



British Colonies in North America: The Early Years (pre-1841)¹⁶

England, George III, guinea, 1775

The guinea was named after the area of Africa where the gold used for its production was first mined. The royal titles on the reverse are among the most lengthy on any British coin. Rendered in Latin, they read (George III by the grace of God) King of Great Britain, France and Ireland, Defender of the Faith, Duke of Brunswick and Lüneburg, High Treasurer and Elector of the Holy Roman Empire.

Until the middle of the nineteenth century, each British colony in North America regulated the use of currency in its own jurisdiction.¹⁷ Although pounds, shillings, and pence (the currency system used in Great Britain) were used for bookkeeping (i.e., as the unit of account), each colony decided for itself the value, or “rating,” of a wide variety of coins used in transactions or to settle debts.¹⁸ These included not only English and French coins, but also coins from Portugal, Spain, and the Spanish colonies in Latin America—notably Mexico, Peru, and Colombia. Once rated, coins became legal tender.¹⁹

Ratings were based on the amount of gold or silver contained in the coins and varied widely



Spain, 8 reals, 1779

This large silver coin, bearing a bust of King Charles III, was a Spanish colonial coin struck in Mexico. It was typical of the “silver dollars” that circulated in Canada and the United States.

from colony to colony but were always higher than the rating used in Great Britain. For example, in the mid-eighteenth century, a Spanish silver dollar, “the principal measure of exchange and the basis of pecuniary contracts” in North America, was appraised at 4 shillings and 6 pence in London, 5 shillings in Halifax, 6 shillings in New England,

16. This section draws heavily upon McCullough (1984). See also Shortt (1914a).

17. These comprised Upper and Lower Canada, New Brunswick, Prince Edward Island, Nova Scotia, Newfoundland and, later, Vancouver Island and British Columbia.

18. British colonies in North America were generally forbidden to mint their own coins.

19. Gold coins in circulation included Portuguese *johannes* and *moidores*, Spanish doubloons, English guineas, and French *louis d'or*. Silver coins included Spanish and colonial Spanish dollars (also called “pieces of eight,” since a dollar was worth eight *reals*, or eight bits, with two bits equalling one quarter), British and French crowns, shillings, Spanish *pistareens*, and French 36- and 24-*sol* pieces. (See McCullough 1984.)



Great Britain, 1 shilling, 1825

The British shilling was widely used across British North America. As with other silver and gold coins of this period, its value was officially inflated to keep it from being sent out of the country.



Spain, 2 reals, 1760

Called the *pistareen*, this coin was widely used in British North America during the early nineteenth century because it was officially overvalued compared with similar-sized coins that had a higher silver content.

7 shillings and 6 pence in Pennsylvania, and 8 shillings in New York (Pennington 1848, 64). The higher colonial ratings reflected efforts to attract and retain specie (gold and silver) in the colonies to mitigate an apparent shortage of specie in circulation.

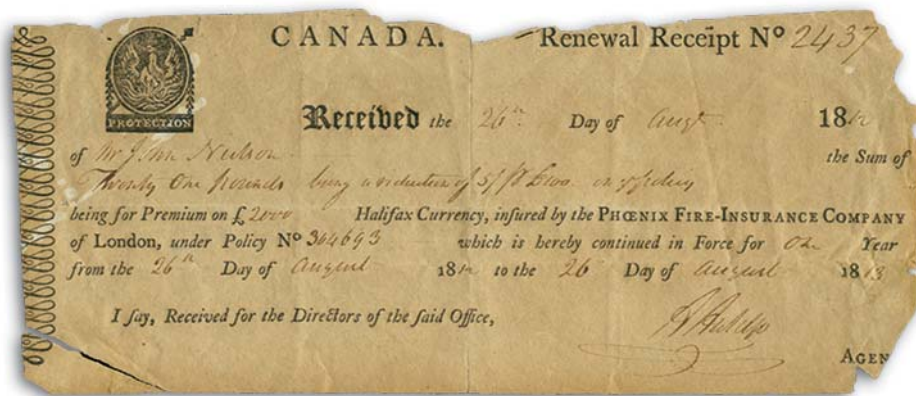
At times, colonial authorities also deliberately overrated (i.e., overvalued) or underrated (undervalued) certain coins relative to others in order to encourage or discourage their circulation. Ratings were also revised in response to other factors, including the decline in the value of silver relative to gold throughout the eighteenth and nineteenth centuries and the gradual wearing of coins, which lowered their weight and reduced their intrinsic value.

