say, 8.5 per cent and we set the ratio for a given day at, say, 8.08 per cent, the ratio of the system, apart from the one bank having 8.5 per cent, will be below 8 per cent, and those banks will feel as if they are in a quite tight cash position, and will react accordingly.

By the same token, if a bank, and particularly a large bank, runs its cash ratio well below 8 per cent—say, 7.5 per cent—then the rest of the system may feel very flush without us intending that to be the situation, and there will be the kind of reaction from the system in the market during the day, and over the days, of a different character from what we have been aiming at.

The reason for this is that the bank which is deliberately running a high ratio or a low ratio knows what it is doing, and when it has this very high ratio it is not putting money back into the market. It is not getting rid of the cash in the way that one would expect when it has surplus cash, so that the market is not getting any help from that bank. On the other hand, the market is having to supply money to the banks that are short and, therefore, you get an unduly tight feeling in the market—more tight than is our intention when we are setting the cash ratio from night to night.

In the same way, if one bank is running away below 8 per cent deliberately it does not take any action to correct that situation by calling day loans or by selling treasury bills, whereas the result of its action on the other banks is that they have a surplus of cash and they do not know but what this is what we intended for them, so they tend to act as if the situation were very easy and to invest in day loans and purchase treasury bills, thus creating a greater impression of ease in the market than that at which we were aiming.

Each bank has to work its ratio out to something close to 8 per cent over the month. It cannot go below, and if it goes much above then it is losing earnings or wasting earnings. But, it may go much above day after day after day in the early part of the month or in the middle of the month, and still average down to a ratio of close to 8 per cent at the end, or go away below and come up later in the month. The trouble with this is though cash ratios always average out in the end, the responses do not. When this happens you do get different responses from the market than those at which the central bank is aiming. You may say that we ought to be able to foresee what the surplus bank or the deficit bank is going to do, but we never do know that from day to day. We cannot very well call them up and ask them what they are going to do tomorrow. That would not be consistent with the kind of market operation we have always had, and which we aim at. So, each night when we set the cash ratio for the system as a whole we pretty well have to assume that the banks that are very high are going to come back to the target, or that the banks which are very low are going to come up to the target. When they do not do that then the next day the system does not react in the way we expect it to, and our monetary operations do not turn out in the way we expect or wish them to.

The CHAIRMAN: The change here will give you a check twice a month?

Mr. BEATTIE: It will somewhat reduce the scope for an individual bank to run away above or away below without any perceptible effect on its earnings, and therefore will make the operation of monetary policy a little more predictable and smooth than it can be under present conditions.

Senator LEONARD: And if this did not work they could come back and make it ten days, I suppose?

The CHAIRMAN: You will have to be careful that sooner or later the banks will not be spending so much time accounting to the Bank of Canada that they won't have time to make money.

Mr. BEATTIE: Well, in the United States the twice monthly average would not be regarded as too severe, because there the large city banks have to maintain their minimum cash requirements on a weekly average. Indeed, in