Great Britain, sovereign, 1817
The image of St. George and the dragon, which appears on the reverse of this coin, was engraved by the famous Italian medallist Benedetto Pistrucci, who later became Chief Medallist (1828–55) at the Royal Mint in London.

Currency Reforms (1841-71)

Political union of Upper and Lower Canada to create the Province of Canada on 10 February 1841 led to a new standardized rating for coins in the newly united province that took effect in April 1842.[30] The British gold sovereign was valued at one pound, four shillings, and four pence in local currency, while the US$10 gold eagle was valued at two pounds, ten shillings.[31] Both coins were considered legal tender. Spanish (including Spanish colonial) and U.S. silver dollars with a minimum weight of 412 grains were also made legal tender with a value of five shillings and one pence—a valuation very similar to the old Halifax rating.

United States, $10, 1844
Called an "eagle," after the prominent image appearing on the reverse, this coin was occasionally used in Canada for large transactions.

At this time, efforts also began to move to a decimal-based currency system and to introduce a government issue of paper currency. In 1841, Lord Sydenham, Governor General of the new united Province of Canada, proposed that the provincial legislature establish a provincial bank that would issue up to £1 million in provincial paper currency denominated in dollars, 25 per cent of which would be backed by gold, the remainder by government securities. He also recommended that notes issued by chartered banks be prohibited. In effect, Lord Sydenham's proposal amounted to the establishment of a Canadian central bank.[32]

30. In addition to McCullough (1984), this section draws heavily from Breckenridge (1910) and Shortt (1914b).
31. Recall that colonial legislatures rated coins higher than in Great Britain, where a sovereign was worth £1 sterling. The valuation for the U.S. gold eagle is for coins minted after 1834. Coins minted before that date had a higher gold content and were worth £2 13s. 4d. each in local currency.
32. While perhaps the best-articulated proposal, this was not a new idea in Canada. As early as 1820, an anonymous pamphlet published in Quebec had advocated the establishment of a government-owned national bank that would be the sole issuer of paper money. See "Anonymous" (1820). The issue was also debated periodically in the assemblies of both Upper and Lower Canada.

While Lord Sydenham sought a paper currency with guaranteed convertibility, he was also strongly motivated by a desire to acquire funds to finance provincial public works and to obtain the seigniorage profits from the note issue. Seigniorage was estimated to be at least £30,000 per annum and had the potential to rise considerably as the currency issue increased (Breckenridge 1910).[33]

The proposal was studied by a parliamentary select committee on banking and currency, headed by Francis Hincks, who strongly favoured the Governor General's plan. The provincial assembly turned it down, however, because of widespread opposition, particularly from a strong bank lobby. Banks were concerned about the impact on their profits if they lost the right to issue paper currency. Interestingly, borrowers were also worried that government control of the bank note issue would lead to tighter credit conditions. There were also concerns that the government would gain too much power. Because of the assembly's rejection of the Governor General's proposal, a provincial issue of paper currency had to wait another 25 years. The establishment of a central bank was delayed almost 100 years.

Upon Confederation in 1867, there was another proposal to make the new federal government the sole issuer of legal tender paper money, with the seigniorage accruing to the government. Unlike the earlier Sydenham proposal, the money would be fiat-based; i.e., inconvertible into gold. Moreover, there was no specific reference to the establishment of a bank. Instead, control of the proposed new monetary system would be given to a small number of commissioners, of whom the minister of finance would be an *ex officio* member. In apparent recognition of the potential perils of giving such authority to the government, ties to the government would be restricted to the minister of finance (Davis 1867). While this proposal did not succeed, it foreshadowed key elements of modern central banking—a fiat currency, a government monopoly on the issuance of paper money, and independence for the issuer.[34]

Introduction of a decimal-based currency

Despite Lord Sydenham's failure to introduce a government issue of paper currency, efforts to introduce a decimal-based currency in British North America gained momentum through the 1850s, especially during the government of Francis Hincks, who became prime minister of the Province of Canada in 1851. In June of that year, representatives from the Province of Canada, New Brunswick, and Nova Scotia met in Toronto to work towards the establishment of a decimal currency. A few months later, the Canadian legislature passed an act requiring that provincial accounts be kept in dollars and cents. However, the British government, still seeking to establish a