The reasons for a shortage of coin in the colonies are unclear. One view maintains that it reflected the perils of sea travel, as well as persistent trade imbalances with Britain. Another view argues

that the shortage of money was more apparent than real, since trade was not the only source of specie, and paper alternatives were not considered. Moreover, colonial currency legislation encouraged the circulation of poor-quality coins. Overrated coins drove out underrated coins, which were hoarded, leaving light and poor-quality coins in circulation. Consequently, silver and gold coins of full weight could be obtained only at a premium, giving the impression of scarcity (Redish 1984).²⁰

Not surprisingly, the wide variety of ratings among the British colonies in North America caused confusion and complicated trade. As a result, efforts were made to standardize ratings in order to facilitate commerce among the colonies and with Great Britain. As early as June 1704, Queen Anne issued a royal proclamation to remedy “the inconveniences which had arisen from the different rates at which the same species of foreign silver coins did pass in her Majesty’s several colonies and

20. This view is supported by a contemporary writer. George Young, in his enquiry into colonial exchanges in 1838, makes reference to a pamphlet published in Boston in 1740, which stated, “In sundry of our colonies were enacted laws against the passing of light pieces of eight; these laws not being put into execution, heavy and light pieces of eight passed promiscuously, and as it always happens, a bad currency drove away the good currency—heavy pieces of eight were shipped off” (Young 1838, 38).



Phoenix Fire Insurance, receipt, 1812
Because of the multiple currency systems in North America at the beginning of the nineteenth century, businesspeople had to clearly define the system of account that they were using. This receipt was made out in “Halifax currency,” under which 5 shillings were worth 1 dollar.

plantations in America.” Under this proclamation, colonies were forbidden to rate a Spanish dollar any higher than 6 shillings. Because the proclamation was ignored, the British Government converted it into legislation in 1707 with stiff penalties for those who did not comply.²¹ However, British colonies in North America and the Caribbean continued to ignore or evade the law, and business went on as usual.

The Halifax and York ratings

One rating that became particularly important in British North America was the Halifax rating. Named after the city of Halifax, where it was first used, this rating was given legal standing by an act of the first Nova Scotia House

of Assembly in 1758 (Flemming 1921; McQuade 1976).²² This rating used pounds, shillings, and pence (£, s., and d.) as the unit of account and valued one Spanish (or colonial Spanish) silver dollar weighing 420 grains (385 grains of pure silver²³) at 5 shillings, local currency. This valuation of the Spanish dollar was to be used in settling debts. In effect, the Spanish dollar became legal tender in Nova Scotia.

Although the British imperial authorities apparently overturned the legislation in 1762 (Flemming 1921), the Halifax rating remained in common use in Nova Scotia and was later adopted in Quebec by the British authorities after the Seven Years’ War, as well as in New Brunswick and Prince Edward Island.²⁴

21. An Act for Ascertaining the Rates of Foreign Coins in Her Majesty’s Plantations in America
22. The Halifax rating came into existence shortly after the founding of Halifax in 1749. It is reported that Governor Cornwallis bought silver dollars from a ship in Halifax harbour in 1750, paying 5 shillings each (Flemming 1921, 115). The Halifax rating was in general use by 1753 (Shortt 1933, 404).
23. A grain is a measure of weight. Under the system used to weigh precious metals, there are 480 grains in a troy ounce.
24. In 1765, the British military authorities introduced a Quebec rating, which valued the Spanish dollar at 6 shillings. This rating was dropped in 1777 in favour of the Halifax rating.

