By Act of Parliament passed in 1934, and confirmed on the several occasions since then when the Act has been before Parliament for amendment, the Bank of Canada has been given the duty "to regulate credit and currency in the best interests of the economic life of the nation, to control and protect the external value of the national monetary unit, and to mitigate by its influence fluctuations in the general level of production, trade, prices and employment, so far as may be possible within the scope of monetary action." To this end the Bank of Canada has the sole right of issuing paper currency; it has the power to buy and sell broad classes of securities, to make short term loans to the chartered banks, and otherwise to establish and give effect to the appropriate monetary policy from time to time. Under this Act of Parliament the government of the day has no power or authority whatsoever to direct how the Bank of Canada shall act in these matters.

Let me emphasize that the Government of Canada has no power or control whatsoever over money supply. It cannot increase it, vary it or decrease it. I sometimes receive letters asking me why I turn the money supply on and off like a tap. The fact is that the Minister of Finance has not the slightest control over money supply.

While the Bank of Canada has a broad control over the money supply, it is the chartered banks that decide through their day to day actions how that supply of money is allocated. The overall limit of bank credit is controlled by the statutory requirement that each bank shall maintain a minimum cash reserve equal to 8 per cent of its deposit liabilities, and by an understanding between the banks and the Bank of Canada that each of the chartered banks will maintain in addition a minimum secondary reserve of highly liquid assets (i.e. day loans and Treasury Bills) equal to a further 7 per cent of its deposit liabilities. But beyond that it is for each bank to decide for itself, having regard to prudent banking practice, what proportion of its resources is put into loans, how much is invested in federal, provincial, municipal or corporate securities, or what amounts should be committed to insured mortgages under the National Housing Act. In the allocation of these resources neither the government nor the Bank of Canada has any authority to direct how the chartered banks shall act.

<u>Money Supply</u>

While the Government has no direct control over money supply and the volume of credit, nevertheless its fiscal and debt management policies unquestionably affect the total credit situation. During the period of the recession the large federal deficit that was deliberately engendered was matched by an increase in the money supply by the Bank of Canada to a degree which the Bank believed to be appropriate to the circumstances. As conditions changed from recession to recovery