33. Seigniorage arises from the fact that the province would issue non-interest-bearing paper money while earning interest on the securities backing the currency issue. These profits would otherwise have been earned by banks on their issue of notes.
34. This paper foreshadowed a movement during the 1870s, headed by Isaac Buchanan, a wealthy Hamilton merchant and politician, aimed at introducing an inconvertible, government-issued paper money (Helleiner 2003, 88).

currency system based on pounds, shillings, and pence throughout the empire, delayed confirmation of the act on a technicality. While willing to concede the introduction of a decimal currency, the British government was still reluctant for Canada to adopt the dollar—the currency system of a foreign government with possible continental ambitions. Instead, the British authorities proposed the introduction of the "royal," a gold coin linked to sterling, with subsidiary silver and copper coins, to be called "shillings," and "marks," respectively. While Hincks was open to the idea, this proposal was rejected by the legislature (Shortt 1914b, 276).

A compromise Currency Act was finally passed in 1853 and proclaimed on 1 August 1854. Under this act, pounds, shillings, and pence, as well as dollars and cents, could be used in provincial accounts and were recognized as units of Canadian currency.

The Currency Act also confirmed the ratings of the British sovereign and the US$10 gold eagle that had been in place since the establishment of the Province of Canada in 1841. The British gold sovereign was rated at £1 4s. 4d. local currency or Can$4.8666, while the gold eagle (those minted after 1834 with a gold content of 232.2 grains) was valued at Can$10. British coins, both gold and silver, as well as U.S. gold coins, were legal tender. Other foreign silver coins, while not legal tender, continued to circulate (McCullough 1984, 110).

Since the colonial authorities in New Brunswick had passed similar currency legislation in October 1852, the proclamation of the Currency Act in the Province of Canada meant that the two regions had compatible currencies, fixed at par with their U.S. counterpart, with $1 equivalent to 23.22 grains of gold (or $20.67 per troy ounce).

Province of Canada, double-proof set, 1858
To celebrate Canada's new coinage, several sets of specially struck coins, called proofs, were prepared for presentation.

Decimalization received a further boost a few years later. Following a recommendation from the public accounts committee, the Province of Canada revised the Currency Act in 1857 so that, from 31 December 1857, all provincial accounts would be kept in dollars. Silver and bronze coins, denominated in cents and bearing the word "Canada," were subsequently issued for the first time in 1858.[35] This marked the birth of a distinctive Canadian currency.

In Nova Scotia, decimalization occurred on 1 July 1860. Nevertheless, because the colony rated the sovereign at $5 instead of $4.8666, its currency remained incompatible with that of Canada and New Brunswick. New Brunswick officially decimalized on 1 November 1860, while Newfoundland passed similar legislation in 1863.[36] Like Nova Scotia, Newfoundland's currency was not compatible with that of Canada or New Brunswick. The colony of Vancouver Island decimalized in 1863, followed by British Columbia in 1865.[37] Manitoba decimalized in 1870, upon its entry into Confederation, and Prince Edward Island followed in 1871.

The first government note issue

In the late 1850s and the early 1860s, efforts were renewed in the Province of Canada to

Nova Scotia, 1 cent, 1861
Although Nova Scotia ordered its first coinage in 1860 to be ready for issue later that year, the Royal Mint did not ship the coins until 1862, owing to the heavy demand for domestic British coinage.

New Brunswick, 1 cent, 1861
Like Nova Scotia, New Brunswick did not receive its shipment of new decimal coins until 1862, almost two years after they were ordered.

Newfoundland, 20 cents, 1865
As a separate colony of the British Empire, Newfoundland had its own distinctive coinage, from 1865 to 1947.

35. Prior to the establishment of the Ottawa Mint in 1908 (a branch of the Royal Mint under the Imperial Coinage Act of 1870), coins used in Canada were minted in the United Kingdom. The first gold coins minted in Canada were sovereigns, identical to those produced in the United Kingdom except for a small identifying "C." It was not until May 1912 that the Ottawa Mint began to produce limited quantities of gold $5 and $10 coins. The Ottawa Mint became the Royal Canadian Mint in 1931.
36. The legislation took effect at the beginning of 1865.
37. The colonies of Vancouver Island and British Columbia were united in November 1866 under the name British Columbia. A decimal currency act for the new combined province was passed in 1867. British Columbia entered Confederation in 1871.

