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PRETENDED BANKING?
THE STRUGGLE FOR BANKING FACILITIES
IN KINGSTON, UPPER CANADA (1810-1837)

by

L. David Bergeron

Thesis submitted to
the School of Graduate Studies and Research
in partial fulfillment of the requirements for the
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ABSTRACT

PRETENDED BANKING?: THE STRUGGLE FOR BANKING FACILITIES IN KINGSTON, UPPER CANADA (1810-1837)

L. David Bergeron
University of Ottawa, 2007

Supervisor:
Professor Peter Bischoff

This dissertation examines the events surrounding Kingston's struggle to establish a bank between 1810 and 1832. As the commercial centre of Upper Canada in the early nineteenth century, Kingston's economy prospered, yet the lack of capital, and the chronic shortage of money impinged on the town's potential for further economic development. Faced with cash flow problems, and a complicated trade mechanism still based on credit, merchants in Kingston identified the need for banking services, consisting of issuing notes, buying and selling exchange, deposits and loans.

Petitions to charter a bank were presented to the Provincial Legislature on several occasions, but the bills were denied either for political or financial reasons. It is believed that the Family Compact and other members of government with a vested interest in the Bank of Upper Canada at York blocked Kingston's chances of opening a bank. Furthermore, difficulty in raising capital was a serious impediment to the establishment of a bank in Upper Canada. The delay in securing a charter may have been a contributing factor to the town's commercial decline starting in the mid-1830s.

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INTRODUCTION

Today, Toronto stands as the financial and commercial centre of Ontario, and of the entire country. A testament to the city's financial clout, the tallest buildings in the downtown core are emblazoned with the logos of Canada's "big-six" banks: Bank of Montreal, Royal Bank of Canada, Scotiabank, CIBC, TD Bank and National Bank. So if Toronto is the heart of Canada's banking and financial sector, why then an essay on early banking in Kingston, a city known more for its educational institutions and its tourist attractions than for its banks? Well, Toronto was not always the prime mover of the provincial economy, and it most certainly was not the first centre in Upper Canada to open a bank. Those accolades belong to Kingston.

In the early part of the nineteenth century, Kingston was the hub of commercial activity in the province. For the merchants living in the town, banking facilities were needed to help solve the province's cash flow problems, and improve commercial trade. Modern banking had existed in parts of Europe for over a century, but it was a fairly new concept in North America. Even though the system was unproven, proposals were put forth to establish a bank for the convenience of issuing notes, exchanging commercial paper, such as bills of exchange and promissory notes, granting loans, and taking deposits. With specie (gold and silver coinage) in constant shortage, alternate forms of money were needed to maintain the flow of commerce, and to settle accounts, be it the payment of taxes and customs duties, or the purchase of supplies. Paper appeared to be an efficient medium, and what better source to issue paper money than a bank, which could use its assets (capital) as collateral to back its operations? In 1810, over ten years before the first chartered bank opened in Upper Canada, a group of Kingston merchants petitioned the Provincial Legislature of Upper Canada for a bank charter. Securing a charter was not only a way for banks to build

credibility, but as economic historian Douglas McCalla affirms, it was also “a license to print money.”¹ To the chagrin of the Kingston petitioners, social and political issues forced the delay of the project. But in 1819, a bank, albeit an unchartered one, named the “Bank of Upper Canada,” opened its doors in Kingston. It carried out the basic functions of a bank, and appeared to enjoy immediate success. Soon, however, the Bank, the supporters for banking in Kingston, and the town itself faced a major obstacle: the establishment of a chartered bank (also named the Bank of Upper Canada) in York (Toronto after 1843) in 1821.²

With political support from the Family Compact, Upper Canada’s oligarchy, and other influential men in power, the York-based Bank of Upper Canada enjoyed banking supremacy in the province from 1821 to 1832. In this span of time, internal and external factors would eventually cause a shift in commercial and financial power from Kingston to York. By the time Kingston finally secured a charter to open a bank in 1832, its economy had already begun to decline. Its glory days of being the hub of Upper Canada’s commercial trade were over.

This dissertation examines Kingston’s bid to establish banking facilities in the early part of the nineteenth century, and attempts to explain why demand for banking facilities originated in Kingston, and more significantly, why the town’s bid for a bank charter was stalled for such a long period of time. Furthermore, this thesis assesses whether Kingston was ready, both financially and politically, for a bank as early as 1810, and whether the delay had an impact of the town’s economic development afterwards. Based on the available evidence, and having weighed the arguments that

¹ Douglas McCalla, Planting the Province: The Economic History of Upper Canada, 1784-1870 (Toronto: University of Toronto Press, 1993): 148

² Both banking institutions in Kingston and York carried the name “The Bank of Upper Canada.” To make the distinction between the two entities throughout this thesis, the Kingston institution will be referred to as the private Bank of Upper Canada (or private bank), and the York institution will be go by its legal name, the Bank of Upper Canada. In 1822, after the failure of the private bank in Kingston, it became known as the “pretended” bank, a moniker given to the institution by the directors of the Bank of Upper Canada in York, reflecting the fact that it was not authorized by government, and that it was considered to be “illegal.” The York bankers invented the name so to distinguish itself as a reputable company against the dubious nature and reprehensible activities of the pretended bank. The name would go on to be used in the legislation created to settle the affairs of the late private Bank of Upper Canada.

historians and economists have made regarding the fortunes and plights of Upper Canada's first banks, the delay in Kingston's bid to establish a bank did not rest solely on the political issues. Although delays in banking legislation appear to have been the salient reason behind Kingston's denial of a bank charter, the shortage of available capital³ to support a bank, despite the town's robust economic activity, was another contributing factor. There just was not enough money available to invest in a bank.

Kingston was the largest commercial centre in Upper Canada in the early part of the nineteenth century thanks to its location at the junction of the St. Lawrence River and Lake Ontario. Since the 1780s, Kingston was an important transfer point for the import of goods going to the frontiers of the colony, and the export of resources coming from the colony's hinterlands bound for Montreal, New York and London. Kingston's economy burgeoned from the trans-shipment and forwarding business. It was generally agreed among merchants that banking facilities would greatly improve commercial trade at a time when the province was devoid of a stable circulating medium. However, the time was not right to open a bank. Proof is in the fact that new banks had difficulty raising the initial capital to commence operations. In Kingston's case, even the wealthy families, who had large net values, were "cash-poor" and could not necessarily participate in the upstart of a bank. Certainly many of the immigrants, who were escaping poverty and despair, arrived in Kingston penniless and with no assets to their name. Many of them received land grants, engaged in farming and began building non-financial assets yet they were not in a position to begin pouring money into banks.

³ The term "capital" in this case refers to money available for investment, to generate wealth. This is different from "bank capital," which is a bank's assets. Banks sold shares to raise the capital required to raise and maintain a minimum cash reserve to open for business. The problem that banks in Upper Canada faced was the lack of capital available to investors to purchase shares in the bank.

Some historians, such as Béatrice Craig in her article “Solder les comptes” (2002),⁴ argue that farmers and small merchants relied less on banks, and that business conducted between them hardly involved bank paper. Although there is some truth to this statement given that many expressed resentment and contempt for banks, transactions outside the merchant-farmer relationship, namely those involving the government, such as the payment of taxes and customs duties, required that payment be made in specie, and, in the absence of coinage, in notes. It is more by necessity than by choice that merchants and farmers resorted to credit to conduct business. Even in the early days of banking, access to banking facilities was limited to the larger commercial centres. In the absence of easy access to banks, many merchants provided their own banking services issuing scrip and tokens, granting loans, and engaging in some foreign exchange. The explosion of banks in British North America in 1830s, many of which were intended to serve merchants and farmers in the rural communities, is sufficient proof that demand for banks was high. Whether or not farmers needed banks is not important because it was merchants who were liable for commercial transactions, and thus who most relied on banking facilities. The acceptance and confidence of farmers in banking, however, was crucial to build credibility and integrity, and thus extend banking services to all inhabitants.

Further to the shortage of financial capital impairing economic development in Kingston, several political obstacles hindered Kingston’s bid for a bank. Many historians have acknowledged the Family Compact’s control of the Legislative Council in Upper Canada, and its support for the Bank of Upper Canada based in York. They have argued that the York bank enjoyed special treatment because of its exclusive relationship with the government. Although it is not the objective here to re-examine the relationship between the government and the Bank of Upper Canada, it is

⁴ Béatrice Craig, “Solder les comptes: les sources de crédits dans les magasins généraux ruraux de l’est canadien au milieu du XIXe siècle.” in Journal of the Canadian Historical Association, 13 (2002): 23-47.

clear that the Legislative Council's position on banking did severely hinder Kingston's chances of securing a bank charter. As it will be demonstrated in this essay, strong evidence indicates that, in 1819, government, and especially the Legislative Council with its strong representation of the Family Compact, supported the establishment of a bank at York, "the seat of government," to improve the government's finances, and that as a result it conspired against Kingston to open a bank knowing that there was insufficient funds in the province to support two banks. By becoming the "province's bank," investors in the Bank of Upper Canada would reap from the profits that the institution would generate. When the province's socio-economic growth had reached a crucial point where the government could no longer ignore public demand for more banks, the Commercial Bank of the Midland District was incorporated in 1832. Finally, after twenty years, Kingston inhabitants had secured their first bank charter.

To develop the above arguments, this dissertation will examine several key points. First, an understanding of banking concepts and functions as they pertain to nineteenth-century banking, and second, an understanding of the general monetary situation in the province that warranted a bank, are imperative. In the second chapter, an overview of Kingston's foundation and settlement, as well as the town's economic growth and commercial activities will assist in determining where the town fit into the economic development of the province, and whether they justified the need for banking facilities. The third chapter examines Kingston's foray into banking, with an analysis of the political and social events leading to the delay of a charter, the ultimate failure of the 1817 bill, and the subsequent establishment of the private Bank of Upper Canada in 1819. Chapter four underlines the competition in banking that arose in the province, which includes the arrival of external banks from Lower Canada in 1818, and the rise of the Bank of Upper Canada in York, the chief rival to the Kingston banking concern. This chapter also looks at the roller-coaster ride that the town's first

bank, the private Bank of Upper Canada, endured during its brief existence. Finally, the fifth chapter examines the establishment of the Commercial Bank of the Midland District (renamed the Commercial Bank of Canada in 1856), Kingston's first chartered bank, and delves into its operations up until the financial crisis of 1837. This is an appropriate culmination point for this study as it was the first true test of not only the Commercial Bank's ability, but that of all banks in British North America, to overcome adversity and crisis. To conclude, an assessment of Kingston's fall from commercial prominence beginning in the 1830s will be made to see if the banking issue played a role. Before moving into the body of the research, an examination of the historiography on banking in Canada, and the availability and use of sources for this thesis are necessary.

Historians of banking in Upper Canada have acknowledged many shortcomings to the discipline; the most important being that most histories on currency and banking in Canada were written by economists and not by historians. While these surveys on Canada's banking and financial system are innovative, their lack of historical context limits the reader's understanding and appreciation of what shaped Canada's early economy. Adam Shortt, a professor of economics at Queen's University, wrote a series of articles on the history of currency and banking in Canada for the Canadian Bankers' Association journal at the turn of the twentieth century. Despite being over 100 years old, these articles represent still today perhaps the most complete and informative works on the topic of early Canadian banking. Even in modern studies, Shortt is frequently quoted and footnoted. Another economist, a contemporary of Shortt, is R.M. Breckenridge, whose monograph The Canadian Banking System, 1817-1890, was the first academic work on banking history to be published in 1895. Breckenridge's work examined the development of chartered banking in Canada, with much emphasis placed on the politics and legislation behind money and financial institutions.

Other works have been written on the topic around the turn of the century and into the 1920s, but these two works are the cornerstone of Canadian banking history.

It was not until the late 1950s that another wave in banking history took shape. In light of celebrating their respective anniversaries, several banks commissioned writers to document the history of their institution. The first work to be published was Joseph Schull's 100 Years of Banking in Canada: A History of the Toronto-Dominion Bank (1958), which, as the title infers, documents the history of the Toronto-Dominion Bank.⁵ Perhaps the most notable example of corporate history is Merrill Denison's two-volume work on the Bank of Montreal, entitled Canada's First Bank: A History of the Bank of Montreal (1966-1967), which was published to celebrate the bank's 150th anniversary.⁶ A third publication by Joseph Schull and J. Douglas Gibson, which appeared much later, commemorates the 150th anniversary of the Bank of Nova Scotia, and is entitled The Scotia Bank Story: A History of the Bank of Nova Scotia, 1932-1982 (1982).⁷ All three books are useful in that they tell the tale of three of Canada's oldest banks. Yet, they all exhibit two major shortcomings that limit their usefulness as a reference: the lack of footnotes, and the fact that the authors were hired by their respective institutions to write their books. One must question if the authors were at liberty to accurately and honestly tell the stories of these institutions. Although the books are well documented, lack of references and footnotes make it difficult to verify the sources.

A third wave of banking history, one that bridged the corporate and academic histories of banking, saw the publication of books of a more scholarly nature. In particular, A.B. Jamieson's Chartered Banking in Canada (1953), R. Craig McIvor's Canadian Monetary, Banking and Fiscal

⁵ Joseph Schull, 100 Years of Banking in Canada: A History of the Toronto-Dominion Bank (Toronto: Copp Clark Publishing Co. Limited, 1958).

⁶ Merrill Denison, Canada's First Bank: A History of the Bank of Montreal, 2 volumes (Toronto: McClelland & Stewart Limited, 1966-67).

⁷ Joseph Schull and J. Douglas Gibson, The Scotia Bank Story: A History of the Bank of Nova Scotia, 1932-1982 (Toronto: MacMillan of Canada, 1982).

Development (1958) and E.P. Neufeld's Money and Banking in Canada (1964) pick up where Shortt and Breckenridge left off.⁸ Unfortunately, the historical context is spotty. Duncan McDowall documented the history of the Royal Bank of Canada in Quick to the Frontier: Canada's Royal Bank (1993).⁹ Ronald Rudin published a small book on the history of banks in Quebec, entitled Banking en Français: The French Banks of Quebec, 1835 to 1925 (1985), which places the whole banking phenomenon in Quebec in context of the province's economic and social development.¹⁰ Another historian, Peter Baskerville wrote an important book on the history of the Bank of Upper Canada, Upper Canada's first bank, which was central to the research conducted for this thesis. More commentaries on Baskerville's work will be provided throughout this study. One exception to the scholarly histories on banking that were more recently published is the one covering the Canadian Imperial Bank of Commerce, entitled A History of the Canadian Bank of Commerce (1922), which was written in the 1920s by Victor Ross. The work on the Bank of Commerce was expanded into four volumes, but Ross only authored the first two volumes, which cover the histories of the banks absorbed by the Bank of Commerce, such as the Gore Bank, as well as the first fifty years of the Bank of Commerce's history.¹¹

Other works, either published or unpublished, have helped to fill some the holes found in early banking histories. Of particular importance are the works of A.B. McCullough, Money and Exchange in Canada (1984) and Angela Redish, "Why Was Specie Scarce in Colonial Economies?: An Analysis of the Canadian Currency, 1796-1830" (1984). Both examine the money situation in Canada before Confederation. There are also the individual contributions from Allan J. Cohoe,

⁸ A.B. Jamieson, Chartered Banking in Canada (Toronto: The Ryerson Press, 1853); R. Craig McIvor, Canadian Monetary, Banking and Fiscal Development (Toronto: Macmillan Company of Canada Ltd., 1958); E.P. Neufeld, The Financial System in Canada: Its Growth and Development (Toronto: Macmillan Company of Canada Ltd., 1964).

⁹ Duncan McDowall, Quick to the Frontier: Canada's Royal Bank (Toronto: McClelland & Stewart Inc., 1993).

¹⁰ Ronald Rudin, Banking en Français: The French Banks of Quebec, 1835 to 1925 (Toronto: University of Toronto Press, 1985).

¹¹ For an expanded historiography of banking in Canada, see Stephen E. Thorning, "Hayseed Capitalists: Private Bankers in Ontario" (Ph.D. diss., McMaster University, Hamilton, 1994): 9-23.

“Early Banking in Kingston – Before Banks” (1979) and “Early Banking in Upper Canada” (1981), and Max Magill, “The Failure of the Commercial Bank” (1976), on banking in Kingston and the Commercial Bank of Canada. Two theses, one by Stephen Thorning, “Hayseed Capitalists: Private Bankers in Ontario” (1994), on private banking in Ontario, and one by Anne B. McAllister, “The Commercial Bank of Canada” (1984), have further enhanced the overall knowledge on banking in the province. Money and banking are fascinating subjects, with their fair share of scandal and intrigue. In spite of the tremendous work that has been accomplished to date, banking history is still a neglected discipline that merits more research and study. This thesis will hopefully fill another gap in the quest to better understand the development, role and function of banks in Canada.

Little has been written about trade and commerce in Kingston before the 1820s. In fact, there seems to be an almost complete absence of research and analysis on economic activities in the province prior to the War of 1812. This is likely due to the evident lack of documentation recording commercial transactions and mercantile activities in the province. This thesis makes reference to several works on the history of Kingston, including R.A. Preston’s Kingston Before the War of 1812 (1959), Brian Osborne and Donald Swainson’s Kingston: Building on the Past (1988), and Gerald Tulchinsky’s book of essays on Kingston history entitled To Preserve & Defend: Essays on Kingston in the Nineteenth Century (1976). This last book contained some important articles that proved to be very useful for this thesis. As for the general economic history of the Province of Upper Canada, Douglas McCalla’s Planting the Province: The Economic History of Upper Canada, 1784-1870 (1993) is the authority on the subject. McCalla’s work includes several charts and tables comparing economic data from different parts of the province at different time periods. An entire chapter of McCalla’s book is devoted to banking history, in which he provides some insightful comments and arguments on the role of merchants in the development of banks in Upper Canada.

Even though these works were useful in painting a picture of the economic and socio-political environment in which banking developed in Kingston, sadly there are too many holes in the research to provide a definitive study of Kingston's commercial activities in the early nineteenth century. The reason for this, as many historians have acknowledged, is because many of the records of the era have been lost. In fact, archival holdings of financial records from local merchants are almost non-existent. Apart from a few fonds held at the Queen's University Archives, such as the Richard Cartwright papers, no other additional records containing the commercial activities of other Kingston merchants seem to have survived. That said, it is almost impossible to get an accurate view of the amount of business being conducted in Kingston. Patricia Malcolmson, in her essay "The Poor in Kingston, 1815-1850," writes that the history of Kingston has always been approached through the records of the town's elite, which is normal because very few of the poor left a record of their lives for historians to study.¹² Fortunately, through the efforts of historians like McCalla, we are able to get a general impression of the province's economic development, and compare the commercial and economic output of the province's major centres, including Kingston, York, Niagara and Hamilton.

Access to primary sources for this study was unlimited, and thanks to modern computer technology, very convenient. The main sources examined for the research of this essay consisted of the journals of the Legislative Assembly and Legislative Councils, as well as the statutes of Upper Canada from 1810 and 1837. The website "ECO: Early Canadiana Online"¹³ has a near complete inventory of government journals in PDF format available for public viewing. Apparently, only the journals of the Legislative Assembly for the year 1830 are missing from the site. Examining the various pieces of banking legislation made it easier to understand how the government approached

¹² Patricia Malcolmson, "The Poor in Kingston, 1815-1850" in To Preserve & Defend: Essays on Kingston in the Nineteenth Century ed. Gerald Tulchinsky (Montreal: McGill-Queen's University Press, 1976): 281.

¹³ <<http://www.canadiana.org>>

banking issues, especially at a time when demand for banking facilities was increasing. Another important resource used for the research was the Kingston newspapers of the day: *The Kingston Gazette* (1810-1818), *The Kingston Chronicle* (1818-1832), *the Upper Canada Herald* (1819-1837) and *the Kingston Chronicle and Gazette* (1833-1837). All newspapers are available on microfilm at the National Library of Canada. Sadly, they all have missing issues, some of which would have contained important data relative to banking in the town.

A class of documents crucial for the research for this essay, which are unfortunately lost, are the original petitions that were submitted to the Provincial Legislature by the various inhabitants of Kingston. The bank bills, local newspapers and other documents did provide some information pertaining to the contents of the petitions, as well as some of the names of the men involved in Kingston banking, however, it is not known if the list of parties provided in Tables 2 and 3 is complete. A thorough search of all pertinent government records and the fonds of the various financial institutions have come up short of finding the petitions. It is therefore safe to conclude that they no longer exist. The absence of some of the government journals and committee reports also impaired the ability to confirm any suppositions. For this reason, some of the hypotheses raised in this thesis may never be confirmed or refuted.

Finally, archival holdings at Queen's University, the Bank of Montreal, the Currency Museum of the Bank of Canada, the National Archives of Canada and the Provincial Archives of Ontario have provided records that further enhanced the research. The Queen's University Archives provided the personal papers of some of Kingston's most prominent merchants involved in banking. The Bank of Montreal Archives houses the Commercial Bank of Canada fond, including the bank's minute books from 1832 to 1866. The Currency Museum of the Bank of Canada manages the National Currency Collection, which contains several documents, financial instruments and bank

notes from the various institutions examined in this thesis. The National Archives of Canada and the Provincial Archives of Ontario, for their part, contain the limited holdings of the Bank of Upper Canada, as well as the personal papers of some the men either involved in banking in the province, or in the creation of banking legislation within the government. All together, the numerous pieces of primary source material available proved to be very useful in the development of the arguments presented in this thesis. Furthermore, the accompanying bibliography will be a useful tool for future researchers interested in banking history.

CHAPTER 1

BANKING CONCEPTS, BANK FUNCTIONS AND THE MONETARY SITUATION IN UPPER CANADA TO 1837

The concept of banking has greatly evolved in Canada since the first banks appeared on the scene about two hundred years ago. While banks today represent the pillars of the modern economy, long ago they were more or less perceived as convenient facilities for converting commercial paper and for supplying cash. This rather simplistic view, however, undermines the crucial role that banks played in North America's economic and commercial development. As the main purveyors of cash and capital, and with their ability to manage financial risk, debt and payments, banks were essential in responding to the financial needs of a rapidly expanding economy. While banks fulfilled the mandate of facilitating commercial trade, they did not completely replace or take over many of the services that merchants provided to their clients, such as tracking accounts and extending credit.¹⁴ Banks played an important, albeit a supporting role in commerce. Before delving into Kingston's experience with banking in the early nineteenth century, it is important to identify what was a bank, what were its functions, as well as its role in commerce and economics. This will be followed up with an overview of the monetary situation in Upper Canada, which had many inhabitants in the province praying for a bank. First, we examine the origins of modern banking with the creation of the Bank of England in 1694.

1.1 The Bank of England: Founder of Modern Banking

Although the first modern bank is attributed to the Riksbank of Sweden in the 1660s, the true origin of modern banking in Europe and North America was to be found in England. The creation of the

¹⁴ McCalla, *Planting*, 141.

Bank of England in 1694 came at a time when King William III was looking to raise funds in order to carry on the war against France. The government had entertained several offers from investors and entrepreneurs to raise funds, but it was William Paterson's proposal to open a bank that caught its attention. Paterson, a Scottish merchant, acting on behalf of a group of interested investors, proposed to form a bank whose paid-up capital would support the issue of notes up to a sum of £1.2 million, which would be issued on behalf of the King to pay troops and secure provisions. The loan of £1.2 million to the King would cost him an annual sum of £65,000 to pay the interest. The essence of the proposal was that the loan would be paid in "Bills made current," that is to say, notes whose value was supported by government law, thus giving them legal tender status. At first, the government was cold to the idea, and was convinced that the public would not accept the notes.

Using the examples of the London goldsmiths issuing receipts¹⁵ and the Riksbank in Sweden, Paterson made a convincing case to Parliament about the success, security and public confidence in the circulation of bank notes. The two parties arrived at a compromise where the notes would be backed by bullion for up to 25% of the face value. The remainder was given legal tender status. What the stipulation meant was that if an individual were to redeem a £10 note at the bank for gold, only £2/10s (25 per cent of £10) would be paid in gold and the remainder in notes. In 1694, a charter was granted to the "Governor and Company of the Bank of England" and shares in

¹⁵ After the Reformation, the widespread accumulation of wealth occurred, and people with large deposits of gold and silver began to look for places of safekeeping. Goldsmiths seemed like a logical source, and they began accepting deposits from the public. Goldsmiths issued receipts, which could be presented on demand at any time for the gold. In time, goldsmiths took notice that seldom were the receipts being redeemed and in fact were instead being used to settle accounts. Goldsmiths in London took advantage of this system to make a profit by issuing more receipts than their holdings in gold. By loaning the receipts on interest, goldsmiths could build their reserve and issue more receipts. This is the basic premise of modern banking. R.D. Richards, The Early History of the Banking in England (London: P.S. King and Son, Ltd., 1929): 40-43.

the bank were oversubscribed and snatched up by investors in less than a week. A total of £300,000 in bullion was raised, 25 percent of the total amount of the loan made to the King.¹⁶

William Paterson applied the goldsmith's model to issue the first bank notes in England. Instead of lending the gold to the government, Paterson printed bank notes, which were loaned to the King at an annual interest of 5 percent + £5,000 administration fees for a total sum of £65,000. The interest accumulated was pure profit paid in bullion, the real currency. It was used to increase the bank's paid-up capital, thus allowing more room for the subsequent issue of bank notes. To guarantee that the Bank of England would not fail, Paterson had the foresight to insure that as long as the government needed funds to wage war, the notes would never lose their value. In 1697, even though the money market was strained, and the Bank of England had overextended its note issue, a law was passed that suspended bullion payments. The notes were declared legal tender for their full face value, meaning that the government assumed the full liability of the notes. This historic event changed the entire monetary system, and the way banks conducted business. Notes were no longer backed by a commodity, but were supported by the government (fiat money). Banks in England could now resort to the government for financial support if ever they faced a financial crisis.

Although the charter of the Bank of England served as a model for Scotland's founding banks, the Scottish banking system completely diverged from the English system. Whereas the Bank of England was established to finance the government, Scottish banks, beginning with the Bank of Scotland in 1695, were established to meet the country's desperate need for cash. Glyn Davies writes that the state of currency in Scotland was in dire straits because people there were too poor, and could not afford to handle what few gold and silver coins that circulated. For Scots, the establishment of a bank for the purpose of circulating paper money as a supplement to the metallic

¹⁶ John Clapham, The Bank of England: A History, vol. 1, 1694-1797 (Cambridge: Cambridge University Press, 1945): 14-16.

currency was the ideal solution. Interestingly, it was the rise in banking competition that gave Scotland its distinctive banking system.

The intense rivalry between the Bank of Scotland and the Royal Bank of Scotland (1727) forced the development of private banks to service merchants outside of the capital of Edinburgh. Scotland was immune to English laws that prevented partnerships of more than six people to found a company, thus merchants could freely engage in joint-stock banking. Over the course of the eighteenth century, several private banks were established, and branch banking took off. In fact, banking exploded so quickly in Scotland to the point that by 1772 there were some 31 banks, along with their branches and agencies, in operation throughout the country.¹⁷ Banking was a success story in Scotland. Economists and historians had demonstrated that the origins of banking in Canada did not grow out the Scottish banking system, but that in fact both systems developed in parallel for the purpose of filling a void left by the shortage of money. Looking at the development of banking in North America, it is obvious that elements of both English and Scottish banking could be found in the first banks to be established in the United States of America and British North America.

1.2 Origins of Banking in the United States of America

Banking was introduced in North America as a solution to finance the Revolutionary War. In 1780, Alexander Hamilton, a lieutenant colonel and aide to General Washington had drafted a plan for the radical reform of the revolutionary finances. In a letter to Robert Morris, Superintendent of Finance, Hamilton urged that a national bank be instituted by authority of Congress under the name of the Bank of the United States. He proposed that the bank have a capital of \$200,000,000, a substantial

¹⁷ Glyn Davies, *A History of Money: From Ancient Times to the Present Day* (Cardiff: University of Wales Press, 1994): 272-279; Charles W. Munn, *The Scottish Provincial Banking Companies, 1747-1864* (Edinburgh: John Donald Press, 1981), this is an excellent source on the history of banking in Scotland.

amount, but necessary to fund the war against Britain, and prop up the country's economy. The bank would issue bank notes whose value was backed by an institution with assets and credit derived from the union of private wealth and governmental authority. The notes would be universally accepted in payment for goods intended to supply the military. The bank would be financed through the issue of stock that paid a dividend, an investment that was attractive to wealthy individuals. To add reputation and security to the institution, the government would own half the stock. Hamilton's vision was revolutionary by New World standards, but his ideas were based on Old World principles.

When establishing banking facilities in the United States, Hamilton envisioned a national bank closely tied to the government, similar to the relationship between the Bank of England and the British government.¹⁸ For Hamilton the bank should "rest largely upon the national debt, and should be at once the channel through which the government collects revenue and makes payment, the custodian of the surplus cash of the treasury and the money lender from whom the government might obtain temporary advances in time of need."¹⁹ Furthermore, the government would promote stability, inspire confidence, and bring respect both at home and abroad to the bank. Although Hamilton advocated close ties between the bank and the government, he felt that the bank should be run as a private company with minimal government intervention in order to further the interests of the bank. Only by becoming itself a prosperous institution in connection with the economic life and strength of the nation could the bank become an effective asset to the government. Reciprocally, the government could use the bank as a means to tap into the resources of the country.²⁰

¹⁸ The exclusive relationship between the Bank of England and the British government constitute more or less the same fundamental functions of the modern-day central bank. Central banks set monetary policy, issue currency, oversee the clearing of payments, and work as the government's fiscal agent. These principles, however, are not at all consistent with chartered banks that deal directly with the public, and that carry out very different functions.

¹⁹ n.a, Adam Shortt's History of Canadian Currency and Banking, 1600 – 1880 (Toronto: Canadian Bankers' Association, 1987): 13.

²⁰ Bray Hammond, Banks and Politics in America (Princeton: Princeton University Press, 1957): 40-47.

Before Hamilton's ambition for a central bank was ever realised, the United States witnessed the emergence of state banking, whose principles were largely based on Scottish banking. State banks, such as the Pennsylvania Bank (1781), the Bank of New York (1784) and the Massachusetts Bank (1785), operated much like a commercial bank in that shares were sold to the public, they issued notes of various denominations, and they accepted deposits from, and provided loans to the public. State banks were established with more local interests in mind. Because these institutions catered largely to the needs of merchants, farmers and inhabitants in rural areas strongly opposed them. To them, banks were not "human," but a monstrosity. It was not until the introduction of branch banking that banking became more universal. In spite of diverging public opinions, these early banks were successful.²¹

The success of the state banks legitimized Hamilton's plan of establishing a national bank. Bray Hammond in his book on the history of banking America raises an interesting point regarding the role of the state banks in the rise of the Hamilton's Bank of the United States: establishing a national bank before the emergence of commercial banks was like "putting the cart before the horse."²² Private banking was required to build capital, secure funds and ensure the reputation of banking. American banking differed from Old World banking in that it originated in a want for capital, not a surplus of it. In America, wealth was more in hope than in possession. As an outgrowth of the state banks, in the 1790s a veritable "bancomania" struck the nation with eight new banks opening. Like their predecessors, shares in the banks were instantly oversubscribed, a powerful indication that Americans supported banks and were willing to invest in them.

Up to this point, banks had largely overlooked the needs of the federal government. The creation of the Bank of the United States changed all that. Hamilton's report served as the platform

²¹ Hammond, Banks, 42-46, 65-68.

²² *Ibid*, 68.

to draft the first bill to incorporate the Bank of the United States. Hamilton's convictions for banking in 1779 had been confirmed by the success of the state banks that had been already established. He now wished to set up a bank that would adequately serve the needs of the federal government. Hamilton's proposal was not just another commercial bank, but one, much like the Bank of England, that would be an important aid to the government in collecting taxes (many people complained about the difficulty of paying taxes because of the shortage of specie), and administering public finances. It would also be a source for loans to the Treasury. Subscriptions to its capital could be paid one-quarter in specie and the rest in government obligations.²³ It was on these premises that a bill to found the Bank of the United States was presented to Congress.

After considerable discussion the bill was passed on March 2, 1791. The bank was soon in operation, and instantly achieved success with the stock trading at a premium. The capital stock of the bank was placed at \$10 million in 25,000 shares of \$400 each. The government was permitted to take stock in the bank to the extent of \$2 million. It had subscribed the whole amount. Almost three-quarters of the shares were held abroad, with a mere 7,000, including the government's lot, held in the country. As the charter stipulated however, non-residents could not vote. As will be seen further along in the analysis, the articles of the Bank of the United States served as a model for the incorporation of Canada's first banks.

When it came time to renew the bank's charter in 1811, it was faced with much opposition. The conflict between the United States and Britain gave critics of the bank the leverage needed to launch a political assault against the bank. As Shortt writes, "the bank was represented as an engine of the British Government planted in their midst, capable at any time of working, in some mysterious way, untold destruction. The demagogues prevailed and the bank was forced to wind up

²³ Hammond, Banks, 114-115.

its affairs.”²⁴ The United States went on to foster other financial institutions that also attained tremendous success. Thanks to Hamilton’s vision, and his ambition to found a national bank, the seeds were planted for banking to flourish in British North America. Early banks were established with the notion of a central bank for each province, in that the bank would be the government’s fiscal agent. As it will be seen, this was indeed the case in Upper Canada.

1.3 The Functions of a Bank

The functions of chartered banks in Canada today vary greatly from those offered by the first banks almost two hundred years ago. While the current banking experience includes services ranging from deposits and loans to investments and insurance, early Canadian banks possessed very limited, yet focused functions geared at improving trade and commerce. Consensus among economic historians concludes that without banks to help solve the liquidity problem, economic development in British North America would have faltered. Banking services, as carried out by financial institutions in the nineteenth century, are examined here so to better understand where banks fit into the larger picture of Upper Canada’s economic development.

Early banking services were largely intended to assist merchants in their commercial trade. The services included the issue of bank notes, the buying and selling of exchange and of bullion, foreign exchange and, to a lesser degree, accepting deposits. Notes circulated both out of necessity to supply the public with currency, and out of convenience to facilitate trade. Early on, notes were used to purchase bills of exchange and other commercial paper from merchants, but over time they were more widely used by the general public in daily transactions. Printed by special security printers in a variety of denominations from 5 shillings (\$1) to 5 pounds (\$20), notes were

²⁴ Adam Shortt’s, 15.

convenient in that they were redeemable almost anywhere, and their acceptance was universal. In acts of good faith and mutual agreements, banks often agreed to accept notes from rival banks at par in the interest of promoting banking. For the banks, issuing notes was profitable, however, there had to be a limit to the amount of notes it could issue: if a bank lent out all its reserves till it had no money left on hand, it would clearly be in an awkward position. If a note or withdrawal could not be honoured, then the bank, as stipulated in its charter, would have to suspend operations until the problem was resolved. Such an incident, however, could spell financial ruin for the bank as clients would lose confidence and stop using that bank's services. Well aware of the risks of overextending their note issue, most banks limited the value of notes in circulation against the amount of specie in their vaults (debt-to-capital ratio.) The Bank of England had a debt to capital ratio of 3:1. That is, the bank could issue three times as many notes as it held in capital. The Bank of the United States was 1.5:1. The Bank of Montreal, the Bank of Upper Canada and the Commercial Bank of the Midland District were also 3:1. If the note issue was extended beyond the bank's limit, then the directors were personally liable for every note in surplus. Because the ratios remained constant, as the reserves grew, so did the bank's note issue.²⁵

Much more profitable to the banks than issuing notes was the buying and selling of exchange. This service consisted of purchasing at a discount notes and bills of exchange that were difficult to redeem, either because the issuing authority was located far away, or its reputation was uncertain. The discount rate depended on the bank's difficulty to redeem the instrument. For a Kingston banker to accept a note from a York bank, he would have discounted the note based on the inconvenience of travelling to York to collect the specie. A bill of exchange issued by a merchant whose reputation was questionable was worth far less than a note from a chartered bank. Standard

²⁵ William Thomson, Dictionary of Banking: A Concise Encyclopaedia of Banking Law and Practice (London: Waverly Book Company, Ltd., 1922): 454; A.B. McCullough, Money and Exchange in Canada to 1900 (Toronto: Dundurn Press Limited, 1984): 86.

practice for discounting notes was that the bearer had to present the note to the bank on a specific day, which was usually announced in the local newspaper. Directors of the bank met once a week and voted on the amount to discount on each instrument. Banks assumed liability by purchasing instruments, thus the high margin of profit was their compensation for managing such risk. Beyond the purchase of exchange, banks often issued bills of exchange mainly for settlement of transactions between local merchants and their suppliers in Montreal, New York, or as far away as Europe.²⁶

The stockpiles of gold and silver that accumulated in the bank's vaults were also an important source of revenue. When demand for bullion was high in New York and Boston, the two largest markets for bullion in North America, then banks in British North America sold their excess bullion at a profit. When demand for specie increased in the local markets, the banks turned to their suppliers in New York and Boston to purchase specie. Banks in British North America paid close attention to the bullion markets to further build their profits. Further to the exchange of bullion, banks often loaned cash on its reserves of bullion to which interest was charged for the service.

Lending funds was not the responsibility of the officers, but of the directors, who most often were advancing their own money. Many inhabitants who had little recourse to cash depended on banks to borrow funds, but one could not just walk into a bank for a loan. Bankers scrutinized to whom they loaned money, and preferred those who adopted a conservative approach by borrowing funds on short-term only to finance actual sales of commodities. No bank would let itself get into a state where it had overextended itself, but every bank tended to push it in that direction. Judging from contemporary accounts on the financial state of farmers, loans and debt were the bane of many farmers and members of the working class, who, all too often, were incapable of managing their money and went bankrupt. Names of debtors in arrears of their payments were conspicuously

²⁶ n.a, Instructions to Officers of the Bank of Upper Canada (Toronto: Boswell & Ellis, Printers, 1861): 27-42; Allan J. Cohoe, "Early Banking in Kingston – Before Banks" in Historic Kingston, 28 (October 1979): 87.

posted in the local newspaper.²⁷ Punctuality was imperative for debtors to repay their loans. With good and honest intentions of making payments, debtors were often faced with the problem of the lack of available cash to repay the loan. Specie was especially scarce in seasons when loans were due. Banks made the repayment of loans easier. Banks also accepted deposits, but this only represented a small portion of their business. Depositors presented specie, or instruments convertible into specie, to the bank. Deposits, as stated in bank charters, were for safekeeping and had to be returned in full upon demand. Banks had no right to add specie deposited to its general fund and could not regard it as part of its own property.²⁸

Finally, banks provided foreign exchange services to simplify commercial transactions. Until Canada adopted its own currency system in the middle of the nineteenth century, coins and financial instruments from various countries circulated in the colony. Trade with the United States and Europe, as well as its colonial possessions in the West Indies and South America saw the circulation of a myriad of coins used in commercial transactions. In the appendices of his book, A.B. McCullough presents conversion tables determining the relative values of coins circulating in British North America based on weight, fineness and condition, as well as the exchange rates among the various currencies used in the colonies.²⁹ These tables are a clear indicator of the complexity of the Canadian currency system in the eighteenth and nineteenth centuries. A bank patron could present almost any coin or note to the cashier, and using conversion tables based on the latest proclamations he could credit the patron's account in the proper currency. The complex and sometimes confusing currency system in Upper Canada is the subject of the next section.

²⁷ The Kingston Gazette and the Kingston Chronicle often contained notices from merchants warning the public of the credit worthiness of certain individuals.

²⁸ Hammond, Banks, 74, 85.

²⁹ McCullough, Money, 251, 294.

1.4 The Money Situation in Upper Canada (1760-1837)

When discussing the money situation in Upper Canada, it is rather difficult to treat it in isolation from the rest of the colony. The financial problems that plagued Upper Canada – the ones that many hoped the establishment of banking facilities would resolve – had deep roots dating back to the period of French colonial rule. The colony was starved of hard currency, and colonial authorities obstructed any development of monetary policy designed to solve the problem. Because of a lack of specie arriving from France to pay the troops, and to provide settlers with a circulating medium, the public relied on the influx of coins that entered British North America through foreign commercial trade. Currency in the form of coins and financial instruments, such as bills of exchange, from a variety of countries circulated in, and was made current in British North America.

Debate surrounding the plight of currency in British North America questions whether the colony was really starved of a liquid currency, as contemporary opinions would have us believe. Some historians, and in particular Angela Redish, in her article “Why was Specie Scarce?,” argues that it was not a matter of the quantity of money in circulation, but rather the quality of the money that contributed to many of the shortcomings in commerce and trade in the colony.³⁰ This is certainly true when examining the situation in Quebec and Lower Canada. There was lots of money, in different forms: the leftover gold and silver coins from the French regime, the influx of British specie from the mother country, and the circulation of foreign specie, such as Spanish, Portuguese and American coinage as a result of trade with American colonies. Yet, the French Canadian attitude toward the hoarding of specie, which emanated from the disastrous impact of the Seven Years’ War on the circulation of currency in New France, turned coinage into a scarce commodity.

³⁰ Angela Redish. “Why Was Specie Scarce in Colonial Economies? An Analysis of Canadian Currency, 1796-1830” in *Journal of Economic History*, 44, 3 (September 1984).

The shortcomings of hoarding were overcome with the issue of paper money in the form of card money, *ordonnances* and bills of exchange. The circulation of paper money was supposedly a temporary measure until fresh specie was made available. Lack of control over the issue of paper money, and problems of counterfeiting and fraud, however, pushed the economy of New France to a point that the colonial authorities could no longer control. In a colony of about 70,000 settlers at the time of the Conquest, there were over 80 million livres³¹ of paper money in circulation. French authorities were literally bankrupt, and when it came time to negotiate the peace treaty that ended the Seven Years' War, French Canadians, who held the vast majority of this paper, were victimized. Not only did British authorities refuse to recognize the old French paper, the French authorities could only redeem one-third of the total value of paper in circulation. French Canadians became disenchanted with paper money.

