Mr. BEATTIE: Well, dealing with the question of monetary techniques, or techniques of monetary management, the most important revision being proposed is to replace the power which the central bank presently has to vary the cash reserve ratio with a power to impose and vary a secondary reserve ratio which would consist of treasury bills and day to day loans. I will be glad to explain the reason for this as best I can if the members of the committee wish me to do so.

The CHAIRMAN: Yes, would you?

Mr. BEATTIE: Perhaps I might go back and explain basically how the central bank tries to bring its influence to bear on the financial system. Its normal means of speeding up or slowing down the rate of growth of chartered bank loans, which is, I think, the ultimate thing it is aiming at, is through its power to set the cash reserves of the chartered banks as a group from day to day. At the end of each day we make certain decisions that establish the total amount of cash reserves that all the chartered banks taken together have for the next day. We can vary from day to day in such a way as to exert the kind of influence we feel would be appropriate.

Senator THORVALDSON: That means, Mr. Beattie, that the banks report to you every day as to their cash—

Mr. BEATTIE: They keep their cash reserves with us, and we see this in our own accounts each day. Each day we know what their cash reserves are, and each evening we make residual transactions which establish what the reserves of the whole system will be for the next day.

Senator LEONARD: And the minimum is eight per cent, is it not?

Mr. BEATTIE: The present minimum is eight per cent.

Senator LEONARD: They must keep on deposit with you as a cash reserve eight per cent of their liabilities?

Mr. BEATTIE: Yes, plus their holdings of notes which are defined in a certain way, and they have to meet this on a calendar monthly average.

Senator THORVALDSON: Would you qualify what that eight per cent is? It is eight per cent of what? Is it eight per cent of their notes plus deposit liabilities—

Mr. BEATTIE: It is eight per cent of their total Canadian dollar deposit liabilities—total liabilities expressed in Canadian dollars.

Senator LEONARD: So if a bank has $100 million of deposit liabilities then not less than eight per cent of that would be on deposit with you?

Mr. BEATTIE: Yes, on the average over the calendar month. Now, a bank that has more than $8 million with us on the average over the month will have an incentive to use some of that cash, to invest it in short term securities or other securities, or even to make loans because excess cash earns no interest, and almost anything else they can acquire will earn them interest. Their interest is to maximize their earnings. So, there is an incentive to invest surplus cash. Of course, if they are running short of the eight per cent they have to realize upon some of their other assets in order to build up their cash. This is the mechanism that keeps us in touch with their operations on the average over the month.

Senator THORVALDSON: In what form are those deposits made, having reference to that 8 per cent. Would that be in the form of bonds or clearances?

Mr. BEATTIE: The sum of their holdings of currency, Bank of Canada notes, plus their deposits.

Senator LEONARD: Deposits in the Bank of Canada?

Mr. BEATTIE: Yes, which bear no interest.

Senator MCDONALD: Is there any intention to pay interest on these deposits?