taxation. In using the powers at its disposal, the Bank of Canada attempts to bring about credit conditions appropriate to both domestic and external conditions. Its operations must be based, not on any simple mechanical formula, but rather on continuous observation and appraisal of the constantly changing prospects for the economy as reflected in the complex pattern of economic and financial developments.

In a technical sense, the powers that the central bank possesses allow it to exert a strong influence over economic activity but, in practice, the range through which credit conditions can be permitted to vary is necessarily limited. Changes in credit conditions in Canada affect the position of some groups in the economy much more than others, and this uneven impact is bound to inhibit the central bank's operations. Furthermore, interest rates in Canada cannot change greatly in relation to those abroad without producing large capital movements which might complicate Canada's international payments position. These considerations suggest that monetary policy must be used in appropriate combination with other public economic policies in order to help achieve national economic goals.

Although the Bank of Canada has the power to determine the rate of growth of the combined total of currency and chartered bank deposits, it has no means of determining how much of this total is held in the form of currency and how much in the form of chartered bank deposits. This depends entirely on the preferences of the public, since bank deposits can be converted freely into notes and coin and back again.

Although the cash reserve system in Canada — which is similar to that in a number of other countries — enables the central bank to determine within broad limits the total amount of chartered bank assets and deposit liabilities, the Bank of Canada leaves the allocation of bank and other forms of credit to the private sector of the economy. Each chartered bank is free to attempt to gain as large a share as possible of the total cash reserves available by competing for deposits and to decide what proportion of its funds to invest in particular kinds of securities and in loans to particular types of borrowers. The influence of the central bank — based in essence on its power to expand or contract chartered bank cash reserves through its market purchases or sales of securities — is both indirect and impersonal and is brought to bear on financial conditions generally through the chartered banks and the numerous interconnected channels of the capital market.

The Bank of Canada may buy or sell securities issued or guaranteed by Canada or any province, short-term securities issued by Britain, treasury bills or other obligations of the United States and certain types of short-term commercial paper. It may buy or sell gold, silver, nickel and bronze coin, or any other coin, and gold and silver bullion as well as foreign exchange and may accept non-interest-bearing deposits from the Government of Canada, the government of any province, any chartered bank and any bank regulated by the Quebec Savings Bank Act. The Bank of Canada may open accounts in other central banks; accept deposits from other central banks, the International Monetary Fund, the International Bank for Reconstruction and Development, and any other official international financial organization; and pay interest on such deposits. The Bank of Canada does not accept deposits from individuals nor does it compete with the chartered banks in the commercial banking field. It acts as the fiscal agent for the Government of Canada in the payment of interest and principal and generally in respect of the management of the public debt of Canada. The sole right to issue paper money for circulation in Canada is vested in the Bank of Canada.

The central bank also may require the chartered banks to maintain, in addition to the legal minimum cash reserve requirement mentioned above, a secondary reserve which the Bank of Canada may vary within certain limits. The secondary reserve, which consists of cash reserves in excess of the minimum requirement, treasury bills and day-to-day loans to investment dealers, cannot be more than 6% of total deposits when first introduced nor can it exceed 12%; effective March 1975, the required level was 5.5%. In the event the Bank of