Under the British regime, specie gradually returned to circulation, and represented a convenient form of payment, especially following the rise in trade between British North America and the American colonies. In colonial America, the dollar became the principal unit of account, and through trade, Spanish dollars poured into British North America, thus bringing some relief to the meagre supplies of coinage coming from Britain, especially following the departure of British troops after the Revolutionary War. Even though Spanish-colonial coinage was fairly common, almost anything that resembled money was used. British sterling³² was the legal currency standard of the colonies, but there were few British coins in circulation. Because of the scarcity, and the motley nature of metallic currency, the British government, like the French before it, turned to the

³¹ The French livre was the unit of currency in New France up until the Conquest. In British North America conversion rates were established to facilitate the use of French coinage in the colony. Although there were fluctuations, the French livre was valued against the British pound at a rate of 24:1.

³² Sterling refers to the British currency system of pounds, shillings and pence. Accounting in Canada was officially conducted in sterling until 1853 when the provincial government decreed that accounts could be kept in pounds or in dollars. In 1857, the British system was abandoned altogether.

practice of over-rating coinage in an effort to retain specie in the colony. Mercantile trade with the mother country often drained the colony of vital coinage thus forcing merchants to resort to barter and the issue of credit in order to conduct business.

At the time of the Conquest, the official rating for silver coins (gold coins did not receive a special rating) was still based on the proclamation of Queen Anne of 1704. Under this proclamation, the Spanish dollar, with a sterling, or intrinsic value of 4s/6d, was officially rated in the colony at 6 shillings.³³ This rate was adopted by General Murray in 1765 and became known as “Quebec” currency. It was intended to replace both the “Halifax” and “York” currency systems already in use in British North America. The new system was not compulsory, and many merchants continued to use the old system.³⁴

In Upper Canada, York currency was the standard system used until legislation was passed in 1821, reaffirming the use of Halifax currency and providing sanctions against York currency. During the 1820s, the British government attempted to introduce a common monetary system using only British currency. The system failed, however, because British coinage was too scarce. The U.S. dollar remained the common coin in circulation in Upper Canada. In the 1830s, some foreign coins, such as Spanish piastereens and all French silver coins were demonetized in Upper Canada. A change in the U.S. monetary system in 1834 further starved the province of specie, and Upper Canada was forced to change its monetary policy to fall in line with that of the United States. The coinage rating system was completely revised in 1836, which put it even further out of step with Lower Canada. Obviously Lower Canada was in need of a currency reform as well. Only after the

³³ The British accounting system was divided into pounds (£), shillings (s) and pence (d) where £1 equalled 20s or 240d. Thus there were 12d to the shilling and 20s to the pound. Another distinction must be made between sterling value and currency value. Coinage carried a value based on its metal content (sterling value), and its purchasing power (currency value).

³⁴ In different parts of the colony, currency had different ratings. In Quebec City and to the East, the official rate, known as “Halifax” currency, was 5 shillings. West of Quebec City, the rate was 8 shillings, known as “York” currency for the system introduced by New York merchants arriving in Montreal. These conversion systems were applied to a multitude of coins that commonly circulated in the colony. McCullough, *Money*, 69-72.

Union Act of 1840 did the two systems fall back into line. When the Province of Canada officially adopted the dollar as its unit of currency in 1853, the exchange rate adopted between British sterling and the dollar remained at 5 shillings to the dollar, or 4 dollars to the pound.³⁵

Another factor that conversion systems had to address was the adjustment in value of the coin based on its weight. Natural wear and fraudulent practices, such as sweating and clipping (processes of removing metal from the coin), meant that coins had to be weighed and re-weighed from one transaction to the next. Coins of inferior weight and quality were discounted. Referring back to Redish's article, much of the coinage in circulation remained there, and thus had become so worn that it was unrecognizable. Quality coins traded at a premium and were often hoarded.³⁶ The scenario in British North America was a classic example of Gresham's law that "bad money drives out good money."

The money situation in Upper Canada was not much different than in the rest of the colony, except for the fact that Loyalists and other immigrants coming from the United States and Europe had little money to add to the meagre supplies of currency in the province. In the case of Loyalists, all their possessions were confiscated or left behind in America when they fled during the Revolutionary War. As for the immigrants escaping poverty in England and Ireland, they simply had no money or financial assets to speak of. So the added stress of more and more people with no money migrating to Kingston and other parts of the province had put an even harder strain on the province's already fragile financial system.

Merchants who engaged in business with their counterparts in Montreal, London and different parts of the United States had recourse to a variety of financial instruments to settle transactions: foreign coins, American bank notes, merchant scrip, bills of exchange and promissory

³⁵ McCullough, *Money*, 91-98.

³⁶ Redish, "Why," 715.

notes, which all circulated in Upper Canada. Boston and New York were important centres for sourcing coinage until the War of 1812 cut off supplies. During the war, American bank notes became more abundant and were in common use in the province. Consequently, British North America became a safe haven for counterfeiters of American currency. This posed a big problem, for no policy was in place to control the issue of U.S. bank notes in the colony.

To finance the war against the United States, the British army issued Army bills as a form of payment.³⁷ They were a tremendous success, and helped to put public confidence back into the use of paper money. As for bills of exchange, promissory notes and other forms of scrip, these were instruments that were available to merchants, but were not necessarily instruments accessible to the masses. With a plethora of financial instruments in use, banks were thus perceived as an ideal vehicle for redeeming the wide variety of financial instruments, and for furnishing the province with a stable circulating medium that would not only consolidate the currency system, but that would also be available to the general public. The next obstacle that government authorities would have to cross was the provision of coinage to make change.

Another problem encountered in British North America's monetary system was the need to make change. Because gold and silver coinage carried high values, coins of smaller denominations were required to settle transactions. The fact of not being able to make change sometimes made transactions difficult: either the customer was forced to overspend, or the merchant was obligated to issue a credit for the balance of the transaction. Some experimented with cutting silver coins, which was seen as a viable solution until authorities outlawed the practice through fear of decreasing the

³⁷ The Army Bill Act (1811) provided for the issue of £250,000 (\$1 million) in notes backed by the British war chest to fund the purchase of supplies. The original act stated that notes in denominations of \$4, \$25, \$50, \$100 and \$400 were to circulate with the higher denominations bearing interest at 4 per cent. The act was amended in 1814 to add a further £1.5 million (\$6 million) in denominations of \$1, \$2, \$3, \$5 and \$10 notes to respond to the demand for cash. At war's end all Army bills were redeemed for specie and interest was paid in full. James Stevenson, The War of 1812 in Connection with the Army Bill Act (Montreal: W. Foster Brown & Co., Publishers, 1892); Ruth McQuade, "Financing the War of 1812," in The Canadian Paper Money Journal 21, 2 (April 1985): 49-54.

value of the coins. British copper coins of one penny and halfpenny denominations were legal in the colony, but a copper scare in Britain made their availability to the colony very difficult.

The shortage of small change was quite problematic, and in the early nineteenth century many merchants resorted to issuing copper tokens as a substitute for British coppers. The practice of issuing tokens had originated in Montreal in the early nineteenth century. It began as a sound process until merchants attempted to take advantage of the system, and profit from the issue of poor quality tokens often made of brass. With no regulation to the production and issue of tokens, there was rampant fraud where tokens of inferior weight and quality flooded the markets. It was a practice that outraged many merchants in the colony, including those from Kingston. Many letters and notices appeared in the town's local newspaper, *The Kingston Chronicle*, in the 1820s and 1830s condemning the circulation of copper tokens. Many merchants refused to accept them.³⁸

In summary, the money situation in Upper Canada at the turn of the nineteenth century was extremely complex and confusing. The province was faced with a shortage of good gold and silver coins. In their place circulated the refuse of worn and altered foreign coins, which were only accepted at a discount. Furthermore, the province was overrun with questionable American paper money, and the issue of tokens, which further aggravated the system. Even if one did have access to currency, the conversion rates among the different currencies and instruments was confusing, which probably led to many accounting errors. To help solve these financial headaches, many merchants recognized the potential that banking facilities had on relieving the currency problem, and improving commerce in the province. Having examined the monetary situation in the province, the next chapter will assess the economic conditions in Kingston that urged the inhabitants of the town to establish banking facilities there.

³⁸ *Kingston Chronicle*, January 15, 1819, August 25, 1820.

CHAPTER 2

PRELUDE TO BANKING: KINGSTON'S SOCIAL AND ECONOMIC DEVELOPMENT

In the first chapter, some basic banking functions, as well as an overview of the money situation in Upper Canada were presented in order to lay the groundwork for this next chapter, which examines Kingston's economic development, and its rise and fall from commercial prominence during the nineteenth century. While it was believed that banking facilities were going to solve the province's liquidity problems, and help to generate capital for the benefit of economic growth, the real benefactors of banking were those who had immediate access to its services. Banking at the time was very much a local issue, and given that Kingston was the largest commercial centre in Upper Canada from 1791 to 1830, it was only fitting that banking services be set up there to serve some of the province's biggest merchants. For the province to prosper, Kingston had to prosper first. The question that remains though is whether Kingston's economy was ripe for banking facilities, and whether there was access to sufficient capital to support a bank. Furthermore, did the principal players in Kingston possess the knowledge to establish, operate and profit from banking? A look into the economic development and commercial activities of the town will demonstrate that the town was indeed worthy of a bank and that, in fact, banking facilities were long overdue. We begin by examining the impact of immigration on Kingston's early socio-economic development.

2.1 Settlement in Kingston

Apart from the few merchants and farmers that remained in the western frontier of the colony after the fall of New France in 1760 as a result of the fur trade, immigration to Upper Canada largely occurred in three major waves beginning with the arrival of the Loyalists in 1784, the arrival of the

“late Loyalists” between 1792 and 1812, and finally the mass migration of British and Irish settlers starting in 1815 and reaching its peak in the 1840s. The arrival of the Loyalists to Cataraqui in 1784 represented the first major settlement of people in the area since the destruction of Fort Frontenac in 1758.

The Revolutionary War in the United States forced the displacement of many inhabitants who had declared their loyalty to the British crown. These American refugees became known as “United Empire Loyalists.” Brian Osborne and Donald Swainson, in their book Kingston: Building on the Past, attest that there is no “single explanation” for the Loyalists’ royalism, and that conflicting political views forced their exile from the United States.³⁹ Many Loyalists happened to be in British North America at the time, and when the revolution broke out they were barred from returning to the United States. Loyalists may have proclaimed their allegiance to Britain, but as Adam Shortt writes, “in their economic methods, their social habits amid their municipal politics, they were thoroughly American and brought with them to British North America the prevailing American ideas in these matters.”⁴⁰ Many Americans considered Loyalists to be traitors, yet it was feared that their departure would have a negative impact on commerce. It is not known how many Americans remained loyal to the crown during the Revolution. Many maintained a low profile and simply blended into post-revolutionary society. However, it is known that between 80,000 and 100,000 Loyalists left the United States.

There were three major relocation areas available to the Loyalists: a return to Britain (perceived as a step backwards in their progress), or settlement in Nova Scotia, and Quebec, which also included Upper Canada. Some 45,000 refugees settled in the Maritimes and about 9,500 migrated to Quebec. Frederick Haldimand, Governor of Quebec at the time of the arrival of the

³⁹ Brian S. Osborne and Donald Swainson, Kingston: Building on the Past (Wesport: Butternut Press Inc., 1988): 24.

⁴⁰ Adam Shortt’s, 46.

Loyalists, was faced with the challenge of finding them appropriate accommodations. Haldimand received word from the surveyor general, Major Samuel Holland, that the settlement of Cataraqui, a former French fur trading post and military garrison that had long since been abandoned, would be an ideal site for establishing a town. Through the Crawford Purchase, also known as the “Gunshot Treaty,”⁴¹ the British government acquired title to vast areas of uncleared land that belonged to Mississauga natives. In 1783, Major John Ross was ordered to Cataraqui to begin construction of a military post, and the deputy surveyor, John Collins, created the grid layout for land lots in Cataraqui and the surrounding area. Loyalists remained in Sorel until the new settlement was prepared. In May 1784, they set out for Cataraqui, arriving there in July. By then, foundations for a wharf had been sunk, and a sawmill was opened. It is estimated that 6,000 Loyalists settled in and around Cataraqui (settlement no. 1 in Upper Canada), most of them coming from New York state.⁴²

Settlement at Cataraqui at first posed a real challenge for Loyalists, but they did not face the wilderness unaided. Apart from free land grants, and the compensation for losses of property, Loyalists were also provided with the food, tools and other supplies needed to begin a new life. Provisions were supplied until after the crop of 1786. Government assistance was a huge factor in the success of the settlement of Upper Canada because without it settlers would not have survived.⁴³ Douglas McCalla, in his book Planting the Province, and Kathryn Bindon, in her PhD thesis of the social history of Kingston, give excellent insight into the adverse conditions that Loyalists faced to settle in Kingston, including psychological stress and economic hardship derived from having lost all their possessions in the United States, lack of knowledge of the area concerning climate and soil

⁴¹ Osborne and Swainson explain that the amount of land purchased was based on how far the sound of a gunshot could be heard: “The musket of the day was notable for the production of as much noise as smoke!” Osborne and Swainson, Kingston, 21.

⁴² R.A. Preston, Kingston Before the War of 1812: A Collection of Documents (Toronto: Champlain Society, 1959), xlv-xlvii; R. Louis Gentilcore (ed.), Historical Atlas of Canada, Volume II: The Land Transformed, 1800-1891 (Toronto: University of Toronto Press, 1993): Plate 7.

⁴³ Gerald M. Craig, Upper Canada: The Formative Years, 1784-1841 (Toronto: McClelland & Stewart, 1963): 7.

conditions, as well as conflicts over land distribution and ownership. The arrival was poorly timed as the settlers arrived well past the season for planting corn. Problems of provisioning settlers with supplies, coupled with delays in the shipment of tools and other goods slowed the process of clearing land and erecting dwellings. Despite the harsh conditions, the successful establishment of the first settlers encouraged the administrators of the colony to seek ways to populate the area.⁴⁴ Faced with the growing need for political definition in order to attract more settlers, the first step was to simplify the administration of the region.

Political structure began to take shape in the region first with the foundation of Kingston in 1785,⁴⁵ then with the political divisions in Upper Canada following the Parliamentary Act in 1791. By order 32 Geo III Ch. 8 U.C., Kingston became the capital of the Midland District, which included the counties of Frontenac, Prince Edward County, Lennox & Addington and Hastings. With more political stability, colonial authorities could better address and accommodate the “Late Loyalists” and other pioneers, of whom as many as 60,000 arrived in the second wave of immigration between 1792 and 1812. The third wave of immigration, which took place between 1815 and 1850, consisted of a major influx of British and Irish immigrants who were looking to quit the hardships they endured back in Europe. Close to a million people settled in British North America. Although this represented a tenfold increase in the country’s population from the turn of the century, it only represented about a quarter of the number of immigrants from the British Isles who went to settle in the United States.⁴⁶

During the first and second waves, Kingston was the largest recipient of immigrants, although population growth in York remained consistent. In 1797, there were 300 (1794 figure) in

⁴⁴ McCalla, *Planting*, 15; Kathryn Bindon, “Kingston: A Social History, 1785-1830” (Ph.D. diss., Queen’s University, Kingston, 1979): 33, 35.

⁴⁵ Kingston was not incorporated as a town until 1828.

⁴⁶ Gentilcore, *Historical*, plate 9.

Kingston compared to 241 in York. The ratio remained stable in 1805 with 500 and 473, respectively. After 1815, there is a large disparity in the population figures. According to Robert Gourlay's Statistical Account of Upper Canada (published in 1817), Kingston's population was almost double that of York: 2,250 inhabitants in Kingston, 15,053 in the Midland District, 1,200 in York, and 7,770 in the Home District.⁴⁷ The influx of immigrants bode well for territorial expansion, and the prospects of farming, but their lack of money further compounded the province's monetary problem. When government subsidies were curtailed, settlers were left to provide for themselves.

By the third wave of immigration, important decisions, such as the establishment of the capital, and the location of the province's financial centre, influenced where people settled. The number of immigrants that arrived in Upper Canada in the first and second waves paled in comparison to the major influxes of the 1830s and 1840s, which saw Toronto and Hamilton surpass Kingston in the demographic standings. Between 1831 and 1836, 15,000 people settled in Kingston, while 32,000 went to Toronto. From 1846 to 1851, the gap widened even further: 15,000 versus 60,000. By the 1830s, Kingston had become a transient town where settlers remained for a short period before moving on to Toronto and the United States.⁴⁸ After 1830, with the political, financial

⁴⁷ In 1817, Gourlay conducted a statistical survey of the demographics, economic activity and social conditions in Upper Canada in an attempt to attract prospective British immigrants to the colony. His methodology consisted of drafting a series of questions, which were sent to the chief magistrates of the districts and major towns in the province, from which he could compile the data for his work. One question in particular, the last one, struck at the heart of the currency problem in Upper Canada: "What, in your opinion, retards the improvement of your township in particular, or the province in general; and what would most contribute the same?" Many, including the Kingston constituents, responded that the shortage of capital impeded economic growth and that the establishment of a bank would solve many of the province's financial headaches.

Most recipients complied with Gourlay's request (not all questions were answered though), except for one major constituent: York and the Home District. Government officials condemned Gourlay for his political views and refused to partake in his survey. Thus, Gourlay could only provide estimates for the demographics of York and the Home District. Many of Gourlay's contemporaries had claimed that his work was erroneous and unreliable, but for the modern historian it is one of the few sources available that provides a range of statistical data, and that paints a picture of economic and social life in Upper Canada in the early nineteenth century. Robert Gourlay, Statistical Account of Upper Canada, 1817 (Toronto: McClelland and Stewart Limited, 1974).

⁴⁸ Gentilcore, Historical, plate 9.

and commercial momentum shifting toward Toronto, there was little that Kingston could do. In the first part of the nineteenth century, however, all eyes were on Kingston and the tremendous economic potential that the town possessed. It was believed that the key to unleash that potential was to be found in the establishment of a bank. The next section examines the commercial activities in Kingston so to better understand if the need for banking facilities was justified.

2.2 Kingston's Developing Economy, 1784-1820

With a firm understanding of how Kingston was founded and who settled there, it is important to establish the economic framework of the region, and of the province, which instigated the push for banking facilities. The men behind Kingston's economic boom in the early part of the nineteenth century were an enterprising and innovative group that had contributed to the early prosperity of the American colonies. They brought that entrepreneurial savvy to the frontier, which was still largely uninhabited and undeveloped. Thanks to them, Kingston became the unrivalled commercial metropolis of the province of Upper Canada in the first forty years of the province's existence.

With water transport being the principal mode of shipping until the 1850s, Kingston developed as an important commercial centre. Early on, the town possessed tremendous economic potential, and many people, including local merchants and rival competitors, recognized this. In the larger context of the provincial economy, Douglas McCalla explains that thanks to British expenditures, robust local trade, and the growth of exports, the "Loyalist economy" (1784-1805) centered largely around Kingston, provided that initial boost required to elevate the province's economy from one of mere sustenance to one of capital creation.⁴⁹ The absence of a stable monetary system, however, impeded the rate of economic growth. Transactions took longer to settle, which

⁴⁹ McCalla, *Planting*, 13-29.

slowed the pace of business. Merchants relied heavily of barter and credit to conduct business because cash was so scarce. The issue of Army bills during the War of 1812 brought temporary relief to the province's monetary problems, and merchants profited from supplying the military. Yet the economic boom of the war era was short-lived, and by the 1820s, Upper Canada's economy was severely depressed. What people had perceived as prosperity, McCalla believes, was the effects of inflation, and after the war, when prices fell, and the province was once again starved of cash, the economy stagnated. Population growth, territorial expansion, rise in farming and continued activity in local trade, though, reduced the effects of depression, and by the 1830s, Upper Canada's economic expansion resumed. We shall see in the next chapter how these events played out when it came time to establish Upper Canada's first chartered bank. For now, we examine Kingston's developing economy from the arrival of the Loyalists in 1783 to the establishment of the town's first chartered bank in 1832, beginning with a look at the military presence in Kingston and its impact on the town's economy.

Military Presence in Kingston

Conventional theories on the economics of war state that nations prosper during war, and tend to fall into recession afterwards. War creates jobs and generates revenue, but when the productivity has returned to normal capacity, overheated markets must cool. Economic recession becomes imminent. During the War of 1812, Kingston experienced this phenomenon. The town prospered from the construction of ships and the supply of the military with food, shelter, clothes, tools and other goods. After the war, with demand for naval construction in decline, and a reduction in military presence in the region, Kingston felt the effects of recession. In fact, the entire province suffered deflation in the post-war period, and many historians have blamed this on shrinking

markets, as well as the shortage of funds available following the redemption of Army bills to offset the anticipated increase in production and imports generated by the war.⁵⁰

Military presence in the Kingston area dates as far back as 1673. Fort Frontenac, which became the site of Upper Canada's first settlement, was an abandoned French fort that had served as the western bastion of Montreal during the fur trade. The remnants of the barracks and fortifications of the original fort made Cataraqui an ideal site for a military post. Yet, according to historians John Spurr, Brian Osborne and Donald Swainson, British authorities and the lieutenant governor, John Graves Simcoe, opposed the establishment of military defences in Kingston claiming that it was too close to the American border, and too vulnerable to an attack to serve as the prime British base in Upper Canada. They preferred York to be the site of the province's military headquarters. Neither town was very well fortified against an American invasion, but many authorities believed that with decreased tensions following Jay's Treaty in 1794, the subject of military defence was not pressing. Thanks to Simcoe, York prevailed. Not only was it to be the site for the province's defence headquarters, but it was also selected, albeit temporarily, as the province's capital. Kingston was relegated to an important, but secondary support role. That is, until York fell to the Americans in 1813.⁵¹ Afterwards, Kingston became the "unchallenged citadel" of British power in Upper Canada. "In the course of these thirty months, the town was provided with its first perimeter defence consisting of blockhouses, redans, batteries, barracks and training facilities in Artillery Park, located at the head of Barrack Street."⁵² The War of 1812 vitally altered the history of both Kingston and Upper Canada, and became a major turning point in Kingston's expansion.

⁵⁰ McCalla, *Planting*, 34-35.

⁵¹ Osborne and Swainson, *Kingston*, 48.

⁵² John Spurr, "Garrison and Community, 1815-1870" in *To Preserve & Defend: Essays on Kingston in the Nineteenth Century* ed. Gerald Tulchinsky (Montreal: McGill-Queen's University Press, 1976): 103-4.

Attitudes toward the war were mixed. Kathryn Bindon, in her PhD dissertation on the social history of Kingston, affirms that many Kingstonians avoided mandatory militia duty during the war out of fear that it would hinder the town's economic ties with the United States.⁵³ A letter in the July 14, 1812 issue of the *Kingston Gazette* declared that many Americans did not approve of the war and that Kingston should not engage in war unless it is attacked.⁵⁴ Trade with the Americans had never ceased since American Revolution, and in fact during the War of 1812, smuggling was a common practice. As McCalla writes, "the border remained permeable to both population movements and trade."⁵⁵ It is reported that only one shipment of Kingston mercantile goods was ceased by the American military early on in the conflict. This practice was generally avoided in the mutual interest of reducing losses. While trade with the United States lagged during the war, it immediately regained strength in the aftermath.⁵⁶

The British military had initially invested little effort and money into the defence of Kingston. At the outbreak of the War of 1812, Kingston's military defences were almost non-existent. The old fort was run down, the soldiers' barracks undefended and the harbour and dockyards completely exposed. Spurr comments that the garrison commander at the time, Major Donald McPherson, could only find a corporal's guard to protect the King's ships and vital naval stores. The naval fleet consisted of two ships, and the town housed the 10th Royal Veterans' Battalion consisting of about 100 men.

After thirty months of war, the face of the town had been transformed. By 1815, the population had increased to 2,250, and more than 450 houses, built of stone and mortar, lined the streets. The sharp rise was attributed to the influx of labour required to build war ships. Military

⁵³ Bindon, "Kingston," 115.

⁵⁴ *Kingston Gazette*, July 14, 1812.

⁵⁵ McCalla, *Planting*, 30.

⁵⁶ Bindon, "Kingston," 122-123.

presence consisted of 167 officers, 3,549 enlisted men, and an unknown number of service dependents and employees. This situation was short-lived, though, as the military presence in the Canadas after the war was reduced from 29,500 to approximately 9,000. It is estimated that by 1822, after the situation in Kingston had stabilized, the military presence there amounted to about 650 men.⁵⁷

Fortunately, Kingston never directly experienced the ravages of war, unlike other towns in the province. During the War of 1812, while both Newark (Niagara) and York suffered great losses, Kingston prospered. In 1817, Robert Gourlay made the following observation: “though war destroyed Niagara, checked the progress of York and made Ernestown a ‘deserted village,’ it doubled the population buildings, and business in Kingston.”⁵⁸ Except for a single attack on the town in 1812 by Captain Chauncey, Osborne and Swainson qualified Kingston’s involvement in the war as the key player in a nineteenth-century armament race where a “shipbuilder’s war” was waged against the shipbuilding towns of Ogdensburg and Sackett’s Harbour on the American side of Lake Ontario. The War of 1812 served to confirm Kingston’s role as an important military and naval centre.⁵⁹

The military presence in Kingston was a benefit not only to the town’s defence, but also to its economic prosperity. “It was a merchant’s paradise.”⁶⁰ During the war, routines in commercial trade and social living were changed to provide for the war effort. Construction of merchant ships was halted to build war ships. Food and supplies destined for the market were shipped to the barracks. For many merchants, the British army had become their main customer. In turn, the British army, its officers and soldiers, sunk much money into Kingston’s economy. Kingston

⁵⁷ Spurr, “Garrison,” 104, 112.

⁵⁸ Gourlay, *Statistical*, 128.

⁵⁹ Osborne and Swainson, *Kingston*, 50-52.

⁶⁰ Graham D. Taylor and Peter Baskerville, *A Concise History of Business in Canada* (Toronto: Oxford University Press, 1994): 154.

experienced a housing boom as the demand for accommodation of military personnel increased. Between 1812 and 1816, some one hundred new houses were built, and a further 150 between 1817 and 1820. Many of these houses were occupied by soldiers who paid rent to Kingston landlords.

Other soldiers caved to temptation and spent their money on alcohol, gambling and prostitutes. Kingston was notorious for the number of taverns, inns and other licensed watering holes. Compared to Montreal with a population of 45,000 and 200 licensed premises, Kingston with about 9,000 people had 136.⁶¹ The money required for the physical and strategic development of the town was derived in large part from the military chest, which amounted at the war's mid-point to £1,000 per day. And with the issue of Army bills, the army was able to make payment. The war had also created many jobs for civilians. The naval yards employed as many as 1,200 men; extra labour was required for the delivery of supplies to the troops. From 1812 to 1815, Kingston was a veritable boomtown.

After the war, tightening of military spending and the reduced threat of war (the Rush-Bagot treaty of 1817 led to the demilitarization of Lake Ontario) forced a reduction in military presence in the region. Reduced military spending allowed for only a few upgrades to Kingston's defences during the 1820s. Shipbuilding slowed, and the supply of goods to troops was curtailed. Despite a reduced military presence after the war, according to Osborne and Swainson, "Kingston continued to be very much a military town."⁶² Kingston's "citadel" character was maintained, and the garrison that housed approximately a thousand troops between 1840 and 1870 looked to the inhabitants of Kingston for the satisfaction of their various wants. Beyond the active soldiers defending the town, many retired and discharged soldiers settled in Kingston, and contributed to the town's economic growth by becoming farmers and labourers. Proof of Kingston's continued prosperity can be seen in

⁶¹ Spurr, "Garrison," 107.

⁶² Osborne and Swainson, Kingston, 62.

some of the important construction projects that were undertaken in the 1820s, such as the erection of St. George's Cathedral (1822) and the Cataraqui Bridge (1828).

The War of 1812 was a major contributor to Kingston's early economic progress. While York and Niagara, the province's other main communities, were devastated by the war, Kingston benefited from British expenditures for the purchase of supplies, from the military presence for the security of the town, and from the uninterrupted, albeit reduced, trade with the United States and other parts of the colony. Although talks of establishing a bank were underway before the war, the conflict had put the issue on hiatus. The issue of Army bills, and the constant influx of funds from the British military filled the need for currency and economic stimulus. When the last of the Army bills were withdrawn from circulation in 1815, concern for the lack of currency renewed the debate on banking.

The Role of the Merchant in the Province's Economic Development⁶³

In the early part of the nineteenth century, Upper Canada was considered the frontier of British North America, with much of the land untouched, and many of the province's resources unexploited. New settlers cleared the land granted to them, and engaged in agriculture not only for personal sustenance, but also for financial gain. Farmers immediately began producing surplus to trade for tools and supplies. Unlimited access to commodities ripe for sale in both domestic and foreign markets, and a demand for imported goods and supplies in the local markets provided an excellent opportunity for entrepreneurs to prosper. There were too few people, however, who were both skilled and willing to engage in any business venture. It was men like Richard Cartwright Junior, a Kingston Loyalist, and Robert Hamilton of Niagara, perhaps two of the foremost

⁶³ For a detailed look at the role of merchants in the economy see McCalla, *Planting*, 141-147. Other historians, such as Beatrice Craig, in her article "Soldier les comptes" (2002), discuss the relationship between merchants and farmers and the importance of credit.

merchants in Upper Canada, who took on the challenge, and assumed much of the financial risk in developing commerce in the province. In compensation for their entrepreneurship, they attained tremendous wealth.

Merchants were essential to Upper Canada's early economic development largely due to their influence in both international and local markets. It is through their connections in London, New York, Boston and Montreal that merchants were able to finance commercial activity in the province, convert goods into capital, locate sources of cash, and import the materials and supplies needed to accommodate the inhabitants of the province, especially the country merchants and farmers.⁶⁴ Not only did they bridge the gap between the large foreign companies and the small merchants and farmers of Upper Canada's rural communities, but they also played the intermediaries between producer and consumer. Merchants were the principal players in the purchase, transformation and shipment of many of the province's valuable natural resources, which were destined either for foreign markets as far away as Europe, or for local consumption. The big problem that many merchants faced was the difficulty in conducting business given the lack of money available in circulation.

Because of the shortage of currency, trade, either among merchants or between merchants and farmers, was mainly conducted through barter and a system of long credit. Simply put, goods were exchanged for goods. Bartering, in this case, did not imply the archaic practice of haggling over one product for another. Rather, since Upper Canada's economy was cash-oriented, the value of products was based on established market prices: "A pound currency of wheat was exchanged for a pound currency of sugar, tea, or the equivalent sum in labour."⁶⁵ If a transaction could not be completed through the exchange of goods, then merchants extended credit for the balance of the

⁶⁴ Frank D. Lewis and M.C. Urquhart, "Growth and the Standard of Living in a Pioneer Economy: Upper Canada, 1826 to 1851" in *The William and Mary Quarterly*, 56, 1 (January 1999): 153.

⁶⁵ Baskerville and Taylor, *A Concise*, 141.

purchase. The credit chain began in Britain, where suppliers extended credit to wholesalers for the purchase of goods, and filtered down to the farmer, who took on debt to finance the growth of his farm. It was through increased production that farmers could eventually pay back his creditors. The credit system also worked based on the seasons where farmers acquired their supplies in the winter in preparation for the spring planting, and paid for them with the output of the summer and fall harvests. Surely, merchants had to be a little apprehensive about the credit system. After all there were no guarantees that harvests were going to be successful every year.

In the interest of promoting trade, and to generate revenue, merchants were the ones that assumed all the financial risk associated with issuing credit to farmers and retailers. As Douglas McCalla writes, “extending credit and getting paid were as central to the merchant as buying and selling.”⁶⁶ Merchants had to manage accounts, ensure the proper supply of goods, maintain and expand their network of suppliers, arrange for the timely and secure shipment of goods, and finally make and accept payment. This last factor proved to be most problematic because of the province’s chronic liquidity problem. In order for business in the province to grow, access to cash was imperative, and money was in demand. It is on this premise that many of the larger merchants operated as quasi-banks. They issued scrip and tokens for customers to spend in their store. For larger transactions, merchants issued and accepted promissory notes and drafts (bills of exchange) as payment for goods. Negotiating these types of financial instruments, however, was complicated and extremely time-consuming. Because drafts were payable at six to twelve months after sight, it took months and even years for a merchant to see his note passed and actual specie paid to him.⁶⁷ It was with the merchant that laid the foundations of banking in Upper Canada.

⁶⁶ McCalla, *Planting*, 143.

⁶⁷ Cohoe, “Early,” 85, 86.

When examining the account ledgers of one Kingston's most prominent entrepreneurs, Richard Cartwright Junior, it is evident that he carried out many banking functions to fund his business. Cartwright's personal papers, held at the Queen's University Archives, are a testament to his intelligence, entrepreneurial skill, organization, and attention to detail. His account ledgers are among the few still in existence that document the commercial activity in Kingston in the early nineteenth century. Cartwright meticulously kept record of his transactions, and produced annual balance sheets underlining his assets, including debts owed to him, and liabilities. Many names on Cartwright's balance sheets consisted not only of local merchants, but also of major firms from Lower Canada, the United States and England.⁶⁸ An added feature of Cartwright's ledgers is that he recorded the payment method used to settle transactions. He acknowledged the scarcity of coinage, and largely dealt in bonds and bills of exchange to settle accounts. During the War of 1812, Cartwright's ledgers show that he extensively used Army bills, owing to their popularity as a convenient circulating medium during that period. Interestingly, he recorded every bill that passed through his hands, noting the denomination and serial number in his ledgers. The fact that Cartwright accepted various forms of payment demonstrates his role in bridging the financial gap between the large urban centres and the small rural communities. Had it not been for his credit system, his ability to keep financial records and maintain a certain amount of flexibility in his modes of payment, Cartwright's business would have certainly faltered in the absence of banking facilities. Many merchants realized and acknowledged the importance of opening a bank to solve the province's monetary problems. Banks, in their most basic functions, would assume many of the responsibilities bestowed on merchants, namely the negotiation of commercial paper and the issue of notes to make payment. But as McCalla states, banks complemented rather than eliminated

⁶⁸ Queen's University Archives (QUA), Richard Cartwright fonds, Cartwright daybook, March 1798 – July 1803.

merchants' financial roles.⁶⁹ Even after the introduction of banking services in the province, many merchants still carried out many of the responsibilities that banks had assumed.

Kingston and the Midland District had its fair share of merchants. The data provided in Robert Gourlay's statistical account of 1817 indicate that for a population of about 2,250 people, there were 67 stores and shops, and 41 taverns, inns, hotels and coffee houses in the town and the surrounding area.⁷⁰ Obviously merchants profited from the economic boom that had hit Kingston in the first part of the nineteenth century. In fact, until the 1830s, Kingston merchants enjoyed an advantage over their counterparts in other parts of the province thanks to their strategic location on the province's main shipping lane, their early push into the trans-shipment and forwarding business, and the constant presence of the military. Revenue and profit from Kingston merchants can only be speculated as most of their account ledgers were destroyed. Some of Kingston's most successful merchants eventually became involved in the push for banking facilities in the city. Let us now examine the most important economic activities that not only engaged the Kingston merchants, but that also contributed to the town's prosperity.

Commercial Activity in Kingston: Trans-shipment and forwarding

At a time when water transport was the only reliable mode of shipping, it was only natural that Kingston become Upper Canada's commercial centre given its location at the junction of the St. Lawrence River and Lake Ontario. Kingston's most prominent commercial activity was the trans-shipment and forwarding business. Trans-shipment consisted of the wholesale and shipment of imported goods from Montreal destined for settlements along Lake Ontario, and reciprocally, the export of goods from the western Upper Canada, upstate New York and Ohio destined for the major commercial centres of Montreal, New York and London. Trans-shipment was necessary because the

⁶⁹ McCalla, *Planting*, 141.

⁷⁰ Gourlay, *Statistical*, 244.

bateaux and Durham boats coming from Montreal that were used to sail on the St. Lawrence River were too small to negotiate the heavy current and changing weather conditions of Lake Ontario. Kingston was the perfect location to set up a port for loading and unloading the larger ships that could deliver the goods to the ends of the lake.⁷¹

Contrary to the staple model, trans-shipment and forwarding did not consist only of the export of locally produced goods.⁷² Historians, and McCalla especially, have demonstrated that robust internal trade among the settlements around Lake Ontario and along the St. Lawrence River contributed to the growth of the forwarding business. At first, exports consisted largely of furs loaded at the outposts in the West. As the province became more settled, and the dynamics of the European economy changed,⁷³ other staples, such as wheat, flour, pork, lumber and potash, complemented, and eventually replaced the shipment of furs bound either for local markets within the province, or for markets outside the province. To generate income, parties involved in the trans-shipment and forwarding business either charged a percentage of the total value of goods, or were the outright owners of the cargo, and shopped it around to the different markets.

For many Kingston merchants, trans-shipment and forwarding were quite lucrative. Richard Cartwright was the first Kingston merchant to engage in the business. His account ledgers list the thousands of transactions, ranging from a few shillings to several hundred pounds, which were conducted with various parties in the span of some twenty years. He was involved in a large variety

⁷¹ Spurr, "Garrison," 103.

⁷² Historians largely agree that the staple model, which "asserts that a country's economic, social, and political characteristics are to a great extent dependent on the production, processing and sale of usually one dominant staple product [in the case of Upper Canada, this was wheat and timber]," (David J. Bercuson et al. *Colonies: Canada to 1867* (Toronto: McGraw-Hill Ryerson Limited, 1992): 201) is flawed and does not provide a sufficient solution for explaining Upper Canada's economic development. McCalla argues that other factors influenced the growth of the province's economy. With immigration, improved transportation, availability of credit, capital creation and entrepreneurial initiative, Upper Canada's economy grew out of the local trade and consumption of staples and not exclusively from their export. The sale and consumption of imports also influenced economic development. See Douglas McCalla, "The Economy of Upper Canada" in *Interpreting Canada's Past*, Volume 1, *Pre-Confederation* ed. J.M. Bumsted, 2nd edition (Toronto: Oxford University Press, 1993): 352-363.

⁷³ The Napoleonic wars had virtually cut Great Britain off from the rest of Europe, and especially the Baltic States, for the supply of timber and other goods. Canada thus became Britain's main supplier of natural resources.

of business activities, including the fur trade, provisioning the military, shipbuilding, retailing, manufacturing, milling and land speculation. However, his most notable business venture was trans-shipment and forwarding. Until his death in 1815, Cartwright was the province's largest wholesale dealer of a wide range of goods, including grain, flour, meat, liquor, sugar, tools, kettles, clothing and weapons. He owned warehouses on the dockyards to store the goods, and when he received orders, ships were loaded and bound for their end destination. At the outposts, the ships were emptied and loaded with farm crops, produce, lumber, fur and other raw materials that were destined Montreal and beyond.

A couple of examples taken from Cartwright's papers show the enormity and complexity of the wholesale business. One order to Messrs James and Andrew Magill of Montreal made on October 31, 1808 contained a list of over 400 items in bulk quantities. Another order coming from Bristol, England contained about 150 items.⁷⁴ Cartwright's business ventures were so prolific that he once commented on the shortage of vessels in service on the St. Lawrence to ship his orders. He eventually commissioned for the construction of two ships to secure his shipments. The fact that Cartwright dealt in several goods clearly demonstrates that the province's leading merchants engaged in general, not specialized trade, which defeats the staple model. Lucrative government contracts for the transport of troops, baggage and supplies further garnered the success of local merchants. Cartwright greatly profited from his military role during the War of 1812 to secure business from British authorities to ship goods from York and Niagara for the provision of the troops stationed in Kingston. As R.A. Preston writes "this little group of men grew rich in the business of trans-shipping and forwarding."⁷⁵

⁷⁴ QUA, Richard Cartwright fonds, Memoranda and notebook Apr 1808 – June 1811.

⁷⁵ Preston, Kingston, lxi.

Further to Cartwright's achievements in the trans-shipment and forwarding business, other prominent merchants from Kingston carried on his legacy. John Forsyth, a contemporary of Richard Cartwright, tended to the business of the Montreal firm Forsyth, Richardson & Co. in Kingston. According to his biographer, David S. Macmillan, Forsyth enjoyed much success and held a significant share of the forwarding business in Kingston. He also engaged in other business ventures, such as running a brewery and land speculation, which brought him mixed results.⁷⁶ Forsyth's untimely death in 1813 meant that his involvement in banking was limited. He was listed as one of the founders of the Kingston Association (1813), whose mandate was to issue bills for the convenience of trade. Though it may never be known, like many of his peers, Forsyth must have encountered cash flow problems, and thus resorted to using a variety of financial instruments to conduct business. Had Forsyth survived to see the growth of banking in the province, undoubtedly he would have been a keen supporter.

Other merchants who followed Cartwright and Forsyth are Robert Macaulay, Thomas Markland, Peter Smith, John Kirby, and several others. As the champions of Kingston banking, details on the lives of Thomas Markland, Peter Smith and John Kirby will be presented later when we examine early banking in Kingston. Robert Macaulay, a Loyalist, was also engaged in trans-shipment and forwarding. According to Margaret Angus, Macaulay was established as a merchant on Carleton Island as early as 1780, and dealt in a variety of goods, including food, liquor and textiles. Over the years, he became associated with many of Kingston's elite families. Like many of his compatriots, Macaulay dabbled in real estate, building a vast holding of land throughout the province.⁷⁷ His will mentions, among other assets, six town lots, two dwellings, a blacksmith shop,

⁷⁶ David S. Macmillan, "Joseph Forsyth" in *Dictionary of Canadian Biography*, Volume 5 (1801-1820).

