

New France

(ca. 1600-1770)

Trade silver, beaver, eighteenth century

Manufactured in Europe and North America for trade with the Native peoples, trade silver came in many forms, including ear bobs, rings, brooches, gorgets, pendants, and animal shapes.

According to Adam Shortt,⁵ the great Canadian economic historian, the first regular system of exchange in Canada involving Europeans occurred in Tadoussac in the early seventeenth century. Here, French traders bartered each year with the Montagnais people (also known as the Innu), trading weapons, cloth, food, silver items, and tobacco for animal pelts, especially those of the beaver.

In 1608, Samuel de Champlain founded the first colonial settlement at Quebec on the St. Lawrence River. The one universally accepted medium of exchange in the infant colony naturally became the beaver pelt, although wheat and moose skins were also employed as legal tender. As the colony expanded, and its economic and financial needs became more complex, coins from France came to be widely used.



France, double tournois, 1610

Originally valued at 2 deniers, the copper “double tournois” was shipped to New France in large quantities during the early 1600s to meet the colony’s need for low-denomination coins.

Because of the risks associated with transporting gold and silver (*specie*) across the Atlantic, and to attract and retain fresh supplies of coin, coins were given a higher value in the French colonies in Canada than in France. In 1664, this premium was set at one-eighth but was subsequently increased. In 1680, *monnoye du pays* was given a value one-third higher than *monnoye de France*, a valuation that held until 1717 when the distinction was abolished and all debts and contracts in Canada became payable in *monnoye de France*.

5. This section draws heavily on Shortt (1925a, 1925b, 1986).



France, 15 sols, 1670

In an attempt to address perennial coin shortages in France's North American colonies, Louis XIV ordered the production of three denominations in 1670, including the "double d'amerique" (a base-metal coin), a 5-sol piece, and a 15-sol piece. The "double" was never issued, and the others proved unpopular since they could not be used to pay taxes.



Mexico, 8 reals, seventeenth century

Called "cobs" from the Portuguese *cabo* meaning "bar," these irregular-shaped coins, struck in silver cut from large ingots, were common in the European colonies of North America during the 1600s and early 1700s.

An inability to keep coins in circulation in French colonies in the Americas led to the minting in 1670 of silver and copper coins designed specially for the colonies.⁶ These coins could not be circulated in France on pain of confiscation and punishment. While apparently intended primarily for the West Indies, a small number of these coins are believed to have circulated in Canada (Shortt 1986, 118).

Spanish dollars (*piastres*) also began to circulate in the French colonies during the mid-1600s owing to illegal trading with English and Dutch settlers to the south, who used them extensively. Because these coins were of uncertain quality, an "*arrêt*" of 1681 required that foreign coins be weighed. In 1683, foreign coins had to be individually appraised. Full-weighted Spanish dollars were stamped with a fleur-de-lys and were valued at four *livres*, while light coins, depending on their weight, were stamped with a fleur-de-lys and

a Roman numeral I, II, III, and IIII, with the lightest coin assigned a value of only 3 *livres*. Arguably, these over stamped Spanish dollars (and parts thereof) represent the first distinctive Canadian coins. They also foreshadowed the use of Spanish dollars in what was to become British North America.

The introduction of card money

In 1685, the colonial authorities in New France found themselves short of funds. A military expedition against the Iroquois, allies of the English, had gone badly, and tax revenues were down owing to the curtailment of the beaver trade because of the war and illegal trading with the English. Typically, when short of funds, the government simply delayed paying merchants for their purchases until a fresh supply of specie arrived from France. But the payment of soldiers could not be postponed. Having exhausted other

6. The units of account in France at this time and in the French colonies in the Americas were *livres*, *sols*, and *deniers*. As was the case with English pounds, shillings, and pence, there were 20 *sols* to the *livre*, and 12 *deniers* to the *sol*. There were no *livre* coins. Other coins in circulation included the *louis d'or*, the *écu*, the *liard*, and the *double tournois*. Their values varied widely over time with changes in their gold or silver content, government policy, and inflation. For example, the value of the *louis d'or* ranged from 10 *livres* in 1640 to 54 *livres* in 1720 (McCullough 1984, 43).

financing avenues and unwilling to borrow from merchants at the terms offered, Jacques de Meulles, Intendant of Justice, Police, and Finance came up with an ingenious solution—the temporary issuance of paper money, printed on playing cards. Card money was purely a financial expedient. It was not until later that its role as a medium of exchange was recognized.

