A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, June 9, 1944, at 11:00 a.m.

PRESENT: Mr. Ransom, Vice Chairman
Mr. Szymczak
Mr. McKee
Mr. Draper
Mr. Evans
Mr. Morrill, Secretary
Mr. Bethea, Assistant Secretary
Mr. Carpenter, Assistant Secretary
Mr. Clayton, Assistant to the Chairman

The action stated with respect to each of the matters hereinafter referred to was taken by the Board:

The minutes of the two meetings of the Board of Governors of the Federal Reserve System held on June 8, 1944, were approved unanimously.

Telegrams to Mr. Flanders, President of the Federal Reserve Bank of Boston, Mr. Treiber, Secretary of the Federal Reserve Bank of New York, Messrs. Leach and McLarin, Presidents of the Federal Reserve Banks of Richmond and Atlanta, respectively, Messrs. Dillard and Stewart, Secretaries of the Federal Reserve Banks of Chicago and St. Louis, respectively, Mr. Powell, First Vice President of the Federal Reserve Bank of Minneapolis, Mr. Caldwell, Chairman of the Federal Reserve Bank of Kansas City, Mr. Gilbert, President of the Federal Reserve Bank of Dallas, and Mr. Hale, Secretary of the Federal Reserve Bank of San Francisco, stating that the Board approved the establishment without change by the Federal Reserve Banks of St. Louis and San Francisco on June 6, by the Federal Reserve Banks of Richmond and Atlanta on June 7, by the Federal Reserve Banks of New York,
Chicago, St. Louis, Minneapolis, Kansas City, and Dallas on June 8, 1944, and by the Federal Reserve Bank of Boston today, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Memorandum dated June 5, 1944, from Mr. Dreibelbis, General Attorney, recommending that the following increases in basic annual salaries of employees in the Legal Division be approved:

<table>
<thead>
<tr>
<th>Name</th>
<th>Designation</th>
<th>Salary Increase</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Howard H. Hackley</td>
<td>Attorney</td>
<td>$5,300 $5,800</td>
<td></td>
</tr>
<tr>
<td>Frances C. Cashell</td>
<td>Secretary to Mr. Dreibelbis</td>
<td>2,200 2,400</td>
<td></td>
</tr>
<tr>
<td>Edward L. Hargett</td>
<td>Messenger</td>
<td>1,500 1,560</td>
<td></td>
</tr>
</tbody>
</table>

Approved unanimously, effective June 16, 1944.

Memorandum dated June 5, 1944, from Mr. Goldenweiser, Director of the Division of Research and Statistics, submitting the resignation of Miss Elsie Rackstraw as Librarian, to become effective as of the close of July 9, 1944, and recommending that the resignation be accepted as of that date.

The resignation was accepted as recommended.

Letter to the Presidents of all the Federal Reserve Banks reading as follows:

"For your information, we are enclosing a copy of a letter that was sent under date of June 1, 1944 to a representative of the Northeastern Roofing, Siding and Insulating Contractors Association, Inc., of New York City, relative to a proposal for the amendment of Regulation W to exclude credits for 'insulated brick siding'."

Approved unanimously.
Letter to the Presidents of all the Federal Reserve Banks reading as follows:

"There have been forwarded to you today under separate cover copies of form F. R. 107b to be used by State bank members in submitting their reports of earnings and dividends for the six months ending June 30, 1944. The form is the same as the one used in submitting reports for the first half of 1943.

"For your information, we have an understanding with the Office of the Comptroller of the Currency not to publish the amounts of income taxes of member banks so long as such data covering national banks are not published by the Comptroller. There is no objection to the publication of averages of individual bank ratios that reflect such taxes. In the publication or release otherwise of member bank earnings in dollar amount, or in ratios based on the aggregate dollar amounts for your District, it is suggested that taxes on net income be combined with other taxes."

Approved unanimously.

Letter to Mr. J. R. McCravey, Chairman of the Board of the Bank of Forest, Forest, Mississippi, reading as follows:

"This refers to your letter of May 10, already acknowledged, in which you suggest that the reserve requirements of country member banks be cut in half to 7 per cent of net demand deposits and 3 per cent of time deposits.

"You speak of requirements being doubled in 1941, but you will recall that the doubling did not take place wholly in 1941 but was spread over the years 1936-1941. In November 1941 the Board increased country member bank reserve requirements merely from 12 to 14 per cent of demand deposits and from 5 to 6 per cent of time deposits.

"Your letter implies that the increases in reserve requirements made it possible for the Federal Reserve Banks to buy additional Government securities and thereby to increase their earnings and, conversely, reduce member bank earnings. As a matter of fact, these consequences do not follow because the amount of securities that the Federal Reserve Banks can purchase does not depend on the level of member bank reserve requirements. At the time the increases in reserve requirements were made, nearly all member banks held large amounts of excess reserves and it was, therefore, not the shortage of reserves, or of available funds, that kept down their earnings."
"The enclosed booklet, 'The Federal Reserve System—Its Purposes and Functions', pages 50-52 and 83-85, explains the effect of open market purchases of securities by the Federal Reserve Banks and why their lending and investing power is not derived from member bank reserve deposits. The summary on Pages 113-118 of the powers and functions of the Federal Reserve Banks may also be interesting to you.