⁷⁷ Margaret Angus, "The Macaulay Family of Kingston" in *Historic Kingston*, 5 (October 1956): 4.

and hundreds of acres of farmland.⁷⁸ Macaulay died in 1800. Most likely through his business transactions, he handled the various types of financial instruments in use at the time, but he never engaged in banking.

Table 1 - Goods Exported by Kingston Merchants (1800-1802).⁷⁹

Merchant	Year	Bushels Flour	Bushels Ash	Barrels Pork	Boats
Richard Cartwright	1800	1,641	128	n/a	77
	1801	4,216	96	282	n/a
	1802	2,673	186	n/a	n/a
Thomas Markland	1800	586	n/a	10	24
	1801	719	18	n/a	n/a
	1802	546	3	26	n/a
Joseph Forsyth	1800	400	5	n/a	17
	1801	2,203	n/a	n/a	n/a
	1802	1,239	25	20	n/a
John Cumming	1800	394	37	n/a	19
	1801	2,977	28	10	n/a
	1802	1,717	102	10	n/a
Donald Macdonell	1800	245	63	n/a	17
	1801	556	71	30	n/a
	1802	1,009	38	n/a	n/a
James & William Robins	1800	367	8	19	16
	1801	431	9	n/a	n/a
	1802	177	16	n/a	n/a
Peter Smith	1800	412	16	16	18
	1801	1,489	100	n/a	n/a
	1802	1,248	152	n/a	n/a
John Kirby	1800	188	14	n/a	8
	1801	342	43	n/a	n/a
	1802	242	14	n/a	n/a
Lawrence Herchmer	1800	80	4	n/a	3
	1801	250	2	n/a	n/a
	1802	182	2	24	n/a

Sadly, the personal records of some Kingston's most prominent merchants reveal little about the profitability of the trans-shipment and forwarding business. Table 1, taken from Kathryn Bindon's thesis, lists the export activities of some Kingston merchants between 1800 and 1802. While Bindon admits that lack of data limited her ability to expand on the table, the numbers

⁷⁸ Preston, *Kingston*, 48; Margaret Angus, "Robert Macaulay" in *Dictionary of Canadian Biography*, Volume 4 (1771-1800).

⁷⁹ Bindon, "Kingston," 106. Richard Cartwright, Donald Macdonell, and James and William Robins were not associated with Kingston banking.

indicate the sheer potential that Kingston merchants possessed in generating revenue and boosting the town's economy. It is evident that for men like Thomas Markland, John Kirby, Lawrence Herchmer and Peter Smith, the establishment of a bank was imperative not only to preserve Kingston's dominant role in the trans-shipment and forwarding business, but also to preserve the vast amounts of revenue and profit that the business was creating. Sadly, the boom would not last forever.

The factors that contributed to the decline of the Kingston's economic prominence after 1830 are directly related to the trans-shipment and forwarding business. As McCalla writes,

Its [Kingston] early pre-eminence, its strategic location relative to many of the province's external commercial relations, and any technological advantage it gained from its role in the province's shipping economy proved an insufficient basis for long-term urban leadership.... Kingston was at the wrong end of Lake Ontario for access to the Western District. What particularly fostered local wholesaling and growing commercial autonomy was the rapid growth of the western peninsula, a market large and dynamic enough to support both an expanding trade with Montreal merchants and a rapidly expanding local trade.⁸⁰

Improvements made in navigating the St. Lawrence Seaway allowed more traffic to bypass Kingston. The opening of the Erie Canal in 1825, and the Welland Canal in 1829 gave wholesalers alternative routes to ship goods in and out of the western Upper Canada, New York and Ohio. The completion of the Montreal-Toronto rail connection in the 1850s further derailed Kingston's shipping business. Finally, reduced military presence in the town contributed to the decline in the demand for imported goods, thus marginalizing even more the role of Kingston merchants in commercial trade. As Osborne and Swainson contend, not only did these factors create a setback for Kingston's economic growth, but they also propelled the economic growth of other Upper Canadian towns, namely York and Hamilton.⁸¹

⁸⁰ McCalla, *Planting*, 137-38, 143.

⁸¹ Osborne and Swainson, *Kingston*, 2.

Shipbuilding

Trans-shipment and forwarding spawned the rise of other industries in Kingston. The passing of the Inland Navigation Act in 1788 opened the lakes to private vessels, and further stimulated mercantile activities. With the forwarding business growing at a steady pace, demand for more ships to transport goods also grew. Richard Cartwright pioneered the shipbuilding industry in Kingston. He commissioned the construction of two supply ships, the *Lady Dorchester* in 1789 and the *Governor Simcoe* in 1794 at a cost of about £1,600 each. The *Polly*, another supply ship, was built in 1792. The construction of a shipyard at Mississauga Point in 1801 further contributed to the rise of the shipbuilding industry in the town.⁸² Shortly thereafter, Cartwright commissioned the construction of another ship, the *Elisabeth*, which dominated the shipping industry in the early part of the nineteenth century. In 1808 alone, the ship made ten voyages between Kingston and Niagara, with the average voyage taking about two weeks. Total revenue for the year amounted to £523.⁸³ While shipbuilding was somewhat slow before 1805, following the War of 1812, the explosion in economic output forced an increase in the demand for ships. During the War of 1812, the frigate *Wolfe*, and the brig *Lord Melville* were launched in 1813, and the *Prince Regent* and the *St. Lawrence* in 1814.⁸⁴ Obviously the war contributed to the growth of the shipbuilding industry in Kingston, but to what extent it is not known. So far no data has been compiled to quantify the number of ships built in Kingston.

The introduction of the steamship in the postwar era further expanded Kingston's shipbuilding industry, and further strengthened the town's position in the shipping business. As notices in the period newspapers indicate, transportation of cargo and people by steamship was very

⁸² Preston, *Kingston*, lxxiii.

⁸³ McCalla, *Planting*, 118.

⁸⁴ Mary Quayle Innis, "The Industrial Development of Ontario, 1783-1820" in *Historical Essays on Upper Canada* ed. J.K. Johnson (Toronto: McClelland and Stewart Limited, 1975): 144.

lucrative. Kingston's first steamship, the *Frontenac*, was launched in 1816. The cost of the ship was astronomical at £15,000, but its ability to carry more cargo, and reduce shipping times more than made up for its large price tag. The ship was put into service in 1817, and made runs three times monthly from Kingston to York and Niagara, and return. The cost of passage to York was £3, and £4 to Niagara.⁸⁵ By the 1830s, there were at least ten steamers in service on Lake Ontario, and several others navigating the Ottawa River. Most of these vessels were built in the Kingston area, and operated by Kingston entrepreneurs. To measure the success of the steamship business, McCalla uses the example of one steamer on the Prescott-Toronto run that, in 1836, generated revenue totalling £6,600 of which almost half came from carrying passengers.⁸⁶ Obviously, the steamship business was very profitable thanks to the increased movement of population, as well as improved economic output.

Other Industries

Industry in Upper Canada before 1820 was quite primitive, with land-clearing and farming being the focus of the settlement economy. For the province's industry to develop, it was crucial to build an efficient means of transportation, to exploit the abundance of natural resources available, to increase the population, and find sources of power to convert raw materials into marketable goods. During the first thirty years of the province's existence, Kingston played the lead role in fulfilling these criteria. As more immigrants arrived, the province's industrial infrastructure began to take shape. The rise in population sparked the growth of several industries aimed at accommodating settlers, and providing for their well-being. The clearing of land and agriculture sparked the development of important secondary industries in the pioneer period, which bolstered Kingston's main commercial activity of trans-shipment and forwarding.

⁸⁵ Upper Canada Herald, June 8, 1819.

⁸⁶ McCalla, Planting, 119.

The first industries in Upper Canada revolved around the processing of raw materials produced from land-clearing and agriculture in refined and sustainable goods for local consumption and for export. Initially, the erection of mills was intended to provide settlers with materials to build homes and to feed families. Mills, usually started by one of the more affluent or enterprising settlers, were the nucleus from which many villages and towns grew. At first, the erection of gristmills and sawmills was slow. People had to travel long distances to access them. In 1783, the government authorized the erection of a gristmill on the Cataraqui River, and the building of a sawmill in Napanee to assist with the establishment of new settlers in the area. Several years later, Richard Cartwright took over the mill in Napanee, which he put to good use for his wholesale business.⁸⁷

When permission was granted for settlers to build mills in 1788, their numbers rapidly increased. Going back to Robert Gourlay's statistical accounts of 1817, there were 27 gristmills, 31 sawmills, 7 carding mills and 4 fulling mills in the Midland District.⁸⁸ The increase in the number of mills followed the farmer's ability to clear land, cultivate more grain and produce more than what was required for the family's own sustenance. The production of potash was a by-product of the large campaign underway to clear land for settlement. By purchasing the farmer's surplus and converting it to goods suitable for sale in other markets, mill operators became another link in the chain to develop the province's economy. To further increase the business, men were required to work in the mills, and foremost to gather the resources. Thanks to the large influx of immigrants, hired labour was readily available. As Patricia Malcolmson writes in her essay on the poor in Kingston, "the economy of the town depended as much upon the labour of its working people as upon the enterprise of its men of property... Without their contributions communities such as

⁸⁷ Innis, "The Industrial," 142; Lewis and Urquhart, "Growth," 152-53.

⁸⁸ Carding was the combing out of fibers of wool, and fulling was the cleansing and thickening of cloth. Gourlay, *Statistical*, 256-257.

Kingston, could not have prospered as they did.”⁸⁹ The contribution of the labouring poor to the town’s economic prosperity was crucial.

Kingston’s growing commercial activities translated into a greater demand for skilled and unskilled labour. Work could be found in the dockyards building ships, loading and unloading vessels, working in the warehouses, or sailing. As a result, journeymen, carpenters, millwrights, masons, and most other skilled artisans went to Kingston. The members from Kingston, who reported their findings to Robert Gourlay in 1817, stated that “wages were consequently high.” Carpenters in Kingston earned an average 8s/6d per day with room and board, blacksmiths earned 3s/6d per day with room and board, masons made between 9s and 12s/6d. The average Upper Canadian labourer earned 5s per day.⁹⁰ Economic downturn, seasonal patterns in the availability of work, and frequent periods of idle growth, though, affected wages and thus made it difficult for workers to raise themselves above mere subsistence. Nevertheless, thanks to the town’s economic boom in the first part of the nineteenth century, there appeared to be sufficient work for everyone.

Other industries, such as breweries, distilleries, smiths, printers, and producers of textiles and building materials, were developed to meet local needs, but they also accounted for part of the Kingston’s economic prosperity.⁹¹ Early in the century, these industries were not generally included in the census, thus to know their numbers and their output is impossible. Men like Richard Cartwright, Thomas Dalton, Thomas Molson and many others operated breweries for local consumption, although liquor was an important export item. There were 51 breweries and distilleries in the province in 1801, with the number in the Kingston area estimated at 9 or 10. Much

⁸⁹ Malcolmson, “The Poor,” 282, 297.

⁹⁰ Gourlay, *Statistical*, 245; McCalla, *Planting*, 40.

⁹¹ An entire chapter (Chapter 6: “Artisans, Manufacturing, and the Economy”) in Douglas McCalla’s book, *Planting the Province*, examines the multitude of industries that operated in Upper Canada. Most of the data gathered for his analysis post-dates the period covered in this study, and does not include examples from Kingston. This is most likely because the data simply does not exist.

like the mill operators, brewers constantly courted farmers to supply them with grain. In 1819, Thomas Dalton advertised in the *Kingston Chronicle* that he was paying a premium on barley to attract farmers.⁹²

Even though lack of hard data makes it difficult to gauge Kingston's economic development between 1783 and 1830, the town definitely enjoyed growth and prosperity thanks to the trans-shipment and forwarding business, and the outgrowth of ancillary industries developed for the manufacture of goods, and the transformation of raw materials for local consumption and for sale in other markets. Other parts of the province also revelled in the economic boom of the postwar era, but not to the extent of Kingston. The large presence of a service industry, i.e. merchants and innkeepers, clearly demonstrates that commercial activity in the town translated into an improvement in the town's social and financial well-being. Thanks the entrepreneurial skill of many local merchants, the presence of the military, and the availability and willingness of the labouring poor to work, Kingston and its inhabitants prospered. Eventually, a bank would be needed to harness that prosperity and invest it into the town's future.

Land speculation

Early in Upper Canada's existence, real estate was a risky business in which few dared to venture. For those who did, however, it was extremely profitable. Land speculation grew out of the sale of vast amounts of land granted to newcomers to the province. Land was allocated according to the military rank and social status of the recipient, and was distributed by lottery. G.M Craig, in his book Upper Canada: The Formative Years, describes how inefficient the early system was and how it alienated settlers:

Since the time of Simcoe the basic land-granting system had been one of making free grants of two hundred acres to ordinary settlers on which fees had to be paid when

⁹² Kingston Chronicle, August 13, 1819.

patents were issued. The applicant was required to reside on his land, and to fulfill certain settlement duties before he was eligible for his patent. Not desirous of paying patents, much of the land went unused. The result was, that by the start of the 1820s, a small population of 100,000 was sprinkled over an extensive area stretching for 500 miles along the Great Lakes. These people lacked adequate means of keeping in touch, it was difficult to get produce to market. "It was a primitive society, with few of the amenities of civilization, in which an almost brutalizing amount of work often brought little return." The price remained low.⁹³

Land distribution became a major issue, and the creation of the Midland District Land Board in 1788 served to overcome any of the conflicts and shortcomings that had been experienced in the past. The membership of the board in the 1790s included some of Kingston's most prominent men from the economic, social and religious circles. The primary role of the land board was to oversee the granting of land to prospective settlers.

After 1791, new laws made it easier for immigrants to qualify for land. Land boards therefore were rigorous in the application of their own, community-defined tests for land ownership. The land board was perceived as an elite group that could dictate to whom land was awarded. Although land distribution was supposed to be impartial, the board insured that applicants for land grants fit in the "loyal" category. "These men were creating the definition of who was "worthy" to become a member of Upper Canadian society."⁹⁴ Many settlers applied more than once for free land, and multiple grants were issued in the early period. Some of the land granted to settlers was later deemed unfit for settlement. Grant of land was forfeited if no improvements were made after 12 months. Real estate and land speculation were frowned upon in the early settlement.⁹⁵ In 1795, the land board was dissolved and the responsibility of land grants was taken over by the lieutenant governor in council.

⁹³ Craig, *Upper Canada*, 131-132.

⁹⁴ Bindon, "Kingston," 50.

⁹⁵ *Ibid*, 53-64.

The issue of land distribution is significant for this paper because many of Kingston's elite acquired massive tracts of land either through grants or purchases. Large quantities of prime farmland fell into the hands of a few people. As acknowledged in Gourlay's Statistical Accounts of Upper Canada, land owned by absentee landlords that could have been used for farming remained untouched for several years. Owners had no intention of developing the land, and they held out to sell the land at a premium. In 1824, eight million acres of land had been granted throughout the province, only three million acres were occupied and only 500,000 were under cultivation.⁹⁶ Taylor and Baskerville point out that "between one-half and two-thirds in the Home District was in the hands primarily of absentee owners... much of the area's choicest land – was owned by absentee speculators."⁹⁷ Perhaps this would explain York's rather late development. Taylor and Baskerville go on to write, "Richard Cartwright, a wealthy and well-connected Kingston merchant, retarded settlement at Napanee by offering land at a high price. Not until his son took over the estate in the 1830s was the land made available on more reasonable terms."⁹⁸ Richard Cartwright had acquired 5,292 acres of land in Frontenac by 1815, and 28,632 acres throughout the province as a whole.⁹⁹ Crown grants to early settlers were generous, and public officers, such as Cartwright, were rewarded with further grants.

Many of Kingston's merchants engaged in real estate, and actively speculated on land. Although motives behind the sale of land are unknown, merchants were likely paid in land transfers from cash-poor creditors who defaulted on their mortgages. Furthermore, some families who received land grants were not farmers and thus benefited more from the revenue generated on the sale of land. Lawrence Herchmer, Thomas Markland, John Macaulay and John Kirby are but a few

⁹⁶ Brian Osborne, "The Settlement of Kingston's Hinterland" in To Preserve & Defend: Essays on Kingston in the Nineteenth Century ed. Gerald Tulchinsky (Montreal: McGill-Queen's University Press, 1976): 70.

⁹⁷ Taylor and Baskerville, A Concise, 143-44.

⁹⁸ *Ibid*, 143.

⁹⁹ QUA, Richard Cartwright fonds, State of the Property and Business of Richard Cartwright, 1800-1843.

of Kingston's elite merchants who owned much of the land in the area and throughout the province. A layout of the land lots in the town of Kingston dated 1815 depicts several names involved in banking that owned significant amounts of prime real estate.¹⁰⁰ Thomas Markland was a large landowner. As Jane Errington writes in her biography on Thomas Markland, he had "little interest in farming and kept the land as an investment, selling much of it at a profit over the next ten years."¹⁰¹ Between 1800 and 1819, the Herchmer family actively purchased land throughout the province. At the time of his death in 1819, Lawrence Herchmer owned 900 acres of land in Kingston, and over 1,500 elsewhere in the province.¹⁰²

Although the transfer of title deeds did not specify the mode of payment, bills of exchange, U.S. bank notes and, when available, specie were used. Following is an example of some of John Kirby's acquisitions: purchase of 200 acres in the Township of Loughborough in the County of Frontenac from David Hogan for £30 in 1813; purchase of 600 acres of land in the County of Darlington from Dennis O'Reilly for £30 in 1806; purchase of 200 acres in Prince Edward County from Aaron Greely and wife Margaret for £100 in 1809; purchase of 200 acres in the Township of Pittsburgh in the County of Frontenac from Alexander Roxburgh for £50 in 1811. Depending on the transaction, purchase amounts varied greatly between £10 and over £500. In one transaction, Kirby sold one-fifth of an acre of land in the centre of town to Allan McLean in 1820 for £1000. John Kirby issued bills of exchange, and later, notes from the Bank of Upper Canada and the Commercial Bank of the Midland District to pay for his purchases of land throughout the province.¹⁰³

¹⁰⁰ See Preston, *Kingston*, 222-23.

¹⁰¹ Jane Errington, "Thomas Markland" in *Dictionary of Canadian Biography*, Volume 7 (1836-1850).

¹⁰² QUA, Herchmer family fonds, Land lots 1815-1827.

¹⁰³ QUA, John Kirby fonds, miscellaneous letterbooks and notebooks.

Real estate was a booming market for many of the wealthy landowners of the province. Given the relaxed rules and the privileges awarded to the upper class, many of Kingston's elite were granted large amounts of land, and engaged in land speculation as a means of increasing their wealth. It is impossible to count the amount of land transactions that took place in the first fifty years of the province's existence, but Kingston's elite was active buyers and sellers of land not only in the immediate region, but elsewhere in the province as well. Interestingly by the 1820s, many of these men were taking out ads in the local newspapers offering prime land to farmers looking to expand their holdings at prices that certainly generated handsome profits. Real estate had become an important source of capital for many of Kingston's enterprising merchants. However, given its highly speculative nature its practice was not conducive to banking.

2.3 Farming and the Question of Kingston's Hinterland

Given that agriculture was Upper Canada's principal economic activity during the nineteenth century, special attention is paid to the development of farming in Kingston. The issue of farming in Upper Canada has been a contentious one for many historians, and especially for Douglas McCalla, whose book, Planting the Province: The Economic History of Upper Canada, provides the most complete analysis of the province's economy from the arrival of the Loyalists in 1784 to Confederation. While McCalla's book focuses on challenging the staple model, it plainly demonstrates that agriculture was the main economic driver of the province in the nineteenth century. Because Kingston's economy was focused on its waterborne commercial activities, the development of farming was not a priority. As we learn in Brian Osborne's essay, "The Settlement of Kingston's Hinterland," Kingston's underdeveloped hinterland would negatively impact the town's economic development. When new shipping routes were opened after 1825, Kingston

merchants could not rely on output from its own hinterland to sustain economic growth. This section briefly examines the impact of farming on Upper Canada's economic development, and focuses on the problems encountered in the development in Kingston's hinterland.

"Farm-making" was a long process consisting of clearing forests, preparing the land for culture and, maintaining and expanding that land. Those who had the cash could purchase cleared land ready for culture, however this was very much the exception. Most immigrants who became farmers could not afford to purchase an established farm.¹⁰⁴ The average Upper Canadian farm of 20 to 25 acres took between seven and ten years to reach full production. Because the requirement for food was immediate, farmers did the minimum required to clear land, and immediately began planting seeds amongst the stumps and brush. Without sufficient labour, farmers could not carry out any ambitious plans for clearing land.¹⁰⁵ Year after year, more land was cleared, and as the brush and stumps rotted, farmers could dig deeper and access the rich soil beneath. Proceeds of the sale of timber from land clearing provided some of the initial revenue required for farming.

Wheat was a high-priority for farmers not only because it was a major element in their own diets, but it was also Upper Canada's most marketable crop. Contrary to the staple model, McCalla's analysis of the wheat-market in Upper Canada reveals some interesting information. "Until the 1840s the majority of wheat grown in the province was consumed there. And downriver wheat shipments in a number of years were destined mainly for consumption in Lower Canada; in the perspective of the larger Canadian economy, they were not really exports at all."¹⁰⁶ While farmers in Upper Canada largely engaged in the cultivation of wheat, it has been proven that wheat production encompassed only half of the cultivated land in the province at the turn of the nineteenth

¹⁰⁴ The basic cost of clearing a farm was about £100 (\$400), see Peter Russell, "Upper Canada: A Poor Man's Country? Some Statistical Evidence," in *Papers in Rural History*, 3 (1991) cited in Lewis and Urquhart, "Growth," 176.

¹⁰⁵ Peter Russell, "Forest into Farmland: Upper Canadian Clearing Rates, 1822-1829," in *Agricultural History*, 57 (1983) cited in Lewis and Urquhart, "Growth," 174; Taylor and Baskerville, *A Concise*, 141.

¹⁰⁶ McCalla, *Planting*, 67.

century. McCalla provides a long list of other crops that Upper Canadian farmers produces and, as he writes, these did not include the growing of fruits and vegetables and the production of dairy products.¹⁰⁷ To further underline that Upper Canada's economy was not export-oriented, as the staple model would conclude, most farming output was either consumed by the family or sold in the local markets. Baskerville and Taylor claim that only 20 per cent of all land under culture in Upper Canada was geared at exports.¹⁰⁸ Despite the outcome, the province's economic development was very much contingent on the success of farmers to supply goods to the town, and create a surplus that could be sold in other markets, either domestic or foreign, for a profit. To insure that success, it was up to merchants to accommodate farmers and provide them with the tools and supplies, as well as the financing to produce crops.

As noted earlier, business relationships between merchants and farmers were tight. In order for all parties to prosper, there had to be a degree of mutual dependence and understanding. A delicate balance had to be attained in order to satisfy both their needs. While the hinterland sourced the commodities and provided the clientele, the town provided the contacts, the supplies, and the financial support. Even though the credit system was complicated and often cumbersome, merchants and businessmen went to many lengths to accommodate farmers, assuming much of the liability that issuing credit posed. The idea was to provide farmers with the supplies and capital necessary to fund the operation and expansion of their farm. With cash in short supply, farmers settled accounts with merchants in part with produce and labour. Sometimes farmers would fall deeply into debt against the merchant, either through excessive means of living, or as a result of failed crops. Some saw the plight of farmers in the face of mercantilism as hopeless, and articles often appeared in the newspapers encouraging farmers to be frugal, practical, and resist falling into

¹⁰⁷ McCalla, Planting, Appendix B, Table 5.3 and 5.4, 267-68.

¹⁰⁸ Baskerville and Taylor, A Concise, 148.

the clutches of merchants. Because the merchant was so dependant on the farmer, the failure of the latter was not in the interest of the former.

The close ties between merchants and farmers were even more pronounced when banks first hit the scene. History shows that farmers held a fair amount of contempt for banks. Bray Hammond in his study on American banking strongly emphasizes how the establishment of America's first "national" bank, the Bank of the United States in 1791, was met with tremendous resistance from farmers. Farmers had opposed Alexander Hamilton's proposed bank bill accusing banks of being corrupt, and out to destroy the free institutions of the New World. It was firmly believed that farmers would derive no benefit from banking, and therefore, they rejected it.¹⁰⁹

In Upper Canada, contemporary accounts indicate that farmers were also apprehensive about banking. Based on news coming from the United States, letters in the local newspapers often attacked banks and the credit system. Counterfeiting of bank notes was a big problem both in the United States and in British North America, and it put into question the credibility of financial institutions. Furthermore, farmers were not convinced that banks operated with their best interests in mind. Stephen Thorning, in his Ph.D. dissertation on private banking in Ontario, argues that because chartered banks largely neglected the rural areas of the province, farmers turned to their local merchants for financial assistance. Inadvertently, some merchants became private bankers, offering a variety of services, and even issuing their own money in the form of scrip and tokens. These merchants-turned-bankers were well respected, and enjoyed considerable success. Private bankers flourished from the 1850s to the 1870s, but by the twentieth century, they had fallen prey to the large financial institutions, and, one by one, they were absorbed. The real culprit behind the lack of banking services in the rural parts of the province was the Bank of Upper Canada, who, between

¹⁰⁹ Hammond, Banks, 116.

1822 and 1831, refused to open any branches or agencies in the outlying areas.¹¹⁰ To farmers, this was a clear sign that banks were an urban phenomenon, and were never designed to assist them. For a long time, many farmers did not use banks. Instead they maintained business ties with local merchants.

Agriculture was responsible for many of the province's social and economic achievements in the nineteenth century: territorial and demographic expansion, the rise of industry to convert raw materials, and improvements in transportation and shipping. Although McCalla acknowledges there was economic expansion, he questions why the province's economy was not larger. He writes: "in 1860, the "typical" successful farm in the province produced only enough to feed its occupants and two other equivalent households..." McCalla's answer clearly demonstrates that production was largely intended for local markets, and not necessarily for export. He explains that many farmers kept output low out of fear of not being able to sell their surplus in the local market. As a result of this reduced activity, constraints were put on other local markets that depended on farmers to grow.¹¹¹ Such is the underlying influence that farmers had on the province's economy.

Early settlement of the province occurred along the shores of Lake Ontario. The land fronting the lake was rich and fertile, and close proximity to water transportation made it more convenient to move goods and supplies. In the early part of the nineteenth century, the Midland District possessed some of the largest areas of land under culture in the province. In 1805, 43,000 acres were developed compared to a mere 9,000 acres in the Home District. Niagara had the most land under culture at 47,000 acres. By 1821, Kingston surpassed Niagara with 85,000 acres under culture against 63,000 acres. The Home District was about half of the Midland District at 40,000

¹¹⁰ Before 1831, the Bank of Upper Canada operated agencies in Kingston and Niagara only. These agencies were severely restricted in their operations, with directives coming from York. It was only with the establishment of the Commercial Bank of the Midland District in 1832 that branch banking flourished, and that the Bank of Upper Canada was forced to open branches in order to compete. Thorning, "Hayseed," 35-50.

¹¹¹ McCalla, Planting, 9.

acres.¹¹² It was natural for the Midland District to contain the most developed farmland because it was the most populated region in the province. With immigrants arriving at an increased pace after the War of 1812, it soon became clear territorial expansion inland was necessary.

The development of a region's hinterland was vital in achieving and sustaining commercial success. While most Lake Ontario settlements fronted the lakeshore itself (the Midland District consisted of a narrow corridor stretching East-West from Gananoque to Belleville), York pushed north along Yonge Street settling the rich fertile lands stretching to Lake Simcoe. It stood at the front of a continuous agricultural settlement 100 kilometres long, connected by a single road that ran straight to the wharves of York. Kingston, on the other hand, failed to become the commercial metropolis for which its merchants had fervently hoped, partly because it had no large insulated hinterland. Brian Osborne, in his essay "The Settlement of Kingston's Hinterland," writes:

A populous and productive hinterland stimulates urban growth by generating flows of primary products into, and flows of services and manufactured goods from, the central city. In consequence, cities should be particularly concerned with improving the transport system, stimulating settlement, developing regional resources, and providing goods and services to the tributary area. For much of the nineteenth century, Kingston under-emphasized this dimension of its development. The importance of an extensive waterborne commerce, a preoccupation with such exotic functions as the military and government, together with a rugged physical environment to the North, were all related to Kingston's initial neglect to its landward hinterland.¹¹³

Kingston neglected its hinterland in favour of building its trans-shipment and forwarding business. Despite its influential position, in the first half of the nineteenth century, Kingston continued to be surrounded by a relatively underdeveloped hinterland. Land communications within the interior were still neglected and those farms that had been established in the bush were isolated from the

¹¹² McCalla, *Planting*, Appendix B, Table 3.2. McCalla does not provide data for subsequent years.

¹¹³ Osborne, "The Settlement," 63. In his essay Osborne further explains that an unfavourable physical environment was not the only reason for Kingston's underdeveloped hinterland, but that an inefficient land distribution system in place since the arrival of the Loyalists saw much of the land go to absentee landlords and thus remain uninhabited until the mid-1850s. Osborne goes on to say that thanks to improvements in the land distribution system, coupled with new technology in transport and farming, which tempered concerns for land quality, Kingston achieved great success starting in the mid-1850s at developing its hinterland.

local market. Without a developed hinterland, Kingston's commercial activities were destined for failure as soon as other centres, like York and Hamilton set up their own commercial infrastructure for shipping goods.¹¹⁴ It was only by the 1850s though, that an increase in land patenting, and development of new economic motivations for pioneers ushered in a rise in the settlement of Kingston's hinterland. Land clearing and farming did occur, but much later in the century. By then though, Kingston's fall from commercial prominence had already taken place.

To recapitulate, the participation of farmers in Upper Canada's economic development was important because they supplied the goods that not only fed the province, but that also spawned commercial trade. Merchants relied on farmers, and they made sure that farmers had access to funds and supplies to clear the land and expand their culture. The shortage of currency meant that farmers purchased supplies on credit, and that transactions were settled most often using goods, with cash accounting for anywhere between 2 and 20 per cent of payments. In this financial structure, merchants assumed most of the risk, but also generated most of the profits. Early in the nineteenth century, Kingston merchants were long into the commercial business of trans-shipment and forwarding. They engaged in the wholesale of imported goods, and they sourced material from all over the province for sale in other markets, either domestic or foreign. The lag in the development of Kingston's hinterland, however, posed a threat to the town's continued prosperity in commerce. As towns like York and Hamilton grew in the 1830s, and new shipping routes were opened, which allowed merchants to bypass Kingston altogether. Having examined Kingston's early economic development to assess the town's need for banking facilities, in the next chapter, we look at the events surrounding the establishment of banking facilities in Kingston.

¹¹⁴ Map 5.1 entitled "Upper Canadian Counties with 50 Per Cent or More Occupied Land Under Culture," in McCalla's book plainly demonstrates that in 1851, Kingston's hinterland was far less developed than that of Toronto, Hamilton and Niagara. McCalla, Planting, 70.

CHAPTER 3

KINGSTON'S BID FOR A BANK: 1810 TO 1818

In the previous chapter, an overview of Kingston's economic development revealed that the town enjoyed early and rapid economic prosperity as a result of its waterborne activities, the outgrowth of secondary industries, such as shipbuilding and millwork, to support the trans-shipment and forwarding business, as well as the constant presence of the military, especially during the War of 1812. Kingston's economy was certainly in high gear in the early part of the nineteenth century, and businessmen realized that shortage of capital, lack of financial resources and the absence of cash threatened to derail the town's, and the province's economic growth. With no clear solution in sight, by 1810, talks of establishing a bank in Kingston were well underway.

3.1 The First Petition for the Bank of Upper Canada (1810)

Notwithstanding early attempts to establish banking facilities in Montreal, as early as 1810 the question of a "provincial" bank was being raised in Upper Canada. Although early discussions on banking were intended to provide Kingston merchants with banking facilities, the creation of a bank was supposed to benefit the entire province. Proposals to establish a bank in Kingston first appeared in the *Kingston Gazette*¹¹⁵ following a public meeting held on December 1, 1810 "to take into consideration the expediency of establishing a bank in the town of Kingston and of applying to the Legislature for an Act of incorporation."¹¹⁶ Little is known about the outcome of the meeting, but in the following days the subject of banking dominated the debate, and commentaries from parties

¹¹⁵ The first number of the *Kingston Gazette* appeared in September 1810. A microfilmed copy of the *Kingston Gazette* held at the National Library of Canada is missing the first two months and begins with November 27.

¹¹⁶ *Kingston Gazette*, December 4, 1810.

with opposing opinions filled the pages of the local newspaper.¹¹⁷ Those who saw the advantages were eager to support the establishment of a local bank, while others who recognized the risks were more cautious and even opposed the project. Clearly, many citizens demonstrated an astute knowledge of banking and took great interest in the subject.

Contributors to the newspaper, signing their letters with such names as “Friend of the Public,” “Farmer,” “Common Sense,” and “A Friend of the Banks”¹¹⁸ raised some important issues that were current and relevant to the debate on banking and currency. In a letter dated December 4, 1810, the author, who favoured the establishment of a bank, commented on some of the “evils” of banking, namely the problem of rampant counterfeiting experienced in the United States, and the assumption that the merchants of Montreal would oppose the bank, and not accept its notes. Concerns over counterfeiting were legitimate for there was no law regulating the circulation of American currency in the Canadas, and as Shortt concludes, “Canada was an asylum and base of operations for the majority of American counterfeiters.”¹¹⁹ The notion, however, that Montreal would oppose the bank was unfounded. Rather, Montreal merchants were likely to support an institution that guaranteed payment. General reference was made to the success of the banks in Europe and America, as well as the latter’s success at eliminating the “evils due chiefly to the lack of specie.” “A Friend of the Public” praised the first U.S. bank for issuing notes and accumulating specie. However, increased competition and hunger among the numerous banks to hold specie turned the business into warfare that drove the specie out of the country. The author writes: “if a regularly chartered bank could be obtained being the only one in the two provinces it would have

¹¹⁷ Between December 4, 1810 and February 5, 1811, there were ten articles on banking published in the weekly newspaper.

¹¹⁸ It is not known if these pen names were from parties who had any direct involvement in banking, but it is probable. “Ghost of Newland,” in his letter to the *Kingston Gazette* of January 29, 1811, declared that he could detect “under the various names the same hand.”

¹¹⁹ Adam Shortt’s, 56.

none of those evils to contend with.”¹²⁰ The idea of a central bank coincided with the visions adopted by William Paterson for the Bank of England and Alexander Hamilton for the Bank of the United States. It is believed that supporters of the Bank of Upper Canada embodied the same beliefs and sought to establish a bank that would operate as the sole banking authority in the province.

Another contributor, who remained anonymous, questioned the raising of sufficient specie to open a bank, and claimed that a bank would put too much strain on commerce because merchants borrowing funds would have to turn an even greater profit to cover the loan and still generate revenue to grow the business. It was also insisted that banking would increase the number of peddlers and itinerant merchants from New York and Albany who would accumulate notes, redeem them for specie and bring the specie back to the United States.¹²¹ The drain of specie supply was a common problem that threatened trade and commerce in the colony, and the contributor’s argument was a legitimate one. However, because the monetary system in the province was already in dire straits, an alternative was required to keep the wheels of trade in motion. In spite of reported cases of fraud and counterfeiting, it was contended that the circulation of notes was the most convenient way of alleviating the problems caused by a shortage of specie. Word of the political pressures on the Bank of United States, which led to its closure in 1811, and the failed attempts by Montreal merchants to establish the Bank of Lower Canada around the same time certainly influenced the attitude of the general public on banking. Witnesses to these events saw banking as dangerous and unnecessary, and they objected to the establishment of a banking company in Kingston.

“Common Sense,” a supporter of the bank, establishes the parallels between the proposed bank and the banks of England and the United States to comment on how the latter banks were intended to support the wealthy at the expense of the merchants, but that the former offered shares

¹²⁰ Kingston Gazette, December 4, 1810.

¹²¹ Ibid, December 11, 1810.

at only \$50, which was more attractive to smaller investors. “Common Sense” also claims that the most important benefit of the proposed bank was to liberate people, especially farmers, from the constraints of extended credit caused by the lack of specie: “Credits of 3, 4, no even 10 years have been allowed through the liberality of the merchants... this [being] due to the extreme scarcity of specie. The bank then, by affording a circulating medium, would alleviate both the farmer and merchant.”¹²² The position of the farmer on banking was crucial because farming was the principal driver of the province’s economy. A letter penned by “Farmer” favours banking and thinks it would put the money in the country to good purpose. The letter refers to the banks in Scotland¹²³ and especially to the fact that there are two banks in the village of Utica, which are both prosperous and have been a benefit to the country and to the province.

In spite of the heated debate on banking, supporters proceeded with their plans to establish the Bank of Upper Canada. A letter in the *Kingston Gazette* of December 11, 1810 indicates that the advocates of the bank were claimed to have been in the majority, and in order to prove that there could be sufficient money obtained to open a bank they sent out a subscription, which in a day or two settled the matter as the amount subscribed was much more than anyone had expected.¹²⁴ While evidence of a petition having been drafted exists, it has yet to be discovered. Exact details of the petition are not known, though a letter, being an invitation to become a shareholder in the bank, highlights some of the major points of the petition, and addresses some of the concerns raised by the public.

A NUMBER of the Inhabitants of the town of Kingston having associated for the purpose of establishing a BANK, with a Capital of 250,000 Dollars, in Shares of Fifty Dollars each, and being desirous that the advantages which it is hoped will result from the Institutions, should be extended to their Friends in every quarter of

¹²² *Kingston Gazette*, January 1, 1811.

¹²³ The reference to Scottish banking is appropriate as many of the advocates of the banking in North America were of Scottish descent.

¹²⁴ *Kingston Gazette*, December 11, 1810.

the Country, they have directed us to invite you, Sir, to become a Stockholder, and to request that you will be pleased to signify to us, at as early a day as possible, the number of Shares you may think proper to subscribe for.... It is intended to the ensuing Parliament for an Act of Incorporation; but if that be refused, it is contemplated to carry on the establishment as a private Bank, provided the subscriptions to the stock be sufficient to form the Capital proposed.

To avoid the evils to which banks in the United States have been exposed, no expense will be spared to engage the most eminent Engraver, and in procuring Paper of the finest texture; ... The Public may receive our paper with little or no dread of imposition, the Punctuality with which it will ever be redeemed, will, we confidently trust, give to our Notes such a Currency as in a short time, to render our Banking Establishment as well advantageous and beneficial to the Country, as profitable to the Proprietors.

Kingston, 10th December 1810. Signed, Allan McLean and Henry Murney.¹²⁵

The names of the parties involved in the original petition of the Bank of Upper Canada have been lost with the document. It is assumed though that the petitioners consisted of many of Kingston's business elite. The biographies of some of these men were presented earlier. Those of Allan McLean and Henry Murney, the signatories of the above letter, are somewhat familiar. According to R.A. Preston, Allan McLean (var. MacLean) was born in 1752, and became Kingston's first lawyer. He later reached political prominence when he was elected to the Legislative Assembly representing the county of Frontenac from 1804 to 1824. Neither Preston, nor McLean's family papers held at Queen's University Archives mention McLean's involvement in banking. He did, however, engage in commerce and land speculation. Preston mentions that McLean was a storekeeper in Cataraqui, and as a barrister he was granted 1,200 acres of land in Kingston. McLean in fact was shown to have held over 17,000 acres of land throughout the province.¹²⁶ Although McLean's business activities are not documented, his involvement in the Bank of Upper Canada, first in 1810, and later in 1817, would indicate that he enjoyed a certain success, and that banking facilities would further improve his business. McLean died in 1847.

¹²⁵ Allan McLean and Henry Murney, A number of the inhabitants of the town of Kingston having associated for the purpose of establishing a bank (Kingston: December 10, 1810), CIHM 63174.

¹²⁶ Preston, Kingston, 219 n.52; QUA, Allan Neil MacLean fonds, Correspondence.

Little is known about Henry Murney other than that he ran a brewery in Kingston, which was sold to Thomas Molson in 1824.¹²⁷ It is not clear how Murney became involved in banking, nor to what extent he was a beneficiary of Kingston banking. Beyond the 1810 petition, Murney's name appears in the list of directors of the private Bank of Upper Canada in 1819, to which he was also a shareholder.¹²⁸ The story of the private Bank of Upper Canada will be presented later.

Going on the resolutions of subsequent bank petitions, the new bank at Kingston was to be a commercial institution with the mandate of taking public deposits, providing loans, and issuing and discounting notes. It was also intended to operate as a central bank, much like the Bank of England and the Bank of the United States, and act as the fiscal agent of the Upper Canada provincial legislature. Early visions of banking consisted of one institution meeting the needs and requirements on an entire province. Although intentions were to establish a "provincial" bank, having its headquarters in Kingston presented a definite advantage to the community. Until the spread of branch banking, banking was very much a regional business. Banks promoted and supported local commerce and community. Thanks to banks, the money that circulated in the community stayed in the community. When competing banks entered the province, the threat was great for specie to be drained out of the community, and the cash crunch would be more widely felt¹²⁹.

Although the original petition was never found, the journals of the Legislative Assembly for March 13, 1811 mention the receipt of "petitions from Sundry Inhabitants of the Province relative to the Incorporation of a Bank."¹³⁰ Nearing the end of the session, no action was taken, and it was

¹²⁷ Alfred Dubuc, "Thomas Molson" in *Dictionary of Canadian Biography*, Volume 9 (1861-1870).

