activities that substituted for the market in the organization of much of the community's economic life.

Thus William Schurman, a New York Loyalist who arrived on the Island in 1784, was described by occupation as a “farmer, merchant, miller, cooper, sawyer, blacksmith, magistrate and law-maker.” He started his business as a wage worker in another farmer’s sawpit, branched out to selling his own timber, then moved into retailing local and imported goods. Some goods he would “buy” from local producers: others he would arrange to have produced directly, sometimes with imported raw materials, in his own store. Hence at a time when he still sold his own skills for wages, he also hired labourers on a daily wage basis (payable partly in goods at his store), seamstresses on a piece-work basis, and domestic servants for a monthly wage plus keep.[18]

Schurman's ledger books give an interesting view of the operation of the price mechanism in a barter-based pioneer economy. Locally-produced goods tended to be fixed in price (both purchase and sale) over relatively long periods of time, probably reflecting at least in part the importance of the communal bond. Prices of imported goods were freer to fluctuate - chiefly upwards. Their prices would be set more by impersonal market forces; and increases in those prices would not threaten any communal social bond. Such price discrimination was only possible because of the existence of some degree of insulation of the domestic from the international economy. And it meant that merchants in the early years aspiring to greater profit margins would naturally focus their business on the exchange of local primary products for internationally traded goods.

This rather idyllic picture was clouded by debt. But debt, as in Québec under the seigneurial system, as in the relations between fishermen and merchants in Newfoundland, and as in exchanges between farmers and timber merchants in New Brunswick, was as much or more a social as a commercial institution. Debt would serve to bind a farmer to a particular storekeeper, reinforcing the effects of geographic monopoly. It also paid interest in the political arena, guaranteeing votes when a local storekeeper sought public office.

Debt would only serve such functions if there were an enforceable body of law to underwrite it. While the 1781 Act providing for the forfeiture of land in the case of nonpayment of debt was disallowed by the imperial authorities, the original 1780 provision for seizure of the property of absconding and absentee debtors, including that administered by resident agents, remained in force. And when the Island passed its first usury laws in 1785, imposing a 6% ceiling of chargeable interest (on pain of the creditor forfeiting the entire sum of the loan), exempted from it were all dealings in grain, cattle and other livestock, and mortgages on fishing boats.[19] These were precisely the instruments through which settlers contracted and settled debts to proprietors and storekeepers.

The country storekeepers were only the last link in a chain of debt and credit by which Island commercial life was conducted. The country merchants collected local produce and distributed imported goods. The actual international trade in those goods was conducted by the large merchant houses of Charlottetown who also played a central role in the foreign-exchange market and the public finances. After the introduction of an annual subsidy from Britain, the civil administrators could draw bills on the British government and negotiate the bills with the Charlottetown merchants for coin to be spent locally or goods. The merchants in turn could use the bills to help pay for imports from Britain. However in the early years an additional level of intermediation was provided by Halifax and Miramachi merchants to whom in the first instance the Island's demands for British goods would be directed – that made Nova Scotia treasury notes a factor in Island transactions. The ultimate link in the chain was Britain itself whose colonial trade houses sent imperial goods to the colonies on credit to be passed along the commercial chain all the way into the backwoods, and who were also the recipients of colonial primary products.

Given those structures of trade, P.E.I. which, much like New England or Nova Scotia, lacked a true export staple, found its commerce plagued by a shortage of specie. The impact was never felt evenly across all sectors of a North American colonial economy. Institutional and economic conditions often reduced the need for hard money, while societies proved adept at evolving alternatives. The Island was no exception.

In the rural areas, where the great majority lived, there was no demand for money as a store of value. Farmers' savings would go automatically into real investment in the form of capital improvements (land development and buildings) or in inventory accumulation (stores of potash, timber and grain). Nor was there much need for a medium of exchange. Much of the economic transactions occurring would be reciprocal and cooperative; and where market exchange took place, communal bonds permitted a personalization of the credit mechanism, especially through the country merchant's store. There, apart from direct bartering of goods and the tendering of labour services for payment, exchanges could be handled through the medium of book credit. Since harvests, and receipts for the products thereof, were annual while the farmers' needs (not least for rum) were more or less constant, storekeepers would allow farmers goods on credit over the year, then accept in repayment of the accumulated debt annual delivery of grain or more frequent deliveries of timber, potash and fish. Interest was charged by varying the accounting prices at which grain, fish and forest products were offset against debt.

There was a second type of transaction necessary in the countryside, based not on the exchange of goods and services but on unidirectional, redistributive payments - as tenants were called on to pay rent to landlords while some landlords became notorious for doing nothing for their tenants. Here, too, hard currency could be avoided. Sometimes rent could be paid in labour services - on roads, at sawmills, and, at a later period, at shipyards run by some of the agents of the landlords. Rent could also be met by direct tendering of produce, especially wheat with its well-established international markets.

In the urban sectors the demand for money would be proportionately higher. The possibilities of using book credit would be reduced by the absence of harvests to be mortgaged and by the greater depersonalization of economic relations. In the wholesale sector endorsed bills of exchange and private promissory notes would have some currency; but in the retail sector there was an inevitable problem posed by any shortage of coin. It could be partly alleviated by ingenious substitutes - the pounding flat and tendering of brass buttons, for example. And a deficiency of small change in circulating form might encourage customers at a retail store to take their change in the form of tots from the rum cask at the back.

The problems posed by the deficiency of hard currency were most acute in the sphere of international trade and in the related sector of public finance. Whenever the balance of payments was in serious deficit, and the demand for sterling bills exceeded the supply, the exchanges would move against the Island and its specie supply would take flight. The refusal of the proprietors to pay to the Island government their quit rents - which would have been remitted in specie or bills - could only exacerbate the problem. The specie shortage in turn would hamper the collection of taxes; and it was undoubtedly another reason why, in addition to the desire to avoid giving any fiscal relief to delinquent proprietors, the Island Assembly was loath to levy additional taxes. Ultimately it was the combination of a specie shortage and a need to raise money for public purposes that drove the Island to experiment with paper bills of credit.

Early Monetary Experiments

Before the Revolution, American colonies had adopted three main tactics to fight the effects of a specie shortage. One was to raise the local legal-tender value of coin, especially the Spanish dollar; a second was to use commodity currencies; and a third was to issue public bills of credit. The Island eventually attempted to follow suit with all three.

In 1785 the Island passed its first legal tender list, setting the value of the Spanish silver dollar at five shillings (the rating standard in all the British North American colonies except Upper Canada after 1791).[20] However the sterling value of a full-weight Spanish dollar was four shilling, six pence. Apart from the complications common in the colonies from the continued use of sterling units of account (pounds, shillings and pence) while the actual circulating medium was dominated by dollars and bits thereof, the one-ninth markup of local currency over sterling also complicated the question of landlord-tenant relations. Leases normally had their rental rates specified in sterling. The fear that the Island Assembly would follow the supposed example of the departed American colonies, and attack creditor interests by devaluating the currency, sufficiently alarmed the imperial authorities that they disallowed the bill.[21]

Even during the Napoleonic Wars, when Britain itself went off a specie standard and its currency badly depreciated, the Imperial authorities kept up the pressure. In 1798 the Island received a double warning. There were to be no changes in legal-tender values, ratings of coins or the ratio of gold to silver that would deviate from the sterling standard without express permission of the Imperial government.[22] And the governor of P.E.I., along with those of other colonies, was warned to be careful about any surreptitious devaluation of the currency standard that could follow the introduction of counterfeit and debased dollars then circulating in Canada, the West Indies and Nova Scotia. As the Colonial Secretary quaintly put it in a communication with Governor Fanning, "It is probable that the infamous Agents who may be engaged in the nefarious Traffic, will be principally confined to Jews of the lower Classes" who should therefore be carefully watched.[23]

A second means employed in the American colonies to alleviate the effects of the drain of specie was to use commodity money. Commodity currencies worked best when directly linked to the major staple trades - furs in New York or tobacco in Virginia. However P.E.I. had no staple. Instead it had a mixed bag of produce from farms whose main orientation was towards self-sufficiency. Under those circumstances, as experience elsewhere in America had shown, pinning down a commodity to serve as money was difficult.

Nonetheless there were attempts. In 1786, in one of his last official acts before being recalled, Governor Patterson addressed the Assembly on the problem of monetizing debt and relieving the specie shortage. He stated:[24]

The scarcity of specie subjects people in the payment of small debts to many hardships. And until our exports shall be more extensive I see no means to remedy this evil - unless you think it is proper to enact a law making certain produce of this Island such as fish, grain, lumber, etc. among ourselves a legal tender under certain well-guarded restrictions.

Nothing seems to have come from this first discussion of the use of "country paye." In 1795 the focus shifted to use of wheat, the Island product with the surest international markets, as a legal tender.[25] But the plan was deferred, ostensibly for a session, in practice forever.

The third expedient tried by the American colonies had an equally unpropitious debut on P.E.I., though in the longer run it was successfully reintroduced. As elsewhere in the British American colonies the rise of government was associated with the problem of financing a public sector deficit.

When the proprietors reneged on their quit-rent obligations, the imperial government partially covered the gap. In so doing it moved P.E.I. onto the same type of silver-exchange standard that the other colonies used. Local officials could draw sterling bills on imperial government departments and discount them with Island (or Nova Scotia) merchants who used them to make remittances abroad. But given the relative underdevelopment of the Island's productive forces on the one hand, and the drain of foreign exchange to cover rental payments and the import bill on the other, the specie supply was often at a crisis level.

Private promissory notes and endorsed bills of exchange performed some role as a fiduciary currency at the urban wholesale level.[26] But their specific denominations and dependence on the personal reputation of the issuer or endorser automatically limited their circulation. There were also in use some government debt instruments not originally intended as a circulating medium. Warrants issued in lieu of cash subsidies, for example to Loyalists to assist their settlement[27] and buy their loyalty to the Governor in elections[28] enjoyed a limited hand-to-hand circulation. However this circulation was fortuitous. That was not true of the first issue of public bills of credit in 1791.[29]

In 1790 two events coincided to make circumstances ripe for the first issue of public bills. First the Receiver General was instructed by the imperial authorities not to try to enforce payment of the arrears of quit-rents. Yet the budget was in deficit, while holders of warrants issued by the colonial government were demanding payment. On top came a bumper crop - which led to complaints of a shortage of specie to finance the movement of that crop. In response the next year the Island government issued £500 worth of zero-interest bills in small denominations suitable for circulation as currency and made them legal tender for public transactions, though not for private. In American experience the issue of such bills was normally accompanied by a vote of extra taxation to assure their eventual withdrawal. But the Island population had explicitly rejected tax hikes in the election of 1784. Nor was there any stipulation that the bills be redeemable in specie on demand at any point in their three year term to maturity.

However the issue was a failure. The government could force them into the hands of holders of treasury warrants but could not guarantee their further circulation - they were legal tender only for public transactions. The bills did not bear interest, which limited their use as a savings vehicle. There were no new taxes levied to create a demand for them as a means of public payment. Their potential to pay quit rents should in theory have given them some demand - tenants could tender them to landlords in payment of rent and the landlords might accept them since they in turn could use them to pay what they owned the government. But that mechanism would not work in practice since it was precisely the refusal of the proprietors to pay the quit-rents that caused the fiscal problem to begin with. Nor could lack of specie redeemablility assist circulation. The bills depreciated quickly; and even before maturity, plans were afoot to redeem them, along with all outstanding treasury warrants, in specie.

But that raised again the problem of the specie supply. And in 1792 Governor Fanning came up with another plan for dealing with it. Fanning had originally been chosen to replace Patterson in part because he was expected to have more establishment-minded views on the land question. Presumably those views would have also made him a monetary conservative. But his actual experiences on the Island appear to have changed his opinions. His attitude towards the absentee proprietors hardened - partly perhaps because of his own ambitions for land, and partly because of the experience of governing without adequate funds to discharge public responsibilities.

At the start of his tenure he had represented the imperial hard-money philosophy, but soon swung to the “inflationist” position. As he saw it, the shortage of money ossified the debt structure, keeping debtors in bondage to creditors, by preventing them from realizing on their property and converting it into forms that could be used to discharge debt. (“The want of currency on this Island,” he said, “renders it impossible for them to convert their effects into money.”) Among those adversely affected were the governor and civil officers themselves. They periodically complained that lack of money allowed the merchants to whom they sold their salary bills to fleece them by overcharging them for the goods they offered in lieu of cash. That also meant that the officials were trapped into dealing with only one merchant; since the inability to convert the bills into cash left them with no option but to take “payment” beyond their immediate requirements of goods in the form of a credit balance with the merchant who “bought” their bills.

Furthermore Fanning felt that the shortage of circulating medium and the resulting lack of incentives was responsible for retarding general economic development. In his opinion monetization of economic life, the breakdown of self-sufficiency conditions, and the commercialization of exchange would expand the overall rate of economic progress.

Drawing on the actual experience of some British Caribbean colonies in meeting their periodic flight of Spanish dollars, Fanning suggested a “successive annual exchange of the whole money of the Island.” Certain coins were to be imported and stamped exclusively for Island use, with heavy penalties for their export. The sum of stamped coin would be equal in value to the annual subsidy for the civil establishment. Bills to meet the official salaries would be sold locally for the stamped coin, to merchants who had to make remittances to England. The bills would depart, the coin would remain - and the next year the cycle would start again.[30]

The “revolving fund” plan was in some ways prophetic.[31] Its essential features - the specially stamped coin and the link of the stock of money to the annual inflow of funds on government account - anticipated for PEI what would mature some three decades later into the “one-currency-for-the-empire" scheme. From the point of view of the imperial authorities it held the advantage of eliminating the chance that P.E.I., like some of the New England colonies (New Hampshire was especially notorious), would "over issue" its paper and cause a depreciation. The revolving-fund type of scheme automatically linked the stock of paper to the flow of annual appropriations - which only the imperial authorities could determine. On the other hand, "stamping" the coins meant driving a wedge between the monetary system of P.E.I. and those of the other colonies at a time when Britain would be more inclined to preach the virtues of increased imperial economic integration on the basis of a freely functioning specie-exchange standard. The "revolving fund" meant an oblique form of exchange control.

Nothing was done to put Fanning's theories into operation. However, as a result of the debates and experience of the late 18th Century, there were two schemes under consideration. One had briefly operated; another remained purely theoretical; both pointed the Island's monetary future in quite different directions. Island-government inconvertible treasury-paper issued to finance deficits and put into circulation as legal tender for public-sector transactions meant that the government itself could control money-market conditions, and could use the Island's growing demand for money as a tool for financing development expenditures. On the other hand tying the supply of money to some exogenously fixed sum, be it annual appropriations voted by the imperial government or the stock of gold, meant the sacrifice of monetary and fiscal autonomy, and therefore control over domestic credit conditions - either directly to the imperial government or to the vagaries of the balance of payments. The two would have dramatically different political consequences.

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[1] Lt.Gov. W. Robinson to Earl of Kimberley, Blue Book for Prince Edward Island, 1871: Journal of the Legislative Assembly of Prince Edward Island (JLAPEI), 1872, Appendix O

[2] Every historically oriented treatment of the Island necessarily contains much material on the land question. See for example, F. Mackinnon, *The Government Of Prince Edward Island* (Toronto, 1951); N. Macdonald, *Canada: Immigration And Settlement 1753-1841* (Toronto, 1939); D. Campbell, *History Of Prince Edward Island* (Charlottetown, 1875); Errol Sharpe, *People's History Of Prince Edward Island* (Toronto, 1976); and A.H. Clarke, *Three Centuries And The Island* (Toronto, 1959)

[3] Quit rents were a feudal hangover. They were originally a cash payment to the sovereign in consideration of certain villein obligations. Later the term came to mean any payment which absolved the tenant of land of personal obligations to the lord. Quit rents were, like seigneurial dues in Canada, a visible token of submission. And while they were also a source of revenue for the Crown or government, they were not "rent" in any modern sense. They were a fixed annual sum not related to the market value of the land or its produce. (N. Macdonald 207) The actual terms for the quit rents were between two and six shillings per 100 acres of farm land; two to three for pasture; while town lots were to pay five to seven per annum. Payment on half the land was to begin within five years of the title being granted, payment on all was to be in effect at the end of ten years.

[4] A. Warburton *History of Prince Edward Island* (St. John: 1923) 141-2; Blue Book op. cit. App.O. The original estimate of quit rent receipts was put at £1,470 stg. per annum, and the salary list made out accordingly. Presumably total receipts would be expected to double at the end of twenty years and thereafter remain fixed.

[5] For the election of the first Assembly there was no voter qualification beyond religion and residency. After a great deal of drinking and fighting, 18 stalwart farmers were elected who convened in a local tavern. The town constable, drafted as sergeant-at-arms, could not refrain from remarking, "This is a damned queer Parliament," for which he was fined five shillings by the indignant Assembly. (Mackinnon 41)

[6] Escheat is an obsolete legal process whereby land title reverted to the Crown, in the case of freehold, or to the lord of the manor, in the case of copyhold, usually on the death of the holder without heirs, though also in the event of non-fulfillment of certain obligations.

[7] Campbell 30; Warburton 151

[8] On the fiscal wrangles of the period, see esp. Macdonald 101-7; F.L. Pigot, *John Stewart Of Mount Stewart* (Summerside, 1977) 6; F.W.P. Bolger "The Beginnings of Independence" in Bolger (ed) *Canada's Smallest Province* (Charlottetown, 1973); D. Weale and H. Baglole, *The Island and Confederation: The End of an Era* (Charlottetown, 1973) 27-8

[9] Stat. P.E.I. 20 George III Cap.9, 1780

[10] Stat. P.E.I. 26 George III Cap.9, 1786. This law was more moderate than earlier ones in so far as it stipulated that any difference between the arrears of quit rents that led to the seizure and the proceeds of lands auctioned was to be returned to the former owner. this would seem to preclude direct seizure of land by officials with salary bills unpaid.

[11] Pigot 6-10; Sharpe 51; Macdonald 101-7

[12] Macdonald 109

[13] Stat. P.E.I. 35 George III Cap.8, 1795. This law was even milder than that of 1786, for it gave persons whose lands were seized two years to pay up before their lands were sold.

[14] On the question of the nature of early leases, obscurity of land titles, and their effects on economic development, see variously Mackinnon 105; B. Greenhill and A. Gifford *Westcountrymen in Prince Edward's Isle* (Toronto, 1967) 37; and W.S. MacNutt, *The Maritime Provinces: The Emergence of Colonial Society 1712-1857,* 173.

[15] Clark 63-9

[16] F. Schwartz "An Economic History of Prince Edward Island" in H. Baglole (ed) *Exploring Island History* (Charlottetown, 1977) 75

[17] Greenhill 40; Sharpe 63 .

[18] See G.A. Leard "Rum 'N Ribbons" *Historical Highlights*; Historical Society of Prince Edward Island, Charlottetown: 1956

[19] Stat. P.E.I. 20 George III, Cap.9, 1780; 25 George III Cap.6, 1785.

[20] Contrary to North American colonial practice, when the issue of the ratings of coins came up in Council, the consensus was to fix it at the sterling/specie ratio. Of course this may reflect the fact that the first Assembly was still a few years in the future, and with it pressure from the general population for a higher rating to dollars. (Council Board, Council Chambers, Charlottetown, Oct.11, 1770. Adam Shortt Papers Volume 56 Public Archives of Canada.) Council and Colonial Office documents cited below are, unless otherwise specified, from the Shortt papers.

[21] R. Chalmers, *History of Currency in the British Colonies* (London: 1895) states that the one-ninth spread continued from 1785 forward. In fact it seems as if the Island managed to introduce it surreptitiously, not through the disallowed Legal Tender Act, but through its Revenue Act.(Stat. P.E.I. 25 George III 1785 Cap. 4) which defined "lawful money" as 5 shillings per dollar.

[22] Portland to Fanning 8 Dec. 1798; Colonial Office Records P.E.I. G.267, 10

[23] "Publick Office" Worship St. 14 Dec. 1797; C.O. Records PEI G 267, 92; Portland to Fanning 26 May, 1798 C.O. Records P.E.I. G. 267 ,.95.

[24] Council Board, Council Chambers, Charlottetown, 8 Nov. 1786, C.O. Records P.E.I. Series B vol. 8; Warburton 206

[25] Council Board, Council Chambers, Charlottetown 3 March, 1795 .

[26] Council Board, Council Chambers, Charlottetown 30 March, 1774.

[27] Council Board, Council Chambers, Charlottetown 30 Nov. 1793.

[28] See the references in note 12, supra.

[29] Ross (128) and Warburton (252) date the first issue at 1790. This appears to be a mistake. Authorization for the first issue came late in 1790 (Journal of His Majesty's Council in General Assembly, Charlottetown, 10 Nov. 1790; C.O. Records P.E.I. C, Vol.2 pp.204-5); but the actual issue came the next year under the authority of Stat. P.E.I. Cap. XVII, 1791. (Fanning to Granville 23 May 1791. C.O. Records P.E.I. A, Vol. 11. pp. 102-6)

[30] Fanning to H.M. Council, 7 Nov. 1792, C.O. Records P.E.I., C., Vol.3, .6-7; Warburton 252

[31] It was not an unprecedented scheme. In the early years of "playing card currency" in New France, the stock of currency was linked to the size of the annual appropriations expected from France. However the playing card currency, once redeemed, could not be reissued. Later, in the 18th century, monetary schemes in New France did use reissuable paper, albeit with the same theoretical link to the annual subsidies coming from France for the use of the colonial government authorities. In one sense these schemes were intrinsically more credible than that of Fanning; for simply stamping silver and gold coins would not preclude them being exported as bullion. New France had also briefly experimented with a coin specially minted for the colonies, but it was restricted to copper.

IV: DEBT-BONDAGE AND BARTER, 1802-1825

Throughout the pioneer stage of Island settlement, unresolved disputes over land tenure and quit rents constrained economic development and hampered the government. Since the proprietors paid no rents, while their tenants did (as well as undertaking all capital improvements by themselves), every indulgence granted the proprietors by the Crown not only embarrassed the imperial government's own officials on the Island, but also acted as a de facto tax on the tenants, and therefore as another disincentive to the investment of time and effort in improving land.[1] And every concession by the imperial government robbed the Island public purse of funds needed for public works and infrastructure.

But while political conflicts raged between officials, landed proprietors and tenants in different combinations, the sole outcome seems to have been the accumulation of more arrears of quit rents. By 1802 these totaled nearly £60,000, allegedly double the sum for which the entire Island would sell. And the issue had reached crisis dimensions from everyone's point of view.

Land Tenure and Public Finance

The Island Assembly, populated by elected representatives of the tenants and manipulated by successive Governors, used the existence of unpaid quit rents to demand Escheat. The executive arm of government, comprised of appointed officers of the Crown, was often drawn from the ranks of resident landlords or agents of the proprietors. Hence it was torn - between siding with the landed class on the quit-rent issue, and agreeing with the Assembly that unpaid quit rents impeded the proper functioning of government. Furthermore for the executive branch, the unpaid rents meant another political embarrassment. The imperial subsidy paid salaries - but development expenditures were to come from the quit rents. And in their absence the only source of additional revenue would have been extra taxation: that required the assent of an Assembly which might seize the opportunity to demand action on questions of development that the executive felt were best ignored.[2]

Across the Atlantic the proprietors also hoped for a settlement of the dispute. They claimed, naturally enough, that the arrears were beyond their ability to pay; but they also noted that the arrears prevented them from selling their lands, since if even a small portion of the total grant were sold, it would carry an obligation to discharge the entire sum of the arrears on the whole.[3] Furthermore, at a time when land enclosure and the Industrial Revolution were creating in Britain a massive problem of maintaining the unemployed on the Poor Relief rolls, some imperial strategists was coming to the view that colonization within the empire was a solution. Yet the existing proprietors were notoriously lax in carrying out their settlement obligations.

The outcome was the 1802 "reform" of the system.[4] The arrears of quit rents were reduced in proportion to the number of settlers introduced onto the land. For the proprietors it was a triple victory. By pushing settlement, they simultaneously reduced their arrears, increased their rental income, and raised the capital value of the land - which became easier to sell. Although payment of the reduced burden of quit rents was shirked with as great a sense of public responsibility as before, the 1802 settlement did pave the way for extensive sales of land. From 1802-06 nearly one third of the total land changed hands. Some of the new landlords, like the Earl of Selkirk, not only settled their new acquisitions, but also bought yet more land over the years to come.[5] Thus pauper migration and greater land monopolization went hand in hand, exacerbating social tensions while leaving the public purse bereft of benefit.

In an effort to coax the proprietors to develop their land, the new rules also stipulated that in the future unpaid quit rents of more than a year's standing would permit the seizure of land and its auction to the highest bidder, the proprietor getting any balance of sale price over arrears. But the new proprietors, certain of their political influence, emulated the old in ignoring the law. In 1803 the Island Assembly called for the establishment of a court of Escheat; and the next year Governor Fanning proceeded against 17 proprietors - only to be stopped by imperial intervention. The Escheat Act was disallowed and Fanning was soon recalled. Fanning's successor also tried to move against the proprietors to force them to pay for local improvements - and was also blocked. He, too, was soon replaced by D.C. Smith, under whose governorship extra-legal action by the tenantry began.[6]

In 1818 the Crown received another petition from proprietors pleading poverty, but with a new twist. Backed by the signatures of prominent Charlottetown merchants, the petition argued that the shortage of specie on the Island prevented proprietors from paying.[7] The logic was convoluted; but there was a legitimate point, one well-known in the monetary history of New England. The currency shortfall meant that that local proprietors, like taxpayers, would have difficult meeting their obligations in hard currency - and P.E.I., despite earlier debate, had not established provisions for payment in kind of sums due the public treasury. And the Crown was apparently sufficiently impressed by the local proprietors' logic, or the absentee proprietors' lobbying skill, that it waived all of the arrears accumulated from 1802-1816.

At the same time the Crown declared that in the future there would be half-yearly collections on the basis of a new scale that it would draw up. It never did. Yet when Governor Smith began to collect on the basis of the old scale, the Crown intervened once more, to force him to refund part of the money. And it announced that in the future proprietors had the option of paying in Charlottetown or in London. That decision created a major political division between local and absentee proprietors. The local ones would be vulnerable to action by the local authorities; and the absentee ones could continue to discuss the possibility of future payment of the quit rents with Colonial Office officials over port and cigars in the finest London clubs. The results took little time to manifest themselves.

In 1822 the Island government proceeded against several resident proprietors and extracted from them ten-day promissory notes. When a soft grain market prevented them from being able to meet the notes, Governor Smith seized and sold their land. However the beneficiaries turned out to be not the tenants (who saw land title simply transferred from one set of proprietors to another) nor the public purse. The real beneficiaries were ambitious local landlords who added the auctioned land to their existing holdings, and members of the Island legal profession who pocketed in legal fees virtually all of the proceeds of the land sale.

Problems of Commerce and Exchange

The petition of the Charlottetown merchants that had set off the latest tussle over land tenure, made reference to an "alarming scarcity of specie," indicating that even as late as 1818 the problem of a deficiency of circulating medium was still hampering Island exchanges. Indeed that problem had probably intensified. The 1802 accord had initiated a new phase in the Island's economic development in which pioneer modes of economic transaction that had economized on the use of money were on the decline.

During the Napoleonic Wars, and especially after the Continental System of 1807, Britain was cut off from its normal sources of grain and timber. It also saw some of its European markets for manufactured goods closed, threatening higher domestic unemployment at a time of acute social tension. Furthermore impressment of fishermen into the navy disturbed its supply of fish and strategically important marine mammal oils. The combined result was a veritable revolution in the commercial relations between Britain and its North American colonies. The opening of a mass timber trade across the Atlantic benefited the Island both directly as a supplier of timber, and indirectly as a supplier of oats (to feed horses), wheat (to feed timber-men) and seasonal labour (to feed the timber camps) to New Brunswick. To Newfoundland's rapidly growing seal oil industry, P.E.I sold schooners as well as agricultural produce. The Island schooner-making industry also facilitated the development by Island merchants of their own coasting trade, permitting them greater commercial autonomy from Halifax and Miramachi which had traditionally dominated their external trade.[8]

This transformation of Island external commercial relations inevitably affected its internal economic life. Until the early 19th Century the self-sufficient family farm would generate little surplus except that necessary to pay rent or purchase from the country storekeeper those goods that could not be manufactured domestically. After 1807 more and more Island economic activity was pulled into an exchange network - but on terms that maintained, perhaps reinforced, the structures of debt and dependence already in place. However debt ceased to be primarily an instrument of social control, and became increasingly the mechanism through which economic power was wielded and by which commercial exchanges were effected.

Prior to 1802 proprietors did not pay their quit rents to the Crown, and often the tenants would not pay ground rents to the proprietors. Indeed most of the early land seizures seem to have been at the direct initiative of officials seeking payment of salary arrears or land holdings of their own, rather than being prompted by tenants' agitation - perhaps reflecting a tacit agreement between tenants and landlords to do nothing to upset the arrangement of nonpayment in which both lived.

After 1802, with new. more commercially aggressive figures figuring in the ranks of the proprietors - Lord Selkirk and the Nova Scotian tycoon Samuel Cunard prominently among them[9] - the proprietors still did not pay quit rents to the Crown, but the tenants were expected to pay ground rents to the proprietors. Before 1802 store debt was likely the most important incentive the tenant-farmer had to produce surpluses for "sale; after 1802 those surpluses had to be large enough also to cover the rent. Furthermore the specific commodities in which rent would be paid seem to have become more precisely defined - wheat, timber, fish or labour services especially in the saw mills and schooner-building businesses the agents or resident proprietors would run.[10] And those rent-commodities, chosen in accordance with the prevailing structure of international trade, harmed the Island agricultural economy.

It had long been known that the most advantageous crop for the Island's soil was oats. From the outset Governor Patterson had enthused over its potential; and in 1813 Island oats actually commanded a premium over mainland in the Halifax market.[11] Wheat was an inappropriate crop for the Island's soil.[12] But oats found only regional markets and were sold on a barter basis[13]; whereas wheat could command hard currency in international markets. It therefore became the crop of preference in which rents were collected - adding the problem of inappropriate crops to an agrarian economy characterized by “slovenly, often wretched” technique.[14]

The alternatives of paying rent in timber or labour were no better, perhaps worse, from the point of view of agrarian development. Wheat meant poor crop selection: timber and labour might mean no crop at all. In response to the post-1807 commercial changes, landlords offered to new tenants land on which rent was made payable explicitly in cut timber or in labour in the landlord or agent’s boatyard. Apart from detracting from agriculture, timbering and boatbuilding reinforced the debt-bondage economy since current receipts often failed to cover current expenditures. Furthermore by forcing the farmer to spend more time on peripheral activities, they reduced his capacity to meet his consumption requirements domestically, therefore increasing dependence on goods from the agent’s store. Increased consumption of store goods was not necessarily an index of an increase in economic welfare - especially in conjunction with bad farm technique, it could mean just the opposite.[15]

In the pioneer era the appropriate stereotype was of the “independent” yeoman farmer, bartering farm produce with a local country storekeeper to whom he was linked by communal bond as well as by commercial debt. Such exchanges were really an extension of reciprocal and cooperative economic relations typical of pioneer communities, albeit they were also impinged upon by market forces operating from outside the farm community. But with the intensification of external trade and the commercialization of land holding, the “independent” yeoman farmer gave way to the de facto debt-peon working in a resource-based putting-out system under the control of merchant-agents. The growth of the “free-market” in the Island’s external commercial relations meant the loss of autonomy in its internal commercial relations.

Debt was the key. Debt was no longer a personal or social bond. In the hands of merchant-agents it became an instrument of economic control that would pass on to new owners when an estate and the store(s) associated with it changed hands.[16] And debt was bound to remain endemic in a commercial society where a shortage of cash continued to prevail - despite period attempts by the Island government to alleviate it.

