is the minimum rate at which any bank down there will take any paper, although their Federal Reserve rate is four per cent. In Boston and New York, the rates for prime mercantile paper are from four and a quarter to four and a half per cent. In other words, the going rate for money even to the best customers is always a little above the rediscount rate of the Federal Reserve Bank, but that does not apply to the bill rate. The Federal Reserve Bank rate is related directly to the bill market. A bill of exchange, a banker's acceptance, is the highest grade of commercial paper obtainable. It is high grade for this reason. What we call a prime bill, in the first place, represents a transaction where the seller has sold goods to a reputable purchaser. The bills are drawn anywhere from thirty days to six months' time. This purchaser has made satisfactory arrangements, either by the deposit of collateral, or by the filing of a satisfactory statement, with some strong bank or acceptance house, and that bank or house has put its name on the bill as acceptor. In other words, it obligates itself to pay that bill at its maturity, and then in addition, the bill carries the responsibility of the drawer and of the endorser. So, we have a liquid paper; a paper that in all human probability is going to be paid at maturity; representing the consumption of goods; taking them out of the market entirely; not a speculative proposition at all. And, when it is a banker's acceptance of the highest grade, it commands of course, the lowest rate in the market.

The market for prime bills depends upon the supply of bills in the first place, and upon the general tone of the money market, in the second place. There have been times when prime bills would sell at two and one quarter per cent—the rates now are $3\frac{1}{4}$ to $3\frac{3}{4}$ according to maturity—and of course, the drawer who gets a bank to accept for him, has to pay the bank a commission. But, assuming that the commission is one-quarter of one per cent for each ninety days, or 1 per cent a year, you can see that the drawer of the bill gets very cheap money; but the transaction must be bona fide, and the acceptor must be of unquestioned standing. Now, the bank rate is in order for the bill to be prime related closely to the bill rate, and we keep our bank rate a little above the market rate for prime bills of exchange, just as in the case of the Bank of England. But, the current rate for money to borrowers even in the financial centres is usually a little above the Federal Reserve Bank rate.

The Federal Reserve system was never able to function normally, until about five years ago. It was organized on August 10th, 1914, when the Federal Reserve Board took office. The Federal Reserve Banks were not opened until November 16, 1914. We were in a very chaotic condition, owing to the breaking out of the world war. Our stock exchanges were forced to close. The cotton and grain exchanges were closed. There was much congestion at the ports because of inability to get shipping. The German raiders were still on the sea, many merchant ships were tied up, and insurance rates were very high. Of course, the wheat situation was unlocked first, because people are obliged to have something to eat before they think about what they are going to wear. The cotton situation was very bad. There was great distress in the cotton growing regions in 1914. There was no organized market for cotton. No one knew what the price of cotton was and spasmodic sales were made at from 4 to 6 cents per pound, while the price had been above twelve cents before the war broke out. In 1915, things began to adjust themselves.

The Federal Reserve Banks are obliged to pay their stockholders six per cent cumulative dividends and I want to speak now of the stockholders and of what they do. The law provided that every National bank must become a stockholder, and member of the Federal Reserve Bank within twelve months, or else forfeit its charter. So, they were forced into the system. The law also provided that the State banks and Trust companies, over which Congress has

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