¹²⁸ *Upper Canada Herald*, June 15, 1819; n.a. *A Statement of the Affairs of the Late Pretended Bank of Upper Canada at Kingston*, (York: 1827), CIHM 92481.

¹²⁹ The Bank of Montreal and the Bank of Canada (Montreal), for example, paid for commercial paper presented to their agents in the outlying areas in notes, and later they presented the instruments to the issuing authority for redemption in specie. That specie claimed was used in part to pay the dividends owed to shareholders of the banks.

¹³⁰ Provincial Legislature of Upper Canada (PLUC), "Journals of the Legislative Assembly of Upper Canada for the years 1805 to 1811," in *Eighth report of the Bureau of Archives for the province of Ontario ... 1911* (Toronto: L.K. Cameron, 1912): 484.

ordered that the petition be shelved until the next session. Nothing more was ever heard of the 1810 petition. Likely the outbreak of the War of 1812 forced the issue of banking to be put on hiatus.

3.2 Developments in Banking During the War of 1812

Although it may appear that the War of 1812 stifled the debate on banking, developments in solving the liquidity problem that paralysed commercial trade in Kingston continued to appear in the pages of the local newspaper. Success in the circulation of Army bills must have inspired some local inhabitants to revisit the idea of solving the province's cash flow problems. Following a meeting held on August 18, 1813, articles of association for the creation of the Kingston Association were published in the *Kingston Gazette* of August 31, 1813. The list of petitioners for the Kingston Association includes many of the men that would later present to the Legislative Assembly of Upper Canada a petition to incorporate the Bank of Upper Canada in 1817.¹³¹ Although the Kingston Association was to carry out certain banking functions, nowhere in the petition was the organization called or treated as a bank. Its main purpose was to "issue bills for the convenience of making change."¹³² Its function was directly aimed at facilitating commercial activity within the community. Ten resolutions outlined the mandate of the Kingston Association. Bills in \$1 denominations to a maximum of £1000 (\$4000) were to be issued to any person having deposited their amount in Army bills or specie. Interest and profits arising from the money deposited were to go to the "Patriotic Fund of Upper Canada," whose existence is unknown.

Lack of evidence on the institution would conclude that the Kingston Association's existence was short-lived. A correspondent to the *Kingston Gazette* commented that the solution

¹³¹ Petitioners published in the *Kingston Gazette* are John Cumming, John Kirby, Jonas Abbot, Joseph Forsyth, Patrick Smyth, Alexander MacDonnell, Robert Richardson, John Macaulay, Hugh C. Thomson, Smith Bartlet, Samuel Aycroyde, George Douglass, Richard Smith, and Robert Walker.

¹³² *Kingston Gazette*, August 31, 1813.

exacerbated the problem: “When bakers, grog-shopmen, washer women, & c. & c do issue their trash, I think it high time for some of the higher civil authorities to interpose, and present an unsuspecting public from being any longer imposed on.”¹³³ Ian Dalton, in his unpublished work on Thomas Dalton and the “pretended” bank, claims that “the idea found favour elsewhere, and a York Association, with nearly identical aims and policies, was set up in November of that same year.”¹³⁴ No further details on this venture either have been discovered to date.

Beyond the efforts of the Kingston Association, Thomas Markland took an interest in helping in local commercial trade. Before joining the concern to set up a bank in Kingston, Markland issued his own notes to stimulate his business. He was never involved in the group of merchants that proposed the creation of the Kingston Association in 1813, and at the time, there must have some friction between the two parties. In the same issue where the Kingston Association published its articles to issue bills, Markland published an ad to defend the reputation of his notes:

The Merchants of Kingston having in a very ungenerous and unwarrantable manner, by a Public Notification, attempted to injure my Credit, I beg leave to assure the public that any Notes bearing my signature will at all times be received and paid in Army bills. [dated Kingston, Aug. 28, 1813]¹³⁵

In the same issue a letter to the editor penned by “Hawkins” severely criticized the circulation of private merchant scrip commenting on problems of counterfeiting, concerns for redemption and questions of their issue “with other views than Public Convenience.” It is not clear if this commentary was aimed at Markland, and further research has not uncovered the exact cause for Markland’s concern, but eventually differences among the merchants were settled as Markland later joined their efforts to establish banking facilities in Kingston.

¹³³ Kingston Gazette, September 7, 1813

¹³⁴ Ian R. Dalton, Thomas Dalton and the “pretended” Bank (Toronto: 2001): 4.

¹³⁵ Kingston Gazette, August 31, 1813.

Although Thomas Markland stood out as the champion of Kingston banking, he was also well known among Kingstonians for his philanthropic activities, and as a reputable public figure in Upper Canada holding several public offices. Thomas Markland was born in New York in 1757. The American Revolution forced his emigration to Kingston in 1784, and there he met, and married, Catherine Herchmer, who was the sister of Lawrence Herchmer, another prominent Kingston merchant. In 1788, Markland entered the trans-shipment and forwarding business with another Loyalist, Robert Macaulay. They also ran a small retail store. Thanks to his lucrative mercantile pursuits and real estate ventures, Markland accumulated considerable wealth. He died in 1840 leaving to Kingston an important legacy of political and commercial grandeur. Markland was a tireless man who contributed much to the economic and social development of the town. According to Jane Errington, the editor of the *Kingston Chronicle and Gazette* back in 1840 thanked Markland “for his long, zealous and efficient service as a public man.”¹³⁶ Markland was very active in his pursuits to establish banking services in Kingston. As will be seen later, he was involved in almost every piece of legislation that favoured the opening of a bank in the town.

3.3 The Second Petition of the Bank of Upper Canada (1817)

The story of the Bank of Upper Canada from the first bank bill to the transfer of office to York has been well documented in several banking and economic histories. Although little can be added to the debate, some precisions and clarifications can be made to the existing arguments. The treatment of the events surrounding the Bank of Upper Canada has been cast in a political light. This is rightly so, for it is widely agreed that York constituents with the support of the Family Compact, in the words of Max Magill, “allegedly stole the charter of the Bank of Upper Canada from its Kingston

¹³⁶ Errington, “Thomas Markland.”

incorporators.”¹³⁷ What historians have failed to do, however, is conduct an analysis of the charters and place them in context with the socio-economic events of the day to uncover other factors that may have influenced the development of banking in Kingston. Let us now recount the events surrounding the first Bank of Upper Canada bill.

The end of the War of 1812 raised a grave concern among merchants in the Canadas. Army bills had enjoyed a tremendous success in the colony. They restored public confidence in the use of paper money, the higher denominations paid interest, and the lower denominations filled the void of the lack of a circulating medium. On the other hand, it was clear that the circulation of Army bills was only a temporary measure and that, according to the provisions made in the Army Bill Act (1811), all Army bills were to be withdrawn from circulation beginning in 1815. No sooner were the last bills destroyed that the Kingston merchants were once again faced with the problem of a shortage of money. Montreal merchants, in the interest of maintaining positive trade relations with their partners in the United States and Upper Canada, began drafting plans immediately following the war to open a bank. The Montreal Bank was opened in 1817 to commence business, and pick up where the circulation of Army bills had left off.

Merchants in Kingston did not wait to learn the outcome of the Montreal Bank to begin deliberations on setting up banking facilities. Early in 1817, after considerable discussion, the leading merchants of Kingston drew up a petition, which was presented to the House of Assembly on March 5, 1817:

To the Honorable House of Assembly of the Province of Upper Canada in Provincial Parliament assembled. The memorial of the merchants and others of the town of Kingston, respectfully sheweth: That your memorialists having taken into consideration the great utility and advantage of banks to a commercial people, which has been evinced by the number which have been established in England, and in the United States of America since the Revolutionary War; and feeling the benefit which

¹³⁷ Max Magill, “The Failure of the Commercial Bank” in *To Preserve & Defend: Essays on Kingston in the Nineteenth Century* ed. Gerald Tulchinsky (Montreal: McGill-Queen’s University Press, 1976): 169.

the latter derive from the ready aid afforded by their banks, to carry on their establishments and improvements in their western territory, which, although of a much more recent date, is in a more flourishing state than any part of this Province, are of opinion that is found so beneficial in those countries, they cannot fail of tending to the prosperity of this province. The want of such an establishment was severely felt before the war, and there was hardly any doubt but that the same inconvenience will very shortly occur, whereas a well regulated bank would obviate all these difficulties by keeping up a circulating paper to meet every public demand. Your memorialists therefore pray that your honorable house will be pleased to pass an Act for their incorporation, and authorizing then to establish a Bank to be called "The Bank of Upper Canada," having a capital of £100,000, divided into 8,000 shares of \$50 each share. And your memorialists, as in duty bound, will ever pray. Kingston, January 26, 1817. (Signed) Thos. Markland and others.¹³⁸

While general mention is made of the banks in England, the petition conveys firstly the impact of banking on the growth and expansion of the American economy since the Revolutionary War, and secondly the advantages that merchants in America had gained on those in Upper Canada because of ready access to paper. The petition alludes to early attempts before the War of 1812 to open a bank in Kingston, and underlines the shortcomings given the absence of a circulating currency once Army bills have been withdrawn.

The petition was apparently well received. A bill entitled "An Act to incorporate sundry persons under the style and title of the President, Directors and Company of the Bank of Upper Canada" was immediately passed on March 27, 1817.¹³⁹ The bank bill was returned with only minor adjustments, which were agreed to by the lower house and the act was sent to Lieutenant Governor Sir Francis Gore for royal assent on April 7. In an unusual move, the lieutenant governor withheld proclamation stating that a bill of such importance "should be reserved for the signification of His Majesty's pleasure thereon."¹⁴⁰ Gore recognized the importance of introducing banking facilities in the province and thought it important to gain the support of British authorities. The bill was

¹³⁸ PLUC, "Journals of the Legislative Assembly of Upper Canada for the years 1812 to 1818," in Ninth report of the Bureau of Archives for the province of Ontario ... 1919 (Toronto: L.K. Cameron, 1913): 352.

¹³⁹ The bill to incorporate the Bank of Upper Canada predates that of the Bank of Montreal, Canada's first bank, by over a year.

¹⁴⁰ Quoted in Dalton, Thomas Dalton, 5.

revealed to the public in the *Kingston Gazette* in July 1817, and the petitioners waited patiently for word from London to proceed with the organization of the bank. An analysis of the bill is warranted.

The bill was literally a carbon copy of the Montreal Bank's articles of association, which, in turn, was largely drawn on Alexander Hamilton's charter for the Bank of the United States.¹⁴¹ The charter contained 24 articles, and the list petitioners read like a *Who's Who* of Kingston's elite: [in order of publication in the bill] Allan McLean, Thomas Markland, Peter Smith, Lawrence Herchmer, William Mitchell, John Kirby, Roderick McKay, John Macaulay, Allan McPherson, Hugh C. Thomson, Jerry Whitehead, William Bradhay, James Nickalls, A. Neil McLeod, Solomon Johns, Patrick Smyth and Thomas Graham. As Table 2 on the following page shows, many new names appear in the bill, and, interestingly, many names associated with earlier banking concerns, such as the Kingston Association, are conspicuously absent. Joseph Forsyth died in 1813. The reasons for the absence of John Cumming and Smith Bartlet are not known, but they may coincide with conflicts encountered between Markland and certain members of the Kingston Association back in 1813. The schism among the parties pushing for banking facilities in Kingston will become even more pronounced with the establishment the private Bank of Upper Canada.

Little is known about many of the newcomers to the banking fold. Lawrence Herchmer was the descendant of German immigrants who were settled in New York since 1721. Herchmer's parents left the United States in 1783 and were among the first settlers in Cataraqui. A well-respected citizen of Kingston, Lawrence Herchmer held several public offices and engaged in philanthropy. Not unusual for the period, Herchmer was connected by marriage with other prominent merchant families in Kingston, namely the Kirbys, the Macaulays, and the Marklands.¹⁴²

¹⁴¹ See Appendix 1 for a table comparing the charters of various banks operating in Upper Canada in the period.

¹⁴² Eleanor Herchmer Robertson, "The Herchmers of Kingston," in *Historic Kingston* 15 (January 1967): 61.

Table 2 - Names Associated with Kingston Banking (1810-1822)

Surname	Name	Upper Canada Banking Company petition (1810)*	Kingston Assoc. (1813)	Bank of Upper Canada (Kingston) bill (1817) [N.B. Number in () indicates rank on bill.]	private Bank of Upper Canada (1818-1822) [N.B. Number in () beside "art. of assoc." indicates rank, and beside "shareholder" indicates number of shares held.]
McLean	Allan	yes		yes (1)	
Markland	Thomas	?		yes (2)	
Smith	Peter	?		yes (3)	
Herchmer	Lawrence	?		yes (4)	
Mitchell	William	?		yes (5)	
Kirby	John	?	director	yes (6)	
McKay	Roderick	?		yes (7)	
Macaulay	John	?	yes	yes (8)	
McPherson	Allan	?	cashier	yes (9)	
Thomson	Hugh C.	?	yes	yes (10)	shareholder (5)
Whitehead	Jerry	?		yes (11)	
Bradhay	William	?		yes (12)	
Nickalls	James	?		yes (13)	art. of assoc. (6)
McLeod	Neil	?		yes (14)	dir. / shareholder (40)
Johns	Solomon	?		yes (15)	shareholder (5)
Smyth	Patrick	?	yes	yes (16)	dir. / shareholder (10)
Graham	Thomas	?		yes (17)	
Cumming	John	?	president		art. of assoc. (1) / shareholder (20)
Whitney	Benjamin				art. of assoc. (2) / dir. / shareholder (60)
Balfour	John M.				art. of assoc. (3) / shareholder (10)
Ferguson	John				art. of assoc. (4) / dir. / shareholder (10)
Richardson	Robert	?	yes		art. of assoc. (5)
Shaw	Samuel				art. of assoc. (7)
Bartlet	Smith	?	yes		dir. / shareholder (98)
Dalton	Thomas				dir. / shareholder (91)
Whitaker	Thomas				dir. / shareholder (40)
Richmond	Archibald				dir. / shareholder (31)
McLean	John				dir. / shareholder (25)
Hagerman	Christopher				dir. / shareholder (20)
Murney	Henry	yes			dir. / shareholder (20)
Ferguson	John W.				shareholder (10)
Washburn	Daniel				director
Abbot	Jonas	?	director		
Ayckroyde	Samuel	?	yes		
Douglass	George	?	yes		
Forsyth	Joseph	?	yes		
Macdonell	Alexander	?	yes		
Smith	Richard	?	yes		
Walker	Robert	?	yes		

* The "?" indicates that the party may have been a petitioner. No documentation has been discovered to confirm this. Note: Table 2 is sorted by rank of party named in the Bank of Upper Canada petition and bill (1817), then by rank in Articles of Association for the private Bank of Upper Canada (1818). The remaining names are parties involved with earlier banking ventures in Kingston, including the 1810 petition and the Kingston Association (1813). Sources: Kingston Gazette, August 31, 1813, July 7, 1817, July 14, 1818; n.a, A Statement of the Affairs of the Late Pretended Bank of Upper Canada at Kingston (York, 1827).

Herchmer went into business as a merchant, first in Port Hope, and later in Kingston. As seen earlier, he and his siblings had extensive land holdings throughout the province. He also had a lumber business and saw mills. Unfortunately none of Herchmer's account ledgers, or other records documenting his commercial activities, have survived to give any indication of his business activities. When Herchmer died in 1819, he bequeathed most of his land to his family, and all monies were transferred to his wife and five children. Given his involvement in the petition for the Bank of Upper Canada, Herchmer certainly expressed an interest in banking. His sudden death meant that his role in setting up a bank in Kingston was cut short. Undoubtedly his business and real estate ventures made Lawrence Herchmer an avid supporter of banking facilities in Kingston.¹⁴³

John Kirby was born in 1772 in Yorkshire, England. In 1774, his family came to America and settled on a farm in New York. As royalist supporters, they left the United States following the American Revolution, and settled in St-Jean-sur-Richelieu. Seeking opportunity to better his lot and improve his standard of living, Kirby moved to Kingston in the late 1780s. He was taken under the wing of Robert Macaulay, another prominent merchant in Kingston, who had married Kirby's sister Ann in 1791. Macaulay, along with Thomas Markland, was engaged in the trans-shipment and forwarding business. After Markland's withdrawal, and upon Macaulay's untimely death in 1800, Kirby continued the hardware business with his sister Ann under the name John Kirby and Company, which lasted until 1817. Beyond his business partnerships, Kirby was closely associated with the elite families of Kingston through marriage and heritage, being named the executor of some of Kingston's magnates. He was a well respected man. Like many of his compatriots, Kirby was active in improving the quality of life in the town. Finally in the 1830s, Kirby went on to

¹⁴³ QUA, Herchmer family fonds. Business records, 1800-1834.

political prominence, being appointed to the Legislative Council in 1831. He became a major actor in the union of the Canadas in 1840.¹⁴⁴

The John Kirby fonds held at the Queen's University Archives give limited, though very insightful, information on Kirby's business activities. A testament to the shortage of a circulating medium, Kirby's file reveals how he extensively used bills of exchange as payment. Furthermore, Kirby kept an account of debts owed to him, which amounted to £13,600 upon his death.¹⁴⁵

Although Kirby's papers make no mention of his involvement in banks, it is not surprising that he was a firm supporter of banking. He was not involved in the private Bank of Upper Canada, but he was a shareholder, and a client of the Commercial Bank of the Midland District (incorporated in 1832). His loyalty, however, did not sit only with the Kingston banks. Like any businessman wanting to protect his interests, and prosper, Kirby was a shareholder in the Bank of Montreal (incorporated in 1822) and the Bank of Upper Canada of York (incorporated in 1821). In 1830, he became a director of the Kingston branch of the Bank of Upper Canada. Kirby's involvement did not end there. Along with his nephew, John Macaulay and George Herchmer Markland, Kirby was appointed commissioner to investigate the failure of the pretended Bank of Upper Canada, to which more will be discussed later.

Other petitioners were involved in Kingston banking in other capacities. John Macaulay was the son of Robert Macaulay, one of Kingston's biggest merchants. Born in 1792, Macaulay was educated by John Strachan, who would later have an impact on his career in banking. He held several public offices in Kingston, such as surveyor general and postmaster, and between 1823 and 1836 he was agent of the Bank of Upper Canada, a position that Strachan had primed him to fill. After 1836, Macaulay went to Toronto where he sat on the Legislative Council until 1841. His ties

¹⁴⁴ Jane Errington, "John Kirby" in Dictionary of Canadian Biography, Volume 7 (1836-1850).

¹⁴⁵ QUA, John Kirby fonds, Business papers, 1812-1867.

to the Bank of Upper Canada were further cemented when he sat as a government appointee on the bank's directorate. As if his presence in the banking circles was not prevalent enough, Macaulay served as president of the Commercial Bank of the Midland District in the 1840s.¹⁴⁶

Another member whose biography has been recorded is Hugh Christopher Thomson. Thomson, who was of Scottish descent, was born in Kingston in 1791. His parents moved from Tyron County, New York to Kingston in the late 1780s. Work brought Thomson's family to York in 1795. It was there that he got his first break in mercantilism working as a clerk in a local general store. Thomson returned to Kingston in 1810 and eventually bought his own store in 1815. He became well known as the proprietor of the *Upper Canada Herald*, Kingston's second newspaper. The newspaper enjoyed a large circulation throughout the province. Thomson was actively involved in the community, and later became involved in politics representing Frontenac in the Legislative Assembly in 1825, 1829 and 1831. Thomson died of cholera in 1834. Hugh C. Thomson was certainly a staunch supporter of banking. He was involved in the Kingston Association in 1813, he was a petitioner for the 1817 bill and the 1819 Kingston Bank bill, he was a shareholder in the private Bank of Upper Canada, and, as will be seen later, his newspaper was heavily implicated in the debate surrounding the affairs of the pretended Bank of Upper Canada.¹⁴⁷

For some of the less prominent names stated in the bill, little is known about William Mitchell and his business ventures. One interesting point to make, though, is that he was appointed agent for the Bank of Canada (based in Montreal) on October 20, 1818.¹⁴⁸ As an agent of the bank, Mitchell was responsible for accepting deposits and discounting notes presented to him. More on the Bank of Canada's presence in Kingston will be revealed in the discussion on banking

¹⁴⁶ QUA, John Macaulay fonds (1788-1946); Angus, "The Macaulays," 8-12.

¹⁴⁷ H.P. Gundy, "The Business Career of Hugh C. Thomson of Kingston" in *Historic Kingston*, 21 (1973): 62-75; H.P. Gundy, "Hugh C. Thomson: Editor, Publisher, and Politician, 1791-1834" in *To Preserve & Defend: Essays on Kingston in the Nineteenth Century* ed. Gerald Tulchinsky (Montreal: McGill-Queen's University Press, 1976): 203-22.

¹⁴⁸ *Kingston Chronicle*, January 1, 1819.

competition in the next chapter. As for James Nickalls, notices in the *Kingston Chronicle* reveal that he was a merchant dealing in hardware, and also sat on several public boards.¹⁴⁹ For the remaining names, Roderick McKay, Allan McPherson, Jerry Whitehead, William Bradhay, A. Neil McLeod, Solomon Johns, Patrick Smyth and Thomas Graham, no records or data were found to shed light on their backgrounds, their business activities, nor their involvement in the community. All parties will reappear either in the foundation of the private Bank of Upper Canada in 1818, in the 1819 bill to establish the Bank of Kingston, or in the resolutions of the Kingston Savings Bank (1822).

Examining the articles of the charter, some important points must be raised. First, and foremost, there is a discrepancy of £25,000 between the amount of capital stock proposed in the petition and that stated in the bank bill. The reason for the increased capital is not known, but possibly it was intended to increase the bank's potential to attract investors based on past success of the American banks. Conspiracy theorists would argue, on the other hand, that the amount was increased to stall the bank knowing that it would have difficulty raising the initial capital. This is unlikely, for at the time support for a bank was unanimous inside and outside political circles.

The new capital was set at £125,000 (\$500,000) divided into 10,000 shares of \$50 each. More important, £50,000 had to be subscribed before a board of directors could be elected, and £20,000 in specie had to be paid in before the bank could commence operations and issue notes. To understand the significance of these figures, two questions must be raised. First, how was the amount of the capital stock determined? Second were the amount of the paid-up capital and the share price realistic? To answer these questions, one must look at the past experience of other banks, namely those in the United States, and at the economic environment of the town and the province.

¹⁴⁹ Kingston Chronicle, July 21, 1820.

The Bank of the United States was chartered with a capital stock of \$10 million divided into 25,000 shares at \$400 per share. Given the increased wealth and population of the young republic, and given that the Bank of the United States was a “national” bank, meaning that subscribers came from all corners of the country (many foreign investors also acquired shares in the bank), the shares were immediately subscribed, and the minimum paid-up capital of \$400,000 was acquired. Whether Kingston, or the entire province of Upper Canada for that matter, had the same resources to raise the minimum paid-up capital is questionable.

Looking at the financial situation in Kingston, the Bank of Upper Canada would not have survived on the investments of the local community alone. Business was booming, but capital to invest in a bank was scarce. Previously, certain members of the Kingston community raised the concern of the lack sufficient funds to support a bank. It is a valid argument that warrants some analysis. In 1815, the population in Kingston was estimated at 17,000 people. Kingston’s population had increased greatly in the late eighteenth century following the influx of “late-Loyalists” and other immigrants. But much of Kingston’s population constituted immigrants who did not have the financial means of purchasing stock in the bank. Besides, they were not keen on investing in banks. That said, the purchase of stock to support Kingston’s bank had to come from the town’s elite members: merchants, professionals, politicians and the clergy.

It is believed, though, that even Kingston’s elite could not raise sufficient capital to open a bank. Kingston’s biggest entrepreneurs, including Markland, Macaulay, Kirby and Herchmer, possessed considerable wealth. Yet, they did not have the means of converting that wealth into capital. As seen previously, many of these men owned considerable assets, such as mills, warehouses and vessels, and they held vast amounts of land throughout the province. Yet none of these assets could be used as collateral to purchase stock because Article XIV of the charter

stipulated that the new bank was prohibited from holding land. Lack of evidence prohibits any firm conclusion at this time. The analyses of subsequent bank charters will certainly help to further clarify this matter.

For the Bank of Upper Canada to succeed in raising sufficient capital, subscribers would have had to come not only from Kingston, but also from elsewhere in the province, and even outside the colony. Organizers of the bank most likely knew this, and provision was made for books of subscription to be opened in other parts of province, including York, Niagara, and Hamilton (Article II). Furthermore, British subjects from outside the province, and foreigners could purchase shares to a maximum of 80, until the initial public offering (IPO) was completed. Subscribers were then welcome to purchase any outstanding shares once the IPO was closed (Article III). Only shareholders residing in the province could become directors of the bank. Because the bill for the Bank of Upper Canada never passed, to determine what percentage of subscribers resided outside Kingston, or even outside the colony is pure conjecture.

Other articles in the charter determined the number of directors to be elected to the board, the minimum note value permissible for issue, and the question of opening branches elsewhere in the province. Details of these articles will become significant later on, when other bank charters are analysed. One important article that was added to the bill during its reading before the Legislative Assembly was the forfeiture of the charter should it not be used before the expiration date of January 1, 1819. This was, in fact, the article that would seal the fate of the Bank of Upper Canada in Kingston. Whether intentional or not, word from England arrived too late and the bill was revoked. Ian Dalton points out that King George III was ill in this period. Peter Baskerville argues that a decision on the bill was delayed because the government saw no need to establish a close

relationship with any bank.¹⁵⁰ Even though the bill had received royal assent, the lieutenant governor, whom by then was Sir Peregrine Maitland, did not allow the bill to pass. He did invite the Kingston petitioners, however, to re-apply for a charter. As will be seen later on, the outcome of these events revealed the true nature of the competition in banking that erupted in Upper Canada as early as 1818.

3.4 The Creation of the Private Bank of Upper Canada (1818)

Not having received any news on the progress of the bank bill, in 1818 a group of Kingston merchants decided to follow the lead of their counterparts in Montreal, and established the Bank of Upper Canada as a private corporation. The consensus was that if the charter was ultimately granted, then the private bank could take it over. Meanwhile, there was an urgency to begin operations to respond to the opening of agencies in Kingston by both the Bank of Montreal and the Bank of Canada in 1818.¹⁵¹ The articles of association of the private Bank of Upper Canada were identical to those of the Kingston bank bill, and of the Bank of Montreal.¹⁵² A couple of important changes were the omission of issuing notes and the opening of branches. While the private Bank of Upper Canada had no intentions of opening any branches or agencies elsewhere in the province, the company did issue notes.¹⁵³

Beyond the details of the articles of association, an examination of the parties involved in the private bank raises some interesting questions. According to the articles of association, the following men formed the organizing committee of the new bank: John Cumming, Benjamin

¹⁵⁰ Dalton, *Thomas Dalton*, 9; Peter Baskerville, *The Bank of Upper Canada: A Collection of Documents* (Ottawa: Carleton University Press, 1987): xxviii.

¹⁵¹ Baskerville, *The Bank*, xxix; Hammond, *Banks*, 649. The Bank of Canada was a private bank opened in Montreal in 1818. The bank received its charter in 1822.

¹⁵² *Kingston Gazette*, July 14, 1818.

¹⁵³ Issued examples of these notes signed by the president and cashier of the bank are held in the National Currency Collection of the Bank of Canada, see Appendix 3.

Whitney, John M. Balfour, John Ferguson, Robert Richardson, James Nickalls, and Samuel Shaw. Some members, such as John Cumming and Robert Richardson, were involved in the Kingston Association, but were not named in the 1817 bank bill. James Nickalls was the only member involved in the 1817 bank bill. The remaining names had no previous history with banking in Kingston. Other names that were not mentioned in the private bank's articles of association yet that appear in the list of directors of the bank are Smith Bartlet, Thomas Dalton, Christopher Hagerman, John McLean, Neil McLeod, Henry Murney, Archibald Richmond, Patrick Smyth, Simon Washburn, and Thomas Whitaker. Again, some men, such as Henry Murney, Neil McLeod and Patrick Smyth were associated with previous banking ventures, namely the 1810 petition, the Kingston Association (1813) and the Bank of Upper Canada petition (1817). The rest were relatively unknown.¹⁵⁴

Little is known about Smith Bartlet prior to his involvement in the private Bank of Upper Canada. Advertisements in the *Kingston Gazette* of 1810 show Bartlet as keeping a general store. His name was also among the petitioners for the Kingston Association. In 1817, Bartlet partnered with Thomas Dalton to open the Kingston Brewery (one of three to use the name). The partnership was later amicably dissolved in 1819 soon after the private bank went into operation. At the first meeting of the shareholders of the private bank, Bartlet was elected as a director, and was appointed cashier of the bank.¹⁵⁵ The cashier was an important position in the bank, overseeing its daily operation. Bartlet's role in the failure of the private bank will be revealed further along.

¹⁵⁴ See Table 2, "Names Associated with Kingston Banking (1810-1822)" on page 78 for a list of the parties involved in the private Bank of Upper Canada and their affiliation to other banking ventures in the town.

¹⁵⁵ Bank notices in the *Kingston Gazette*, and later in the *Kingston Chronicle* and *Upper Canada Herald* were signed by Smith Bartlet as "cashier." *Kingston Gazette*, December 14, 1818; *Kingston Chronicle*, July 2, 1819.

Benjamin Whitney, like Smith Bartlet, was listed as a shopkeeper in the local newspaper in 1810. Whitney was also elected as director of the bank, and named president.¹⁵⁶ Thomas Dalton, whose involvement in the pretended bank has been captured in an unpublished book authored by his great-grandson, Ian R. Dalton, was a latecomer to Kingston. With some failed business ventures behind him in England and Newfoundland, Dalton came to Kingston and opened a brewery with Smith Bartlet. Dalton assumed sole proprietorship of the brewery in 1819. Regarding Dalton's involvement in the pretended bank, which will be further developed in subsequent pages, Ian Dalton points out that in an unusual move Dalton was made a director of the bank having been a resident of the colony for less than two years, which directly contravened the articles of association of the private bank.¹⁵⁷ Like his counterparts, Dalton's involvement in the affairs of the private Bank of Upper Canada were remarkable, and will be developed further down.

One final name of significant importance to banking history in Kingston is Christopher Alexander Hagerman. Hagerman was born in 1792, the son of Loyalists who moved to Adolphustown (Prince Edward County) after the Revolutionary War. Hagerman pursued a career in law that opened the door to several business ventures and political appointments. In 1813, he was appointed collector of customs for Kingston in 1813, having taken over the post following Joseph Forsyth's death. Hagerman became involved in politics in 1820 when he was elected to the House of Assembly defeating his chief rival George Herchmer Markland, a man with tremendous clout, 119 votes to 94. Hagerman's move to York to assume his post in the House introduced him to a privileged circle of highly influential and powerful men to which he would soon become a member, the Family Compact.¹⁵⁸ During his time in York, and through his affiliation with the Family

¹⁵⁶ Kingston Gazette, December 14, 1818.

¹⁵⁷ Dalton, Thomas Dalton, 10.

¹⁵⁸ Robert E. Saunders's essay on the Family Compact entitled "What was the Family Compact" in Historical Essays on Upper Canada ed. J.K. Johnson (Toronto: McClelland and Stewart Limited, 1975): 120-139 examines the classic myth

Compact, Hagerman built himself a reputation that made him many enemies both in his legal and political professions. According to Hagerman's biographer, Robert L. Fraser, William Lyon Mackenzie thought Hagerman showed "a disposition to carry the abuse of privilege as far as the most despotic sovereign had ever carried the abuse of prerogative."¹⁵⁹ Hagerman was on Mackenzie's black list, which was periodically published in the *Colonial Advocate*. Charles Durand, one Hagerman's most violent detractors, called him a "grim old bulldog, ... a type of Nero."¹⁶⁰

Despite his authoritarian and aggressive personality both in the House, and before the court, Hagerman proved to be a good constituency man tending to many local concerns. Unfortunately his involvement in the scandal of the pretended bank chased him out of Kingston. He lost his re-election in 1824, and the failure of the pretended bank cost him dearly. In 1828, he was finally able to wind up his affairs in Kingston, and subsequently he moved to York. There he opened a new legal practice and became heavily involved in some large legal cases. In 1830, Hagerman made a return to politics with an appointment as Attorney General of Upper Canada. He held this position until he resigned to become a judge in 1840. He was a firm supporter of the union of the Canadas, which came to fruition in 1841. As far as his records show, Hagerman had no involvement in trade, and had no business ties with any of the Kingston merchants.¹⁶¹

Some of the names of Kingston's prominent merchants are absent from the articles of association for valid reasons. They did not wish to risk their reputation engaging in a business that

of the Family Compact as an oligarchy that dominated all levels of power in Upper Canada from 1820 to 1837. Saunders begins by identifying those who directly and indirectly belonged to the Family Compact, and looks at how one became a member. He then examines the charges of abuse of power, corruption and usury made against the Family Compact by many of their contemporaries, namely Lord Durham, William Lyon Mackenzie and other reformers. Saunders concludes that the Family Compact was a typical elite group who shared a common experience, the War of 1812 and the defence of the British colony, and a common objective, the rise of conservatism, in the interest of preserving their British heritage and allegiance.

¹⁵⁹ Quoted in Robert L. Fraser, "Christopher Alexander Hagerman" in *Dictionary of Canadian Biography*, Volume 7 (1836-1850).

¹⁶⁰ S.F. Wise, "The Rise of Christopher Hagerman" in *Historic Kingston*, 14 (January 1966): 22.

¹⁶¹ *Ibid*, 19-21.

did not operate under a charter. Sadly, none of the personal papers of the Kingston merchants shed light on this issue. Ignoring their direct involvement in the private bank, some Kingston merchants who were associated with the original bill to incorporate the Bank of Upper Canada became shareholders in the bank: Solomon Johns (5 shares), Neil McLeod (40 shares), Patrick Smyth (10 shares), Hugh C. Thomson (5 shares).¹⁶²

At the same time that the private bank was being organized, the debate over banking once again hit the newspapers. The *Upper Canada Herald*, which was owned by one of the shareholders in the private bank, Hugh C. Thomson, contained several articles that renewed some of the old arguments that banking was evil, and that farmers should avoid the traps and pitfalls of engaging in banking services. Given his liberal approach to conveying the news, Thomson made no attempt to censor the critics of the bank. Some articles, such as that penned by “A Friend to Farmers,” attacked the credit system, and how it forced many farmers deep into debt.¹⁶³ Other contributors, like “The Prompter” and “Corrector,” underlined the importance of merchants and banking to assist the farmer in selling his produce, and to supply him with tools and other necessities required to expand and prosper. At the same time, though, they encouraged people to cut spending and avoid debt. They also exercised much scrutiny concerning the actions of the bank.¹⁶⁴

Public criticisms aside, the private Bank of Upper Canada appeared to enjoy instant success. Within the first year, £35,000 in stock had been subscribed with £11,000 (32%) actually paid in. A minimum £10,000 was required to begin issuing notes. The first board of directors was elected, and included Daniel Washburn, Archibald Richmond, Christopher Hagerman, John McLean, John M. Balfour, John Ferguson, Patrick Smith, Neil McLeod, Henry Murney, Thomas Whitaker, Thomas

¹⁶² The figures are taken from a list of shareholder for the “pretended” Bank of Upper Canada dated 1825, found in A Statement of the Affairs of the Late Pretended Bank of Upper Canada at Kingston (York, 1827).

¹⁶³ *Upper Canada Herald*, March 16, 1819.

¹⁶⁴ *Ibid*, April 13, July 13, July 20, July 27, 1819.

Dalton, and Benjamin Whitney. Whitney was elected president of the bank, and Smith Bartlet was the bank's cashier. The bank went into operation in December 1818, accepting deposits and discounting notes. As early as April 1819, the bank issued notes in denominations of \$1, \$2, \$3, \$5 and \$10 printed by the Graphic Company of New York.¹⁶⁵ It was only the third bank in all of British North America, after the Bank of Montreal and the Bank of Canada, to issue notes.

Counterfeiting raised concerns for the acceptance of notes. Note design consisted of hand-engraved vignettes, and stylistic graphic elements that were applied in black ink onto paper using the intaglio process. The idea of colour, security features, and even printing on both sides had not yet been introduced. Counterfeiters had difficulty creating exact reproductions, but since most people were not used to handling cash, and had no idea what a genuine note was supposed to resemble, counterfeits tended to easily pass. Given the scarcity of specie, though, bank paper was a welcome sight, and notes circulated extensively.

Notices in the *Kingston Chronicle* and the *Upper Canada Herald* provided further indications of the bank's early success. Discount days were published on a weekly basis. In May 1820, the Bank announced its first dividend payment of 4 per cent. An agency of the private bank was opened at York in 1821 under the direction of Robert Coleman. And although the Montreal banks had earlier refused to cooperate with the Kingston bank, an arrangement was finally made in October 1821 to have the bank's notes accepted for redemption at par at the Bank of Canada in Montreal, thus encouraging their circulation through the eastern part of the province.¹⁶⁶

From a political standpoint, the legitimacy of the private bank was questionable. It would later be argued that because the private bank operated without a charter, it was in direct violation of imperial laws drawn up in 1741 dealing with "unwarrantable schemes and undertakings," such as

¹⁶⁵ *Upper Canada Herald*, April 6, 1819; See Appendix 3 for some examples of notes issued by the private Bank of Upper Canada.

¹⁶⁶ *Kingston Chronicle*, October 17, 1821; Dalton, *Thomas Dalton*, 15.

joint-stock ventures and banks that had plagued the American colonies.¹⁶⁷ The 1741 act was an extension of the Bubble Act of 1720 where the Bank of England forbade banking by other corporations or partnerships of more than six members. The private Bank of Upper Canada, however, was never formally accused or charged with such an offence. Instead its fate was sealed because of internal conflicts among the directors. As Shortt explains, the directors of the private bank were amateurs that had no experience or knowledge of running a bank. For him, this is what killed the bank.¹⁶⁸ The failure of the private bank will be examined in the next chapter.

¹⁶⁷ Dalton, Thomas Dalton, 10; Hammond, Banks, 650.

¹⁶⁸ Adam Shortt's, 5-7.

CHAPTER 4

TURBULENT YEARS IN KINGSTON BANKING: 1819 TO 1831

The 1820s would prove to be a decade of great challenge for banking in Kingston. The first bank bill having been annulled, the Kingston constituents were eager to restart the process. While some had already decided to open their own private bank, others sought government legislation to establish a chartered bank. Kingston seemed destined to become the province's first town to gain such recognition. An apparent conspiracy plotted by members of the Family Compact, though, would alter Kingston's fortunes. Furthermore, increased competition in banking with the arrival of two banks from Lower Canada, the Bank of Montreal and the Bank of Canada in 1818, and the renewed interest from the York constituents to establish a bank, impaired Kingston's chances of opening its own chartered bank. Before long, the town was overrun with banks, and available capital being in short supply, immediate hopes of establishing a bank were lost. The intense competition among the banks also splintered the group of Kingston bankers, and caused dissension among its members. Without the cohesion of the group, there could be no bank. Finally, the failure of the private Bank of Upper Canada in 1822 silenced the Kingston petitioners for several years to come. This chapter examines the political events surrounding the establishment of the province's first chartered bank, as well as the competition in banking in Kingston.

4.1 The Rise of the Bank of Upper Canada in York

Up to now, it appeared that Kingston was sure to become the site of the province's first chartered bank. When the legislature resumed on June 7, 1819, however, members finally learned the fate of the Bank of Upper Canada bill. The King of England had given royal assent to the bill, but it did not

arrive on time for promulgation within the period allowed by law, and the charter was voided for non-use. Given the circumstances, Sir Peregrine Maitland, the lieutenant governor of Upper Canada, had no choice but to request that the bill be re-enacted to incorporate the Bank of Upper Canada in Kingston. There seemed to be little cause for alarm among the Kingston petitioners. The 1817 bill failed on a technicality, and re-applying for a charter seemed merely a formality. Since the Home Government and the King himself had given royal assent to the Bank of Upper Canada bill, surely a second bill would receive the same support.

On June 12, 1819, a few days after the report on the 1817 bill was presented before the Provincial Legislature, a new petition from the inhabitants of Kingston to establish the Bank of Upper Canada in Kingston, signed by Thomas Markland and 35 others, was brought up before the House of Assembly and read. In the interest of stifling the rise of external competition, the bill quickly passed, and was sent up to the Legislative Council on June 25, 1819.¹⁶⁹ It was at this point that the face of banking legislation in the province changed. In the two years that the government waited for word from London, a change in attitude and opinion about the need for a bank at York had occurred. Ever since interest in banking grew in the colony, new players, namely the Bank of Montreal and the private Bank of Upper Canada (both unchartered banks), had appeared on the scene. As Baskerville writes, these institutions “alarmed both the new lieutenant governor and members of the York elite” who expressed contempt for these banks and their “American character.”¹⁷⁰ The “York elite” that Baskerville mentions included most of the members of the legislature, especially in the Legislative Council, who had the power to control government and amend any legislation as they saw fit. The desire to open a bank in York is a perfect example. Interestingly, previous petitions from York constituents for a bank had been dismissed. Yet, when

¹⁶⁹ PLUC, “Journals of the Legislative Assembly of Upper Canada for the years 1818 to 1821,” in Tenth report of the Bureau of Archives for the province of Ontario ... 1913 (Toronto: L.K. Cameron, 1914): 99,110, 137.

¹⁷⁰ Baskerville, The Bank, xxix.

the government became interested in banking, the chances of Kingston receiving a bank dwindled. Let us examine how York first became interested in banking.