Monetary Experiments

Thus the post 1802 evolution of the Island economy brought with it increasing division of labour, specialization of production and commercialization of exchange. But it did so without the increasing freedom to respond to market stimuli that would have been the natural adjunct of these developments in a monetized economy. The centre of exchange remained the merchant-agent’s ledger book: rents were collected in kind, and the produce sold abroad to generate the hard currency to remit to proprietors as rent payment.[17]

Given that development remained de facto a fiscal obligation of the tenants and the Island government, given the refusal of landlords to pay quit rents, there seems little doubt that the proprietary system institutionalized a net drain of hard currency from the Island. Indeed one enterprising absentee landlord-cum-timber merchant took the process one step further when, in 1813, he gathered up a group of would-be-émigrés in Scotland, relieved them of their cash in exchange for notes of the Bank of Prince Edward Island, and sent them on their way. They arrived to find no such bank (its namesake was not formed for several decades) and therefore no way of redeeming the notes.[18]

During the early years of the century there was little or no initiative from the government towards monetizing the economy, despite the fact that Governor Smith reported to the Crown that at the time of his arrival on the Island it was "absolutely without circulating medium."[19] Partly this inaction may have reflected Governor Smith's feuds with the Assembly, and his refusal to call it for years at a time. By the early 19th Century, it was from the Assembly, dominated by tenant interests and by representatives of an emerging Island "middle class," where action to break down the debt-bondage and barter economy would be expected to originate. By then, in response to increased commercial activities and periodic seizures of land from absentee proprietors, officers of the executive branch of government were so often drawn from the ranks of domestic landowners. Yet even the Executive branch found itself in an ambiguous position. The annual subsidy from England that paid their salaries still came in bills of exchange that had to be sold for cash locally, and there was still a problem of collecting customs and excise taxes in a colony with an acute shortage of coin. These were problems for the public sector that wartime conditions accentuated.

During the Napoleonic wars, and for several years beyond, Britain was on an inconvertible paper standard, and the pound depreciated sharply against specie. The result in all the colonies was to encourage the remitting to Britain of silver rather than bills to cover rent payments and import costs. On top came the problem of military spending which drove up prices of local produce.[20] The Island officials found that on top of the more or less normal problem of perceiving themselves to be fleeced by merchants to whom they had to trade their salary bills for goods and for a credit line, they were also caught between rising prices and a depreciation of 20-25% on sterling bills.[21]

To meet the crisis Governor Smith tried three expedients. First he ordered the import of Bank of England dollar tokens, and tried to force them into circulation at their legal sterling value even though their intrinsic specie content was well below that level. And the Island government, for the first time in over two decades, had recourse to a form of treasury paper. The Island government had traditionally issued warrants for specific sums to persons to whom it owed money; and, when the treasurer could not meet them in specie, the holders could either discount them privately for cash or accept their endorsement into interest-bearing securities. During the war and currency famine, the Island government began issuing its warrants not in the form of specific sums, but in uniform denominations of five pounds each.[22] These denominations were too large to permit a general circulation; but they represented a tentative step back in the direction of financing a deficit by issuing paper money.

Governor Smith's third response to the currency crisis, with the prompting of the Board of Trade, was to draw a lesson from Governor Fanning's book of monetary memoirs, namely the "revolving fund" concept. He combined it with a device tried and tested by Governor Macquarrie in New South Wales and by the governors of some of the Caribbean colonies - the institution of the Holey Dollar.[23] Spanish silver dollars, whose intrinsic value was four shillings, six pence sterling before the depreciation of the paper pound, were imported into P.E.I.; their centres were punched out; the centre parts, known as "dumps," were put into circulation at the value of one shilling; and the main part of the coin, the Holey Dollar, was circulated at a nominal value of five shillings. All other coins had to be officially devalued pro rata.[24] It was assumed that with the currency value of a distinctively mutilated coin set so far above the intrinsic value, the coin would not seek sunnier climes. Instead, on the theory of the 1793 "revolving fund," the debased and devalued coin would remain on the Island and be exchanged for depreciated bills on the imperial treasury whenever merchants or agents needed the means of remittance to Britain.

Unfortunately the Holey Dollar scheme fell afoul of a combination of official ineptitude and Island enterprise. The punched out centres were too large, so that their intrinsic specie content was nearly double what it should have been. An Island merchant then began to gather up "dumps" and ship them off to England as bullion for reminting - an enterprise only aborted when the ship carrying the "dumps" was lost at sea.[25] Furthermore the scheme inspired entrepreneurial counterfeiters to import dollars with large centre pieces removed, and trade them for sterling bills for a healthy profit at the expense of the imperial treasury.[26]

Counterfeiting proved such a major problem that in less than a year after their issue, the Island Treasurer announced the pending recall of the punched dollars.[27] With the recall in 1816 of the Bank of England dollar tokens,[28] the numismatic legacy of Governor Smith, though certainly not his political legacy, came to an end. Indeed, it was the return of the Island to its normal state of currency famine that prompted Charlottetown merchants in 1818 to petition the Crown against Smith's efforts to collect quit rents, a petition that may have influenced the Crown's decision to waive all the pre-1816 arrears.[29]

Yet although the old debt-bondage and barter system, operating through rent paid in goods and labour and through the ledger books of the country storekeeper, seemed to survive the period of war and commercial upheaval more or less intact, social and economic forces were taking shape that would soon cause its overthrow. The pressure would come from a rising "middle class," in P.E.I. no less than in the other colonies of British North America, whose demands for fiscal and political reform would echo those of their equivalent class in Britain itself. Their concurrent demands for economic reform would force the monetization of commercial relations and the spread of "free" markets, and thereby the demise of the old debt-bondage and barter system.

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[1] Macdonald 120
[2] John Stewart, *An Account Of Prince Edward Island* (1806; reprinted New York: 1967) 283
[3] Macdonald 109
[4] Stat. P.E.I. 43 George III Cap.2, 1802
[5] In a passage appalling even by the standards of Canadian hagiography, M. S. Sage relates of the Selkirk settlers: "Each family was allotted 50 to 150 acres for a very moderate price. Lord Selkirk, an enlightened reformer, ensured the settlers' personal pride in their new land by not giving the lands to them free. From the beginning the greatest responsibility for the settlement was handed by Selkirk to his settlers." (*Lord Selkirk's Settlers in Belfast, Prince Edward Island* Charlottetown, 1979, 15.)
[6] Sharpe 63; Macdonald 110ff
[7] Petition of the Merchants of Prince Edward Island to the Crown, 24 Jan. 1818; C.O. Records 226, P.E.I. Vol.34, 61
[8] Greenhill 19; Leard 84. Wm. Shurmann, for example, added a schooner operation to his other businesses and began running the oats and other produce received at his store to Miramachi
[9] By 1823 of 67 lots in the original division, only two and a half were held by the original grantees. Six new landlords, including Selkirk and Samuel Cunard, held fully 36 lots. The new landlords sometimes sold land - one quarter the price was paid up front, with the rest bearing 5% interest. After half had been paid, a deed in fee simple

was issued. Most, of course, was leased, with the terms of the leases reduced sharply from the old 999 years typical of the first generation of proprietors, to the 40 years typical of the new. See S.S. Hill, *A Short Account Of Prince Edward Island* (London, 1839)

[10] Although fish could sometimes be tendered for rent, the industry was backward. It was conducted on a share-cropping basis with equipment rented to the fishermen by merchants in exchange for a lien on the catch. One problem that arose was the fact that, contrary to the terms of the original settlement, landlords often extended their grasp to include the shoreline.

[11] Warburton 166, 273

[12] Clark 76, 116

[13] J.L. Lewellen, *Emigration: Prince Edward Island* London, 1833) 23

[14] The farm techniques were described by contemporary observers as very poor. (Lewellen 15) These observations are seconded by modern historians (Greenhill 93) Boundary fences were rare; livestock wandered loose in the woods; the choice of field crops was bad. One exception is Macdonald (109-110) who claims that the 1802 settlement had an immediate and dramatically positive effect on the Island's social development.

[15] Timbering, despite its seasonality, was the scourge of stable agrarian development, leading one contemporary observer to colourfully denounce it as an occupation which "begets dissolute habits and is a nursery of moral depravity." (Lewellen 23) Sometimes farmers would be required to complete timbering contracts even in planting season; and the lack of boundary claims and obscurity of titles encouraged the ranging at will of axe men. Boatbuilding could be directly competitive with farming in terms of the seasonality of labour (Greenhill 37; Hill 50)

[16] Greenhill 72

[17] See, for example, Council Board, Council Chambers, 21 April, 1806; C.O. Records P.E.I. B, Vol. 10 p.38 for the granting of an export license to an agent who had to make his remittances across the Atlantic in produce

[18] J.B. Palmer to Lt. Gov. Smith 4 March, 1813; Executive Council Minutes Vol. 3, C.O. Records, P.E.I., G.310, No.13, 6

[19] Lt.Gov. Smith to Lord Bathurst, 1 April, 1817, C.O. Records P.E.I., G, 310, No.13, .6

[20] Initially Britain tried to maintain a specie standard with military and naval expenditures at least in the Atlantic colonies, without drawing on specie from Britain itself. The device used was the practice of having paymasters draw bills, at the depreciated market rate, against holdings of specie and bullion taken from American ships by privateers and naval raiders, and deposited in the Courts of the Admiralty in the various colonies. (Bathurst to Officer Administering, Government of Prince Edward Island, 12 Sept. 1812, C.O. Records, G 269, P.E.I. 1812-1817, p.69). Apart from the obvious problem of the uncertainty of specie supply, the institutionalization of the gap between the local specie-exchange standard and the official sterling rate would actually serve to encourage the flight of specie to Britain. Hence the benefit of increased military expenditure in the colonies would be translated into higher prices without doing much to alleviate the long term problem of a shortage of specie.

[21] Chief Justice P.E.I. to Bathurst, 26 Nov. 1812; C.O. Records, 226, P.E.I. Vol.23, 1812, 170

[22] Min. Exec. Council, P.E.I. 14 June, 7 Sept., 22 Sept., 1813; 2 Jan. 1816; C.O. Records P.E.I. 226 Vol.3

[23] On the recommendation of the Board of Trade, Macquarrie ordered through the East India Company, £10,000 in silver dollars which he converted into Holey Dollars. The colonial government then undertook to exchange them for imperial bills on London every two years. (E. Shann, *An Economic History Of Australia*, Cambridge, 1934, 54; S.J. Butlin, *Foundations Of The Australian Monetary System 1738-1851*, Victoria, 1953, 8)

[24] Min. Exec. Council P.E.I. 7,22 Sept.1813; Adam Shortt to A. L. Trigge, 8 Jan., 8 Oct. 1920; J. Metcalf "Prince Edward Island, Hard Times Currency" *Canadian Antiquarian and Numismatic Journal* Second Series I, No.3, Jan. 1890; Ross I 127-8, 424

[25] L.C. Callbeck *The Cradle of Confederation* (Fredericton: 1964) 133; Metcalf passim; Ross I 127-8

[26] Report of the Commissioners Appointed ... to Examine into All Matters Connected with the State of the Currency, JLAPEI, App. E 1847 (hereafter cited as P.E.I. Currency Commission 1847. Pages not numbered in report.)

[27] Min. Exec. Council P.E.I. 7 May, 1814; C.O. Records P.E.I. 226 Vol.3 p.138 ; Min. Exec. Council P.E.I. 2 Aug.1814, 15 June, 1814; C.O. Records P.E.I. 226 Vol.3, pp.147,152. The Holey Dollar scheme was approved by Council on 7 Sept. 1813; the last date on which Holey Dollars were legal tender was 28 Sept. 1814

[28] P.E.I. Currency Commission 1847

[29] See note 7 supra. This petition, signed by prominent Charlottetown merchants who were the foreign exchange market, stated that "as the late Resources of Remittances being stopped, we have many of us, been obliged to remit considerable sums in Cash, which has occasioned an alarming Scarcity of Specie."

V: THE POLITICS OF MONEY, 1825-1838

Voices demanding “Reform” on the Island, like those in Britain itself, focused much of their attention on gaining access to the levers of fiscal and monetary control, until then mainly in the hands of the old elite of officials and local landlords grouped around the governor. Once in control of those levers, they could use them to further their own economic and social ends. Not least of their demands would be the creation of institutions that would increase the supply of money and monetize exchange relations, helping to break Island domestic commerce free of the debt-bondage and barter system. This meant the creation of a genuine market to which rising business interests would have access on a par with the old merchants-cum-agents.

Island “Reform” was more feasible in conjunction with similar developments within Britain. Recall of Governor Smith in 1825 coincided with a major wave of reforms in British colonial administration. These proceeded on a number of fronts. Liberalization of the Navigation Laws permitted colonies to expand their trade on a multilateral basis; and decentralization of fiscal control within the empire gave the colonies freedom to impose their own customs tariffs on top of the imperial ones. In effect Britain, in the midst of a middle-class tax revolt provoked by the burden of war debt, sought to push onto the colonies a greater responsibility for their own maintenance. That in turn required concessions in the direction of greater fiscal self-government.[1]

However these moves in the direction of liberalization of commercial and fiscal control coincided with a tightening of financial ties as Britain set out to assimilate colonial monetary systems to that of the imperial centre. In effect the “free” operation of the foreign exchange market on gold standard principles was to replace legislative prohibitions and the British navy in assuring Britain's commercial hegemony.

The Triumph of Gold

The metropolitan financial system to which the colonies were expected to accommodate themselves had itself changed dramatically from the late 18th Century. During the Napoleonic wars Britain had suspended specie payments. From 1816 to 1821 specie payments were slowly resumed - but with a difference. The war had seen Napoleon overrun the Netherlands, and the centre of world finance shifted from Amsterdam to London, whose emerging merchant banks stood ready to handle the fiscal requirements of colonies and sovereign states alike. The war and postwar upheavals in Spanish America had also seen a sharp decline in the role of the silver dollar, hitherto the dominant medium of international trade. In its place came the pound sterling backed by gold - for Britain, in the process of restoring specie payments, enthroned the gold standard and reduced the role of silver to simply tokenism.

Yet the actual process of restoring specie payments was far from uncontroversial. During the wartime suspension, the pound had depreciated against specie; and the debate that depreciation engendered strongly influenced the future legislative development of both British and colonial monetary institutions.

In 1810 the Bullion Committee - on which sat Francis Baring, the most powerful merchant banker of the era, William Huskisson, soon to be the dominant voice among Tory reformist circles, and Henry Thornton, perhaps the era's most distinguished monetary theorist - reported to Parliament its view that the issue of inconvertible paper notes had driven specie out of circulation and caused both a depreciation of the foreign exchange value of the pound and inflation of the domestic price level. Although the recommendations of the committee were rejected by the House of Commons, the gist of its report became the core of the position of the postwar hard-money advocates led by David Ricardo. This group, known as the Currency School, argued a theoretical position based on an interpretation of both British wartime experience and that of the American colonies - where the issue of inconvertible paper had allegedly driven specie out of the colonies and caused the exchanges to depreciate. The Currency School therefore argued in favour of a strictly gold-backed currency, fully convertible on demand, with a reserve of gold fixed at a high ratio to the actual issue of notes.[2]

It was not unopposed. Followers of the contrary position, the so-called Banking School, argued that other, autonomous factors affected the balance of payments - like a wartime harvest failure and a financial panic - causing the drain of gold and the depreciation of the pound; and that as long as paper money was issued by banks through the discounting of bona fide trade bills (bills of exchange attached to the actual movement of commodities), regardless of whether or not it was convertible, the supply of money would automatically accommodate itself to the needs of trade. The Currency School contended that paper money issued in excess pushed up prices; the Banking School argued that inflated trade conditions manifested themselves in inflated prices and pulled up the money supply.[3]

The debate was long and bitter, particularly since the resumption of specie payments was accompanied by a severe deflation and followed, in 1825, by a major financial crisis. Not until a new inflationary wave ended in yet another crash in 1837-8 did the balance of political opinion seem to swing decisively in favour of the Currency School - and cause a major rewriting of British financial regulations. Until then colonies like Prince Edward Island were given some scope to experiment with various monetary regimes, subject always to the whims and changing fancies of the imperial authorities as the debate over the future course of Britain's own monetary system swung to and fro. However on one crucial point the debate had already been settled - namely Britain's adherence to a gold-based international monetary standard, while its colonies were still effectively tied to silver, a monetary contradiction which actually produced a window of fiscal opportunity for the imperial authorities.

When Britain adopted gold mono-metallism, it rendered redundant much of its own silver coinage. Faced with an array of colonies with disparate monetary standards, mainly dollar based but with circulatory systems flooded with the flotsam and jetsam of the numismatic world, Britain conceived a scheme to unify the colonial monetary systems, shift them from a dollar to a sterling-based coinage, and rid itself of its own superfluous silver.[4] “One currency for the empire” also meant a resurrection and generalization to all the colonies of the type of “revolving fund” plan proposed by Governor Fanning for P.E.I. and instituted, briefly, by Governor Smith when he adopted the Holey Dollar.

The silver coin rendered superfluous in Britain was to be shipped to the North American colonies and spent for imperial purposes at a legal tender value greater than its intrinsic specie value. Britain would gain fiscal relief from the overvaluation of the coin in which it was meeting its civil and military obligations in the colonies; and those colonies would benefit from the alleviation of their endemic currency shortages. After the initial shipment of coin, military and civil expenditures by the imperial officials in the colonies would be met by drawing bills on the imperial treasury and selling them at the rate of £103 per £100 of silver coin to colonial merchants - who in turn would use the bills (payable in gold in Britain) for remittances.[5] Presumably all further temptation of the colonies to encroach on the imperial prerogative of issuing money would cease.

For a variety of reasons, not least the reluctance of the colonies to give up their varied accounting systems or to abandon the Spanish dollar, the plan met resistance and was never implemented.[6] Nor indeed is it clear that it could have worked. Trade imbalances between colonies could have precipitated intercolonial flights of specie. Furthermore the U.S. and Spanish America still used silver on a par with gold - when the exchanges were sufficiently adverse, the silver could flee the colonies at its bullion value for refuge elsewhere. Nonetheless the plan represented an important chapter in colonial monetary history both because certain of its principles were instituted, albeit in somewhat different form in years to come, and because of the expression of imperial intent to exercise some control over colonial monetary systems that lay behind it.

Evolving Pattern of Island Trade

Despite the demise of the first direct postwar effort by the imperial authorities to restructure the colonial exchanges, the liberalization of imperial trading regulations coincided with pronounced changes in the pattern of Island trade, and therefore impinged indirectly on its monetary system. It was a period when the Island's external commerce diversified. As late as the mid-1820s 75% of Island exports were timber and small ships, the rest mainly wheat - these exports reflected the principal instruments by which rent and store debt were paid off. But by the 1830s two major changes in the pattern of trade were taking shape, both of which meant a more efficient use of resources.

One was the growing importance of oats in Island exports. Oats meant a more rational pattern of land use and would in the future become the backbone of a minor revolution in agriculture and commerce. The second was the rapid progress of shipbuilding conducted by professionals, rather than being based, as the old schooner-building business was, on the labour services tendered by farmers in payment of store debt and rent. Both of these developments seem to indicate a growing monetization of transactions that permitted farmers greater independence of action.[7] And they may concomitantly have helped alleviate - though certainly not completely solve - the old chronic balance of trade deficits.

Population growth along with diversification meant a more complex pattern of trade. To Britain went ships and cargos of timber, oats, wheat and potash; from Britain came manufactured goods, tea, hardware, dry goods and the essential fittings and capital goods for the shipbuilding industry. Even into the late 1830s trade with the other British colonies exceeded that with Britain by a factor of three or four times. The Newfoundland schooner trade was still flourishing, and despite the impediments to the development of an Island commercial fishery by the proprietors' unlawful extension of their control to embrace the coastline, there was a small direct trade to the West Indies exchanging fish for rum, molasses and similar produce.[8] But much of the intercolonial trade consisted of transshipments of goods from or bound to Britain.

Throughout the 1830s, the Island still registered very large trade deficits. Indeed given the ease of smuggling of rum - the customs and excise on which was the foundation of the public purse[9]- the actual trade deficits likely exceeded the measured ones. Offsetting the trade deficit however were the earnings from export of ships - which were not included in the trade data until the 1850s.[10] But if ship exports in the 1830s did sometimes offset much of the commodity trade deficit, in most years they could not have done so completely. Contemporary observers continued to report that trade deficits produced a "scarcity of coin;"[11] and advice to would-be emigrants included the information that in 1833 specie on the Island was at a ten percent premium.[12]

Balance Of Commodity Trade
pounds sterling

	Imports	Exports	Deficit
1830	56,430	33,589	22,841
1831	63,827	42,536	21,291
1832	70,068	31,740	38,328
1833	93,338	35,129	58,209
1834	111,596	41,192	70,404
1835	61,155	47,215	13,940
1836	90,760	46,974	43,786
1837	82,908	37,235	45,673
1838	94,548	62,419	32,129

Commodity trade data do indicate a striking growth of Charlottetown as a commercial centre, especially for the import trade; whereas commodity exports (and presumably ships, which would reinforce the pattern) were less heavily concentrated. In fact the outports could be running substantial trade surpluses, while Charlottetown was heavily in deficit.

International Trade 1837

Port	Exports	Imports	Surplus/Deficit
Charlottetown	15,285	64,458	-49,263
Malpeque	4,703	3,820	+ 883
Casumpeque	2,164	1,814	+ 350
Bedeque	5,782	3,287	+ 2,495
Three Rivers	5,343	7,714	- 2,371
Colville Bay	2,356	2,359	- 3

The result was a triangular payments pattern - the outports earned surpluses which the Charlottetown money-market would absorb when the outports purchased imported goods. This pattern was a prelude to the hegemony Charlottetown would exercise over the Island credit system once the debt-bondage and barter system had been replaced by money payments.

The Struggle For The Public Purse

In 1825, when the "one currency for the empire" scheme was abandoned, the Island made arrangements for the new issue of government paper-money. The precipitating factor was the struggle for control of the public purse that had broken out between the Assembly and Executive in the wake of Britain's liberalization program of the early 1820s. In fact that program, which ceded to the colonies the right to impose their own customs duties independent of and in addition to those of the metropolis, made the issue of whose was to control the revenues politically that much more important.

While the principle that money bills had to originate in the Assembly had long been accepted in the theory of colonial government, in practice there were many impediments to popular control of the finances. One was the fact that the imperial subsidies and various other revenues including those quit rents that were paid, went directly to the Executive branch, making much of its normal functioning independent of Assembly control. A second was that for a long time the Executive insisted on its ability to subject money bills that did originate in the Assembly to an item by item scrutiny.[13]

While there had been earlier tussles over the question, it came to a head in 1825 when the Assembly sent all of its appropriations for the year to the Council in a single bill.[14] And the impasse, which threatened to freeze all government spending, was broken by recourse to the printing press.[15] Some £5,000 in notes of £5/0/0, 2/0/0 and 1/0/0 denominations were issued, (later modified, on the request of shopkeepers finding the shortage of small change hampering their business, to include £500 in ten shilling notes as well.[16]) Persons presenting warrants issued by government departments would be paid by the provincial treasurer in gold, silver or treasury notes at his pleasure.

This practice differed from that of the old Thirteen Colonies, for they had tended to issue notes either through government loans on security of mortgage to farmers, or in bounties, or in the form of pay and purchase of supplies for the militia. The Island had no farm mortgage lending facilities - land purchase arrangements, when they were made, being handled by agents of the proprietors; and the imperial government handled all military supplies. Hence the notes were issued to finance the cash-budget deficit. The notes in turn were to be receivable at the Treasury or at the collectors of provincial customs in discharge of sums due the province for fees, taxes or customs and excise.

In form the treasury-note issue was similar to that of 1791. The main differences were in the provisions for reissue and redemption. With the 1791 scheme once the notes were paid into the treasury they could not be reissued - the 1825 notes could be, subject to a general time frame for redemption of the entire issue. Every fiscal quarter notes could be presented for payment in specie. If the Treasurer could not meet them, he could convert them into interest-bearing certificates with a fixed term to maturity; and the notes against which these securities were issued could not be reissued. Furthermore at the end of three years, all of the notes had to be redeemed in specie - though in reality at the end of three years a new law extended their life for another three.[17] In keeping with standard practice, counterfeiting was punishable by death without benefit of clergy.

Not so standard, though, was the fact that the Treasurer was rewarded for handling the issue by a commission of 1% of the value of all those issued, over and above his usual remuneration - decidedly a “soft money” measure since it was equivalent to giving a central banker a direct pecuniary reward that was proportionate to the size of the money supply he produced. It also created the interesting possibility that the Treasurer, even with specie supplies available, would insist on meeting all warrants in notes instead of cash, while he diverted the provincial stock of specie into his private business deals. That such was more than just a theoretical possibility was attested to by the fact that in 1830 the Treasurer was expelled from the legislature for mismanagement of the public funds; while the same year a statute was passed explicitly prohibiting the Treasurer from acting as a private banker or bill broker or otherwise dealing in public monies for his private benefit.[18]

Perhaps the most important feature of the note issue was the fact that, although prompted by fiscal considerations, its incidental effect was to create a monetary base for the Island that, being de facto though not de jure inconvertible, to some degree insulated the Island credit mechanism from the state of the balance of payments. And the year it was instituted was precisely the year that the “one currency for the empire” scheme, which would have meant just such a tight integration between international exchanges and internal credit, was withdrawn.

The continued life, based on periodic renewing legislation, of the treasury paper coincided with deepening squabbles between Assembly and Executive. In 1827 and again in 1828 the Executive rejected general ad-valorem duty bills passed by the Assembly, a fiscal squeeze followed, and the notes were renewed. Then in 1830, 1831 and 1833 yet further issues were voted. But by that time the imperial authorities began to toughen their stance.

It was the land question that prompted London's move to restrict Island paper-money issues. During the 1820s and 1830s pauper migrations caused the Island squatter population to rise, at the same time big landholders like Cunard and the Selkirk estate were extending their grasp. Moreover the division of responsibility between Charlottetown and London played havoc with land titles - which seizures, sales and reversals, together with simple fraud further complicated. Some tenants appear to have been left in the position of paying rent to more than one proprietor. Demands by the Assembly that the Island fisheries be opened to development flew in the face of the illegal extension of their holdings by landlords, with the tacit assent of London, to include the reserved shoreline. And there was still the unresolved question of arrears of quit rents.

In fact the imperial government, consistent with its new policy of making the colonies pay the full cost of their own civil administration, itself decided to get tough on the quit-rent question. Tory reformist William Huskisson, Secretary of the Board of Trade, had ordered the collection of quit rents in specie. But the Governor countered by pointing out that specie was so short in supply that it had risen to a seven percent premium over paper and bills, and this additional cost would fall most heavily on “the inhabitants and small proprietors.”[19] In 1827 the proprietors were granted another four year reprieve, but before it expired the Assembly took action.

By the mid 1820s the Assembly was not so adamant on the question of payment of quit rents per se. Tenants had agitated on the question not so much out of a desire to see them collected - an objective of early Executives - but more to use nonpayment as grounds for seizing land, the first step towards its possible redistribution on a freehold basis. Tenants had legitimate fears that any success the imperial government had in collecting from the landlords would just lead to the burden being passed on to them in higher ground rents - since these rents were mainly collected in kind, there was some scope for surreptitious increases in rent regardless of what leases stipulated. Nor in the political context of the 1820s could the Assembly have been pleased with the prospect of enhancing the fiscal independence of the Executive branch. Instead it took a different tack.

In 1830 the Assembly pointed out that customs receipts were insufficient to finance government public works, and that the proprietors gained from such public expenditures by increased capital value of their land without making any contribution to the cost. It therefore passed the Land Assessment Act, levying an acreage tax, the revenues from which, unlike any theoretically due from quit rents, would fall into the hands of the Assembly. And it requested that the imperial government do for the Island what it had already done for Nova Scotia, abolishing quit rents altogether.

Then in 1833 the Assembly made a threefold bid for fiscal control. First it passed a road building act that permitted the government to sell off as much of a proprietor's land as was necessary to finance construction of roads through his property. Since in the past roads had been built and maintained by the statute labour of tenants who saw their work enhance the value of a landlord's land, the new law was symptomatic of the drive towards both land redistribution and the monetization of transactions. Second, it passed a land tax to take effect when the 1830 Land Assessment Act expired. Land taxes imposed at a differential rate on developed and undeveloped land would give more revenue to the Assembly and push more of the burden of development onto the proprietors: they would be encouraged to either sell off their wastelands or open them to new tenants.[20] Third, it passed a £5,000 (i.e. 50%) increase in the treasury note circulation, a move which would both generate more public money for development and further encourage the monetization of transactions.

The proprietors' lobby and the imperial government went to work on all three measures. The land taxes were disallowed outright. The road-building bill was watered down in such a way that the proprietors still had control over the statute labour of their tenants.[21] And the new note issue, unlike any of its predecessors, was attached specifically to the Land Assessment Act in such a way that for each of the five years from 1833 to 1837, £1,000 of the revenues from the tax had to be pledged to redemption of the notes.[22] The next year Britain followed up by disallowing a bill that would have cancelled the annual withdrawal of £1,000 in notes.[23]

In short, it was a complete route for tenant interests. The route was compounded when Britain refused to allow the establishment of a court of Escheat at a time when quit rent arrears stood at £145,000 (a total of £6,000 having been paid in 66 years), and further refused to grant the Assembly control over the appointment and salaries of civil servants. A rent strike began in 1834. Escheat agitation grew, led not just by tenants, but also by the Island professionals and businessmen who sought to break down the political and economic structures of the old order. The disturbances were particularly alarming to the authorities, since they came at a time when the political temperature in the Canada's was also rising. To cool the situation, two different governors asked the proprietors for concessions - longer leases, greater security of tenure, remission of arrears of rent. With no concessions forthcoming, in 1838 the Escheat Party, headed by William Cooper, a farmer, miller and shipbuilder, captured 18 of 24 Assembly seats.

That was the high point of Escheat agitation in the Island Assembly - and it was checked by imperial obdurateness, by the desertion of the more "respectable" wing of the colonial Reform movement, and by the beating the Island took in the financial crisis of 1838.

Monetary Experiments

One of the concessions that governors had tried, without success, to wring from the proprietors had been the right of tenants to pay rent in produce at market prices. The very fact that the governors thought such a concession would help quiet agitation for Escheat is an indication of just how far developed the independent market had become on the Island. Prices in cash terms by then must have been set sufficiently regularly as to constitute a potential reference point independent of the debt-bondage and barter sector in establishing the value of Island produce. And apparently there was sufficient of a gap between "prices" set by the two that it could prove a focus of tenant agitation as well as of proprietary obstructionism.

The tenants desire to participate in the free market likely reflected more than the presumably higher returns. It might well mean greater freedom of economic choice; and it could be a source of cash savings, as the debt bondage system never could, with which to eventually buy land. An 1833 tract advising prospective immigrants noted that coin exchanged for goods on the Island commanded a 10% premium, while "double the labour may be hired for money than any other mode of payment would command."[24]

It was inevitable then that monetization of transactions would be a central political objective of reform interests. Since the supply of specie was beyond the control of Islanders, they naturally turned to those elements in the money supply, private and public, over which they could exercise some influence. In taking the opportunity to expand the money supply by a series of expedients, the Islanders were not engaged in a conspiracy to defraud the creditor class through inflation - as hard money advocates had been wont to assume in similar situations. Nor was the objective inflation of prices set by autonomous markets. Rather it was the very creation of the means by which autonomous markets that could set such prices could be brought into existence. What was at stake was an effort to substitute the anonymous market for personalized power in setting prices - and, as the governors' requests indicated, that might well entail lower prices than those set by the debt-bondage economy. Furthermore, to the extent that Islanders sought to use the printing press to achieve liberation, it was not by eroding the real value of commercial debt through inflation, but by eliminating the interferences in individual economic choice that the debt-bondage and barter system permitted.

