

the new rate comes into effect. There is no monopoly or centralization of credit, and to guard against this Congress gave us twelve banks instead of one central bank. Our legislators were afraid of the concentration of credit. They were perfectly willing to prescribe, in a broad way, the qualities which must be possessed by eligible paper and leave the Federal Reserve Board with authority to elaborate upon that somewhat and define them more specifically; but they were not willing to give the Federal Reserve Board the power of saying to a bank "you must take this piece of paper or you shall not take this piece of paper," assuming that the paper is eligible under the law. That power is vested exclusively in the Federal Reserve Banks, and they in turn, delegate it to their responsible officers as authorized by law to do.

*By Mr. Ladner:*

Q. Could any of the Federal reserve banks have different rates?—A. Yes, it frequently happens that they have different rates; but it is rather hard to maintain different rates for a very long period at a time. For instance, if we have a four per cent rate in New York, Boston and Philadelphia, the eastern centres, and the Reserve Banks should try to maintain a four and a half per cent rate in the South and West, people there are apt to become restive. They might say, you have low rates in these centres where there are large stock-market transactions, and in our agricultural districts, we have a higher rate; and they clamour for the lower rate. The result is that they usually get the same rate as the East. New York is the principal money market of the country, and the rate of the New York bank is the key rate. That is the only rate which has an effect internationally. Or, it may not be the only one, but it has a greater influence, I should say; a much greater international effect than any other rate. And you will find that whenever New York changes its rates, especially downward, there is a disposition to follow in other sections of the country. It would be impossible for Boston, for instance, to maintain a lower rate than New York. For if New York had a four per cent rate and we undertook to have a three and a half per cent rate in Boston, we would soon have our reserves reduced, because a great many manufacturing and mercantile concerns, which have banking connections both in Boston and New York, would transfer their borrowings from New York over to Boston, and the banks in Boston would have to rediscount with us, and we would soon be out of reserve. But we might in Boston maintain a higher rate than New York, and we did so once for a period of six months. Back in 1925, I think, New York for a while had a three per cent rate, and we maintained a three and a half per cent rate. That caused us no inconvenience, but we could not work it the other way round.

However, the control of the Federal reserve banks over the money market does not come so much through the discount rate as it does through the open market transactions which are authorized under Section 14 of the Federal reserve Act. The discount rate of the Federal Reserve Bank, after all, is a negligible quantity in most sections. Take these various sections in the South and West that get restive whenever their Federal Reserve Banks have a higher rate than the New York rate. That does not mean very much to the farmer or merchant in those sections. He cannot get accommodation direct from the Federal reserve banks, he has still to go to the bank he deals with. And those banks often charge what the traffic will bear. They charge whatever the law allows them to charge—that is one consideration—and whatever the competition they have allow them to charge. Now, the legal rate of interest in most of the States is from six to eight per cent. In my native State of Alabama the legal rate is eight per cent.