York's Bid for a Bank

Interest in establishing a bank at York was first heard in March 1817. At around the same time that a petition from the Kingston constituents was being considered by the Legislative Assembly, another petition from the inhabitants of York was brought before the House. The petition, dated March 10, 1817, requested that an act be passed to establish the "Upper Canada Banking Company" with a capital of £100,000. Details of the petition are unknown because they were never reported in the assembly journals, and the original document has been lost. Subsequent petitions and the bills that were created from them, however, do shed light on the York petitioners' desires to establish a bank. Much like their counterparts in Kingston, and elsewhere in the colony, the York constituents believed that a bank would improve the province's economy, assist farmers in expanding their crops, and, foremost, supply the people with a reliable circulating medium. Economic growth required capital, and a bank was an ideal avenue for creating capital. Despite the limited details in the assembly journals, what was revealed were the names of the two main petitioners, Alexander Wood, one of York's biggest merchants, and the Reverend John Strachan.¹⁷¹

John Strachan was no stranger to both Kingston and York. It seems that wherever there was a political, social or religious cause, Strachan was involved as the champion, or the nemesis of the cause. He was an outspoken activist defending the conservative ideologies of toryism within and without the political circles. From 1820 to 1841, Strachan sat as a life member on the Legislative Council of Upper Canada. His political power, his spiritual leadership and his involvement in the education of many of the province's brightest, and most influential politicians clearly left a strong

¹⁷¹ PLUC, "Journals of the Legislative Assembly of Upper Canada ... 1812 to 1818," 378.

impression on his contemporaries. In fact, he was deemed to be the head of the Family Compact, that elite group of politicians and businessmen from York who seemed to be in control of government and commerce in the province until the dissolution of the Upper Canadian government following the Union Act of 1840.

Beyond politics, Strachan was a strong proponent of religion and education. His advocacy for education in Upper Canada began when he was brought in from Scotland to tutor the Cartwright family of Kingston in 1799. He quickly discovered that the school system in Kingston was not satisfactory, and set out to open a school in 1800. He began tutoring and mentoring many of Kingston's prominent merchants and their families, including Thomas Markland, John Macaulay and the town's clergyman John Stuart.¹⁷² Further along in his career, Strachan left his permanent mark on the educational system in Canada helping to found several schools and universities, including McGill University in 1813 and King's College in 1827.¹⁷³ Strachan's influence also ran deep into the religious doctrine of the Church of England.

Strachan's move into the clergy occurred during his time spent in Kingston. With the help of Richard Cartwright and John Stuart, Strachan was ordained as a priest by Bishop Mountain of the Church of England in 1804. Strachan had ambitions of climbing the ranks and in 1811 he sought to succeed his mentor and colleague John Stuart as head of the Church in Kingston. That honour, however, was reserved for Stuart's son, George O'Kill Stuart, who was rector at York. Through the shuffle, Strachan was offered the rectorship in York. He was also named chaplain of the Legislative Council. Thus at the outbreak of war in 1812, Strachan found himself in York where he would remain until his death in 1867. During that time, Strachan successfully lobbied to keep the capital of the province in York in 1816, he was made a permanent member of the Legislative Council, and he

¹⁷² F.B. Smith, "Early Schools in Kingston" in Historic Kingston, 5 (February 1956) p.25-29.

¹⁷³ G.M. Craig, "John Strachan" in Dictionary of Canadian Biography, Volume 9 (1861-1870).

became Bishop of the Anglican Church from 1839 to 1867.¹⁷⁴ Strachan had become an influential character in the province. In the realm of banking, Strachan's name would figure prominently in the legislation that would grant a charter to the Bank of Upper Canada. To add clout to the bank's reputation, Strachan sat on the bank's first board of directors.

With the support of Strachan, Wood and several other influential men of York, one would imagine that the bill would have easily passed. However, the creation of the petition was premature. In 1817, Strachan was not yet involved in politics, and York was not ready for a bank. For a number of reasons, which Peter Baskerville enumerates in his book, the bill died before its first reading: Kingston was a prime location at the junction of the St. Lawrence River and Lake Ontario, it had a higher population, and it was the commercial centre of the province. Thus it made more sense to open a bank there. Finally, there was simply not enough capital in the province to support two banks.¹⁷⁵ Government and business support was firmly behind the Kingston Bank bill.

Socio-economic Conditions at York and the Question of the Province's Capital

When examining the socio-economic situation in York at the time, it is not difficult to see why the Legislative Assembly rejected the petition. In 1817, York's population of 868 inhabitants was less than half of that of Kingston (2,250 inhabitants).¹⁷⁶ Historians, like T.W. Acheson, Edith Firth and Douglas McCalla, had maintained that York's economic development in the early nineteenth century lagged those of Niagara and especially Kingston. York and the Home District were largely uninhabited until the 1820s. Only with the rise in immigration beginning in the late 1820s, and its explosion in the 1830s, did economic activity in the region grow as a result of the clearing of

¹⁷⁴ Craig, "John Strachan."; Edith Firth, The Town of York, 1815-1834: A Further Collection of Documents of Early Toronto (Toronto: Champlain Society, 1966), xix.

¹⁷⁵ Baskerville, The Bank, xxvii-xxviii.

¹⁷⁶ Demographics for the period vary greatly. The figures provided here were taken from Leo A. Johnson, "Land Policy, Population Growth and Social Structure in the Home District, 1793-1851" in Historical Essays on Upper Canada (Toronto: McClelland and Stewart Limited, 1975), 32-58.

massive tracts of land, and the consequent increase in farming. As underlined previously, the Home District enjoyed a developed hinterland extending north along the Humber River, which was an asset to York's commercial development. Rising immigration and farming, of course, led to the creation of other industries to further strengthen York's position in the forwarding business.

When searching for a location to establish the province's capital, York was not originally considered. Given its importance as the commercial centre of the province, and containing the largest population in Upper Canada, merchants and other constituents of Kingston were convinced that the capital of the province should be located there. It was believed that the first lieutenant governor of the province, John Graves Simcoe, was going to select Kingston as the province's capital. In fact, the first meeting of the Executive Council was held in Kingston on July 1, 1792. Yet, Kingston's close proximity to the United States, and the fear that it would be an easy target for an American attack deterred Simcoe from wanting to establish the capital there. He had envisioned establishing the capital in London. However, the town was not ready for such a move. York was selected in 1793 as a temporary location for the seat of government until provisions could be made to move to London. The transplanting of government from Niagara to York did not occur until 1796. Government officials were reluctant to move from Niagara, and it took almost two years for all of them to finally settle in York.

Simcoe's decision to set up government in York was met with much opposition from colonial authorities, and other influential men of the province. Lord Dorchester argued that York was "too far out of the way," and that it was not an ideal site for the province's defence. In hindsight of York's fate during the War of 1812, it would appear that Dorchester was right. While Simcoe favoured York and London, Dorchester favoured Kingston. Much protest against establishing the capital at York came from Cartwright and Stuart of Kingston. The establishment of

the capital at York was not a popular move with Niagara and Kingston merchants. Niagara knew that the capital would move, however, it hoped that it would go to Kingston because both towns conducted a lot of trade.

Simcoe insisted that York was only a temporary capital. When he left Upper Canada in 1796, it was under his successor, Peter Russell, that York became the permanent capital of the province. York's capture during the War of 1812 renewed the debate over its selection as the capital. But in the years from Russell to Brock, York was finally accepted as the permanent capital.¹⁷⁷ Even though Kingston overshadowed York in the early days as the commercial centre of the province, eventually the tide would turn. Thanks to key decisions that were made to install the capital at York, prospects for the town greatly changed. It was only a matter of time before the attitude of government to establish a bank there would change.

Government Interest in Banking and the Push for a Provincial Bank

Although official records of the government's position on the establishment of a provincial bank remain undiscovered,¹⁷⁸ a letter from Maitland to Henry Goulburn, under-secretary of the Colonial Office, gives evidence of the government's interest in forming a provincial bank in 1819. Maitland wrote:

As the two years have passed cannot give effect to this decision but is authorized by it to give assent to a similar bill which may be passed next session. The country overrun with American paper and from the connection of the persons who were about to open a bank in Kingston there was reason to suppose that the evil would be increased; a provincial bank would crush it.¹⁷⁹

¹⁷⁷ Edith Firth, *The Town of York, 1793-1815: A Collection of Documents of Early Toronto* (Toronto: Champlain Society, 1962): xxxiii-xxxix.

¹⁷⁸ The journals of both the Legislative Assembly and Legislative Council of Upper Canada end on November 27, 1818, and open only on June 7, 1819, the same day that the Provincial Bank bill was first presented to the Assembly.

¹⁷⁹ Government of the Province of Canada. *Sessional Papers of the Dominion of Canada*, Volume 7 (May 7, 1819): 185.

At the opening of the 1819 session, ideas of a provincial bank were circulating in the legislature. In fact, the new bank bill to establish the Bank of Upper Canada was dubbed the “Provincial Bank bill.”¹⁸⁰ The fact that some of the petitioners had ties to other financial institutions could not have been good for the Kingston concern because contempt over the dubious operation of the private Bank of Upper Canada, as well as the infiltration of external competition into the province, were some of the factors that prompted government to consider a provincial bank. Given the government’s rising concern for the flurry of banking activity taking place in Kingston, it is highly probable that it sought to eliminate the threat that these institutions posed on the province not only by supporting the York constituents in their bid for a bank, but also by sabotaging the legislation supporting the establishment of a bank in Kingston.

While the Bank of Upper Canada bill (Kingston) was in the revision process, a new petition from the York constituents to establish the Upper Canada Banking Company was brought up and read before the Assembly on June 16, 1819. William Allan, a prominent merchant from York, and 22 others, whose names are unknown because the original petition was lost, signed the petition.¹⁸¹ Details of the petition were not reported in the assembly journals, however a copy of the bank bill reveals that the York petition more or less contained the same resolutions as the Kingston petition, but with the added provision that the government could become a shareholder in the bank. As Douglas McCalla and Max Magill point out, the government took interest in opening a bank in York to act as its fiscal agent. The government was broke, and on the verge of bankruptcy. Revenues from taxation and customs duties were severely depressed, and the government required an immediate source of funds.¹⁸² A bank was the perfect solution to the government’s financial

¹⁸⁰ PLUC, “Journals of the Legislative Assembly of Upper Canada ... 1818 to 1821,” 99.

¹⁸¹ Ibid, 119-120.

¹⁸² McCalla, *Planting*, 40; QUA, Max Magill papers, Notes and Long Sheets to 1837. Max Magill had conducted extensive research on the Bank of Upper Canada in the 1970s with the intention of publishing a book. His premature

woes. Government ownership of the bank would set the York bank bill apart from all the other bank bills voted in the Assembly for the next 50 years. It was also the clause that was going to give the York bank the notoriety of receiving special treatment from government and the ruling elite class that other banks did not. This will be examined in greater detail later.

The journals of the House of Assembly do not specify that a bill for the establishment of the Upper Canadian Banking Company in York had ever been drafted. Rather, with the idea of turning the Bank of Upper Canada into a “provincial bank,” it is conjectured that sometime during the revision of the bill in the lower house the names of the York petitioners were added to the bill. Of course this cannot be proven because the original bill was modified in the upper house, and the committee reports on the Provincial Bank bill are not known to exist.

It was the Legislative Council that changed the course of banking in Upper Canada. While the Bank of Upper Canada bill was in its third reading in the Legislative Council, on June 28, 1819, Mr. James Baby of Sandwich brought in a bill entitled “An Act to incorporate certain persons under the style and title of the President, Directors and Company of the Bank of Kingston.”¹⁸³ There were now two bank bills on the table, and assumingly both were for Kingston. This must have raised several alarms amongst all the parties involved. The motive for introducing a second bill was revealed in the minutes of the Legislative Council on July 9, 1819. At the third reading of the Bank of Upper Canada bill in the upper house, the order was given to amend the bill to expunge the names of the Kingston petitioners.¹⁸⁴ The amendment was made and the bill was passed. Historians, like Breckenridge and Baskerville, had stated that the Kingston petitioners’ names were replaced

death, however, saw his project unfinished. Peter Baskerville continued on with Magill’s research to finally publish his history of the Bank of Upper Canada in 1987.

¹⁸³ PLUC, “Journals of the Legislative Council of Upper Canada ... years 1792 to 1819,” 478.

¹⁸⁴ The names expunged from the bill were Allan McLean, Thomas Markland, Peter Smith, Benjamin Whitney, Lawrence Herchmer, Daniel Washburn, William Mitchell, John Kirby, C.A. Hagerman, John Macaulay, Allan McPherson, John W. Ferguson, George H. Markland, Hugh C. Thomson, John Ferguson, John McLean, Smith Bartlet, Henry Murney, John M. Balfour, Archibald Richmond, Neil McLeod. This represents a mix of both banking camps in Kingston.

with those of the York petitioners. However, since no bill was ever created for a York bank, and given the fact that the Bank of Upper Canada bill was modified to establish a provincial bank, it is more probable that both the names of the Kingston and York petitioners were on the same bill.

Both the Bank of Upper Canada and the Bank of Kingston bills were sent down to the Lower House with the recommendation that they be engrossed and passed. Allan McLean wrote to the Upper House stating that the House of Assembly supported the changes to the Bank of Upper Canada bill. On July 12, 1819, both acts, “An Act to Incorporate sundry persons under the style and title of the President, Directors and Company of the Bank of Upper Canada” (59 Geo. III, c.24 U.C.), and “An Act to Incorporate sundry persons under the style and title of the President, Directors and Company of the Bank of Kingston” (59 Geo. III, c.15 U.C.) were passed and were reserved for royal assent. The fact that the Bank of Upper Canada was to be established in York was stipulated in Article 21 of the charter, which read, “the said bank shall be established, ... and the business thereof at all times transacted, at such place at the Seat of Government of this province...” Keeping with the character of a provincial bank, this provision had apparently been made to allow for the bank to remain in close proximity to the government in the event of a move. In the end, the seat of government, and the Bank of Upper Canada never left York. And so it was apparently settled, the province would have two chartered banks.

It would appear that the Kingston constituents accepted the government’s decision without protest. A letter from the editor of the *Upper Canada Herald*, Hugh C. Thomson, appeared in the June 28 edition of the newspaper:

The bill incorporating a provincial bank passed the house of assembly on the 25th inst. One of the provisions of which was that said bank shall be established in York instead of Kingston. Carried by a majority of *one*. It is rather extraordinary that the same parliament which by a former act fixed the head of the institution at Kingston should now remove it to York – Some cogent reasons have no doubt actuated them, and if it tends to the prosperity of the establishment, we have no objection. The

inhabitants of Kingston have at least the merit of laying the foundation for the fabric, which is to be completed by our friends at York.¹⁸⁵

No further opinions were conveyed at the time. Afterwards, though, conspiracy theories ran around that the amendment to the Bank of Upper Canada bill was politically motivated, and that the Family Compact, or at least some of its members who had an interest in a bank at York influenced the government to modify the bill in their favour. Critics of the Bank of Upper Canada claimed that York had stolen Kingston's bank charter.¹⁸⁶ Yet Kingston had received a charter of its own. What fueled the accusations perhaps lied in the details of the charters.

Looking at some of the names cited in the Bank of Kingston act, the organizers of the bank consisted of [in order of appearance on the bill]: Allan McLean, Thomas Markland, Peter Smith, Lawrence Herchmer, William Mitchell, John Kirby, Roderick McKay, John Macaulay, Allan McPherson, Hugh C. Thomson, Jerry Whitehead, William Bradhay, James Nickalls, Neil McLeod, Solomon Johns, Patrick Smyth and Thomas Graham. This is the same group named in the Bank of Upper Canada bill of 1817. For unknown reasons, some of the names expunged from the 1819 Bank of Upper Canada bill, namely certain officers and directors of the private bank, did not figure on the Bank of Kingston bill. As Table 3 on the following pages shows, only five of the names mentioned in the Bank of Kingston bill were affiliated with the private Bank of Upper Canada: Solomon Johns, Neil McLeod, James Nickalls, Patrick Smyth and Hugh C. Thomson. Apart from Neil McLeod and Patrick Smyth, who were directors of the private bank, the other names were not involved in the private bank's operations. When comparing the Bank of Kingston act and the Commercial Bank act, we see that only Thomas Markland and Allan McLean are the only names that appear in both acts. It was a true sign that a new generation of bankers was appearing on the scene.

¹⁸⁵ Upper Canada Herald, June 28, 1819.

¹⁸⁶ See Max Magill, "The Failure," 169 and Anne Brough McAllister, "The Commercial Bank of Canada" (M.A. diss., Queen's University, Kingston, 1984): 17, 20.

Table 3 - Names Associated with Kingston Banking (1818-1837)

Surname	Name	private Bank of Upper Canada (1818-1822)	Bank of Kingston bill (1819)	Kingston Savings Bank (1822)	1 st Comm. Bank petition (1830)	2 nd Comm. Bank petition and act (1830-1831)	Commercial Bank of the MD (1832-1837)
McLean	Allan		yes (1)			yes (6)	
Markland	Thomas		yes (2)			yes (1)	
Smith	Peter		yes (3)				
Herchmer	Lawrence		yes (4)				
Mitchell	William		yes (5)				
Kirby	John		yes (6)	vice-pres.			
McKay	Roderick		yes (7)				
Macaulay	John		yes (8)	vice-pres.			
McPherson	Allan		yes (9)				
Thomson	Hugh C.	shareholder	yes (10)	director			
Whitehead	Jerry		yes (11)	director			
Bradhay	William		yes (12)				
Nickalls	James	art. of assoc. (6)	yes (13)				
McLeod	Neil	dir. / shareholder	yes (14)	director			
Johns	Solomon	shareholder	yes (15)				
Smyth	Patrick	dir. / shareholder	yes (16)	director			
Graham	Thomas		yes (17)				
Glover	John R.					yes (2)	
Smith	David J.			director		yes (3)	dir. (1832)
Molson	Thomas					yes (4)	
Watkins	John			director		yes (5)	dir. (1832-37)
Mackenzie	George				yes	yes (7)	dir. (1832-33)
Light	Alexander					yes (8)	
Marks	John				yes	yes (9)	dir. (1832, 1836)
Vanalstine	Duncan					yes (10)	
Truax	Abraham				yes	yes (11)	dir. (1832-37)
Corbett	G.F.				yes	yes	
Drummond	Robert					yes	dir. (1832-34)
Harper	F.A.				yes	yes	cashier (1832-37)
Kirkpatrick	Thomas				yes	yes	
Macdonell	Archibald			director		yes	
Macfarlane	James					yes	
Mowat	John				yes	yes	dir. (1832-37)
Parker	John G.				yes	yes	dir. (1832-34)
Yarker	G.W.				yes	yes	dir. (1832-37)
Armstrong	Christopher						dir. (1836-37)
Bruce	Joseph						dir. (1832-37)
Cartwright	John S.						pres. (1832-37)
Cassady	Henry						dir. (1833-34)
Grant	C.W.						dir. (1834-36)
Logie	William						dir. (1834-37)
Prentiss	Douglas						dir. (1832-34)
Sampson	James						dir. (1834-36)
Strange	John			director			dir. (1832-37)
Cumming	John	art. of assoc. (1) / shareholder					

Surname	Name	private Bank of Upper Canada (1818-1822)	Bank of Kingston petition and bill (1819)	Kingston Savings Bank (1822)	1 st Comm. Bank petition (1830)	2 nd Comm. Bank petition and act (1830-1831)	Commercial Bank (1832-1837)
Whitney	Benjamin	art. of assoc. (2) / dir. / shareholder		director			
Balfour	John M.	art. of assoc. (3) / shareholder					
Ferguson	John	art. of assoc. (4) / dir. / shareholder					
Richardson	Robert	art. of assoc. (5)		director			
Shaw	Samuel	art. of assoc. (7)		director			
Bartlet	Smith	dir. / shareholder					
Dalton	Thomas	dir. / shareholder		director			
Whitaker	Thomas	dir. / shareholder		director			
Richmond	Archibald	dir. / shareholder		director			
McLean	John	dir. / shareholder		director			
Hagerman	Christopher	dir. / shareholder		vice-pres.			
Murney	Henry	dir. / shareholder		director			
Ferguson	John W.	shareholder					
Washburn	Daniel	director					
Cartwright	Thomas R.			director			
Dalton	William			director			
MacDonald	Hugh C.			director			
MacGregor	Hugh C.			director			
Markland	George H.			director			
McLean	Neil			director			
Murphy	Thomas			director			
Pringle	Alexander			director			
Stanton	Robert			director			

Note: Numbers in () indicate rank of party on bank bill or article of association, except for the last column, which indicate when a party was a director or officer of the bank.

Note: Table 3 is sorted by rank of party named in the Bank of Kingston bill (1819), next by rank in the second Commercial Bank petition (1830) and the act (1831), third by the position held at the Commercial Bank, fourth by rank in the Articles of Association for the private Bank of Upper Canada (1818), and finally by parties involved in the Kingston Savings Bank (1822).

Note: The names and ranks of the parties in the Bank of Kingston bill (1819) are identical to those in the Bank of Upper Canada bill (1817) because the former bill was taken verbatim from the latter one.

Sources: n.a, A Statement of the Affairs of the Late Pretended Bank of Upper Canada at Kingston (York, 1827); PLUC, Statutes of Upper Canada, July 12, 1819; 1832; Kingston Chronicle, March 22, 1822, January 23, 1830, December 4, 1830. BMO Archives, Commercial Bank of The Midland District, minutes books (1831-1837).

When comparing the two charters, it becomes more evident that the government favoured the York bank. In fact, it might even be argued that the government doctored the Kingston Bank bill to ensure that it would never see the light of day. Overall, the two bills passed by the Provincial Legislature were virtually identical, with the Bank of Kingston bill likely being taken verbatim from

the Bank of Upper Canada bill. However, on top of changing the names of the petitioners, four significant contrasts in the York and Kingston charters provide sufficient reason to believe that the government not only favoured a bank at York, but also impeded any chances of establishing a bank in Kingston. Looking at the table in Appendix 1, the Bank of Upper Canada was the only institution in which the government was eligible to purchase up to 2,000 shares in the bank (Article 3). As Shortt writes, “the Government connection lent to the bank a position of dignity and credit difficult of attainment by an ordinary company.”¹⁸⁷ Second, while the smallest note that the Bank of Upper Canada could issue was 5 shillings (Article 14), the smallest note allowed for the Bank of Kingston was 10 shillings (Article 13). This may seem insignificant, but the difference meant that the lower denomination notes of the Bank of Upper Canada would circulate more abundantly, and would be more widely accepted. More notes in circulation meant increased profits for the bank. Third, regarding the opening of branches, the Bank of Upper Canada had a *carte blanche*, whereas the Bank of Kingston had to open a branch in York within two years in order to be eligible to open other branches. The fact of forcing the establishment of a branch in York would give the Bank of Upper Canada the ability to better control its dealings with the Kingston bank, and it could better monitor the bank’s activities. Finally, the differing expiration dates on the two bills gave the York bank more time to raise the minimum capital required to begin operation. As it will be seen, the minimum paid-up capital of £20,000 required to begin operations was already unrealistic given the strain on capital available in the province. Despite the fact the Bank of Upper Canada’s charter limited the bank’s freedom to conduct its business in any way it saw fit, the four elements underlined above gave the Bank of Upper Canada a significant advantage over the competition, or at least over the Bank of Kingston.

¹⁸⁷ Adam Shortt’s, 281.

Delays in the promulgation of the Bank of Upper Canada Act sparked further activity in the Legislative Council to establish a bank at York. Having learned their lesson from the first bank bill passed in 1817, the government had another bill already drafted in case the original Bank of Upper Canada act, passed in 1819, expired before receiving royal assent. A report from the Attorney General dated April 9, 1821 (almost two years after the Bank of Upper Canada Act was passed) stated a bill was prepared to incorporate a bank. By the third reading, the Upper Canada Bank bill was given the formal name “An Act to establish a Provincial Bank under the style and title of the President, Directors and Company of the Bank of Upper Canada.”¹⁸⁸ A provision of the bill was for a branch of the bank to be established in Kingston once a minimum of 1,400 shares had been subscribed in the town. This was an ambitious number considering that the capital available in the town was already thinly spread between the private Bank of Upper Canada, the external banks operating agencies in the town and the future Bank of Kingston. Whether or not this was intentional to prevent the establishment of a branch in Kingston is pure speculation.

A second act was not needed because the 1819 act received royal assent on April 21, 1821. For the York constituents, proclamation on the Bank of Upper Canada act brought much relief because “it gave them what they wanted: a bank at York, government participation, no requirement for a Kingston branch and no need for concern about any “Provincial” interest.”¹⁸⁹ Attitude towards a “provincial” bank had evidently changed. The Bank of Upper Canada was clearly a York-based institution that catered to the interests of local government and merchants. Having received proclamation, the Bank of Upper Canada could now begin the process of opening for business.

As soon as word arrived from London, subscription books for shares in the Bank of Upper Canada opened all over the province. Articles 2, 3 and 7 of the charter stated that 16,000 shares at a

¹⁸⁸ PLUC, “Journals of the Legislative Assembly of Upper Canada ... 1818 to 1821,” 478-479.

¹⁸⁹ Baskerville, The Bank, xxxiii.

sum of £12/10sh (\$50) were to be issued, and that an individual could hold no more than 80 shares until the IPO was completed. A minimum of £50,000 in shares had to be subscribed to elect a board of directors, and £20,000 actually paid in to begin operations. Considering that the government could hold up to 25 per cent of the bank's £200,000 capital, it seemed to be an attainable goal. Besides, if the popularity of bank IPOs in the United States was any type of measure, then the organizers were confident that the bank would have no problem selling its shares. Evidence, however, leans to the contrary. It took over a year, and an amendment to the act, to raise sufficient funds to open the bank. This shortcoming could easily be explained by the shortage of financial capital in the province to support the banks already in operation there. As it was seen earlier, Upper Canada's economy was severely depressed in the early 1820s through the effects of inflation in the aftermath of the War of 1812. Although many of the merchants who became shareholders in the bank were wealthy, the shortage of currency made it almost impossible to liquidate assets.

Authorities had to act quickly before the charter was forfeited for non-use on January 1, 1822. Five days prior, the York Bank Amendment bill was introduced initially to extend the expiration date until June 1, 1822 in consequence of the delays encountered in the proclamation of the bill, and secondly to reduce the amount of paid-in capital required to commence operations from £20,000 to £10,000, reflecting the dearth of specie available in the province. Since the government exercised its right to purchase the maximum number of shares allowable, the bank was now certain to raise the required capital. Having the government as the principal shareholder had its privileges. The amended act received royal assent on January 17, 1822, and one week later a board of directors was elected.

The Fate of the Bank of Kingston

Kingston constituents did not wait for proclamation of the Bank of Kingston bill to begin planning for their new bank. Notice was given in the July 23, 1819 issue of the *Kingston Chronicle* of a meeting to be held on the following Saturday “for the purpose of adopting measures to carry into effect the charter granted by the Provincial Legislature for the establishment of a bank in the town.” Subsequent to the meeting, the first notice that subscription books for the Bank of Kingston were opened in various towns throughout the province was published in the newspaper of August 6, 1819. A letter appearing in the newspaper three weeks later indicated that the subscription for shares was very well received, that there was an ambition to open discount offices in other towns of the province, and that the goal of the bank was to inject into the province a circulating medium that would promote trade.¹⁹⁰ Despite the positive outlook, news and notices on the Bank of Kingston stopped being published in the local newspapers after about a year. The reality was that the institution encountered the same financial constraints that the York bank was facing. It had failed to raise the minimum capital required to commence operations. Exact details of the bank’s inability to open for business are unknown, but perhaps the success of the private Bank of Upper Canada, and the presence of other financial institutions in the town convinced the local inhabitants that another bank was not needed. Confirmation that the Bank of Kingston folded came when its charter was voided for non-use on January 1, 1821, and the bill was never proclaimed.

Less than a year had passed when, on December 21, 1821, a new Kingston Bank bill was introduced by Christopher Hagerman of Kingston, based on a petition from the inhabitants of the town (again with Thomas Markland as the lead) praying for the incorporation of a bank. As in the case of the other bank petitions, details of this petition were lost, and its exact purpose can only be

¹⁹⁰ Kingston Chronicle, July 23, 1819, August 6, 1819, August 27, 1819.

speculated. Was it intended to resume where the Bank of Kingston had left off? Was it a petition to set up the Kingston Savings Bank, another financial institution that opened shortly thereafter? Was it a petition to respond to the rise in external competition? Lack of evidence does not allow for a concrete answer, but it is plausible that another bill was introduced in the interest of establishing a bank that would operate in the interest of preserving capital for, and promoting economic prosperity in the town. The bill went through several readings, and was sent up to the Legislative Council where it must have died on the table because after January 11, 1822, no further reference to the Kingston Bank bill was made in the council journals.¹⁹¹ Likely the events surrounding the private Bank of Upper Canada drew the government's attention away from the issue.

Activities of the Bank of Upper Canada (York)

By the summer of 1822, the matter of a "provincial bank" was pretty much settled. Kingston, who had been seeking the incorporation of a bank since 1810, had still been denied, and the Bank of Upper Canada, with its board of directors named, and its minimum capital paid in, opened for business on July 2, 1822. Within ten years the bank had increased its paid-up capital to £100,000, with a note issue worth £187,538 and revenues from discounts amounting to £260,577. The large note circulation is plain evidence that the province was starved of cash.¹⁹² Reflecting the bank's profitability, between 1822 and 1831, the Bank of Upper Canada returned £51,000 to its shareholders in annual dividends, and two bonus payments of six per cent each.¹⁹³ Obviously the bank and its supporters rode the wave of prosperity that hit the province in the late 1820s. Although it had resisted for many years to engage in branch banking, by 1834, the Bank of Upper Canada had branches operating Niagara, Hamilton, Cobourg, Kingston and Brockville. Business was very

¹⁹¹ PLUC, "Journals of the Legislative Council of Upper Canada for the years 1821 to 1824," in Twelfth report of the Bureau of Archives for the province of Ontario ... 1915 (Toronto: L.K. Cameron, 1916): 57.

¹⁹² See Appendix 5 for examples of Bank of Upper Canada notes.

¹⁹³ Baskerville, The Bank, xlvi, 356.

profitable. The Bank of Upper Canada was the largest and most important financial institution in Upper Canada (Canada West after 1840) until its failure in 1866.

Given its ties to the government, many have contended that the Bank of Upper Canada used its political connections to stifle competition, and benefit from special privileges. They believed that the Bank of Upper Canada's success rested on its rapport with government and the social elite of the province. It has been clearly demonstrated that the Bank of Upper Canada's charter, as voted by members of the Legislative Council, gave the institution a distinct advantage over the Kingston bank, and that with the help of government, it was able to meet the minimum requirements to open for business. But was this enough of an advantage to warrant the criticisms made against the institution?

Adam Shortt was the first to acknowledge the Bank of Upper Canada's supremacy on banking in the province thanks to the favoritism of the Family Compact, discrimination against political opponents, the ongoing support of government, and the elimination of competition in 1824. But as Shortt argues, the bank had its share of problems, especially when it came to raising the capital required to expand its services to keep up with the rapid expansion of the province's economy. Even the provincial government, the bank's main financial backer, had difficulty meeting the calls upon it for its share of the stock. This was hardly the behavior of the stereotypical monopolistic institution that abused its power. On the contrary, as Merrill Denison writes, "there is no evidence that its directors and officers of the bank ever strayed from the letter of the law in the daily conduct of their banking."¹⁹⁴ It was the bank's reluctance to open branches, delays in

¹⁹⁴ Merrill Denison, Canada's First Bank: A History of the Bank of Montreal, Volume 1 (Toronto: McClelland & Stewart Limited, 1966): 302.

discounting notes, choice of clientele, and its inability to supply sufficient currency to the province that renewed the debate for more banks in Upper Canada.¹⁹⁵

Peter Baskerville, an expert on the Bank of Upper Canada, tends to agree with Shortt. He argues that just because the first directorship of the bank largely consisted of members of the Legislative Council, as well as several other government appointments, the Bank of Upper Canada did not enjoy any extraordinary privileges. He bases his argument on the fact that while the bank held some of the government's accounts, it did not hold the main one, that of the Receiver General, which collected revenue from taxes and customs duties, the government's two main sources of income. Furthermore, the Bank of Upper Canada was subject to government scrutiny, especially after the failure of the private Bank of Upper Canada in 1822, to ensure that accounting practices were sound, and that conditions of the bank charter were adhered to.¹⁹⁶ Baskerville may argue that criticisms toward the Bank of Upper Canada's lofty position were exaggerated. Nevertheless, the bank did most certainly have an advantage over the competition, and consequently that advantage had a negative impact on Kingston's economic prosperity.

Carol Lawrie Vaughan, in her article "The Bank of Upper Canada in Politics, 1817-1840," examines the claim that the Bank of Upper Canada used its privileged ties to the Family Compact to influence policy on banking in the province, to smother the competition, and to enjoy a monopoly that largely favoured the wealthy stockholders, and not the people who required access to banking facilities. She argues, though, that the criticisms were unfounded, and backed by scanty real evidence. Most accusations made against the bank were "the result of exaggerated 'gossip' and 'prevailing opinion' with a more limited basis in fact." She supports this argument by demonstrating

¹⁹⁵ Adam Shortt's, 278.

¹⁹⁶ Baskerville, The Bank, xxxvii-lxxiii.

that other financial institutions were given the same treatment.¹⁹⁷ However, actual events would tend to refute Vaughan's claim. Citing the discrepancies in the York and Kingston bank charters examined above, one cannot assume that both institutions received the same treatment. In her conclusion, Vaughan states that the Bank of Upper Canada was not corrupt, but some of its practices were questionable, especially its choice of clientele and its ambivalence toward branch banking. The question remains, though, how much influence did the Family Compact have on banking legislation? Adam Shortt believes that the political and economic power wielded by the Family Compact certainly favoured the Bank of Upper Canada, however the Family Compact did not do this with the intention of obstructing the system. Rather, it felt that it was acting in good faith to improve the general well-being of the province. "The Family Compact, with all its faults, cannot be said to have been consciously dishonest in its frank monopoly of power and profit."¹⁹⁸ Let us examine more closely the Family Compact's role in banking in the province.

In the past 200 years, definitions and opinions of the Family Compact have differed. Contemporaries, like Lord Durham and William Lyon Mackenzie, condemned the Family Compact, while others like Sir Francis Bond Head, held a more "apologetic" view of the clan. Two main topics have dominated the historiography on the Family Compact: First, who was the Family Compact? Second, was the Family Compact an oligarchy or an aristocracy?¹⁹⁹ For the purpose of this paper, only the salient points on the first topic as they pertain to banking will be examined here. Without engaging in an historical debate on the subject, the Family Compact can be broadly defined as a group of wealthy, conservative elite of Upper Canada developed after the War of 1812, and that

¹⁹⁷ Carol Lawrie Vaughan, "The Bank of Upper Canada in Politics 1817-1840" in *Ontario History* 60, 4 (December 1968): 190.

¹⁹⁸ Adam Shortt's, 282.

¹⁹⁹ David W. L. Earl published a collection of articles and essays that address the debate on the political structure of the Family Compact. The conclusion drawn was that the Family Compact was largely a blend based on the group's political power and social background.

lasted until the union of the Canadas in 1841. The Family Compact controlled government through the Executive and Legislative Councils, as well as through the advisors to the Lieutenant Governor, leaving little power to the democratically elected Legislative Assembly (the Lower House). The group was centered in York with a few members from other towns who went on to settle in York after being appointed to government. Historical debate tends to show that political, religious and family ties linked members of the compact, with business acumen being a lesser criteria. With its deeply conservative roots, members of the Family Compact were descendants of Loyalists with strong ties to the Anglican Church. They possessed a considerable amount of wealth. With a broad definition in place, let us examine the Family Compact's membership.

The Family Compact was an exclusive group whose membership was quite limited. William Lyon Mackenzie, the outspoken Reformer and opponent to the Family Compact, published in his Sketches of Upper Canada and the United States (1833), the names of 30 members belonging to the Family Compact. Along with these names, Mackenzie underlined the close family ties among its members. In his article, "What was the Family Compact?," R.E. Saunders provides a more refined list that identifies the following men as the main members of the Family Compact: Reverend John Strachan, D'Arcy Boulton, Henry Boulton (son of D'Arcy), William Dummer Powell (speaker of Legislative Council), John Beverley Robinson, George H. Markland (son of Thomas Markland), Christopher Hagerman (MP for Kingston), and William Allan (President of the Bank of Upper Canada). Other sources have cited several other members, including James Baby, but Saunders claims that he was insignificant. Throughout the 20-year period of the Compact's existence, these men entered and departed the circle at different times.²⁰⁰

²⁰⁰ William Lyon Mackenzie, "Sketches of Upper Canada and the United States," in The Family Compact: Aristocracy or Oligarchy? ed. David W.L. Earl (Toronto: Copp Clark Publishing Company, 1967): 12-14; Robert E. Saunders, "What was the Family Compact?" in Historical Essays on Upper Canada ed. J.K. Johnson (Toronto: McClelland and Stewart Limited, 1975): 123-125.

When legislation to establish a provincial bank in Upper Canada was being developed, the Family Compact was still fairly impotent. Men of strong influence, such as Strachan, the Robinsons, the Boultons, William Allan and George Crookshank had not yet reached political office. Only James Baby, who changed the fate of banking in Upper Canada by authoring a bill to establish the Bank of Kingston, and John McGill were members of the Legislative Council when the act to incorporate the Bank of Upper Canada was passed in 1819. Jonas Jones²⁰¹ and Peter Robinson, the two men responsible for presenting the petitions to establish a bank at York, were the only members of the Legislative Assembly in office at the time. No member of government, who later became affiliated with the Bank of Upper Canada, was in office when the Bank was incorporated.

Early on, intentions to establish a provincial bank to facilitate trade, to provide an efficient circulating medium and rid the province of “evil” American paper, superseded any local ambitions of creating a bank to build local wealth. It was not necessarily the matter of one interest group rivalling another for banking supremacy, at least not yet. When the first provincial bank bill was passed in 1817, the Provincial Legislature was convinced that Kingston was the appropriate location to establish a bank. When the decision was made to move the location of the province’s bank to the seat of government, which seemed to make perfect sense, it was a move that was done seemingly without any political agenda. The Legislative Council had drafted a bill to establish the Bank of Kingston, however the insurmountable obstacles and disadvantages that the Kingston petitioners faced to open the bank, such as the large sum of paid-in capital required to open, the smallest denomination note allowable for issue being 10 shillings, a shorter expiry date, and no government support, would have one believe that it was a conspiracy to seemingly appease the inhabitants of

²⁰¹ Jonas Jones was the only Member of Parliament who, later on, had no affiliation whatsoever with the Bank of Upper Canada. This further compounds the theory that the establishment of a bank went beyond any personal agendas.

Kingston, but more importantly to benefit the Bank of Upper Canada and its principal benefactors, the Family Compact.

Only once the Bank of Upper Canada was established was the evidence supporting the Family Compact's stranglehold on government and banking in the province more convincing. Table 4, on the following page, reveals that 20 of the 30 members on Mackenzie's list, and all of the names on Saunders's list held a seat in government of which 14 were affiliated to the Bank of Upper Canada, either as an officer/director, or as a shareholder in the bank between 1821 and 1837. Nine were permanent members of the Legislative Council, the remainder held office in the Legislative Assembly or in a political appointment.

There was also a strong contingency of politicians who had ties to the Bank of Upper Canada, but who were not members of the Family Compact: 12 members of which seven sat on the Legislative Council. Table 5, on pages 117 and 118, demonstrates about half the members of the Legislative Council between 1821 and 1837 had an interest in the Bank of Upper Canada. Given these impressive numbers, it is easy to see how many would have perceived the Bank of Upper Canada as enjoying certain privileges when it came to banking legislation. Directors of the bank undoubtedly exercised certain influence on the Provincial Legislature to smother the competition, at least until the 1830s. And even when proposals for new banks were raised in 1831, the Bank of Upper Canada had attempted to influence government with various tactics to dissuade it. This will be further examined in the next chapter when we discuss the creation of the Commercial Bank of the Midland District. When it came to dealing with the competition in the province, undoubtedly the Bank of Upper Canada played a major role in influencing government policy.

**Table 4 - Members of the Family Compact* and
Their Affiliation to Banking in Upper Canada (1818-1837)**

Surname	Name	Location	Occupation / Office held in Provincial Legislature (year)	Affiliation to Bank of Upper Canada (York)	Affiliation to Other Banks
Allan	William	York	banker, merchant, LC (1825-1841)	president (1822-1824, 1826-1834); shareholder	none
Baby	James	Sandwich	fur trader, LC (1792-1833 died in office)	dir. selected by gov't (1822-1832); shareholder	none
Boulton	D'Arcy, sr.	York	lawyer, LA for Stormont & Russell (1806-1807); Attorney General (1814-1818)	dir. (1823); shareholder	none
Boulton	Henry	York	lawyer, Solicitor General (1818), Attorney General (1829); LA for Niagara (1830-1834)	dir. selected by gov't (1822-1828); Bank solicitor.	shareholder (27) of pretended BUC
Boulton	D'Arcy, jr.	York	lawyer, Auditor General (n/d)	dir. selected by gov't (1824-1833)	none
Crookshank	George	York	banker, LC (1821-1841)	dir. (1822-1824, 1826); president (1825); shareholder	none
Hagerman	Christopher	Kingston	lawyer, LA for Kingston (1821-1829, 1831-1840)	none	dir. / shareholder (20) of pretended BUC
Jarvis	Samuel Peter	York	lawyer, Deputy Secretary of the Province	dir. (1825-1844, 1846-1847); shareholder	none
Jarvis	William B.	York	LA for York (1831-1834)	none	none
Jones	Jonas	Grenville	LA for Grenville (1817-1828; 1836-1838); L/C (1839-1841)	none	none
Jones	Charles	Brockville	LA for Leeds (1821-1828); L/C (1829-1840)	none	none
Markland	George H.	Kingston	LC (1820-1838 resigned)	dir. selected by gov't (1833)	none
McGill	John	York	financier, LC (1797-1834 died in office)	dir. (1822-1823, 1825); shareholder	none
Powell	William Dummer	York	LC (1816-1834 died in office)	none	none
Ridout	Thomas	York	LC (1825-1829 died in office)	dir. (1822-1823)	none
Robinson	John Beverley	York	lawyer, Attorney General (1812-1814); LA for York (1820-1829); LC (1830-1841)	dir. (1824-1826)	none
Robinson	Peter	York	merchant, LA for E. York/Simcoe (1817-1824); LC (1827-1838 died in office)	dir. selected by gov't (1825, 1827, 1828); shareholder	none
Robinson	William B.	York	LA for Simcoe (1831-1840)	dir. selected by gov't (1823)	none
Sherwood	Levius P.	York	LA for Leeds (1812-1816; 1821-1824)	none	none
Strachan	John	York	minister, bishop, LC (1820-1841)	dir. (1822); shareholder	none

* Based on William Lyon Mackenzie, *Sketches of Upper Canada and the United States* (London, 1833); Robert Saunders, "What was the Family Compact?" in *Historical Essays on Upper Canada* ed. J.K. Johnson (Toronto: McClelland and Stewart Limited, 1975).