In 1833 the imperial authorities had checked the expansion of the treasury notes by decreeing that the new issue, representing a 50% increase in the publicly issued money stock, had to be withdrawn over five years through the proceeds of the Land Assessment Tax. It was the first time that the principle, common in the monetary history of the Thirteen Colonies, of matching increased note issues with new taxation, was applied to the Island. Although the imperial counterattack meant that the public money stock would peak in 1837 and then begin to fall, the

Island snuck in a partial reprieve by a 1835 law that made all treasury notes, except those specifically secured on the land taxes, perpetual.[25] Thus treasury notes to the total of £11,500 became a permanent part of the P.E.I. financial system.

That event, coming as it did in the midst of a North American bank promotion mania, helped stimulate public debate over currency matters as well as a series of rather peculiar private banking experiments in P.E.I. The provincial *Gazette* had long supported paper money. In the absence of a competing Charlottetown newspaper, the opposition viewpoint tended to be expressed by Halifax's *Nova Scotian* which referred to permanent Island notes as "pickpocket currency" - only to draw a defense of Island paper by some Charlottetown merchants who insisted that it was beneficial to domestic commerce while producing only minor problems for international exchanges.[26] Then in 1836 the arrival of the *P.E.I. Times* shifted the focus of the debate to the domestic arena, by which time the questions themselves had been complicated by the advent of the first approximation the Island had seen to fractional reserve banking institutions.

The first of these was a private bank run by a merchant, James Haszard, who began using the now permanent (and de facto inconvertible) provincial notes as cash reserves to back his own issues of paper money.[27] Since Haszard was also the proprietor of the *Gazette*, that journal's pro-paper money stance becomes more readily explicable. Furthermore, ownership of the newspaper likely paid the additional dividend of giving Haszard access to one of the very few printing presses likely to be found on the Island, a handy circumstance for someone intent on proving the practical as well as the theoretical advantages of paper money.

However lack of access to a printing press could not long deter the truly enterprising. Soon Haszard was joined in the money-manufacturing business by a cobbler named William Fitzpatrick who revived a medieval European practice of issuing money made of leather![28] Pieces of sheepskin were marked in two shilling, sixpence denominations and stamped with the words:

> I promise to pay the Bearer of this note, on demand at my office,
> the sum of Ten Shillings in a Treasury Note of this Island,
> on producing four of these Leather Notes.
> - Wm. Fitzpatrick

Getting the sheepskin currency into circulation might have taxed the imagination of less poetic individuals than Mr. Fitzpatrick. But next door to his cobbler's shop was a general store run by James Reddin. And a newspaper ad of the period carried Fitzpatrick's boast:

> Though Haszard first did strike the type,
> My leather has outdone his quite.
> There is a merchant in this town,
> Will cash my notes for ten thousand pounds.

In strict principle there was nothing different between the leather notes and the mechanism by which they entered circulation, and a normal bank note of the era - save that the bank note was redeemable in specie on demand, while the leather notes were redeemable in Island paper, and therefore ultimately backed by the credit of the provincial government. Hence Fitzpatrick's further poetic if ungrammatical boast:

Nothing like leather was said of old,
But I have made leather as good as gold.[29]

The business of money making also attracted those whose interest was the coinage. While the minting of gold and silver were the prerogatives of the sovereign, there were no such legal barriers to the production of brass and copper. Local craftsmen and merchants would put their own coins in circulation. Thus, Peter McCausland, a country merchant who also ran a farming and fishing business, and who dealt extensively with the Acadian settlers at Rustico, had copper coins cut from sheet copper, stamped "PEI," and put into circulation, redeemable at their face value for one penny's worth of goods at his store. Similarly a local tinsmith, Denny Macarthy, put pennies of his own manufacture into circulation. In all of these instances, from Haszard's paper to Macarthy's tin, what was at work was a process by which local businessmen, for private profit and to expand their own trade, were increasing the scope and range of monetary transactions and thereby eroding the foundations of the debt-bondage and barter system. They were also anticipating the day when private manufacturers of money, this time banded together in banking corporations would attempt, successfully, to deprive the state of the privilege of issuing the society's means of payment, and therefore open the door to a new form of debt-bondage, this one inextricably linked to the emergence of a monetary economy.

Others were not as convinced of the merits of "making money" as were the architects of these schemes. The emergence of leather money backed by a fractional reserve of inconvertible Island government treasury notes heated the monetary controversy further and brought a petulant letter to the *P.E.I. Times* from "Cosmopita" exclaiming:[30]

We are obliged to have recourse to the wretched and miserable scheme of Leather Money, and paper money, and notes of hand, and by and by I expect to see birch bark and shingles made use as a circulating medium.

Of course there was another, somewhat more respectable means of confronting the shortage of coin - namely devaluation of the local currency standard against sterling. In theory Britain refused to sanction any change in the Island standard. The devaluation that had formerly attended the Holey Dollar scheme was officially reversed when the coins were withdrawn. But in reality British coin circulated at a premium of 25--33-1/3% over its official rate; and the Island Treasurer accepted and paid out coin at its current, not at its official value. (In reality since the good dollars and the modern British silver had virtually all migrated, that coin was old French and British silver and Bank of England dollar tokens left over from the Napoleonic wars.) Continued pressure on the Island exchanges from the trade deficit led in April, 1836 to yet another unofficial devaluation - this one the work of Charlottetown retailers who simply met to deal with the problem of the dearth of small change by advancing the premium on sterling to fully 50%. While drawing little comment at the time, the devaluation would be a source of great controversy in the years to come.[31]

All of these events led to a public meeting in Charlottetown at which both Haszard and

Fitzpatrick were present to explain the merits of their schemes for augmenting the Island money supply. The response was mixed. Some favoured paper money; some opposed it on principle. Hard money advocates advanced the usual arguments that paper money made for government extravagance, and drove specie out of circulation. The soft-money advocates were also present. One speaker linked the issues of Escheat, development of agriculture, and the issue of small denomination paper. But the bulk of opinion endorsed the view that that irredeemable paper was bad, that it would depreciate and drive specie out of the province. How it was possible to drive out specie that did not exist prior to the issue of paper money was not clear. Even the governor of the Island in his private correspondence maintained that the depreciation of the Island currency was not caused by the issue of paper, but by the balance of trade deficit that drained out specie.[32] Nonetheless the meeting terminated in a resolution to petition the legislature to ban irredeemable paper.[33]

The legislature responded with an act stipulating that any private promissory notes then in circulation and nominally payable in treasury notes, were to be treated under the law exactly like any other promissory note, giving the bearer the absolute right to sue for recovery of the sum in specie. It also banned all promissory notes for sums under £5/0/0 unless issued in respect to bona fide debts. In other words, instead of a debt being created by the issue of a promissory note, as happened in the case of bank notes, private promissory notes could only be issued in respect to debts otherwise created, for example, by commercial activity.[34]

The Imperial Response

While public debate over the merits of the public paper and its private spin-offs was in progress, imperial officials, unhappy over the lack of redemption facilities for most of the paper, were planning the modification of the system and its eventual demise. In public the *P.E.I. Times* continued to lament that the treasury notes were ruining the Island's foreign trade.[35] Meanwhile in private, imperial officials were quite aware of the value of the notes to domestic trade; and they imputed the fact that none of the notes were presented for redemption to public confidence in them.[36] They therefore decided to leave the notes in place for the time being while preparing the groundwork for their replacement by something more in keeping with the principles of "sound money" then gaining increasing favour in Britain.

The antipathy of imperial officials to Island paper must have increased when they realized that the Island had managed to defeat the purpose of the 1833 restriction by using a different form of debt.[37] For while the Island was cooperating in phasing out £1,000 of notes per annum, it was also financing its budget deficit by the issue of treasury warrants. These were a security similar to a British Exchequer bill.[38] They bore six percent interest and a guarantee that on maturity they would be redeemed - in treasury notes. Therefore the imperial assault on Island paper contained both a fiscal and a monetary component. The Imperial officials complained of the overall growth of floating debt and requested that the Lieutenant Governor pursue the liquidation of existing warrants and prevent increases in debt in the future.[39]

Public Floating Debt
pounds currency

Year	Treasury Notes	Treasury Warrants	Total

1835	16,500	...	16,500
1836	15,500	1,110	16,610
1837	14,500	5,094	19,554
1838	13,500	6,548	20,048
1839	12,500	7,115	19,615
1840	11,500	10,082	21,581

The strategy for dealing with treasury notes was more complex. It involved the injection of enough specie into the Island to permit redemption in cash; the encouragement of private banks of issue that would operate on a gold-standard basis; and the shift of provincial borrowing practice away from floating instruments and towards use of funded debt.

To increase the Island's supply of specie the authorities went to work on the flow of funds on military account. In 1836 the Island governor requested the commander in chief at Halifax that in the future the Island's tiny garrison be paid in specie rather than in bills In an appeal to the commander's soldierly rather than commercial instincts, the governor insisted that specie payments would help preserve discipline among the troops "…which the absence of small coin has here a direct tendency to destroy by almost compelling the Soldiers to receive Spirits in exchange for the smaller notes."[40]

In other words, since the bills were traded for treasury notes, and the smallest denomination of those notes was ten shillings, the merchants who received the notes from soldiers used the proverbial rum cask for making change. One suspects the governor of either disingenuousness or naiveté in his apparent assumption that specie would affect the garrison's thirst rather than just broadening the choice of locales in which it would be quenched. Nonetheless the request was granted; specie payments were introduced.[41] And a similar provision was made for pension payments to half-pay officers living on the Island, who had long joined the officials in complaining that merchants used the shortage of specie to unload overpriced and unwanted goods on persons tendering bills for payment.[42]

With the Island specie supply thus augmented, part of the groundwork was in place for the emergence of banks issuing specie-redeemable demand notes. In 1836 the imperially chartered Bank of British North America, then in the process of establishing branches in Canada, Nova Scotia and New Brunswick, had established an agency at Charlottetown under the management of the Provincial Treasurer[43] - a rather obvious conflict of interest, not to speak of possible scope for violations of the 1830 law forbidding the Treasurer to engage in private banking activities with public money. An agency was a far cry from a branch - only a branch could actually issue paper money. The year after the decision to pay the troops and pensioners in specie, the bank announced its intention to open such a bona fide branch in Charlottetown.[44]

However the international financial and commercial crisis of 1837-8 intervened: the general bank promotion mania in North America ground to a halt; and the Bank of British North America delayed its expansion plans - in the case of P.E.I. it delayed them forever. But other moves were soon afoot to shift the Island monetary system onto a gold basis.

[1] An excellent account is in A. Brady, *William Huskisson and Liberal Reform* (Oxford, 1928)
[2] For good summaries see A. Feaveryear, *The Pound Sterling* 2nd ed. (Oxford,1963) and Viner, op.cit.
[3] Despite the name "Banking School," most bankers actually leaned to the Currency School position. See B. Johnson *The Politics Of Money* (London, 1970) 31-35
[4] See the account in A.J. Baster, *The Imperial Banks* (London, 1929)
[5] Treasury Chambers Circular No.89 12 Feb. 1825, G 271 P.E.I., .35; Bathurst to Lt.Gov. John Ready, May, 1825 G 271 P.E.I. .24-31; Lt. Gov. Ready to Bathurst 24 Nov. 1825, G 312, P.E.I. .10
[6] See especially Adam Shortt "One Currency for the Empire" *Journal of the Canadian Bankers Association* VII, No.4, July 1900
[7] An 1830s commentary by Hill (pp.50-1) lauded the development of a professional shipbuilding industry with the words: "...thus the principle of a just division of labour, not being violated, both the farmer and the shipbuilder acquire the legitimate profits of their distinctive avocation while their combined labours contribute to the general welfare of the colony." In reality the rise of shipbuilding might not have completely liberated the farmer from the old division of labour, for presumably he was still the chief source of the timber that fed the industry
[8] Lewellin 19-20; Hill 53
[9] Warburton 207 reports that in 1830 total tax revenues, of which liquor provided the great bulk, were £1,890
[10] Greenhill 123; Clarke 64. Both of these authors assume that ships exported cover the commodity trade deficit, but without proof. Greenhill himself notes (194) all of the difficulties associated with measuring the contribution of ships to the Island trade balance
[11] Hill 49. He adds the hope that Island agriculture will improve and exports along with it, so that "the Island will soon export more than is necessary to cover its necessary importation."
[12] Lewellin 19-20
[13] Lt. Gov. H.V. Huntley to Lord Stanley 12 May, 1845: Mackinnon 68
[14] Campbell 75
[15] Stat. P.E.I. 5 George IV Cap.18, 1825
[16] Stat. P.E.I. 6 George IV Cap.12, 1826
[17] Stat. P.E.I. 9 George IV Cap.1, 1828
[18] Mackinnon 49; Stat. P.E.I. 11 George IV Cap.16, 1830
[19] Lt. Gov. Ready to Lt. Gen. Sir George Murray 30 Sept. 1828; C.O. Records P.E.I., G 312, p.143. Ready pointed out that by 1828 specie was no longer in general circulation and that where it did exist it consisted of old French and British silver plus Bank of England tokens left over from the Napoleonic wars
[20] Bolger "The Demise of Quit Rents" 103-114; Campbell 87-8; Sharpe 80
[21] Macdonald 110-118
[22] Stat. P.E.I. 3 Wm. IV Cap.13, 1833; Lt. Gov.A.W. Young to Lord Glenelg 18 Nov. 1835; C.O. Records P.E.I. g 314, 15
[23] *Currency Commission of 1847*
[24] Lewellin 27
[25] Stat. P.E.I. 5 Wm. IV Cap.11, 1835
[26] *Nova Scotian* 1 Oct. 1835
[27] *P.E.I. Times* 2 April, 1836
[28] *Nova Scotian* 25 May, 1836; Ross I App. II
[29] Metcalf 98
[30] *P.E.I. Times* 2 April, 1836
[31] Currency Commission of 1847
[32] Lt. Gov. Young to Glenelg, 18 Nov. 1835. C.O. Records P.E.I. G 314, 15
[33] *P.E.I. Times* 16 April 1836
[34] Stat. P.E.I. 6 Wm. IV Cap.3, 1836. The theoretical distinction was clear enough. Defining the boundaries in practice could be quite another matter. The most compelling evidence that the loopholes in the law were readily appreciated can be derived from the fact that among the prominent issuers of private promissory notes printed up formally on plates for general circulation after the act was passed, were £5/0/0/ notes issued by a leading judge and executive councilor.
[35] The *P.E.I. Times* (9 April, 1835) took the line that the notes caused the exchanges to depreciate and ruined Island trade. Even if that were true depreciation resulted, it is not a priori clear that depreciation would hurt rather than expand Island external commerce.
[36] Lt. Gov. A.W. Young to Lord Glenelg 18 Nov. 1835; C.O. Records, P.E.I. G314
[37] Lt. Gov. J. Harvey to Lord Glenelg 17 Sept. 1836; C.O. Records P.E.I. G 314

[38] British Exchequer bills, though similar in principle, were in several ways quite different from Island warrants. The British bills were not a floating debt since they were secured on specific revenues; and their issue was managed by the Bank of England which would cash bills for its own notes on 24 hours notice. (Binney 127)
[39] James Stephen et al., Treasury Chambers, 8 March 1836; JLAPEI, 1836 pp.47,48,59
[40] Harvey to Glenelg 17 Sept. 1836; C.O. Records, P.E.I. G 314
[41] Harvey to Sir Colin Campbell: Delancey-Robison Collection IV 1836 p.104; ASP-PAC
[42] Lt. Gov. Fitzroy to Glenelg 2 May 1837; C.O. Records P.E.I. G 314
[43] *Nova Scotian* 12 Oct. 1836
[44] Harvey to Glenelg 2 May 1837; C.O. Records P.E.I. G 314

VI: Maturation Of The Currency-Finance System, 1838-1851

The crisis of 1837-8, in P.E.I. no less than in the other British North American colonies, represented a watershed point in their political and financial development. Across British North America radical wings of the Reform movement reached the apogee of their power, were checked and went into decline. But so too did the representatives of the old order against whom radical opinion ranged itself. With the explicit backing of the imperial authorities, power increasingly shifted to "moderate" Reform groups led by rising business interests - loyal to the imperial connection, opposed to radical action on social questions caused by the structures inherited from an earlier age, but adamant in their demands that those social questions be resolved along directions more in keeping with the principles of economic and political liberalism then gaining in acceptability.

With respect to the Island those changes meant the progressive dilution of the political power of the old order of absentee proprietors and their agents, at the same time monetization and the rise of an autonomous market eroded the foundations of their economic power.[1] The moderate Reformers, eager to promote private ownership and free-market activity, demanded action on the land question, specifically the encouragement of freehold tenure - although they would not endorse the radical option of Escheat. They also pushed for monetization of the economy - but through the use of financial instruments that the imperial authorities would accept as more in keeping with the principles of "sound money" than Island precedents had been.

Evolution Of The Public Finances

The crisis of 1837-8 ended several years of easy credit conditions and rapidly spreading banks of issue throughout the Americas. In P.E.I. the aftermath saw both the phasing out of some of the monetary experiments build on inconvertible treasury paper, and the failure of the Bank of British North America to proceed with its plans for an Island branch. On the one hand, that left P.E.I. free to continue to develop its own system of government paper. On the other, the crisis swung more opinion in Britain, and in the Colonial Office and Treasury, around to hard money views. The crisis and its aftermath were specifically blamed on loose banking practices and easy credit.

It took little time for monetary controversy to break out again on the Island. Prior to the crisis, the Island legislature had begun restricting use of private promissory notes, limiting the range of their denominations and forcing their redemption in specie. While the measure was taken under pressure from those demanding more monetary restriction, incidentally it would also have opened up space for further issues of Island government paper money if the imperial authorities permitted them. Then in 1839 the Assembly tried to ban completely the circulation of private promissory notes - only to run into obstacles from a Council that had been happy to concur in the earlier restriction.

The problem here was that, while nominally aiming at all promissory notes, in fact the measure banning their use had one specific set of notes in mind, namely those issued by the Cunards of Halifax, a family that not only figured among the most prominent absentee proprietors, but also controlled much of the Island's external trade. Much of that trade still passed through Miramachi on the mainland where the Cunard branch issued promissory notes to pay for produce imported from the Island and to pay the émigré Island workers in its timber camps. The notes that entered the Island's commerce through its exports of goods and labour were then used by Island merchants to purchase imports from the Cunard branch in Halifax. Banning the notes meant a blow against the power of a major absentee landlord and in favour of freeing Island external commerce from the control of a mainland merchant house, as well as perhaps opening more space for the use of Island government paper.

The Council objected, seeing the Assembly's move as directed "to the prejudice of an Individual rather than against the System." The Council also insisted that, in the absence of a chartered banks, the Cunard notes fulfilled a vital role in the Island's external trade which treasury notes could not duplicate.[2]

Despite this check to the Assembly's ambitions, the currency-finance system built on treasury notes did proceed to its ultimate sophistication in the years to come. Partly this reflected fiscal need. The budget surpluses that had been used to redeem treasury notes in the 1830s gave way in the 1840s to persistent deficits, and with them a steady rise in the Island's floating debt. Partly it reflected the fact that, although the imperial authorities were committed to enshrining hard money systems in the colonies, P.E.I. was partially insulated by a lieutenant governor, Fitzroy, who was sympathetic to the use of inconvertible paper currency.[3] Hence currency-finance on the Island was left free to develop a coherence and sophistication hitherto unknown in the American colonies.

Island Government Cash Budget
pounds currency

Year	Revenue	Expenditure	Surplus/Deficit	Floating Debt
1835	9,819	7,495	+2,324	16,500
1836	11,513	8,682	+2,831	16,610
1837	11,113	9,424	+1,689	19,594
1838	11,565	11,821	-256	20,648
1839	17,012	13,692	+3,320	19,615
1840	16,371	15,633	+738	21,581
1841	13,699	15,838	-2,139	23,708
1842	13,745	17,751	-4,006	26,345
1843	13,876	21,308	-7,432	28,447
1844	15,041	21,874	-6,833	32,777
1845	16,092	21,076	-4,984	37,723
1846	19,155	14,972	+4,183	41,700

At the beginning of each year the Assembly voted its bill of appropriations. Expenditures were planned in anticipation of future tax revenues. Given the success of the proprietors in getting the imperial government to disallow early land taxes, the principal source of revenue for the Island was the provincial customs. Merchants importing goods were given from three to fifteen months grace in which to pay tariff charges due, depositing in the interim an appropriately secured bond for the sum owed. In anticipation of those future tax receipts the province would finance its current obligations by the issue of treasury warrants yielding six percent to persons to whom it owed money. These persons could either hold the warrants to maturity or turn them into the Treasury in exchange for non-interest bearing treasury notes which, unlike the warrants, could be spent. The notes entered general circulation and found their way into the hands of merchants from whom the public bought imported goods. The merchants them used the notes, which were legal tender for public purposed, to pay their arrears of customs duties and redeem their bonds from the Treasurer.

It was neat, efficient, and reduced the need for commercial banks in two ways. The government, by allowing merchants credit on their taxes due, eliminated part of the potential business of discounting bills of exchange; and by issuing treasury notes, it obviated part of the need for bank notes. Furthermore businesses and individuals with idle balances on their hands, could invest them in treasury warrants which bore interest and which could be liquidated into treasury notes when the need arose.

The one major gap in the system was its inability to handle international exchanges. Here there were several alternatives. The decision to pay the garrison in specie together with the supply of bills sent over by London to cover official salaries provided some additional foreign exchange to help cover the trade deficit. The Cunard firm's notes, earned by the export of Island produce and labour, did likewise.

Thus there were in effect three monetary cycles at work. Sterling bills, specie and Cunard notes handled international remittances and imperial taxes; small denomination coin, private promissory notes (subject to severe restrictions), treasury notes, and the storekeeper's ledger book (supplemented by tots from the rum cask) took care of domestic private-sector exchanges; and the domestic public sector was financed through the circulation of treasury notes and warrants. Each of these three cycles had at least one element in common, facilitating the movement of goods and services between the three sectors; but each was at least partially insulated from the other by the fact that some of the monetary elements at work were not freely and directly exchangeable.

The treasury notes, sterling bills, promissory notes and specie were, as before, supplemented by the efforts of private money-manufacturers making brass and copper tokens and emblazoning them with exhortations to entrepreneurial endeavor. But there were some efforts to systematize it. Hence when the Millner merchandising firm undertook to put its halfpenny "Commerce & Trade" coins into circulation, it did so with the explicit assent of the colonial government. The appropriate machinery and dies were imported from the U.S. and coins struck - only to have a fire wipe out the establishment and the machinery along with it.[4]

<u>The Imperial Attack On Currency-Finance</u>

Several refinements to the currency-finance system evolved over the 1840s. The normal mechanism for putting treasury notes in circulation remained the monetization of the floating debt. But in addition reissues of notes came to be linked to development of the Island's productive capacity: bounties payable in treasury notes were voted for the fisheries and other industries.[5] The expansion of productive capacity particularly in the export industries would generate additional tax revenues and therefore at least partly assure the recycling of the paper back to the Treasury. However one obstacle to the development of the fisheries that bounties could not surmount was the continued refusal of the imperial authorities to aid Islanders in their demands that proprietors cease collecting rent on shoreline areas where they had illegally extended their holdings.[6] The imperial authorities, faced with the choice between loyalty to the proprietors and loyalty to their supposed commitment to having the Island reduce its floating debt, opted for the first - and not just on the fisheries question.

In the 1840s the Assembly began linking its demands for land reform to the debt which the imperial government was urging it to reduce. It offered to discharge interest-bearing debt out of the proceeds of sales of land seized for arrears of taxation - simultaneously reducing the debt, alleviating the problem of fiscally unproductive absentee-owned property and facilitating the redistribution of land on a freehold basis to the tenantry. Legislative initiatives in this direction were blocked by the Crown.[7]

Equally unsuccessful were efforts to shift the fiscal burden of road building onto the proprietors. Free marketing of crops in the monetized sector of the economy required adequate infrastructure. The Assembly accused the landlords of refusing to invest any part of their rental receipts in road building, of not reserving right-of-ways as required under the terms of their grants, and therefore throwing the entire financial burden onto the Island government. Taxes necessary to pay for road construction would them fall on the shoulders of those already paying rent; and the money so raised would have to be spent buying land from landlords for the right-of-ways they were supposed to provide free of charge.[8]

Nor were imperial actions limited to pure obstructionism. London's increased concern with restructuring the Island's finance reflected two central influences - the march towards Responsible Government on the one hand and the victory of the Currency School in English monetary affairs on the other.

The first important concession to Responsible Government for the Island was won in 1839 when a clear division of function was established between the executive and legislative councils and the Assembly was given some representation on the executive.[9] Over the course of the 1840s more concessions were wrung out of the Imperial government, particularly in 1846 when Governor Huntley, much like Governor-General Sydenham in Canada, forged an alliance with the respectable Reformers to check the power of both radicals in the Assembly and the old squirearchy in the Councils.[10] Each concession of power was accompanied by demands that the island assume more of the cost of its own maintenance. The Assembly agreed to assuming the full burden - but only if all revenues were turned over to it. A major confrontation over the supply bill in 1850 culminated in a capitulation by the Colonial Office; and in 1851 the Island achieved responsible government, though not without some major qualifications, particularly in the financial system.

The key to responsible government lay in the power of the purse. Full fiscal power for the Assembly would, in principle, mean the power to run budget deficits and finance them by issuing paper. And that conflicted with other major objective of British policy - coaxing the world at large to adopt a fully automatic gold standard to govern its international economic relations. If however a fully automatic gold standard was introduced before the ceding of responsible government, the danger of budget deficits financed by inconvertible paper and therefore interfering with the free flow of international trade was accordingly reduced.

Within Britain there was a growing realization that the proprietary system, whatever its economic costs and benefits, was not the most suitable basis for the exercise of political power in the middle of the 19th Century. This development paralleled reforms elsewhere in the empire (the undermining of the Loyalist squirearchy of Upper Canada, the pending abolition of the seigneurial system in Québec, the end of the dominance of the West Country merchants in Newfoundland trade, the fall of the West India planter class and of the East India company nabobs etc.). Responsible government in P.E.I. led by non-radical Reformers was in tune with the imperial realities of the time.

The imperial authorities were quite willing to endorse the principle of free domestic trade and the monetization of transactions - the question was how that monetization was to be accomplished. To the imperial authorities the key was a financial mechanism compatible with an international gold standard, representing an integration of domestic and international exchange mechanisms. This integration was anathema to both the old proprietorship economy built on debt-bondage and barter (which integrated each separate subsystem into international exchanges while insulating those subsystems from each other) and the monetization through the use of inconvertible Island paper (which integrated the Island subsystems into a regional market economy while insolating it from the international one). The imperial authorities seemed to hope that the Reform party, with its acceptance of the tenets of economic liberalism, would, unlike the old Escheat forces or the Family Compact, be willing instrument in effecting the necessary changes in the Island financial system. To some degree they were - but the lingering effects of the proprietary system blocked an early, complete victory for the gold-standard forces.

The imperial assault on the Island system followed hard on the heels of the victory of the Currency School in England. In 1844 the Bank of England was divided into two separate departments - one conducting commercial banking, the other responsible for issuing notes subject to very strict reserve requirements. In an important way it was a hollow victory - for it came just at a time when commercial banking was switching away from heavy reliance on bank notes and towards the use of the chequing deposit as the main instrument for financing transactions.[11] But it did signal the onset of another effort to get the colonial financial systems in line.

In 1845 the Island requested imperial assent to a measure that would permit a £10,000 increase in the stock of treasury notes outstanding, on the understanding that they would be redeemed in 15 years. It also requested suspension of the clause of the land assessment act that required new issues of notes to be redeemed at £1,000 per annum. Governor Huntley concurred with the Assembly that “the system of barter *generally* [italics added] pursued in the mercantile transactions of the Colony, has considerable influence in restricting its circulating medium;” and therefore that paper money would help monetize transactions. But he recommended that the time frame be reduced to ten years and that the Land Assessment Act clause be left fully in force. The imperial government went one better. It not only refused to assent to the suspension of the redemption clause, but it also disallowed any increase in the issue of treasury notes.[12]

In 1846 the Assembly tried again, requesting a £15,000 increase to retire some outstanding treasury warrants - but the Legislative Council refused.[13] By then the imperial government was demanding not only that no further increases occur, but the existing notes be made specie redeemable. Following the advice of imperial treasury officials, the Colonial Secretary pointed out to the governor the 20% depreciation in Island paper against that of the mainland colonies. And while the governor himself, from a position of observing the facts on the ground, advocated more paper and imputed the absence of specie to structural factors, the Colonial Secretary, Lord Stanley, felt differently. Using typical Currency School logic, Stanley argued: "I cannot but apprehend that the issues of paper money have already been excessive, and that depreciation ... and the absence of metallic circulating medium are principally attributable to that excess."[14] That would soon become the official line in all imperial deliberations on the Island finances.

The Currency Commission And Its Aftermath

International commercial and financial crisis struck the Island again in 1847, compounded by a potato blight. The effects included another sharp depreciation of the Island currency as specie left to pay for imported wheat, and, in some cases, a further deepening of debt-bondage.[15] Against that happy background the Colonial Office, aided by the Legislative Council, continued its assault on the Island monetary system.

That year the Council submitted a report on the Island currency which would have warmed the heart of the most ardent hard-money advocate. Depreciation was blamed on an "excessive" issue of inconvertible paper (some £11,500!) and on a growing feeling among the population (just how that was gauged was never explained) that the Island government had become fiscally extravagant. Warrants, which financed deficits without the restrictions imposed on notes, were singled out for special denunciation. The very existence of warrants was cited as a cause of increased deficits - as suppliers allegedly anticipated delays in receiving cash for their warrants by raising prices. The recommendations were the usual ones - higher taxes, lower expenditures, phasing out notes, using warrants only to cover the gap between the timing of receipts and expenditures rather than as an instrument for long term financing, and encouraging the opening up of commercial banks using gold-backed demand notes for currency. These recommendations were embellished with the appropriate warnings about the evils of permanent public debts.

The report also dealt with a serious problem in the administration of the Island monetary system. There was still no legal-tender law - hence different government departments, free to receive and pay out coin at current market values, were known to do so at different rates of exchange! Customs took the Spanish dollar at four shillings, two pence; other departments took it at four shillings sterling or six shilling currency, fully three pence below its intrinsic value. Apart from the obvious problem of one government department subsidizing another, the fact that some took dollars at below specie value likely exacerbated the tendency for specie to withdraw from domestic circulation. Furthermore the Treasury accommodated taxpayers, at government expense, by accepting payment of sterling debt at the rate of four shillings even when the Island currency depreciated on the foreign exchange market. The Commission called for unification of the exchange rates among departments; and for the fixing by statute of legal tender ratios among coins.[16] This seemingly sensible and straightforward proposal actually opened up a numismatic Pandora's Box.

The Currency Commission report was followed the next year by an Imperial Treasury plan to implement the essence of its recommendations. In the absence of commercial banks, the objective was to make the Island treasury itself behave on gold standard principles[17] - establishing a fixed specie reserve against treasury notes and granting their holders the undisputed right to redemption on demand.[18] Specifically they recommended:

- changing all outstanding treasury warrants into treasury notes;
- making treasury notes full legal tender i.e. for private as well as public transactions;
- making treasury notes fully convertible into specie on demand;
- encouraging the province to borrow abroad to build up adequate reserves of specie to permit the implementation of the gold standard.

