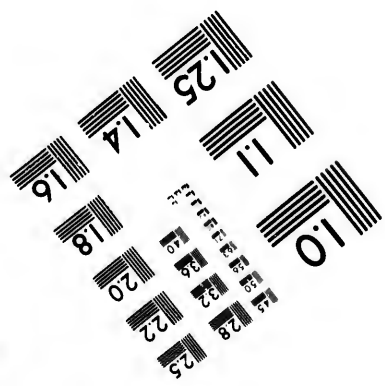
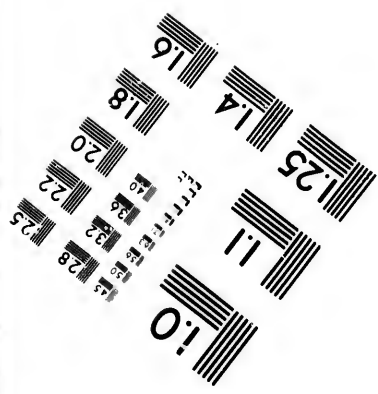
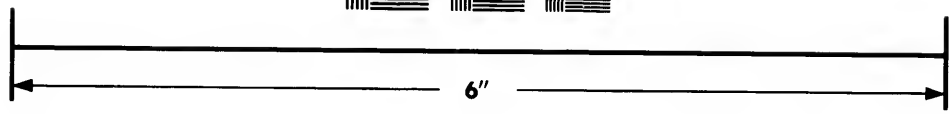
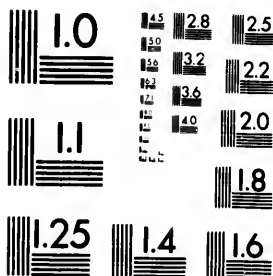