Bank of Montreal, 25 shillings or $5, 1852
This note is an example of the dual currency system that existed in the Province of Canada prior to decimalization in 1858.

Bank of Clifton, $5, 1859
This note was issued by an early Canadian chartered bank, which was also known as the Zimmerman Bank. It became a "wildcat" bank, issuing large quantities of notes with no intention of redeeming them. The detailed engraving is typical of nineteenth-century bank notes. The coloured "Five" is an anti-counterfeiting device.

introduce a government issue of paper money.[38] This time, the financial and political environment was more receptive than had been the case in 1841.

The collapse of a number of banks during this period brought bank notes issued by chartered banks into disrepute. In 1859, two Toronto-based banks, the Colonial Bank and the International Bank, failed. This was soon followed by the collapse of the Bank of Clifton and the Bank of Western Canada. The failures of these last two banks were particularly scandalous, with the former pretending to redeem its notes in Chicago and the latter, owned by a tavern-keeper, attempting to circulate worthless bank notes in the U.S. Midwest. In his authoritative review of early banking in Canada, Roeliff Breckenridge wrote,

> No great loss was caused to the Canadian public by their collapse, but the scandal and the ease of acquiring dangerous privileges which had led to the scandal, called forth bitter and general complaint (Breckenridge 1910, 71).

Nevertheless, a loss of confidence in chartered bank notes, the principal means of payment, posed a threat to economic prosperity. To restore confidence in the currency and to raise funds for the government, in 1860 A.T. Galt, Finance Minister of the Province of Canada, proposed replacing chartered bank notes with an issue of government notes.[39] Once again, the chartered banks objected strongly to the potential loss of their bank-note-issuing privileges, and the proposal was quickly withdrawn. In 1866, however,

38. During 1848–49, the provincial government issued provincial debentures, which circulated in small denominations. They were interest earning and payable one year after issue, although the government could choose to reissue them. Arguably, these debentures set the stage for the subsequent issuance of provincial notes.
39. In contrast to Lord Sydenham's earlier proposal, the notion of establishing a provincial bank to issue the notes was dropped. Instead, a provincial Treasury department would be established that would issue the paper money.

Bank of Montreal, $5, legal tender note, 1866
Once the Bank of Montreal agreed to act as the government's banker in 1866, all of its note issues were overprinted to indicate government issue until newly designed provincial notes were received.

Province of Canada, $2, 1866
Produced by the British American Bank Note Company, which had offices in Montréal and Ottawa, this note was payable in Toronto.

with the Canadian government again seriously short of resources, the need for a new source of funding became acute.[40] Domestic and British banks were unwilling to advance new funds or roll over existing loans. Moreover, the provincial government was unable to sell bonds in London even at very high rates of interest. With all funding avenues apparently closed, the provincial authorities passed controversial legislation to issue up to $8 million in legal tender, provincial notes. These notes were payable on demand in gold in either Toronto or Montréal and were partly backed by gold—20 per cent for the first $5 million and 25 per cent for amounts in circulation in excess of $5 million. The Provincial Notes Act received royal assent on 15 August 1866.

Unlike Galt's earlier proposal, chartered banks were not obliged to give up their right to issue bank notes although they were encouraged to do so.[41] Compensation was offered, including the payment of 5 per cent of their average notes in circulation and a further 1 per cent per year for issuing and redeeming provincial notes. Nevertheless, only the Bank of Montreal, the government's fiscal agent, took up the offer. It too resumed its bank note issue following the passage of the 1871 Bank Act.

Confederation

Confederation on 1 July 1867 brought sweeping changes to banking and currency legislation in the provinces of Canada, Nova Scotia, and New Brunswick. Under the British North

40. This shortage partly reflected support given to the failing Bank of Upper Canada, the government's agent (until the end of 1863). The Bank of Upper Canada lost heavily on loans extended to the Grand Trunk Railway. In 1861, because of the tight links between the government, the bank, and the railway, the government agreed to maintain a minimum deposit of $1.2 million in the bank. The bank failed in 1866, with government losses amounting to about $1.3 million (Shortt 1914b, 289).
41. Chartered banks were required to give up their own note issues in order to acquire the right to issue provincial notes on behalf of the government.