The first issue of card money occurred on 8 June 1685 and was redeemed three months later. In a letter dated 24 September 1685, to the French Minister of the Marine justifying his action, de Meulles wrote,

I have found myself this year in great straits with regard to the subsistence of the soldiers. You did not provide for funds, my Lord, until January last. I have, notwithstanding, kept them in provisions until September, which makes eight full months. I have drawn upon my own funds and from those of my friends, all I have been able to get, but at last finding them without means to render me further assistance, and not knowing to what Saint to say my vows, money being extremely scarce, having distributed considerable sums on every side for the pay of the soldiers, it occurred to me to issue, instead of money, notes on cards, which I have cut in quarters . . . I have issued an ordinance by which I have obliged all the inhabitants to receive this money in payments, and to give it circulation, at the same time pledging myself, in my own name, to redeem the said notes (Shortt 1925a, 73, 75).

These cards were readily accepted by merchants and the general public and circulated freely at face value. Card money was next issued in February 1686. The authorities in France were not pleased, however. In a letter to de Meulles dated 20 May 1686, they wrote,

He [His Majesty] strongly disapproved of the expedient which he [de Meulles] has employed of circulating card notes, instead of money, that being extremely dangerous, nothing being easier to counterfeit than this sort of money. Letter to de Meulles, 20 May 1686 (Shortt 1925a, 79)⁷

Notwithstanding this admonition, the colonial authorities reissued card money in 1690 because of another revenue shortfall. Again, the cards were redeemed in full. However, given their wide acceptance as money, a significant proportion was not submitted for redemption and remained in circulation, allowing the government to increase its expenditures. The following year, with yet another issue of card money, the Governor, Louis de Buade, Comte de Frontenac, acknowledged the useful role that card money played as a circulating medium of exchange in addition to being a financing tool (Shortt 1925a, 91).

While the authorities in France worried about the risk of counterfeiting and a loss of budgetary control, the colonial authorities successfully argued that the cards served as money

7. The cards were, in fact, almost immediately counterfeited. See ordinance of de Meulles announcing the redemption of the card money, 5 September 1685 (Shortt 1925a, 73). If caught, the penalty for counterfeiting was severe; Louis Mallet and his wife Marie Moore were condemned to be hanged at Quebec on 2 September 1736 for counterfeiting card money (Shortt 1925b, 591).

in Canada just as coin did in France. Moreover, the Kingdom of France derived benefits from the circulation of cards, since the King was not obliged to send coins to Canada risking loss “either from the sea or from enemies.” Reflecting the mercantilist sentiments of the time, they less cogently argued that if coins were to circulate in Canada, some would be used to buy supplies from New England, resulting in “considerable injury to France by the loss of its coinage and the advantage which it would produce among her enemies.”⁸



French Regime, playing card money, 50 livres, 1714 (reproduction)

Playing cards inscribed with a value and signed by the governor of New France were Canada’s first paper currency and circulated from 1685 to 1714. No genuine examples are known to exist.

The concerns of the authorities in France were not entirely misplaced. In the early 1690s, the first signs of inflation began to be noticed as a result of the excessive issuance of card money. Although cards continued to be redeemed in full upon presentation, the stock of card money increased over time faster than demand, causing prices to rise. With the finances of the French government progressively deteriorating during the first part of the eighteenth century, owing to European wars, financial support for its Canadian colonies was reduced. The colonial authorities in Canada consequently relied increasingly on card money to pay their expenses. In 1717, with inflation rising sharply, it was agreed that card money should be redeemed with a 50 per cent discount and withdrawn permanently from circulation. At this time, Canada also adopted the *monnoye de France*.⁹



French Regime, 9 deniers, 1722H

In another effort to meet the need for small change, the Compagnie des Indes authorized the production of 9-denier pieces, dated 1721 and 1722. These were struck at two mints: Rouen, designated by the mint mark “B” below the date, and Larochele, indicated here by the letter “H.”

8. Letter from the Sieur de Raudot, 30 September 1706 (Shortt 1925a, 157).

9. Acadia retained the *monnoye du pays* valuation for French coins until at least the mid-1740s (Shortt 1986, 169).

By failing to provide a replacement for card money, the unintended consequence of this monetary reform was recession. In an attempt to remedy the situation, copper coins were introduced in 1722, but they were not well received by merchants. Notes issued by private individuals based on their own credit standing also circulated as money, a practice that pre-dated this event, and continued periodically well into the nineteenth century and, arguably, even to the present day.¹⁰ The government, again short of funds, also issued promissory notes called *ordonnances*, which began to circulate as money.