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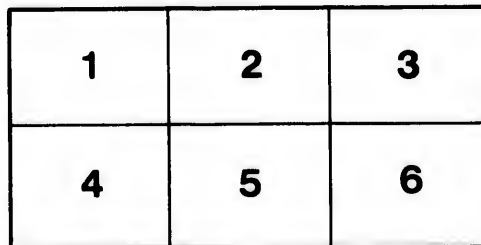
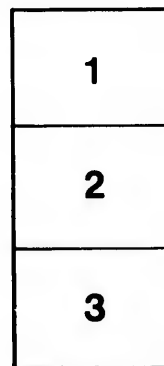
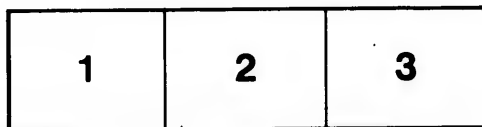
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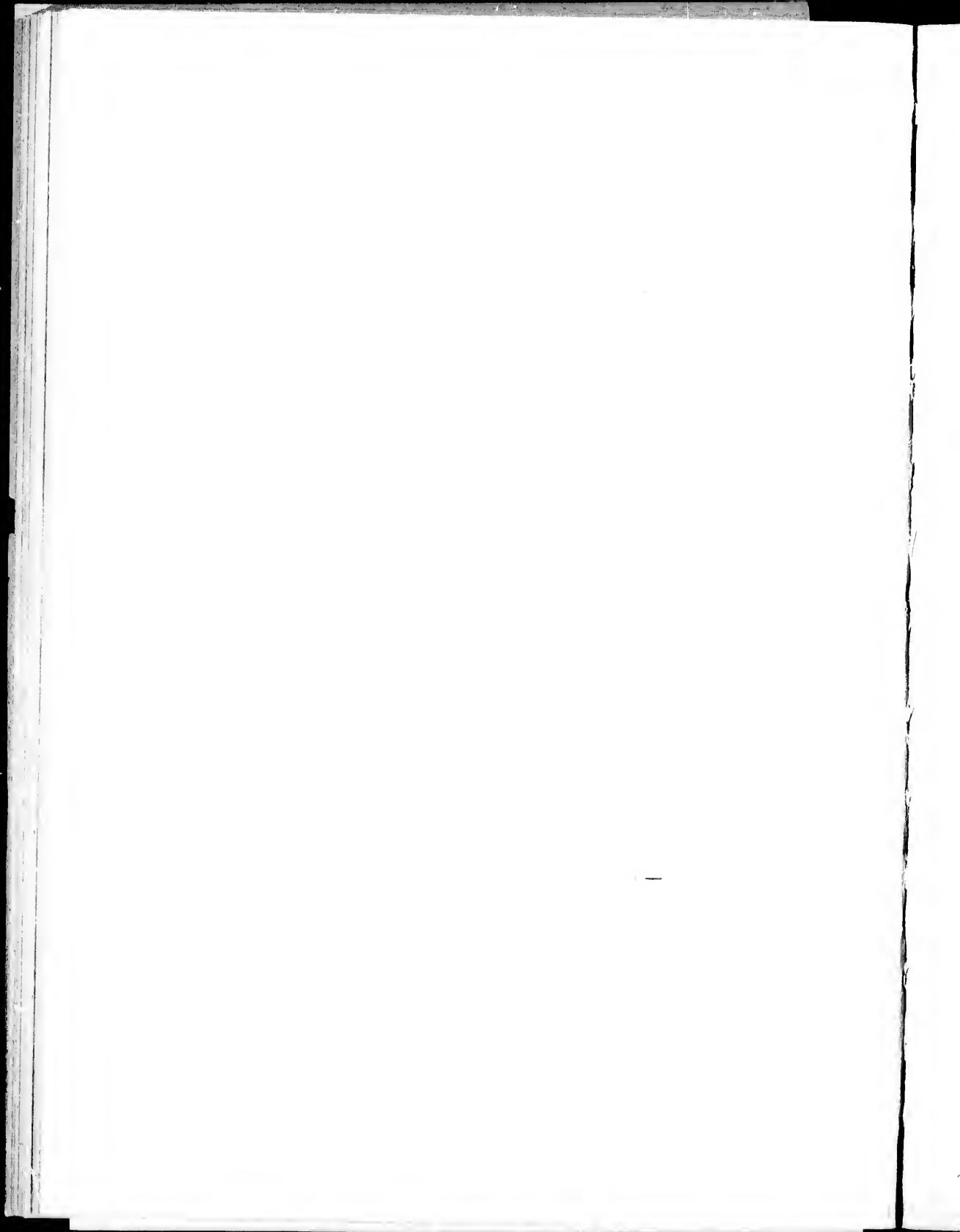
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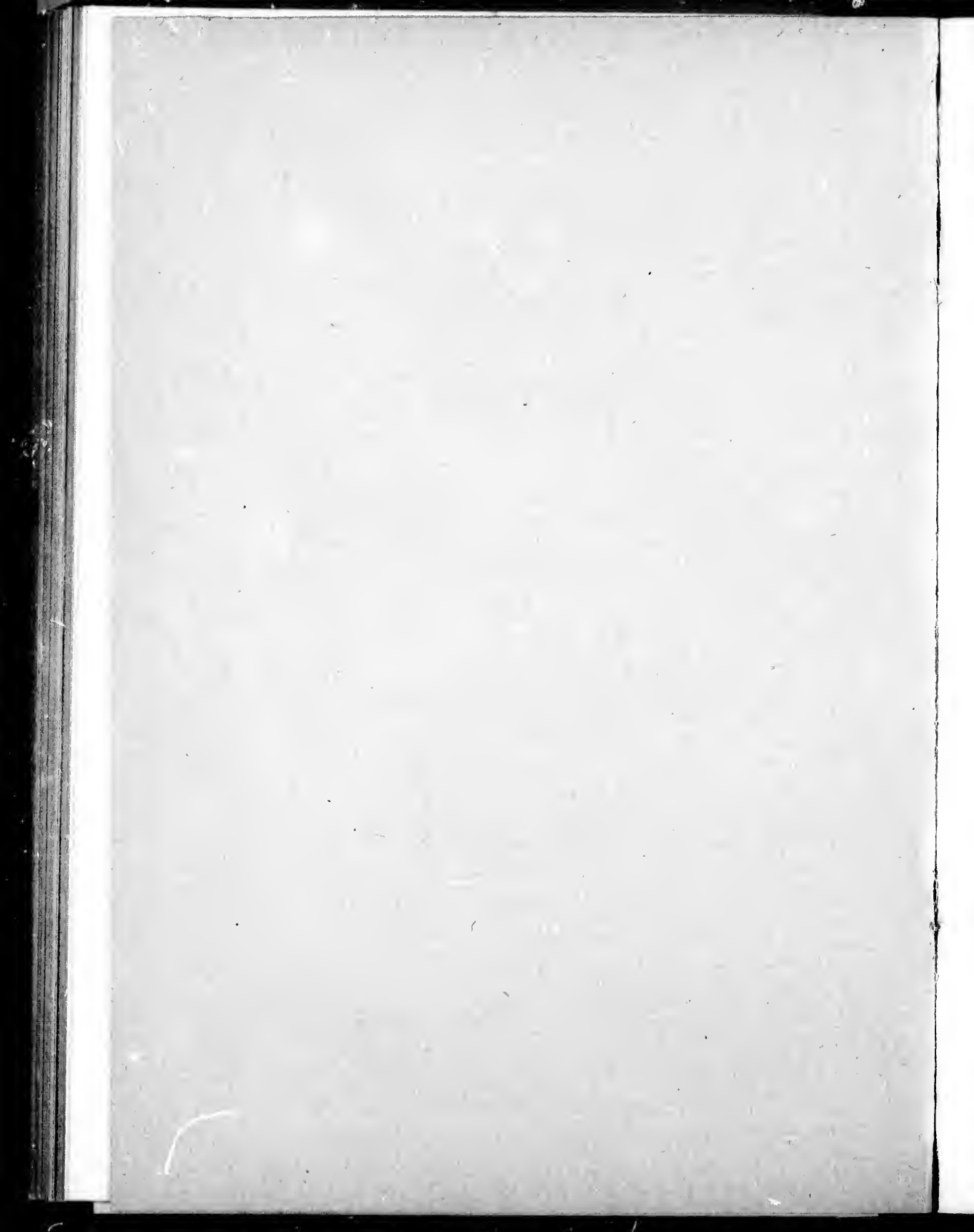
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P 443