Dominion of Canada, $1, 1870
Printed by the British American Bank Note Company and featuring a portrait of Jacques Cartier, this was part of the first series of notes engraved for the new Dominion. These notes were redeemable at the Office of the Receiver General in Ottawa or at the branch indicated on the back.

America Act, the government of the new Dominion was given jurisdiction over currency and banking. The Dominion Notes Act came into effect the following year. Under this legislation, the Dominion took over the various provincial note issues. Provincial notes issued in the Province of Canada were renamed "Dominion notes" and were made redeemable in Halifax and Saint John in addition to Montréal and Toronto. The Dominion Notes Act was subsequently extended to cover Prince Edward Island, Manitoba, British Columbia, and the Northwest Territories.

Like earlier provincial notes, Dominion notes were partly backed by gold. The first $5 million issued were 20 per cent backed, and the next $3 million, 25 per cent backed. Over time, the size of the authorized note issue was increased. There were also some changes to the percentage of notes backed by gold. By 1913, the first $30 million had a 25 per cent gold backing.[42] Issues in excess of $30 million had to be fully backed by gold.

Interestingly, although Dominion notes became redeemable in Halifax in 1868, Nova Scotia retained its own currency until April 1871, when the Dominion government passed the Uniform Currency Act.[43] At that time, Nova Scotian currency, which was still rooted in the old Halifax rating, was converted into Canadian currency at a rate of 75 Nova Scotian cents to 73 Canadian cents.[44]

The Uniform Currency Act also established that denominations of Canadian currency would be dollars, cents, and mills (a mill equalled one-tenth of a cent). Moreover, the Canadian dollar's value was fixed in terms of the British sovereign at a rate of $4.8666 and the US$10 gold eagle at a rate of $10—the same rates established in the 1853 Currency Act.

42. Legally, the 25 per cent reserve could be held in the form of gold or guaranteed debentures. In fact, the reserve was held entirely in the form of gold.
43. The Dominion government circulated a special issue of $5 notes in Nova Scotia, with the legend PAYABLE AT HALIFAX/ONLY printed vertically on them. These notes, issued in Nova Scotian currency, were worth only $4.86 in the rest of Canada (Haxby 1975).
44. There was considerable opposition to this change in Nova Scotia, given its continuing strong links to Great Britain. In Nova Scotian currency, a sovereign had conveniently been worth $5 instead of $4.8666 (Flemming 1921, 132). Newfoundland's currency was also not compatible with that of Canada. The Newfoundland dollar was worth roughly $1.014 Canadian dollars. Newfoundland's currency was made consistent with Canada's in 1895 (McCullough 1984, 223). The colony entered Confederation in 1949.

Bank of Montreal, $4, 1871
In the late nineteenth century, banks regularly featured images of their senior officers on their notes. Pictured on the left is R.B. Angus, General Manager (1869–79), and on the right, E.H. King, President (1869–73).

United States, half-dollar, 1859
Images representing Liberty figured prominently on American coins during the nineteenth century. Here, Liberty is a young woman seated and holding a staff topped with a Phrygian cap, a symbol of freedom, with a shield at her side emblazoned with the stars and stripes and a sash reading "Liberty."

The Dominion government also passed the Bank Act in 1871, which repealed all provincial acts that were in conflict with federal jurisdiction over currency and banking. Consequently, chartered banks in the four provinces eventually came under common regulation.[45] Chartered banks were allowed to issue notes with a minimum denomination of $4 (raised to $5 in 1880). Although banks, as a matter of course, held substantial reserves of Dominion notes and gold, they were not required to secure their note issues either by gold or by specific collateral. Note issues could not, however, exceed a bank's paid-in capital.[46] (Under the 1880 Bank Act revision, notes in circulation became a first lien on the issuing bank's assets in the event of failure.[47]) The government preserved the issuance of smaller notes for itself. It also issued notes in larger denominations to be used mainly for transactions between banks.

