treasury bills and short term securities, and thus put itself in a better position to meet those demands which were bound to occur in view of the picture at the time. Instead, the investment committee of the fund converted victory bonds into conversion bonds, more than half of them into long term 1972 bonds. Remember, Mr. Speaker, that this fund is no ordinary fund. It is a trust fund financed 40 per cent by industry, 40 per cent by the workers and only 20 per cent by the government. This is a trust fund, and it should have been considered as such.

The conversion policy followed was not, we claim, in the interests of those who contributed to that fund. In order to comply with government policy the fund had to clear the decks and get everything converted. Later the fund had to unload in order to meet its obligations, which were increasing, as the minister must have known they would increase, so in January of this year this trust fund, held in trust for industry and workers, had lost $27 million in that operation; and in borrowing from the government to meet its needs at the rate of between 5 per cent and 5¾ per cent during the two years it had lost an additional $1.7 million. When the full impact of the government decision taken on July, 1958 is known—the full impact of exchanging victory bonds for conversion bonds—the total losses incurred by the fund will be close to $70 million.

The government must take responsibility for this gross mismanagement, and that mismanagement should be investigated before we are asked to replenish the fund as, indeed, we shall be asked to do, because by May the fund will be very low indeed.

I want to say a few words about the operation of monetary policy generally. The Bank of Canada is required by parliament—and these words have already been quoted:

> To regulate credit and currency in the best interests of the economic life of the nation,—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

That surely means, Mr. Speaker, that an active policy on monetary matters and expansion should be followed during recessions when production and employment are declining, and that monetary restrictions should be used in periods of boom, along with other tools of government policy, to prevent rapidly rising prices. Well, let us see what has been the orientation of our monetary policy in the light of that requirement in the Bank of Canada Act.

First let us look at the recession of late 1957 and 1958. During that period the money supply was not materially increased—I think by about $200 million on a comparable basis, over the preceding period, when the government put into effect monetary restrictions because of boom conditions. After 1958 forces in this country began to move for recovery; the economy began to get going again and ministers told us at that time that the recession was over. Let us look at this period in terms of monetary policy. What happened from April to October, 1958? We had the largest monetary expansion during that period since world war II, an expansion of $1.4 billion. That expansion was too large and came too late for the needs and stability of the economy, as indeed the governor of the Bank of Canada recognized in his report in 1958. Why, then, did it take place? It took place to help the conversion loan and enable the minister to claim that the conversion loan had been an unprecedented success. It was not justified by sound monetary policy. It was attempted for debt management purposes.

The next period is from October, 1958 to March, 1960, when the trend toward recovery was continuing, though it was weak and there were danger signs ahead, which we on this side tried to point out at that time.

The peak of the last economic cycle, the peak of this trend toward recovery, was reached, I suppose, in the first quarter of 1960. During that period of recovery and at least of incipient expansion, there was still excess productive capacity and there was still high unemployment, so that there was no danger of a boom like the boom we had in 1956. Yet, during that mild recovery period monetary restrictions were more severe than they were in 1956. Indeed, in 1956 the money supply increased slightly. But during the period October, 1958 to May, 1960 the money supply was actually reduced by more than $300 million, at a time when we were in only slow recovery and in no danger of a boom because there was lots of unemployment and there was excess productive capacity. Yet, notwithstanding that, the money supply was reduced by the amount I mentioned. The decline and dislocation of the financial markets after the conversion loan, as well as huge government borrowings necessitated by its past deficits, the great scarcity of funds and the highest interest rates since the 1920's, forced provinces and municipalities to borrow in the United States market and kept the dollar premium up. In short, Mr. Speaker, the recovery of 1958, greatly weakened by the restrictive monetary policy of 1959 and by the government's debt management policy, resulted in a loss of confidence in the financial markets. That helped to slow the speed and prevent the deepening of that recovery. Therefore from April,