THE
EARLY HISTORY OF CANADIAN BANKING

CANADIAN CURRENCY AND EXCHANGE UNDER
FRENCH RULE

BY
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QUEEN'S UNIVERSITY,
KINGSTON

TORONTO
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CANADIAN CURRENCY AND EXCHANGE UNDER FRENCH RULE

V. ULTIMATE DISPOSAL OF THE PAPER MONEY*

Though attended by many anxious watchers, the French Canadian paper currency suffered a painful and lingering death. The embarrassment of the French treasury during the greater part of the Seven Years' War is a well-known fact of financial history. During the last years of the war the treasury was practically bankrupt, the treasurer being compelled to repudiate past promises and obligations from almost every quarter. The deferring of payments in Canada was simply a partial expression of the general attempt to ward off an utter collapse, and the complete suspension, in October, 1759, of all payments on Canadian account, was not merely an expression of the abandonment of Canada to her fate, after the capture of Quebec.

In the last article a table was given showing the amount of the exchange drawn upon France during the closing years of French rule. From that it will be seen that the most remarkable increase in the expenditure took place in the years 1757-8-9. But, by the system of deferred payment then in force, one-fourth of the value of the exchanges drawn in any one year, was to be paid the following year, one-half the second year after, and one-fourth the third year after being drawn. When, therefore, the payment of the Canadian exchanges was wholly suspended in

*Chief sources :

Canadian Archives, Haldimand Collection B. XXI, XXIII, XXIV, XXVII, XXXVII.

State Papers, Q. I—V & LV.

Jenkinson's Collection of Treaties of Peace, Alliance and Commerce between Great Britain and other Powers. Vol. III.

An Act of the King's Council of State which orders the Liquidation of the Bills of Exchange and Money Bills of Canada. (June 29th, 1764).

De l'Administration des Finances de La France. Par M. Necker, 1784.

October, 1759, the entire amount of exchange drawn that year remained unpaid, and a like fate overtook at least three-fourths of the exchanges of 1758, and at least one-fourth of those of 1757.

There remained unpaid, also, the whole of the card money, ordonnances and certificates held in Canada, and which General Murray, in his report of June, 1762, estimated at twenty-two millions of livres. The whole of the unpaid Canadian paper, Murray estimated at eighty millions at the least.

The settlement or disposal of this debt was a very important detail in the peace negotiations which led up to the treaty of 1763. Had these claims remained unsettled, in proportion as distress resulted to Canada, the security of the English possession of it would have been weakened.

These claims left uncertainly hanging in the wind, it would always be open to France at any future crisis to promise to pay them, on condition that the Canadians should return to their ancient allegiance. Hence it was necessary to make some final settlement of them if possible.