The silver nuisance and a question of copper[48]

During the mid-nineteenth century, U.S. silver fractional coins—dimes, quarters, and half-dollars—circulated freely in Canada, alongside British shillings and, after 1858, Canadian coins minted by the Province of Canada. U.S. coins in

45. Banks chartered before Confederation continued to operate under their provincial charters until those charters expired. They subsequently received federal charters.
46. This was modified in 1908 to allow banks to increase their notes in circulation beyond the usual limits (on a temporary basis) during the harvest season. In the 1913 revision of the Bank Act, banks were allowed to issue notes in excess of their paid-in capital, provided that the excess note issue was secured by gold or by Dominion notes (Beckhart 1929, 381).
47. Under the 1890 Bank Act, a Bank Circulation Redemption Fund was established by the government to give added protection to bank notes in case of insolvency. Banks maintained an amount equivalent to 5 per cent of their average annual circulation of notes in the fund and received 3 per cent interest. Banks were also required to establish redemption offices for their notes across the country. This meant that, for the first time, a bank's notes were circulated throughout the country without a discount (Helleiner 2003, 126).
48. This section draws on Weir (1903), Shortt (1914b), McCullough (1984), and Esler (2003).

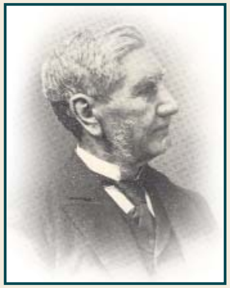
circulation increased significantly during the U.S. Civil War (1861–65), as U.S. Army agents used silver to purchase Canadian grain and cattle to supply the Union Army. A substantial brokerage business also flourished, with Canadian brokers importing large quantities of fractional U.S. silver coins.

Initially, the U.S. silver, while not legal tender in Canada, was well received because of a shortage of small coins for small transactions; day-to-day transactions typically involved amounts less than one dollar.[49] Canadians also preferred the U.S. silver quarter over the Canadian 20-cent piece issued in 1858, given their familiarity with U.S. coinage. But, although U.S. coins were accepted at par by individuals and merchants, their bullion value was approximately 2.5 per cent less than their face value.[50] Consequently, as the amount of U.S. silver coins in circulation began to increase, banks either refused to accept them or accepted them only at a discount. The acceptance of U.S. silver coins at par by merchants and individuals but only at a discount by banks was a considerable nuisance, especially for merchants. They were, nonetheless, willing to tolerate the practice because of competitive pressures, the customary acceptance of U.S. coins at par, and the lack of an acceptable alternative. This problem was largely confined to the Province of Canada—Ontario and Quebec—since the Atlantic colonies had passed a law valuing U.S. coins at only 80 per cent of their face value.

20-cent or 25-cent coin?

In 1858, the Province of Canada issued silver coins in denominations of 20 cents, 10 cents, and 5 cents, in addition to 1-cent bronze coins. The *Toronto Leader*, a newspaper linked to the government, argued that a 20-cent coin was a logical choice since it was consistent with the Halifax shilling, and five Halifax shillings equalled one dollar. The newspaper also contended that a 25-cent coin was just a "convenience of habit" and was not a necessary feature of a decimal coinage. Regardless, Canadians disliked the 20-cent coin since it was easily confused with the similar-sized U.S. quarter. William Weir noted, "I never heard what fool in the Finance Department suggested the twenty cent piece, for in spite of the special pleading of the *Leader*, everyone saw it was a mistake . . ." (Weir 1903, 135–136). The 20-cent piece was withdrawn from circulation after Confederation and replaced by a Canadian quarter, first minted in 1870 (Weir 1903, 164; see also Cross 2003, 52).

49. During the 1860s, a dollar had considerable purchasing power. See Appendix A, page 88, on the purchasing power of the Canadian dollar.
50. In 1853, the U.S. government reduced the silver content of its fractional (i.e., less than one dollar) silver coins (McCullough 1984, 111).



William Weir, 1823–1905

Born in Greenden, Scotland in 1823, William Weir emigrated to Canada in 1842. He initially worked as a teacher near Lachute, Quebec, and, after learning French, moved to Montréal to work in a large wholesale and retail business. In 1847, Weir struck out on his own, first as a commission merchant and later as an exchange broker. Moving to Toronto in 1856, Weir came to prominence as publisher and editor of the *Canadian Merchants' Magazine*. He also became an early proponent of protection for Canadian maufacturers, a policy later adopted by the Conservative Party under the leadership of Sir John A. Macdonald and known as the *National Policy*. Weir returned to Montréal in 1859 and operated the brokerage firm Weir and Larminie. Weir is best known for his involvement, along with Sir Francis Hincks, in dealing with the "silver nuisance" in 1870. Weir later became vice-president of the Banque Jacques Cartier. In 1881, he became general manager and cashier of the Banque Ville-Marie. In July 1899, the Banque Ville-Marie failed because of fraudulent lending by Weir to himself and his friends. Even after its closure, the Bank continued to issue bank notes. With notes the first charge on the Bank's assets, note holders were well protected from loss. Depositors, however, received only 17 1/2 cents on the dollar. Total losses amounted to roughly $1.5 million. Weir was subsequently prosecuted and went to jail for two years. It took a jury just 15 minutes to convict him. (See Turley-Ewart 1999; Breckenridge 1910; Rudin 1985; and Weir 1903.)

