slowed down to a walk and prices rose only about 3 per cent in each of these two years. In 1951, with the war going on in Korea, prices jumped up about 10 per cent. Then from 1952 to 1955 we had a period of relative stability; the only period since the end of the second world war. Then in 1956 prices rose by 3 per cent and they are continuing to rise at an alarming rate.

Now what has the government been doing about all this? In the spring of 1955 evidence of renewed inflationary pressures was mounting and most governments of the western world took prompt monetary action to stem the rise in prices. But the Canadian government stood idly by until the inflationary pressure had gathered so much headway that they could not stop it. While American and United Kingdom monetary authorities had adopted policies of tight money by the spring of 1955, the Bank of Canada failed to take any resolute action until the autumn.

In 1955 the annual report of the federal reserve system of the United States reads in part as follows:

> . . . beginning in February (1955), however, and for the remainder of the year, as overall demands mounted, as industrial output approached capacity and inflationary pressures appeared, measures were adopted to moderate the pace of credit expansion.

As for the United Kingdom, they may be said to have officially adopted a policy of tight money in January of 1955 when the bank rate was raised to 3½ per cent.

In the face of all this evidence the Bank of Canada lowered its interest rate in February of 1955 and the minister's budget of the spring of 1955 provided for a deficit. Both these actions were perfectly designed to aggravate the situation.

By the autumn of 1955 the Canadian government seems to have been in something of a panic. They now realized the inflationary forces they had released and the Bank of Canada called in the chartered banks and stiffened up the reserve regulations and took other steps of an extreme and high-handed nature. The Bank of Canada, on November 21, called in the chartered banks and made three requests: one, to cease making long-term loans to business in excess of $250,000 and to refrain from direct purchases of corporate securities; two, that application for increased loans and for renewals of existing lines of credit be carefully reviewed with a view to maintaining control over their growth; three, to maintain a secondary reserve of liquid assets—treasury bills and day to day loans and cash—equal to 7 per cent of deposits. This was to be an addition to the legal cash reserves of 8 per cent.

I believe that the first and third of the requirements mentioned above were beyond the powers of the bank. At this point I wish to make it clear that I regard the Department of Finance as finally responsible for the actions of the bank and, therefore, my criticism is directed at the minister.

Nevertheless the finance department is trying to stand from under. Take for instance the question of instalment buying. Years ago when action was taken with regard to this, the government acted directly through parliament under special powers then in existence. But now apparently we have to have indirect action through the Bank of Canada. The bank has been exercising certain influences over methods of investment and loans to certain types of business which, so far as I am aware, it has no authority to do. As I have said, I hold the minister responsible for making use of the bank in this way and I assume he is supporting the governor of the bank in going beyond his powers which are to control the quantity of money, but not to interfere with the manner in which it is to be used.

The attitude of the minister toward the situation has been quite incomprehensible to me. To use Churchill's phrase about Russia, the minister has been a "riddle wrapped in a mystery inside an enigma". He has persisted in either a wilful misunderstanding or a downright incorrect statement with regard to the way in which the Bank of Canada interest rate is established. On February 8, in answer to the following question: "Will the minister tell the house why this government maintains such a high rate on 91-day treasury bills", the minister replied in part:

> We do not maintain a high rate of interest, this is a matter of public tender weekly and the tender system establishes the rate for that week.

To this I could not resist replying:

> Does the minister think it is fair to try and make the members of this house believe that the Bank of Canada has nothing to do with the level of interest rates when everyone in the business world who is old enough to come in out of the wet knows that they have?

This was made clear to the banking and commerce committee last year when the governor of the bank came before the committee and it was made clear in the governor's report for 1956 at page 25. I quote:

> The maintenance of orderly conditions in financial markets, and the avoidance of a serious disruption of the flow of funds from savings to investment, is a responsibility of a central bank, both in the interests of economic growth and in the interests of government finance and the government securities market through which (by buying or selling securities) the central bank is able to regulate the money supply. Accordingly, at times when selling appeared in volume in the government securities market and bond prices were falling, the bank purchased securities to moderate the rate of movement in prices and yields.