Murray himself was so impressed with the necessity of getting the Canadian claims out of the way, that he proposed to the British Government the taking over, at a large discount, of all the paper still remaining in the possession of the French Canadians, except the exchanges on France, which were mainly in the hands of merchants who expected to leave the country, or the noblesse who could go to France to look after their own interests. He proposed to give in return English paper money to the extent of 10, 15 or 20 per cent. of the face value of the French paper. Murray's general report on the country furnished to the British Government the data upon which to proceed in the negotiations with France.

Meantime the uncertainty was great. France desired, if possible, to avoid payment, both because she was losing the colony which had been the occasion of the outlay, because of her financial exhaustion, and because she was not particularly anxious to relieve her great rival of all embarrassment in her new acquisition. At the same time there were Frenchmen who

held that the best policy, with a view to maintain a latent hold upon the French Canadians, was to promptly and fully meet all obligations in Canada.

While the issue remained uncertain, the English merchants generally refused to accept Canadian paper for goods. In consequence, the paper money for a time almost wholly dropped out of use as a medium of exchange. Even where contracts were made payable in paper money, the courts were instructed to suspend judgment upon them until an ultimate settlement of the matter had been reached. When, after the treaty, the prospects of payment became brighter for a time, a good deal of speculative buying of Canadian paper was indulged in.

At first Murray and the English generally endeavoured to convince the Canadians that there was no hope of the French Court ever redeeming their claims upon it; and that, therefore, they would lose nothing in transferring their allegiance to Britain. But after his position was secure, Murray adopted the opposite tack, and advised the French Canadians to hold on to their paper money, as the British Government would secure its redemption.

The French Court, when suspending the payment of the Canadian paper in 1759, had at the same time promised to redeem it as soon as the war was over, at the rate of 500,000 l. per annum. But, as this applied to the paper of all the French colonies, even if the promise had been kept, it would have required several centuries during which to complete the payment.

In Canada, in particular, Vaudreuil and Bigot, both before and after the capitulation, had given the strongest assurances in the King's name that the Canadian paper would be redeemed after the peace. These pledges and assurances were, of course, used with effect in the peace negotiations which followed.

From the first, the Canadians were naturally clamorous before the English authorities in Canada, to obtain some definite decision as to the status of their paper money, both in commerce and with reference to previous contracts. The people in Montreal went so far as to send a petition to the British Government to secure the redemption of their paper, as it was practically the only money which they had. This was fairly correct as to the Montreal district, which had not the same opportunities for

hoarding coin as those nearer Quebec. At the same time, it is true that the noblesse, the merchants and the government contractors were the chief holders of the paper money.

During the later days of French rule, there being no longer any coin in circulation, any increase in the savings of the peasantry had to be made in paper money. But the general distress and the arbitrary measures resorted to for securing supplies, prevented the possibility of much saving during the last three years. What was held by the country people was mainly in the shape of card money and ordonnances. The bills of exchange were chiefly in the hands of the French traders and noblesse, who, as Murray said, were likely to return to France, some of them to remain there, others to look after their interests.

The Treaty of Paris, by which Canada was ceded to Britain, was concluded on the 10th of February, 1763. The treaty itself did not include any article dealing with the outstanding claims on the French Government. But in a special declaration appended to the treaty the matter is thus dealt with:

“The King of Great Britain having desired that the payment of the letters of exchange and bills, which had been delivered to the Canadians for the necessaries furnished to the French troops, should be secured, his most Christian Majesty, entirely disposed to render to every one that justice which is legally due to them, has declared, and does declare, that the said bills, and letters of exchange, shall be punctually paid, agreeably to a liquidation made in a convenient time, according to the distance of the places, and to what shall be possible, taking care, however, that the bills and letters of exchange, which the French subjects may have at the time of this declaration, be not confounded with the bills and letters of exchange which are in the possession of the new subjects of the King of Great Britain.”

This somewhat Delphic deliverance, instead of leading to a definite settlement of the French debt in Canada, was but the beginning of a long and fruitless diplomatic contest in which the French as usual got the better of their British competitors. Once the crisis was over and the treaty signed, the French Court knew that the English were not likely to go to war over a vague appendix to the treaty, dealing with the Canadian debt.

With a cheerful ignorance of French methods, the English traders and others interested in Canada understood the latter part of the declaration to mean that the paper money held in Canada was to be much more favourably treated than that held in France.

Acting on this supposition, efforts were at once made in the districts of Quebec, Three Rivers and Montreal, to get a record of the paper money held in those sections, as it was expected that considerable paper money and exchanges held in France would be returned to Canada in order to take advantage of the more favourable treatment secured for the Canadian holders. This, however, was soon found to be a baseless apprehension.