Note: LC = Legislative Council, LA = Legislative Assembly.

Sources: Frederick H. Armstrong, *Handbook of Upper Canadian Chronology* (Toronto: Dundurn Press, 1985); Baskerville, *The Bank*, Appendix 1B.

**Table 5 - Members of the Legislative Council and
Their Affiliation to Banking in Upper Canada (1818-1837)**

Surname	Name	Location	Years in Office	Affiliation to Bank of Upper Canada (York)	Affiliation to Other Banks
Adamson	Peter	Esquesing	1831-1841	None	None
Allan	William	York	1825-1841	President (1822-1824, 1826-1834); shareholder	None
Baby	James	Sandwich	1792-1833 (died in office)	Director selected by gov't (1822-1832); shareholder	None
Baldwin	Augustus Warren	York	1831-1841	Director selected by gov't (1832, 1834-1837); shareholder	None
Boswell	Walter	Cobourg	1831-1841	None	None
Burnham	Zacheus	Cobourg	1831-1841	None	None
Cameron	Duncan	York	1820-1838	Director (1822)	None
Campbell	William	York	1826-1834 (died in office)	None	None
Clark	Thomas	Chippawa	1815-1835 (died in office)	None	None
Claus	William	Niagara	1812-1826 (died in office)	None	None
Crooks	James	Hamilton	1831-1841	Director (1822); shareholder	None
Crookshank	George	York	1821-1841	Director (1822-1824, 1826); President (1825); shareholder	None
Dickson	William	Niagara	1815-1841	None	None
Dunn	John Henry	York	1822-1841	Director (1822-1823, 1826-1836); shareholder	None
Elmsley	John	York	1831-1841	Director (1828-1830, 1832, 1834); shareholder	None
Fraser	Thomas	Ernestown	1815-1819	None	None
Gordon	James	Amherstburg	1829-1841	None	None
Grant	Alexander, jr.	Brockville	1831-1841	None	None
Hamilton	John	Queenston	1831-1841	None	None
Jones	Charles	Brockville	1829-1840	None	None
Kerby	James	Kingston	1831-1841	None	None
Kirby	John	Kingston	1831-1841	shareholder	Kingston Assoc. (1813); Kingston bank petitioner 1817 and 1819
Lloyd	Arthur	March	1831-1841	None	None
Macaulay	John	Kingston	1836-1841	Agent of Kingston branch; shareholder	Kingston Assoc. (1813); Kingston bank petitioner 1817 and 1819
Macdonell	Alexander	Kingston	1831-1835 (died in office)	Director (1835)	Kingston Assoc. (1813)
Markland	George H.	Kingston	1820-1838 (resigned)	Director selected by gov't (1833)	None
McGill	John	York	1797-1834 (died in office)	Director (1822-1823, 1825); shareholder	None
McIntosh	Angus	Sandwich	1820-1833 (died in office)	None	None
Nelles	Abraham	Grimsby	1832-1841	None	None
Powell	William Dummer	York	1816-1834 (died in office)	None	None

Surname	Name	Location	Years in Office	Affiliation to Bank of Upper Canada (York)	Affiliation to Other Banks
Ridout	Thomas	York	1825-1829 (died in office)	Director (1822-1823)	None
Robinson	John Beverley	York	1830-1841	Director (1824-1826)	None
Robinson	Peter	York	1827-1838 (died in office)	Director selected by gov't (1825, 1827, 1828); shareholder	None
Scott	Thomas	York	1806-1824	None	None
Stewart	Thomas A.	Peterborough	1833-1841	None	None
Strachan	John	York	1820-1841	Director (1822); shareholder	None
Talbot	Thomas	Point Talbot	1809-1841	None	None
Wells	Joseph	York	1820-1841	Director (1822-1824, 1825-1826, 1828-1839); shareholder.	None

Sources: Frederick H. Armstrong, Handbook of Upper Canadian Chronology (Toronto: Dundurn Press, 1985); Baskerville, The Bank, Appendix 1B.

The Bank of Upper Canada's affiliation to the government was not always perceived as a perfect marriage. While the bank looked to the government for business and to build profit, sometimes the government suppressed the bank's potential to grow by refusing to increase its capital, among other things. Recognizing the danger that the political affiliation posed on the growth of the bank, in 1835 and 1836, the bank's directors sought to sever the bank's relationship with the government. A petition was submitted to the Legislative Assembly proposing the public sale of the provincial shares.²⁰²

4.2 External Competition in Banking

The fact that Kingston never received a charter to incorporate a bank until the 1830s would have one assume that the town was starved of banking facilities. The truth could not be more to the contrary. Between 1818 and 1824, there were at least five financial institutions operating in Kingston: the Bank of Montreal, the Bank of Canada (Montreal), the private Bank of Upper Canada, the Bank of Upper Canada and the Kingston Savings Bank. Such a large presence of

²⁰² Adam Shortt's, 305.

banking institutions in one town is testament to the fact that business in Kingston was booming, and that potential for capital expansion was great. This section examines the nature of the banking competition in Kingston, and explains the reasons for its abrupt decline in 1824.

The Bank of Montreal

The Bank of Montreal is Canada's first and oldest running bank.²⁰³ Inspired by the charter of the Bank of the United States, in 1817 nine merchants from Montreal signed articles of association to found the Montreal Bank.²⁰⁴ The organizers of the bank were realistic and practical in their objectives, for the bank's capital was limited to £250,000. Shares in the bank were immediately bought up, with many subscribers residing in New York and Boston, and the initial capital required to open for business was raised. As Merrill Denison exclaims in his book on the history of the Bank of Montreal, the bank opened without any great fanfare. A simple notice, dated October 23, 1817, was posted in the newspaper stating the bank's hours of operation and days of discount.²⁰⁵ Its presence, though, was immediately felt as the bank brought order to the market for foreign exchange that had never existed before, and began curing the cash flow problem by issuing notes.

The Bank of Montreal was the first banking institution to operate in Upper Canada when a resolution was passed on June 16, 1818 to open agencies in Kingston and York.²⁰⁶ The Bank of Montreal went to Upper Canada "with a view of putting our bills into general circulation," and to get a piece of British military expenditures.²⁰⁷ Through its commercial links with the town, the bank

²⁰³ In 1792, a bank named the Canada Banking Company was organized in Montreal, but it never actually opened for business.

²⁰⁴ The Bank of Montreal became officially known as such when it received its charter in 1822. Today, the Bank of Montreal is one of Canada's "big-six" banks, with a market capitalization of over \$30 billion.

²⁰⁵ Denison, *Canada's*, 2-3.

²⁰⁶ The Bank of Montreal was a proponent of branch banking and ambitious to expand its sphere of influence. Agencies of the bank were opened in Kingston, York and Amherstburg before incorporation. By the 1850s, the bank had undergone rapid expansion, establishing a presence in all parts of the country, and even in the United States, where branches in New York and Chicago were opened in 1859.

²⁰⁷ Denison, *Canada's*, 132.

realized that Kingston was a thriving economy with tremendous resources, but limited access to capital. In the minds of its directors, it was the Bank of Montreal that was going to supply that capital in exchange for a majority share of the profits. To the merchants of Kingston, the threat of external competition was real, and a solution was needed to prevent the drain of revenue and profits from the area. It was well known at the time that banks did not necessarily operate with local interests and needs in mind. With or without a charter, one of the motives for establishing the private Bank of Upper Canada in 1819 was to compete with the Bank of Montreal, and to preserve the wealth generated from commerce in the town. A search through the Bank of Montreal's financial records did not provide insight into the success of the agencies in Upper Canada, but it can be assumed that they were profitable because only legal action in 1824 forced their closure.

Ironically, the Bank of Montreal's agent at Kingston was none other than Thomas Markland, the champion of Kingston banking. Through his import/export business, Markland came to intimately know the Montreal merchants who set up the Bank of Montreal, and had gained their trust to manage their agency in Kingston. Notice of the Bank of Montreal's days of discount at the Kingston agency first appeared in the *Kingston Chronicle* on November 30, 1818. During its entire existence, Thomas Markland was the agent at Kingston. Most likely the wedge driven between the parties involved in Kingston banking, after the failed attempt to incorporate the Bank of Upper Canada, and the subsequent establishment of the private Bank of Upper Canada, steered Markland in the direction of the Bank of Montreal. However, his staunch support for the establishment of a bank in Kingston never waned. He was actively involved in every petition to incorporate a bank in Kingston that was sent to the Provincial Legislature until the early 1830s.

The rivalry between the banks was intense, and even acrimonious. The following notice was uncovered in the *Kingston Chronicle*:

Since the agents of the Montreal Bank refuse to present bills of the Bank of Upper Canada in return for their own bills, the directors of the Bank of Upper Canada have ordered that bills of this bank will be paid when presented by the said agents only in the bills of such bank when such bills are on hand and not having their bills on hand will be paid in specie.²⁰⁸

This was a common problem among banks, one that sometimes led to insolvency because rival institutions maliciously attempted runs on their competitors by holding their notes and redeeming them all at once, thus depriving the bank of all its specie. These bank runs were further aggravated when word reached the public that the bank was out of money.

Another, more personal, conflict between the Bank of Montreal and the private Bank of Upper Canada occurred when the former became a victim of larceny. A notice from Thomas Markland, published in the *Kingston Chronicle*, stated that a parcel containing \$5 notes from the Montreal Bank was stolen from Walker's Hotel. The bank was offering a reward of £250 for the return of the notes.²⁰⁹ Daniel Washburn, a director of the private bank, must have been accused of steeling the notes because he submitted a letter to the *Upper Canada Herald* in which he defended himself against the accusations.²¹⁰ These are just a couple examples of the bitter rivalry that existed between the banks.

For reasons that will be explained momentarily, the Bank of Montreal's presence in Kingston came to an abrupt end in 1824. Yet its absence from the banking scene in Upper Canada was only temporary. An agency of the bank was reopened in Kingston in 1829 under Henry Dupuy, a Montreal businessman and officer of the bank since its foundation. According to Shortt and Denison, Kingston was selected "partly to meet the growing demand for bank accommodation

²⁰⁸ *Kingston Chronicle*, November 10, 1820.

²⁰⁹ *Ibid*, November 26, 1819.

²¹⁰ *Upper Canada Herald*, September 28, 1819.

there, and partly to take advantage of the expenditure of the Imperial Government in connection with the Rideau Canal.”²¹¹

A look through the town’s newspapers of the day reveals no evidence of the existence of a Kingston agency of the Bank of Montreal in 1829. While it was normal for institutions to publish notices in the newspapers, this time there was a complete absence of information. Unfortunately with insufficient reference notes, it is impossible to verify Shortt and Denison’s sources.²¹² Denison claims that the agency was opened after the 1824 law expired. The ensuing move led to a bitter war between the Bank of Montreal and the Bank of Upper Canada, who were on the verge of putting each other out of business. Realizing the lunacy of their actions, the banks came to a settlement.²¹³ Notwithstanding the existence of the Kingston agency, the Union Act of 1840 blew the doors on banking competition wide open, and the Bank of Montreal re-emerged on the scene in full force.²¹⁴

Bank of Canada (Montreal)

The Bank of Canada was established in Montreal in 1818 by a group of Montreal businessmen. Like its Montreal counterpart, the Bank of Canada was organized as a private corporation, and opened for business on August 25, 1818. A petition to incorporate the bank was submitted in December of 1820, a charter was finally granted in 1822. Relying heavily of the exchange business with the United States, the bank enjoyed moderate success in its first years of operation. However, a decline in the demand for foreign exchange, compounded by economic depression in the province, prompted a group of stockholders in 1824 to propose the bank’s dissolution. Their shares were purchased by a group representing the Bank of Montreal, which continued to operate the Bank of

²¹¹ Adam Shortt’s, 279.

²¹² The absence of references and documentation in banking histories is typical.

²¹³ Adam Shortt’s, 278-79; Denison, Canada’s, 301.

²¹⁴ Denison, Canada’s, 310.

Canada until that bank's charter expired in 1831. After 1831, all activities of the Bank of Canada ceased, and its offices were absorbed into the Bank of Montreal.

First mention of the Bank of Canada's presence in Kingston was made in the *Kingston Chronicle* in the fall of 1818. A notice stated that William Mitchell, another one of Kingston's prominent merchants, and active player in the town's banking circle, was appointed agent of the bank. Like Markland, Mitchell was involved in the 1817 and 1819 Kingston bank petitions, and had no affiliation to the private Bank of Upper Canada. William Mitchell died suddenly on September 24, 1820. His successor at the bank was never revealed.

As in the case of the Bank of Montreal, very few details of the Bank of Canada's activities in Kingston are known. Once again, the local newspapers reveal the intense rivalry among the banks. On September 21, 1821, notice from the private Bank of Upper Canada protested the Bank of Canada's practice of hoarding its notes in an attempt to injure the bank. In the same instance, the private bank stated that it would not redeem any bills presented by an agent of the Bank of Canada.²¹⁵ A resolution was reached between the two institutions in the fall of 1821. A notice in the *Kingston Chronicle* stated that notes of the private bank would be redeemed at par at the Bank of Canada in Montreal.²¹⁶ Confirmation of this is reflected in the notes issued by the Bank of Upper Canada, which bore an overprint to that effect.²¹⁷

When the scandal involving the private Bank of Upper Canada erupted in 1822, the Bank of Canada was prudent to distance itself from the broken institution. In the interest of maintaining its presence in the town, the Bank of Canada pushed for the establishment of a full branch with George H. Markland, who would go on to sit on the Legislative Council, as president, and Alexander Simpson as cashier. Public notice was given on April 21, 1823 that an office was opened for

²¹⁵ *Kingston Chronicle*, September 21, 1821.

²¹⁶ *Ibid*, October 17, 1821.

²¹⁷ See Appendix 3.

business at the Royal Hotel.²¹⁸ Financial details of the branch's operations are lost. The branch's existence was short-lived because it suffered the same fate as the Bank of Montreal, and was forced to wind up its business in the province in 1824.

The Bank of Upper Canada

After the Bank of Montreal and the Bank of Canada, the Bank of Upper Canada was the next institution to open in Kingston. The Bank of Upper Canada was not keen on branch banking, but was forced to react to the competition emerging in different parts of the province. A notice posted in the *Kingston Chronicle* stated that as soon as 500 shares were subscribed, and 20 per cent paid in, an office of discount and deposit would be established at Kingston. The notice went on to declare that as soon as 1,500 shares were subscribed, a full branch would be opened there.²¹⁹ In early 1823, the Kingston agency was opened, and John Macaulay was named the bank's agent based on the recommendation of John Strachan.²²⁰ John Macaulay's affiliation to Strachan and the York institution runs deep. Macaulay was one of Strachan's students during his time spent in Kingston, and before there was even consideration for an agency in Kingston, Macaulay had already been involved in the affairs of the Bank of Upper Canada. When the bank was finally incorporated in April 1821, subscription books for shares in the bank were opened throughout the province, including Kingston, with Macaulay representing the York bank in the town.

In 1824, when the Bank of Upper Canada's influence over government had forced the competition out of the province, it was the only bank left in business in Kingston, and in Upper Canada, until the law expired in 1828. But the real threat to the Bank of Upper Canada's supremacy would not come until the incorporation of the Commercial Bank of the Midland District in 1832.

²¹⁸ *Upper Canada Herald*, April 1, 1823.

²¹⁹ *Kingston Chronicle*, November 22, 1822.

²²⁰ Provincial Archives of Ontario (PAO), Macaulay papers, Letter from John Strachan to John Macaulay, December 5, 1822.

The late 1820s were prosperous years for the Bank of Upper Canada, but its operations in Kingston were restricted and modest. In fact, agencies of the bank had very little power, with decisions on the issue and discount of notes coming from head office in York.²²¹ Really the agency was a vehicle for accepting commercial paper, taking deposits and issuing notes. It is impossible to know how the inhabitants of Kingston felt about the Bank of Upper Canada because many issues of the local newspapers from the period of 1824 to 1829 are missing. It matters little anyways because the locals did not have much choice.

Kingston Savings Bank

Another financial institution that operated in Kingston in the beginning of the 1820s was the Kingston Savings Bank. This institution was a significant departure from the traditional banks of the era. In times when securing a charter posed a real problem, opening a savings bank was a great alternative. Inspired from the English joint-stock banks, savings banks grew in popularity in North America at the turn of the nineteenth century. By definition, a savings bank was an institution whose primary function was to accept deposits, and provide banking facilities to all strata of the population. Savings banks differed from other banks in that they did not issue shares to raise capital, and there was no need to issue bank notes because their mandate was to encourage saving. Capital was raised through the deposits received from the public, and profits were generated through the interest charged on loans against the bank's capital (i.e. depositors' savings). Much like a trust company, ownership of the bank was in the hands of the depositors, and, as such, proceeds from the business were paid to them. Since savings banks did not issue shares to raise capital, nor did they incur any liability through the issue of notes, incorporation was not vital to their success.

²²¹ Baskerville, The Bank, 1-li.

Savings banks were generally created on public initiative, outside of government jurisdiction, and were very popular with farmers and labourers. Farmers did not begrudge all financial institutions. After all, savings banks operated in the interest of assisting the lower class, and profits generated through loans, and other sources of revenue were paid out to account holders in the form of interest. Montreal was first to open a savings bank in 1819, called the Savings Bank of Montreal. Savings banks were the precursor to the freehold and joint-stock banks that appeared on the scene in the 1830s. These institutions also operated outside any government legislation, and were geared at bringing banking facilities to the rural areas of the province, which were being ignored by the chartered banks. All these types of banks failed or were forced to close after the financial crisis of 1837.

Talks of establishing a savings bank in Kingston began as early as 1820. The bank was finally established in the spring of 1822. Resolutions of the bank, as well as the names of the directors were published in the *Kingston Chronicle* of March 22, 1822. Some of the names on the list were very familiar, others were brand new to business.²²² The board of directors consisted of John MacLean (the town's sheriff), Thomas R. Cartwright, Benjamin Whitney, Alexander Pringle, Robert Stanton, C. Anderson, Patrick Smyth, David J. Smith, D. Smith, Hugh MacGregor, Hugh Macdonald, Neil MacLean, John Strange, R. Richardson, Thomas S. Whitaker, Thomas Murphy, Jerry Whitehead, John Watkins, Neil MacLeod, William Dalton, Thomas Dalton, Henry Murney, Archibald Richmond, Samuel Shaw, Hugh C. Thomson and Archibald Macdonell. George H. Markland was elected president, while John Kirby, John Macaulay and Christopher Hagerman became vice-presidents. One interesting point to make is that the board was comprised of men from

²²² See Table 3, "Names Associated with Kingston Banking (1818-1837)," on page 103-04 for a list of the parties involved in the Kingston Savings Bank and their affiliation to other banking endeavors in the town.

both the private bank camp, and the pro-chartered bank camp. Perhaps the good cause that the Kingston Savings Bank served encouraged members to settle their differences.

The thirteen resolutions establishing the Kingston Savings Bank stipulated that the bank's mandate was to accept deposits of "such small sum as may be saved from the earnings of tradesmen, mechanics, labourers, servants, farmers, &c" at the office of the bank every Monday. It was stated further along in the resolutions that the minimum amount that could be deposited was 1sh/3d, and that an interest of four per cent per annum would be paid, but not until the account amounted to 12sh/6d. To encourage the deposit of small sums, which a chartered bank would not bother with, the resolutions stipulated that the maximum amount that could be held in a bank account was £50. Once this sum was achieved, the depositor could open a new account, and begin saving all over again. The bank was to begin accepting deposits at the office of Thomas Markland on March 25, 1822. One last point to highlight in the resolutions was the provision that quarterly statements of the proceedings of the bank shall be published in the papers.²²³ To this effect, not one statement was ever discovered in either the *Kingston Chronicle* or the *Upper Canada Herald*. The extent of the bank's presence in the newspapers was to announce the directors on duty for the week, and this occurred only until August 8, 1823.

Lack of news on the activities of the Kingston Savings Bank would indicate that the bank failed in its attempt to attract farmers and labourers. The fact that even a savings bank, whose good intentions were to assist the working class, could not survive in Kingston is further evidence that these people simply did not engage in banking. Furthermore, with all the scrutiny surrounding banks following the failure of the private Bank of Upper Canada, it could very well be assumed that no one trusted financial institutions, and thus the Kingston Savings Bank simply became an unfortunate victim of circumstance.

²²³ *Kingston Chronicle*, March 22, 1822.

Reaction to Banking Competition in the Province

The infiltration of external banks into Upper Canada demonstrated that potential to create wealth in the province was great. While the competition helped to unlock the capital found in the commodities and natural resources of the province, it was also draining the province of the vital specie required to maintain economic development. This forced government authorities to take action, and drive out those who were not willing to contribute to the province's financial well-being. When the competition outright refused to engage in fair business, the Bank of Upper Canada retaliated.

The Bank of Upper Canada used its political power to invoke change. On July 3, 1823, the directors of the bank presented a petition to the Legislative Assembly commenting on how the bank, and the entire province "suffer great injustice, which your Excellency will be pleased to observe, requires an early remedy." The complaint was primarily made against the Bank of Canada, who was operating a branch in Kingston. The petition read:

The Branch Bank of Canada has declined any exchange [with the Bank of Upper Canada] either at Kingston or this place and continues to carry out their business in Kingston, thereby putting in circulation large sums of money in bank notes made at Montreal, and there alone payable, and by such means collecting considerable sums in the notes of the Bank of Upper Canada.²²⁴

By operating branches and agencies in the province, as the petition states, external banks, and in particular the Bank of Canada, circulated their own notes in Upper Canada, and at the same time accumulated notes (often purchased at a discount) from the local banks to present for redemption in specie.²²⁵ The coins were then shipped back to Montreal, hence further

²²⁴ NAC, Upper Canada Sundries, RG5 A1, v.61, 32175.

²²⁵ Banking laws in Upper Canada forbade the suspension of specie payment, thus all notes had to be redeemed on demand in specie. While the same laws applied to banks in Lower Canada, notes presented at the agencies for redemption had to be sent to the main office in Montreal for specie. Agents had no authority to discount or negotiate any notes or other financial paper. The delay between presentation of the note and payment in specie most likely discouraged people from presenting the notes for redemption.

starving the province of specie, to pay dividends to the banks' shareholders. Furthermore, the competitors made it difficult for other banks to redeem their notes by forcing them to travel to Montreal, which was a inconvenience at the time just to redeem notes.

The Bank of Upper Canada admitted in its petition that an attempt was made to reach an agreement with its competitors. It was even willing to establish a business relationship with these institutions in the interest of building the province's economy. The Bank of Canada, however, refused. The bank was thereafter severely criticized by the York petitioners claiming that the agency in Kingston was illegal, that the bank's conduct as hostile, and that the province should rid itself of such a "public evil."²²⁶ Within a few months, the provincial legislature took action.

A bill entitled "a Bill for Regulating Banking Institutions in the Province" was drafted and read before the Legislative Assembly on December 9, 1823. Not surprisingly the bill encountered little opposition in both houses, and was given royal assent on January 19, 1824. The official name of the act sums up the conditions to which institutions subject to the law had to comply: "An Act to Prohibit Banks from Carrying on Business in the Province, that do not Return Their Notes in Specie within the Same." (4 Geo. IV, c.13 U.C) The term of the act was three years, after which time the law would be annulled. The Bank of Montreal did not comply, and consequently closed its agencies in Kingston, York and Amherstburg. Missing issues of the Kingston newspapers prevent us from assessing the public's reaction to the closure of the Bank of Montreal and Bank of Canada agencies. Nevertheless, for a period of five years, banking competition in the province had immediately ceased to exist.

²²⁶ NAC, Upper Canada Sundries, Bank of Upper Canada Petition to Lieutenant Governor P. Maitland, 32176.

4.3 The Failure of the Private Bank of Upper Canada (1822)

It was seen in the previous chapter that the private Bank of Upper Canada appeared to be enjoying considerable success. However, cracks in the bank's foundation, as a result of competition and internal conflict, began to appear in 1822. A notice in the *Kingston Chronicle* dated August 9, 1822 indicated that the bank was paying a premium of 5 per cent on guineas. This was up from the 3 per cent premium the bank was paying six months earlier. In the same notice, an amendment to the articles of association was announced stating the forfeiture of unpaid stock. Were these signs that the bank was desperate for money? It is impossible to make an accurate assessment because the private Bank of Upper Canada never published its financial statements. In fact, beyond the notices for discount days, meeting announcements, dividend notices, and payment instalments on shares, very little news came out of the bank. All that changed on August 30, 1822, when a notice was posted in the *Kingston Chronicle* announcing a meeting of the shareholders of the bank on October 12 "for the purpose of investigating certain charges by one of the directors against B. Whitney regarding his conduct as President." What began as a crack in the bank's reputation now became a gaping hole. From this point, speculation and controversy over the supposed unlawful practices of the president dominated the headlines.

Ian Dalton, the great-grandson of Thomas Dalton, a director of the private Bank of Upper Canada, wrote an unpublished book on the "pretended" Bank scandal, and ensuing years of political and legal conflict that followed in the attempt to settle the affairs of the bank.²²⁷ Dalton's purpose for writing the book was to clear his great-grandfather's name and reputation, which had become tarnished during the scandal. The government commission had pinned much of the blame on Dalton. Yet Ian Dalton, a lawyer himself, contends that his great-grandfather was wrongfully

²²⁷ The only known copy of the book, entitled *Thomas Dalton and the "Pretended" Bank* (2001), is located at the Queen's University Archives.

accused of being involved in the scandal, and that the outcome of the blundered commission had ruinous consequences on his life and career.²²⁸ While Dalton admits that no attempt was made to conceal his bias, his work was well researched, and his arguments backed with strong evidence.

As mentioned earlier, signs of trouble at the Bank of Upper Canada appeared in the summer of 1822. The private bank was at the centre of a scandal involving the president of the bank, Benjamin Whitney. The alleged abuse of privileges led to a standoff between Whitney and the directors. A notice in the *Kingston Chronicle* of September 13, 1822, issued by the Secretary of the bank, John Balfour, addressed the allegations, and stated that the charges against Whitney were “found to be groundless and frivolous arising from private animosity and circumstances altogether unconnected with the institution.” To further ease the tension caused by the incident, Balfour’s notice touted the bank’s success: “The affairs of the Company are in a flourishing situation and the paper of the bank will continue to be redeemed both at Kingston and Montreal with usual punctuality.”²²⁹ It would appear that the case was settled, until it was announced a week later that Whitney had resigned his post as president of the bank. When news of the incident had reached Montreal, the Bank of Canada severed all ties with the Kingston bank, and refused to accept its notes, thus exacerbating the situation.²³⁰ Records indicate that the only option to remedy the problem was to close the bank.

Original plans to settle the affairs of the bank were carried out internally. Christopher Hagerman, the bank’s solicitor, was asked to take over as president following Whitney’s resignation, but he refused on the grounds that the reputation of the office had become tarnished. He agreed, however, to chair a committee to settle the affairs of the bank. Hugh C. Thomson, Archibald

²²⁸ Dalton argues that government intervention in the settlement of the pretended bank’s affairs was “well-intended but ill-conceived,” and it led to significant complications that prevented the matter from ever being resolved. Dalton, *Thomas Dalton*, 1, 271-272.

²²⁹ *Kingston Chronicle*, September 13, 1822.

²³⁰ *Ibid*, September 20, 1822; Dalton, *Thomas Dalton*, 16.

Macdonell and Nicholas Radiger, all reputable Kingston merchants, were appointed to the committee, and together with the officers and directors of the bank a thorough examination of the banks records and accounts was conducted.

Smith Bartlet, the bank's cashier, who was also one of the main protagonists in the bank's failure, was asked to resign, but he insisted on staying until the true reasons behind the failure of the bank were revealed. The Stockholder's Committee Report was delivered at a meeting on December 23, 1822. The report concluded that poor bookkeeping led to inconsistencies in banking practices that ultimately forced the bank to close.²³¹ Feeling that he had now fulfilled his responsibilities, Bartlet resigned on January 3, 1823, and Robert Stanton, a Kingston businessman, was appointed to wind up the private bank's business.²³²

According to Ian Dalton, it appeared that not all parties, especially the teller of the bank John W. Ferguson, were satisfied with the outcome of the report. It was felt that the responsibility for the bank's failure should have been more widely shared, and that many of the bank's directors were directly involved. The group opposing the committee report, which included John Ferguson, a former director, John W. Ferguson, John Balfour, Hugh MacGregor, William Baynard Smith and Lewis Day, voted that a petition be drafted to present the scandals of the bank to the Provincial Legislature. But as Dalton writes: "Their petition was not needed... for machinery had already been set in motion which would produce that Legislative Interference so devoutly wished for."²³³ Within a few months, the private Bank of Upper Canada went from boon to bust, and no one beyond the inner circles of the bank knew what was going on.

²³¹ For a detailed account of the events involving Whitney and Bartlet that led to the failure of the private Bank of Upper Canada see Vindex, Examination of a Pamphlet Entitled, A Statement of Facts Relating to the Failure of the Bank of Upper Canada at Kingston. By Benjamin Whitney (Kingston: 1823).

²³² Dalton, Thomas Dalton, 25-27.

²³³ *Ibid*, 30.

The events leading up to the failure of the private Bank of Upper Canada were somewhat kept secret until the government became involved. On January 27, Jonas Jones, member of the House of Assembly for Grenville, motioned for a bill to be brought up to investigate the failure of the pretended Bank, and that actions be taken to settle the affairs of the bank. The motion passed, and on January 30, the House appointed a Select Committee on Banking Institutions and Paper Currency in the Province with Jones himself as chairman, and three other members of the house, including Hagerman, to form the committee.²³⁴ The name of the committee was somewhat misleading as the report dealt exclusively with the events surrounding the failure of the private Bank of Upper Canada.

In the process of investigating the bank, the committee examined the bank's books and accounts, and interviewed bank officers and directors. One by one the witnesses presented their testimony.²³⁵ On February 21, 1823, the committee presented its report, and concluded: "the immediate failure of the said Bank appears to have been evidently occasioned by the criminal conduct of the President, Cashier and Teller... The conduct of the directors was reprehensible in as much as no inquiry was made ... into the actual state of the Bank."²³⁶ The Committee's final, and overall most poignant recommendation to the House was that the establishment of banking institutions without an act of incorporation be outlawed. Following the report, a bill was drafted to settle the affairs of the bank entitled "An Act vesting in the hands of certain Commissioners therein named all the Stocks, Debt, Bonds and property of the pretended Bank of Upper Canada, lately established at Kingston for the benefit of the creditors of the Institution."²³⁷ The bill went through two readings before a request from Benjamin Whitney was heard. Whitney asked that he be given

²³⁴ PLUC, "Journals of the Legislative Assembly of Upper Canada ... 1821 to 1824," 269.

²³⁵ See PLUC, "Journals of the Legislative Assembly of Upper Canada ... 1821 to 1824," 328-339 for a complete transcript on the report of the Committee to inquire on Banking Institutions and Paper Currency in the Province.

²³⁶ PLUC, "Journals of the Legislative Assembly of Upper Canada ... 1821 to 1824," 338.

²³⁷ Also known as "The Bank Commissioners' Bill."

the opportunity to speak before the Legislative Council to give his version of the events in question, which was granted. It is at this point that the lid blew off the pretended Bank scandal.

Details of the bank's failure were finally made public. Whitney's account before the Legislative Council was published in a pamphlet entitled "A Statement of Facts Relating to the Failure of the Bank of Upper Canada, at Kingston." Its contents were damning. While justifying his actions to travel to Montreal to retrieve £8,000 of notes held at the Bank of Canada office, which was done unbeknownst to anyone at the bank, Whitney had condemned the actions of the officers and directors accusing them of altering the books, extracting funds from the bank, and taking out loans that went beyond the bank's policies and practices. Whitney's accusations ran deep into the heart of the bank's leadership with many people, including Smith Bartlet, Thomas Dalton and Christopher Hagerman, allegedly involved in the misuse of bank funds and the abuse of power.

Backlash from Whitney's presentation before the Legislative Council was immediately felt, and attacks on his credibility and reputation came from all directions. Bartlet and Dalton published pamphlets of their own, refuting Whitney's claims. But Whitney's biggest critic was a man who went by the pen name "Vindex." In a series of letters published in the *Upper Canada Herald* between July and September 1823, Vindex (who is believed to be one of the directors of the pretended bank) severely scolded Whitney for his lies and slanders before the Legislative Council. Not only did Vindex attempt to vindicate the parties accused by Whitney, but he also painted Whitney as being a man of ill repute, who grew bitter and vindictive after the Chairman of the select committee had defamed his reputation as president of the bank.

The wounds inflicted by both parties ran deep. It is difficult to know whose account was true. Some, like Ian Dalton, in the interest of clearing his great-grandfather's name pinned all the blame on Whitney, while other historians, like Allan J. Cohoe, believe that Whitney was victimized.

Cohoe contends that when Whitney learned of the directors' illicit activities he was forced out of office.²³⁸ Regardless of who perpetrated the failure of the pretended Bank of Upper Canada, on March 19, 1823, the Bank Commissioners' Bill received royal assent. (4 Geo. IV, c.22 U.C.) Several months later, a committee was established consisting of George Herchmer Markland, John Kirby and John Macaulay, three important names in the Kingston community, who were left with the responsibility of liquidating the bank's assets, and reimbursing the its creditors.

With all the parts in place, it was believed that a speedy settlement would occur. However, strong opposition to the law, and questionable conduct from various parties prolonged the matter. On November 18, 1823, Hugh C. Thomson, the editor of the *Upper Canada Herald* was held in contempt for publishing the commissioners' report on the pretended bank. Already by December a revision of the Act was in place in the Legislative Assembly. Throughout the years, and as late as 1836 ("An Act to authorize the Commissioners of the late Pretended Bank of Kingston to dispose of certain Real Estate, and for other purposes therein mentioned" – 6 Wm. IV, c.22 U.C.), new laws were passed. Eventually the matter fell into obscurity never having been officially resolved.

It was only in 1825 during the Commission that pretended bank's financial statements were revealed. Previously there had been no way of gauging the bank's financial success. Despite its short existence, its unchartered status, its lack of support from some of the elite financiers of the province, as well as the banking competition in the town, it is clear that the private Bank of Upper Canada enjoyed a fair amount of success. According to the commission report, before its failure, the bank had a paid-up capital of £11,316, which was sufficient for it to begin operations and issue bank notes. And judging by records provided in the Commission, the bank had ordered from the Graphic

²³⁸ Allan J. Cohoe, "Early Banking in Upper Canada" in *Historic Kingston*, 30 (May 1981): 51.

Company over \$410,000 (£102,500) worth of bank notes intended for circulation. At the bank's failure, roughly about £18,700 (\$74,800) worth of bank notes was outstanding.²³⁹

The pretended bank scandal was ruinous for the town of Kingston on several fronts. In hindsight, it was argued by the parties embroiled in the scandal that the whole affair was poorly handled, and that many reputations were irreparably damaged. In 1827, the editor of the *Kingston Chronicle* wrote a long article that perhaps summed up the local attitude towards the incident. To paraphrase the editor's commentaries, firstly, prejudice was held against the institution:

From the character of two or three of the persons principally concerned in its establishment, it was considered a sort of stock jobbing business, designed as a fraud on the public. It was believed that it was an establishment forbidden by the laws of the land.

The bank was founded on good faith, and had every intention of conducting its business in a forthright and discreet manner. Second, accusations that the directors were negligent in their duties apparently contributed to bank funds being wasted and lost through dubious loans and other doubtful practices. This may have been the case, but was government intervention necessary? The editor thinks not because businesses failed all the time. What made the pretended Bank any different? Thirdly, the government should not have interfered:

We admit our inability to give a satisfactory answer. It seems that no stockholder or note bearer asked for a government inquiry. Intentions to settle the affairs of the bank were well in hand until the government passed a law, which after four years has not produced a single penny toward the settlement of the bank's affairs. Blame is put on the legislature not the commissioners in charge of settling the affairs of the pretended bank.

Lastly, the editor recommended that a law be passed allowing creditors of the bank to settle their affairs themselves. The general feeling was that some townsmen were unjustly treated.²⁴⁰

²³⁹ n.a. A Statement of the Affairs of the Late Pretended Bank of Upper Canada at Kingston (York, 1827): 40; PLUC, "Journals of the Legislative Assembly of Upper Canada ... 1821 to 1824," 339.

²⁴⁰ Kingston Chronicle, January 5, 1827.

The fact that government became involved, and that the matter was never resolved may seem like another ploy by the Family Compact and other supporters of the York bank to cement the Bank of Upper Canada's monopoly in the province. Had the government not been involved, immediate settlement of the pretended bank's affairs would have renewed the prospects of establishing a bank in Kingston, and, once again, the government would have had to contend with the pressure of competition. The bill to settle the affairs of the pretended bank was introduced by Jonas Jones, a member of the Family Compact. Furthermore, the committee charged with settling the affairs of the pretended Bank consisted of men that had close ties with the Bank of Upper Canada. George Herchmer Markland was a member of the Family Compact and a director of the bank, John Kirby was a shareholder in the bank, and John Macaulay was the bank's agent in Kingston. It is debatable whether their opinions and attitudes toward the pretended bank and its supporters were not somewhat biased. By prolonging the scandal and virtually destroying any chances the town had of opening a bank, the Bank of Upper Canada did not have to worry about the Kingston petitioners for many years.

The failure of the pretended Bank of Upper Canada harmed any chances that Kingston had of opening a bank. In fact, because political indecision forced the issue of the pretended bank to drag on for many years, any future plans to open a bank in the town were subsequently delayed. Internal conflicts that led to the bank's demise instilled fear and a loss of confidence in the people behind the bank. The outcome of the scandal reinforced the real Bank of Upper Canada's position as the "Provincial Bank." The officers and directors of that institution did not need to mount an offence against the pretended bank because it had destroyed itself. The Bank of Upper Canada, however, was not immune to the aftermath of the failure of the pretended bank. It was ordered that the financial statements of all banks (although the Bank of Upper Canada was the only bank in

operation at the time) be presented to the Legislative Assembly for review on a quarterly basis.

Furthermore, the doubt cast over the state of the banks in the province forced the government to rethink its position, which eventually spelled disaster for all banking institutions not based in the province.

CHAPTER 5

KINGSTON'S OWN BANK: THE COMMERCIAL BANK OF THE MIDLAND DISTRICT (1832)

It was observed in the last chapter that between 1818 and 1824 Kingston was brimming with banking activity. There were two banks from Lower Canada, the lone Upper Canadian chartered bank, a local private bank, and a local savings bank. Because of the threat that external banks posed to the circulation of specie in the province, a law was passed in 1824 that removed all banking competition. Overnight, only one financial institution remained in Kingston until 1829, the Bank of Upper Canada. During that period, the bank enjoyed a monopoly that helped to improve the standard of business in the town of York. Rapid economic growth beginning in the late 1820s, as a result of the massive inflow of British and Irish immigrants, forced the government to revisit the issue of opening more banks in the province. In this chapter we examine the political process and the outcome of the government legislation that laid the foundation for the creation of Kingston's first chartered bank, the Commercial Bank of the Midland District. The chapter will conclude with a final assessment of Kingston's economic situation after the creation of the bank.

5.1 Renewed Demand for Banking Services in Upper Canada

Improved transportation, rapid population growth and the subsequent clearing and development of land in Upper Canada reflected the general prosperity that North America had encountered by the late 1820s and into the mid 1830s. As immigrants arrived, they settled the land in and around the major urban centres of the province, such as York, Niagara, Hamilton, London and Kingston. Increased output from farmers led to extended trade to which businessmen in Upper Canada

benefited greatly from their advantaged position between the country merchants and farmers, and the major suppliers in Montreal and abroad. The increased economic activity brought on by population growth, improvements in shipping and transportation, and access to considerable resources renewed the demand for banking facilities in the province.