These recommendations were duly embodied in a Currency Act that went to the Island legislature for consideration.[19]

But at this point another complication entered the picture, namely the effect of devaluations of the Island currency standard against sterling (as distinct from the periodic depreciations of the paper on the foreign exchange market) on the level of rents owing to absentee proprietors - an issue that could only become more important with the progressive monetization of transactions. In 1785 the Revenue Act had institutionalized on the Island “Halifax currency,” setting the dollar equal to five shillings, while its sterling value was four shillings, six pence. The one-ninth markup on sterling was used to recon not only prices but also the local currency value of rent owed the proprietors. In 1826 the Spanish dollar, by common consent among merchants, advanced to five shillings, six pence; in 1833-4 it was advanced again to six shilling, currency. In 1836 British silver was advanced accordingly. Hence by that date sterling stood at a 50% advance over the local currency. But while this 50% advance was used for overseas trade, the old one-ninth remained the basis for reckoning rental payments due to the proprietors even though most leases specified rent levels in sterling.[20] In effect the Island had achieved a dual exchange rate system - pushing its currency down against sterling and therefore making its exports more competitive, while holding it up against sterling to ease the burden of repatriation of rental payments to absentee proprietors. Although this one-ninth advance was well established in common law, nonetheless in the late 1840s, the landlords and their agents chose to resurrect the issue just when the question of a return to specie was under debate.

There was an obvious historical analogy that did not pass unnoticed in the Island legislature. During the Napoleonic wars, England suspended specie payments and paper money depreciated about 20% against gold. A controversy then ensued over whether or not rents were payable in depreciated paper at the contractual rate or at the original specie value of the notes. In 1811 an effort was mounted in the House of Lords to make rents payable in gold or in paper at the market, rather than the legal-tender value, thus transferring the full burden of depreciation onto the tenants. Although that effort failed, when, a few years later, England returned to a specie standard, it was at the old parity, thus protecting landlords’ incomes at the expense of the tenants.[21]

Unlike in England, in P.E. I. the debate over the establishment of a gold standard assumed that the 50% depreciation would be institutionalized. The absentee landlords then tried to assert their right to rental payments at a 50% markup on sterling instead of the customary one-ninth advance. While the tenants had signed leases often agreeing to pay at the sterling rate, many undoubtedly did not know what that meant, given the Island’s convoluted history of currency standards. In reality tenants had never before been asked to pay at the 50% markup. And the landlords themselves had paid quit rents (when they did) at the one-ninth markup even though their quit rents, too, supposed to be paid in sterling.[22]

The real issue was likely not the money involved. Rather it was a question of power, and of the efforts of a system to fight back against a growing threat, specifically the threat of monetization. For if the proprietors had been successful in establishing the 50% rule in law, it would have been retroactive. The result would have been to bury their tenants under debt.

In 1847 a group of barristers, representing landlords who controlled one-third of the Island, lobbied the Chief Justice. They were supported by an Attorney General who was accused of having a direct economic interest in the outcome. Together they ruled that the 50% advance would apply to rents. The Assembly responded with a law restoring the one-ninth markup - which the Council rejected.[23] The exchange rate issue then got mixed up with the ongoing efforts to put the Island onto a gold standard.

Early in 1848 a new currency bill was introduced in the legislature, linking two distinct but closely related issues. The bill called for the establishment of a 33-1/3% reserve ratio of specie against treasury notes and for the codification of the one-ninth markup. But the Legislative Council apparently coaxed the Assembly into separating the two issues. It then rejected the rent bill and passed the treasury-note measure with the specie reserve raised to 50%. The Assembly in turn refused to accept the treasury-note bill. And a fresh financial crisis caused by a soaring balance of trade deficit put an additional barrier up against efforts to entrench specie payments.[24]

In response the Island government, endorsed by the Lieutenant Governor, made its first appeal to Britain for financial aid, requesting a guarantee of a £12,000 stg. loan at 4-1/2%. That request was shaped in a form designed to appeal to imperial tastes; for the Island claimed that the loan would permit the refunding of much of the floating debt outstanding in 6% treasury warrant form, as well as helping to build up specie reserves to assist the process of making the treasury notes convertible on demand.[25] To drive the point home, the loan request was followed soon after by an attempt to revive the currency bill.

Once again the Assembly carefully linked two issues - specie redeemability and the fixing of the markup on sterling. The Lieutenant Governor privately reported to the Colonial Secretary his pessimism about the chances of cozening the Island Assembly into separating the two issues again. However the Assembly was persuaded to pass a bill setting the legal ratings on coins at a 50% advance over sterling - putting the Spanish dollar at six shillings, three pence. And the bill stated not that the rental rate would be set at a one-ninth advance - rather rents would be subject to the same interpretation as if the currency bill had never passed.[26] On the face of it, this protected the tenants at the customary one-ninth advance. But in reality the Attorney-General had already handed down an official opinion that the 50% advance should hold for rental contracts; and therefore the new currency bill could be just as easily read as supporting the 50% as the one-ninth advance.[27]

Protests to the Colonial Office quickly followed, and the issue remained in abeyance for several years to come. Furthermore with the imperial refusal of the Island's request for a loan guarantee efforts to move the Island onto a specie standard were also set back. When the gold-standard movement was resurrected, it would come to take a radically different institutional form than that envisaged in the currency acts.

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[1] An excellent example of the old order on P.E.I. is provided by James Yeo, shipbuilder, timber magnate, real estate dealer, landlord's agent and shopkeeper - as well as wielding considerable political power and deploying it for his own benefit. A sharp contrast was the leader of the emerging moderate Reform group, George Cole - a farmer and merchant who established a local brewery and distillery based on the use of Island produced raw materials, and who in the political arena stood for domestic economic development and freehold tenure. (Greenhill 123, 163-5; Ian Robertson "George Coles", *Dictionary Of Canadian Biography* Vol. X Toronto: 1972)
[2] Lt. Gov. Fitzroy to Lord John Russell 29 Nov. 1839; *British Parliamentary Papers* (hereafter cited as BPP) XXVIII, 1842
[3] When Fitzroy's term in P.E.I. came to an end, he was sent as Governor of New Zealand where some of his experience with P.E.I. paper money stood him in good stead. At the time of his arrival in 1843 economic crisis had eroded the position of the colony's two operational banks; in 1844 the New Zealand Banking Company wound up while the Union Bank withdrew its notes and confined itself to the foreign exchange business. The monetary crisis coincided with a fiscal one - the imperial government had been tightening the purse strings while the Maori wars drove up the colonial government's expenditures. Fitzroy found on arrival the public purse empty. Like other governors in similar circumstances - Sydenham in Canada, for instance - he began paying salaries by issuing small denomination debentures. When, the next year, crisis caused the suspension of the banks, he made his "government rags" legal tender - though imperial disallowance soon followed. (C.G.F. Simpkin *The Instability Of A Dependent Economy*, Oxford, 1951, 68; H.D. Belford "The Monetary Difficulties of Early Colonization in New Zealand" *Economic Journal* XXVI, 1916
[4] E. Bayfield "Prince Edward Island Coins" *Prince Edward Island Magazine* I, no.1, March 1899 p.99; Metcalf claims the machinery was scrapped but gives no reason. Bayfield provides the fire explanation.
[5] See for example Stat. P.E.I. 3 Vic. I, Cap. 11, 1840 and similar acts to follow
[6] See the report of the Central Agricultural Society of P.E.I. 5 Jan. 1842. BPP XXVIII, 1842,47
[7] On the other hand they did permit the Island to take revenues from tax sales of land in excess of the arrears and invest them in treasury warrants until the expropriated landlord claimed them - in effect guaranteeing him 6% return despite the fact that it was his fiscal delinquency that caused the problem. (Stat. P.E.I. 9 Vic. I Cap. 13, 1846)
[8] P.E.I. Assembly Resolution of 23 April, 1841
[9] These moves seem to have been accompanied by an increasing concern by the Assembly with its public image. In 1840 one member was expelled for public drunkenness - public meaning in practical terms, the streets, the Charlottetown market place, and the Assembly floor. (Mackinnon 49). Apparently the Assembly no longer met in a tavern. Not that such moves impressed lieutenant governor Fitzroy who, the next year, referred to the Assembly as "chosen from the lowest and most ignorant class, men without property and without education". (Fitzroy to Lord John Russell, 5 May, 1841; BPP XXVIII: 1842)
[10] W.S. MacNutt "Political Advance and Social Reform, 1842-1861" in Bolger (ed) *Canada's Smallest Province*
[11] M. de Cecco, *Money And Empire: the International Gold Standard 1890-1914* (Oxford, 1974) 77
[12] Huntley to Stanley 12 May 1845, 26 Aug. 1845: C.O. Records P.E.I. G 315 ,.217, 247; The disallowed statute was 8 Vic. I Cap.11, 1845
[13] Chalmers 196
[14] Stanley to Huntley 1 Aug. 1846; JLCPEI App. I, 1846
[15] Greenhill 163-5
[16] Currency Commission Report
[17] The notion of creating a state bank of issue, of which the Island proposals were a variant, was very much under discussion in other colonies at the time. Lord Sydenham in Canada had tried to establish such an institution, only to meet the successful opposition of the existing commercial banks. See R.S. Longley *Sir Francis Hincks*, (Toronto, 1943); and H.T. David "Lord Sydenham's Proposal For A Provincial Bank Of Issue" *Canadian Banker* 45, No.3, April 1938). In New Zealand the proposal had more success - for Fitzroy's fiscal legacy had been inconvertible debentures and the collapse of the existing commercial banks. A state bank built on strict Currency School principles was established and operated until the mid-1850s. (Belford 272-3)
[18] Lt. Gov. D. Campbell to Earl Grey, 4 March 1848, G 316, No.21, 59
[19] Campbell 100-3
[20] Lt.Gov. Campbell to Earl Grey 14 Aug. 1848, G 316, No.60, p.119
[21] See the discussion in Johnson, passim

[22] Debates of the Assembly, P.E.I. of 20 April, 1849

[23] D. Maclean to Earl Grey 1 June 1849; G 287, 1849,.663

[24] It was a period of harvest failure and a flight of specie to the US to buy wheat. Although Greenhill (194) seems to assume that in 1848 the balance of payments was about in equilibrium, this does not seem correct. Contrary to his data, the published trade statistics show a commodity deficit of £89,310 sterling. A report of the lieutenant governor put ship sales at about £50,000 and invisibles at perhaps £8,000. Even adding imperial subsidies, there would seem to be substantial deficit even without taking account of rental remittances.

[25] Campbell to Earl Grey 12 July, 1848. G 316, No.53, p.110

[26] Stat. P.E.I. 12 Vic. I, Cap.24, 1849

[27] D. Maclean to Earl Grey, 1 June, 1849, G 287, .663

VII: MONETARY DEBATE AND FISCAL REFORM, 1851-54

The year 1851 was a watershed point in the Island's financial as well as political evolution. The granting of responsible government - along with a detachment of imperial troops to supervise its consequences - meant fiscal autonomy for the Island. The imperial subsidy that, since 1777, had paid the salaries of civil officials, ceased. But fiscal autonomy did not mean financial independence - the imperial authorities continued to intervene directly in Island monetary affairs, as well as to affect them indirectly by standing firm against action that might harm the absentee proprietors. And in a contest of wills between the Island's supposedly responsible government on the one hand, and the imperial authorities on the other, it was the Island government and with it the unique Island fiscal and monetary system, that ultimately gave way.

Evolution Of The Public Finances

The new "responsible" government of the Island soon launched a major clean-up of the public finances, introducing in the process some important precedents. Its immediate objective was the reduction of the floating debt in the form of 6% warrants by means of the Island's first ever debenture issue. A total of £10,000 was to be raised locally from "any person or persons, corporations or companies" by the sale of 5% debentures in denominations ranging from £50 to £100. The cash so raised was to be used to pay off warrants as they were presented. If warrants presented exceeded cash raised from the debentures, the warrants could be endorsed by the Treasurer, thereafter bearing 5% until called in and paid off "in lawful current money of the Island." The net effect was to reduce the interest burden on all of the Island debt, including those warrants that a cash shortage left outstanding beyond maturity, from 6% to 5%, converting most of it from floating to funded form, and leaving the balance in a form subject to recall at the will of the government.[1]

There were efforts to clean up the other side of the balance sheet as well. Merchants bonds in the Treasury, pledged as security for tax deferrals, were to bear 6% interest. In effect the public sector, in its intermediary activities, would borrow at 5% and lend at 6%, leaving a 1% spread to cover administrative overheads.

As a result of the 1851 reforms, the Island government's debit-credit position changed dramatically. In the 1830s its liabilities had consisted of two types of treasury paper, notes and warrants; while its assets, apart from a small cash reserve, were in the form of merchants' bonds in the hands of the Treasurer or, when overdue, of the Attorney General or Solicitor General.

Public Debit-Credit Position, 1837
(pounds currency)

Debits		Credits	
treasury notes	13,500	customs bonds	7,864
treasury warrants	6,549	cash and notes	835
	20,048		8,699

net debt ....£11,349 cy.

But as of 1855 its liabilities were: non-interest bearing treasury notes, redeemable in theory in specie or in 6% certificates; unredeemed warrants bearing 6%; endorsed warrants bearing 5%; and 5% debentures. Against them stood: a small stock of specie; additional cash reserves in the form of mainland bank notes that were redeemable in specie on demand at the place of issue; and bonds subject to a 6% levy when overdue. Any discrepancy between assets on hand and liabilities currently due had to be met by reissuing treasury notes - in effect deferring payment by substituting a non-interest bearing debt form for an interest-bearing one. While the basic operating principle behind the Island financial system had not changed, its degree of complexity had; and the Treasurer was faced with the task of juggling several distinct liability instruments in an effort to match the time stream of maturing obligations with the flow of revenues. But when the Island made an effort to simplify its financial operations, it brought the opposition of the imperial government to a new high.

Public Debit-Credit Position 1855
(pounds currency)

Debit		Credit	
treasury notes	11,500	bonds and cash	37,061
treasury warrants	10,663		
debentures	28,000		
	50,163		

net debt ....£13,101 cy.

The opportunity for a simplification that would also ease the cost of servicing debt came in part from the evolution of general economic conditions over the late 1840s and 1850s. Until then basic self-sufficiency plus surpluses for rent and luxuries was still the norm. But at mid-century, the Island, like the rest of British North America, entered a long period of commercial expansion and prosperity. It was the age of the steamship, the railway and the telegraph transforming world commerce, the financial relations between nations along with it. The Atlantic economy saw a huge investment boom; and gold rushes facilitated the spread of banks of issue operating under gold standard principles.[2] P.E.I. exports also surged ahead, particularly ships which by 1850 were estimated to be covering half of the cost of Island imports. Expanding external trade also encouraged the commercialization of domestic economic activity.[3] That in turn meant a rising demand for money and for a credit mechanism more suitable than merchants' book credit to the new era of integrated domestic and foreign exchanges. That integration also brought the Island treasury paper more adverse attention.

Currency Finance: the Battle Lines Form

In 1851 the Island Executive Council proposed once more to increase the treasury-note issue with a view to converting all remaining treasury warrants outstanding into non-interest bearing notes, along lines proposed by the 1847 Currency Commission. The Island government did its homework well. It pointed out to the imperial authorities that in 1825, when the original issue of £5,000 was approved, the Island revenues were about £5,000 per annum. By 1851 those revenues had risen to about £25,000 while the notes outstanding totaled £11,800.[4] It therefore seemed reasonable to assume the Island could sustain an increase, particularly since any additional treasury-note debt would mean an equivalent reduction in interest-bearing treasury-warrant debt.

As to the Island's capacity to absorb the additional paper without depreciation of the exchanges, the government pointed to the expansion of trade, the shortage of specie and the absence of local banks of issue. The first factor suggested an increase in the demand for money; the other two indicated a failure of supply to keep pace. As proof that the existing issue was not excessive, the Council noted that, although bearers of notes had the right to convert them into 6% certificates, in fact there had never been any such request. The Island government also insisted that, in arguing for a once-for-all increase in the paper, it was in no way anticipating "the establishment of a Government Bank to supply notes" on a continuous basis. They concurred that the issue of paper money was best left to private enterprise, but that in its absence the government had a role to assure a supply of currency adequate to the needs of trade. Furthermore the Council argued that notes had been important in the fiscal history of the Island in fostering development by helping to finance the creation of basic infrastructure - roads, public buildings and the like.[5]

To the Council's arguments, the Lieutenant Governor added his own. He pointed out to the imperial government that the outstanding warrants, which the new paper was intended to redeem, had created a speculator's market - to the detriment of both the public finances and the poorer holders of warrants who were forced to sell them at discounts on the secondary market. He also noted the existence of perhaps £150,000 in notes of the mainland banks in circulation on the Island, indicating ample scope for the expansion of an indigenous money supply.[6] He argued further that since much of the Island's trade was still barter based, it could readily absorb more paper - without depreciation or inflation. Finally he reiterated the Council's contention that the best proof against any existing excess of paper was the fact that never had any of the notes been turned in for conversion into 6% certificates.[7]

The logic of this last point was a little suspect. Given the existence of a secondary market in warrants, holders of excess paper would likely turn there to obtain warrants at a discount, rather than present them to the Treasurer for warrants at par.[8] Nonetheless, in general, the Island's case was a good one, particularly since it touched on the essential role of debt-financed government spending on the infrastructure necessary for development - which would enhance the Island's tax revenues in the future and therefore prove self-amortizing in the long run.

However the Imperial Treasury rejected all these arguments out of hand, relying not on observation of actual Island conditions and experience, but on deduction from Currency School logic that was dubious even in the British context where it was evolved. And in response the British colonial authorities proffered a new version of the "one-currency-for-the-empire" scheme.

At the time the provinces of British North America had widely disparate monetary systems, though in most of them the dollar, Spanish or America, was the most important coin in circulation. In New Brunswick the dollar passed at five shillings; in Nova Scotia it was worth five shillings, two and a half pence; in P.E.I. it passed current at six shillings, three pence; while in Newfoundland there was no legal rating at all, although the Spanish dollar in practice usually passed at five shillings. In Canada the U.S. dollar dominated, passing at six shillings, one pence -

but the Spanish dollar in Canada was worth four shillings, six pence and the Spanish dollar had a higher specie content that did the U.S. one!

In addition to the complexities due to disparate rating systems, the gap between sterling and currency values, and the difference in the silver content of the various dollars in use, there were the complications in everyday retail trade caused by the actual disparity between the accounting systems (sterling or the currency equivalent) and the dominant medium of exchange (dollars or parts thereof). Hence frequently in retail trade, coins were used at other than their legal tender value in order to avoid complex fractions - undoubtedly a fruitful source of dispute between storekeeper and customer. Given these complexities, the Canadian decision in 1851 to decimalize provided a pretext for the imperial authorities to try to unify all of the colonial currency standards. And given the ever-closer commercial relations the colonies had with the U.S., - sometimes even retail trade took place across the border - the colonies would resist strongly any unification on a sterling basis.

The imperial plan took as its starting point Canada's position as the largest and wealthiest of the North American colonies, and its decision to decimalize. The existing Canadian pound (one pound sterling was rated at one pound, four shillings, four pence currency) was to be renamed the "North American pound." A new gold coin bearing that name and an appropriate specie content was to be struck at the Royal Mint, along with any subsidiary silver coin in decimal denominations that the colonies wanted. All foreign gold coins were to be admitted to the legal tender lists, but no foreign silver. With the additional provisos of a strict limit to the legal tender of British minted silver and its systematic overvaluation with respect to gold, the result would be to introduce to the formerly bimetallic colonies a fully functioning gold standard with silver reduced to a token role. All of the colonies were to be assimilated into the Canadian-based system, starting with New Brunswick whose monetary standard was closest to the Canadian one. In proffering the plan and lauding its virtues, the Lords of the Treasury singled out P.E.I. as the worst offender against monetary orthodoxy and the most in need of reform, since in P.E.I. the depreciation of the currency due, in their opinion, to "an extravagant issue of Treasury Notes and Bonds," had gone the farthest.[9]

Such a view was belied by the facts. How £11,500 of notes could cause a depreciation when £150,000 worth of mainland bank paper (which could only be redeemed in specie by presenting it to the bank that issued it) flowed freely through the Island circulatory system was never explained by their lordships. Granted the mainland notes could be more useful for international trade, but they also circulated interchangeably with Island paper for domestic purposes. Indeed their lordships were sufficiently shameless as to argue, even in the face of £150,000 of mainland bank paper, that the existence of £11,800 in Island paper impeded the creation of banks of issue. In any event the key to the stability of the Island notes lay not in whether or not they were redeemable, but in the demand for money in general, and for a money form uniquely suitable for paying taxes and fees due the public sector - purposes for which mainland bank notes were not legal tender.

Nor was there any justification to the view that the Island was getting too heavily into debt. At the end of 1852 its total debt had fallen to half its 1850 level - all of the smaller denomination warrants and some of the larger ones had been paid off. Revenues for the year topped £32,000, while nearly £21,000 in merchants' bonds sat in the Treasury. Against £11,800 in treasury notes the Island held £3,569 in reserves of specie and mainland notes.[10] And it was fully two years since anyone had asked for the notes to be redeemed in specie.[11] But of course monetary theorists from the time of the Bullionist debates to the present day, have never been known to let facts stand between them and an ideological conviction.

The Politics Of The Exchange Rate

Any plan to integrate the Island into a Canadian-based monetary system required that some outstanding monetary issues, unique to the Island, first be resolved. One of them was the question raised by the 1849 Currency Act about the appropriate advance on sterling to be used in the calculation of the currency value of rental payments due the proprietors. That question became all the more urgent after responsible government delivered greater political power to an Island middle class, and ipso facto made the proprietary-based system of commodity exchange increasing anachronistic.

In a sense the Island was experiencing trends common to the agrarian economy of most of North America at the time. Prosperity and greater integration between domestic and foreign trade meant the breakdown of self-sufficiency conditions and the reorientation of agriculture on a more commercial basis. Starting in the American Mid-West the technology of modern commercial farming spread rapidly after mid-century in the face of urbanization and industrialization which drove up the demand for farm products while farmers developed ever greater appetites for urban-produced manufactured goods. Taking advantage of great improvements in communication and transportation, seed and agricultural implement manufacturers along with the urban producers of consumers' goods, began sending their commercial travelers into the agrarian frontier areas. They would bypass the local country storekeepers and his account book-based trade in favour of market exchanges with the producing population. This development was premised on the creation of a strict separation between the process of sale of farm produce and the subsequent purchase of urban goods, instead of the two being joined via the country merchant's books; and it presupposed a simultaneous shift of transactions from a barter to a cash basis.

While the Island was far from the centre of these developments, it was certainly not immune to them. And these trends could only strengthen the economic position of a class of Island based businessmen, accumulating wealth in shipbuilding, commerce and the fisheries, who demanded a proportionate improvement in their political power - something that responsible government went part of the way to satisfy.

The decline in the political power of the old proprietors, together with the erosion of their debt-bondage and barter economy, made the land-tenure question figure even more critically on the agenda of political debate. The imperial authorities responded to Island initiatives by a detachment of troops explicitly charged with defending "the rights of property," and by disallowing Island financial legislation that seemed designed to undermine those rights through induced inflation. The imperial officials were convinced by their Currency School ideology that debtors in power, in this case tenant interests rendered stronger in the Assembly by responsible government, would use their political power to increase the money supply and reduce the real burden of existing debts. To the imperial officials that meant a process by which the Island printed more notes, caused the exchanges to deteriorate, then insisted that proprietors accept rental payments at the lower exchange rate.

History certainly seemed to be against the proprietors in their claim for rent at the full sterling equivalent. Both Crown and landlords had long acquiesced in the depreciation of the Island standard. The ambiguities left by the Currency Act only served to bring the issue more sharply into focus. Treasury officials concurred that it would be "inequitable" (and, although they did not say so, politically explosive) for the landlords to try seriously to collect rents, long paid at the one-ninth advance, at a full 50% markup over sterling - particularly since many estates had been acquired by inheritance or purchase since the one-ninth standard had gone into effect. But on the other hand there was still the fear of the Treasury officials that the Island legislators would use the power of the purse to further depreciate the currency standard - despite the Island government's entreaties that it had no such intention.[12]

The result was a "compromise" embodied in a 1854 Currency Act. P.E.I. was instructed to frame its financial legislation in such a way as to defend existing contracts in order to protect the tenants from demands arising out of previous depreciations; but it was also to protect the landlords against any future depreciation by explicitly stating that contracts struck after the 1849 currency act was passed would be met at a 50% advance over sterling.[13] Apart from conferring a retroactive rent increase on tenants who had entered leases during the previous five years, the new act meant that the level of rents a proprietor could get from new leases, and therefore the capital value of his land, was increased proportionately. At a time of increasing transatlantic flows of immigration, including relatively well-to-do farmers attracted by the lure of new land in the Americas, it put a premium on evictions of old tenantry wherever they could be contrived. It meant that the burden on the Island balance of payments from rental remittances was accordingly increased. And by the remotest coincidence the law came just at a time when the legislature had begun a vigorous campaign to try to buy out the old proprietors and transfer land to the tenantry. One year before, the Island had authorized the sale of £30,000 in debentures to finance the acquisition of the Selkirk estate.[14]

Having neatly solved the exchange rate question to the satisfaction of everyone but the Island population, the Lords of the Treasury next turned their talents to the still outstanding request of the Island legislature for an increase in the authorized treasury note issue.

Currency Finance: The Last Blow

In rejecting the Island request for the conversion of its treasury warrants into notes, the Lords of the Treasury insisted that the Island government had made a fundamental error in monetary theory when framing the request. Warrants and notes, they insisted, were not to be seen as substitute assets to the community, especially since all of the small denomination warrants which might have actually circulated had been withdrawn. Notes circulated as a medium of exchange according to "the need of trade for a circulating medium" and would, if over issued, depreciate. In fact, the Treasury officials insisted, they already had. On the other hand warrants, like Exchequer bills, represented an investment by the holder: they bore interest, and would not depreciate, though they could go to discounts if in excess supply. The amount that could be issued depended not on the needs of trade but on the rate of interest, the supply of loanable funds seeking interest-bearing investments, and confidence in the government's creditworthiness. Switching from warrants to notes, while not causing total debt to rise, would cause the notes to depreciate even further than they already had. (The ability of the bearer of any excess of notes to convert them into 6% certificates was conveniently ignored.)

Going into high gear, the treasury officials then attacked government debt per se, rather than just its particular form. To them the need to maintain the existing debt, whether by note or warrant, was questionable. Good times meant high tax receipts; bonds in the Treasury were going to mature; part of the floating debt had already been converted by a debenture issue. Therefore they looked forward to the Island ridding itself of all unfunded debt in the near future.[15]

That rising tax receipts should imply an obligation to reduce debt, instead of being a strong argument in favour of the Island's ability to carry a greater debt, reflects the fact that their lordships had managed to slip in an additional ideological premise into the argument from under the table. Their view was that government spending - on roads, land reclamation and transfer, public buildings etc - was in and of itself to be avoided in favour of expanding the scope for private enterprise. And this implicit premise seems to have entered the debate, not as an abstract philosophical belief, but as a reflection of a concrete policy concern.

In taking such a hard line, the treasury officials went far beyond their earlier interventions. In 1848 they had argued for a fixed gold reserve against the treasury notes, accepting the notion of a de facto government bank of issue. Now they repudiated that earlier view, arguing for complete abolition of the government paper, and insisting that government banks were inefficient emitters of paper money as compared to the private sector and did so in a way that interfered with the automatic operation of the international gold standard mechanism.

This conviction took the discussion even deeper into the complexities of 19th Century monetary debates. While both government and private-sector banks of issue were expected to hold reserves of gold against notes convertible on demand, it was widely assumed in the monetary orthodoxy of the era that the assets behind the notes would be different in the two cases. Private banks issued notes through commercial loans and discounts on the security of trade bills which in turn were issued against commodities already produced and entering the process of circulation. The volume of notes so issued therefore accommodated itself to the ebb and flow of trade.

On the other hand government banks issued notes to cover the shortfall between the public sector's current receipts and current payments; and they were usually secured against a portfolio of government bonds and debentures. The notes therefore varied in supply not with the volume of private commerce but with the state of the government budget. They were assumed to be less elastic in supply on a seasonal and cyclical basis, and prone to overexpansion on a long-term basis as the irresponsible classes of society took control of the levers of political power. Ultimately even in Britain the success of Parliamentary reform and the demands for the democratization of the franchise had had as their precondition, the enthronement of the automatic gold standard and therefore the removal from the elected representatives of the middle and later the well-to-do working class, of the power to manipulate the financial system. In a tiny overseas colony wracked by the struggle of tenants against a largely absentee landlord class, this emasculation of the powers of the Assembly was all the more imperative. Furthermore, on a more mundane level, there was concern to prevent government economic activity from encroaching on the profit-making opportunities of the private sector, specifically the profit opportunities that would result from the ability to circulate paper money.

In short, given a choice between aiding the public finances and facilitating the short-term profit-making potential of private investors, the Lords of the Treasury chose the second, while attempting to shroud their decision behind a veil of specious arguments about the inefficiency of publicly-controlled credit mechanisms.

In opposing the request for an expansion of the note issue, even on a gold standard basis, the imperial officials took the occasion to recommend more far-reaching changes in the mode of financial operation of the Island government. One of their central proposals was for a cutback in, and eventual abolition of, the tax deferral system for Island merchants who imported goods. If such credits were abolished, then the time stream of public revenues would better match the time stream of public receipts, and the need for a floating debt based on tax-anticipation bills (in the form of warrants) would diminish. When capital projects were deemed necessary, money could be raised through the sale of funded debt instruments, like debentures, as the "correct" principles of public finance suggested. Furthermore removal of the government from the tax credit business would open up a potentially profitable line of business to private sector banks which the imperial treasury wanted to see encouraged. Merchants would pledge their bonds to the banks to raise money to pay taxes; and taxes could then be paid on time in the form of bank notes, thus reducing the floating debt of the colony.

Thus on both the asset and the liability side of a (hypothetical) bank's balance sheet, in terms of both competition in the borrowing business (by treasury notes and warrants) and competition in the lending business (by accepting merchants' tax deferral bonds), the P.E.I. financial system, the ultimate development of 18th Century American colonial currency-finance, impeded generalization of the international gold standard and the creation and growth of private sector banks of issue that institutionalized it. With their usual logic, their lordships argued that the existence of £150,000 of mainland bank paper in the Island circulatory system proved that P.E.I. could support a large, profitable bank of issue; while the existence of £11,800 of government treasury paper prevented such a bank from being established.[16] Such a bank, they claimed, would be a boon to businessmen on the Island, providing discount facilities, handling international remittances, and putting the currency on a sound, gold basis. As it by magic, only three months after their Lordships impassioned apologia was delivered, the bill to incorporate the Island's first chartered bank was presented to the legislature.[17]

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[1] These arrangements were enacted under Stat. P.E.I. 14 Vic.I Cap. 20, 1851. They did contain an important ambiguity with respect to the notion of "lawful current money" at a time when the Island still did not have a legal tender law. Treasury notes might well be "lawful current money" under the terms of the Act - they certainly were legal tender to public transactions. It is possible the Treasurer still retained the right to pay off the warrants in notes rather than specie, while presumably persons buying debentures could tender notes in payment. Furthermore any notes that might be presented to the Treasury for payment would still have to be converted into 6% warrants, subsequently converted, at maturity, into 5% endorsed warrants. Hence the "reforms" were perhaps not as sweeping as they first seemed.