The next alarm was sounded by Lord Halifax, in the end of 1763. In a despatch to Murray he says he has been informed that some persons employed by the French Government have been insinuating to the people of Quebec that the Canadian bills will never be paid. Under cover of this they were understood to be purchasing from them considerable quantities at a very low price. He asks Murray to make immediate inquiry as to the truth of this report. But this, too, proved to be a groundless alarm. The French Court was very far from having either the funds or the inclination to purchase at any price its past Canadian promises to pay.

For the comfort of the Canadians Halifax reports that the English ambassador at Paris and himself are exercising themselves to obtain from the French Court a complete fulfilment of the stipulations appended to the Treaty of Paris. Accordingly, Murray, in February, 1764, issued a proclamation embodying this statement, and advising the Canadians to have patience and hold on to their paper, or at least not dispose of it at a low price, otherwise the French might make this a pretext to avoid payment.

Immediately after the treaty was signed, many of the British merchants trading to Canada, believing that a profit might be made on Canadian paper, authorized their representatives in Canada to sell their goods for Canadian bills, and, if necessary, to purchase them with cash, provided they were to be had at a considerable discount. It appears from a letter of

Murray's in February, 1764, that they seldom offered more than 15 per cent. Notwithstanding Murray's advice to hold on to their paper, the French Canadians, well acquainted from past experience with the value of those fair promises in which the French Court was ever ready to deal most lavishly, were not disposed to take the warning very seriously. Their pessimism was amply justified, for those who obtained even 15 per cent. for their paper had occasion to congratulate themselves on their wisdom in selling.

At the same time, by purchasing considerable quantities of Canadian paper, the interests of the English merchants were enlisted in behalf of securing from the French Court a fulfilment of its engagements.

The first move of the French Court, after the ratification of the peace, was the issue of an arret on the 15th of May, 1763, directing that all Canadian bills and letters of exchange should be registered, in an appointed office, before the first of January following. The effect of this was to practically shut out most of the paper held in Canada. The British merchants interested in the matter, though duly registering what they had obtained before that time, yet urged Halifax, the Secretary of State, to press the French Court for an extension of the period of registry. After making much of the concession, the French Court yielded, and a second arret of 5th January was issued, graciously extending the time to the first of April following, but absolutely declaring that all bills not then registered should be without value.

No one knew better than the French Court that this hardly extorted concession was a mere mockery. There being no regular communication with Canada during the winter months, no further Canadian claims were likely to be registered until some time after navigation opened, and before that the new date would have expired.

In a despatch from Halifax to Murray in December, 1763, there are given the requirements of the French Court as to the form of the returns of paper to be made from each of the districts of Quebec, Three Rivers, and Montreal. These exact a complete statement, from both English and French holders of the Canadian paper, giving particulars as to the nominal value,

date of issue of each bill, the means by which it was obtained, and, in the case of those disposed of, by whom they were sold, to whom, and at what price.

The Canadian authorities at once bestirred themselves to secure the registration of the outstanding paper, according to the forms prescribed by the French Government. But not before August 20th, 1764, was Murray able to send what he believed to be a correct account of the bills held in Canada. His summary of the returns is as follows :

Govt of Quebec—	Exchanges		Ordonnances		Cards		Certificat	
	livres	s. d.	livres	s. d.	livres	s. d.	livres	s. d.
(a) In Canada....	683,413	18 3	4,614,167	16 0	318,569	17 6	122,785	18 10
(b) In Europe ...	766,359	9 0	702,325	5 0	33,259	0 0
Montreal.....	667,630	6 6	6,548,869	10 0	220,479	15 0	543,298	16 10
Three Rivers....	78,740	5 0	1,297,579	15 0	70,755	16 6	114,252	2 5

In addition to the methods adopted for shutting out the greater part of the Canadian and English claims, the French Court had devised other measures which would as far as possible render those duly registered of little value. This scheme was embodied in an arret of the King's Council of State of 29th June, 1764, the chief features of which are here summarized :

The King first expresses his willingness to liquidate the debts contracted in Canada, and which exist in the shape of both money bills and bills of exchange. But he points out that, having investigated the administration of affairs in Canada, he finds the most positive proof of excessive expenditure and extensive frauds connected with his service in that country. As a consequence of its excessive issue the paper became greatly discredited. The depreciation of the paper is said to have begun in 1754, and in 1758 it had fallen to one-half its nominal value, while in 1759 it was reduced to one-fourth, and in 1760 to one-fifth of its value, as measured by its purchasing power. On these grounds it is claimed that the funds employed in the payment of the Canadian bills up to the time of the suspension of payment in 1759, should have covered the whole cost of the King's operations. In other words, the King has really obtained nothing for the outstanding paper.