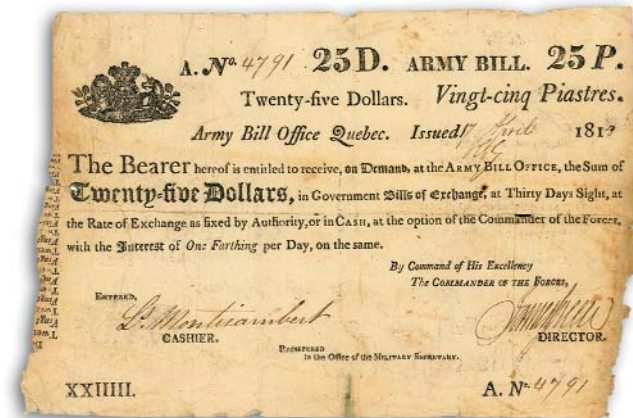
In contrast, following the U.S. War of Independence, Upper Canada used the York rating, as did merchants in Montréal, for a time. This rating had originally been established in New York and was brought to Upper Canada by Loyalist immigrants (Turk 1962). In York currency, one Spanish dollar was valued at 8 shillings.

In 1796, parallel legislation in both Upper and Lower Canada led to the adoption of the Halifax rating of 5 shillings to the dollar in both colonies, although ratings of other coins continued to differ to the inconvenience of trade between Upper and Lower Canada. Notwithstanding this legislation, the York rating remained in use in Upper Canada. In 1821, the legislature reaffirmed the colony's adoption of the Halifax rating and provided sanctions against the use of the old York rating. Nonetheless, there were reports of its continued use in rural areas until the unification of Upper and Lower Canada in 1841 (McCullough 1984, 92).

The lack of a standard currency, and the wide variety of ratings given to the many coins in general circulation in the colonies, undoubtedly hindered trade, and was a major source of economic inefficiency. But the prevalence of the practice suggests significant countervailing forces. These included the weight of custom, as well as the varying trade links among the colonies and with Great Britain. In addition, the implementation of a common rating would likely have led to winners and losers, as well as to deflation in those colonies required to reduce their ratings.

The introduction of paper money

As was the case in New France, British colonies in North America also experimented with paper money with mixed success, issuing “bills of credit.” These bills, typically, although not exclusively, used as a means of wartime finance, were denominated in convenient amounts and circulated widely as currency. The Massachusetts Bay Colony was the first British colony in North America to issue such bills of credit in 1690. Paper money issued by Massachusetts, or “Boston bills,” circulated in Nova Scotia during the first half of the eighteenth century owing to close economic and political links between Massachusetts and the British garrison and community in Annapolis Valley, formerly Port Royal (Mossman 2003).



Army bill, \$25, 1813

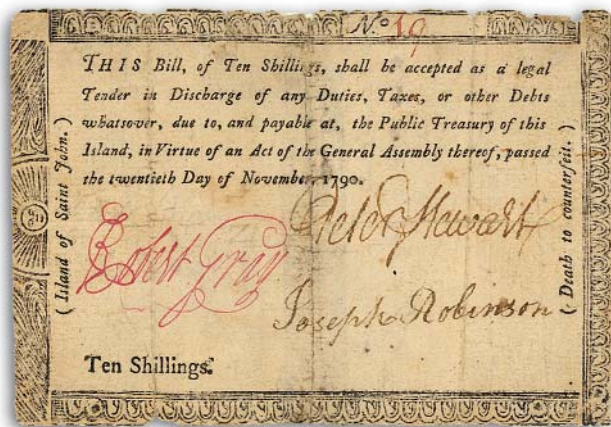
Printed in Quebec City, these notes were used to pay troops and to buy provisions during the War of 1812. At the end of the war, the bills were redeemed in full, which restored trust in paper money.