[2] On the British imperial economy in this period, see H.J. Habakkuk "Free Trade and Commercial Expansion 1853-1870" *Cambridge History Of The British Empire* Vol. II

[3] On Island trade see W.S. MacNutt *The Maritime Provinces* 215.

[4] Actually the data published in P.E.I. official statistics were inconsistent on the total, sometimes putting it at £11,500 and other times at £11,800. While the 11,500 figure was more often reported, logic and the Island's monetary history favours 11,800. The note issues had been £5,000 (1825), £3,000 (1830), £3,000 (1831) and £5000 (1833). The 1833 issue was fully redeemed out of the proceeds of the Land Assessment Act well before 1851,

leaving a net issue of £11,000. The extra £800 seems to have come from a carefully overlooked violation of the enabling legislation. In 1826 the 1825 Act was amended to permit £800 in small denomination notes, provided that the total issue did not exceed the original £5,000. But in fact the total issue immediately rose to £5,800!

[5] Memorandum of the Executive Council, P.E.I. to Earl Grey, 4 Nov. 1851; JLCPEI 1852.

[6] For this estimate see Joseph Pope to Lt.Gov. Bannerman 5 May, 1853; JLCPEI App. IV 1854; and Ross I p.127.

[7] Sir A. Bannerman to Earl Grey, 2 Jan. 1852; JLCPEI App. XVIII, 1852

[8] See the 1847 Currency Commission report for a discussion of this process of using notes to speculate in warrants. It was one of the reasons the Commission gave for phasing out both forms of paper.

[9] Memo of Charles Wood to the Treasury, Treasury Minutes of 29 June, 1852: JLAPEI App.I, 1853. "Bonds" evidently means treasury warrants, not merchants' tax deferral bonds.

[10] The treasury "reserves" of cash were reported at £3,854; but this included £285 of treasury notes awaiting reissue as well as specie and mainland notes.

[11] Joseph Pope to Lt.Gov. Bannerman, 5 May, 1853: JLCPEI, App.4, 1854

[12] Memo of Executive Council, P.E.I. to Earl Grey, 4 Dec., 1851.

[13] Stat. P.E.I. 17 Vic.I, Cap.6, 1854; Treasury Minute, Treasury Chambers, 3 Nov.1853; C.O. Records P.E.I., G287, p.489; Lt.Gov. Bannerman to Duke of Newcastle, 23 May, 1853, C.O. Records P.E.I. G317, No.22, p.232; Newcastle to Bannerman 20 Jan.1854, G.287, No.43,. 485-6

[14] Under the terms of the Land Purchase Act of 1853.

[15] In 1853 Island revenues totaled £31,283 while current expenditures were £22,285, leaving a healthy surplus to discharge part of the outstanding debt. Taking bonds in the treasury for deferred taxes plus cash on hand against all of the debt - notes, warrants and debentures - left a net uncovered debt of only £8,940 for the year. The end of fiscal 1853 was expected to see a net uncovered debt of only £3,000. (Treasury Minute, Treasury Chambers, 13 Jan. 1854; C.O. Records P.E.I. G287, pp.517-599. This is a long and eloquent memo in which Herman Merivale and James Wilson numbered among the authors.)

[16] In virtually the next breath they then argued that a private sector bank would operate by taking in the government notes on deposit, and paying its own notes out, thus clearing the circulatory system of the government notes that were supposed to prevent a bank from functioning.(Treasury Minute of 13 Jan. 1854)

[17] See April sessions, JLCPEI 1854

VIII: THE EMERGENCE OF COLONIAL BANKS, 1854-73

The years from mid-century to the great crash of 1873 were an era of unprecedented prosperity for the Atlantic trading system. The exhilaration of the Crimean war which buoyed up world demand for primary products, especially wheat and lumber, coincided with the scramble for the Pacific, the opening of China, a series of gold rushes and a tremendous investment boom in railways. While growth and expansion were checked by the crisis of 1857, momentum was soon at least partially restored, particularly for areas that had not become heavily dependent on wheat and therefore threatened by the post-Crimean return of Russian wheat onto world markets.

In the field of commercial diplomacy, imperial Britain had completed the transition from mercantilism to laissez-faire; and entrepreneurs probably faced fewer institutional, political and social constraints on their activities than at perhaps any other point in the history of western capitalism. International trade was progressively liberalized, as Britain's diplomats negotiated commercial treaties with European and Asian powers, and its political economists spread far and wide the gospel of free trade. The rise and progress of the railway, steamship and telegraph had exhilarating effects on the pattern and progress of world trade and finance. But most symptomatic of age was the spread of the international gold standard. Country after country went on a more or less automatically functioning specie-based monetary system; banks issuing specie-redeemable notes dominated domestic trade; while internationally, encouraged by the assurance of free remittances of payments that the gold standard represented, great British investment banks stood ready to channel financial capital around the world, to mendicant governments and enthusiastic entrepreneurs alike.

Prince Edward Island certainly shared some of the commercial benefits of the era, including the additional stimulus from a partial free-trade pact between British North America and the U.S. and the new markets for its grains, livestock, fish, timber and small sailing ships that the American Civil War produced.[1] To assure Prince Edward Island’s full assimilation into the expanding Atlantic trading community, two major financial objectives had to be met. One was the change in the mode of government borrowing, moving as much as possible from the use of treasury warrants and towards reliance on debentures. Such a move complemented the growing activities of the British merchant banks in mobilizing international investment in colonial and foreign government securities - provided that those securities conformed to specific financial principles. The second was the replacement of all or most of the vestiges of the old government based paper money and tax-credit system by chartered banks that issued notes and discounted bills of exchange. Indeed the second was a prerequisite of the first; for success in marketing foreign and colonial government securities in the London capital market required, among other things, the assurance that the currency of the issuing government be convertible into specie or hard currency (i.e. exchange on Britain) in order to facilitate the international flow of interest payments associated with the debt.

The First Island Bank

Steps towards accomplishing the first objective were already well in hand. The 1851 reforms of the public finances had seen a £10,000 debenture issue to redeem outstanding treasury warrants; albeit the issue was for local sale (since, without a gold standard and free convertibility, Island securities could not expect to command much of an international market). Similarly in 1853 the

Land Purchase Act authorized an issue of £30,000. Since the intended beneficiaries of that second issue were absentee British proprietors, the imperial authorities assured, in the Currency Act of 1854, that landowners being bought out would be, if not yet completely assured of payment in gold, at least protected from depreciations of the Island paper.

In effect the imperial authorities were simultaneously encouraging the Island to switch to borrowing through a local long-term capital market and helping them to spend the resulting money by forcing up the price of the land they were intending to buy with it.

Since these early debenture issues were largely marketed locally, they did not entail much loss of financial autonomy. Not until the period of massive land purchases and, more importantly, the railway dawned on the Island would full transition to debenture-based borrowing in the British capital market begin; and that development had to wait the full shift of the Island currency standard to an automatic gold basis. The initial step in that direction came in 1855 when the Island's first chartered bank opened for business.

The bill to incorporate the Bank of Prince Edward Island emerged from the Assembly debates at the end of April, 1854, with an array of features drawn from British, Canadian and Nova Scotian experience, then ran the gauntlet through the Legislative Council.[2] It was passed into law subject to the final approval of the imperial government which it received the next year.[3] There was little in the charter as it emerged from the Island legislature to which the imperial authorities could seriously object. For by the time that P.E.I. promoters effectively copied mainland experience in writing their bill, the mainland colonies had had their banking legislation beaten into the shape the Lords of the Treasury and Colonial Office desired by repeated interventions.

Capital stock of £30,000 was made payable in *specie*, thus eliminating the possibility of using treasury notes to buy stock or, a favourite practice of earlier Canadian promoters, "paying" for shares with private promissory notes. By banning treasury notes from being used to buy stock, and therefore also precluding their use as cash reserves, the bill assured their demotion to a second-class currency for private-sector purposes. Still there was nothing to prevent the bank from accepting them on deposit, then having them converted into 6% certificates - a practice which would both help open space in the circulatory system for bank paper, and would at the same time yield the bank an asset yielding the highest rate permitted by Island usury law. Also helpful in this respect was the clause, common to mainland banks, establishing a limit to total debt of three times the paid-up capital. That limit applied to debt incurred by bond, bill or note - but deposit liabilities were excluded, being therefore effectively without legal limit.[4]

There was an effort made to limit the concentration of economic power the bank might facilitate. While any one individual could own up to 20% of the stock, there was a lower limit set on the total number of votes, either by virtue of stock ownership or by proxy, that any one person could exercise. All shares carried a double liability - a further disincentive to their accumulation.

On the asset side were certain restrictions normal for commercial banks of the era. The bank could deal in goods and equity only if such goods and equity had been pledged as collateral for loans which had gone subsequently into default. The charter also banned lending on real estate mortgage. Such a restriction derived from the common conviction that real estate was too illiquid for chartered banks (which had to be ready to meet their main liability instruments on demand) to accept as collateral. The charter also banned loans secured on the bank's own shares. Such loans, which had figured in earlier Canadian experience, put the bank in the interesting position of repaying the shareholders their capital while keeping the nominal paid-up capital of the bank intact, and with it allowing the bank to continue to exploit the full leverage such a nominal capital permitted.[5] Paralleling efforts to limit concentration of power on the liability side, on the asset side directors were forbidden to run up debts to the bank, whether as principals or guarantors or endorsers, of sums greater than 20% of the value of the paid-up capital.

This last restriction reflected a long and bitter debate elsewhere in British North America. Its importance derived from the fact that in the early years, the principal sources of loanable funds came from stockholders' purchase of equity, deposits and notes (put into circulation by the act of discounting bills or making loans). From these sources the bank would hold back part in the form of specie reserves to meet demands for repayment of notes in specie. The rest was put out in the form of discounts of commercial bills of exchange or loans to businesses against the personal security of the borrower backed up by one or more guarantors. In the case of P.E.I. part could be invested in treasury certificates.

Bank of Prince Edward Island, Sept. 1856
(£cy.)

Assets		Liabilities	
specie (a)	£17,856	notes	£8,999
balances due from other banks	250	net undistributed profits	162
other debts due	12,222	balances due to other banks	nil
		current accounts(a)	21,013
		interest bearing accounts	550
	30,328(b)		30,724(b)

(a) includes stockholders' equity which was paid in specie and originally recorded as a deposit.
(b) accounting anomalies are almost the rule in early Island bank returns!

It was the responsibility of directors at their weekly or twice-weekly meetings to decide which bills of exchange or promissory notes to discount, and at what rate. That made it possible, indeed inevitable, that the directors themselves would number among the heaviest borrowers. Banks were promoted and operated by cabals of businessmen both to make profits on normal bank lending and to accommodate the credit needs of their own businesses. The two objectives might well be in conflict. Directors in their capacity as overseers of the bank would seek to maximize its profits from ordinary operations; but in their capacity as major borrowers they would seek to reduce borrowing costs and maximize credit availability to themselves no matter how precarious their financial position. Indeed the more precarious that position, the greater might be their temptation to draw on the bank. For the directors, in the age before the generalization of limited liability, normally held unlimited liability with respect to the debts of their commercial houses, and only a limited one with respect to the bank. Serious legal checks on the operation of such conflicts of interest only emerged in British North America after some particularly sensational scandals, and even then were often ineffectual in practice.

The general public held a potentially large stake in the process. Banks borrowed from the public in two forms. Deposits were mainly by businessmen with temporary cash balances seeking a safer haven than the proverbial strongbox, and were overwhelmingly in the form of non-interest bearing current account. However bank notes, put in circulation through the discount and loan process, circulated among the public at large, and constituted de facto an interest-free loan from the public to the bank. In conjunction with the directors' control of the discount and lending decisions, this made it possible, indeed well near certain, that money effectively lent by the public at zero interest would be poured by the directors into financing their own businesses at preferential rates of discount. The poor thus subsidized the rich, giving the business elite the means to enhance their position vis-à-vis both the population at large and their immediate competitors.

The Monopoly Phase

Such a phenomenon could be held in check in several ways. One, applied in different guises in various colonies, was the limit placed on the percentage of a bank's resources that the directors could appropriate whether as borrowers, endorsers or guarantors. How effective such legal limits actually were was a question P.E.I. soon answered - in the negative. Another obvious mechanism for keeping credit monopoly under control was for rival groups of businessmen to establish their own institutions, in effect competing by pushing notes to divert the interest-free loan from the general public into their own businesses. In the case of P.E.I. the second avenue of control was two years in coming. Indeed, in one its very few deviations from mainland norms, the Bank of Prince Edward Island charter contained a clause actually restricting competition - specifically a clause banning the circulation of all private promissory notes unless explicitly authorized by law.[6]

In effect competing private banks were outlawed, and the old controversy between Assembly and Council over the circulation of privately-issued paper was finally settled, with the gain in terms of increased space to issue paper money going to the new chartered bank rather than to government. It also meant another blow against the old debt-bondage and barter economy, the principals of which had been, after the elimination of petty money-makers like James Hazard, the most prominent issuers of private promissory notes. It therefore symbolized the coming of age of the indigenous commercial class. Indeed the bank was headed by James Duncan, a prominent shipbuilder and merchant who represented the new elite as effectively as the Cunards, whose paper was now banned, had epitomized the old.

Such a clause did raise a few eyebrows in the Treasury Chambers when the bill arrived there for scrutiny in 1855. The rustic honesty of the colonial legislators had led then to embody right in the act of incorporation of the bank the clause blocking competitors. That, their Lordships insisted, was scarcely cricket. Instead a law banning private paper should be introduced by a separate act of the legislature.[7] The upshot in terms of banking practice would be the same, but the public relations effect would be much better; for by adopting the second course the legislators, who included partners in the new bank, could then pose as impartial defenders of the public interest instead of self-interested participants in a game of monetary monopoly without any loss of material advantage. That, after all, was what the empire was all about.

The Lords of the Treasury also worried about the wording of the clause banning mortgage secured loans, for it contained a proviso to allow the bank to make advances on the "collateral security" of mortgages. At a time when the tenants on P.E.I. were clamouring for land and when banks in Canada had plunged merrily into a speculative land boom, the clause's ambiguity seemed particularly ominous. What their lordships wanted was an unambiguous ban and two further stipulations: (1) that a bank could accept a mortgage as *additional security only for a previously contracted loan that was overdue*; and (2) that if such a stipulation led to the bank actually acquiring the property, it would be obliged to sell it as quickly as possible. However in their eagerness to get the Island onto gold standard banking, they decided to leave the clause as it was for the time being. The necessary amendments were built into the charter in 1862, along with a rewording of the double liability clause.[8]

Although private competitors to the chartered bank were effectively banned from issuing paper money, and while the circulation of gold and silver were the perquisites of the sovereign power, it was still legitimate for money manufacturers to coin copper and brass for profit. Businessmen of the era therefore used the opportunity to laud their political gains, salute the propitious economic circumstances, and enhance their profits all at once. Thus one 1855 penny token was emblazoned with the motto "self government and free trade."[9] Another, issued by James Duncan's firm, proclaimed the virtues of "fisheries and agriculture."[10] Yet another, a joint coinage venture of Duncan with the Charlottetown mercantile firm of Beer & Sons, saluted "ships, colonies and commerce." This last effort returned a profit rate of 70% on the cost of coinage.[11] If that were representative, it might help explain the zeal with which merchants entered the money-making business. Nor did Duncan's prominence in coin-manufacturing imply a conflict with his banking endeavours; for notes issued by the bank and private trade tokens issued by his firm were complementary instruments in the general process of expanding the role of cash transactions in the Island economy.

With its charter secure and business conditions on the Island excellent, and with the shipping business in particular reaching a speculative peak, the new bank plunged into the lending and discount business with such gusto that when the crisis of 1857 struck, the bank suspended payments. It appears that during its first two years of operation the bank had managed to lend a sum equal to twice its paid up capital to one shipbuilding firm.[12] It appears further that, just by the remotest coincidence, the shipbuilding firm was headed by one James Duncan. Thus the bank president's own firm secured from it a sum that was a mere ten times the legal limit set for borrowings by directors in total. It demonstrated the fundamental worthlessness of legal restrictions not backed up by an on-going process of inspection.[13]

This gap between legislative theory and business practice was never plugged. Instead, immediately after suspension the bank began lobbying for an extension beyond 90 days of the period in which it could maintain the suspension of specie payments without loss of its charter; and it asked for permission to substitute treasury paper in its vaults for specie "to a moderate amount," an interesting request given that it was tantamount to making government paper legal tender equivalent to gold.[14] The period between the inauguration of an automatic gold standard system and the request by bankers for a bailout in the form of a government-managed fiat money system had lasted all of two years!

After a brief investigation by a committee of the legislature and some dressing up of its balance sheets, the bank resumed "normal" operations.

Several other financial consequences followed the crisis of 1857-8, and the credit squeeze it precipitated. As imports and therefore tariff revenues fell off, the government could no longer meet its current expenditure obligations out of current receipts. The volume of treasury warrants outstanding began to rise once more, while tight money-market conditions forced their interest rate to be set again at 6%.[15] In the midst of the credit contraction, there were reports that the Bank of P.E.I. was charging 20-25% to desperate borrowers, something that could not have endeared it to the public. Furthermore, once economic conditions improved, it became clear that the demand for commercial credit outstripped the capacity and/or willingness of the bank directors to provide for it. That demand for commercial credit was more than just cyclical - any progress towards monetization of transactions, and ipso facto any decline in the role of country storekeepers' book credit, automatically meant a secular rise in that demand as well. Private money lenders openly advertised their activities in the newspapers;[16] while the urban retail sector financed much of its trade by accepting promissory notes or extending credit to customers.[17]

Reactions to the credit squeeze and the monopoly power of the only chartered bank varied from innovations in the public finances to efforts to abolish the usury laws to attempts to establish new private financial institutions. For although the retail trade sector offered trade credit to its customers, the resulting debt-credit complex was drastically different from that which prevailed in the debt-bondage and barter system. That system had used debt as much as an instrument of social control (tying the tenant to a particular landlord's land or a farmer to a particular merchant's store) as economic. In that way it reinforced a bilateral monopoly of purchase of farm produce and sale of store goods and generated both labour services for the agent's shipyard and specific staples that commanded international markets. Debt was therefore entrenched as a permanent institution. But in the new, urban-based retail sector, where cash transactions were at least the theoretical norm, debt was a commercial instrument - the creditor tried to liquidate his portfolio of promissory notes and overdue accounts as quickly as circumstances permitted. Hence the demand for more banks that would ease money-market conditions and increase the supply of credit and the volume of available cash.

Advent Of Competition: The Farmers' Bank

The first new formal institution arose out of conditions in one of the poorer farm communities, the old Acadian parish of Rustico. There each spring farmers faced a credit crisis when they sought to buy seed - they could rarely pay cash and had to accept the apparently onerous credit terms of local retailers or loan sharks.[18] In 1859 a new pastor, Abbé Georges Belcourt, brought with him to the parish both a moral commitment to bettering the material lot of the parishioners and a practical knowledge of the operation of “people's banks” in Europe.

The “people's bank” movement, especially strong in France and Germany, presumed a organization that was more like a credit union than a commercial bank. People's banks were controlled by the citizens of the community they served, rather than financiers of the metropolitan areas. And while commercial banks borrowed from the public at large through the circulation of demand notes as money, using the lending capacity thereby derived to pour money into the commercial enterprises of the directors and their associates, people's banks lent to farmers and artisans. Furthermore commercial banks, through the circulation of notes far afield, would in effect drain the surpluses of the countryside for the benefit of urban commercial enterprise; people's banks were intended to assure local control and use of the community savings.

Such an institution on the Island, it was hoped, would replace inter-communal, interclass redistribution of savings by intra-communal and intra-class; local credit conditions would be improved and cash transactions facilitated, while the local money market would be at least partially insulated from the vagaries of international commerce, the state of the Island balance of payments, and the whims of urban merchants. Furthermore within the community productive activity by farmers and artisans would be encouraged, while speculation, usury and the fostering of individual avarice in all forms inhibited. That was the theory, though in reality the institution that took shape on P.E.I. was a hybrid of both commercial and people's bank models.[19]

In 1861 the community of Rustico proceeded to erect a combined meeting-hall and bank building, the combination symbolizing the intent to assure community control over the financial affairs of the parish. In 1862 the provincial legislature passed an act to permit the establishment of companies *en commandité*.[20] While the act made no explicit reference to the plans of the Rustico parish, it seems likely that there was a direct connection; for it did explicitly allow companies in that old French form rather than the roughly equivalent English style "joint stock company under articles of association." Banks set up under the *en commandité* principle were common in the history of Lower Canada; and one of them, La Banque du Peuple, was still operating successfully when the Rustico bank was in its planning phase.[21] What differentiated a company organized on the joint stock or *en commandité* principle from ordinary partnerships or corporations, was that: first, directors were subject to unlimited liability, while the liability of ordinary shareholders was strictly limited; and second, such companies did not require an explicit vote of a charter of incorporation by the legislature, the public printing of intent to operate sufficed.

It was in such form that the Farmers' Bank of Rustico started operating in 1862. The lack of a formal charter of course prevented it from issuing notes - given the ban on their issue by unincorporated companies built into the charter of the Bank of P.E.I.. Hence for its first two years it must have functioned very much like a credit union, accepting deposits and making loans, while the actual circulation of commodities presumably was financed as before by storekeepers' account books and Bank of P.E.I. paper. It was this legal limitation that prompted the bank, in 1863, to apply for a formal charter of incorporation.[22]

Although the request for a charter was granted the next year, it was not without some misgivings on the part of the Lords of the Treasury. Part of their apprehension lay in its size. With an initial capital stock set at £1,200 cy., it was certainly the smallest chartered bank in British North America, and perhaps in the empire. In addition the charter requested permission to increase the capital, at the discretion of the directors, to £21,200 over the life of the charter, an increase of nearly 18 times the original, whereas standard practice was for a doubling or trebling of the capital without the bank having to apply to the legislature for an amendment to its charter. This was referred to by the imperial authorities as a "singular provision,"[23] and might have destroyed the bank's hopes for incorporation but for the active intervention of the Island Attorney General. He backed the promoters in their plea that other parts of the charter were more stringent than normal, offsetting the singularity of the capital-stock provisions. All the initial capital had to be paid up before it began operating, whereas the Bank of P.E.I. had only been required to have one third paid up. Furthermore for the Farmers' Bank, total debts, apart from deposits, were limited to twice, rather than thrice, the paid up capital.[24] With these pleas, the chartered bank was given special permission to open.[25]

The new note issue power permitted rapid expansion of its activities, albeit that Abbé Belcourt directed its lending into channels and according to principles alien to orthodox commercial banking. Most bills and notes presented to banks for discount had a three-month term. But Belcourt realized that such a term was inappropriate for farmers with their yearly cycle of activity and concomitant cash flow profile. Furthermore while the great bulk of accounts in commercial banks were non-interest bearing temporary idle balances of merchants, a small rural community needed a savings vehicle. For a long time the only accounts carried in the Farmers' Bank were interest bearing deposits of local citizens.[26] In fulfilling the specific needs of its community the bank never once suspended payments, even in the face of periodic major international financial crises, until the Canadian federal government itself stepped in to destroy it some three decades after its creation.

Farmers' Bank, April 1866
£ cy.

Assets		Liabilities	
specie	… 2,589	capital	...1,462
debts due from other banks	...88	notes	...4,356
net profits at hand	…80	current accounts	...00
other debts due	… 3,720	interest bearing accounts	...558
	£6,397		£6,396

The success of the bank must have been due in no small measure to the fact that it was an institution of an Acadian community known for its capacity for cooperative endeavour. That spirit of cooperation also manifested itself in yet another unique experiment in community finance, starting in other Acadian parishes isolated geographically and commercially from the mainstream of Island life. Starting first with the Egmont Bay Seed Club in 1869, by the end of a decade the Acadian parishes had organized 24 “grain banks.” Grain banks typically comprised 30-50 farmer-members, each with equal voting power.[27] Their objective was to permit the farmers cooperative access to seed grain independently of the country merchant, and therefore stop the process of farmers becoming indebted to those merchants. Not only were the grain banks a blow against the debt-bondage system, but they even bypassed the emerging trans-Island cash-based commercial economy.

However the triumph of the seed grain banks reflected more than just the capacity of the Acadian parishes for cooperative endeavour. It also reflected the rising importance of oats in an Island staple trade configuration normally dominated by wheat and timber. In 1835 oats made up 11% of Island commodity exports (ships excluded); by 1855 they were 43%. Over the quarter century from the crisis of 1837-8, the physical volume of potato exports rose 8 fold, of barley 6 fold, of dried fish 5 fold - while oats leapt 22 fold. Paralleling that growth came a reorientation of trade.

While Britain still dominated the Island import trade via Charlottetown (which in the 1850s still accounted for 75% of imports), an ever larger share of its exports went to the U.S. By the late 1850s the Island was financing its imports of British dry goods, iron and steel, tea, sugar and rum by hefty and growing trade surpluses with the U.S. As a triangular trade pattern replaced the old bilateral one, the debt-bondage economy was further marginalized; international trade came to be controlled by merchants who discounted trade bills for cash at the emerging Island banks. And even where transactions in kind did continue, they were increasingly conducted in commodities suitable for the American market and therefore intermediated by a different group of merchants than those who, as country storekeepers and landlords' agents, made the debt-bondage economy work.

Island Trade, 1857 and 1865
£ stg.

	1857		1865	
	Imports	Exports	Imports	Exports
Britain	87,802	25,613	160,131	64,876
Canada	5,912	300	7,364	1,355
Nova Scotia	99,053	32,752	70,168	54,835
New Brunswick	14,143	13,918	44,398	25,875
Newfoundland	1,005	10,319	3,111	14,768
British West Indies	291	1,331	4,792	5,449
French, Spanish W.I.	226	1,760	251	3,510
United States	50,296	48,452	90,800	120,929

The emergence of grain banks in the Acadian areas was a further symptom of the liberation of Island production from the fetters of debt-bondage. While within the banks all transactions were done in kind, specifically in oats, it was not an example of pioneer cooperation. Farmers with surplus grain would “invest” it in shares, each of ten bushels, in the common pool. Other farmers, including non-members, borrowed, repaying with an interest charge of one peck of grain per bushel borrowed. After deducting costs and an appropriation for the reserve fund, dividends were paid out to the investing farmers, again in the form of oats. The beauty of the grain banks was that not only did they free the farmer from the merchants who had formerly controlled the supply of seed, but they did so without opening the community to the commercial hegemony of the chartered banks. Debt-bondage was replaced by communal credit while the major transactions continued to be conducted without cash. Where a local commercial bank existed, as in Rustico, its operations could be complementary to a grain bank - the grain bank could finance production while the commercial bank functioned as a depository of farmers’ cash savings, using them, plus its note issue power, to discount farmers’ notes until payment was received for the ensuing harvest.

New Commercial Banks Take Root

The chartering of the Farmers' Bank coincided with a number of other Island financial developments, not least the emergence of another institution which, headquartered in Charlottetown instead of a remote parish, constituted a serious challenge to the Bank of P.E.I. Behind the new promotion lay not only the potential profits from a discount and loan business, but also, inevitably, the possibility of using the bank to fund the business enterprises of those responsible for its creation. On P.E.I. no less than in the other colonies, much interbank rivalry could be expected to take the form of cabals of businessmen who reacted to the refusal of competitors in control of a bank to accept their paper for discount by establishing a rival institution.

In 1863 a petition from some Charlottetown residents, including Henry Hazsard, son of the old pioneer of private paper money, reached the Assembly requesting the incorporation of a Joint Stock Banking Company which subsequently assumed the name "Union Bank of Prince Edward Island." It passed the legislature without apparent difficulty, received Crown assent, and began operating the next year.[28] In 1866 came the Summerside Bank. Then in 1871, riding the crest of a European and North American railway boom, the Merchants' Bank of P.E.I. came into being.[29] Three other Island banks were chartered in those years but never operated.[30]

Banks Of Prince Edward Island

Name	H.Q.	Opened	Closed	Ultimate Fate
Bank of P.E.I.	Charlottetown	1856	1881	failed
Farmers' Bank	Rustico	1862(*)	1894	closed by Ottawa
Union Bank	Charlottetown	1864	1883	merged Bank of Nova Scotia
Summerside Bank	Summerside	1866	1901	merged Bank of New Brunswick
Merchants' Bank	Charlottetown	1871	1906	merged Bank of Commerce

The birth of the Union Bank in 1864 was complicated by two concurrent issues. Along with the plans for its incorporation came an assault on the Island usury laws and another effort to demonetize silver. In fact by the time the bank was born the usury laws had already been greatly watered down. In 1861 it had been stipulated that bills of exchange and promissory notes of terms less than three years (i.e. commercial debt) and any loan of less than ten pounds were not subject to the 6% ceiling. Furthermore in all other cases the usury laws could be waived by an explicit agreement of the contracting parties - it can be assumed that agreeing to such a waiver was often a condition potential lenders forced on aspiring borrowers. The major exception remained loans secured on land and buildings for which the usury laws remained fully in force.[31] To eliminate the remaining restrictions, on long term and real estate loans, a new effort was directed in 1864.

It began in the Legislative Council, a fact that led to the charge that the abolition was being pushed by certain councilors heavily into the note shaving and loan sharking business. In favour of abolition was marshaled an array of philosophical and practical arguments without much regard for consistency - money was tight and the market rate should exceed 6%; it was only fair that the capitalist get the market return; the old laws were impossible to enforce; usury laws kept down the supply of loanable funds to the legitimate market and therefore forced the needy borrower into the hands of “shavers and sharpers.” But basically there were two economic forces pushing towards abolition. One was the general progress of the market in organizing Island economic life, a progress summed up by the Attorney-General when he expressed the view that, with abolition, “money will then be put on an equal footing with other marketable commodities.”[32] The second came from banks pressing for the elimination of restrictions on their right to manufacture and sell the means of payment.

Working against repeal were those who feared for the fate of the tenant class. Any progress made towards forcing landlords to sell land to their tenants would, it was feared, cause a rush of borrowers into the capital market and drive up interest rates. That would also have the effect of driving up the cost of long-term government borrowing, the bulk of which to date had been undertaken to support land purchase.

A compromise solution suggested was to free interest rates in general, including long-term loans, from any usury law but to retain the 6% ceiling on mortgage lending.[33] However no action was taken for another four years.

At the same time as the usury law debate came discussion of a new currency bill, one intending to finalize the Island's move to gold mono-metallism - silver was to be reduced to a token role, systematically overvalued with respect to its specie content, and a strict limit of six pounds currency set to the amount of it that could be tendered for payment. The new concern over the monetary standard seems to have reflected conditions arising out of the American Civil War. The U.S. suspended domestic specie payments in favour of inconvertible Greenbacks, and it stepped up its purchases of food and raw materials from British North America, including P.E.I. The result was a mass migration of overvalued American silver, to which the British provinces reacted by limiting the circulation of silver. No doubt that also helped to clear more space for new banks issuing paper money redeemable in gold.[34]

The opening in 1864 of a new Charlottetown bank was followed shortly by yet another in the second major urban centre of Summerside. Unlike the Union Bank which was directly competitive with the old Bank of P.E.I., or the Farmers' Bank which had a unique rural constituency to serve, the Summerside bank seems to have been intended, at least in part, to help local businessmen monetize their book debts. In an interesting view of the process through which commodities were circulated in P.E.I.'s second urban centre, a prominent grain and produce merchant, John A. Macdonald, in 1866 placed the following advertisement in the local newspaper:[35]

Attention!

Cash and Oats being wanted by the Subscriber, in order that he may pay his debts, he requests all persons indebted to him to pay up, in full, before the 15th October, in either Cash or Oats. If the Cash or Oats be not forthcoming by the above date, legal measures will be taken without further notice.