Nevertheless, owing to the delay in cashing the bills, and owing to the fact that many merchants obtained them in *bona*

fide business in return for goods before the suspension of payments was announced, the King is prepared to deal generously with them. He is also anxious that the officers and others who have served in the war, should not be losers through these bills. Hence, the King in Council ordains as follows :

Article I. The bills of exchange drawn in 1758 and preceding years, which have been declared and checked according to the Acts of 24th December, 1762, 15th May, 1763, and 5th January, 1764, and which may have been obtained in business before 15th October, 1759, shall be paid in full.

II. Such other bills conforming to the above regulations, as were drawn in 1760, and were stamped, "For the subsistence of the armies," shall likewise be paid in full.

III. All other bills drawn in 1758, 1759 or 1760, shall be paid at one-half their face value.

IV. The card money and the ordonnances shall be paid on the basis of one-fourth their value.

V. All those claims of whatever kind which have not been registered according to the Acts of 1762, 1763, 1764, shall be henceforth null and void.

VI. and VII. These provide special arrangements for the civil and military officers and the soldiers who served in Canada, and who may be holders of paper received for their services, coming under article III or IV. Each one, however, must make special application, with the particulars of his case.

The remaining articles provide for an elaborate red tape process, whereby the various claims already registered shall be classified and reduced to a basis of payment. Immediate payment was to be made in funds bearing interest at 4 per cent., until ultimate payment should be convenient.

An act of July 2nd, 1764, regulates the form and distribution of the funds to be issued in payment of the claims. The important points are :

Article I. The funds or debentures to be made payable to bearer, and to bear interest at the rate of 4 per cent., beginning from the first of January next. To the debentures shall be attached coupons for the interest, which shall be due from year to year. The first coupon, for instance, shall be for the amount of interest due on the last day of December, 1765, and so on, for the succeeding years.

II. The debentures shall be issued for definite and fixed sums, viz.: 50, 60, 80, 100, 300, 500, 1,000, 2,000, 5,000 and 10,000 livres. All odd sums which come between these shall be paid in cash at the time of issuing the debentures.

III. and IV. These appoint the persons who are to sign and issue the debentures and make payments of interest.

V. This provides for the payment of the debentures themselves. The King reserves to himself to determine what funds shall be provided annually for that purpose. Payments shall be made by the lottery system, in the month of January of each year. Numbered tickets representing all the separate claims shall be put into a lottery wheel and drawn out until the amount to be paid for that year is made up.

VI. The claims drawn shall be paid promptly by the general treasurers of the colonies, and the interest coupons remaining unpaid shall be returned.

VII. and VIII. These refer to the methods of keeping accounts.

Then follow the form of the debentures to be issued for the principal, and the form of the coupons for interest to be paid in January of each year from 1766 to 1771.

Now, several features of this settlement require to be carefully noted. First of all, we observe that the bills of exchange issued for the Canada paper in 1757 and 1758, and which were obtained in the ordinary course of business before the suspension of their payment in October, 1759, are to be paid in full. But almost the whole of these were held in France, being sent there in return for goods sent to Canada. The other bills to be paid in full were the comparatively small amount issued in 1760 and stamped, "For the subsistence of the armies." These, too, were held mainly by the officers and commercial element, which returned to France after the capitulation of Montreal.

The remaining bills were to be paid at one-half their face value, and these were held partly in Canada and partly in France. Those in France were taken there mainly in the pockets of the civil and military officers and the troops who had received them for their pay. But to these persons a special claim was to be allowed in the case of such paper, as also in the case of their cards and ordonnances, while no corresponding claim was permitted to the holders in Canada.

The cards and ordonnances were to be allowed to all others only one-fourth of their face value, and, as may be observed from the table already given, they made up the greater part of the paper remaining in Canada. Yet if anything should have been paid in full it was the card money which was issued before the depreciation period began. The same table shows what a small proportion of the Canadian holdings had been sent to Europe.

