

A History of the Canadian Dollar

The Beginnings

Throughout the 1800's, a variety of currencies existed in Canada. They included the Canadian pound, New Brunswick dollar, British Columbia dollar, Prince Edward Island dollar, Nova Scotian dollar, and the Newfoundland dollar. With so many different notes and coins in circulation, it proved frustrating and complex to make simple transactions.

With the Canadian Confederation on July 1, 1867, the British North America Act gave the government jurisdiction over currency and banking. In April 1871, the federal parliament passed the Uniform Currency Act and replaced currencies of various provinces with a common Canadian dollar. However, each bank in Canada still issued its own paper currency. The federal government also issued Dominion notes in exchange for gold.

On August 22 1914, the Finance Act was introduced in an effort "to conserve the commercial and financial interests of Canada". This allowed the government to issue new Dominion notes without gold backing to finance the war effort.

Depression Years and the Creation of the Bank of Canada

October 1929 marked the crash of the stock market. The effects of the Great Depression had a devastating impact on the global and Canadian economies. Canadian equity prices fell by more than 70%, national output dropped by 40% and unemployment peaked at 20%. During this period of time, the Canadian government did not do much in terms of monetary policy. Repayment of loans by banks to the government made the situation even worse due to monetary contraction.

The deflationary pressures from the US spread quickly, weakening the global economies and leading to countries abandoning the gold standard. People distrusted the banks due to the high cost and low availability of credit. Real interest rates were as high as 17% in 1931 and 1932. A "source of steady and cheap credit" was desired, and people believed that a central bank was the solution.

In 1933, the Macmillan Report considered the feasibility of establishing a central bank in Canada. Banks in Canada at the time were against the formation of a central bank, as they feared a loss in profits and control. Ultimately the Bank of Canada Act was passed 1934 and began operation on March 11, 1935. Existing dominion notes were replaced with Bank of Canada notes. Approximately 4 months later in July, the Exchange Fund Act was passed which provided "a fund that could be used to aid in the control and protection of the external value of the Canadian monetary unit".