Bills of credit were not backed by specie and fell into disrepute because of overissuance and high inflation in the U.S. colonies prior to and during the American Revolution. Trust in paper money was restored in Upper and Lower Canada by a successful issue of army bills to help finance the War of 1812. The initial issue was for £250,000 worth of bills, denominated in dollars, by the government of Lower Canada; later issues raised the amount outstanding to £1.5 million. These bills were legal tender in both Upper and Lower Canada. Larger bills, those with a value of \$25 or more, earned interest. By 1816, after the war ended, all bills had been redeemed in full (McArthur 1914, 505).

Other provinces had broadly similar experiences. Prince Edward Island (then called the Island of St. John) experimented with paper money as early as 1790, when the colony issued £500 of Treasury notes to make up for a shortage of coin. These notes were legal tender and were issued in amounts of up to £2. Further issues followed through the first half of the nineteenth century.

In New Brunswick, the authorities issued Treasury notes on several occasions, first denominated in dollars in 1805 and 1807, and then in pounds following the War of 1812. The government discontinued such issues in 1820.

Nova Scotia also issued Treasury notes to help finance its military expenditures during the War of 1812. (See Martell 1941.) Although Nova Scotia was little affected by the war, the colonial authorities developed a taste for paper money as a means of financing public works and continued to issue new series of Treasury notes after the war. The first issue was interest-bearing and redeemable in specie at par. In time, however, the backing of the notes deteriorated, and by 1826, the notes had become inconvertible. The amount in circulation also increased dramatically over time.



Island of St. John, 10 shillings, 1790

The Island of St. John, now known as Prince Edward Island, was one of the first colonies in British North America to issue Treasury notes.



Bank of Upper Canada, Kingston, \$5, 1819

One of the earliest notes issued in Canada, this bill bears an early image of Fort Henry, built by the British to help secure the St. Lawrence waterway.



Bank of Upper Canada, York, \$5, 1830

The Bank of Upper Canada was the first bank to conduct business at York, now Toronto. For most of its existence, it acted as the government bank for the Province of Upper Canada, before going bankrupt in 1866.

Initially, Treasury notes were well received by Nova Scotians and were used widely. But as their quantity increased and quality (i.e., their convertibility) decreased, they began to lose their value. In 1832, efforts were begun to establish a sound currency in Nova Scotia and to strengthen the credit standing of the province. The stock of outstanding Treasury notes was reduced, and in 1834, all private notes issued by banks, firms, and individuals were required to be redeemable in specie. This sharp monetary contraction exacerbated a serious economic downturn in 1834.

Some years later in 1861, the Colony of British Columbia issued Treasury notes, first seemingly in pounds and, subsequently, in dollars. These notes, which were used to finance public works, circulated freely, given a shortage of minted coins.²⁵



Montreal Bank, \$1, 1821

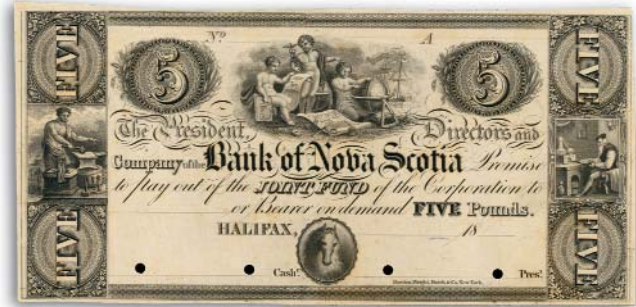
The Montreal Bank was chartered as the Bank of Montreal in 1822. This note is from a pre-charter issue produced by the American printer Reed Stiles and Company. The design features Britannia with a ship, the symbol of commerce, together with a representation of a city, perhaps Montréal. At the centre bottom is an image of a Charles IV Spanish dollar, an indication of value for those unable to read.

25. Gold dust was also used as a medium of exchange in the colonies of Vancouver Island and British Columbia following the discovery of gold in the Fraser River in the late 1850s. The use of gold dust was open to abuse, since the dust was of uncertain quality and had to be weighed (Reid 1926).