From all these facts it is clearly to be observed that the French Court, while professing to treat all holders alike, and thus to have fulfilled the pledge given to the English, had nevertheless with its usual dexterity, to call it by no harsher name, succeeded in shutting off almost all claims but those of its own subjects.

Murray had issued a proclamation to the French Canadians dated February 8th, 1764, declaring that the King had renewed his efforts, through his ministers, to have the French Government fulfil its promise to redeem the paper money, as given in the treaty of peace. He asks the people to have patience, and rely on the efforts of the King in their behalf.

Nevertheless, when the nature of the French Act of 29th June, 1764, became known in Canada, the people were once more greatly distressed as to the fate of their paper money.

In November the French Canadians sent, through Murray, an address to the King, asking for the protection of their interests, and pointing out that their paper money was obtained in return for necessaries supplied to the troops, the prices for which were arbitrarily fixed by the Intendant. If the Intendant had not deceived them with false promises, their paper would have been converted into letters of exchange in 1759. In proof of this there is appended a copy of the letter of Vaudreuil and Bigot, issued after the virtual loss of the colony. It is dated Montreal, June, 1760, and assures the people that the bills of exchange of 1757 and 1758 will be paid three months after the peace, those of 1759 eighteen months after the peace, and the cards and ordonnances as soon as circumstances will permit.

Halifax, writing to Murray on Dec. 8th, 1764, acknowledges the receipt of the detailed register of the paper money. As this

showed a larger amount than the first estimate sent, and as the claims were made upon France on the basis of the first estimate, it may be difficult to get the additional sum admitted. The ambassador, however, will be instructed to do his best in the matter.

The British Government naturally took exception to the act of June, 1764, for the liquidation of the Canadian paper, and the Court of France as naturally sought to justify its action. The reasons given by France in justification of the very great reductions in the value of certain parts of the paper were: (1) The discredit into which the paper had fallen. (2) The high price of necessaries in 1759. (3) That the letters of exchange given before 1759 were paid in part. (4) The ordonnances and cards were only such as were issued after the last delivery of letters of exchange. (5) The retailers and merchants purchased the ordonnances at 80 or 90 per cent. discount. In reply to these the British Government made the following answers: (1) The Court of France, being itself the author and cause of the discredit, has no title to be benefited by it. (2) In 1759 the prices for the King were fixed by the Intendant at a lower rate than that at which necessaries were sold in the colony. (3) No reasons are given why the letters anterior to 1759, are not entitled to complete payment. (4) Ordonnances and cards of an old date were the circulating medium of the country. (5) The Court of France is responsible for the full value, whatever they may have been purchased for. And they might have added, had they fully understood the situation, that a considerable portion of the cards at least, represented the savings of the people, and were not issued, as asserted, after the last delivery of exchanges.

The negotiations continued through 1765. In the meantime many of the English merchants in the course of their trade, and from speculating in Canada bills, had become personally interested in the payment of them. These persons sent a petition to parliament, in which they rehearsed the chief points in the history of the question up to that time. They complained of the unfair terms of the settlement made by the French Court. The 4 per cent. funds in which the payment was to be made then stood at 24 per cent. below par, so that the letters of ex-

change were, they claimed, to be paid on a basis of 38 per cent., and the cards and ordonnances at 19 per cent. of their face value. A further arret had since been issued making a reduction of 10 per cent. on the interest due to all holders of French funds. They state that though the paper in the possession of British subjects amounts to considerably over £1,000,000, yet only about £50,000 worth had been registered. They also complained that the various arrets dealing with this subject had been issued without any warning, and left those affected without any appeal. They therefore prayed the Government to come to their rescue.

A committee of the English holders of Canadian paper had obtained from those in Canada a power of attorney to act for them in urging the matter upon the British Government, in order to secure payment according to treaty.

In December, 1765, this committee prepared a memorial on the subject of the paper money, for the guidance of the Hon. Henry Seymour, one of the Secretaries of State. In this, however, English, as distinguished from Canadian interests, receive special consideration. They proposed that the time for the registration of claims in France be extended to December 25th, 1766, the persons registering to prove, on oath, that their property is British, and that it has been so since the signing of the peace with France. The basis of redemption should be 50 per cent. on all bills of exchange and such certificates as are entitled to the same payment, and 25 per cent. on all ordonnances, cards and remaining certificates. These sums to be paid in the established, secured and transferable funds, bearing interest at 4 per cent. Also, that the Court of France shall pay into the hands of the committee a further sum of 1,500,000 livres, as a bonus on the ordonnances, cards and certificates at their rate. Also a further sum of 1,000,000 livres as an indemnification for the discount at which the funds given in liquidation may sell. All paper not conforming to these requirements to be completely excluded from all claim to payment.