Economic Prosperity and the Banking Boom of the 1830s

Upper Canada was a hot bed of economic and commercial activity during the 1820s. Areas, such as Kingston, York and Niagara, were maturing nicely, while others, like Hamilton and London, were budding. Kingston had experienced its fair share of economic growth in the first three decades of the nineteenth century, and was still the most important commercial centre of the province. Yet with trends in population growth increasing on the western end of Lake Ontario (appropriately known as the “Golden Triangle”), most of the province’s commerce and trade shifted there. The fact that western Upper Canada contained vast amounts of arable land attracted many immigrants to the area following the War of 1812. During the third wave of immigration, which occurred between 1815 and 1846, it is estimated that about a million people arrived from Great Britain and Ireland to settle in Upper Canada, and about two-thirds of them settled in the western part of the province. Douglas McCalla indicated that with the population growth between 1815 and 1850, the number of acres of land under culture increased more than ten times from 325,000 acres in 1817 to 3.7 million acres in 1851. Although a breakdown for each district is not available, McCalla provides a map of Upper Canada displaying the area under culture in 1851. It is plain to see that the area between Toronto and Niagara was far more developed than the area surrounding Kingston.²⁴¹

As more land was cleared and farms in the west grew, the province saw a rise in production output, which further contributed to increased industrial development and commercial activity in the

²⁴¹ McCalla, *Planting*, Appendix B, Table 1.1; Map 5.1, 70.

area. Increased access to marketable consumer goods enabled merchants in the province to prosper. Data from Frank D. Lewis and M.C. Urquhart's article "Growth and the Standard of Living in a Pioneer Economy: Upper Canada, 1826 to 1851" reveal that industrial growth, and the number of merchant shops in operation in the west end of Lake Ontario outpaced those in Kingston. Below is a table comparing the number of sawmills, gristmills and merchant shops in operation in the Midland, Home and Gore districts for the years 1826, 1830, 1839 and 1850.

Table 6 – Comparison of the number of sawmills, gristmills and merchant shops in the Midland, Home and Gore Districts (1826 – 1850).²⁴²

Year	Population (000s)			Sawmills			Gristmills			Merchant shops		
	Midland	Home	Gore	Midland	Home	Gore	Midland	Home	Gore	Midland	Home	Gore
1826	29.2	19.6	13	74	73	50	39	31	20	45	42	22
1830	34.5	28.4	21	84	102	72	37	39	31	37	87	43
1839	52.5	70.3	51.5	117	199	145	55	75	63	38	67	36
1850	87.3	136.7	158.6	160	329	276	62	125	86	60	137	112

It is clear that while Kingston and the Midland District presented strong numbers, by the 1830s towns further west were experiencing significant growth. This translated into more business shifting toward the west end of Lake Ontario, and away from Kingston. One major asset that changed the dynamics of industry and commercial trade in Upper Canada in the late 1820s was the improvement inland water transportation, especially with the opening of the Erie Canal in 1825. Prior to that, shipping traffic in Upper Canada was relegated to the Lake Ontario and St. Lawrence Seaway corridor. Because different types of ships were required to navigate the two bodies of water, cargo had to be transferred at one of the trans-shipment points between Kingston and Prescott, with the busiest port being Kingston. Land transportation at the time was still too inconvenient and impractical. With the construction of the Erie Canal, linking Lake Erie to the Hudson River in New York State, completed in 1825, merchants in the western Upper Canada, upstate New York and Ohio could now completely bypass Kingston, and ship their goods directly to Montreal and New

²⁴² Lewis and Urquhart, "Growth," 180-181.

York.²⁴³ The shift in traffic took its toll on the shipping business in Kingston, with many of the large companies of the late eighteenth and early nineteenth century fading into obscurity. New ventures, such as the construction of the Rideau Canal, somewhat extended Kingston's prominence as an important shipping centre, but with the commercial centre shifting further west, the town would eventually take a back seat to York and Hamilton as the province's commercial centre.

Banking Legislation in Upper Canada in the 1830s

We witnessed in the previous chapter that, in the 1820s, the government and the Bank of Upper Canada worked together to build the business, and suppress the competition. Reformers voiced their opposition to the bank's monopoly, but their criticisms, for the most part, were ignored. The Legislative Council used its veto power to defeat the issue of any new charters, thus further solidifying the bank's monopoly. Yet as Peter Baskerville reveals, the power of the Legislative Council hindered just as much as it assisted the Bank of Upper Canada. Throughout the 1820s, not only would the government refuse to pass any new banking laws, but it also denied the Bank of Upper Canada from ever increasing its capital, which undoubtedly hampered the bank's chance to benefit from the recent economic boom that the province was enjoying.²⁴⁴ The pressure exercised by the Legislative Council, however, could not last forever. Banking facilities were an absolute necessity for the province to prosper.

The 1830s saw much activity in the way of banking legislation in Upper Canada. At a time when much pressure was on the government to expand banking services, members were at odds over how banking legislation should be handled. While a charter was granted (being only the second one ever in Upper Canada) to form the Commercial Bank in 1832, any further attempts were temporarily thwarted. As mentioned, the Legislative Council blocked any new legislation, while

²⁴³ McCalla, *Planting*, 121-126.

²⁴⁴ Baskerville, *The Bank*, lvi.

other members endeavoured to eliminate banking altogether. According to Adam Shortt, William Lyon Mackenzie, a Reformer and a staunch opponent of banking, set out to defeat the Commercial Bank bill and the bill to expand the Bank of Upper Canada's capital, which had both been passed by the House, and was awaiting royal assent. Mackenzie went so far as to travel to London to halt the proclamation of the bills. His campaign led to the involvement of the Home Government in the affairs of provincial banking, which the Provincial Legislature and the Bank of Upper Canada strongly opposed. In 1833, the Home Government took a stance on colonial banking, and ordered the lieutenant governor to repeal any new bank acts and regulate current banking practices. This outcome affected business both at the Commercial Bank and the Bank of Upper Canada. Christopher Hagerman and D'Arcy Boulton, who were in London at the time, convinced the Home Government to ease its pressure on banking in the province, which in turn allowed the two institutions to return to their normal business.²⁴⁵ The immediate crisis was over, yet the influence of the Home Government remained.

The Royal Treasury imposed special conditions imposing certain restrictions to banks' operations, which were to be added to any new banking legislation. These demands, by today's standards, were not very stringent, but the provincial government opposed the Home Government's intervention. As a matter of principle, in 1835, the members of the Legislative Assembly defeated a bill to increase the capital of the Commercial Bank because it contained the Royal Treasury's conditions.²⁴⁶ The fact that the Home Government was targeting the Upper Canadian banks, yet had left the Lower Canadian banks virtually alone is puzzling. Finally in 1835, word came from the Home Government that it would no longer meddle in the affairs of the banks, and recommendations

²⁴⁵ Adam Shortt's, 296-97.

²⁴⁶ PLUC, Journal of the House of Assembly of Upper Canada, from the 15th day of January, to the 16th day of April 1835 (Toronto: W.L. Mackenzie, 1835): 255-357.

to revoke the new bank acts were defeated.²⁴⁷

While the home and provincial governments were in conflict over banking legislation, efforts were being made to obtain charters for banks in London, Hamilton, St. Catharines, Prescott, Brockville and Cobourg. Bills were also considered to increase the capital of both the Commercial Bank and the Bank of Upper Canada. A report of the select committee on the expediency of a provincial bank considered it better to increase the capital of the existing banks, rather than create new ones.²⁴⁸ The rationale was that increased capital would permit the banks to open branches. Public opinion on banking indicated that each district should have a bank. As Adam Shortt explains, the whole debate on banking led to a split in the Provincial Legislature. While the Legislative Council defeated bills drafted by the Assembly to open banks in London and Cobourg, the Legislative Assembly opposed the Council's bills to increase the capital of the existing banks.²⁴⁹ Obviously there was some acrimony among the provincial leaders.

In spite of the internal conflicts, the provincial government could hardly ignore the demands that were being made for expanded and improved banking services in the province. While the arrival of immigrants contributed to the province's economic and social development, the one major drawback of the rise in population was the added strain that it on the province's money supply. Since the province's only bank was ambivalent toward expanding its banking services, inhabitants from different parts of the province petitioned the government to issue more charters. The Commercial Bank charter aside, government heeded public demand. Between 1835 and 1837, bank charters were awarded to seven new financial institutions. With the new charters, bank capital would have increased from an almost anaemic £500,000 to £4.5 million. An ensuing financial crisis,

²⁴⁷ Adam Shortt's, 301.

²⁴⁸ PLUC, "Report of the Select Committee Appointed to Examine and Report on the Expediency of Establishing a Provincial Bank Within the Province," in Appendix to Journal of the House of Assembly of Upper Canada of the first session of the Twelfth Provincial Parliament (Toronto: W.L. Mackenzie, 1835): 1.

²⁴⁹ Adam Shortt's, 303.

however, meant that charters for banks, such as the Johnstown District Bank (Brockville), the Prescott Bank (Prescott), the Newcastle District Bank (Cobourg) and the Niagara District Bank (St. Catharines), would never receive royal assent. Only the Gore Bank of Hamilton had managed to secure a charter before the 1837 financial panic.²⁵⁰

The Gore Bank was born when a petition from 37 prominent citizens of Hamilton was submitted to the government in 1833. Sir Allan MacNab, member of the Legislative Assembly for Wentworth County, brought up the petition in the Legislative Assembly on December 6. According to his biography, MacNab was a strong critic of both the Bank of Upper Canada and the Commercial Bank. This had negative repercussions on the outcome of the bill as the Legislative Council, with members of the Family Compact and supporters of the Bank of Upper Canada, defeated the bill.²⁵¹ Yet again, the power of the Family Compact to manipulate government, and influence banking legislation is made evident. In January 1835, MacNab once again introduced a bill for the Gore Bank to the House with the support of Hamilton businessmen. This time the bill passed both Houses with little resistance. MacNab would not only become the bank's leading proponent, but would also become its largest shareholder.

The bank was incorporated on October 27, 1835 (5 Wm. IV, c.46 U.C.), and opened for business on May 2, 1836 after the minimum £25,000 required for operation was paid in. The bank's first president was Colonel James Mathew Whyte, while Andrew Steven, cashier of the Hamilton agency of the Bank of Upper Canada, was named cashier. No sooner was the Gore Bank opened that it already faced the harsh realities of economic recession when the 1837 financial crisis struck North America. Although the bank was forced to suspend specie payments, like all other

²⁵⁰ The Bank of British North America also received a charter in 1836 to operate in Upper Canada. Given its special status as the only bank in Canada to be incorporated by royal charter, the Bank of British North America was the only institution that was permitted to operate branches in all four provinces.

²⁵¹ Baskerville further mentions that the Legislative Council also attempted to impede MacNab's real estate business. Peter Baskerville, "Allan Napier MacNab" in Dictionary of Canadian Biography, Volume 9 (1861-1870).

institutions, the Gore Bank came out of the crisis unscathed. After the Union Act in 1840, the Gore Bank set out on a campaign to compete with the other banks already engaged in expanding their business through the opening of branches and agencies. Soon, the bank opened branches in Simcoe, St. Thomas, Woodstock, Galt, Guelph and Chatham. The Gore Bank was an incredible success story until the economic crisis of 1857 and its aftermath left a scar on the banking industry that led to the failure of all three of Upper Canada's big banks: the Bank of Upper Canada in 1866, the Commercial Bank of Canada in 1867, and the Gore Bank, whose remaining assets were transferred to the Canadian Bank of Commerce in 1870.²⁵²

Because the Bank of Upper Canada was looking to sever its ties with the government, in 1835, the Provincial Legislature pondered the idea of establishing a "provincial bank," one that combined the best features of the Bank of the United States and the Bank of Upper Canada. A special committee, consisting of William Morris, Charles Duncombe, William Robinson, Allan MacNab and William H. Merritt, was established, and set out to learn the opinions of the province's top banking professionals on the feasibility of establishing a provincial bank. A series of questions were sent to bankers, politicians and merchants. The report acknowledged the shortage of specie, and the requirement of "much greater banking capital," which could only come from one large financial institution. It was proposed that the central bank start with a capital of £500,000 made up of a mix of foreign capital, the subscription of shares, and the issue of provincial credit. Branches were to be opened in each district with a capital of £100,000 each.²⁵³ The introduction of the Provincial Bank bill in November 1836 summarizes neatly the objectives of the central bank:

²⁵² Victor Ross, A History of the Canadian Bank of Commerce, Volume 1 (Toronto: Oxford University Press, 1920): 163-249; Adam Shortt's, 307.

²⁵³ PLUC, "Report of the Select Committee Appointed to Examine and Report on the Expediency of Establishing a Provincial Bank Within the Province," 2-4; Adam Shortt's, 309-311.

With a view of extending a safe circulating medium, based on the public credit, throughout all parts of the Province: the profits of the first ten years to be loaned exclusively to promote works of internal improvement, under the direction of the legislature, and thereafter to form a revenue to be applied to the general purpose of the Country.²⁵⁴

The House went into committee several times during the 1836-1837 session to discuss the provincial bank bill. Oddly, while it was reported that progress on the bill was being made, by January 24, 1837, just over a month before the end of session, mention of the provincial bank bill had disappeared. Given the fact that such an institution never came into existence, it can only be assumed that, once again, the financial panic of 1837 had frightened away the supporters of banking facilities in the province.

Further to the establishment of chartered banks, the mid-1830s saw the explosion throughout the province of the British-style joint-stock banks, whose purpose was to bring banking facilities to the neglected rural areas. Some institutions, such as Sir Francis Hincks's Bank of the People, Truscott and Green's Agricultural Bank, and James Strachan's Freeholders' Bank of Upper Canada had applied for charters, but were either denied by the Legislative Council, such is the case of the first bank, or were forced out of business by the competition, which was the case of the second bank. The Freeholders' Bank bill passed through the Legislative Council, but the economic crisis forced it to suspend activities before it could open.²⁵⁵ Although all incorporated companies, including chartered banks, are technically joint-stock companies, in period documents, joint-stock banks are identified as private institutions not regulated by any charter. While the idea of investing in an unchartered bank may seem risky – after all legitimate firms prided themselves on their incorporated status to promote trust and credibility – because there was such a demand for banking in the hinterland, joint-stock banks were generally welcomed. Between 1834 and 1837, when a law

²⁵⁴ PLUC, "Journal of the House of Assembly of Upper Canada ... 1837," 16.

²⁵⁵ *Ibid.*, 557; PLUC, "Journal of the House of Assembly of Upper Canada ... 1836," 281; Adam Shortt's, 313-316.

brought about by the financial crisis forced many private institutions into extinction, there were eight private banks operating in the province: the Agricultural Bank – York (1834-1837), the Bank of the People – York (1835-1841), the Farmer’s Joint Stock Banking Company – Toronto (1835 – c.1854), the Freeholders Bank of Upper Canada – York (1837), the Goderich Bank – Goderich (1834), the Newcastle Banking Company – Amherst (1836), the Newcastle District Loan Company – Peterborough (1836), and the Niagara Suspension Bridge Bank – Queenston (1836-1841).²⁵⁶

Some institutions, such as the Farmers’ Bank and the Freeholders Bank, sought incorporation, and in principle their bills passed, however, the financial crisis denied them royal assent.

Using the example of the Freeholders’ Bank of Upper Canada, a significant contrast can be seen between the resolutions of an unchartered firm, and those of a chartered bank. The objectives of many of these institutions appeared to be very ambitious. Looking at the table in Appendix 1, which compares the charters and articles of association of different banks operating in Upper Canada, the Freeholders Bank had a capital of £1 million available in 40,000 shares of £25 each. The reason the bank provided for such a substantial capital amount was that it permitted for shares to be purchased using land, a practice that was prohibited in the charters of the incorporated banks (chartered banks could not hold land as an asset beyond the actual space they occupied).²⁵⁷ While this would have enabled many labourers and farmers who had plenty of land but very little cash to invest in the bank, it is unlikely that they would have taken such a substantial risk. Real estate and land speculation were high-risk ventures, hence the reason why banks could not engage in them.

The Provincial Legislature was alarmed by the number of joint-stock banks in business, and sought to regulate their operations by introducing a piece of legislation prohibiting banks without a charter from issuing notes. The Legislative Council passed a bill in March 1837 entitled “An Act to

²⁵⁶ Adam Shortt’s, 311-314; Denison, Canada’s, 302-303.

²⁵⁷ n.a, Synopsis of Act to Incorporate the Freeholders’ Bank (1837), CIHM 21592.

protect the public against injury from private Banks,” which declared illegal the issue of notes or other paper intended to pass as money, except by a legislative authority.²⁵⁸ A few institutions, which were in the process of applying for charters, were exempt from the law, which came at a crucial time, on the eve of financial crisis. If it was not the law that forced these private banks into extinction, it was the consequences of economic recession. Some did survive the financial crisis, but the power and influence of the chartered banks eventually forced private bankers out of business.²⁵⁹

The financial crisis also saw the rise of spurious banks that profited from the delicate situation in the country. Wildcat and phantom banking grew during the 1837 panic. Wildcat banks were institutions that issued notes, collected specie and notes from legitimate banks, and immediately closed their operations, thus stranding note bearers with no way of redeeming their notes. Phantom banks consisted of dishonest individuals who issued notes from a fictitious bank for the same purpose of collecting specie and good notes that could later be redeemed. Phantom bank notes often bore names that resembled closely real banks, which easily confused the public who were sucked into accepting these bogus notes. The notes would circulate with no intention of ever being redeemed because the issuing authority did not exist. Some examples of phantoms banks operating during the financial crisis include the Kingston Bank, the Commercial Bank of Brockville, the Commercial Bank of Ft. Erie, and the Oxford Bank. Examples of bank notes from these institutions exist in the National Currency Collection of the Bank of Canada. It was the activities of these spurious banks that forced government to pass a law prohibiting private banks from issuing notes, thus tarnishing the good reputation of many righteous individuals who offered private banking facilities.²⁶⁰

²⁵⁸ PLUC, Journal of the House of Assembly of Upper Canada, from the eighth day of November, 1836, to the fourth day of March, 1837 (Toronto W.L. Mackenzie, 1837): 567.

²⁵⁹ Thoring, “Hayseed,” 54-62.

²⁶⁰ McCullough, Money, 99-100.

In summary, the 1830s saw renewed economic growth spark the demand for more banks. Although the government and supporters of the Bank of Upper Canada resisted, they could not ignore the fact that the province was in need of expanded banking facilities. The government dawdled on the issue granted only two new charters for the Commercial Bank of the Midland District in 1832, and the Gore Bank in 1835. Several private banks appeared on the scene in an attempt to bridge the gap between the rural farmers and merchants, and the “big city” institutions, however the financial crisis of 1837 derailed the banking boom in Upper Canada, and fed the frenzy of fraudulent and spurious banks. After the panic, the chartered banks and a few joint-stock banks survived. Much of the competition had been eradicated. For good reason, government was cautious when issuing charters, however it could not ignore the fact that some of the large commercial centres of the province were starved of banking services. After many years of waiting in the shadows, the Kingston petitioners were first in line to receive a bank charter. They were fortunate to secure a charter before the debate on banking legislation became overheated in 1835.

5.2 Kingston’s Third Bid for a Bank

Having failed twice in 1817 and 1819 to secure a charter, Kingston merchants revisited the idea again in 1829. It can only be assumed that the prolonged delay in renewing the banking debate was in part due to the scandal of the pretended Bank of Upper Canada. As it was seen in the last chapter, government intervention into the scandal did not resolve anything, and even when talk of opening a new bank was circulating in the town, the government was still busy passing laws to settle the affairs of the late pretended bank. In the end, the issue died never having been resolved. Besides the pretended bank scandal, with the province suffering an economic recession in the mid-1820s, banking was simply not a salient concern. Yet with a new generation of young, eager, and

enterprising merchants appearing on the scene, and the economic fortunes of the province changing for the better, once again, banking was thrust into the spotlight.

In 1829, with the turmoil of the late pretended bank more or less behind them, merchants in the town sought once again to establish a bank. Even though its most prosperous years were behind it, Kingston (and the whole province for that matter) in the early 1830s was enjoying a new economic boom, which still very much made it a significant commercial centre. In 1830, it still had the largest population with 3,587 inhabitants, which was well above York (2,800), London (2,416) and Hamilton (2,013). As Osborne and Swainson further reveal, “by 1830 the wharves were full, the military expenditures were flowing into local coffers, and all the signs for continued commerce, and political and social advancement, were propitious.”²⁶¹ Life was so good in Kingston that the issue of establishing the provincial capital, as well as a chartered bank there were once again raised. Edith Firth explains that a debate on the capital question ensued in the House of Assembly in 1830. The House was completely divided on the matter with the members of the western part of the province favouring York, and those from the eastern part favouring Kingston. The motion came to nothing. The question was brought up again in 1834, but again without further action. Only after the union of the Canadas in 1841 did Kingston become the capital of the Province of Canada, but only for a brief period.²⁶² As for the question of establishing a bank, let us examine how the government reacted.

The 1830 Petition Defeated

A public meeting was held in the Kingston’s courthouse on January 22, 1830 to discuss the creation of a bank in the town. The minutes of the meeting appeared the next day both in the *Kingston Chronicle* and *Upper Canada Herald*, which identified the people involved, and defined the

²⁶¹ Osborne and Swainson, *Kingston*, 144.

²⁶² Edith Firth, *The Town of York, 1815-1834: A Further Collection of Documents of Early Toronto* (Toronto: Champlain Society, 1966): xx-xxi.

organizers' motives and ambitions for establishing a bank in Kingston. Not surprising, a whole new generation of banking supporters led the meeting, including John Marks, who chaired the meeting, George W. Yarker, George Mackenzie, George F. Corbett, Francis Archibald Harper, Thomas Kirkpatrick, John Mowat, Abraham Truax, and John G. Parker,²⁶³ who were named to a committee to draft the rules and regulations of the bank. The name of the bank was to be the "Midland District Bank," which was later changed to the "Commercial Bank of Upper Canada." The whole intention of the new bank was "for commerce and agricultural interest."²⁶⁴ The meeting ended with the announcement of another meeting to be held on February 5 to draft a petition. The men behind the bank petition will be examined later.

The report on the Commercial Bank of Upper Canada appeared in the *Kingston Chronicle* of February 6, 1830, and listed the rationale for establishing a bank in the town. The document is quite long, but the main points are summarized here. Some of the justifications for establishing a bank in Kingston continued to be based on the premise that the town's location at the junction of two busy waterways, the St. Lawrence River and the Rideau Canal (opened in 1825), boosted commercial demand for a bank. Second, expenditures on military defence and construction of the Rideau Canal created a massive influx of specie into the town, which had to be harnessed before it could disappear again. Third, Kingston was the future seat of government. Fourth, demand for banking services was coming from local merchants who were doing business directly with the United States and Great Britain. Fifth, Kingston was the most populous town in Upper Canada. Sixth, if the town could support outside banking agents, then it should have its own bank to work in the interest of the town. Seventh, agencies were insufficient because no action could be taken without authorization from head office, which thus delayed transactions. Eighth, profits from agencies went to the main

²⁶³ See Table 3, "Names Associated with Kingston Banking (1818-1837)," page 103-04 for the involvement of these parties in other banking ventures in Kingston.

²⁶⁴ *Kingston Chronicle*, January 23, 1830.

branch, which benefited those towns. Ninth, the uncertainty of how long agencies would remain open was a cause for some anxiety. And finally, a push from the Bank of Upper Canada to open a full, autonomous branch in Kingston was perceived as a step in securing a banking monopoly in the entire province.²⁶⁵ The proponents of the bank raised some compelling arguments that seemed to justify their demand for a bank.

Further to the last point highlighted in the Commercial Bank report, the Bank of Upper Canada, sensing a threat to their monopoly, indeed proposed the opening of a branch in Kingston. Previously, the Bank of Upper Canada was reluctant to open any branches, and control over its agencies was very strict. An article appeared in the same newspaper as the Commercial Bank report, which accused John Macaulay, agent of the Bank of Upper Canada in Kingston, of influencing people to not attend the meeting set up in January. Macaulay denied this, and a couple of weeks later John Marks, the chair of the Commercial Bank meeting, wrote a letter in the *Kingston Chronicle* reassuring Macaulay that his name was never mentioned at any meeting. At the same time Marks reaffirmed his position on the matter that the organization of a new bank was not an attack on the Bank of Upper Canada, rather it was intended to keep the money in the town.²⁶⁶ No sooner was the petition drafted and sent to the Provincial Legislature that subscription books to purchase stock in the Commercial Bank were opened at the Cataraqui Bridge office on February 10, 1830, and were to remain open until April 3.

The petition to establish the Commercial Bank of the Midland District was brought up to the Legislative Assembly in early February. The absence of journals for both Houses does not permit to identify who brought up the petition, or when the bill was drafted. The *Kingston Chronicle* does indicate that the bill was defeated and “consigned to the tomb of all the Capulets” in its second

²⁶⁵ *Kingston Chronicle*, February 6, 1830.

²⁶⁶ *Ibid*, February 6, 1830, February 18, 1830.

reading on February 19. Shortt claims that the bill passed the Legislative Assembly, and was defeated by the Council, with only three members voting in favour of the bill.²⁶⁷

The reasons for the bill not passing are varied. The most obvious explanation points to the Family Compact and its power in the Legislative Council to block government legislation. Another, and more likely, explanation was the lack of public support for the bill. This refers back to the accusations made against Macaulay following the poor attendance at the town meeting, as well as the commentary made by the petitioners of the 1831 bank bill, who acknowledge that with more public support, the bill was sure to pass. And so once again attempts at establishing a chartered bank in Kingston were stalled. This time, though, the idle period until the next petition was much shorter.

Looking at the men behind the 1830 petition, it is not surprising that some unfamiliar names figured on the list. Who were these men, and what interest did they have in establishing a bank? Prior to their involvement in banking, George W. Yarker, John Marks, George F. Corbett, Francis Archibald Harper, Abraham Truax and John G. Parker were merchants operating a variety of businesses. Ads in the local newspaper reveal that Marks and Yarker were hardware dealers. The nature of the other men's businesses is unknown. F.A. Harper was an agent of the Canada Company in 1828, and Abraham Truax was listed as being the town tax collector in 1829 – an important position that involved the constant handling of cash, and that required good accounting skills.²⁶⁸ Little is known about these men, no records giving insight into their background and business affairs appear to have been preserved. Therefore, their histories remain more or less anonymous.

The biographies of George Mackenzie, Thomas Kirkpatrick and John Mowat are recorded in the Dictionary of Canadian Biography. George Mackenzie was born in Scotland, and settled in Kingston in 1823. He began practicing law in 1828, and quickly built a strong reputation for himself

²⁶⁷ Kingston Chronicle, March 6, 1830; Adam Shortt's, 281.

²⁶⁸ Kingston Chronicle, June 20, 1819, July 19, 1828, January 10, 1829.

within the Kingston community. Like many of his banking cohorts, Mackenzie was active in the community. He was a member of several social and philanthropic groups, and he took pride in his Scottish heritage. Perhaps it was his Scottish background that gave him intimate knowledge of the importance and benefits of banking. After the first attempt to charter the Commercial Bank failed, Mackenzie embarked on a campaign to build support for a bank that was “independent of the tory compact’s control.” Thanks to his efforts, a second bill to incorporate the Commercial Bank passed and Mackenzie went on to become the bank’s solicitor. Mackenzie was a candidate for Frontenac County in the 1834 elections, but his pre-mature death from cholera cut short his political career.²⁶⁹

Like George Mackenzie, Thomas Kirkpatrick was a lawyer, who held political office for a brief period. Kirkpatrick was born in Ireland, and moved to Kingston in 1823, where he became a protégé of Christopher Hagerman. Kirkpatrick began practicing law in 1828, and he succeeded Hagerman as the town’s collector of customs from 1828 to 1845. Kirkpatrick’s involvement in banking went beyond his support for the establishment the Commercial Bank. He was local solicitor for the Bank of Upper Canada from 1837 until the bank’s collapse in 1866, and sat on the bank’s board of directors on six occasions between 1846 and 1853. Beyond his involvement in banking, Kirkpatrick was a politician holding several different public offices. He was Kingston’s first mayor following incorporation, but was disqualified for being a non-resident. While he was overlooked for a position in the Legislative Council in 1858, he became member for Frontenac in the first dominion parliament in 1867.²⁷⁰ With strong political and social ties, Kirkpatrick was an important asset to the foundation of the Commercial Bank.

Finally there was John Mowat, a soldier from Scotland who came to British North America to fight in the War of 1812. After the war he was discharged, and decided to try farming near

²⁶⁹ William Teatero, “George Mackenzie” in *Dictionary of Canadian Biography*, Volume 6 (1821-1835).

²⁷⁰ Baskerville, *The Bank*, 324-325; Max L Magill, “Thomas Kirkpatrick” in *Dictionary of Canadian Biography*, Volume 9 (1861-1870).

Kingston. In 1816, he moved into the town and became a merchant, starting a business with Joseph Bruce selling dry goods, groceries, crockery and glassware. In 1822, Mowat bought out his partner of his share of the business and expanded the shop. In 1849, he sold the business so that he could devote more time to other functions, such as the directorship of the Commercial Bank. Little is known about Mowat's involvement in the Commercial Bank beyond his directorship. Nevertheless, his Scottish background and his success as a merchant undoubtedly gave the Commercial Bank good credibility when it came time to submit a petition to the Assembly.²⁷¹ These men had good intentions in revisiting the banking question. However, their relative inexperience in the field must have made it difficult for them to muster the support. The concern required more men of influence to push the project ahead. Having examined some of the names behind the 1830 petition, we now return to the progress being made in founding the Commercial Bank of the Midland District.

The 1831 Petition Approved

Just under a year after the first petition to establish the Commercial Bank of the Midland District was defeated, the Kingston petitioners set out once again on its mission to open a bank. A meeting was held on December 3, 1830 to draft yet another petition to present to the Provincial Legislature. Although the previous effort may have been dismissed because of the lack of representation, this time support for a new bank was well founded. Members present at this meeting included, among others, David John Smith, who chaired the meeting, Thomas Markland, Allan McLean, F.A. Harper, John Watkins, John Mowat, George Mackenzie, Archibald Macdonell, and James Macfarlane.²⁷² The meeting comprised some of the community's most influential men to support the cause of founding a bank.

Allan McLean and Thomas Markland were no strangers to drafting bank petitions and

²⁷¹ Margaret Angus, "John Mowat" in Dictionary of Canadian Biography, Volume 8 (1851-1860).

²⁷² Kingston Chronicle, December 4, 1830.

resolutions. If there was anybody who could defend the interests of the local inhabitants in establishing a bank, it was certainly them. Markland alone was involved in every single piece of legislation to establish a chartered bank in Kingston, and was also for a lengthy period, the Kingston agent for the Bank of Montreal. Interestingly, while McLean and Markland's names would figure in the Act to incorporate the Commercial Bank of the Midland District, they never became an officer or a director of the bank.

James Macfarlane was an unfamiliar name in the banking world, and oddly enough, beyond his attendance at the December 3 meeting, his name was to never again appear in Kingston banking. Macfarlane was another Scot who came to Kingston shortly after the War of 1812. He was best known for his ownership of the *Kingston Chronicle*, which he had purchased from John Macaulay and Alexander Pringle in 1824. Macfarlane was reputed for providing free publicity to some of Kingston's benevolent societies. He also dabbled in other business ventures, such as insurance, and for a while ran a gardening supply business. As for his business dealings and involvement in banking, beyond this single instance where his name appeared in the meeting minutes to establish the Commercial Bank of the Midland District, Macfarlane appears to have never engaged in banking.²⁷³

Archibald Macdonell, David John Smith and John Watkins were relative unknowns in banking circles. While no information appears to exist on any of these men, all three were merchants who were also involved in the establishment of the Kingston Savings Bank in 1820. Like Thomas Markland, Macdonell's implication in the Commercial Bank only went as far as the 1832 act. Smith and Watkins, on the other hand, became directors of the bank.

Minutes of the meeting reveal that the members opted to use their political influence in the government to present their petitions. It was voted that Christopher Hagerman would present a

²⁷³ Jane Errington, "James Macfarlane" in *Dictionary of Canadian Biography*, Volume 7 (1836-1850).

petition to the Legislative Assembly, while George H. Markland would present one to the Legislative Council. It was also moved that David J. Smith, F.A. Harper, John Watkins, John G. Parker, Abraham Truax, George Mackenzie, John Mowat and George W. Yarker form a committee to draft the resolutions of the bank.²⁷⁴ Harper, Parker, Truax, Mackenzie, Mowat and Yarker, all individuals with no prior banking experience, were involved in drafting the previous resolutions, which failed to pass the Provincial Legislature. Men like George F. Corbett and Thomas Kirkpatrick, who went on to become associated with the Bank of Upper Canada, did not take part. It is clear that the addition of Markland and McLean added clout to the organization's effort to have the government take their petition seriously.²⁷⁵ Interestingly, further to the December 3 meeting, John S. Cartwright, whose name will figure prominently in the operations of the Commercial Bank, was present to move for the establishment of a branch of the Bank of Upper Canada in Kingston. This rather unusual proposal was immediately defeated. Nevertheless, the incident reveals that the Bank of Upper Canada was conjuring up a plan to stop the supporters of the Commercial Bank.

The officers and directors at the Bank of Upper Canada could no longer ignore the situation in Kingston. To deter the inhabitants of the town from supporting a new bank, the directors of the Bank of Upper Canada had to loosen their policy on branch banking. During the period in which talks of the Commercial Bank were underway, the Bank of Upper Canada presented its own options for banking to the Kingston inhabitants. At a meeting held on December 8, 1830, resolutions were drafted petitioning the government to increase the Bank of Upper Canada's capital, and to allow it to open a branch with an independent board of directors in Kingston. John Kirby, once a firm supporter of a separate bank in the town, and now a member of the Legislative Council and

²⁷⁴ Kingston Chronicle, December 4, 1830.

²⁷⁵ See Table 3, "Names Associated with Kingston Banking (1818-1837)," page 103-04 for the involvement of these parties in other banking ventures in Kingston.

shareholder of the Bank of Upper Canada, chaired the meeting. Two other members in attendance, who would later go on to play prominent roles in the rise of the Commercial Bank, were John S. Cartwright, son of Richard Cartwright, and Thomas Kirkpatrick, one of the petitioners for the Midland District Bank earlier that year. John Macaulay, the Bank of Upper Canada's current agent, of course was also an important player in the push for a full branch. With support like this, the Bank of Upper Canada's efforts could not fail.

The minutes of the meeting seemed to indicate that there were strong arguments for the establishment of a branch of the Bank of Upper Canada, instead of the creation of a whole new bank. Interestingly, the minutes also revealed that "in consequence of the attendance of persons inclined to support the Commercial Bank, the motion [was] declared lost."²⁷⁶ The following day another meeting was held where apparently fewer supporters of the Commercial Bank were in attendance, and the resolution was passed to petition the government to open a branch of the Bank of Upper Canada in Kingston with a capital stock of £50,000. Subscription books were to be opened in Kingston, Bath, Belleville and Hallowell. As previously mentioned, the branch was to elect its own board of directors who would be responsible for the daily operations of the branch autonomous of the main branch in York.²⁷⁷ These resolutions were totally contradictory to the bank's policy on branch banking. To prevent any competition, however, extreme measures had to be taken. The absence of government records for the time period does not permit us to learn who brought up the petition, nor how the petition was received. In the end it was agreed in 1832 that the Bank of Upper Canada could double its capital, but only after six months, this to allow for the subscription of Commercial Bank stocks to go unhampered.²⁷⁸ Although the Bank of Upper Canada succeeded in opening a branch in Kingston, it could not stop the progress of the Commercial Bank.

²⁷⁶ Kingston Chronicle, December 11, 1830.

²⁷⁷ Ibid.

²⁷⁸ Baskerville, The Bank, lvi.

Reaction to the second effort to establish the Commercial Bank received mixed feedback. A notice in the *Kingston Chronicle* of December 25, 1830 mentioned that subscription books for the bank were open, and that stock in the bank was being quickly subscribed. The notice also alluded to the failure of the 1830 petition stating lack of public interest. This time, interest in the Commercial Bank was undeniable. There were still, however, some pessimists who did not believe that the Commercial Bank bill would pass. A letter from “Anti-Monopolis” appeared in the same edition of the *Kingston Chronicle*. It commented that the Bank of England was a monopoly that had a negative impact on agriculture and commerce in England, and that the Bank of Upper Canada, much like the Bank of England, was a threat to the province’s economic prosperity. Given the Bank of Upper Canada’s privileged position, Anti-Monopolis was convinced that the Commercial Bank bill would again be defeated because of the Provincial Legislature’s close ties to the Bank of Upper Canada. According to the author, had the Bank of Upper Canada been more proactive and less reactive toward the question of branch banking, the institution would not have been subject to such criticisms and attacks from the public.²⁷⁹ Let us now examine how the second Commercial Bank petition fared in the legislature.

The petition from Thomas Markland and “88 other inhabitants of Kingston” (as stated in the Assembly journals) was presented to the Legislative Assembly on January 10, 1831. As it was decided at the meeting, Christopher Hagerman brought up the petition, and moved that it be referred to a committee for the purpose of drafting a bill. The bill was read a first time on January 19, and was once again referred to committee for further improvements. Finally on February 4, 1831, the bill went through its third reading. There were still some opponents to the bill who tried to stall its promulgation, but the majority was carried 29 yeas against 9 nays. There appears to have been no partisan politics when it came to passing the Commercial Bank bill. Those who opposed the bill

²⁷⁹ Kingston Chronicle, December 25, 1830.

were not necessarily unanimous supporters of the Bank of Upper Canada, nor were they all from ridings that immediately benefited from banking. In fact some who did vote in favour of the bill were shareholders of the Bank of Upper Canada. Of course there were the Reformers who condemned banking altogether.

The bill, entitled “An Act to incorporate certain persons under the style and title of the President, Directors and Company, of the Commercial Bank of Upper Canada,” was sent up to the Legislative Council where it was once again defeated. News of the bill’s defeat prompted a town meeting on March 2, where inhabitants reaffirmed their faith in the bank, and urged that the organizers pressure the council to revisit the bill. Their pleas were successful as the bill was re-introduced in the Assembly when session resumed in November of 1831. At the same time that the Commercial Bank bill was going through the lower house, the Legislative Council had introduced a bill to increase the stock of the Bank of Upper Canada, which had finally managed to subscribe all of its stock. In a “quid pro quo,” the upper house passed the Commercial Bank bill, which most of the members of the Assembly had supported, and in return the lower house passed the Bank of Upper Canada amendment bill.²⁸⁰ The name of the bank in the new bill was changed from the Commercial Bank of Upper Canada to the Commercial Bank of the Midland District, and on January 28, 1832 the act received royal assent (2 Wm. IV, c.11 U.C.). The inhabitants of Kingston could rejoice. After twenty years of effort, they finally secured their first bank charter.²⁸¹

²⁸⁰ McAllister, “The Commercial,” 39.

²⁸¹ PLUC, Journal of the House of Assembly of Upper Canada, from the 7th January, to the 16th March 1831 (Toronto: W.L. Mackenzie, 1831): 9, 16, 34, 41-42.

5.3 The Commercial Bank of the Midland District: The Early Years (1832-1837)

To date, very little has been written about Upper Canada's second largest bank. Beyond the general histories on currency and banking by Breckenridge, Shortt and McIvor, in which the Commercial Bank of the Midland District is only mentioned, there exists a Master's thesis on the Commercial Bank written by Anne Brough McAllister (Queen's University, 1984). McAllister examines the entire existence of the Commercial Bank from inception to failure in 1867. Her thesis tells the story of Kingston's first and only chartered bank, and places the institution in the context of Kingston's social and economic environment. The bank was an important amenity to the inhabitants of the town, and McAllister succeeds in highlighting this.²⁸² In her examination of the first years of the Commercial Bank's operations between 1832 and 1837, McAllister acknowledges the bank's efficiency to organize the business in a timely manner, to open branches and agencies throughout the province and to constantly improve the bank's finances, all at a time when the banking system was under severe scrutiny in social and political circles. While many were pushing for the establishment of new banks, firm opposition from the Reformers, and William Lyon Mackenzie in particular, threatened to kill any banking legislation. The backlash of the event did have some repercussions on the Bank of Upper Canada and the Commercial Bank, yet they both managed to limit the damage.²⁸³ The financial crisis of 1837 was another test for banks in the province to overcome adversity. This will be further examined momentarily. For now, let us examine the Commercial Bank's charter.

As it was seen previously, it appears that the inhabitants of Kingston received their charter at an auspicious time before the Provincial Legislature became inundated and embroiled in banking legislation between 1833 and 1837. Although it was an arduous journey for the Kingston

²⁸² McAllister, "The Commercial," 2-14.

²⁸³ Ibid, 45-60.

petitioners, once the petition had reached the legislature, it was a question of process and formality. While there was some resistance encountered in the Legislative Council, overall no one, not even the Family Compact, mounted any great opposition against the bank. Of course it had attempted to push through a bill to increase the capital of the Bank of Upper Canada in a bid to open a branch in Kingston, yet even that piece of legislation took a back seat to the Commercial Bank bill.

When comparing the charters of the existing banks in Upper and Lower Canada (see Appendix 1), we see that the authors of the bill did not diverge from convention, and drafted a charter that was almost identical to that of the Bank of Upper Canada, except for two important points: first, there was no mention of government ownership of stocks, and second, the Commercial Bank was authorized to open branches in other parts of the province. This was a rider that was eventually added to most bank charters including that of the Bank of Upper Canada. The capital of the Commercial Bank was set at a respectable £100,000 divided into 4,000 shares of £25 (\$100) each, which apparently it had no trouble subscribing. Subscription books were opened all over the province, and in less than a year the entire capital of the bank was subscribed. Before long, the Commercial Bank was applying to the Legislative Assembly to have its capital doubled to £200,000, which was granted in March 1835.²⁸⁴ Examining the minute books of the Commercial Bank of the Midland District held at the Bank of Montreal Archives, it is impressive to note how prolific the business of the bank had become.

