Mr. BEATTIE: No. The amendment which is made applies only to accounts of foreign central banks and international organizations. The failure to pay interest is really a key factor in the relationship here. It is because the chartered banks earn no interest with us that they buy other bonds, or loan.

Senator LEONARD: Is there a bar against your allowing interest to the banks, or would it be possible to allow interest without a statutory amendment?

Mr. BEATTIE: We have no power to pay interest on such accounts under the present act or the proposed one, except in the case of central banks of other countries or official international organizations.

Senator THORVALDSON: In fact, was that not one of the objections of the chartered banks originally when the bill was enacted? I think I recall that they felt they were being done badly by in not getting interest on that. Am I right or wrong?

Mr. BEATTIE: I have not a specific recollection, but I am sure that is the way they did feel, and the way I would feel if I were a chartered banker; but the fact is that this is a key feature of central bank technique in every country in the world. If it paid interest, there would not be adequate incentive to the chartered banks to employ the surplus funds in other ways.

Senator LEONARD: And of course there is a difference when interest goes above 6 per cent in a bank.

The CHAIRMAN: Any other questions on that point? I notice on page 5 of the bill you refer to subsection (3) of section 72 of the Bank Act. It does not correspond with the section in the present act?

Mr. BEATTIE: No, there has been a revision in that act as well.

The CHAIRMAN: So that is another reason that we must pass the Bank Act—to get this straight?

Mr. BEATTIE: Yes, I think so.

The CHAIRMAN: Now the second point?

Mr. BEATTIE: This primary reserve framework enables the central bank to control the rate of growth of the chartered banks' total assets and liabilities. The rate of growth in these totals normally influences the chartered banks lending policies in the direction of liberalization if the increase in total assets is speeding up, and in the direction of restraint if it is slowing down. However, the leverage on loans is likely to be only partial and to operate with some lag. That is another way of saying that the chartered banks lending policies are likely to be changed only gradually. If their total assets growth is speeding up banks will tend to increase their liquid assets as well as their loans. They are always happy to improve their liquidity position if they can, consistent with carrying out their lending policies or easing them somewhat. However, they hardly ever ease them commensurately with the change in the growth of total assets.

Senator THORVALDSON: When you refer to liquid assets vis-a-vis loans, what do you mean?

Mr. BEATTIE: As distinct from loans, it includes almost everything but loans. The principal forms of it, apart from cash with the Bank of Canada, are Treasury bills, day loans, Government of Canada bonds, call loans, and other types of securities.

Just as the banks will not fully reflect a step up in the rate of increase in their total assets in a step up in their lending policies, if the total of the growth is slowing down, the banks are likely to adjust their lending policies in the direction of restricting them, with some lag.

In this case the bank would finance some part of the growth in its loans by selling off some assets to tide it over in the meantime.