

C O P Y

October 22, 1947.

To Mr. Thurston

From Mr. Morrill

In the midst of a record of difficulties encountered by the Federal Reserve Board in endeavoring to put its ideas into effect, I found a statement in the Annual Report for 1915 on page 17 which I am sure will interest you, as follows:

" *** For many years it has been lawful for banks to count as reserves deposits with other banks. It was never the intention of the Federal Reserve Act that member banks should continue the maintenance of these reserve accounts. On the contrary, the full meaning of the Act is manifestly opposed to such an idea. It is the plain conception of the Act that the reserve banks should, to a very large extent, if not entirely, perform the work that is now being done by correspondent banks in this respect. This means that the reserve balances to be carried in the future by the reserve banks instead of by the correspondent banks should serve as the basis for a system of clearing and collecting the exchanges of the country. Whatever can be done to bring about the prompt and effective use of this new system of bank settlement will be done."