ing from the Bank of Canada. When we borrow from the chartered banks we, of course, increase the volume of money, currency, spending power in the country by the amount which we borrow, and to that extent the transaction is of the same nature as borrowing from the Bank of Canada or issuing what my hon. friend called last year "national currency", because there we are increasing up to that point the amount of currency in the country to the extent of the exact amount which we borrow from the Bank of Canada. Up to that point the two transactions are the same.

Mr. McGEER: Not "currency"; the medium of exchange.

Mr. ILSLEY: "Currency" is incorrect—the medium of exchange. I got mixed. But immediately thereafter the consequences are entirely different. Borrowing from the Bank of Canada sets loose powerful inflationary forces beyond the amount of the original borrowing, forces which are not set loose by borrowing from the chartered banks, and those forces are released in this way. That fact is well understood by hon. members; we have gone over it time after time, but perhaps I should repeat it again. The chartered banks, as part of the normal business of banking which has been carried on in this way by banks for a great many decades, and probably centuries, use their cash reserves as a basis for extending credit, and their deposit liabilities may be in many cases, by law, twenty times as great as their cash reserves. As a matter of fact, however, they are almost always about ten times the amount of their cash reserves; and if banking is to be carried on profitably, banks inevitably do multiply the amount of medium of exchange by something like ten times.

Mr. BLACKMORE: Which is wrong.

Mr. ILSLEY: I will come to that. So that if we borrow from the Bank of Canada a billion dollars—we were talking last year about borrowing $1,200,000,000, although I gather that in my speech I talked about it as if it were a billion—under our present law and without restrictions or regulations, the normal development thereafter is for the medium of exchange in this country to go up to perhaps ten billion dollars.

Mr. SLAGHT: Why not change overnight?

Mr. ILSLEY: All right. That is what I meant when I said to-day that that would blow the ceiling to Kingdom come, and so it would. I repeat that. It would do it.

My hon. friend said to-night before the recess, "Ah, the Minister of Finance has borrowed nearly a billion dollars; he has created nearly a billion dollars of additional medium of exchange; yet he has been able to hold his ceiling." I have not borrowed a billion dollars from the Bank of Canada. I have borrowed less than $200,000,000 from the Bank of Canada during the past year. A part of that is not dangerous borrowing, for a reason which I dealt with in my budget speech. But I do not take back a word of all I said as to the effect of borrowing a billion or twelve hundred millions from the Bank of Canada under our present law and regulations. There would be so much medium of exchange in circulation in this country that it would be wholly impossible for us to retain our controls.

Mr. KUHL: That is all in potential.

Mr. ILSLEY: I do not understand what that means. But do not let hon. members think the preservation of controls is easy. Do not let hon. gentlemen suppose that putting a price ceiling or a wage ceiling is the end of it. If the economic forces which are being exerted in the country are powerful enough under that price ceiling, that price ceiling cannot possibly hold. Hon. gentlemen may think that by very heavy taxation we can draw the purchasing power back into the treasury; that what we do not get back by taxation we can get back by borrowing, and that to the extent that taxation and borrowing do not do the job, the imposition of controls including rationing will do it. I say to the committee that the whole lot will not do it if you increase the volume of our purchasing power in the country too much. If you get a situation where, figuratively speaking, everyone goes around with his pockets full of money, the goods will be cleared right out of the stores.

Mr. KUHL: That is a straw man.

Mr. ILSLEY: That would, figuratively, be the case, if you issued a billion or twelve hundred million dollars borrowed from the Bank of Canada and let the present banking laws take their course.

On one other occasion I told my hon. friend that I did not want anyone within the sound of my voice at that time to say that the words I used when *Maclean's* magazine interviewed me meant that borrowing from the chartered banks was as inflationary as borrowing from the Bank of Canada. My hon. friend knows that I never intended them as such, because I solemnly assured him of that. My views are found, I think, most conveniently in my reply to my hon. friend last year, when I made it clear that there is no comparison between the inflationary effect of borrowing from the chartered banks and borrowing from the Bank of