"You will observe from the material cited that when the Federal Reserve Banks buy securities they do not use member bank reserves but create additional member bank reserves. It is, in fact, through open market operations in Government securities that the Federal Reserve Banks have been providing such additional reserves as member banks have needed. This is brought out on page 1 and on pages 15-17 of the Board's 1943 annual report, a copy of which is enclosed, and has also been explained in the Federal Reserve Bulletin from time to time.

"Legal limitations on the Federal Reserve Banks' ability to purchase additional Government securities rest in the requirement for the maintenance of certain minimum reserves in gold or lawful money. As just stated, changes in member bank reserve requirements either up or down have no effect on the amount of reserves held by the Federal Reserve Banks. The volume of Federal Reserve Banks' purchases or sales of Government securities is determined by the Federal Open Market Committee, which formulates its policies on the basis of considerations of the general public interest. The determining considerations at present are set forth in the Board's Annual Report.

"Reserves now being supplied to member banks to meet currency withdrawals and expanding required reserves against deposits could, it is true, be supplied by reducing reserve requirement percentages rather than by open market operations. If reserve requirements were reduced the member banks could then purchase more Government securities and Reserve Banks would need to purchase less. There are several reasons why it is preferable to meet the reserve needs of member banks at present by Federal Reserve open market purchases rather than by reducing reserve requirements. This question was discussed on pages 26-31 of the Board's 1942 Annual Report, a copy of which is enclosed. The reasons there indicated, and others which may be added, may be summarized as follows:

1. A general decrease in reserve requirements would provide additional reserves to all member banks, many of which already have substantial amounts of uninvested funds and do not need more; reserves supplied through open market operations, on the other hand, go in the first instance directly
"to the particular banks needing them. Under the arrangement whereby the Reserve Banks purchase Treasury bills at a fixed rate with an option to resell them, for example, a member bank needing reserves may sell bills to the Reserve Bank and repurchase them if it later finds itself with available funds. Such purchases and sales are made in large amounts every day and provide a highly flexible and almost automatic means both of supplying reserves where needed and of absorbing any surplus funds. The Reserve Banks, through the Federal Open Market Committee, also stand ready to purchase other Government securities, particularly from member banks that may wish to sell to obtain needed reserves.

2. In view of the tremendous currency and deposit expansion likely to take place in the war period, reduction in reserve requirements to the minimum permitted by the statute would not be adequate to supply all the reserves that will be needed.

3. Reserve requirements at or below the statutory minimum would not be conducive to the maintenance of sound banking conditions under conditions which will exist after the war. With such a large amount of deposits subject to withdrawal and to sudden shifts among banks, banks will need to hold much larger amounts of reserves and other highly liquid assets than they have customarily held at many times in the past.

4. It is more difficult to counteract the future effects of a reduction in reserve requirements than it is to reduce Reserve Bank security holdings. In case the need for contraction or absorption of bank reserves should develop, e.g., because of a return flow of gold or currency, the Reserve Banks can sell securities as rapidly as the market can absorb them, but it is difficult to increase reserve requirements without widespread consequences affecting all banks in the country, including many without excess reserves.

5. It is questionable whether most banks need to expand greatly their earning assets in order to meet expenses and to show adequate profits. Earnings records reveal that banks throughout the country are now highly profitable. If banks showed very large profits from investments in war bonds, there might be a growing agitation for financing the war by issues of currency or of non-interest bearing obligations.
"Such proposals are taken seriously in some circles. You will probably agree that the results of such measures might be unfavorable not only for banks and other investing institutions, but also for the general good of the country. You may be sure that the Board is very glad to have your views and to consider them carefully. We hope you will agree, however, that present circumstances do not in fact warrant a general reduction of reserve requirements of country member banks."

Approved unanimously.

Letter to the Comptroller of the Currency reading as follows:

"It is respectfully requested that you place an order with the Bureau of Engraving and Printing supplementing the order of June 15, 1943, for printing Federal Reserve notes of the 1934 Series in the amounts and denominations stated for the Federal Reserve Bank of New York:

<table>
<thead>
<tr>
<th>Denomination</th>
<th>Number of sheets</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>$500</td>
<td>14,000</td>
<td>$84,000,000</td>
</tr>
<tr>
<td>1000</td>
<td>12,000</td>
<td>144,000,000</td>
</tr>
</tbody>
</table>

Approved unanimously.

Thereupon the meeting adjourned.

Secretary.

Approved:

Vice Chairman.