In the same newspaper on the same day Macdonald advertised further his willingness to buy ox and cow hides for cash. This bizarre juxtaposition is explicable only if the Summerside area’s market system had still not evolved to the point where transactions were effected by a unique general-purpose money. Rather cash and oats were interchangeable as means of payment for accumulated store debt. Cash could be used in turn to discharge merchant's debt or to purchase general country produce whose markets might be local or, if international, less formalized than those for the major grain crops. Oats was a partial substitute for cash because it was readily negotiable in international markets for hard currency, much as wheat had been during the peak of the debt-bondage and barter economy. But oats was a uni-directional money form; it would not buy local country produce for the obvious reason that farmers who produced it would not accept it back again. With the creation of a local bank of issue, oat-money redeemable in gold or sterling on international commodity markets presumably was soon replaced by bank notes redeemable in gold on local money markets.[36] Perhaps not surprisingly John A. Macdonald headed the list of petitioners for the incorporation of the Summerside Bank.[37]

By 1867 the Island had four chartered banks in operation, soon to be joined by a fifth. The four had a combined note circulation of £77,088 cy. compared to £11,500 of extant treasury notes, against which they held specie reserves of £23,340. The banks had deposits of £57,689, of which £33,014 was in non-interest bearing current account. But these aggregates hide important distinctions among the banks. In Charlottetown the old bank had matured to the point where it financed trade almost as much with chequable accounts as by notes, and it held a high ratio of specie reserves. The new bank, by contrast, pushed its notes vigorously such that at the end of three years of operation its total circulation exceeded that of the old bank while its demand deposits were less than half. Furthermore its reserve ratio was much lower than its old rival.

Chartered Bank Liabilities, 1867(*)

	Bank of P.E.I.	Union Bank	Summerside Bank	Farmers Bank
Notes	24,877	27,925	20,034	4,252
Demand Deposits	22,139	9,300	1,575	...
Saving Deposits	15,925	6,760	1,456	534
Capital	30,000	n.a.	9.830	1,845
Specie	9,828	4,629	6,791	2,092
% Specie/Notes	40	17	34	49
% Specie/All Demand Liabilities	21	12	31	49

(*) Dates of returns published in JLAPEI vary from bank to bank but all are in winter or spring of 1867.

The Summerside Bank was even more vigorous in promoting circulation - perhaps reflecting the later development of full monetization in its commercial fiefdom. Much the same held true for the Rustico bank. That bank was further distinguished by its remarkably high cash reserve ratio - it was an extremely safe institution from the point of view of note holders. Its vaults contained not only all of the specie paid in by the shareholders, but some on top that came from depositors. And, reflecting its self-image as custodian of the community's wealth, such deposit business as it did do was all in interest-bearing account.

By 1871 the Island money supply consisted about £60,000 of demand deposits, against which cheques were drawable, and some £70,000 of Island bank notes, together with £11,500 in treasury paper, £6,000 in mainland bank notes, £2,000 in American bank notes, and £22,000 in coin actually circulating (i.e. in addition to that held on reserve). Certainly the storekeepers' account book and payments in kind would not have completely disappeared; and the Island government paper had evolved de facto into a permanent fiat currency. But even the coinage had been cleaned up - the flotsam and jetsam of copper and brass replaced by specially minted, decimal-denominated Island copper.[38] Silver had been reduced to a token role; private promissory notes had been banned. Overall the great bulk of the money supply consisted of gold-redeemable paper, enhanced in practice by the replacement of the great majority of the mainland bank notes (which were redeemable only at the office of issue) by local ones.

The gold standard and the banking structures to sustain it had truly come to the Island by the early 1870s. This had the incidental (and, to the Lords of the Treasury, happy) effect of precluding the Island government from issuing more paper money as an instrument of public finance. Coming as it did when two grave problems, one old and one new, imposed ever escalating demands on the public purse, the triumph of "sound money" over New England style currency-finance forced major innovations in the structure of public finance, innovations whose political consequences would prove overwhelming.

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[1] Weale and Baglole 82-4; MacNutt "Political Advance" 129; Sharpe 114; Clark 118

[2] The Assembly and Council appear to have crossed swords briefly over this question of what penalties to impose if the bank failed to pay its notes in specie on demand. The Assembly asked for a 12% charge, while the Council wanted it limited to 6%. In the final analysis no charge whatsoever was imposed in the charter - though the option of a suit under common law, subject to the usury law limit of 6%, was in theory open to any note holder. However the usual restriction of suspension to 90 days, after which the charter would be forfeit, was imposed. There also seems to have been some debate over whether or not treasury notes could count as cash reserves, the negative prevailing.

[3] Stat. P.E.I. 18 Vic.I, Cap.10, 1855

[4] These clauses reflected the fact that in the early to mid 19th century notes were much more important than deposits as sources of loanable funds; and indeed the monetary authorities, in restricting notes, had not yet woken up to the fact that the chequable deposit would rapidly displace the note as a medium of exchange. Though in the case of P.E.I. notes remained twice as important as chequable accounts as liabilities to its banking system until as late as 1873.

[5] The mechanics may be obscure. For every new £100 share "sold", a bank could acquire £100 of new specie which, given the legal leverage ratio of total liabilities to paid-up capital of 3:1, would allow the bank to issue £300 in new notes. If the owner of the share pledged it back to the bank as security for a loan, he could get back his £100 in notes, instantly redeeming them for £100 in specie. On paper the total paid up capital would remain the same; for the pledged share did not become the property of the bank until it was seized for nonpayment of the loan. In effect the bank could be issuing £300 of new notes, in association with that much new commercial lending, while its real level of paid up capital and its specie reserves fell. See R.T. Naylor The History Of Canadian Business, 1867 1914 Volume I (Toronto, 1975) Chap. IV for later examples where these games were played with disastrous results.

[6] Specifically by clause XXV of the charter.

[7] C.E. Trevelyan to H. Merivale, Treasury Chambers, 5 Oct. 1856, JLCPEI, 1856 App.4.

[8] Stat. P.E.I., 19 Vic.I, Cap.2 1862. The amendment of the double liability clause involved the specification that a shareholder was liable for the bank's debts for a sum double the amount of his stock "in addition to the amount of stock by him paid into the bank." This in fact was sometimes described as a triple liability condition and could be found in other Maritime province charters, through not in Canadian ones.
[9] Weale and Baglole 87
[10] P.H. Breton, *Illustrated History Of Coins And Tokens Of Canada* (Montreal, 1894); see also the list of Island tokens in Callbeck 134
[11] Metcalf 100
[12] See the brief retrospect on the bank at the time of its final, fatal collapse in *Monetary Times* 2 Dec.,1881, 668
[13] In fact by clause XXIX of the bank's charter the legislature could at any time investigate the books of the bank. It did so only after crisis and suspension.
[14] JLCPEI 5 March 1858, 52
[15]Stat. P.E.I. 21 Vic.I, Cap.4, 1858
[16] *P.E.I. Examiner* 21 April, 1862 et passim.
[17] *P.E.I. Examiner* 21 April, 7 July, 1862. The notes were of course legal documents on which suits could be based, since they were non-circulating and therefore did not fall under the categories banned. Even the *P.E.I. Examiner* carried its customers by book account and issued warnings to tardy debtors
[18] Canada, *Senate Debates*, 18 April, 1883 pp.271-2
[19] J.T. Croteau "La 'Farmers' Bank of Rustico': Une des Premieres Banques du Peuple", *Revue d'Histoire de l'Amérique Française* X, No.1, juin 1956. While many of the points Croteau makes are excellent, he does seem to go overboard in trying to tie the development of the bank to the subsequent Caisse Populaire movement in Quebec, a movement that was a bona fide extension of the European credit union principle.
[20] Stat. P.E.I., 25 Vic.I, Cap.13, 1862.
[21] Apart from La Banque du Peuple, Canada had a number of banks organized under *en commandité* or joint stock principles - the Bank of the People in Upper Canada, the Farmers Bank and the Agricultural Bank, also in that province, plus an array of more or less open swindling operations in Lower Canada. In Canada such banks could issue notes, for the ban on the circulation of such paper by unincorporated institutions came after their establishment.
[22] JLAPEI 1863 p.107, petition of Fabien Doucet et al
[23] Duke of Newcastle to Lt.Gov. Dundas 27 Nov. 1863; JLAPEI 1864 App. A, Despatch No.15.
[24] E. Palmer, A.G. to Lt.Gov. Dundas, JLAPEI, 1864 App. A.
[25] Cardwell to Lt. Gov. Dundas 13 April, 1864; JLAPEI 1864 App. X.
[26] Croteau in "Farmers' Bank" suggests that the bank also differed in having limits on the number of votes any shareholder could cast; but this was also true of the Bank of P.E.I. and other British North American banks at different points in their history. Once again it must be stressed that it was in terms of actual operation, not legal form, that the bank was different.
[27] See esp. the account of J.T. Croteau "The Acadian Grain Banks of Prince Edward Island", *Agricultural History* vol.29, No.3, July 1955.
[28] JLAPEI 1863, 83,96,98
[29] Stat. P.E.I. 34 Vic.I Cap.6 1871; Ross I 127 ff. Island banks followed Nova Scotia precedents in their ratio of total debt to paid up capital and the sliding scale attached to voting power of their stock. The later banks, like the Bank of P.E.I., had a triple liability clause in their charters.
[30] In 1866 the Western Bank at Alberton and the Souris Bank. (JLAPEI 16,26 April, 1866). In 1871 the People's Bank of Charlottetown. (JLAPEI 15,16 March, 1871)
[31] Stat. P.E.I. 24 Vic.I Cap.28, 1861
[32] *P.E.I. Examiner* 2 May, 1864
[33] *P.E.I. Examiner* 9 16,30 May, 1864
[34] Stat. P.E.I. 27 Vic.I, Cap.15, 1864. Prior to the passage of the bill, the question of how the limitation on the circulation of silver would affect the banks was the subject of controversy in the Legislative Council. One side argued that it would clear more space for bank notes; another argued that it would restrict the circulation by reducing the amount of specie available to be held on reserve
[35] *Summerside Progress* 17 Sept., 1866
[36] Summerside bank notes actually became the preferred instrument for exchanges with New Brunswick. The bank would discount the notes of New Brunswick banks; it thereby encouraged New Brunswick traders to acquire Summerside Bank paper to effect local purchases. (*Summerside Progress*, 30 July, 1866; 6 Aug.,1866)
[37] JLAPEI 8,13 March, 1866

[38] The old copper and brass coin collected by the Provincial Treasurer and exchanged for the new British minted decimal pennies was reported to consist of: 62 boxes of half penny tokens, 7 boxes of provincial pennies, 7 boxes of provincial half pennies, 1 box of English pennies, 1 box of French pennies, 4 boxes of smooth English half pennies, and 1 box of current English copper. (*Report of the Colonial Treasurer on the Exchange of Copper Coin*, Treasurer's Office, 8 April, 1872; JLAPEI 1872, App. X)

IX: LAND TENURE AND PUBLIC FINANCE, 1851-1867

From the outset Prince Edward Island was an old-fashioned proprietary colony whose political life was often dominated by sometimes contradictory, sometimes complementary interests of distinct social groups - absentees and their agents, government officials who often had aspirations to land, urban merchants, country storekeepers, lumbermen and shipbuilders, and the tenants. Not surprisingly, it was also a colony typified by self-sufficiency oriented agriculture and a low level of infrastructural development.

Given the small size of the domestic market, breaking down the self-sufficiency orientation of production, and the debt-bondage and barter economy that complemented it, required the opening of external markets - in Britain, the U.S. the Caribbean or the other colonies. To the extent that commercialization of production and monetization of exchanges had been successful by mid century, it served to highlight the importance of finding a resolution to the other two main problems - land tenure and infrastructural development. To resolve both the newly responsible Island government played an active role, though with some unforeseen long-term results.

Operation Of The Land Purchase Act

In response to rapid immigration, land settlement proceeded rapidly over the two decades from 1841 to 1861. The number of freeholders doubled - but the number of leaseholders also came close to doubling with the net result that, despite public intervention, as the 1860s dawned, 60% of the Island farmers were still tenants.[1]

The Land Purchase Act of 1853 had authorized the sale of £30,000 of debentures to finance the purchase of 160,000 acres of land, mainly from the Selkirk estate, and then transfer it to the tenantry.[2] It was not unopposed. In the Assembly remnants of William Cooper's old Escheat forces pointed out that the government was using the people's money to compensate the landlords for rights they did not legally or morally possess; that tenants whose labour had given the land its value at the same time they were paying rent, were now required to pay taxes to finance land purchase and then pay again to buy for themselves the land being acquired by the state. Needless to say, it was not a view that carried much weight among the respectable classes.

The act permitted the Island government to buy land directly from proprietors at a stipulated maximum price or obtain it at sheriff's auctions of lands seized for tax arrears. The land could then be resold, giving priority to existing tenants, at a price just sufficient to cover costs. Twenty percent was to be paid up front and the rest carried at an unstipulated interest rate which the usury laws would have limited to a maximum of 6%. With the Island government becoming a large-scale land jobber, the structure of public finance became more complex. At the end of the 1849 fiscal year the province's liabilities for notes and warrants exceeded its assets of bonds and cash by nearly £30,000.

Public Debt-Credit Position, January 31, 1850

£cy.

Debits		Credits	
notes	... 11,500	bonds	... 9,862

warrants ...	30,664	cash	... 3,723
	£42,164		£13,585

With the introduction of land deals, the province acquired new liabilities in the form of debentures, but also new assets in the form of payments due from land purchasers. Yet given the buoyancy of customs receipts at a time of flourishing trade, the province actually managed to reduce its uncovered debt over the next few years.

Public Debt-Credit Position, January 31, 1858

Debits		Credits	
notes	...11,500	bonds in Treasury	...25,157
warrants	...30,594	bonds with A.G.(*)	... 3,067
debentures	...20,550	cash	... 4,550
		land sales due	...14,226
		bonds in land office	... 775
	£62,644		£47,775

*likely overdue and subject to legal action.

Despite the additional liabilities from land purchase, by the end of fiscal 1857, the uncovered debt was less than £15,000; and the interest on total debt, warrants and debentures, was absorbing less than 3% of total revenues.[3]

But the low level of public debt was an index of the failure of the government to make a serious dent in the land question. Those purchases that had taken place were located exclusively in King's County, the area where rent strikes and physical violence against landlords' agents was most pronounced, and where the landlords presumably were inclined to favour a lump sum of hard cash over the increasingly vague possibility that the arrears of rent might eventually be paid.[4] This was especially true given the Island had erected serious legal impediments hampering landlord action against delinquent tenants. Thus under one Island law the landlords were not permitted to proceed against tenants in Small Debt Court; while under another, all claims under five pounds were actionable only in Small Debts Court, and the Supreme Court refused to hear any case involving less than ten pounds. In the case of old leases on very small plots, rents could be as low as £2/0/0 or £2/10/0 per annum, meaning that the landlord had to wait for several years of arrears to accumulated before he could even start legal action.[5]

Thus, as an instrument for quieting social unrest and finding a "moderate" solution to the land question, the Land Purchase Act was a failure. Tenant agitation assumed increasingly ominous proportions, particularly given that the local militia was a far from entirely reliable body.[6] Imperial troops were an alternative, periodically used - to the disgust of the imperial treasury officials who had long advocated the shifting of all military as well as civil costs onto the colonies. At the same time interventions by the Colonial Office assured yet more trouble.

The 1854 Currency Act, by allowing the 50% markup to prevail on new leases, might well have put a premium on evictions, particularly since many leases were still oral, international markets for Island produce were strong, therefore raising the capital value of land, and a relatively well-to-do immigrant class was available. In 1855 an effort was made by the Island government to secure for evicted tenants compensation for any improvements they had made to a proprietors' land.[7] Lieutenant Governor Daly endorsed the bill as a means by which the status of the Island's Liberal Party government could be enhanced in the eyes of tenants who might otherwise accept the counsels of agitators of the old Escheat genre.[8]

Also carrying Daly's endorsement, though with much less enthusiasm, was another 1855 bill, this one to impose taxation of landlords on the basis of tenant rolls. To imperial demands that the Island itself bear the cost of a permanent imperial garrison, the Island had responded sensibly with a tax bill that imposed the main burden on those most benefiting from the resulting improvement in "law and order." Such progressive taxation might incidentally also encourage land sales. While Daly found the bill inherently objectionable, he recommended its acceptance - for he saw little chance of getting an alternative financial arrangement through the Assembly without rekindling Escheat agitation.[9]

Governor Daly had a difficult task. He had to bolster the credibility of a "moderate" Liberal government under the critical eye of both tenants who might be won over by those demanding radical action on the land question and proprietors who saw incipient Jacobism in every effort to encourage them to promote freehold tenure. When the two bills reached London, the proprietors counterattacked, insisting that the real purpose of the rent roll tax was to force them to sell cheaply under the terms of the Land Purchase Act.[10] The imperial authorities concurred, insisting that taxation be levied on what they jocularly referred to as "equitable" principles.[11] Both bills were disallowed, to the considerable discomfiture of Governor Daly.[12]

In an effort to make some progress in the face of rising tenant unrest and imperial obdurateness, Daly then proposed an elaboration on the Land Purchase Act. He insisted that the existing "operations under the Land Purchase Bill are already producing their effects upon the price of lands generally;"[13] increased purchases would presumably further enhance land prices, to the obvious benefit of the proprietors. He proposed both raising the authorized debenture issue to £100,000 and selling the securities in England. such a project required the support of the imperial authorities in the form of a guarantee of interest.

In 1856 the imperial authorities agreed in principle to the loan guarantee but requested more information on the Island's finances before putting the plan into operation.[14] The Island then presented some data on its budgetary position, indicating that from 1848 to 1855 it had run an overall budget surplus; and that the apparent net asset position in 1856 could be seen as a surplus if the appropriate valuation were placed on Crown held lands.

Island Revenue and Expenditure, 1848-55
(£ stg.)

Year	Revenue	Expenditure	Surplus	Deficit
1848	11,862	15,793		3,842
1849	12,410	13,160		750
1850	15,193	7,241	7,952	
1851	15,264	16,116		851

1852	20,563	14,850	5,999	
1853	23,563	19,622	3,941	
1854	30,689	35,212		4,523
1855	28,054	30,193	______	2,139
	154,891	157,892	17,892	12,105

(fiscal years end 31 Jan.)

Debit-Credit Position 1855
(£ stg.)

Liabilities		Assets	
notes	7,667	bonds and cash	24,708
warrants	7,109	public and Crown land	10,148
debentures	18,667	land sale bonds	1,000
	33,443	land sale dues	4,108
			39.964

The imperial officials were thus persuaded that the Island could carry the new loan, and gave a qualified approval. The Island was required to pass legislation that would make the proceeds of land sales and a first charge against all Island revenue security for interest and principal. It was required to set up a 20 year sinking fund in approved securities to amortize the loan.[15] It was required to issue the loan in the form not of small denomination debentures that individual investors on the Island might absorb, but in large denominations appropriate to British investment banks who would thereby make their first sortie into Island finances.[16] And instead of using its own fiscal agent, the Island was required to entrust administration of the loan directly to the Lord Commissioners of the British Imperial Treasury.[17] These demands - tantamount to subverting the fiscal autonomy granted by responsible government - were accepted by the Island legislature. But the financial crisis of 1857 intervened, causing the British government to renege on its commitment. The loan guarantee was “postponed”[18] - forever. Governor Daly's warnings that imperial repudiation of the loan guarantee would anger tenants, especially those on the remaining Selkirk lands, fell on deaf ears.[19]

The Land Commission And Its Report

However angry Selkirk's settlers were, the Island Assembly, true to what Governor Daly called its “responsible” character, reacted to the imperial double-cross by offering yet more concessions. With the sole exception of the man Daly characterized as “the notorious Escheater, Mr. Cooper,”[20] the Assembly, in an 1859 address to the Crown, took note of the persistent imperial refusal to move against the proprietors and drew an astounding conclusion. According to the Assembly, its formerly “hostile” actions on escheat, the fishery reserves, and quit rents had produced more trouble and cost for the tenants and made the landlords more intransigent without any obvious benefit to the Island. This proved that an “amicable” solution was necessary. Thus the end result of decades of proprietary indifference to their legal responsibilities was to be the Island government apologizing for the sin of having previously suggested that the proprietors perhaps should have met those responsibilities as agreed. And to find an amicable solution, the Assembly declared its willingness to participate in the actions of a Crown appointed commission to study the problem and make recommendations.

In anticipation, the Assembly did make so bold as to offer its opinion about the lines along which a possible solution lay. It made two major suggestions. One was that the arrears of rent accumulated over many years be waived. A second was that all tenants with long leases be given the unconditional right to purchase their holdings. But this second suggestion entailed a further problem, that of creating a mechanism by which large scale land transfers could be financed. The Assembly responded with what it described as "*a plan which would practically constitute every farm a savings bank for its owner, in which he could from time to time invest his savings at interest, towards the purchase of a farm.*"

Under this scheme the landlords and tenants would agree to a certain price; and farmers who were fully paid up on their rent (less any remitted arrears) could give their landlords annual installments of £10/0/0 or more towards the purchase price. The tenant would be credited with interest on the sums accumulated in the hands of the landlord against the rent due. Thus, the further along the road to full purchase the tenant was, the more funds he had "invested" with the landlord, the greater would be the deemed interest and therefore the lower the actual cash rent disbursement. Only when the purchase price was fully paid, would the tenant receive his title. The advantage to the tenant was that he could therefore proceed at his own pace towards purchase, with rent falling pari passu. The advantage to the landlord was the assurance of a continued flow of rental payments. The advantage to the public purse was that the transition from leasehold to freehold proceeded without the need for public borrowing.[21]

But when the Commission made its final report, it completely ignored the Assembly's recommendation, with heavy consequences for the Island finances.

The Commissioners took up four main questions - the arrears of rent, escheat, the fisheries reserve, and the fiscal mechanics of the transition to freehold. The quit rent issue was dismissed quickly. Since the imperial government had granted remission of the arrears and decreed that as long as the Island Land Tax remained on the statute books no further quit rents could be collected, the question was effectively closed. Escheat was dismissed on equally convincing grounds - the legal power of the Island to undertake escheat action was not in question, but its moral authority to do so was. For so many land grants had changed hands that the opening of escheat proceedings against any proprietor's holdings would throw all land tenures into question, including those already converted to freehold. Having thus come done hard on the side of the status quo on two of the issues than had long disturbed Island politics, the Commissioners went on to capitulate to the landlords on the fisheries question as well.

While Island agriculture and shipbuilding had thrived in the long boom of the 1850s, development of the Island fisheries had lagged. Some businessmen, including Nova Scotia Reform leader Joseph Howe, who represented the Island on the land commission, saw the fisheries as a potential springboard for the Island's economic future, as the foundation on which the Island shipbuilding industry could grow, a merchant marine be established, and a domestic market for agricultural produce raised. One central problem with the fisheries had long been the existence of a 500 foot cordon of seashore de jure as a fisheries reserve, de facto as another 500 feet of proprietors' land. To deal the proprietors' illegal appropriation of the reserve, the Commission proposed a radical solution. The 500 foot reserve was to be merged into adjoining land no matter who owned it! In effect, except for the areas where freehold tenure had already been established, the result was to grant the land legally to those who had already stolen it. How that was to aid the development of the Island fishery remains somewhat of a mystery.

Finally the Commission turned their evidently prodigious abilities to the land tenure question. Striking a fashionably radical stance, they recommended cancellation of all arrears of rent accumulated prior to 1858. But this recommendation, on second glance, passed from the radical to the empty, since there was little prospect of the landlords collecting without provoking an insurrection. And on third glance the proposal became positively insidious; for it provided a smokescreen for a further recommendation that all rents accrued subsequent to 1858 be paid in full before any tenant was allowed to buy his land. And to facilitate that purchase, the Commissioners did little more than to recommend the revival of the 1857 proposal for an imperially-guaranteed loan - with one major twist. Governor Daly had tried, in private correspondence, to coax the imperial authorities to accept the loan plan by arguing that the increased demand for land would benefit the proprietors by pushing up land prices; whereas the Commission, faced with an increasingly militant Island tenantry, declared publicly that the loan would lead to falling land prices as the landlords scrambled to unload their estates![22]

To finance land transfer the Commissioners recommended raising a £100,000 stg. loan in Britain with the aid of an imperial guarantee of the interest. They argued that such a loan was within the Island's capacity to carry, and that any supplementary revenues that might be required could come from a 2-1/2% hike in import duties or a small and temporary cutback in road expenditures. Land sale prices would negotiated voluntarily. In the event of a refusal by landlords to cooperate a court of arbitration would set a capital value to the land and give the tenant ten years to pay capital plus interest.

Thus while the Assembly proposal called for landlords to pay interest to tenants on the sums paid to them in installments, the Land Commissioners called for tenants to be liable not only for the capital sum of the land, but to pay both rent and interest. Furthermore the Assembly plan called for tenants to have the undisputed right to acquire land and pay at their own speed: the Commission plan fixed a ten year acquisition period, with the distinct possibility that a tenant unable to keep pace with payments might be forced to forfeit the entire sum already paid.

Anticipating proprietary resistance to any proposal that implied an obligation on their part to sell land, the Commissioners pointed out that since the imperial government had long forgiven them their arrears in quit rents and picked up the bill for the Island civil list itself, the Crown acquired a moral right to force compliance. To this Joseph Howe himself subsequently added the opinion that:[23]

Whatever their rights were, they should bend before the public interest, as those of the seigneurs of Canada, of the slave owners of the West Indies, as of the owners of encumbered estates in Ireland had been made to bend, when great interests or high moral considerations are at stake.

With this sentiment Howe put his finger on two distinct sets of considerations that influenced imperial policy in two distinct and contradictory directions. On the one hand the proprietary system was a relic of a bygone age. The analogy between the proprietors and the West India planters or the Lower Canadian seigneurs was appropriate, and could have been extended to the East India Company Nabobs, the Hudson's Bay Company directors, the West Country merchants who had long controlled Newfoundland trade, or the partners of the General Mining Association which had long held a virtual monopoly of Nova Scotian mineral lands. The P.E.I. Land Commission was sitting just in the wake of the abolition of the seigneurial system, the winding up of the G.M.A. monopoly, the elimination of the governmental powers of the East India Company, and with the Hudson's Bay Company's special territorial and political powers coming under increasingly severe imperial scrutiny.

But on the other hand the example of Ireland cut two ways. Despite a long history of insurrectionary violence, deriving in good measure from issues of land tenure, the imperial government was not prepared to lift the yoke. Since the Napoleonic wars rents paid in wheat for sale in the London market had not only kept the absentee landlords in style but been an important part of the English strategic reserve. Absentee Irish landlords were a powerful factor in English politics. And one not insignificant fear would be that a P.E.I. settlement would be a precedent for breaking up the Irish absentee system that simultaneously kept Ireland impoverished and assured England an emergency supply of wheat in times of war. Thus the P.E.I. proprietors had powerful allies when they set out to sabotage the few features of the Commission report that failed to rule in their interests. When the Island began to draft a bill that would implement the Commission recommendations, the proprietors countered by drafting a bill of their own that would further entrench their interests. And when the Colonial Office in 1862 refused to sanction the proposal for a loan guarantee, Samuel Cunard rallied the absentee proprietors to head off any effort by the Island to act on its alternative proposal.

Cunard and company dredged up all the old discredited arguments and long defunct claims. The proprietors claimed credit for populating and developing the Island; and they complained of having borne a disproportionate share of the cost of public works through discriminatory taxation. Cunard lamented that the proprietors were persecuted in Island courts when they tried to collect rent; and he resurrected the old question of the loss of rental income from devaluation of the Island monetary standard. Even if the landlords had acquiesced in the one-ninth devaluation, that did not vitiate their right to a full 50% compensation. Naturally he blamed the devaluation on the tenant-controlled Island Assembly emitting inconvertible paper money. He neatly forgot to mention either his own family firm’s previous activities in that regard or the possibility that the Island paper merely replaced specie lost because of the stultifying effects of the proprietary system on the Island’s balance of trade. Cunard went on to denounce the Commission’s recommendations for sweeping away arrears of rent as “very imprudent and unjust” - while by his silence on the question, presumably he regarded the imperial government's sweeping away of the arrears of quit rents to be both prudent and just. As to the Commission's proposed arbitration procedure, Cunard dismissed it as “absurd;” while the formula under which it was to operate, he insisted, was designed deliberately to undervalue the proprietors’ land.[24]

<u>Aftermath Of The Land Commission Report</u>

The rejection of the Commissioners' recommendations provoked outrage on the Island, perhaps exacerbated by a brief scandal in which the Lieutenant Governor and Legislative Council members were accused of land jobbing for personal profit at public expense.[25] The next year, 1863, came the formation of the Tenants' League, which ominously took its name from the organization that fired the opening shots in the Irish land war in 1850.[26] Like the Escheat Party before it, the League used both direct action - demonstrations, rent strikes, physical conflict with the Island authorities - and involvement in local politics.

By 1865 disturbances reached proportions sufficient to cause consternation among officialdom, leading the Governor to denounce a plot to force the proprietors to sell "on such terms as the League may deem just."[27] These disturbances took the form of mass confrontations with law officers and rental agents; demonstrations with placards calling for "free land," "tenants rights" and similar slogans; and formal pledges by members of the League, estimated by the imperial authorities to number "several thousands," to withhold rent.[28] The authorities reacted by a formal ban on demonstrations, by placing armed guards at the armory and by requesting more imperial troops.[29] They also tried to reshape the Island's public finances to permit it to proceed without imperial financial assistance with land acquisition and transfer.

Despite the burden of the debentures issued under the Land Purchase Act, until the crisis of 1857 the Island's uncovered debt actually fell. But with the crisis and the refusal of the imperial government in 1858 to guarantee a loan, the Island had to have recourse to a series of short-term fiscal devices. Warrants outstanding shot up from £10,663 in 1855 to £37,245 in 1860. And that year the government decided to try other forms of borrowing. Since further note issues were blocked by imperial disapproval and the establishment of Island banks, the government turned to the Bank of P.E.I. for a short term loan - it took the form of a £10,000 "cash account" on which the Island government could draw in time of need.[30] The need apparently arose quite frequently; and the cash account soon threatened to evolve into a seemingly permanent part of the Island government debt structure. The bank took exception; and in 1864 the government had to emit more 6% warrants to pledge to the bank and to issue to suppliers to cover its current deficit.[31] By the end of fiscal 1864 warrants outstanding topped £56,000.

In the meantime the government continued to seek means of raising money on a long-term basis. When in 1862 the imperial authorities rejected a request for a loan guarantee, this one endorsed by the Land Commission, the grounds were that the Island finances were too shaky to service a £100,000 loan - which would in any event be too little to settle the land question. But the Duke of Newcastle proposed an alternative, elements of which subsequently came to pass. Tribunals were to be established to determine the price at which land would be sold; to finance purchase, the Island government would, as under the Land Purchase Act, function as intermediary. It would either borrow and buy from proprietors; or it could directly swap its 6% debentures for land. It would then sell in installments to tenants, collecting rent from them. What differentiated the Duke of Newcastle's proposal from that of the Land Commission was that: debentures were limited to a total issue of £30,000 stg. at any one time (in effect a revolving fund, redeemable as tenants paid their installments); the issue bore no imperial guarantee; a special tax was to be instituted to secure the debentures; the landlords were free to sell or not as they saw fit; and the tribunal formula for determining land value was more advantageous to the proprietors than that proposed by the Land Commission had been, for it was to take account of the full value of the arrears of rent and capitalize them into the purchase price.[32]

The year after the Duke of Newcastle made his proposal, P.E.I. delegates took part in the debate over Maritime Union with representatives of the other Atlantic seaboard colonies. James Duncan undoubtedly spoke for many Islanders in opposing the notion of submerging the Island's identity in a larger unit (particularly one whose banks would be eager to regain the circulation business lost to Island banks). However at least one P.E.I. delegate, W.H. Pope, saw in Maritime Union the promise of aid in resolving the land question. Pope pointed to an effective yield rate of 7-10% on Island debentures compared to 5-6% for Nova Scotia; and he contended that "were the colonies under one general government this anomaly would in a short time cease."[33] However Maritime Union failed to materialize; and the Island resisted for the time being the lure of Confederation with Canada, despite Canadian promises of debt relief and aid in land purchase. Instead it continued to plot its own fiscal and financial course, to the extent the imperial authorities would allow.