French Regime, card money, 24 livres, 1729

Printed on playing card stock, the size and shape differed according to the denomination. This piece is signed by Governor Beauharnois, Intendant Hocquart, and Varin, the agent for the Controller of the Marine.

In March 1729, in response to requests from the public, the government received permission from the King to reintroduce card money. These cards would be redeemed each year for goods or for bills of exchange¹¹ drawn on funds appropriated for the support of the colony that would be payable in cash in France.¹² The cards, which were strictly limited, were legal tender for all payments and replaced the *ordonnances* in circulation.

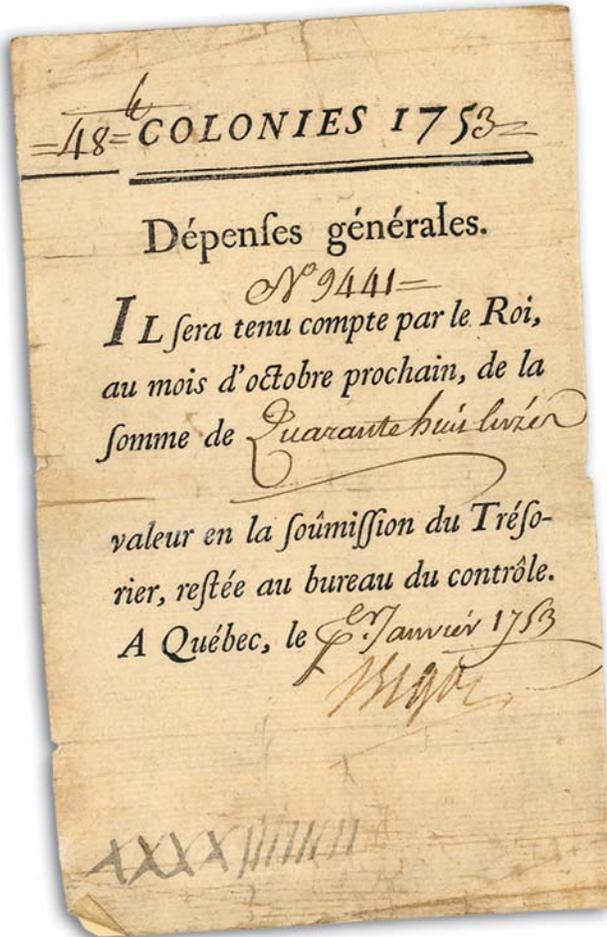
Confidence in this new card money was initially high. With the supply limited and convertible into bills of exchange payable in France, the cards were an economical alternative to the transfer of specie across the Atlantic. Gold and silver began to accumulate in New France and stayed. The government, however, remained financially constrained and began to rely again on *ordonnances* and another form of Treasury notes called *acquits* to fund its operations.

With issuance tightly controlled, card money traded at a premium for a time as the government increased its issuance of Treasury notes to pay for its operations. But as French finances deteriorated and the redemption of Treasury notes was repeatedly postponed, trust in card money was also undermined.

10. See *bons*, Appendix B.

11. Bills of exchange (similar to cheques) were commonly used to finance foreign trade.

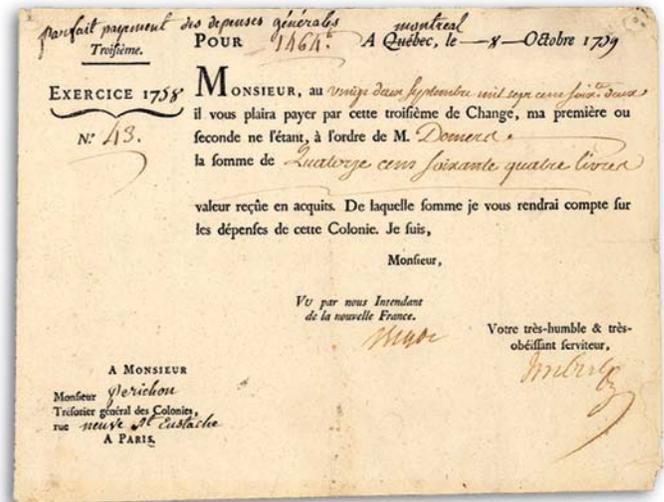
12. See memorandum of the King to the Marquis de Beauharnois, Governor and Lieutenant General of New France, and Sieur Hocquart [Intendant], Commissary General of the Marine and Controller of the Currency, 22 March 1729 (Shortt 1925b, 583).