When the minimum £40,000 in capital stock was finally subscribed, the first shareholders' meeting was held on March 15, 1832 to elect a board of directors. On the first board sat John Strange, G.W. Yarker, John Mowat, David J. Smith, John Marks, Robert Drummond, Abraham

²⁸⁴ PLUC, Journal of the House of Assembly of Upper Canada, from the 15th day of January 1836, to the 16th day of April 1835 (Toronto W.L. Mackenzie, 1835): 261.

Truax, J.G. Parker, John Watkins and John S. Cartwright.²⁸⁵ Some of these men had been involved in the initial 1830 petition. But one man in particular who was a surprising addition to the ranks of the Commercial Bank was John Solomon Cartwright, the son Richard Cartwright, Kingston's most prominent merchant at the turn of the nineteenth century. It was stated earlier that Cartwright had supported the Bank of Upper Canada in its bid to open a branch in the town.

Cartwright's loyalty to the Bank of Upper Canada can be traced back to his close ties with members of the Family Compact. Coming from a very affluent family, Cartwright had easy access to the province's most influential men. He received his education from John Strachan, the father of the Bank of Upper Canada, and in 1820, he proceeded to York where he studied law under John Beverley Robinson, the Attorney General of Upper Canada. By 1830, he was engaged in the affairs of the Bank of Upper Canada. It is not clear when Cartwright returned to Kingston, nor how or why he joined the Commercial Bank. Yet, at the very first shareholder's meeting he was not only elected as a director, but he was also named the bank's first president, a position he would keep until his death in 1845.²⁸⁶ F.A. Harper, another founder of the Commercial Bank, was named the bank's cashier. Over the years, the board of directors remained fairly stable with only a few changes with some men passing away, and others leaving to pursue other careers.²⁸⁷

Activities of the Commercial Bank of the Midland District to 1837

While it took the Bank of Upper Canada several months and two amendments to its charter to finally open for business, the Commercial Bank of the Midland District published its first notice of

²⁸⁵ Bank of Montreal Archives (BMO), Commercial Bank of Canada fonds, minutes book, 1832-1836.

²⁸⁶ J. Douglas Stewart and Mary Stewart, "John Solomon Cartwright" in *Dictionary of Canadian Biography*, Volume 7 (1836-1850).

²⁸⁷ See Table 3, "Names Associated with Kingston Banking (1818-1837)," page 103-04 for names of directors, and their affiliation with other financial institutions, if any.

operation in the *Kingston Chronicle* at the end of April 1832.²⁸⁸ Its days of discount were Tuesdays and Fridays, at which time a director was present to take in the instrument that was to be negotiated at the next director's meeting. On May 3, 1832, it was reported that the bank had engaged Rawdon, Clark & Company of Albany, New York to print its notes. The printing plates were duly approved, and a total of £20,000 in denominations of \$1 and \$2 were ordered.²⁸⁹

Business at the bank was brisk. The minute books often reported total amounts discounted for the week in the hundreds and thousands of pounds. Because of the pretended bank fiasco, banks were obligated to submit financial reports to the government. Appendix 2 provides a clear overview of the Commercial Bank's financial situation in comparison with that of the Bank of Upper Canada, and later the Gore Bank. The Commercial Bank was doing well, and it had built itself a good reputation not only within the community, but also throughout the entire province.

It did not take long before the directors of the bank contemplated branching-out. In June of 1832, agents were appointed for offices in Montreal, Brockville, Prescott, Bytown, Belleville, Port Hope, York, Dundas and Hallowell. An agency in Perth was opened in August of the same year. Further along, agencies were opened in Brantford (1834), London (1834), Amherstburg (1835), St. Catharines (1835), and St. Thomas (1837). Agencies were outlets, often run by a local merchant, for issue notes, accept commercial paper for discounting, and to take in deposits. Agents had no authority over the discounting of notes, which had to be conducted at head office in Kingston. It was recognized that delays in discounting notes was cumbersome and time-consuming. In order to speed the process, the directors resolved that a full-fledged branch, complete with its own directors, be opened at York. The minutes of November 26, 1832 indicate that George Munro, Peter Dicht, J.R. Armstrong, S. Burnham, J. Smith, and John Ross were elected directors of the York branch of

²⁸⁸ *Kingston Chronicle*, April 30, 1832.

²⁸⁹ A second order of bank notes in 1836 added \$5 and \$10 notes to the Commercial Bank's circulation. See Appendix 3 for examples of Commercial Bank notes. BMO, Commercial Bank of Canada fonds, minutes book, 1832-1836.

the bank. John Ross was appointed cashier, and Thomas Muir became the branch's bookkeeper and teller.²⁹⁰ With a branch in York, the agents of the bank in the western part of the province could now go to York for their business.

For several years the operation of the Commercial Bank was carried in a rational, methodical, and forthright manner. At no time did there seem to be any personal conflicts or standoffs either among the directors and officers of the bank, nor with other institutions. In fact, the Commercial Bank sought to adopt sound business practices with its partners and competitors. Before opening a branch in York, the bank had negotiated with the Bank of Upper Canada to accept notes from its agent at par. In August 1833, the president of the Commercial Bank sought to establish with the Bank of Upper Canada a common currency for the province, which in the end came to naught. In October 1833, the Commercial Bank agreed that it would act as an agent of the City Bank based in Montreal at a charge of 25 per cent of all proceeds.

Some other ventures were intended to give the Commercial Bank a distinct advantage. When subscription books for the Gore Bank were opened in 1835, agents of the bank in the towns where the books were opened were instructed to purchase as many shares of the bank as possible. The order was later rescinded on October 29, 1835.²⁹¹ The bank's good conduct would certainly help it to weather the financial storm that was about to hit North America in the spring of 1837.

Clientele of the Commercial Bank

Any insight into the Commercial Bank's clientele would certainly help to support or refute the theory that farmers used banks instead of continuing to rely on direct trade with merchants to settle accounts. Although this statement is based mostly on conjecture, given the circumstances surrounding banking in the 1830s, most farmers did not readily use banking facilities until at least

²⁹⁰ BMO, Commercial Bank of Canada fonds, minutes book, 1832-1836.

²⁹¹ Ibid.

the 1850s. From the 1820s to the 1850s, banks, for the most part, served a clientele mainly consisting of merchants to redeem and discount notes, and professionals to receive deposits. A notice in the *Kingston Chronicle and Gazette* stipulated that deposits of minimum \$50 would only be accepted, to which an interest would be paid.²⁹² For farmers and labourers this was a substantial sum of money, and probably deterred them from opening an account. Unfortunately, any empirical evidence to identify the clientele of the bank simply does not exist. Client information was highly confidential, and obsolete and outdated account ledgers were most likely destroyed. It is confirmed that those of the Commercial Bank no longer exist. Peter Baskerville makes the same allusion to the records of the Bank of Upper Canada, which were “sold in the 1870s at \$20 a ton to a paper manufacturer.”²⁹³

The Financial Crisis of 1837

The panic of 1837 was an economic crisis that mostly affected the United States, but that had severe repercussions for banks in British North America. It is generally agreed that the main cause of the crisis emanated from within the United States, and was not the result of international shock. Peter Rousseau, in his article on the financial crisis of 1837, contends that the cause of the crisis stems from an increased demand for specie in the west, which drained the larger banks in east of their reserves and rendered the panic inevitable.²⁹⁴ The early 1830s was a time of expansion and prosperity. Much of the growth in these years had been fuelled by the widespread construction of new railroads and canals. Millions of acres of public lands were sold by the government, mostly to speculators. Their hope was to purchase well-located parcels that would increase in value as the railroads and canals brought settlers and traffic into their areas. Hundreds of banks, some of dubious

²⁹² *Kingston Chronicle and Gazette*, July 12, 1834.

²⁹³ Baskerville, *The Bank*, preface.

²⁹⁴ Peter L Rousseau, “Jacksonian Monetary Policy, Specie Flows, and the Panic of 1837” in *Journal of Economic History* 62, 2 (2002): 457.

reputation sprouted throughout the country to claim a stake in the economic boom that had hit the country. According to Bray Hammond, in 1836 there were over 600 banks, “of which more than one-third had been set up in the previous three years.”²⁹⁵ Operating on little to no specie, these banks granted loans for the purchase of land. The loans were paid out in bank notes. The money received for lands would be deposited into these banks, credited to the government, and then re-loaned back to speculators. Thus the government had credits in banks to more than the amount of their capital, and their assets consisted almost entirely of the notes of western speculators. Soon the speculation frenzy turned inflationary, and the markets quickly became overheated.

The surplus of bank notes in circulation got so out of hand that the government took action. The Jackson Administration issued the Specie Circular, which stipulated that as of August 15, 1836, the U.S. Treasury would no longer accept bank notes for the payment of public lands. The outcome had disastrous effects as landowners had to resort to specie to pay for their land. Immediately they flocked to the banks to cash in their notes for specie. A chain reaction was set off where banks in the west called on their specie suppliers in New York to back their notes. Early in the spring of 1837, many business houses in New York succumbed to the demands of the banks in the west and failed as a result. Finally on May 10, 1837, every bank in New York suspended all payment of notes in specie. The fallout of the panic led to much carnage in the banking sector with more than one third of the banks in operation failing. Inflation brought about by a surplus of bank notes and shortage of supplies (too much money chasing too few goods) led the country into a depression. Speculators, merchants, companies and the public at large fell on hard times. Many had blamed the panic on President Van Buren’s unwillingness to involve the government in the economic crisis, but the causes of the panic had far deeper roots.²⁹⁶

²⁹⁵ Hammond, Banks, 453.

²⁹⁶ Rousseau, “Jacksonian,” 458-488.

Banks in British North America were not immune to events occurring in the United States. When word of the financial crisis in the United States had reached British North America, banks had to prepare for the shock of American banks wanting to cash in their note holdings in exchange for specie. In Lower Canada, the big banks had unanimously agreed to suspend specie payments, and did so on May 17, 1837. Notices were published in the newspaper that specie payments were suspended indefinitely, but that notes from all banks would be accepted at par. The move from the Lower Canadian banks was an evasive one as their creditors in New York, such as the firm of Thomas Wilson & Co., who conducted business with the Bank of Montreal, were looking to redeem their holding of Bank of Montreal notes for specie. Soon banks in other parts of the colony followed suit and were forced to suspend specie payments. Interestingly, while the Lower Canadian and Maritime banks managed with no failures to speak of, the effects of the crisis were more widely felt in Upper Canada.²⁹⁷

For the banks in Upper Canada, specie suspension was initially not an option. The charters of the three banks, the Bank of Upper Canada, the Commercial Bank and the Gore Bank forbade that the suspension of specie payments, which would result in the forfeiture of their charter. All three banks were in a precarious situation. The directors of the Bank of Upper Canada were split on the issue, but continued nonetheless to redeem notes in specie. Thanks to government support, the bank was able to inject specie into its coffers to cover the redemption of notes. In the first few months, circulation of notes had greatly decreased, thus further assisting the bank. When the bank could no longer resist, it appealed to Lieutenant Governor, Sir Francis Bond Head, to amend the banking legislation regarding the suspension of specie. Bond Head agreed but with the provision that only notes from banks paying specie would be accepted for government business.²⁹⁸ Finally,

²⁹⁷ Denison, *Canada's*, 332-338.

²⁹⁸ Baskerville, *The Bank*, lxxix-lxxxiii.

the Bank of Upper Canada was forced to suspend specie payment in March 1838 in reaction to the Commercial Bank, who did not enjoy the luxury of government support to keep its head above water. With little chance of local support, in July, the directors of the Commercial Bank had set out to negotiate with their counterparts in Montreal and New York in an attempt to prop up the bank during the crisis, but no one was in a position to assist them.²⁹⁹

With few options at its disposal, the Commercial Bank of the Midland District was first to suspend specie in Upper Canada on September 29, 1837. As Baskerville comments, the Commercial Bank's situation helped to improve that of the Bank of Upper Canada. Following Bond Head's proclamation, people were forced to use Bank of Upper Canada notes to settle all transactions with the government. "As a suspended bank, the Commercial Bank could no longer directly obtain exchange or specie from the government."³⁰⁰ This further exasperated the situation, for, in want of specie, the Commercial Bank attempted to buy up Bank of Upper Canada notes to present for redemption in specie. Instead, the notes were redeemed with Commercial Bank notes. The Commercial Bank was no further ahead in replenishing its reserve of specie.

The financial crisis of 1837 had badly bruised the Commercial Bank, who unlike its Upper Canadian counterpart could not seek the shelter of the government to protect it. While the whole episode was a trying time for the bank, it survived the storm and managed to carry on business for thirty more years without too much drama. As for the rest of the province, when specie payment resumed in May of 1838, it survived more or less unscathed with its three chartered banks, the Bank of Upper Canada, the Commercial Bank and the Gore Bank, two private banks, the Bank of the People and the Farmer's Bank, and the Bank of British North America. It would not take long

²⁹⁹ BMO, Commercial Bank of Canada fonds, minutes book, 1837-1840.

³⁰⁰ Baskerville, The Bank, lxxxiii.

before the next flurry of bank petitions would once again flood the Provincial Legislature. After the union of the Canadas in 1841, though, the situation would become far more complex.

5.4 After 1837: Kingston's Fall From Economic Prominence

We conclude this study on banking in Kingston with an assessment of the economic situation in Kingston after the opening of the Commercial Bank of the Midland District in 1832. Up until the establishment of the bank, Kingston was the commercial centre of the province boasting the largest population, the most mills in operation and the thriving trans-shipment and forwarding business. All that changed when economic growth in York and Hamilton surpassed that in Kingston in the mid-1830s. Somewhere, although the possibilities are remote, the development of banking and the outcome of the province's first banking legislation had to have some sort of impact. Unfortunately insufficient evidence will prevent us from ever really learning the truth. For now, Osborne and Swainson's explanation of town's decline seems the most plausible:

The loss of this seat of government a mere three years later was a major economic and psychological blow. It was accompanied, moreover, by other setbacks that affected Kingston's economic structure. The waning of the St. Lawrence traffic in grain following the repeal of the British Corn Laws in the late 1840s diminished Kingston's port activity. Also, the improvement of navigation along the St. Lawrence [and other waterways, such as the Erie Canal] allowed more traffic to bypass Kingston. The completion of the Montreal-Toronto rail connection in the 1850s was another blow to Kingston's shipping function. And with the closing of the British naval station at Point Frederick in 1834, and the formal termination of the British military presence in 1870, another important dimension of Kingston's economic base was lost.³⁰¹

In time, it became evident that Kingston was destined to fall into economic obscurity. Even though the town experienced good population growth, it paled in comparison to Toronto and Hamilton. In 1817, when the first bank petition was drafted, the population in Kingston estimated at 2,500 was more than double that of York (1,200 inhabitants). By 1832, and the opening of the

³⁰¹ Osborne and Swainson, *Kingston*, 2.

Commercial Bank, Kingston's population had risen to 4,196, with York close behind at 3,969. The figures for the Midland and Home Districts were also fairly comparable at 37,457 and 40,650 respectively. Niagara and the Niagara District lagged far behind. In 1851, Kingston had officially slipped to third place behind Toronto and Hamilton in the ranks, with a population of 11,697 against a population of 30,775 for Toronto and 14,112 for Hamilton. The shift in population growth to the west caused the concentration of commercial activity to follow. Economic output in the town diminished as more and more business was being lost to merchants in the west.

On the topic of becoming the province's capital, this was an ambition that Kingstonians had longed for. Ever since the establishment of the town, its inhabitants were convinced that it should be the seat of government. It is undeniable that this was a major asset to the establishment and success of the Bank of Upper Canada. Yet despite the shortcoming, Kingston had proven that it was an important commercial centre without also having to be at the political centre of the province. Yet, as the laws would indicate, York received a bank simply because it was the "seat of government." Evidence shows that this did not necessarily make it easier for the bank, because with lack of popular support, it took many months, and two amendments to its charter for it to open. This had nothing to do with the fact that York was the capital of the province. Besides when Kingston did enjoy its brief spot in the limelight after the union of the Canadas, the town's fortunes did not dramatically change. Maybe having been the capital of the province in 1817 would have secured Kingston its first bank charter, but it was because of its economic and commercial strength that it deserved a charter, not because it should have been the province's capital.

The fact that it took so long for Kingston to secure a bank charter meant that perhaps many opportunities were lost. Other banks, such as the Bank of Montreal, recognized the commercial potential of the town, and went to great efforts to keep an agency open there, however, at the end of

the day the profits that the Bank of Montreal was generating went back to Lower Canada. The same goes for the other banks that benefited from the town's commercial success, but that did not necessarily share the spoils with the local inhabitants.

CONCLUSION

This thesis has revealed the numerous challenges that Kingston faced to secure its first bank charter in 1832. It was recognized early on that banking facilities were imperative to solve the province's cash flow problem, and that incorporation was necessary to give credibility to financial institutions. Only with a charter, so it was assumed, could banks fulfil their purpose, and the public trust using bank notes. Banks were intended to assist merchants, to facilitate commercial trade, and to further the economic development of the province. In 1810, a petition to secure a bank charter was presented to the Provincial Legislature, but no further action was taken. Soon afterwards, the War of 1812 prevented any further chance of pursuing the idea. During the war, the issue of Army bills for the British military to purchase supplies circulated as money in both Upper and Lower Canada, thus providing a much needed, albeit temporary, relief to the cash shortage. When the Army bills were withdrawn from circulation after the war, Kingston merchants revisited the issue of banking, and in 1817, submitted another petition to the Provincial Legislature for a bank charter. The wide acceptance of Army bills gave many a renewed faith in the use of paper money, and the government immediately drafted a bill to incorporate the Bank of Upper Canada in Kingston. The bill was voided for non-use, with royal assent having been granted only after the bill had expired. With no word from the Colonial Office after over a year, a group of merchants from Kingston, some of which were part of the 1817 petition, established their own private institution under the same name, which opened without a charter in 1819. At the same time, the remaining Kingston petitioners had once again re-submitted a petition to the government praying for a bank charter.

The situation was further complicated when a group of merchants from York also submitted a petition of their own to open a bank there. In the interest of establishing a "provincial bank," which would accommodate everyone's needs, the Legislative Council passed a bill for the

establishment of a bank at the “seat of government,” in other words, at York. The York petitioners had received their charter. At the same time a bill for the Bank of Kingston was drafted and passed, but never used because the organizers could not raise the required capital. The directors of the private Bank of Upper Canada figured they did not need a charter. Evidence tends to show that this turn of events was a conspiracy by the Family Compact, who, through its control of government, sought to establish a bank at York for its own interest. Most members of the Family Compact eventually became shareholders of the Bank of Upper Canada (York), and many members of the legislature, who were not part of the Compact, were also involved in the bank. Whatever the connections, it is clear that there was firm support on behalf of the government for the York bank.

The debacle of the failure of the “pretended” Bank of Upper Canada in 1822 certainly had an impact on the general attitude toward banking, which further hindered Kingston’s chances of securing a bank charter. For years, the government dawdled with the issue of settling the affairs of the late pretended bank. Even well into the 1830s, new laws were being passed in an attempt to put an end to the fiasco. Whether or not government interjection, and the subsequent delays in settling the affairs of the bank were intentional is not known, but it may have been another ploy to delay Kingston’s chances of receiving a bank charter. This unfortunate episode in Kingston banking had ruined many careers, and tarnished the reputation of some Kingston’s most prominent merchants and social activists. The proponents of banking in Kingston had to lay low for a while to allow for the storm to pass.

In 1829, the debate on banking was once again opened in light of the new economic boom that was hitting the province, and in reaction to the renewed threat of external competition coming from the Bank of Montreal. Pressure on the government for increased banking services came from all parts of the province. This time the government could not ignore the demands of the Kingston

petitioners, and finally in 1832, a bill to incorporate the Commercial Bank of the Midland District was passed. After more than twenty years, Kingston had finally received its own chartered bank. The bank enjoyed immediate success having subscribed enough shares to elect a board of directors, and open for business within a couple of months of enactment. As a true test of its financial strength and good reputation, the Commercial Bank survived the financial crisis of 1837, which had claimed so many victims south of the border. Fortunately, most of British North America's financial institutions escaped the crisis unscathed.

This dissertation has clearly demonstrated that the political obstacles that the Kingston petitioners faced were central to delays in receiving banking facilities. While there were no apparent signs of corruption within government to support the Bank of Upper Canada in York, nor was there any ill-will expressed toward the Kingston petitioners, it is purely by circumstance that, because the government wished to have a bank in close proximity, the York petitioners won and the Kingston petitioners lost the bid for the province's first bank. It was proven that the charters granted to both York and Kingston in 1819 were not equal and that in fact, good fortune had found the York constituents. The York bank had the government as its principal shareholder, and managed some of the government's accounts. The Kingston bank had no dealings with the government. The York bank opened on a minimum paid-up capital of £10,000, following an amendment to the act just days prior to the expiry of the bank's charter. The Kingston bank's minimum paid-up capital was £20,000, a sum that had proven impossible for the York constituents to raise to commence operations. The York bank could issue notes as low as 5 shilling (one dollar). The Kingston bank's smallest denomination authorized for circulation was 10 shillings. In a day when a dollar went a long way, one could only imagine the great injustice the Kingston bank would have suffered as a result of being forced to handle Bank of Upper Canada notes. Was this all a conspiracy? It is

difficult to say because it is only after the establishment of the Bank of Upper Canada in York that many politicians and other members of the Family Compact invested in the bank.

Certainly after the Bank of Upper Canada had opened did it become more apparent that it received special treatment from government, especially since many of its shareholders were members of the legislature. That said, the Bank of Upper Canada could never be accused of being corrupt or even criminal. The bank did operate within the strict mandate of its charter, and for over 45 years maintained a good reputation within the world of finance. To the dismay of many people, the Bank of Upper Canada was reluctant to expand its banking facilities, and was not really in the business to accommodate farmers, small businesses and the general public. By the 1830s, the inhabitants of the province were pleading for more banks.

Beyond the political issues, there were also the economic factors that made it difficult to find the capital to support a bank. The Bank of Upper Canada in York, for example, had to apply to have its charter amended to reduce the initial capital required to commence operations. Even with financial support of the government, the bank could not muster up enough funds. As Douglas McCalla had claimed, there was hardly enough capital in the entire province to support one bank, let alone two of them. Part of the reason for the absence of capital to open a bank derives from the fact that most settlers who arrived in Upper Canada had no assets to speak of, and could not afford to invest in a bank. Many of the Loyalists who first settled in Cataraqui in 1784 were expelled from the United States and had left behind all their possessions. They had received land grants to settle in the province, and they were somewhat compensated for their losses, however their means to prosper were trying. The same goes for immigrants from Britain and Ireland who were escaping poverty and depression in their homeland. They began arriving in Upper Canada after the War of 1812 in search of a new life. The province was already suffering from a monetary crisis, which the new immigrants

could do little to alleviate. They had no money or assets to invest in a bank. In the late eighteenth and early nineteenth centuries, commerce in Upper Canada was largely conducted relying largely on credit. While this system did help many merchants to expand their business, it is only with proper banking facilities that commerce could grow through the injection of cash in the form of bank notes into the economy, and the banks' ability to create the capital necessary to grow the economy.

Kingston was a thriving commercial centre in the early part of the nineteenth century, and in spite of the apparent shortage of capital, the town was well positioned to establish banking facilities. Merchants in the town would have welcomed a bank to further improve their lot, however armed conflict and political process did not work in their favour. One must admit that the location of the province's capital certainly played an important role in where the province's first bank was going to be located. Even at the time, Kingstonians were convinced that their town should be the capital of the province. Had such an event occurred, would the fortunes of the town have changed? Would Kingston have replaced Toronto as Canada's financial capital? Or, more in line with the subject of this dissertation, was it banking that became the determining factor in the fate of both towns? These are questions to which one could only provide speculative answers. One thing is sure, Kingston's commercial prominence fell into obscurity after the 1830s, after York became the province's business and financial centre. Perhaps if the town had secured a bank charter early on, its economic fortunes would have been prolonged. Unfortunately, we will never know.

APPENDIX 1

Comparison of Charters and Articles of Association of Financial Institutions Operating in Upper Canada (1817-1837)							
Institution / Article	Montreal Bank (Bank of Montreal after 1821)	Bank of Upper Canada (Kingston)	Pretended Bank of Upper Canada	Bank of Upper Canada (York)	Bank of Kingston	Commercial Bank of the Midland District	Freeholders Bank of Upper Canada
Year of foundation and incorporation	1817, incorporated in 1822	1817, charter voided for non-use	1819, not incorporated	1819, incorporated in 1821	1819, not incorporated	1831, incorporated in 1832	1837 not incorporated
Capital stock	£250,000 (I)	£125,000 (V)	£125,000 (I)	£200,000 (V) Amended in 1823 to £100,000	£125,000 (V)	£100,000 (V)	£1,000,000
No. of shares / cost per share	5000 / £50 (I)	10,000 / £12/10/0 (II)	5,000 / £25 (I)	16,000 / £12/10/0 (II)	10,000 / £12/10/0 (II)	4,000 / £25 (II)	40,000 / £25
Maximum shares held by one person at IPO	20 payable in Gold or Silver (I)	80 payable in Gold or Silver (II)	200 payable in Gold or Silver or Montreal Bank bills (I)	80 payable in Gold or Silver (IV)	80 payable in Gold or Silver (III)	60 payable in Gold or Silver (III)	Minimum of four shares payable in Gold or Silver or secured by mortgage.
Paid up capital (to issue notes)	£25,000 (II)	£20,000 (VI)	£10,000 (II)	£20,000 (VII) Amended in 1822 to £10,000 w/ half from government.	£20,000 (VI)	£10,000 (VI)	£50,000 (IX)
No. of Directors	13 (III)	15 (VII)	13 (III)	15 (VIII)	15 (VII)	10 (VII)	5 (X)
Land holdings	No land holdings other than the premises where business is conducted. (XV)	No land holdings other than the premises where business is conducted. (XIV)	No land holdings other than the premises where business is conducted. (XV)	No land holdings other than the premises where business is conducted. (XV)	No land holdings other than the premises where business is conducted. (XIV)	No land holdings other than the premises where business is conducted. (XIV)	Because stock can be paid in land, then the Bank held land as an asset.
Debt to capital ratio	3 times (XVI)	3 times (XII)	3 times (XVI)	3 times (XIII)	3 times (XII)	3 times (XII)	3 times (XV)
Note issue	No mention, but min. was \$1 (5sh)	Min. 10sh. (XIII)	No mention, but min. was \$1 (5sh)	Min. 5sh. (XIV)	Min. 10sh. (XIII)	Min. 5sh. (XIII)	Min 5sh. (XVI)
Branches	No mention.	Yes with authorization of Dir. But a branch must be opened in York within 2 years. (XXX)	No mention.	Yes with authorization of Dir. (XXI)	Yes with authorization of Dir. But a branch must be opened in York within 2 years. (XX)	Yes with authorization of Dir. (XX)	No mention.
Government to hold shares	No mention.	No mention	No mention.	Up to 2000. (III)	No mention.	No mention.	No mention.

Source: Denison, Canada's, Appendix A; PLUC, Provincial Statutes of Upper Canada; Kingston Gazette, December 14, 1818; n.a., Synopsis of Act to Incorporate the Freeholders' Bank. York: 1837.

Notes: The roman number in parenthesis refers to the article number in the charter.

APPENDIX 2

Financials of the Principal Banks Operating in Upper Canada from 1817 to 1837.													
Institution	Bank of Montreal				private Bank of Upper Canada (Kingston)				Bank of Upper Canada (York)				
	Year	1817	1826	1831	1834	1837	1823	1824	1826	1827	1828	1829	1830
Liabilities													
Paid up capital	150,000	187,500	250,000	250,000	250,000	250,000	1,1136 (7,896*)	31,600	54,039	72,067	72,410	77,462	100,000
Notes in Circulation	n/a	133,005	223,558	227,439	180,692	18,176	26,699	61,298	87,339	122,858	140,488	156,296	187,039
Total deposits	n/a	142,555	109,953	184,882	234,776	900	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Debts due by bank	n/a	n/a	48,940	23,577	n/a	0	11,466	17,468	19,484	32,376	35,102	38,303	33,621
Total liabilities	150,000	n/a	647,756	686,524	n/a	26,970	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Assets													
Specie in vault	n/a	99,511	98,513	73,870	68,811	0	10,523	17,145	19,066	21,177	23,190	33,134	42,664
Real Estate & furniture	n/a	n/a	11,291	7,500	n/a	0	8,189	13,126	38,391	36,765	47,271	32,983	22,333
Bills of other banks	n/a	n/a	9,315	4,688	n/a	0	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Debts due to bank	n/a	371,334	528,820	600,464	686,942	22,227	31,525	80,453	107,598	171,869	180,854	214,045	260,577
Total assets	150,000	n/a	647,756	686,524	n/a	29,111	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Commercial Bank of the Midland District													
Gore Bank													
Commercial Bank of Upper Canada (York) cont...													
Commercial Bank of Upper Canada (York)													
Year	1832	1833	1834	1835	1836	1837	1833	1834	1835	1836	1837	1836	1837
Liabilities													
Paid up capital	109,361	182,847	200,000	200,000	200,000	200,000	200,000	100,000	100,000	n/a	192,332	61,005	80,000
Notes in Circulation	189,708	198,408	243,830	220,023	226,654	80,079	81,700	117,080	145,262	n/a	78,427	27,913	44,000
Total deposits	107,097	117,780	180,735	157,755	154,604	75,516	19,180	21,210	39,600	n/a	78,171	6,241	8,000
Debts due by bank	11,748	7860	14,993	29,768	4,362	52,164	0	11,800	38,806	n/a	19,354	1,053	n/a
Total liabilities	n/a	509,809	641,368	616,285	589,426	433,941	194,623	252,314	336,317	n/a	382,255	96,212	132,000
Assets													
Specie in vault	62,437	44,653	100,746	102,859	63,796	139,225	22,888	29,429	34,874	n/a	13,004	20,832	21,000
Real Estate & furniture	9,109	9,186	8,698	8,858	8,880	8,676	802	3,337	3,703	n/a	3,730	847	n/a
Bills of other banks	5,808	8,929	10,936	16,092	18,045	21,127	1,163	5,060	7,424	n/a	11,721	2,642	n/a
Debts due to bank	341,628	447,039	520,985	488,474	498,704	264,910	169,254	214,567	284,610	n/a	21,379	68,504	n/a
Total assets	n/a	509,809	641,368	616,285	589,426	433,941	194,623	252,314	336,317	n/a	332,420	96,212	132,000

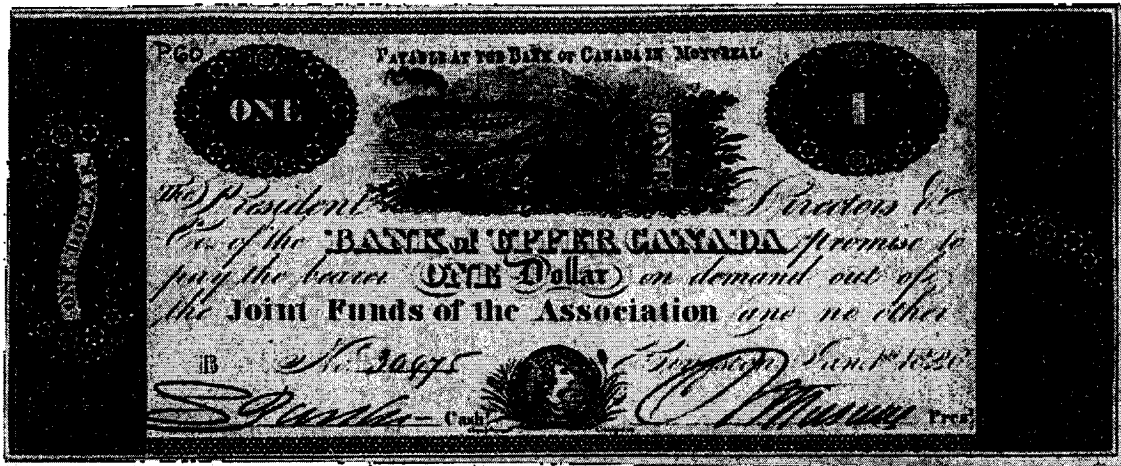
* Amount of capital not paid in by directors

Source: Bank of Montreal, Denison, Canada's First Bank, 420; Breckenridge, The Canadian Banking System; PLUC, "The Journals of the Legislative Assembly of Upper Canada" (1821-1824); PLUC, "Appendices to the Journals of the House of Assembly" (1825-1837).

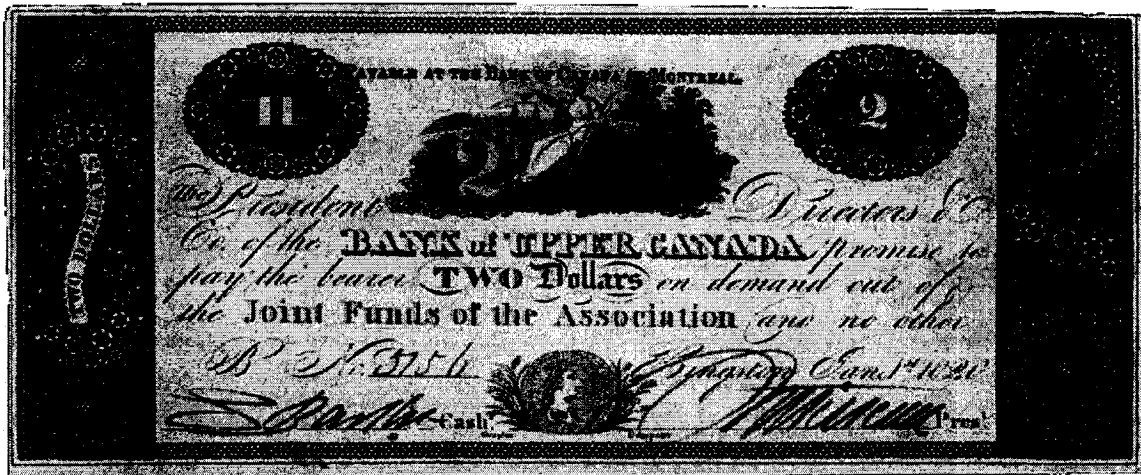
APPENDIX 3

Bank Notes of the Private Bank of Upper Canada (Kingston), the Bank of Upper Canada (York) and the Commercial Bank of the Midland District.

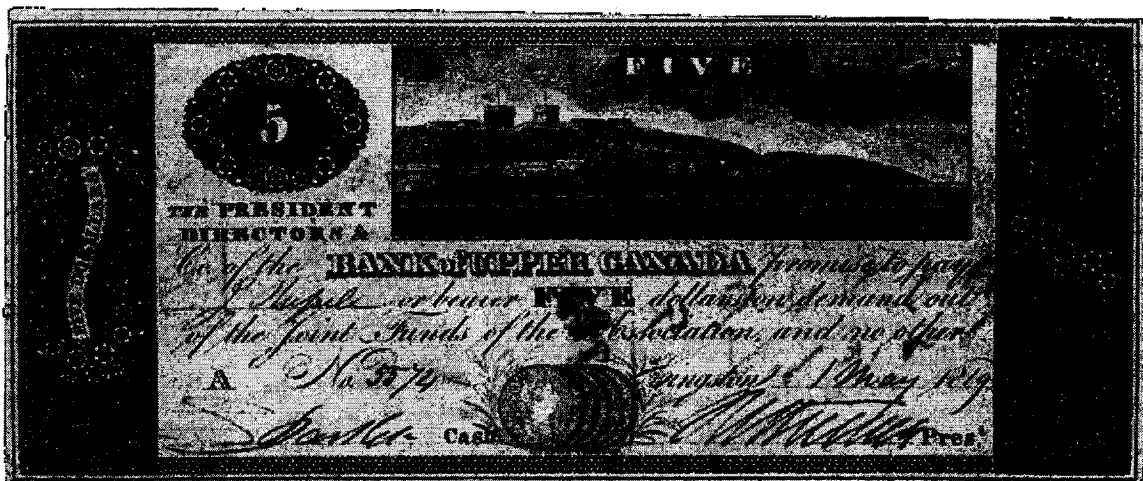
Bank notes in the early nineteenth century were simple in design. However, they contained some important security features intended to deter counterfeiting. Some of these features, such as the engraved vignettes, where the meticulous line work is difficult to reproduce, and the ornate lathework patterns that frame the notes, are still used in security printing today. Early bank notes were printed only on one side with black ink. The use of colour as an added security feature in bank notes was only introduced in the late 1850s. Denominations were expressed in dollars, and, in some instances, also in sterling. This was so that the notes could be used both in the United States, where accounts were kept in dollars, and in British North America, where the sterling pound was the unit of account. As notes were issued, they were numbered, dated and hand-signed by the cashier and president of the bank. Notes remained in circulation until they were too old and worn, at which time they were destroyed and replaced with new ones. The notes pictured on the following pages are examples of the first issue of notes from the private Bank of Upper Canada (Kingston), the Bank of Upper Canada (York) and the Commercial Bank of the Midland District. All these notes are housed in the National Currency Collection of the Bank of Canada, and some are extremely rare. The notes of the private Bank of Upper Canada are fairly common, while only a few examples of the first notes from the chartered Bank of Upper Canada have survived over the years.



Bank of Upper Canada (Kingston), 1 dollar, January 1, 1820. Overprinted "Payable at the Bank of Canada in Montreal" at top. *National Currency Collection – Bank of Canada.*



Bank of Upper Canada (Kingston), 2 dollars, January 1, 1820. Overprinted "Payable at the Bank of Canada in Montreal" at top. *National Currency Collection – Bank of Canada.*



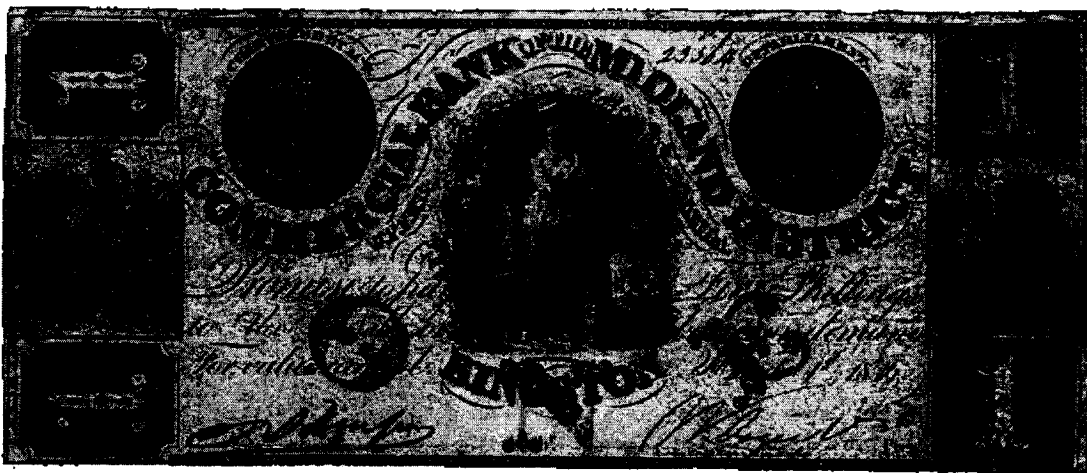
Bank of Upper Canada (Kingston), 5 dollars, May 1, 1819. *National Currency Collection – Bank of Canada.*



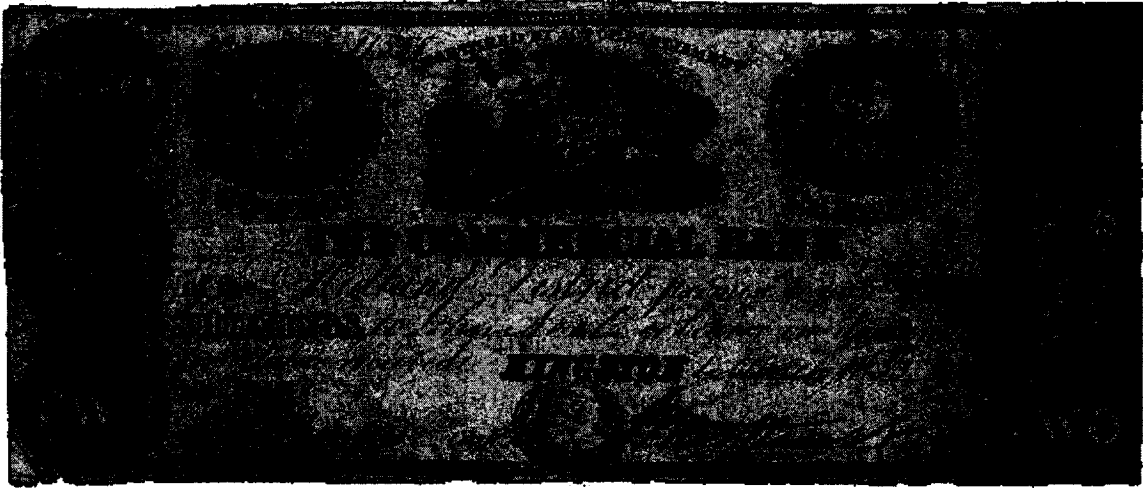
Bank of Upper Canada (Kingston), 10 dollars, May 1, 1819. *National Currency Collection – Bank of Canada.*



Bank of Upper Canada (York), dollar (5 shillings), July 24, 1822. *National Currency Collection – Bank of Canada.*



Commercial Bank of the Midland District, dollar (5 shillings), March 1, 1836. *National Currency Collection - Bank of Canada.*



Commercial Bank of the Midland District, 2 dollars (10 shillings), March 1, 1833. *National Currency Collection - Bank of Canada.*



Commercial Bank of the Midland District, 5 dollars (25 shillings), March 1, 1836. *National Currency Collection - Bank of Canada.*

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