Government experiments with issues of paper money met with mixed success in both the French and British colonies in North America. Typically introduced to meet the exigencies of war, government-issued paper money was initially well accepted by the population and helped to facilitate commerce. But with few controls in place to limit the circulation of notes, the temptation of governments to rely increasingly on issues of paper to finance their operations often proved to be too great. Rapid increases in the stock of paper money relative to demand led to inflation, a growing reluctance to accept paper money at par with specie and, ultimately, the need for monetary reform.

The first bank notes

The first bank notes in Canada were issued by the Montreal Bank (subsequently called the Bank of Montreal), following its establishment in 1817.²⁶ These notes were issued in dollars. The success of the Bank of Montreal led to the incorporation of additional banks in Upper and Lower Canada as well as in the Atlantic provinces, all of which issued their own bank notes.²⁷ These included the Bank of Quebec in Quebec City and the Bank of Canada in Montréal, in 1818; the Bank of Upper Canada at Kingston, in 1819; the Bank of New Brunswick in St. John, in 1820; the Second or Chartered Bank of Upper Canada in



Bank of Nova Scotia, £5, 1820–1830s

This note is an example of an early chartered bank note. It was a “remainder” (i.e., it was never issued, as indicated by the holes punched across the bottom) and was printed in England.



Nova Scotia, 1 pound, 1831

As an anti-counterfeiting measure, the government of Nova Scotia issued Treasury notes during the 1820s and 1830s that were printed in blue ink rather than the more conventional black.

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26. There are examples of notes, denominated in pounds and shillings, issued by the Canada Banking Company in 1792. It is not clear, however, whether this bank ever opened for business.
27. The charter of the Bank of Montreal, which provided the model for other Canadian banks, was itself modelled on that of the First Bank of the United States, which was established in 1791 by Alexander Hamilton, the first U.S. secretary of the Treasury (Shortt 1914a, 610).

York (Toronto), in 1822; the Halifax Banking Company, in 1825; the Bank of Nova Scotia in Halifax, in 1832; and the Bank of Prince Edward Island, in 1855.

Bank notes represented the principal liability of a bank and were redeemable in specie, upon demand. Banks committed themselves to maintain convertibility and, under their charters, restricted their total liabilities to a given multiple of their capital.²⁸ The extent of their note issues was also limited by the public's willingness to hold their notes. Unwanted notes were returned to the issuing bank and converted into specie.



Bank of New Brunswick, £1, 1831

The Bank of New Brunswick received its charter in 1820. This is a large-format note (184 mm by 98 mm), typical of the early notes issued by chartered banks.

Bank notes were well received by the public and became the principal means of payment in British North America. The general acceptance of bank notes in transactions helped to mitigate the problems associated with having a wide range of foreign coins in circulation with different ratings (Shortt 1986, 234).

As new banks were incorporated in Upper and Lower Canada during the 1830s and 1840s, their bank notes were typically denominated in both dollars and pounds. These notes circulated freely in both the Canadas and in the United States, although often at a discount, the size of which varied depending on distance, the name of the issuing bank, and the currency rating used.²⁹ Dollar-denominated bank notes issued by U.S. banks also circulated widely in Upper Canada during the early 1800s.

In contrast, bank notes circulating in New Brunswick, Nova Scotia, Prince Edward Island, and Newfoundland were typically denominated in pounds, shillings, and pence. This reflected both the stronger ties these provinces had with Great Britain and their weaker commercial links with the United States.

28. During periods of financial stress, convertibility was sometimes suspended.

29. During much of the nineteenth century, a bank's notes had to be accepted at par only at the issuing office. Elsewhere, the notes were discounted, even by branches of the issuing bank (Shortt 1914b, 279).