In 1864 the Island undertook to raise a new loan of £19,000 cy. at 6% to finance more land acquisition. Lacking an imperial guarantee, the new loan had to be sold locally for cash or swapped directly to landlords for their land. Repayment was to come from the proceeds of the resale or rental of acquired lands.[34] The prospect of a rush to borrow to buy land driving up interest rates on the tiny Island capital market was a major factor in that year's debate over the usury laws. And the problem of finding adequate local markets for its debentures led the Island government to borrow a fiscal gimmick tried and tested for several years by the government of Nova Scotia, namely the establishment of government operated Savings Banks.

The basic idea behind savings banks, as they emerged in Britain in the early 19th Century, was to create, in the era before social insurance facilities existed, an alternative to privately sponsored charities in caring for the poor during bad economic times. The "industrious classes," urban artisans in particular, were to be encouraged to save in good times a fund to tide them over bad, thus keeping their money safe from the temptations of the demon rum and assuring that the middle classes would be relieved of part of the burden of supporting charitable institutions.[35] Virtually all such banks were inaugurated amidst a chorus of invocations about the need to encourage thrift among the masses; and the savings banks of P.E.I. were no exception.[36] The need for particular savings institutions reflected the fact that in the early decades of the 19th Century deposit banking was still in its infancy; and the commercial banks (oddities like the Farmers' Bank of Rustico excepted) oriented deposit activity towards accepting non-interest bearing chequing accounts from the business community. The 1858 returns of the Bank of P.E.I. show about 5% of total deposits in the form of interest-bearing accounts.

Debate over the form the savings banks should take extended over several years. One of the causes of delay was the question of who should administer it. It was common practice elsewhere in British North America for directors of commercial banks to function as trustees for the savings banks, and also for the savings deposited with the bank to be placed by trustees in such impeccably safe havens as the shares of their own chartered banks! The record elsewhere of trustees plundering the savings entrusted to their care must have been one factor leading the Island to keep the bank in government hands; though the government's own hunger for money was undoubtedly important as well.

Yet another factor accounting for the delay may well have been the changing priorities of the chartered banks. While the Bank of P.E.I. had only 5% of its deposits in interest-bearing form in 1858, by the mid 1860s a dramatic change was in progress. Over the long boom of the 1850s, monetization of transactions led, not only to increased scope for banks to do a note issue business, but also to an increase in the amount of savings held in monetary form. That meant an increasing potential of deposits in general, and savings deposits in particular, as a source of loanable funds for the commercial banks. Within ten years savings deposits rose from an insignificant percentage of chartered banks liabilities to the point where they ranked second only to notes, and much ahead of current account.

Deposit Banking March-April 1866
£ cy.

	Interest Account	Current Account
Bank of P.E.I.	28,501	15,388
Union Bank	14,769	11,501
Farmers' Bank	588	...
Summerside Bank	308	188

Hence when plans for distinct savings banks were finally debated, unlike the case of the mainland banks two decades before, the Island banks stood to face new competition for their fastest growing source of funds.

Yet another factor that may have delayed the actual creation of the banks long after they were first discussed was the Assembly's own plans for resolving the land question - in which each proprietor would, in effect, become a savings bank operating on behalf of the tenantry saving money to buy him out. This direct resolution of the land question would have rendered formal government savings banks, functioning as a captive market for debentures issued to finance land transfer, redundant.

In 1862, the same year the Land Commissioners reported in favour of debenture financed land transfers, a new savings bank bill emerged from the Legislative Council. One of its proponents lauded it by saying:

I think the people of this country may now look forward to something which will excite their industry: I mean the settlement of the Land Question, and they will find a Savings Bank a safe place to deposit their money when they are preparing to purchase a farm.

In effect the banks would encourage saving and the government would borrow these savings through "selling" to banks debentures to fund the purchase of land from proprietors. The debentures would be repaid out of the regular installments tenants paid for land to the government. However the Assembly was much less impressed than the Council, objecting to too low a rate (4%) offered on deposits, too high a ceiling on the size of permitted deposits, and the plan to pay the Treasurer a commission of 1% of total transactions for operating the bank. The bill died.[37]

In 1864 it was reborn, along with the new plan to borrow locally through another debenture issue. The bank, operated by the Treasurer, was to accept deposits of up to £100, paying 5% - larger sums could be deposited for safekeeping, but without interest on the excess. The deposits would then be invested in government paper bearing 6%, the 1% interest differential going to cover the costs of administration.[38] All seemed well, deposits grew and branches spread. Then in 1867 the Island celebrated its refusal to accept the financial lure of Confederation with Canada, by an attempt to issue a £100,000 stg. loan, massive by Island standard, in the form of ten year 6% debentures to be sold wherever a market could be found - i.e. in Britain,

The Fiscal Crisis And Its Aftermath

Behind a loan plan that by its very size, not to speak of its orientation towards the British capital market, would have revolutionized the structure of Island finances lay the increasingly violent agitation over land tenure. And it synchronized with one of the Island's worst financial crises to date.

From 1858 to 1865 the Island had done a roaring export trade to the US, using the resulting payments surplus to offset much of its deficit with Britain. After 1865 not only did American commodity trade plummet, but so too did exports of ships which fell in value from £148,000 in 1865 to £70,000 in 1871. But while the end of the Reciprocity Treaty and the Civil War caused the American surpluses to turn into deficits, the British deficit actually rose - for on top of the normal visible trade deficit came an unprecedented outflow of payments for land purchase.

The public finances were equally in turmoil. During the 1850s the current receipts often exceeded current expenditures, allowing a net reduction in the floating debt. At the same time service charges on land purchase debentures were easily met out of land sale and rental receipts. But by the early 1860s that had changed. Current revenues lagged expenditures and the floating debt began to climb. Although the Island began issuing warrants in the form of uniform £100 denominations - instead of for specific sums owed particular individuals - in the hope of easing its fiscal difficulties by creating a secondary market, the steady increase promised to flood any such market, driving the warrants to sharp discounts. Then in fiscal 1866 government spending nearly doubled the previous year's level, while revenues were flat - leading to a near doubling of the floating debt.

Public Debt-Credit Position Jan. 31, 1867

£.cy

Debits		Credits	
warrants	...59,658	cash in Treasury	5,103
notes	...11,500	cash in Bank of P.E.I.	...7,069(*)
savings bank deposits	...12,029	cash in Union Bank	....11,050(*)
5% debentures	...53,150	bonds in Treasury	20,723
6% debentures	...44,500	bonds with A.G.	 3,349
	£180,838		£47,294

*This is shallow accounting sleight-of-hand since these "deposits" undoubtedly are mainly composed of the cash account credit and therefore should have an offsetting debit - unless such debits are included in the warrants.

By the end of 1866, the total debt hit £180,000, of which half was floating and fully one third in the form of warrants. Against that debt the Island had only about £47,300 in assets, including £3,350 in overdue bonds subject to legal action. And the real cause of that dramatic leap in uncovered and floating debt lay in the land question. While historically the Island had managed to separate its current budget from capital transactions, overwhelmingly in land, in 1866, the panic spread by radical action by the tenants, caused the government to plunge over half of its current expenditures into land purchases. The biggest single item was buying land from the Cunard Estate; and those purchases caused a major drain of foreign exchange to England on top of the already existing burden of a deteriorating commodity trade balance.

It was against this crisis background that the Island decided to try to paper over the ominous cracks in its financial and political edifice by raising the province' first overseas loan. Its immediate objectives, in trying to place £100,000 stg. in the London capital market, were: (1) to complete the purchase of the Cunard Estate; and (2) to give the government a fund of cash to deal with other proprietors who might in the future be inclined to sell. A third objective was to deal with the financial aftermath of the panic purchases of land that Tenants'League agitation had induced. For those purchases had caused such a drain of foreign exchange as to threaten the solvency of the Island monetary system. As the Lieutenant Governor of the Island, in pressing for imperial assistance in marketing the loan, put it:[39]

In fact it is partially with the view to restoring to local circulation the amount of money which has been drained from it by reason of remittances to England in payment of installments on the purchases of the Cunard Estate, and of preventing a further withdrawal for payments which are coming due that my ministers introduced the endorsed Act into the Legislature.

Yet a fourth objective was to restructure the Island finances. Proceeds of the loan, over and above those required for land purchase, were to go to retire outstanding warrants and to roll over debentures maturing from earlier loans, in effect shifting them from the local to the imperial capital market.[40]

To counter the lack of an imperial guarantee, the Island dressed up the issue with all kinds of "evidence" of the Island's fiscal and financial responsibility. Tables of data on revenue, trade and debt were carefully drawn up and sent off to the Union Bank of London which was to act as fiscal agent for the Island, advising on marketing and supervising the creation of an appropriate sinking fund.[41] The Island Attorney General joined the data in the summer, and spent his time in London hobnobbing with "many gentlemen connected with the Stock and Bond Market on the subject of the proposed Loan." But financial conditions were not propitious that summer. A loan for a similar sum sought by the government of Tasmania was a complete failure in July; a Russian government loan failed in August.[42] And it is likely that imperial indifference to the loan may have turned to outright hostility, thus scuttling any remaining hopes.

The Lords of the Treasury had long had two interrelated objectives with respect to Island finances. One was the encouragement of an automatic gold standard to govern the foreign exchanges and a complementary system of banks of issue to dominate the currency. The second was the switching of government borrowing from floating to funded form. In conjunction with an automatic gold standard, and therefore free remittance of interest and amortization payments in hard currency, the switch to debenture based borrowing should have opened to P.E.I. access to the London capital market. With the 1867 loan plan the Island seemed to have finally capitulated to all of the demands that the imperial government had been making since the 1840s, only to find that those fiscal and financial demands supplemented by a new political one.

[1] Clark 95-6
[2] Stat. P.E.I. 16 Vic. I, Cap.18, 1853
[3] *P.E.I. Examiner* 1 March, 1858
[4] Sharpe 100; Clark 95-6
[5] Sir Samuel Cunard to the Duke of Newcastle, 14 Nov. 1863, British Parliamentary Papers (BPP) XLI, No.528
[6] Sharpe 105
[7] Stat. P.E.I., 18 Vic. I, Cap.11, 1855
[8] Lt.Gov. Daly to Lord John Russell, 28 June 1855, BPP Session 2, No.202, 1857-8
[9] Daly to Russell 19 May, 1855, BPP 1857-8
[10] Daly to Russell, 2 July, 1855 BPP 1857-8
[11] Sir G. Grey to Daly, 17 Nov. 1855, BPP 1857-8
[12] Daly to Labouchere, 10 Dec. 1855, BPP 1857-8
[13] Daly to Labouchere, 5 Sept. 1855, BPP 1857-8
[14] Labouchere to Daly, 18 July, 1856; JLAPEI, 1857 App. E
[15] Labouchere to Daly, 23 Nov. 1856, BPP 1857-8
[16] Treasury Chambers Minute of 6 June, 1857, BPP 1857-8
[17] Daly to Labouchere, 1 May, 1857, BPP 1857-8
[18] Labouchere to Daly, 14 Aug. 1857, BPP 1857-8
[19] Daly to Labouchere, 7 Sept. 1857, BPP 1857-8
[20] Daly to Sir E.B. Lytton, 13 May, 1859, BPP 1857-8
[21] P.E.I. Assembly, *Address to Her Most Excellent Majesty*, 9 May, 1859. BPP XLI No.528.
[22] W.F.P. Bolger, one of the best known Island historians, describes the Commissioners' report as "absolutely unfavourable" to the proprietors. (*Prince Edward Island and Confederation*, Charlottetown, 1964, .7). This seems to be the prevailing view. Yet Campbell, 100 years before (p.46) portrayed it accurately as a sell-out to the proprietary interest. The problem appears to be that the proprietors, in their arrogance that the 18th century could be perpetuated, refused to recognize it as such; and their stern opposition gave the report a respectability among modern liberal opinion that it simply does not deserve.
[23] See the resume of the report in *P.E.I. Examiner* 26 Aug.,1864; Campbell 146.
[24] S. Cunard to Sir F. Rogers, 30 Jan., 1863; S. Cunard to Duke of Newcastle, 14 Nov. 1863; W.H. Pope to Newcastle 18 Dec. 1863 (a rebuttal to Cunard); Cunard to Newcastle, 26 march, 1864 (his reply to Pope). BPP XLI No.528.
[25] *P.E.I. Examiner* 7 June, 1862
[26] See esp. Samuel Clark, *Social Origins Of The Irish land War* (Princeton, 1979)
[27] Lt. Gov. Dundas to Rt. Hon. E. Cardwell, 23 March, 1865; JLAPEI 1865, App. G
[28] Sheriff to Colonial Secretary, 19 July, 1865; R. Hodgson, Administrator, to Cardwell, 16 Aug. 1865; JLAPEI 1865, App. G.
[29] W.H. Pope, Colonial Secretary, Proclamation of 23 March, 1865; A. Hodgson to Colonial Secretary, 2 Aug. 1865; JLAPEI 1865, App. G.
[30] JLCPEI 1860, 30-4,36,38; Stat. P.E.I. 23 Vic. I, Cap.42, 1869(?). A "cash account" sometimes referred to as the "Scotch system" of banking because of its origins, was a major step on the road to modern commercial banking practice. Instead of credit taking the form of the discounting of a bill of exchange for a lump sum, paid in bank notes, under "cash accounts" a credit line, redeemable at the will of the debtor, was established. It approximated a modern overdraft facility; when the drawings were by cheque, rather than by notes, it dovetailed into contemporary commercial lending.
[31] Stat. P.E.I. 27 Vic. I, Cap.35, 1864.
[32] C. Fortescue M.P. to Samuel Cunard, 28 March, 1862; BPP XLI.
[33] Cited in Bolger *Confederation*, 26
[34] Stat. P.E.I. 27 Vic. I, Cap.34, 1864
[35] For a survey see R. T. Naylor "The Rise and Decline of the Trustee Savings Bank in British North America" *Canadian Historical Review* Winter, 1984.
[36] *P.E.I. Examiner* 2 May, 1864
[37] *P.E.I. Examiner* 24,31 March, 1862.
[38] Stat. P.E.I. 27 Vic. I, Cap.4, 1864; 31 Vic. I, Cap.24, 1868
[39] Lt. Gov. Dundas to Duke of Buckingham, 5 June, 1867; JLAPEI 1868 App. A.
[40] Stat. P.E.I. 30 Vic. I, Cap.3, 1867

[41] It is worth noting in this regard the comment of Nova Scotia's Provincial Treasurer, in tabling the 1858 trade returns: "I do not mean to say that the statements contain anything like accurate information respecting the trade, commerce, or shipping of the Province; nor is it possible to obtain accurate returns, unless the Comptrollers of Customs are sufficiently well paid to remunerate them for their labour. The trade of the Province cannot possibly be presented with anything like accuracy." He went on to say that the same held true with respect to revenue; and that therefore the honourable members should not delude themselves into thinking that an increase in the reported revenue actually meant that there was more money available to be spent. (Norman Ward, *The Public Purse* Toronto, 1962, 14.

[42] *Report of the Hon. Joseph Hensley, Attorney-General, to the Government of Prince Edward Island, on his Mission to England on the Subject of the Loan Bill and other Matters*. 20 Sept. 1867; JLAPEI 1868, App. A

X: CONFEDERATION AND BEYOND

If the financial after-effects of the crisis of 1857-8 ravaged the Island public purse, on the mainland they produced a fiscal tornado. In Canada falling land prices and staggering railway debt pushed the province towards fiscal and monetary union with the rest of British North America, while British railway promoters saw a solution to their financial problems in a political Confederation that would produce a railway roadbed *a mari usque ad mare*.

It was a time when Britain's hold on the Pacific, on the China trade, and on the Indian Empire was threatened by imperial Russia and a rapidly expanding United States. Among some imperial strategists one possible response was an "all-red-route," a fast steamship-railway route "from Europe to China." By one version of the plan, such a route would cross the Atlantic by fast steamer, connect to a trans-Newfoundland railway line, then cross the Baie des Chaleurs by ferry to link with a transcontinental railway. From Halifax or St. John the trains, fuelled by Cape Breton coal, would cross to British Columbia where, at Nanaimo, both Vancouver Island coal and the British Pacific Squadron headquarters were to be found. Such an all-red-route had as its political and financial prerequisite, the federal union of the British North American colonies - partly for reasons of military security, and partly because such a union would provide the fiscal basis for the railway promoters to continue to plunder the public purse with impunity.

Fiscal Incentives To Union

On Prince Edward Island, despite its fiscal difficulties, anti-Confederate opinion was strong. In 1865 Assembly debates on the Confederation Resolutions produced by the Quebec Conference saw the marshalling of powerful arguments against adherence. One important fear was loss of diversified trading partners - the U.S., Britain, the British Caribbean, and other British North American colonies. Drawn under the common tariff, the Island would have to redirect its import trade towards Canada, with which it presently had none, while its exports there would face the competition of New Brunswick timber camps, Nova Scotia fisheries and Canadian farms. Especially important, trade would be diverted away from the U.S. with which the Island traditionally ran surpluses. As the Assembly summed up the foreign exchange consequences, trade diversion would force the Island to make "payment for imports in money instead of procuring them from countries which would receive our products in exchange."[1]

On top of problems of trade came those of revenue. The Confederation proposals called for the provincial legislatures to finance their fiscal responsibilities out of revenues from land and natural resources. The Island had no Crown Lands or mineral resources.[2] That meant that the Island would be at a revenue disadvantage compared to other provinces, while the proceeds of its tariff and other indirect taxes would be siphoned off by the central government. Furthermore it would be unable to use those non-existent resources to compete with Canada for an inflow of immigrants. Its share of the total population of the union would therefore fall, reducing even further its political power in a combined legislature.

The loss of its traditional revenue base posed yet another problem. From the perspective of 1865, the Island seemed to need no expensive public works. Its harbours and waterways were adequate to their tasks; and road building proceeded, sometimes with the contractors forced to accept their payment in the form of treasury warrants. There was no evident benefit to the Island or its entrepreneurs of the railway and canal projects on which Canada would be expected to spend the revenues it got from taxing the population.

Anti-Confederate opinion spanned a wide range of Island political forces, from reactionary representatives of the old debt-bondage economy to modern scions of neoliberalism.[3] And an anti-Confederation resolution carried 23-5.

But external pressures did not abate. Canada offered a succession of fiscal inducements while the imperial authorities used their political and financial power to beat the Island into line - for example, by demanding that its overburdened public purse assume the cost of maintaining the imperial garrison that protected landlords' property while at the same time resisting any settlement of the land question that produced the threat to that property.[4]

In 1866 a Canadian offer of a $800,000 loan was refused, and the next year the Island tried to float a £100,000 stg. debenture issue in London. Pro-Confederates actively worked to sabotage the loan, aided by the Lieutenant Governor who publicly endorsed it while secretly reporting to the Colonial Office that the Island was financially unstable and that the loan should be blocked. The imperial authorities, while not disallowing the loan, nonetheless publicly expressed the hope that it would fail - which it shortly did.[5]

With the completion of Confederation arrangements on the mainland, pressure on P.E.I. increased. The Island was important because the core of the Confederation settlement was fiscal, the creation of a customs union whose tariff revenues would be the basis on which international borrowing for railways and other major projects could be built. The Island's potential as a smuggling base to undercut the Canadian tariff was a worry.[6] So too was the fact that in 1868 it opened negotiations with the US for a renewal of Reciprocity.

In 1869 Canada renewed its offer of a $800,000 loan to finance land transfer. The imperial government helpfully threatened to block any resolution of the land question if the Island did not opt for Confederation, and began demanding that the Island assume yet more of the cost of administration, specifically the salary of the Lieutenant-Governor.

The Island Executive Council raised three major objections. The proposed terms failed to assure the full and final wrapping up of the land question or to guarantee adequate fiscal compensation for loss of revenue; they failed to give the Island sufficient assurance it would not be swamped politically in a federal Parliament, notably with respect to taxation decisions; and, by the proposed definition of "local works," the Island would be responsible for railway building on the Island itself while still subject to taxation to help pay for trunk lines elsewhere in British North America.[7] This last objection turned out to be prophetic.

Another Railroad Job

While the imperial government was hampering Island fund-raising activity abroad, the Island itself was striving to improve its credit rating and the efficiency of the local capital market. To build up the local capital market, in 1869 the existing limit of £30,000 to the amount of deposit money the Island savings banks could accept was raised to £50,000; and it was undertaken to establish branches all across the Island.[8] To improve the Island's attractiveness to international investors, the usury laws were slated for scrap yard.

Debate over the future of those laws took place in 1868. Antagonists argued that it was "inefficient" for the Island to have separate regulations for the land and for commercial debt. Furthermore as the law itself proclaimed: "In order to induce as much as possible the influx of capital into the Island, the various restrictions hitherto placed on the rate of interest should be abolished."[9]

Subsequent to 1870 parties could legally contract in writing any rate of interest. De facto the legislation shifted the 6% level from a ceiling to a floor, for where an interest rate was not so stipulated, a 6% former maximum prevailed.

The next year, while still rejecting the concept of Confederation, the Island decided to decimalize in order to "assimilate the Currency of this Island to that of the Dominion of Canada and of the United States."[10] Also in 1871, it authorized the issue of new $500 denominated treasury warrants as the failure of its overseas borrowing efforts interacted with rising demands for infrastructural spending to demand additional means of financing. Then new and abnormal financial requirements carried the Island into Ottawa's eagerly awaiting arms.

Railway fever came late to the Island but in its virulence it soon made up for lost time. Even before construction began, pro-Confederates added to the lure of cash for land transfer the possibility that Canada would also pay for railways.[11] Hence when the Railway Act was actually presented to the Assembly it had a stormy passage. Anti-Confederates felt that the very conception of a railway was a pro-Confederate plot.[12] The suspicions could only have been deepened when James Duncan, who had switched to the pro-Confederate camp, was made chairman of the Railway Commission, until his defeat in a by-election by an anti-Confederate.[13] They must have been deepened further by the choice of a mainland engineer with close ties to the Canadian Conservative party hierarchy to take charge of construction. And if the anti-Confederates had had access to the private correspondence of the Lieutenant-Governor, their worst suspicions would have been confirmed. For he wrote to the Colonial Office on the passage of the railway bill that "... it will eventually mean that P.E.I. will join Confederation."[14]

To finance road building, the Island would pay the contractors not in cash, but in warrants which they could either hold to maturity, collecting principal and interest, or discount on the secondary market. Among the plans to finance further land purchase had been the notion that the Island would swap 6% debentures for land and the proprietors could similarly hold or sell them. In that spirit the Railway Act called for the contractors to be paid in 6% 30 year Island debentures at par at a rate not to exceed £5,000 cy. per railway mile. On the surface the contractors had a vested interest in both efficient construction and obtaining the best possible price for the debentures. However the Railway Act had neglected to specify how long the railway was to be. The result was an incentive for contractors to increase the total subsidy and spread overhead costs of buildings etc. by stretching the length. It also proved an incentive to avoid steep grades and expensive cuttings in favour of meandering over easier land, cheered on apparently by members of the legislature anxious to have a railway in the proximity to their property.[15]

In January, 1871 the Island's total outstanding debt was $506,000; by January, 1873, despite special taxes levied specifically to finance railway building,[16] total debt was $1,609,000 while contracts were extant that, if completed, would have added another $2,240,500. The result would have been a total direct and indirect debt per capita of $41, about eight times the level in 1869 when the Island had refused Canada's offer.

Banking On Confederation

Without imperial financial guarantees, marketing the Island debentures in Britain must have been difficult, and the local capital market was too small to absorb them easily. Among the expedients resorted to by the contractors was pledging the debentures to local banks as collateral for loans. The Union Bank, with a paid-up capital of $97,000 ended up with a portfolio of $120,000.[17] When banks lent on security of construction debentures, they were violating that strict separation between private and public sector finance, and between money and capital markets, that the reforms of the 1850s - public borrowing by debenture and gold standard banks issuing notes - were supposed to have introduced. In effect notes and deposits, theoretically redeemable on demand, were sunk into long term public debt instruments, waiting for disaster to strike.

Island Financial Position,
January 31, 1873

Dr.	$	Cr.	$
warrants	115,800	cash in Treasury	17,887
debentures		cash in banks	53,963
5% 16 Vic, Cap.18	140,467	bonds in Treasury	82,735
6% 16 Vic. Cap.18	113,960	bonds with A.G.	20,000
6% 27 Vic. Cap.34	58,400		
6% 32 Vic. Cap.9	32,444		174,585
6% 34 Vic. Cap.15	14,600		
6% 30 Vic. Cap.3	3,500		
6% 34 Vic. Cap.4	1,014,393		
savings bank	252,407		
treasury notes	37,311		
misc.	624		
	$1,784,086	net debt ...	$1,609,501

The mess in the public finances coincided with structural weaknesses in the balance of payments. With the end of the American Civil War and Reciprocity, the traditional trade surplus with the US was threatened. While exports to Britain jumped in 1867, they were heavily based on one final sweep of the timber lands.[18] In 1868 the Island ran substantial commodity trade deficits with both Britain and the US, covering them with earnings from the sale of ships. However while in 1867 ships yielded revenues that covered the commodity trade deficit 3-1/2 times over, in 1868 and 1869 they about matched. While in 1870 once again ships handily covered the deficit, they did so only because the deficit was quite small. In 1871 the commodity trade deficit was nearly three times the level of ship sales revenues. Wooden shipbuilding was a dying industry. Without timber, with the rise of steam power threatening the market for wooden wind ships, and with the American West pouring huge surpluses of cheap grain onto world markets, the Island's traditional livelihood was sorely threatened - while it lacked the natural resource base for alternatives. In 1872 the Island was hit by a major financial crisis.

The unfolding of the Island's financial adventures was carefully observed by the Lieutenant Governor who reported to the Governor General of British North America, who in turn kept the Canadian Prime Minister informed. Furthermore in London, from his twin vantages of partner in a City merchant bank and de facto Canadian High Commissioner, Sir John Rose kept watch on the Island's financial standing. In the autumn of 1872, the president of the Union Bank met with Rose and asked him about the chances of marketing the railway debentures in London. Rose informed him that Confederation was a prerequisite.[19] It seems unlikely that the Union Bank president did not inform his brother, the Island Attorney-General, of Rose's opinion.

In 1873 the government of the Island turned to the three main banks to purchase foreign exchange needed to remit to London as interest payments on Island debt. Rumours then began to circulate that a financial crisis was about to unfold. Both the Union Bank and the Bank of P.E.I. advised the government that Confederation was essentially to restoring financial solvency. For the Union Bank it meant unloading the debentures; for the Bank of P.E.I. it meant settlement of the government's floating debt.[20] The Union Bank president also made sure that the news of the crisis and his proposed solution reached the general public. Stories also spread about the potentially ruinous final bill for the railway, stories which anti-Confederates tried to rebut. A 1873 resolution favouring Confederation still failed. But a new government, securing what it presented to the public as "better terms," managed to bring the project to fruition.

Confederation meant that the Island government was to cede to Ottawa the main levers of financial policy, some of which it had only recently obtained from London. Ottawa took control of the tariff and therefore the cornerstone of the Island finances - both the direct revenues and the indirect commercial credit the Island used to award its merchants through the use of tax deferral bonds. Since, under the terms of Confederation all matters respecting banking and currency were federal responsibilities, Ottawa took control of the treasury notes which were phased out; the Island banks were to be brought under, and regulated by the Dominion Bank Act, which favoured the spread of multi-branch inter-provincial banks; and the savings banks too, created as a means of marketing provincial debentures, fell under Dominion control and became a captive market for federal debentures. Indeed the provincial debentures themselves ceased to exist for the heart and soul of the Confederation arrangements was the assumption by the federal government of all of the Island's debts, along with the railway that had created most of them.

Under the final terms of settlement, P.E.I.'s debt allowance was set at $4,701,050 with some compensation if its actual debt was less than the allowance. Like the other provinces, it received compensation in the form of subsidies for the loss of its tariff revenues. It got a little extra in fact to partially offset its lack of Crown land which elsewhere in British North America yielded revenue to the provincial governments. From that extra subsidy was to be deducted interest at 5% on any sum up to $800,000 P.E.I. borrowed from the Dominion government to finish buying out the proprietors.[21] The final act in the absentee proprietorship system was then ready to be played out.

Settlement Of The Land Question

In 1870 the Irish Tenants Compensation Act passed the British Parliament. Tenants whose leases were expiring were guaranteed either compensation for improvements they had made to the land or, should the landlord be unwilling or unable to pay compensation, a 999 year extension of their leases. The Island, whose own compensation act had been refused in 1855, seized upon a statement by the Colonial Secretary that the Irish act would be a good precedent for the Island. In 1871, the Assembly unanimously passed a compensation act embodying some of the features of the Irish one, though with a wider definition of "improvement" for which compensation had to be paid and with arbitration procedures more in the tenants' favour.[22]

The controversy followed well-worn patterns. The Island government insisted that the bill was essential for economic and social advance, that it was necessary to help the Island fight the propensity of its ambitious youth to emigrate. The government expressed the opinion that, "Insecurity of tenure produces the same effects on Prince Edward Island which are observed in Ireland and elsewhere, and demands the same remedy - a Tenants' Compensation Act."[23]

On the other hand, the Lieutenant Governor insisted the bill was "an improper interference with the rights of property, and opposed to the general principles of the law of contracts."[24]

The proprietors joined the counterattack, denying any analogy between the stalwart tenantry on the P.E.I. estates and the miserable, rent-wracked Irish. All the old arguments were dredged up - the proprietors carried the heaviest tax burden through the Land Assessment Act; they had been "mulcted" of their rents by devaluation; the tenants on many estates had been shirking rent payments for years; the tenants did not deserve compensation for they had done little and anyway what had been done was easy; the proprietors had done the work and borne the expense of development and settlement and therefore any increase in the capital value of the land should go to them; indeed the tenants' "sloppy" farming methods and stripping of timber (events apparently quite unrelated to the operation of the debt-bondage system of rent collection) sometimes decreased land values, implying maybe the compensation should go the other way.[25]

The Colonial Office responded in 1872, at a time when pressures for the Island to join Confederation were peaking, by refusing to sanction the Compensation bill.[26] After Confederation, however, a new bill, conforming more closely to the Irish one, was accepted - though not without further protest from the proprietors.[27]

What the proprietors feared most was that the Compensation Act would lower the capital value of their land and be followed quickly by compulsory sale arrangements.[28] Indeed the year after Confederation, with the $800,000 loan promised from the Dominion, the Island passed a Land Purchase Act which a group of proprietors denounced in temperate terms as "simply an outrage against modern civilization."[29] One proprietor with more imagination described it as the "result of Communistic views of some of the Radical section of the Liberal Party." Much of the blame however was reserved for the imperial government since: "The Irish Tenants' Compensation Act was a firebrand cast among us that kindled an agitation which has resulted in the present act of spoliation."