By this time the financial condition of France was such that the Court did not seem to think it mattered much what was promised. Hence, after a becoming amount of diplomatic dis-

cussion, a convention was at length drawn up and signed on the 29th of March, 1766, for the final disposal of the Canada paper belonging to the subjects of Great Britain.

The convention followed closely the lines laid down in the memorial just referred to. Bills of exchange and some certificates were to be redeemed at 50 per cent., and cards, ordonnances and the other certificates at 25 per cent. Payment was to be made in "rent-contracts," or debentures bearing interest from 1st January, 1765, at $4\frac{1}{2}$ per cent., and to be conformable to the arrets of 29th June and 2nd July, 1764, and 29th and 31st December, 1765. The first two of these arrets have already been referred to. That of 29th December, 1765, was issued in consequence of the decline in the rent-contracts already issued, and also in consequence of the English protests. It provides in the first article that the interest shall be raised from 4 to $4\frac{1}{2}$ per cent. Article II. declares that no Canadian paper shall be registered after March 1st, 1766. But article III. makes an exception in favour of British holders, for whom the time of registration is extended to October 1st, 1766. The arret of 31st December, 1765, is based on the report of the comptroller-general of the finances and provides that the interest on the rent-contracts shall be paid from the Arrears Fund, the principal to be paid by lottery, agreeably to what has been provided for the different debts of the state and by the edict of December, 1764.

The greater part of the convention itself refers to the forms of oath and declaration to be made guaranteeing the money to be British property. These declarations require the giving of a complete history of the paper money from the actual holders back through all the intermediate possessors to the original receivers, under pretext of preventing paper sent from France to Canada from coming in as British property. By the 13th article the Court of France grants to the British proprietors generally an indemnification, or premium, of 3,000,000 livres, 500,000*l.* to be paid in specie, and the remainder in rent-contracts of the same nature as the others, the interest on which shall run from January 1st, 1766. This is to be a final settlement of all claims.

Conway, who negotiated the matter on the British side, immediately sent to Murray a copy of this convention with in-

structions to have all the paper money in Canada sent over before the 1st of October, and asking him to take precautions that no paper sent back from France might be included, for the larger the amount sent the smaller would be the share of each from the 3,000,000 l. bonus.

There being some anxiety to know how the 2,500,000 l. in funds and 500,000 l. in specie were to be distributed, the English committee made an explanation. By the most careful estimate there appeared to be outstanding, bills of exchange and certificates to the extent of 4,000,000 l., and ordonnances and cards to the extent of 12,000,000 l. These being reduced according to the convention, would make a net total of 5,000,000 l. The distribution of the 3,000,000 l. of bonus on this amount would give 2,100,000 l. in rent-contracts and 420,000 l. in specie to the ordonnances and cards, and 400,000 in rent-contracts and 80,000 l. in specie to the bills of exchange and part of the certificates.

The settlement effected by this convention appears only to have multiplied the troubles of the British Government. Many special claims, alleged hardships and difficulties arising from the elaborate red tape process through which the claims had to pass, poured in upon the Colonial Department.

Although the English holdings were all registered in time, some of the French Canadian claims, having a shorter time for their preparation, and having to be sent across the Atlantic, arrived somewhat late, and there were others whose history could not be fully traced. Further diplomatic efforts had to be made to get these included. The French Court made much less difficulty than might reasonably have been expected, which was not a little ominous. In consequence of this amiability of the French, everything that the British Government had the courage to ask was granted by the end of 1767.

On the British side some difficulty arose over the proposed distribution of the bonus. The French Canadians, rightly or wrongly, got the idea that the holders in Britain were getting the better of them in the division. They were assured, however, that their fears were groundless.

When everything was satisfactorily settled the French officials issued the promised funds, but before the operation was finished they had fallen on the London market to 74. In January, 1770, the interest on them was reduced to $2\frac{1}{2}$ per cent., and the next month the payment by lottery was suspended for four years, which meant for ever. Within the year following the stock had become worthless. As regarded its funded debt the French treasury was practically bankrupt. Soon war with England was resumed, and the French Canadian paper money had vanished into the Limbo of the past.

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