French Regime, ordonnance, 48 livres, 1753

Although there was a limit on the number of cards that could be issued, no such restriction existed for notes called *ordonnances*, issued by the Treasury in Quebec City. As a result, they were overissued, which contributed to a distrust of paper currency.

By the early 1750s, the distinction between card money and Treasury notes had largely disappeared, and by 1757, the government had discontinued payments in specie; all payments were made in paper. In an application of Gresham's Law—bad money drives out good—gold and silver were hoarded and seldom, if ever, used in transactions.



French Regime, bill of exchange, 1,464 livres, 1759

Issued by colonial officials at Quebec to pay the expenses of the colony, bills of exchange drawn on Paris were also endorsed and exchanged as a rudimentary form of paper money in New France.

A rapid increase in the amount of paper in circulation during the late 1750s resulting from the mounting costs of the war with the British, declining tax revenues, and rampant corruption, led to rapid inflation.

In a letter dated 12 April 1759, the Marquis de Montcalm noted that

provisions absolutely necessary to life, cost eight times more than when the troops arrived in 1755. . . . The colonist is astounded to see the orders of the Intendant, in addition to the cards, circulating in the market to the extent of thirty millions. People, fear, I think without foundation, that the government will make a sort of assignment or authorize a depreciation. This opinion induces them to sell and speculate at an extravagant scale and price. . . . (Shortt 1925b, 889, 891).

On 15 October 1759, the French government suspended payment of bills of exchange drawn on the Treasury for payment of expenses in Canada until three months after peace was restored.¹³ Paper money traded at a sharp discount. Immediately following the British conquest in 1760, paper money became all but worthless. But business in Canada did not come to a halt. Gold and silver that had been hoarded came back into circulation.

Gresham's Law

Gresham's Law, commonly described as the principle that "bad money drives out good," was attributed in the nineteenth century to Sir Thomas Gresham (1519–79), an English merchant and financier. In a letter to Queen Elizabeth I, after her accession in 1558, Gresham made this observation in reference to the poor state of English coinage owing to the debasement of the currency during the reigns of her predecessors. While often ascribed to Gresham, the principle had, in fact, been widely observed and commented on in much earlier times.

The idea behind the principle is that people will use "bad" money (e.g., debased coins or paper money) in payments, while "good" money (full-weight coins) is hoarded. However, Gresham's Law is frequently misunderstood. A more accurate rendition of the principle is that bad money drives out good money *if they are exchanged at the same price*. Such a situation would arise if both modes of payment are legal tender and therefore can be used equally to make payments. Moreover, good money can circulate alongside bad if the demand for money for transactions purposes is not fully satisfied by the circulation of bad money. As well, over history, strong currencies, from the Roman denarius to the U.S. dollar, have predominated in international trade over weak currencies because of widespread confidence in their quality and stability. See Mundell (1998) for an extensive review.

13. See "Suspension of payment of bills of exchange," Versailles, October 15, 1759 (Shortt 1925b, 929, 931). News of the suspension, which took until June 1760 to reach Canada, caused financial panic (Shortt 1925b, 941).

Settlement of the paper obligations issued by the colonial authorities in Canada was included in the Treaty of Paris, signed in February 1763, which ended the war between Great Britain and France.¹⁴ In anticipation of a favourable settlement, speculators bought card and other paper money. British merchants also began to accept the paper, although at a discount of 80 to 85 per cent. Governor Murray, in charge of British troops in Quebec, recommended that Canadians hold onto their paper in the hope of a better deal.¹⁵

After extensive negotiations over the next three years, the French government finally agreed to convert card money and Treasury paper into interest-earning debentures on a sliding scale depending on the type of notes and their age, with discounts ranging from 50 per cent to 80 per cent. Typically, older notes were given a smaller discount. However, with the French government essentially bankrupt, these bonds quickly fell to a discount and, by 1771, they were worthless.



France, louis d'or, 1723

The French government routinely shipped specie (gold and silver coins) to New France. This piece was retrieved from the wreck of *Le Chameau*, which sank off the coast of Cape Breton near Louisbourg on 26 August 1725.

14. The great philosopher and economist, David Hume, who was the British Chargé d'Affaires in Paris at the time, played an active role in the negotiations dealing with the settlement of card and other paper obligations of the French government. See Dimand (2005).

15. See letter by Governor Murray, dated 14 February 1764 (Shortt 1925b, 993).