Q. A Federal Reserve Bank, even in open market operations, deals only with member banks?—A. No, the Reserve banks deal very largely with bill brokers, and opportunities to deal with those not interested in the bill market are rare. Boston is our next largest bill market in the country outside of New York, and we deal with National Banks and Trust Companies there, member banks. We deal also with a number of corporations and firms which are not member banks.

By the Chairman:

Q. These are all well-known financial concerns?—A. All well-known financial concerns. The market is open to anybody who wants to come. We require a statement from these people in order to know something about their responsibility. We would not deal with anybody without a statement.

By Mr. Ladner:

Q. In the borrowings from the Federal Reserve Bank System, do you have a periodical settlement—that is the first question—where the member banks clean up their accounts, or is it wise to have continuous borrowings?—A. We discourage continuous borrowings. We tell all our member banks that they must not abuse the facilities of the Federal Reserve System. We do not want them to discount with us at 4 per cent in order to lend money at 6 per cent, or to put money on exchange collateral on call, or anything of that sort, and if there is a tendency to abuse it, we raise our rate.

Q. That is an important point. I was going to ask you why you did discourage it, and what means you have of discouraging it?—A. The Federal Reserve System is a reserve system. If we let it come into ordinary every day use or undertake to compete with our member banks, and all the time be stretched out to the limit, what are we going to do when an emergency arises? We are Reserve banks—not commercial banks.

By Mr. Hanson:

Q. The primary purpose was to provide an elastic currency system?—A. I will read you the caption or short title of the Act. It is called, "An Act to provide for the establishment of Federal Reserve banks, to furnish an elastic currency, to afford means of rediscounting commercial paper, to establish a more effective supervision of banking in the United States," and so forth.

By Sir George Perley:

Q. Mr. Harding, you said the lowest rate for prime bills that you know of was about $3\frac{1}{4}$ per cent. I would like to ask you. in your experience what is the maximum rate?—A. You misunderstood me. The lowest current rate on prime bills is about $3\frac{1}{4}$ but it has been as low as $2\frac{1}{4}$ some years ago.

Q. What is the smaller maximum in the last few years?—A. The Federal Reserve Board gives what we call a spread. We are authorized to make these purchases now at from $2\frac{1}{2}$ to $4\frac{1}{2}$ per cent, that is a spread of 2 per cent. I believe the maximum rate that we ever charged on a prime 30 day bill back during the time of stringent money, was $4\frac{1}{2}$ per cent.

You can see the market itself puts a limit upon the bill rate, because when you consider the commission a man has to pay a bank accepting for him, if the rate at which he can sell the bill gets too high and he has to add the commission, it might pay him better to make a straight borrowing.

By Mr. Ladner:

Q. At what date or how frequently is the Federal Reserve Bank change made?—A. The Federal Reserve rate is considered at every meeting of the Board of Directors. On an average I supposed it is changed—looking back over a period of five years, I should say the average has been about once every nine

[Mr. W. P. G. Harding.]