With the discount on silver relative to gold widening in the mid-1860s, there were appeals to Parliament to do something. In 1868, the new Dominion government exported $1 million worth of U.S. silver coins to New York through the Bank of Montreal. But this move was insufficient. The following year, William Weir, an important Montréal financier, exported a further $2 million. Weir assumed the market risk associated with a possible adverse move in the price of silver, as well as the costs and risks associated with transporting the silver to market in New York. In 1870, Weir, backed by merchants, negotiated a deal with Sir Francis Hincks, the Dominion Finance Minister, to eliminate the remaining U.S. coins circulating in Canada. Despite considerable resistance from brokers who stood to lose business, it was agreed that banks would purchase and collect the unwanted silver coins, paying for them largely with their own bank notes. They would also receive a small commission from the government, as well as a government deposit of up to $100,000. The government assumed the transportation costs and market risks of exporting and selling the coins for gold. In total, the government shipped to New York and to London slightly more than $5 million in coins, sold at a discount of 5 to 6 per cent, at a net cost of roughly $118,000. Weir himself exported a further $500,000 in U.S. silver coins, as well as a considerable amount of overrated British silver coins that were also in circulation (Weir 1903, 159–160).

Weir tea service, 1880
In recognition of his efforts to help remove depreciated American silver coins from circulation in Canada, William Weir was presented with this sterling tea service in 1880. Manufactured by R. Hendery, a prominent silversmith in Montréal, it incorporates various silver coins and is part of the National Currency Collection, Bank of Canada.

Dominion of Canada, 25-cent fractional note, 1870
Although created to facilitate the removal of depreciated American silver from circulation before the arrival of the Dominion's first coinage in 1870, the shinplaster became popular and was issued until the end of the century.

The government took immediate steps to replace the foreign coins with an issue of Canadian silver coins in denominations of 50 and 25 cents that would be legal tender in amounts up to $10, as well as issues of $1 and $2 notes. As a temporary expedient to supplement the coin issue and meet the needs of commerce, the government also issued 25-cent "shinplasters,"[51] redeemable in gold. To ensure that depreciated U.S. silver did not flow back into Canada, the government also passed legislation stating that after 15 April 1870, U.S. silver coins were legal tender in Canada at a 20 per cent discount, a rate far below their bullion value.

After settling the silver nuisance, the government turned its attention to the reorganization of Canada's copper coinage, which was also in disarray. Prior to Confederation, Nova Scotia, New Brunswick, and the Province of Canada had all issued small-denomination copper coins, as did Newfoundland. However, large quantities of token copper pennies issued by banks based on the old pre-decimal system were still in general circulation. A wide range of European and U.S. copper coins also circulated freely, along with private tokens issued by merchants or individuals, and even brass buttons (Weir 1903, 161).

51. The term "shinplaster" dates back to the late seventeenth century when notes issued by the Continental Congress during the American Revolution were redeemed at only a fraction of their face value. Soldiers reputedly used them as insulation or dressings for wounds.

In 1870, at the prompting of Weir, Hincks authorized the government to accept bank-issued pennies and halfpennies as 2 cents and 1 cent, respectively, in amounts up to 25 cents, and encouraged banks and the general public to do the same (Weir 1903, 164). It was not until 1876 that the Dominion of Canada issued its own 1-cent coin (Cross 2003, 53).

The removal of U.S. and British silver coins from circulation in Canada, along with the reorganization of Canada's copper coinage, did much to promote the circulation of a distinctive Canadian currency.

Dominion of Canada, 5, 10, 25, and 50 cents, 1870
The Dominion of Canada's first coinage consisted of these four denominations. It was modelled on the provincial issue of 1858. One-cent coins were not ordered until 1876, since there were still adequate numbers of provincial cents on hand.