Money madness

The diversity of notes and coins in circulation was frustrating, making simple transactions complex. In a letter to the *Acadian Recorder* in 1820, an irate citizen in Halifax complained that when he bought vegetables costing six pence in the market using a £1 Nova Scotian Treasury note, his change amounted to 93 separate items, including 8 paper notes from four different merchants or groups (ranging in value from 5 shillings to 7 1/2 pence), one silver piece, and 84 copper coins. The letter ended “For God’s sake, gentlemen, let us get back our DOLLARS” (*Acadian Recorder*, 21 October 1820, Martell 1941, 15).

Dollars and cents or pounds, shillings, and pence?

As noted earlier, pounds, shillings, and pence were used as the unit of account in the British colonies of North America up until the middle of the nineteenth century. Given the scarcity of British coins, however, and the prevalence and wide acceptance of Spanish silver dollars, it became increasingly difficult to maintain a currency system based on sterling. The introduction of the U.S. dollar (modelled on the Spanish dollar)

in the United States in 1792, together with growing trade and financial links between Upper and Lower Canada and the United States during the first half of the nineteenth century, also favoured the use of dollars. The same was true for the colonies of Vancouver Island and British Columbia on the west coast, with the preponderance of their trade being with San Francisco during the late 1850s and early 1860s.



United States, half-dollar, 1827

During the early 1800s, the American half-dollar was imported by Canadian banks and used widely in Upper and Lower Canada. Workers on the Rideau Canal were paid with these pieces.



William IV half-crown, 1836

This is an example of British coinage used in the mid-nineteenth century. A half-crown was worth 2 shillings and 6 pence, or 50 cents.

Canadian bank notes, denominated in dollars, were also widely accepted and circulated freely in the United States. Had Canada adopted the sterling standard, this circulation would have

Origin of “Dollar” and “Pound”

The word “dollar” originates from the German word *thaler*, the name given to a silver coin first minted in Joachimsthal, Bohemia in 1519. “Cent” comes from the Latin *centum*, meaning hundred. The origin of the dollar sign “\$” is obscure but is widely believed to have been derived from a symbol denoting Spanish pesos. “Pound” and its symbol “£” come from the Latin *libra*, the value of a troy pound of silver. “Shilling” is believed to come from the old Scandinavian word *skilling*, meaning division. Its symbol “s.” refers to the Latin *solidus*, a Roman coin. “Pence,” or pennies, comes from the Old English word *pennige*. Its symbol “d.” refers to the *denarius*, another Roman coin. Before decimalization, one pound was equal to 20 shillings, with one shilling equal to 12 pence. See Davies (2002) and Wikipedia (2005).

been lost, to the detriment of Canadian banks (Shortt 1986, 428).

The widespread use and popularity of the dollar, combined with the potential cost of shifting to a sterling standard, stymied efforts by the imperial authorities in British North America to establish a common monetary system throughout

the British Empire based on pounds, shillings, and pence. The British authorities believed that an empire-wide common currency would strengthen economic and political ties. In a letter to Sir James Kempt, the Governor General, dated 6 February 1830, which was subsequently tabled in the House of Assembly of Lower Canada, Sir Randolph Routh, the Commissary General of the British forces in the Canadas, stated,

The British Government have in view the political tendency of this introduction of English money into the Colonies. A similarity of coinage produces reciprocal habits and feelings, and is a new chain and attachment in the intercourse of two nations. (Journal of the House of Assembly, Lower-Canada 11 George IV, Appendix Q, 9 March 1830).

Despite such pressure from the British Government, local custom and practices dominated. There was also a first-mover problem. While Nova Scotia was willing to adopt sterling, it would do so only if neighbouring colonies did so as well. Colonial co-operation was, however, not forthcoming (Martell 1941, 18).

Adam Shortt noted,

To the eye of pure reason the scheme [a common imperial currency] was faultless. Even official minds trembled on the verge of sentiment in contemplation of its vast imperial possibilities. But, unfortunately, the shield had another side, the colonial, from which it excited little enthusiasm. Hence, in the course of the official attempts to put the ideal in practice, it encountered the most unlooked for obstacles and caused no little bitterness (Shortt 1986, 223).