Apparently swayed by such rational discourse, the Dominion government, which had inherited from London the power of disallowance over provincial (colonial) legislation, struck down the act on the grounds that it was "subversive to the rights of property, harassing and ruinous to the owners, and a dangerous precedent by the encouragement if held out to agitators."[30]

In 1875 the Island passed a new land purchase act. The machinery established to arbitrate prices used as criteria past sale prices on roughly equivalent blocks, the stream of rental receipts over the previous 6 years, the existence of squatters and of contested claims to parts of the land in question, and the arrears of quit rents apart from those already waived or remitted, and, not least, the level of rental arrears modified by a judgment as to the reasonableness of chances of recovery. This last element meant that arrears would be at least partially capitalized into determining the transfer price of the land. But it also stirred up one last point of controversy.

After the rejection of the recommendations of the Land Commission, in 1863 some landlords had attempted to quiet tenant unrest by waiving some of the rental arrears - which were likely uncollectible in any event. Others stood firm, attempting to capitalize the arrears in the rents attached to new leases or the prices under which they would sell under the 1864 Land Purchase Act. Thus the 1875 Act, by taking account of past prices, arrears, and the previous 6 year stream of rents meant that those landlords, who, in the words of one of them "surrendered many thousands of pounds of arrears to buy peace," stood to lose. The capital value of their land would be depreciated in comparison to that of landlords who had made no concessions.[31] However the 1875 act stood; the $800,000 loan from Canada was forthcoming; and a precedent set that later influenced the final resolution of the Irish land question.[32]

The Fall Of The Island Banks

Over the course of the next few decades, the monetary and financial integration of the

Island into Canada, begun by the Currency Act of 1871, was completed. As the main focus of economic activity shifted westward, so too did the flow of funds, public and private. Tariff revenues and savings bank deposits could be collected on the Island and put to work in Ottawa's development projects elsewhere. On P.E.I. the savings bank system had grown from holding deposits of £6,434 in 1865 to £77,903 by 1873; and the number of depositors had risen six fold.[33] A similar transfer of funds could be effected through the private banking system once indigenous banks were replaced by branches of Toronto, Montreal or Halifax based institutions.

However fortunate the Union Bank may have felt itself to be in unloading its railway debentures on the Dominion, or however happy the Bank of P.E.I. was in having its credit line to the government of the Island secured by Confederation, their satisfaction was short-lived - though trouble actually began with the Merchants' Bank.

Founded in 1871 at a time when bank promotions were again in vogue across British North America, the promoters of the Merchants' Bank included J.F. Robertson, the manager of James Duncan & Co. As Duncan, who had created the largest shipbuilding firm on the Island, nearly wrecking the Bank of P.E.I. in the process, got more involved in politics, management of his firm, was increasingly delegated to Robertson. Therefore when Robertson joined the directorate of the new bank he was well situated to bring the Duncan firm accounts with him, much to the bank's subsequent regret. For Robertson soon managed to sink into the Duncan firm a sum equal to the paid-up capital of the bank.

The crisis of 1873 really marked the end of the age of the wooden sailing ship and left many an old shipbuilding firm high and dry. Perhaps that was why Sir James Malcolm, a Liverpool broker to whom the Duncan firm was heavily in debt, came visiting the Island in 1878. That year the Duncan firm collapsed And it brought the bank down with it. In the meantime Sir James Malcolm left the Island in a hurry, the tug boat taking him to safety also carrying some of the firm's assets which a Chancery Court had ordered him to yield.[34] The other banks provided an emergency credit line to the Merchants' Bank and the stockholders had to cover the losses on the Duncan account. Unlike the Duncan firm, which a year later paid off its creditors at 32 cents on the dollar, the bank did recover.

Other banks were not so fortunate. The long depression of the 1870s had seriously undermined their solvency. In the case of the Bank of P.E.I., just how serious the situation was long went unnoticed by all but its cashier. Then one fine November day in 1881, he left the Island en route to the U.S. ostensibly for a brief visit. Instead of the cashier's return, the directors received a letter informing them that he had made unauthorized advances of $650,000 - more than three times the bank''s capital. Without any interference from the directors, who had been content to just rubber-stamp anything the cashier had put in front of them, he had locked $400,000 in mortgages on ships, warehouses and land, and lent the rest of the missing money to persons who could never repay. The bank promptly suspended. Despite the directors' public assurances that the bank's liabilities would be paid in full, other banks, Island and mainland, facing panic-induced runs, refused to accept its paper.[35]

Despite the suspension, the notes actually remained in popular demand. If the other banks refused to accept them, the retail business sector felt otherwise. Merchants, and even a local restaurant, tried to bid for business by advertising their willingness to accept the bank's notes at face value. Private money lenders on the Island were buying them at a one percent discount; mainland money lenders offered 95%. Alas, this faith in an old Island institution was in vain. Despite a special relief act passing Parliament, permitting the bank to suspend specie payments for more than 90 days without loss of charter privileges, the bank ultimately could pay its creditors only 40%; its shareholders lost $300,000; and the bank never resumed operation.[36]

In the wake of the Bank of P.E.I. collapse the fate of its two main competitors hung in the balance. The Union Bank negotiated a merger into the Bank of Nova Scotia the next year. This represented the first incursion of mainland banking institutions onto the Island and was a portent of things to come. The Merchants' Bank attempted to do likewise, but was unable to attract a suitable offer. It therefore called up more capital from its shareholders, and gave commercial banking one last fling. However its role as an independent Island bank really did not survive the crisis; for it remained in operation in part because of accounts and business it got from the major mainland banks like the Bank of Montreal and the Bank of British North America. In 1906 it was finally absorbed into the Toronto-based Bank of Commerce.[37]

The Merchants' Bank's record of lurching from crisis to crisis was as remarkable as the Bank of P.E.I.'s ability to violate flagrantly the terms of its charter, only to attract from Ottawa permission to violate others. Yet only a year or two after the Island banking debacle, Ottawa turned its attention not to cleaning up the operations of the offending institutions, but to planning the extirpation of one Island bank that had worked quietly through the periodic crises without suspending payments or showing any trace of incompetent or dishonest management.

In 1883 the charter of the Farmers' Bank of Rustico came under the scrutiny of the Canadian Senate where representatives of the mainland banks held lifelong tenure. While the charter was renewed, it was extended only to 1891, the expected date of the next review of the Bank Act, not the ten year renewal that was normal for Canadian banks. Moreover its note issue power was shaved back - subsequently it was allowed notes to a maximum of the level of the paid-up capital, whereas Canadian norms called for double. It was a severe blow given how dependent the bank had always been on notes to finance its lending activity. Furthermore requests from Souris and Summerside for charters of incorporation along the lines of the Farmers' Bank were refused.[38]

Despite this declaration of war by the Senate, the bank came in for some long overdue praise in the House of Commons. The defenders of the bank pointed out, as Abbé Belcourt had done 25 years before, that the financial needs of farmers, with their annual production cycle, were quite different that those of merchants. The bank's ability to make longer term loans to farmers than did orthodox commercial banks was held to be a major factor in keeping farmers out of the hands of loan sharks, note shavers, and private mortgage lenders. But it was to no avail. In 1889 the Merchants' Bank began demanding that the Farmers' Bank pay off its notes in cash twice a week; then in 1891 it hiked the demand to immediate redemption. The Farmers' Bank did succeed in complying.[39] But later that year in the federal Senate the second reading of the Body Snatchers' bill was followed by a discussion of whether or not to renew the bank charter. It was decided to deny it further note issue privileges and try to force it to merge with another, larger institution.[40] Three years later the bank was wound up.

Next to go was the Summerside Bank. In 1901, when it was absorbed into the Bank of New Brunswick, the Summerside Bank had a capital of $48,666 when federal law set a minimum capital for a chartered bank at $500,000. The bank's survival to that date was due to the original charter having granted a much longer term than was normally in Canadian banking - and the federal government had to await the expiry of that charter before knocking the bank into line or out of action. The passing of the Summerside Bank was one of the great financial non-events of the year. The two major financial papers, the *Monetary Times* and the *Commercial and Financial Chronicle* did not mention a word about it; while the third financial paper, *The Chronicle*, confined itself to the terse observation that, "The Bank of New Brunswick has taken over the Summerside bank, Prince Edward Island, the paid-up capital of which was $48,666, the only one in Canada under $180,000. Other absorptions are desirable."[41]

With the subsequent takeover of the Merchants' Bank by the Bank of Commerce in 1906, all vestiges of the Island's former monetary and financial independence vanished along with the historical era that made them possible - with one exception. The Acadian grain banks struggled on in the face of growing centralization of commerce and depersonalization of economic relations until the last of them, the Egmont Bay Seed Club, was wound up in 1947.[42]

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[1] *Confederation Debate*, JLAPEI, 31 March, 1865, p.89
[2] See esp. Bolger *Confederation*, 24-6
[3] These included George Coles, leader of the Liberal party, James Duncan of the Bank of P.E.I. and head of the largest Island shipbuilding firm, and James Yeo, merchant and agent representing the old order.
[4] The Island made the obvious objection, that given the role of the imperial government in exacerbating the problem problem it had a moral responsibility to at least share the cost. (Executive Council P.E.I. o Deputy Commissary, Halifax, 18 May, 1868, JLAPEI 1869)
[5] Bolger *Confederation*, 168-170
[6] Executive Council P.E.I. to Sir Robert Hodgson, 4 Feb., 1870, Council Minute, Council Chambers, 7 Jan.,1870, JLAPEI, 1870
[7] Clark 120
[8] Legislative Council, P.E.I., Debates March, 1869, 43
[9] Stat. P.E.I. 31 Vic. I, Cap. VIII, 1868
[10] This required the minting of some new, decimal denominated coins, and the recall and reissue of the old treasury notes. (34 Vic. I Cap.5, 1871)
[11] Bolger , *Confederation*, 208
[12] See for example the opinions of Assembly member Cornelius Hewat. (D. Weale, *Cornelius Hewat* Summerside, 1973.)
[13] Mackinnon 133
[14] Cited in Sharpe 121.
[15] See, for one example of railway politics in action, "Minutes of Evidence Taken Before the Committee of the Whole House on Privileges, investigating a charge of attempting to bribe a Member of the House of Assembly;" JLAPEI, 1872, App. A

[16] By 1870 the Island had a system of ad valorem duties, none very onerous, on top of its specific duties. The railway prompted in 1871 a special 2-1/2% tax imposed ad valorem on all imports. But its yield was never high. In fiscal 1872 the Island spent over $1,000,000 on railway building while the railway tax yielded $43,000.
[17] There is a difference in interpretation on this point. J.A. Maxwell in "Prince Edward Island and Confederation" *Dalhousie Review* XII states that the debentures were "sold" to the bank; Bolger 234 concurs. But A. Macphail "A History of Prince Edward Island" *Canada And Its Provinces* XIII states that they were "pledged" as security for loans; this opinion is concurred in by Ross I 129. It seems much more likely that they were pledged, not sold, though if the loans became overdue the bank could seize the collateral.
[18] Clark 118
[19] Mackinnon 134; Maxwell passim; Macphail 371-2; Bolger 234-5
[20] Campbell in 1875 wrote (187) that the reasons the bankers switched to the pro-Confederate camp was "that the mercantile community was afraid of a monetary crisis consequent on the liability of the Island in connection with the railway."
[21] Order-in-Council 26 June, 1873; Canada, *Sessional Papers*, Vol.6, #68, 1873.
[22] See *The Islander* 7 April, 1871, reprinted in BPP C.1351, 1875 "Correspondence Relating to the Land Tenure Question." The following seven references are drawn from this source.
[23] Executive Council Minute 28 Dec. 1872; R.P. Haythorne, President, Executive Council, to Lt.Gov. Robinson 26 Dec. 1872.
[24] Lt. Gov. Robinson to Earl of Kimberley 17 April, 1871.
[25] Lt. Gov. Robinson to Earl of Kimberley 10 June, 1871.
[26] Kimberly to Robinson 2 Sept. 1871; Kimberley to Earl of Dufferin 12 Feb. 1874.
[27] G.B. Gregory to Undersecretary, Colonial Office, 14 Jan. 1874; Frere and Co. to Undersecretary 28 Jan. 1874; M. Fanning to Lord Kimberley 19 Jan. 1874.
[28] C. Georgina Fane to Earl of Carnarvon 25 Nov. 1874.
[29] Melville et al to Earl of Carnarvon 4 June, 1874.
[30] Excerpts from U.K. House of Lords Debates, 26 July, 1875 in British Parliamentary Papers "Correspondence ..." 1875.
[31] See the protest of J.F. Montgomery to Carnarvon ibid.
[32] Ross I 126.
[33] See J. Pope, Treasurer and Manager of the Savings Bank, to the Lt.Gov. in Council, 21 Jan. 1871, JLAPEI 1871, App. I; and "Blue Book of Prince Edward Island" JLAPEI 1872, App. O
[34] Bank of Nova Scotia, *The Bank Of Nova Scotia 1832-1932*, Montreal: 1932, .66; Ross I 135-8; *Monetary Times* 11 Oct., 1878 p.474, 18 Oct. 1878 p.504
[35] *P.E.I. Examiner* 28,29 Nov., 1881: *Monetary Times* 2 Dec. 1881, p.668; Ross I 135, Bank of Nova Scotia 66
[36] *P.E.I. Examiner* 1,8,13 Dec. 1881; Canada, House of Commons, *Debates* 23 Feb. 1882 p.72
[37] Ross I 137
[38] Canada, Senate *Debates* 18 April, 1883, Pp.271-2; Sharpe 139
[39] Ross I 151
[40] Canada, Senate *Debates* 26 June, 1891 p.43
[41] *Chronicle* 18 Oct. 1901 p.1396
[42] Croteau "Grain Banks" 130

XI. One Hundred Years of Solitude: An Appraisal

One hundred years separated the calling of Prince Edward Island's first Assembly from the Island's absorption into the Canadian Confederation. The first event marked the Island's initial step towards the development of its own political institutions, while the second represented its final abdication of political sovereignty -- and both were the result of financial demands. The failure of absentee proprietors to pay quit rent obligations led to the calling of an assembly to deal with the resulting fiscal crisis, while a century later the burden of debt associated with railway finance precipitated Confederation. Between these two boundary points on the Island's political evolution, some unique monetary history unfolded.

Prince Edward Island entered British imperial history as a late product of a mercantilism that was simultaneously triumphant and moribund. Prince Edward Island was wrested from France in a war that both confirmed the economic and military superiority of British over French mercantilism and, in so doing, set in motion the forces that would destroy that same British mercantilism at the peak of its power. It therefore came into being as the last of Britain's island proprietary colonies. The pressure of post-war debt caused Britain to seek the cheapest possible way of administering its new possession, and this called forth an instant class of absentee proprietors who were to finance governance, development and settlement in exchange for land grants and the future flow of rents they would yield. But the proprietors lost little time in shirking their colonization and their fiscal responsibilities. The result was that, after nine years of multilateral political squabbling, the island came to rely on an annual grant from the Crown to finance its civil government while making sporadic efforts at taxation or collection of quit rents to finance its other expenditure obligations. The imperial grant was paid in bills of exchange drawn on the imperial treasury. These bills, sent out to pay official salaries, were sold by the officials who received them to local merchants for coin. The merchants in turn used the bills to cover their imports from Britain or the mainland colonies. And the cycle would have effectively put the Island on the same type of silver-exchange standard as the other British American colonies of the eighteenth century, if the second part of the equation, silver coin, had been in adequate supply. It rarely was.

Although the financial effects of the proprietorship system were partly alleviated by a regular imperial subsidy, the political, social, and economic effects were not. Politically the 1767-8 settlement introduced a three-cornered conflict between - proprietors seeking the most for the least; officials of government whose performance of public function and personal pecuniary ambitions put them in conflict with the proprietors; and an impoverished tenantry who could often be duped by the false promise of freehold tenure into following the political lead of the colonial officials and supporting policy whose sole result was to change the identity of the landlord.

In the late 18th Century, pioneer self-sufficiency was the norm. Since landlords usually treated their grants as a speculative proposition, their failure to develop the land, or pay their quit rents, was sometimes accompanied by an equal negligence in collecting rent from their tenants, many of whose leases were oral or even tacit. Yet lacking any security of tenure the tenant had no incentive to shoulder the burden of development that the landlords shirked. The commercial isolation of the island reinforced the resulting tendencies to self-sufficiency at a low standard of living using primitive agricultural technique. So too did the absence of hard currency that the lack of external trade or imperial cash subsidies produced.

For the tenant farmer in the era of pioneer self-sufficiency, exchange transactions were not altogether absent. The farmer bartered his surplus produce of farm and forest to a country storekeeper for imported manufactures and luxuries that could not be produced domestically. The country merchant in turn dealt with an import-export merchant in an urban centre. Debt was endemic, particularly given the Island's thirst for West Indian or Nova Scotian rum. But debt was more an instrument of social and political control than of economic gain; for it ensured the continuation of a flow of trade to a particular country storekeeper, it gave landlords a firmer hold over their tenants to keep them on the land, and it assured local notables - merchants and/or agents of the landlords – of the political support of the debtor popualation when they sought public office.

Early governors were perspicacious enough to recognize an ossified debt structure as an impediment to economic progress, not to speak of its role in assuring the political power of some of their principal opponents. Lacking the will and the means to attack directly the system of land tenure and unable to deal with the problem of commercial isolation, governors turned their attention to one policy variable that was at least partially amenable to local action - the state of the currency. Out of this came a series of plans for improving the supply of money and monetizing the structure of debt - schemes for altering the legal tender value of the coins, plans for instituting commodity currencies, a project to control the exodus of specie by exchange control and an attempt to circulate government-issued paper money. All of these plans were either stillborn or died shortly after their inauguration. In the meantime controversies over quit rents and land tenure continued to disturb Island politics and muddy imperial-colonial relations.

In 1802 the Island succumbed to a social revolution imposed from above, whose economic consequences were farreaching. A major resettlement of the proprietorship system paved the way for widespread sales of land to proprietors who were interested in the commercial, rather than merely the speculative potential of their estates. It was also a time of rising volume of trans-Atlantic migration and of the opening of colonial-imperial trade in temperate raw materials, bulk wood and grain. Out of these economic trends, and the continued currency famine, came the debt-bondage and barter mode of organizing production and echange. Under the debt-bondage system the farmer who was formerly largely independent was reduced to the status of a debt-peon under the control of the landlords' agent who ran the local store. As the new proprietors set out to exploit the commercial possibilities of their land, to the tenant's traditional store-debt was added rental arrears. And the storekeeper-agent no longer accepted an array of surplus produce in barter agreement for store goods. Rather he demanded settlement of debt or the covering of current purchases and rent obligations in a few specific commodities - especially timber, wheat, and labour in his boatyard. The agent in turn controlled both the export of colonial staples and the import of British and imperial goods through the transAtlantic firm that the developing imperial-colonial trade of the early nineteenth century called into being.

Given the success of the debt-barter system in adopting the institution of pioneer self-sufficiency to a world of widespread commercial exchange, pressure for the rectifiction of the monetary crisis abated, at least from the political and economic elite. A few efforts by the governors to rectify the problem (of which the most elaborate was the brief adoptation of the Holey Dollars scheme to the island) reflected more their concern to liquify the bills in which the civil (and, after 1812, the military establishment) were paid, and to deal with the closely related problem of assuring a free flow of urban retail trade. For the bulk of the population, caught in the debt-bondage system, there was no relief intended or supplied. Hence when the tenantry and the rising Island middle class took to the political fore, their demands and their practical efforts were directed towards achieving two closely interrelated goals - the monetization of commerce and the replacement of leasehold by freehold tenure. In seeking to achieve these goals they were unconsciously assisted by certain structural developments within the British financial and colonial system.

In the early years there had been no systematic attempt (nor indeed even much evidence of an unsystematic one) by the imperial authorities to impose any sort of order on the Island's monetary and financial system apart from interfering to prevent devaluation of the currency. This neglect reflected in part the Island's marginality in the empire and in part the fact that in Britain itself monetary and fiscal affairs were by no means in a settled state. Britain did not adopt an automatic gold-standard mechanism in the classical form until 1819. For much of the 18th Century it was officially bimetallic with its specie supply supplemented for purposes of domestic exchange by notes issued by a plethora of private banks, often of dubious credit-worthiness, by the Bank of England. Then during the Napoleonic Wars Britain went on an inconvertible paper standard; only several years after the wars ended did it make its way back to a specie standard, this time in monometallic (gold) form. Until that last event there was no truly coherent, agreed upon set of monetary principles at home that could be generalized abroad; and even if such a set of principles should begin to take shape, there would be no reason to start the process of generalizing them on one of Britain's most commercially insignificant colonies.

By 1825 certain major structural changes began to manifest themselves in response to a number of new influences whose importance grew steadily over the succeeding decades. Once Britain had adopted a fully automatic gold standard mechanism, it set out to sell the notion of free international exchange to the trading world, whether that trading world wanted it or not. After 1825 it also progressively, if erratically, began the process of freeing the colonies of the political and economic restraints typical of the mercantilist period. It therefore granting more power to the colonial Assemblies in which the "middle class" (male) voice was heard. It attempted at the same time to coax or coerce the colonies onto a gold-standard basis for their financial and monetary affairs. Thus, in place of fiscal and commercial control, it substituted monetary and financial. In the short run however the influence of fiscal and commercial liberalisation took precedence, and P.E.I. responded by creating and systematising its own, unique method of dealing with its fiscal, monetary and financial problems.

The fiscal problems resulted from the combined influence of one general and one seasonal factor. The general problem derived from the growth of government expenditure obligations relative to revenues. Since the proprietors neglected infrastructural investment essential to modernize the agricultural base or the marketing of its output, an increasing burden fell on the island public authorities. Yet at the same time government revenues were restricted by the refusal of the proprietors, backed by the imperial authorities, to pay their arrears of quit rents. In 1825 more fiscal freedom was granted the Island government which responded by raising taxes, putting the fiscal burden shirked by the proprietors onto the local population. But the way that higher taxation was instituted added a seasonal problem to the flow of public receipts and expenditures on top of the secular one.

The key to the Island fiscal-financial apparatus as it evolved after 1825 lay in the fact that the flow of receipts into the public purse failed to synchronize with the flow of payments out of it chiefly because of tax deferrals granted Island merchants. The gap was bridged by the issue of treasury warrants, bearing interest and redeemable in non-interest bearing invconvertible treasury notes. That the inconvertible treasury notes were acceptable as a money form in part resulted from the fact that the balance of payments deficit continued to claim the Island's specie: given an excess demand for sterling exchange relative to the supply of bills, any specie that happened to arrive that was not hopelessly debased, left again to cover the foreign exchange gap. Since the notes were legal tender for public debt, merchants who received them in payment for the imported goods they sold to the public, used the notes to settle their tax deferral debts to the Island treasury. And, of course, it was the tax-deferral debts which had set the entire process in motion to begin with. The resulting tax-deferral treasury-warrant treasury-note tax-payment cycle provided the Island simultaneously with acceptable instruments of public debt, a medium of exchange, and a source of commercial credit, all operating by virtue of the gap between the time stream of public spending and the time stream of public receipts. In effect public and private sector transactions were integrated as monetization and commercialization of economic life proceded <u>within</u> the Island, while the inconvertibility of treasury notes continued to partially insulate domestic from foreign transactions. Morover in conjunction with the long-term deficiency of revenues, the Island fiscal-monetary system, which on an annual basis simply reproduced itself, over time generated a rising level of floating debt in the form of treasury warrants and treasury notes. But that rising floating debt level, far from being a condemnation of the Island currency finance system, was directly due to the absence of quit-rent payments in which the imperial authorities acquiesced.

On top of the paper currency that the Island government was energetically pushing into circulation came the efforts of private money manufacurers. Not only did the task of making token copper and brass coin fall into the hands of local entrepreneurs, but the 1830's saw the emergence of the Island's first private banks of issue. In all of these instances, by private and public effort, consciously or unconsciously, the Island middle classes were working to monetize transactions and erode the power of the debt-bondage economy. At the same time radical forces in the Island Assembly were demanding strong action on the land tenure system.

It took some time for the imperial authorities to move against the Island's developing currency-finance system, first to restrict its further growth, then to try to wind it up altogether. The delay reflected a number of things: uncertainties in British monetary experience and debate in the first two decades after the resumption of specie payments on a monometallic gold basis; political turmoil within Britain that led to alternating waves of reform and reaction in colonial as well as domestic policy; and the Island's comparative insignificance in the eyes of the architects of imperial policy. But in the wake of the crisis of 1837-8 and the victory of the Currency School of hard-money advocates, a stronger stance against the Island's monetary experiments emerged. Efforts to stop further issues of treasury notes had begun in 1833. In the wake of the crisis, pressure was put on the Island government to make its remaining notes convertible into specie on demand and to put a fixed cash-reserve ratio behind them. This development was aided powerfully by the direction of evolution of the Island's political forces.

By the 1830's the imperial authorities were fully sympathetic with the objective of monetization of transactions, even though this would erode the foundations of the debt-bondage economy. However they were not prepared to countenance radical action against the landed proprietors. Faced with the obdurateness of the proprietors on the one hand, and the demands for radical reform by the political representatives of the tenants on the other, the imperial authorities tried to steer a middle course. The result was a political alliance with the Island's middle-class reformers who were prepared to repudiate expropriation or Escheat action against the landlords and to proceed to put the Island's monetary system on a specie standard. But by the time these Island reform interests had consolidated their political power and indicated that they were prepared to acquiesce in the demand for specie-convertibility, both external circumstances and the demands of the Imperial Treasury had changed.

The 1850's saw an unprecedented expansion of international commerce fed by the liberalization of trade restrictions, by gold rushes that eased credit conditions and facilitated the generalization of the automatic gold standard, and by an investment boom in steam transportation -- railways and steamships. It was also a period when Britain yielded full fiscal freedom and responsible government to its old North American colonies, albeit retaining the power to shape their financial evolution. This power over colonial finances and financial legislation became of even greater significance in the 1850's than in previous decades. The crusade to spread the gold standard gospel had gone into high gear, while the growth of foreign and colonial long-term borrowing in Britain to finance railways, canals, and general government spending necessitated the imposition of an international remittance system that could guarantee the free flow of payments for debt service across political borders.

On the Island the impact of these forces was profound. The export boom completed the commercialization of agriculture and tied the bulk of the Island framers fully into an exchange economy. It thus created a demand for new credit instruments and new credit institutions at the same time it brought the land-tenure question to a boil. The Island government, moving to deal with the land question in a "responsible" way by attempting to buy out the proprietors, found its capacity to issue more floating-debt instruments blocked by the imperial authorities. The Imperial Treasury now insisted on the formal separation of public- and private-sector transactions by winding down currrency finance in favour of gold standard banks and government debenture borrowing. Under currency finance, public- and private-sector transactions on the Island had been integrated through the debt-credit mechanism while domestic transactions had been partially insulated from external ones. With the melting down of the barriers between domestic and foreign trade as a result of the spread of the market in the 1850's, the Imperial authorities insisted on the formal separation of public and private financial transactions with, of course, the implicit objective of reducing the influence the public sector would have on the private one. Private institutions were thenceforth to provide the means of payment and commercial credit while government expenditure, when it could not be confined to the level of current receipts, was to be financed by the issue of long-term funded debt instruments. At the same time the imperial authorities made it clear that "responsible government" did not carry with it the right of the Island legislature to act contrary to the interests of the absentee proprietors. Their holdings were protected by imperial troops, by control over Island legislation, and by the shaping of currency law to defend their rent receipts from depreciation of the Island currency.

Over the two decades that followed 1850, the new monetarism triumphed and the financial institutions of the Island were adapted to it. Banks of issue and discount operating on gold-standard principles emerged, and their notes quickly came to dominate the circulation. Treasury notes shrank in relative importance as their supply remained constant while commercial expansion drove up the demand for money. Treasury warrants, too, began dropping off rapidly compared to debentures as a means of financing government spending, albeit that their absolute volume continued to rise. The debentures, unlike the warrants which financed cash-budget deficits, were not only funded, but also issued largely in respect of purchases of land. Therefore as public liabilities rose, they created their own offsetting long-term productive asset. Both in terms of "sound money" and the "correct" principles of public finance, the Island had largely met the demands of the Imperial Treasury.

But as the demand of the Island government for funds to continue buying out the absentee proprietors surpassed the capacity of the Island (and its new financial institutions) to absorb the debentures issued to acquire the necessary funds, more and more of the Island debt had to be marketed abroad. This led to the inevitable debate as to whether or not a political association with a larger unit would lower the cost of borrowing. When Maritime Union failed to come to pass, P.E.I. decided to resist the alternative lure of Confederation with Canada in spite of strong imperial pressures. Its debenture debt grew as the purchase of land from the proprietors continued. But part of the adverse effect the growth of external long term debt would have had on the Island balance of payments was offset by the fact that to some extent sterling interest payments were just replacing sterling rental payments Furthermore prosperity and trade expansion assured a growth of government revenues and an increase in the capital value of acquired land, and therefore made the burden of carrying the extra debt manageable. However when the Island succumbed to railway fever after 1870, the financial situation changed abruptly and profoundly.

Nothing so fully captured the economic and political character of the late 19th Century as the railway. By facilitating long-distance trade in bulk materials, it not only induced a commercial revolution but an industrial and financial one as well, causing the rise of new heavy industries, the rapid development of new, giant capital-market institutions, and the concentration of economic and therefore political power. By creating greater market structures and by integrating vast territories, it rendered old commercial arteries, old methods of financing economic activity, and even old political units obsolete. One of its most far-reaching effects was the marginalization of many parts of the commercial community that had flourished in the long boom of the 1850's and the rise of new economic power centre operating on a continental scale. The two effects together pointed in the direction of the absorption of Prince Eward Island into the new Dominion of Canada.

The irony of railway finance on P.E.I. was that while the generalisation of gold standard banks and free international remittances was a <u>sine qua non</u> of international long-term borrowing by the Island government, the financing of railway consruction undid the careful separation of private and public finance that the Imperial Tresaury officials had worked so long and hard to assure. Subsidy debentures granted to contractors by the government were sometimes sold in London and sometimes pledged to a local commercial bank as collateral for loans. The result of the first was to greatly enhance the influence of the London capital market and its investment bankers on the Island's political future, while the result of the second was to threaten the solvency of the bank in question whose failure might spread panic and injure the positions of other banks as well. With the Canadian government wooing the Island with the promise of debt relief and financial aid to complete the purchase of the absentee proprietors' lands, with the imperial government threatening trouble over the land question if the Island did not embrace Confederation, with the London capital market insisting on Confederation with Canada as a precondition for further loans to the Island government, and with local banks lobbying for acceptance of Ottawa's terms, in the final analysis the Island was simultaneously coaxed and coerced into the Canadian fold. "Sound money" had produced its own nemesis in the form of the loss of control over the main levers of fiscal, monetary and financial power to Ottawa. And the abdication of public control was followed by the assimilation and submergence of the private financial institutions of the Island as well.

APPENDIX I: MONETARY SYSTEMS IN COLONIAL PEI

	RURAL		URBAN		PUBLIC		EXTERNAL	
sector of economic activity / means of payment	debt-barter	rental payment	wholesale market	retail market	public finance	public land transactions	international trade	imperial-colonial finance
1. bank notes - island			x	x				
2. bank notes - mainland			x				x	
3. Canard firm promissary notes							x	
4. debentures					x	x		
5. imperial bills on London							x	x
6. labour services	x	x						
7. land purchase bonds					x			
8. leather notes				x				
9. merchants' custom bonds			x		x			
10. merchants' inland bills			x					
11. private promissary notes			x	x				
12. retail merchants' notes				x				
13. rum	x			x				
14. specie			x		x		x	
15. staples	x	x					x	
16, sterling bills of exchange							x	x
17. store credit	x			x				
18. token coin				x				
19. treasury notes				x	x	x		

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The Islander (Charlottetown)
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