

Q. It had nothing to do with the speculation in stocks at that time?—
A. I do not think it did.

Q. Or any effect upon it?—A. I know the discount rate has little effect in the agricultural sections because farmers and merchants borrow from the member and non-member banks, and I never heard of current money rates in rural districts being as low as 4 or 5 per cent. I want to say another thing: We tried an experiment in 1915. The Federal Reserve Board issued a regulation in 1915 authorizing a special commodity rate. We wanted to test out what the Federal Reserve system could do in the way of promoting orderly marketing, by aiding producers to market their crops gradually and avoid the usual rush to market. We issued a regulation under which a Federal Reserve Bank could discount paper secured by warehouse or elevator receipts for grain and cotton or other agricultural staples, for ninety days at a three per cent rate, provided the borrowing bank would certify that it had lent the money in the first instance to the producer at not over six per cent. In this way, we gave the banks in the South and West an opportunity to lend a farmer cheap money to enable him to carry over part of his crop and market it gradually. The Federal Reserve Bank could advance the member bank money at three per cent if the member bank had lent money to the farmer at not more than six per cent. Very little use was made of this opportunity. The banks generally preferred to lend at their usual rates, and if rediscounts were needed to pay the standard rate, they seemed to be afraid that a lower level of interest rates would be established, if they should make loans at 6 per cent. After several months trial of the plan, the Board withdrew the regulation.

Q. Do I understand then that your system, the Federal Reserve system has not any effect in the direction of stabilizing the general price level?—
A. I did not say it has no effect. It has whatever effect that a stabilization of the money market has, but I agree with Mr. Mellon's statement, that the cost of credit is only one factor, and not by any means the most important factor.

Q. You do not consider that there is a direct relationship between the price level and the value of the dollar?—A. Well, of course, there is a certain relationship between the purchasing power of the dollar, and the general price level.

Q. I am getting at an understanding of what you have said there, if I may; that if it does affect the stabilization of the money market, is not that another way of saying it does affect the price level?—A. To a limited extent. It is only one of a number of factors, and not the most important factor.

Q. You say in the United States there is a fear of central control in one central bank?—A. Yes.

Q. The regional bank system is designed to overcome such centralization, I am thinking in terms of Canada. Our banking system is centred in two cities in the east, in Montreal, and in Toronto. That is what I have in mind behind this question. Supposing there were a centralization in New York and Boston, or New York and Chicago, would that be considered satisfactory for the United States?—A. Banking in the United States is a highly competitive business. Boston is the largest city in New England, and the banks there have more deposits than any other city in New England. Although, as a result of mergers, there are now in Boston only about one-fourth the number of banks there were 30 years ago, there is keener competition between the banks in Boston than there is in any other city of which I have knowledge.

Q. Perhaps I have hardly made myself clear. If everything were concentrated in the eastern cities, or if you had no regional banks in the west, would that be considered satisfactory to the people in Kansas or California?—
A. No. With this present population and resources they would of course

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